

### I. Transfers to EDL in 2010

► **In December 2010, treasury transfers to EDL reached LL 199 billion, as follows:**

- ⇒ Reimbursement of KPC and Sonatrach LL 152.7 billion
- ⇒ Reimbursement of EGAS (natural gas) LL 42.2 billion
- ⇒ Debt service LL 4.5 billion

► **Cumulatively in 2010, treasury transfers to EDL reached LL 1,797 billion, as follows:**

- ⇒ Reimbursement for purchase of gas and fuel LL 1,697 billion, of which
  - KPC (gas oil) LL 403 billion
  - Sonatrach (gas oil and fuel oil) LL 1,251 billion
  - EGAS (natural gas) LL 42 billion
- ⇒ Debt service LL 100 billion, of which
  - C-loans LL 67 billion
  - BDL guaranteed loans LL 33 billion

Table 1: Monthly transfers to EDL in 2010

(LL billion)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>EDL of which:</b>	<b>94</b>	<b>264</b>	<b>147</b>	<b>145</b>	<b>155</b>	<b>43</b>	<b>232</b>	<b>46</b>	<b>124</b>	<b>275</b>	<b>72</b>	<b>199</b>	<b>1,797</b>
<b>Debt service, of which:</b>	<b>0.4</b>	<b>8.0</b>	<b>13.3</b>	<b>11.0</b>	<b>0.0</b>	<b>8.5</b>	<b>19.6</b>	<b>4.1</b>	<b>11.1</b>	<b>18.3</b>	<b>1.6</b>	<b>4.5</b>	<b>100.5</b>
• C-Loans and Eurobonds, of which:	0.4	8.0	13.3	1.0	0.0	8.5	13.5	4.1	11.1	1.0	1.6	4.5	67.0
– Principal payments	0.0	7.6	10.3	0.9	0.0	7.8	11.2	3.3	8.3	0.9	1.3	4.2	55.7
– Interest payments	0.4	0.4	3.0	0.1	0.0	0.7	2.3	0.8	2.8	0.1	0.3	0.3	11.3
• BDL Guaranteed Loan payments	0.0	0.0	0.0	10.1	0.0	0.0	6.1	0.0	0.0	17.3	0.0	0.0	33.5
<b>Reimbursement for purchase of gas &amp; fuel</b>	<b>93.3</b>	<b>255.8</b>	<b>134.1</b>	<b>134.2</b>	<b>155.2</b>	<b>34.7</b>	<b>212.2</b>	<b>41.5</b>	<b>113.2</b>	<b>257.1</b>	<b>70.5</b>	<b>194.9</b>	<b>1,697</b>
• KPC & SPC	93.3	255.8	134.1	134.2	155.2	34.7	212.2	41.5	113.2	257.1	70.5	152.7	1,655
• EGAS	-	-	-	-	-	-	-	-	-	-	-	42.2	42

Source: Ministry of Finance (MOF)

