Oil and Gas will not Save Lebanon
Setting our priorities straight

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As Lebanon races to enter the new oil producers club, decision-makers display a dangerous tendency to put all hopes on this uncertain sector and label it as the economic savior. This goes against the advice of Lebanese experts who have been warning against a "presource" curse (the underperformance of economic growth after a commercial discovery, but long before production—a result of skyrocketing expectations and a correlated increase in public spending and/or borrowing) and calling for structural remedies to the economic crisis. Early last month, Pierre Duquesne, the French envoy in charge of the CEDRE dossier, warned against the "false hope" that oil and gas extraction was a "magic remedy."

The Lebanese economy is facing great challenges. Indicators show signs of a prolonged contraction. The financial model long used to maintain the Lebanese standards of living—despite unsustainable levels of public debt, budget deficit, and current account deficit—is now on the verge of breaking. The deficit in the balance of payments accelerated from $0.76 billion in the first seven months of 2018, to $5.32 billion over the same period in 2019. In an attempt to lure back depositors, Banque du Liban (BDL), Lebanon's central bank, has raised rates on its deposit facility to unprecedented levels.

Despite—or because of—this bleak economic picture, decision-makers (government, heads of political parties, members of Parliament) are putting all bets on the oil and gas sector.

The 2019 budget openly cites Lebanon's potential oil and gas wealth as one of the reasons to not worry about the risk of default. The government is thereby implicitly dismissing the costly efforts needed to tackle the crisis, and using anticipated proceeds from oil and gas resources that are yet to be discovered in order to boost confidence.

Last April, the government launched the second licensing round for five new offshore blocks. This came prior to any commercial discovery in wells that will be drilled in the coming three to five years by the Total-Eni-Novatek consortium. Under more relaxed economic circumstances, in order to improve awarding conditions, the government should have waited for the results of the first round of drilling, scheduled for the end of 2019, before launching the second licensing round.

Total is also being pushed by Lebanese authorities to start drilling as soon as possible; a pressure the company says it has accepted. Instead of the usual one to two years to determine the exact location for drilling, Total did so in less than one.

All these signs are a clear indication that while authorities are buying time through unconventional monetary policies to compensate for increasing imbalances (growing debt, fiscal and current deficit), their only hope is to bet on an exogenous “miracle” such as petroleum wealth to save the day. Tapping into uncertain non-renewable assets that belong to future generations to cover for debt accumulation and mismanagement of current resources is not an option. All efforts should instead concentrate on developing a strategy to get back on a sustainable debt and fiscal path.

Countries, such as Ghana and Sierra Leone that have pinned excessive hopes on uncertain future revenues have paid the price in the form of declining economic growth. The government is falling into this presource trap, notably by seeking at a very early stage to establish a Sovereign Wealth Fund outside the framework of a broader macroeconomic vision. We believe that prior to creating an oil fund, the government ought to reduce public debt to sustainable levels, and enact and enforce fiscal rules to credibly commit to fiscal sustainability in the future.

The real challenge that lies ahead for Lebanon is to agree on a new economic and social contract that promotes a competitive and fair economy, instead of capturing state resources to fuel a corrupt political system. The only way forward today is to tackle head-on the task of sharing the burden of losses accumulated by this failed economic model. Hoping that oil and gas proceeds will cover up for these losses is at best an illusion, and at worst a crime. Lebanon needs to make sure that future proceeds are not allocated through the same economic model and find channels that can transform them into investment capital within a new economic and social strategy. The only guarantee that this sector will not be used to fuel further corruption is sound governance practices that ensure an inclusive, transparent, accountable, and participatory management of this potentially lucrative sector. As a start, transparency measures, such as beneficial ownership disclosure as mandated in article 10.7 of Law 84 (2018) on enhancing transparency in the petroleum sector, need to be applied to all contracted and subcontracted companies working in the oil and gas sector in Lebanon.