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ISRAEL'S OIL & GAS INDUSTRY NEWSLETTER

A SUMMARY OF ALL TOP HEADLINES

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Note from Local Specialist:

Last month was relatively quiet in the local O/G industry with everyone anticipating the High Court decision on gas exports. On October 22, the Court upheld the government's natural gas policy decision to allow for export of 40% of the offshore gas, rejecting a petition to overturn it by a 5- 2 vote.

With the export issue settled, there are still many challenges for the industry, e.g. the modes of export (LNG vs. pipeline) and the destination countries for the exports, the apparent lack of interest by foreign operators to invest in the offshore fields, the unresolved border dispute between Israel's and Lebanon's EEZ, delays in the construction of an additional entry point for the offshore gas, taxation of gas exports, the threat of declaring the Leviathan partners a monopoly, the establishment of a Sovereign Wealth Fund (SWF).

On November 12, despite the objections of the local citizens, the National Planning and Construction Council decided to approve the construction of two natural gas facilities offshore and onshore in the North of the country. The public can submit objections to the plan over the next 60 days. According to the plan, the gas that will be produced from the Leviathan reservoir will be partially treated on an offshore platform and from there it will be transmitted to two onshore receiving facilities. According to updated work assumptions, the construction permits will not be issued before January 2015.

$125 million has already been spent on planning for Leviathan's development. A major question mark still hangs over exports: whether the government will levy a special tax on the exports component, which is not currently taxed. The issue has been under discussion at the Ministry of Finance. Meanwhile, Leviathan's developers are blocked from selling gas to the domestic market.

For two years, Antitrust Authority director general David Gilo has been examining whether Leviathan is a cartel, and until a decision is made, it will not be possible to sell Leviathan gas to Israeli customers.

Establishing a SWF to manage the profits from oil and gas is the right thing to do, but there is disagreement on the manner suggested to invest the fund's money and on the suggestion that only the fruits from the fund should be used.

Sincerely,

Irit van der Veur
Senior Commercial Specialist

Woodside interested in Neta, Roy investment

Australia's Woodside Petroleum is interested in acquiring rights to the Neta and Roy licenses, controlled by Ratio Oil Exploration.

Sources inform "Globes" that Australia's Woodside Petroleum Ltd. (ASX:WPL) is interested in acquiring rights to the Neta and Roy licenses, which are controlled by Ratio Oil Exploration (1992) LP (TASE:RATI.L). There are reportedly initial feelers between the companies.

Woodside executives arrived in Israel last week, and met with government officials to discuss aspects of natural gas exports. Sources close to Woodside said that an investment in Neta and Roy did not come up in these talks. Ratio declined to comment.

Ratio owns 60% of the licenses, Israel Opportunity Energy Resources LP(TASE: ISOP.L) owns 20%, and Italy's Edison SpA (BIT: EDN), a subsidiary of Electricité de France SA (Euronext: EDF). The area of the original Gal permit was reduced, after it was discovered that it extended into Egypt's exclusive economic zone (EEZ), and the remaining area, located within Israel's EEZ, was split into two licenses, Neta and Roy, and indication of the presence of more than one oil or gas-bearing prospect.

The amount of natural gas at the prospectuses has previously been estimated at three trillion cubic feet (TCF). If oil is discovered at Leviathan, which is in the same area, there is a reasonable probability that oil will also be found at Neta and Roy.

Leviathan on the table

A major question about Woodside's activity in Israel is related to the Leviathan deal. The sources said that the heads of Leviathan partners Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio are due to meet the Woodside executives in a few days to decide the fate of the Woodside's investment in Leviathan. In December 2012, the parties signed a memorandum of understanding, under which Woodside would acquire 30% of Leviathan for $1.25 billion.

Closing the deal has been delayed because of Delek's demand that Woodside substantially improve its offer. At the meetings in Israel, Woodside representatives complained that Delek executives have avoided them for six months. Noble Energy and Ratio want to sign a final deal with Woodside, which will include a price adjustment to reflect the larger amount of gas estimated at Leviathan since the memorandum was signed, and to take the option of gas exports to Turkey into account.

However, Delek Group says that gas exports via pipeline to Turkey makes Woodside unnecessary, as there would be no need for shipment by liquefied natural gas (LNG), Woodside's specialty.

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Woodside execs due in Israel

Representatives of Australia's Woodside Petroleum will be in Israel shortly to move forward on buying 30% of the Leviathan field.