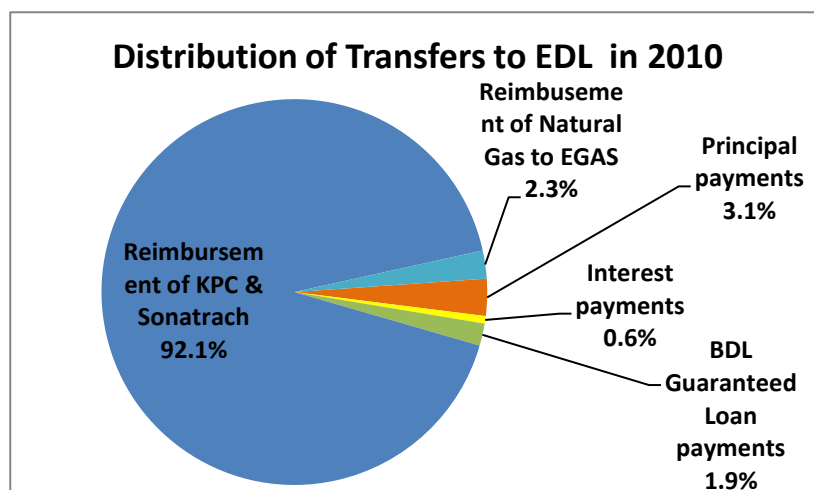
#### Box 1: Note on Natural Gas

- In May 2009, the Lebanese Ministry of Energy and Water (MoEW) and the Egyptian General Petroleum Corporation (EGPC) and the Egyptian Natural Gas Holding Company (EGAS) signed an **agreement** stipulating the provision of natural gas to Lebanon. This agreement was ratified by Law Number 108 dated 26 June 2010.
- EGAS has been providing Lebanon with natural gas since September 2009, to feed the **Deir Amar** plant in North Lebanon, where the pipeline passes through Jordan and Syria before reaching its final destination.
- The arrival of natural gas is a major step within **combustibles diversification**. As it comes to replace the costly gas oil, it is aimed at reducing the production cost of energy. In this respect, the impact is on the cost rather than on supply of electricity.
- In December 2010, the Lebanese Ministry of Finance made the first **payment to EGAS** – as part of the total due payments – after the Lebanese Council of Ministers issued a mandate authorizing MOF to make the associate payments.
- The total value of the December 2010 payment amounted to **US\$ 28 million**, equivalent to LL 42.2 billion, divided into two disbursement entries of US\$ 12 million and US\$ 16 million respectively. This sum covers for part of the natural gas provided from Egypt since September 2009.

► **Major component of Treasury transfers to EDL is “reimbursement for purchase of gas & fuel”**

- ⇒ This component made up the largest share of transfers to EDL in 2010 at 94.4 percent.
- ⇒ The size of “reimbursement for purchase of gas & fuel” implies that any fluctuation in the international oil price is bound to have an impact on Treasury transfers to EDL. At the same time, if consumed oil quantities rise, a higher burden is placed on the Treasury.

Figure 1: Distribution of transfers to EDL in 2010



## II. Transfers to EDL in 2010 in comparison with 2009

► **Transfers to EDL in 2010 were LL 461 billion lower than their 2009 level**

The 2010 transfers to EDL witnessed a notable drop of 20 percent compared to the 2009 level, which stood at LL 2,259 billion, as a result of the following two factors combined:

- ⇒ decrease in payments for the purchase of gas and fuel by LL 435 billion
- ⇒ decrease in debt service by LL 28 billion

Table 2: Treasury transfers to EDL in 2010 and 2009

(LL billion)	2009 Jan-Dec	2010 Jan-Dec	Value Change	% Change
<b>EDL, of which:</b>	<b>2,259</b>	<b>1,797</b>	<b>(461)</b>	<b>-20%</b>
<b>Debt Service, of which:</b>	127	100	(27)	-21%
• C-Loans and Eurobonds, of which:	93	67	(26)	-28%
- Principal Repayments	79	56	(23)	-29%
- Interest Payments	15	11	(3)	-23%
• BDL-Guaranteed Loan Payments	34	33	(0)	-1%
<b>Reimbursement for purchase of gas &amp; fuel, of which:</b>	2,131	1,697	(435)	-20%
• KPC & SPC	2,131	1,655	(477)	-22%
• EGAS	-	42	42	NA

Source: Ministry of Finance (MOF)

► **Payments for the purchase of gas and fuel were LL 435 billion lower than their 2009 level**

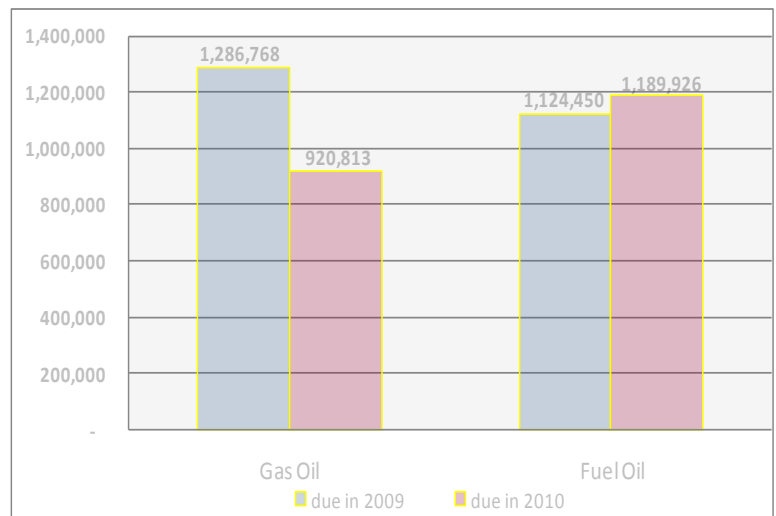
The component “Reimbursement for purchase of gas and fuel” reached LL 1,697 billion in 2010, down from LL 2,131 billion in 2009. The registered 20 percent downward change is rooted in two main factors: (a) a quantity effect (partly offset by a price effect) at the level of oil – coupled with (b) the fact that only two payments were made to EGAS, out of total outstanding payments.

