

# Israel's Policy Confusion on Natural Gas

by [Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Dec 23, 2014

## ABOUT THE AUTHORS



[Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Simon Henderson is the Baker fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute, specializing in energy matters and the conservative Arab states of the Persian Gulf.



Brief Analysis

---

**The Israeli regulator's decision to reopen a natural gas agreement because of a monopoly issue jeopardizes the country's gas export potential and its ability to attract foreign capital, as well as threatening to complicate relations with Jordan, the Palestinian Authority, and Egypt.**

**Y**esterday, Israel's Antitrust Authority announced it was considering whether to cancel an agreement that allows Houston-based Noble Energy and Israel's Delek Group to develop the country's two biggest offshore gas discoveries, the Leviathan and Tamar fields. The move would void an earlier compromise whereby the two companies could evade being labeled a cartel and retain ownership in return for selling two smaller fields, Karish and Tanin.

All the fields lie offshore northern Israel, with Leviathan -- at eighty miles the farthest out -- in waters several thousand feet deep. Tamar, containing 10 trillion cubic feet (tcf) of gas, was discovered in 2009 and brought onstream last year. Its gas now generates about half of Israel's electricity. The appropriately named Leviathan (22 tcf) was discovered in 2010, but production won't begin until at least late 2017. Together, the two fields contain enough gas to satisfy Israel's domestic needs for many decades as well as providing a surplus for export. Israel's geographic position has occasionally prompted questions regarding whether exporting some of its gas would ever be commercially viable, although Noble and Delek have never accepted this view.

A final decision by the antitrust commissioner, David Gilo, will only be made after he holds a hearing, likely next week. But the immediate impact has been to cast doubt on when Leviathan will be developed, if at all. The first phase of the project, establishing seabed production systems and a pipeline ashore, is estimated to cost \$6.5 billion. Both Noble and Delek have been working to raise the funds. Likely customers for the gas include a new power station at Jenin in the West Bank, the Jordanian state electricity company, and a Spanish-owned, underutilized liquefied natural gas facility on Egypt's Nile Delta coast. The U.S. government has been a firm supporter of these prospective

deals, seeing them as commercially logical as well as helping secure regional peace. If they were to be canceled, the impact on at least the Jordanian economy could be substantial.

If Noble and Delek are judged to be operating as a cartel, the Leviathan field will apparently have to be sold, and the new owner would be responsible for financing its development and securing new agreements with potential customers.

With elections in Israel scheduled for March, the surging public debate on natural gas will be further invigorated. Considerable resentment has already been aired over the profits that could eventually accrue to Delek, whose owner, Yitzhak Tshuva, is a self-made billionaire personifying for some the inequalities in Israeli society. But the central issue is the price being paid by the Israel Electric Corporation to the Noble/Delek consortium for the Tamar gas. No world market price exists for gas; Israel Electric is paying \$5.5 per million British thermal units, which is less than 70 percent of what the European Union paid and less than half what Japan paid for gas in November, but 25 percent higher than the U.S. "Henry Hub" price for the month. Nevertheless, it is hard to see how notionally forcing the sale of Leviathan would drive down the price: the greater risk premium that a new investor would require would likely drive up costs, swamping any modest benefit from having two producers rather than one.

A key question is whether Noble Energy will lessen its commitment to developing Israel's gas in these circumstances. Its outgoing CEO, Charles Davidson, expressed frustration with Israel's regulatory system in a September interview: "I can't help being taken aback by the inability to decide on the part of the government and most senior regulatory echelons in Israel. It is unreasonable and creates a constant atmosphere of uncertainty." Today, a Noble spokesman said the decision "will impact Noble Energy's continued investment." Noble is the only major foreign oil and gas company operating in Israel, staying on even after the government changed the terms of taxation for energy companies. In these circumstances, it is possible the Leviathan field could never find a buyer. Finding a buyer would also be challenging if, alternatively, the Tamar field were put up for sale.

Whichever way it goes, the decision of the antitrust commissioner could still be challenged in the courts. Also, the government's deputy legal advisor has just proposed a new approach to regulating the natural gas sector, although the immediate result will likely be the creation of a committee to discuss the matter -- unless Prime Minister Binyamin Netanyahu, judged to see Israel's gas as an important geopolitical card, intervenes. Today, he ordered Professor Eugene Kandel, the head of his National Economic Council, to check the implications of the antitrust commissioner's actions. To avert a decision that could handicap future U.S. policy, holiday plans or not, American officials should urgently point out to their Israeli counterparts the probable negative consequences of jeopardizing the deal.

*Simon Henderson is the Baker Fellow and director of the Gulf and Energy Policy Program at The Washington Institute. His upcoming Policy Focus on exploiting Israel's natural gas riches will be published in early 2015. ❖*

---

## RECOMMENDED

BRIEF ANALYSIS

### [Unpacking the UAE F-35 Negotiations](#)

Feb 15, 2022

◆  
Grant Rumley

[\(/policy-analysis/unpacking-uae-f-35-negotiations\)](/policy-analysis/unpacking-uae-f-35-negotiations)



## ARTICLES & TESTIMONY

### [How to Make Russia Pay in Ukraine: Study Syria](#)

Feb 15, 2022



Anna Borshchevskaya

[\(/policy-analysis/how-make-russia-pay-ukraine-study-syria\)](#)



## BRIEF ANALYSIS

### [Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy](#)

Feb 14, 2022



Simon Henderson

[\(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy\)](#)

## TOPICS

[Arab-Israeli Relations \(/policy-analysis/arab-israeli-relations\)](#)

[Energy & Economics \(/policy-analysis/energy-economics\)](#)

## REGIONS & COUNTRIES

[Israel \(/policy-analysis/israel\)](#)