Representatives of Australia's Woodside Petroleum Ltd. (ASX: WPL) will soon arrive in Israel to move forward on the acquisition of 30% of the Leviathan field for $1.25 billion. The representatives may arrive this week.

"Globes" recently reported that the negotiations on the deal would be reopened, after the High Court of Justice approved the government decision to export 40% of Israeli natural gas. This means that gas from Leviathan will be exported.

Energy market sources believe that Leviathan's Israeli partners - Delek Group Ltd. (TASE: DLEKG) and Ratio Oil Exploration (1992) LP (TASE:RATI.L) - will demand a much higher price from Woodside's original offer for the rights to the gas field, otherwise the deal might fall apart. The main arguments behind the demand are the increase in Leviathan's potential reserves from 16 trillion cubic feet (TCF) to at least 19 TCF, the much higher chances of finding large quantities of oil, and rising competition from Turkish companies interested in buying the gas.

Noble Energy Inc. (NYSE: NBL) owns 39.66% of Leviathan, Delek Group unitsAvner Oil and Gas LP (TASE: AVNR.L) and DD) each own 22.67% and Ratio owns 15%.

In a separate development, Turkish conglomerate Zorlu is in talks to buy natural gas from Leviathan. Zorlu Energy CEO Ibrahim Sinan Ak, said for the first time on Friday, that the company was interested in buying 3 billion cubic meters of natural gas a year from the Israeli gas field under a 15-year contract.

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Turkey's Zorlu seeks Leviathan gas

Zorlu wants to buy 3 billion cubic meters of natural gas a year from Leviathan.

Turkish conglomerate Zorlu is in talks to buy natural gas from Leviathan. Zorlu Energy CEO Ibrahim Sinan Ak, said for the first time on Friday, that the company was interested in buying 3 billion cubic meters of natural gas a year from the Israeli gas field under a 15-year contract.

Media reports say that the gas purchases would be part of a project to lay a pipeline from the Leviathan field to Turkey, at a cost of $2.5 billion. JPMorgan says that a pipeline from Leviathan to Turkey would have a higher return on equity than construction of a liquefied natural gas (LNG) plant, and that the payback period would be less than four years.

The choice of projects could have a major effect on the future of the pending deal between Leviathan's partners and Woodside Petroleum Ltd. (ASX: WPL). The Australian company, which has offered $1.25 billion for 30% of the rights to Leviathan, specializes in building LNG plants, and its customers are in East Asia. For Woodside, there is no special added value in a pipeline to Turkey.

Ak spoke at the European Energy Summit in Istanbul. Delek Drilling LP (TASE:DEDR.L) and Avner Oil and Gas LP (TASE: AVNR.L) chairman Gideon Tadmor, who also attended, said that there was no reason that Israeli gas should not begin flowing to Turkey by 2017. "For this to happen, we must speed up the negotiations on the development plans and obtain support from both governments," he said.

There have been reports that Zorlu is a partner in several of the consortia which have expressed an interest in laying a pipeline from the Leviathan gas field to the company's customers in Turkey.

Zorlu, one of Turkey's largest companies, owns 25% of Dorad Energy Ltd., which will become Israel's largest independent power station, as well as stakes in two smaller power stations under construction adjacent to Makhteshim Agan Industries' plants at Ramat Hovav and in Ashdod.

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No second natural gas terminal before 2016

Under the revised timetable for the gas terminals, the plan will only reach the cabinet for approval in June 2014, a year behind schedule.

Construction of a second natural gas terminal in central Israel will not be completed before 2016, Gideon Lerman, who heads the government team for the project, said today. Hefer Valley residents today launched their campaign against the terminal ahead of the National Planning and Building Commission meeting on the matter on November 12.

The National Planning Commission will discuss the environmental impact study on the proposed sites for the terminals, and is due to approve them and send them to the regional planning commissions for comment. Under the revised timetable for National Outline Plan 37I Natural Gas Terminals, the plan will only reach the cabinet for approval in June 2014, a year behind schedule.

The Lerman team recommends building natural gas terminals adjacent to the Meretz Sewage Treatment Plant in the Hefer Valley, 11 kilometers inland, and adjacent to the Hagit Power Station near Yokne'am, 16 kilometers inland. Each terminal will cover 130 dunam (24.25 acres) on 200-dunam (50 acre) sites to provide safety margins.