► **Quantity effect:**

***lower gas oil and higher fuel oil paid for in 2010 as compared to 2009***

The quantities of gas oil paid for in 2010 registered a decrease of 28 percent compared to the previous year's level, to reach 920,813 metric tons, as shown in the adjacent figure. Based on MoF analysis and in the absence of any EDL reports on this matter, this notable drop could be explained by the presence of natural gas, a substitute for gasoil, which started flowing from Egypt to the Deir Amar power plant towards the end of 2009.

Figure 2: Gas oil and fuel oil quantities paid for in 2010 and 2009



As for fuel oil paid for in 2010, the quantity rose by 6 percent compared to 2009, to reach 1,189,926 metric tons.

**Box 2: Quantities Consumed vs. Quantities Paid**

Given the lagged terms of payment (six months for Sonatrach and nine months for KPC), it is important to differentiate between the following two different, yet connected, concepts.

**Quantities Consumed**

Oil quantities consumed in a certain year are paid for either during the same year or during the following year, depending on the date of purchase.

- For KPC, shipments arriving in Q1 are paid for during the same year, while the remaining three quarters' shipments are paid for during the following year.
- As for Sonatrach, consumption registered during H1 is paid for during the same year, while the second half's consumption is due during the following year.

**Quantities Paid**

"Reimbursement of KPC and Sonatrach Agreements" stands for the settlement of gas oil and fuel oil bills during a certain year. The paid sum pertains to consumption made during the same year, as well as the previous year, depending on the date of purchase.

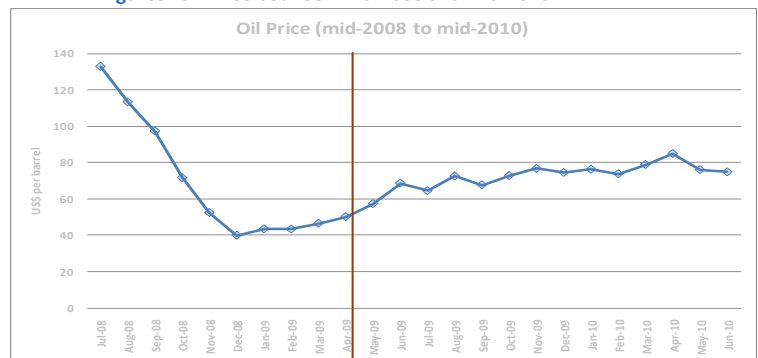
- For KPC, payments made during a certain year reflect consumption registered during the last three quarters of the previous year, as well as the first quarter of the year under consideration.
- As for Sonatrach, payments made during a certain year reflect consumption registered during the second half of the previous year, as well as the first half of the year under consideration.

► **Oil-price effect:**

***the overall average oil price according to which the 2010 payments were made is higher than that pertaining to 2009***

Payments to oil suppliers made in 2010 pertain roughly to consumption registered between mid-2009 and mid-2010<sup>1</sup>. Oil prices prevailing during this period averaged at a slightly higher level than those between mid-2008 and mid-2009.

Figure3: Oil Price between mid-2008 and mid-2010



<sup>1</sup> For more details on the impact of lagged payment agreements on actual payments, kindly refer to Box 2.

In fact, although oil prices soared in the third quarter of 2008, they dropped notably towards the end of the year (with the break of the international financial crisis) and during the beginning of 2009 (thus driving down the average in comparison to mid-2009 to mid-2010 level). In this respect, oil prices peaked at US\$ of 133 per barrel in July 2008 and reached a trough of around US\$ 40 per barrel in December 2008.

