

Israel's Go-Ahead on Natural Gas

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Brief Analysis

Israel's export decision should be welcomed, but domestic opposition could discourage necessary foreign investment.

Israel's decision to export natural gas, expected to be endorsed by the cabinet on Sunday, is a compromise that leaves the country's energy debate unresolved. Although the long-awaited decision largely endorses the findings of a 2012 report by the government's so-called Zemach Committee, it also increases the amount of gas to be used domestically from 47 to 60 percent -- an apparent concession to local lobbies that believe exporting the gas would damage the environment and further enrich certain Israeli entrepreneurs. Yet this change is partly offset by another provision: any exports to the West Bank and Jordan will be categorized as part of the domestic allowance.

The decision was delayed by Israel's January elections and the fact that Prime Minister Binyamin Netanyahu's new governing coalition wanted to reopen the debate. Even now, opposition leader Shelly Yachimovich has threatened to ask Israel's Supreme Court to intervene. Speaking on Wednesday, Netanyahu described the decision as being jointly made with Finance Minister Yair Lapid (who emerged as leader of the second-largest party in the Knesset after the elections), Energy and Water Minister Silvan Shalom, and Bank of Israel Governor Stanley Fischer. He also noted the need to balance between ensuring energy sources for Israelis and generating revenue, which he predicted would reach \$60 billion with currently forecast exports.

Unmentioned was an ultimatum by Woodside Petroleum of Australia, which last year announced plans to invest \$1.5 billion for a 30 percent stake in the huge offshore Leviathan field. Woodside had said it needed a decision on Israel's export policy by the end of this month in order to finalize the deal.

Israel has so far discovered around 800 billion cubic meters (bcm) of gas in its Mediterranean Exclusive Economic Zone, the bulk of it in two fields: Leviathan (discovered in 2010 but not yet in production) and Tamar (discovered in 2009 and in production since this March). Another 200 bcm lies in the Aphrodite field belonging to Cyprus, on the other side of the maritime border from Leviathan. In 2010, the U.S. Geological Survey forecast that as much as 3,500

bcm lies in the Levant Basin, which encompasses the waters off Israel, Cyprus, Lebanon, and the Gaza Strip. The area might also contain oil deposits.

The challenge facing these countries is to attract specialist exploration companies to look for more hydrocarbons. Both Leviathan and Tamar lie several thousand feet below the seabed, in areas where the water itself is 6,000 feet deep. The best places to drill are predicted by analyzing seismic data, but each hole requires around three months and \$100 million to drill -- and may turn up dry. Texas-based Noble Energy, working in partnership with Delek of Israel, has a 100 percent strike rate so far, finding seven fields, five with commercially exploitable volumes of gas. But other companies' efforts have been fruitless.

In addition, even after initial discovery, fields need to be delineated before their size can be confirmed. The "60 percent" that Netanyahu has designated for domestic use is based on the overall amount of gas discovered, not the actual "proven" reserves, so the percentage could conceivably change again if Israel encounters shortfalls when bringing the fields onstream or finds greater-than-expected volumes of gas.

One danger of Israel's latest decision is that it may dampen enthusiasm among foreign companies to explore in the Eastern Mediterranean, which could leave valuable oil and gas undiscovered. The Israeli domestic market for gas is limited in both size and growth rate -- consumption is expected to total around 7 bcm in 2013, rising to only 13 bcm per year by 2020. Foreign and Israeli companies therefore want to maximize the amount exported from any discoveries.

The United States has a key interest in enlarging the indigenous energy resource base of countries in the region and encouraging increased prosperity. American businesses are already actively involved in the recent gas findings as contractors, suppliers, and investors. Initial enthusiasm was dampened after further exploration failed to turn up more big fields -- a factor that no doubt contributed to Israel's caution on export volumes. Yet Cyprus and Lebanon are anxious to develop any gas resources they have and will be competing with Israel for investment and drilling capacity. Regardless of final percentages, it is important that Israel's decision to export gas be seen as a step forward, not as a stopgap measure to placate domestic constituencies reluctant to exploit what Netanyahu called the "gift from nature."

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