At Hefer Valley, residents' nearest homes will be 1,300 meters from the terminal's fence, and at Yokne'am, the nearest homes will 1,100 meters distance. However, Lerman says that local communities will face no danger from the terminals and that all the hazards have been considered under the safety margins. He adds that the Ministry of Environmental Protection has handled the problem of the removal of hazardous materials from the terminals.

As for claims by Hefer Valley residents that Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva, dictated the terminals' location, Lerman said that he was hired by the government and that he has never spoken with Tshuva about the terminals.

The government asked the gas exploration companies to build the terminals, but in June 2010, the National Planning Commission rejected their proposal for a terminal at Dor Beach, and ruled that the government should deal with the matter. It is estimated that had the terminals been built as originally scheduled, this would have saved the economy billions of shekels, because natural gas from Tamar was due to begin flowing in 2012. Besides the delay in gas flows until 2013, the Tamar licensees were allowed to lay a smaller pipeline than the one planned for the Dor Beach terminal, resulting in continuing natural gas shortages through 2015 and until the start of gas flow from Leviathan in 2017.

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Gabi Ashkenazi quits as Shemen chairman

The resignation comes after the abandonment of the Yam 3 well following the failure of the production tests.

Following the failure of the Yam 3 well, Shemen Oil and Gas Resources Ltd. (TASE: SOG) chairman Gabi Ashkenazi has resigned as chairman, 18 months after his appointment.

In the announcement, Shemen Oil said that Ashkenazi thanked the company. He cited the completion of the well and the fact that no oil was found, as well as the need for immediate cuts in the company's costs as the reasons for his decision. "The board of directors expressed its great appreciation for Ashkenazi's efforts in achieving the well's final objective," the company's statement said.

At Wednesday's meeting, the board of directors appointed Michael Bar-Haim as acting chairman. He has served as a director, after previously holding senior positions at Bank Leumi (TASE: LUMI) and other public companies.

Since taking up his post as Shemen Oil chairman in November 2011, Ashkenazi earned a salary of NIS 100,000 a month, plus generous benefits. His total salary cost is estimated at NIS 3 million.

On October 13, the Yam 3 partners announced that the well was a dry hole, according to the well operator, Caspian Drilling Company Ltd., after it carried out production tests in two sections of the borehole. A few days later, Shemen Oil announced that the partners were abandoning the well, following the failure of the production tests. Shemen Oil's share price has fallen 92% since the announcement.

In the announcement at the time, Shemen Oil said, "Analysis of the findings at the well, and on the basis of information from the well operator, showed no producible quantities of oil were found in the strata in which the production tests were conducted." The well reached a depth of 5,700 meters, including the water depth, and cost $170 million. Shemen Oil's share of the cost was $138 million.

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Israel mulls gas export options

Cyprus wants a joint liquefaction facility, but a pipeline from Israel to Turkey is also an option.

Cyprus has asked Israel to agree to allocate one quarter of the gas in the Leviathan reservoir for export via Cyprus. The idea, which was discussed by government officials from Israel and Cyprus, is to dedicate a LNG train at the planned liquefaction facility on the southern part of the island, at an investment of $12 billion. Approval by the Israeli government would open the door to the possibility of a commercial deal between Cyprus and Leviathan's partners, Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE:

DLEKG, and Ratio Oil Exploration (1992) LP (TASE:RATI.L). The deal could total an estimated $12 billion, based on current LNG market prices.

Cyprus' proposal arose in the context of the many options for gas export from Leviathan, which were raised in the wake of the "green light" for exports that the High Court of Justice gave the government last week. The ruling placed decision makers in Israel in a complicated situation - there are many offers, totaling many billions of dollars each, that are entangled with business interests, and occasionally personal interests, of senior politicians. "There are serious doubts in the professional ranks, and for good reason," a source close to the parties told "Globes."

Cyprus is dependent upon Leviathan

Significant progress has been made between Israel and Cyprus in recent meetings. Following three years of negotiations to establish a unitization agreement to open joint fields, the agreement is expected to be signed within 6 months. Cyprus' position is straightforward in comparison to Israel's considerations. The financial crisis into which the country was thrust does not leave many options. A strategic partnership with Israel is considered the best possible conduit to draw foreign investors to the island, and to deter Turkey from harming Cyprus' interests.

Cyprus, whose domestic gas consumption is very low, is hoping to become a major natural gas exporter. Time is a critical factor in the export plan in light of the drop in liquid gas prices that is anticipated towards the end of the decade. Cyprus' government recently announced that they intend to sign an agreement by the end of this year to establish a liquefaction facility with condensers, in which both Delek Group and Noble Energy will be partners. The target date for operation is 2020, and already it seems there will be delays of 18-24 months.

