

Jordan's Strategic Decision to Buy Israeli Gas

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Brief Analysis

In addition to meeting the kingdom's urgent energy needs, the new natural gas deal should facilitate long-delayed efforts to develop Israel's offshore Leviathan field.

The U.S. firm responsible for developing Israel's largest offshore gas field has just announced a sales contract with Jordan's National Electric Power Company. The notion of Amman buying large quantities of gas from Jerusalem to generate the bulk of its electricity has been commercially logical but politically fraught, since most Jordanians do not particularly want their country to buy Israeli gas. But the deal has become economically necessary, at least in King Abdullah's view. Egyptian gas is no longer available for import, leaving the kingdom dependent on liquefied natural gas tankers arriving at the Red Sea port of Aqaba -- a stopgap measure at best because the floating facility is only leased and supplies are vulnerable to price fluctuations and the good grace of the current provider, Qatar. Proposals for Russian nuclear power stations or gas deals with Iraq have apparently been rejected as infeasible (the former for financial reasons, the latter for political).

Given the timing of today's announcement -- after last week's voting for a new Jordanian national assembly -- Amman likely wanted to keep the deal from becoming an election issue. Indeed, in a September 25 interview with the *Financial Times*, Deputy Prime Minister for Economic Affairs Jawad Anani stated that the kingdom needed concessions from Israel to "mitigate the backlash" he expected the gas sale would bring.

The deal with Houston-based Noble Energy is for 300 million cubic feet per day (cfd) of gas over a fifteen-year term, with an option to purchase an extra 50 million cfd. This is a typical contract length for natural gas because it requires substantial investment in infrastructure. The arrangement is "take or pay," meaning Noble and its Israeli partners will be paid whether Jordan uses the gas or not. The price is linked to the widely traded Brent crude oil, and total revenues from the contract should be approximately \$10 billion.

In Israel, exploitation of the huge Leviathan field, discovered in 2010, has been delayed by domestic political squabbles and the need for more than \$6 billion to retrieve the gas from deep beneath the Mediterranean Sea eighty miles off the port of Haifa. Noble Energy is due to take an investment decision on Leviathan in December but needs commitments for purchases of around 1 billion cfd. (The planned production platform just off the Israeli coast has a capacity of 1.2 billion cfd.) The Jordanian deal brings the total contracted volumes to 450 million cfd, so more sales need to be secured. Noble officials are pursuing other potential customers, including in Israel and Egypt, and they now seem likely to reach the magic number to justify the cost.

When gas starts flowing in late 2019, Leviathan production will double the amount of gas being produced off Israel's coast. The Tamar field is already responsible for more than half of Israel's electricity generation, and later this year a small portion of its supplies will flow to two industrial plants in southern Jordan under a previous contract. Israel has also announced a Dutch-brokered arrangement to supply gas to the power station in Hamas-controlled Gaza, though the Palestinian Authority has suspended a putative deal to supply a new West Bank station.

Some details still need to be worked out for the Jordan deal. The United States and perhaps other donor countries will likely fund a pipeline connecting Israel's gas network with Jordan. More problematic is Amman's request to export more goods to the West Bank, which would cut into Israel's market there. Under the circumstances, though, the impact of that concession would be economically small, so its political significance is questionable.

Simon Henderson is the Baker Fellow and director of the Gulf and Energy Policy Program at The Washington Institute, and author of the German Marshall Fund report '[Jordan's Energy Supply Options: The Prospect of Gas Imports from Israel](http://www.gmfus.org/publications/jordans-energy-supply-options-prospect-gas-imports-israel) (<http://www.gmfus.org/publications/jordans-energy-supply-options-prospect-gas-imports-israel>).' ♦

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