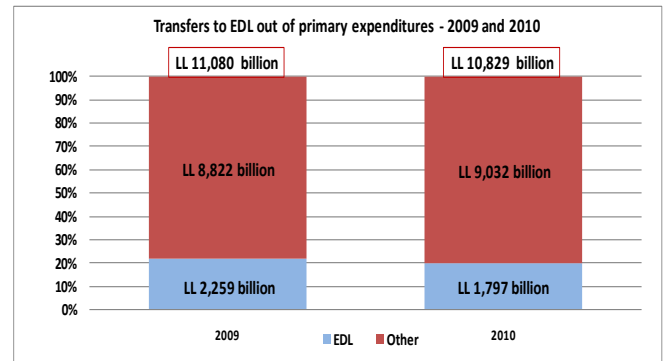
It is worth noting that the natural gas price is set at US\$ 5 per MMBTU – excluding transportation fees, as per the signed agreement between MoEW on one hand and EGPC and EGAS on the other.

### III. Share of “Transfers to EDL” out of Expenditures

► **Transfers to EDL constituted 17 percent of primary expenditures in 2010**

With primary expenditures at LL 10,829 billion in 2010<sup>1</sup>, the share of spending on EDL reached 16.6 percent. The share was higher in 2009, at 20.4 percent of primary expenditures, mainly due to a higher level of transfers to EDL. It is worth mentioning that when taking total expenditures into account, transfers to EDL have been the third largest public expenditure item, after interest payments and personnel cost, for the past five years.

Figure 4: Transfers to EDL out of primary expenditures in 2009 and 2010

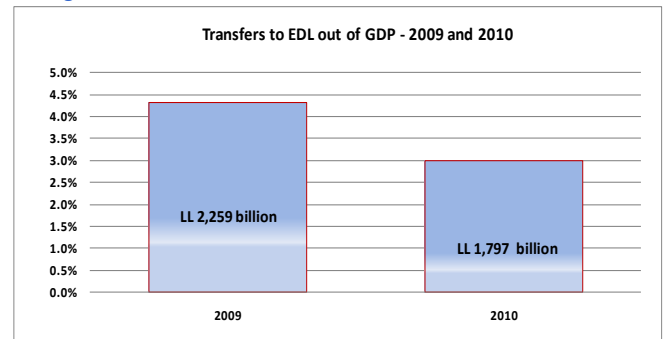


### IV. Share of “Transfers to EDL” out of GDP

► **Transfers to EDL constituted 3 percent of GDP in 2010**

Spending on EDL roughly constitutes around 3 percent of GDP – based on preliminary GDP estimates. It is worth mentioning that this figure was higher at 4.3 percent in 2009, due to a higher level of transfers to EDL on one hand, and lower GDP – at LL 52,650 billion as per the National Accounts – on the other. It is worth mentioning that when looking at the past five years, the 2010 share is the lowest since 2006.

Figure 5: Transfers to EDL out of GDP in 2009 and 2010

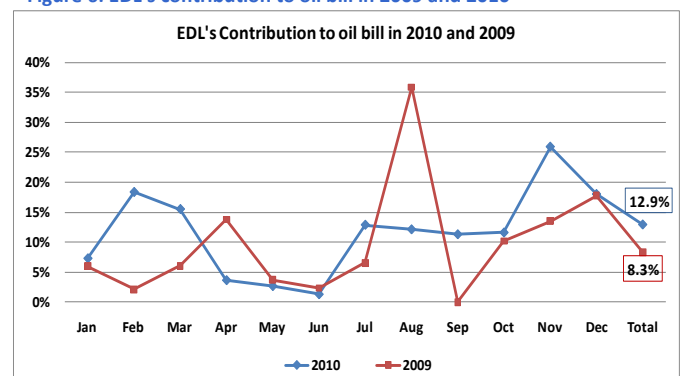


### V. EDL's Contribution to the total oil bill

► **EDL contributed to 13 percent of the total oil bill in 2010**

With a total oil bill of LL 1,949 billion due in 2010, of which a treasury payment that reached LL 1,697 billion, EDL contributed by 12.9 percent to the component “reimbursement for purchase of gas & fuel”. It is worth mentioning that this figure was lower at around 8 percent in 2009, out of a larger oil bill of LL 2,131 billion.

Figure 6: EDL's contribution to oil bill in 2009 and 2010



<sup>1</sup> Kindly note that total budget and treasury payments for 2010 differ from the Fiscal Performance figure previously released by MoF due to a technical discrepancy.