However, the liquefaction project cannot begin without the Israeli gas. At the start of October, Noble announced that the Aphrodite reservoir contains only 100-170 BCM (Billion Cubic Meters) of natural gas. Such a quantity is sufficient to establish a liquefaction facility with only one LNG train - liquefaction facilities around the world have at least two LNG trains. Cyprus, which planned to establish a facility with three LNG trains, is convinced that more fields will be discovered in its waters. Block 12 alone contains, according to reports, at least two more fields, containing an estimated 100 BCM, and the energy majors Total, Eni and Kogas hope to discover additional fields in exploration sites near Block 12. However, in order to get underway without delay, Cyprus' liquefaction initiative needs available gas, and such gas is currently available only in Israel's Leviathan. The cost of establishing the land-based liquefaction facility with two LNG trains, with an output of 5 million tons each, is roughly $12 billion. The accepted price that the liquefaction facilities pay for feed gas is $2-2.5/MMBTU. According to a MIT report, ordered by Cyprus' government, the owners of the liquefaction facility will need to sell the gas for at least $7.25 in order to justify the cost of building it.

The Turkish option beckons

The minimum volume of gas that Cyprus has requested is 7 BCM/year, or 150 BCM in total. This is a little more than 25% of the gas in Leviathan, which is estimated at 550 BCM today, and may grow in the future. Such quantities leave Israel with additional options for gas exports. The most attractive option, economically speaking, is laying a pipeline to Turkey. Such a project, which would cost a mere $3 billion, could deliver a return on the investment within two years, in light of the volume (10 BCM/year) and the prices ($7-9/MMBTU) that were discussed with Turkish companies. The Turkish groups (6 in total) have offered to build transport infrastructure from the reservoir to the Port of Mersin or Jihan in southern Turkey, at their expense.

The problem with the Turkish deal is twofold: the delicate political relationship between Israel and Turkey, and the handling of the negotiations on the parts of the corporate bodies in Turkey. The Turks are treating the matter as though they have all the time in the world, and the deal is a much greater Israeli interest than Turkish. The Kurds of northern Iraq and the Iranians may also compete for the Israeli gas, as the threat of sanctions against them dissipates.

The Turkish option is especially attractive to the Israeli partners in Leviathan - Delek Group (45.33%) and Ratio (15%) - who need the cashflow that the deal would bring to finance their part in bringing Leviathan to the local market, particularly if it is decided that a floating liquefied natural gas facility (FLNG) will be established. The idea of a floating liquefied natural gas facility has largely supplanted the idea of establishing a land-based liquefaction facility, which is considered impractical today. However, the price of a FLNG is still unknown, as it involves very new technology.

Another option that has been pushed forward enthusiastically in recent weeks is selling gas to the international companies that have land-based liquefaction facilities in Egypt. The Egyptian Petroleum Minister responded sharply to Israeli Minister of Infrastructures, Energy and Water Resources Silvan Shalom's insinuations on the topic, and denied that Egypt is interested in buying Israeli gas. The Egyptian government's position does not rule out the possibility of the gas being bought by international companies, however, laying a pipeline from Leviathan to the facilities in Egypt will require an agreement between the two countries.

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Israel rejects Lebanon EEZ compromise

Israel has rejected a US compromise on the dispute with Lebanon over offshore borders and exploration.

Israel recently rejected a compromise proposal put forward by the US on the dispute with Lebanon over the borders of its exclusive economic zone (EEZ), sources inform "Globes."

The continuation of the dispute will delay development of Lebanon's Block 9. The Lebanese exploration area that is north of Israel's Alon license is likely to contain gas reserves similar in scale to Israel's Tamar gas field.

Lebanon complained to the United Nations in 2010 that the border of Israel's EEZ encroaches on its own EEZ. Israel submitted its interpretation to the UN in 2011 and the US asked to mediate between the sides in an attempt to reach a compromise.

The disputed area covers 850 square kilometers. The triangular region has its apex near Rosh Hanikra and its base along the borders with Israel and Cyprus's EEZs. The agreement signed between Israel and Cyprus in December 2010 supports Israel's interpretation. A similar agreement signed between Cyprus and Lebanon was not ratified by the Lebanese parliament.

"Globes" recently revealed that Lebanon has already published oil exploration tenders for its waters in which the southern license border markings for Block 9 are in line with the Lebanese version of where the border should be.

In response the Ministry of Foreign Affairs told "Globes," "We do not comment on the matter due to its sensitivity."

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Gov't delaying Leviathan development

The foot-dragging in approving a gas pipeline terminal and allowing gas exports has prevented the gas field's development.

Almost three years have passed since the Leviathan natural gas discovery, but there has still be no official announcement of a discovery. Leviathan's rights holders - Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) - have not yet received a lease from the government to allow them to develop the gas field.

To obtain a lease, the rights owners must present a development plan for the field, but they cannot do so because the government has not yet decided where the terminal for the gas delivery will be located.

Regulatory progress in Israel's planning and building commissions is among the slowest in the world, while the developers rush ahead. The main challenge facing the Netanyahu government is the construction of a gas pipeline terminal from Leviathan, 130 kilometers offshore, on a 100-dunam (25-acre) onshore site.

Prime Minister Benjamin Netanyahu has instructed Prime Minister's Office director general Harel Locker to personally supervise this critical project. Since 2010, the planners have been able to obtain provisional permits to carry out detailed examinations of two sites, one adjacent to the Meretz sewage treatment site at Emek Hefer, and the other adjacent to the Hagit power station at Yokne'am. Local residents at both sites have been waging an effective public campaign against the plan, demanding that the handling of gas be carried out at offshore facilities.

The target date for approving the National Outline Plan - Gas Terminal was August 2013. As of now, no approval seems likely before August 2014. The government needs four years to approve a 100-dunam natural gas terminal. In the same period of time, energy exploration companies discovered the Tamar field, developed it at a cost of $3.5 billion, and have contracts to sell almost all of the gas to the Israeli economy.

$125 million has already been spent on planning for Leviathan's development. Just last week, the green light was given for gas exports, when the High Court of Justice dismissed the petitions against the government's decision to export gas. A major question mark still hangs over exports: whether the government will levy a special tax on the exports component, which is not currently taxed. The issue has been under discussion for three months at the Ministry of Finance and Israel Tax Authority.

Meanwhile, Leviathan's developers are blocked from selling gas to the domestic market. For two years, Antitrust Authority director general David Gilo has been examining whether Leviathan is a cartel, and until a decision is made, it will not be possible to sell Leviathan gas to Israeli customers.

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Israel in gas talks with Russia

Russian companies are examining options of participating in the development of Israeli gas, the Prime Minister's Office says.

The Israeli government confirms it is in talks with the Russian government on development of Israel's gas fields. The statement was made in a written response to a question by Meretz chairwoman MK Zahava Gal-On to Prime Minister Benjamin Netanyahu if it was true that, he discussed with Russian President Vladimir Putin a "deal", under which Russia would stop shipments of sophisticated weapons to the regime of Syrian President Bashar Assad in exchange for an Israeli commitment not to export gas to Europe.

The response to Gal-On stated that "such conditions" were not discussed between Israel and Russia, but, "Russian companies are examining options of participating in the development of the Israeli gas economy, and consequently the Russian government is interested in the Israeli gas economy."

Gal-On told "Globes" in response, "Instead of using natural gas as a lever for economic welfare and even peace, the prime minister and his emissaries are in secret negotiations with the nation of oligarchs."

Gazprom JSC (RTS: GAZP; LSE: GAZD; DAX: GAZ) has chalked up a series of failures in its attempts to gain a foothold in the Israeli, Cypriot, and Greek energy markets. A year ago, Gazprom expressed an interest in acquiring 30% of the rights in the Leviathan gas field, but never made a financial offer, because of strong US objections. Its last serious attempt to enter Israel was when Ariel Sharon was prime minister. He supported the idea of Gazprom building a pipeline to Israel from Turkey, but then-Minister of National Infrastructures Yosef Paritzky objected.

Paritzky told "Globes" today, "When I was Minister of National Infrastructures in 2003, I met, at the request of the prime minister at the time, with Gazprom representatives. Although Ariel Sharon was prepared to favorably consider its entry to Israel, I objected. I did not then, and I do not want now, for Israel to be under political pressure from Russia because of Gazprom's control of its energy sources. I hope that the prime minister will be wary of this now."

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Israel Corp unit signs $340m Chinese energy deal

HelioFocus will build a 200-megawatt solar boosting system for coal-fired power stations for Chinese company Taiqing.

Israel Corporation (TASE: ILCO) unit HelioFocus Ltd. has signed a memorandum of understanding deal with Chinese energy company Taiqing to build a 200-megawatt solar boosting system for coal-fired power stations in Inner Mongolia for $340 million. The project is scheduled to begin in 2015.

HelioFocus is a subsidiary of IC Green Energy Ltd. and China's Zhejiang Sanhua Co. Ltd. (Shenzhen: 2050). It will supply the technology and serve as the project contractor, after previously completing several solar energy booster projects in Inner Mongolia.

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Economic attaché: Israel needs US investors to develop gas fields

Economic attaché to US Eli Groner: We want everyone who invests in drilling to be satisfied. If there are no investors, there won't be any gas."

"It is important for Israel to maintain its interests when drawing up and implementing its policy on the use of natural gas produced in the Mediterranean," Israeli Minister for Economic Affairs to the US Eli Groner told "Globes" at a symposium, "Power Shifts in the Eastern Mediterranean: The Emerging Strategic Relationship of Israel, Greece, and Cyprus", by the Hudson Institute in Washington.

"The Americans have an interest in their companies operating in the eastern Mediterranean basin and profiting from this activity, and we have an interest in encouraging this. We should create an investor-friendly environment. We need a satisfied Noble Energy Inc. (NYSE: NBL). We want everyone who invests in drilling to be satisfied. If there are no investors, there won't be any gas."

In a statement for the symposium, Chairwoman of the House Foreign Affairs Subcommittee on Middle East and South Asia Representative Ileana Ros-Lehtinen (Republican-Florida) implied that US prefers the plan to export Israeli and Cypriot gas to Europe via Greece.

Following Sunday's decision by the High Court of Justice upholding the government's authority to decide on gas exports, Groner said that there was no disputing the fact that Israel's oil and gas reserves are the property of its people. He said that Israel worked hard to find the right formula for meeting its needs while attracting skilled companies to invest in wells, with the full knowledge of the risks involved in operating in the region.

Groner said that Israel has many scenarios for exporting gas to customers from Turkey to China, and that the supporters of each scenario have commercial, political, and diplomatic arguments in favor of it. "Whatever the scenario will be, Israel must guarantee that investors find target markets in Israel and overseas so that their investments will make a profit," he said, adding that each scenario must ensure that Israel's people will have enough gas to guarantee the country's energy independence.

"There are people who think that we spent too much time in taking the decision on gas, but these people should realize the size of the issue," said Groner. "It's possible to compare the situation to the US budget problem. We've seen in the past few week how difficult it is to draw up the budget in the US, or even make a continuous decision (adopting the budget for the coming year). On Israel's scale, revenues from gas are a third of the state budget. These are not decisions to taken hastily."

Groner said that Israel's commercial and diplomatic relations with Cyprus and Greece are becoming closer, and that the three countries are tightening their collaboration in the war against terrorism. He said that these relations have growing strategic importance. Although they should not come at the expense of Israel's relations with other countries, it is important that Israel foster its relations with Cyprus and Greece just as it fosters its relations with the US.

Asked about possible gas exports to China, Groner said that all options were on the table. "No one is forgetting China," he said. "Natural gas exports to China and Asia are one of the issues now under review in Jerusalem." He said that Prime Minister Benjamin Netanyahu believes in the importance of the railway to Eilat, and that it is an important growth engine for the Israeli economy, in part because a railway could boost exports to Asia via the Eilat Port.

Ros-Lehtinen said in her statement that the discovery of natural gas fields in the eastern Mediterranean could completely change the region's economic, political, and security balance and greatly affect the US's national security. She added that the large offshore gas discoveries in Israel could greatly strengthen US-Israeli relations, and help Israel's economy and security. She noted that as the region was on the threshold of a historic geopolitical change, the US and its allies placed increasing importance on the eastern Mediterranean, and that the changing regional circumstances required the US to change its geopolitical priorities.

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Despite favorable ruling, Leviathan partners face high hurdles to exports

Questions remain about the partnership, markets, finance and development.

Fourteen months after a government committee proposed a framework for Israel's natural gas exports and four months after the cabinet approved most of them, the new regime is ready to go into force. Yet many a hurdle remains before the would-be exporters.

The long and convoluted process came to a conclusion on Monday when the High Court of Justice rejected a pair of legal challenges to how the new export regime was put into law, namely by a cabinet vote rather than in the Knesset.

The stock market celebrated the court decision but it will be a long time before the first gas leaves Israel as the government and the energy companies hash out a series of regulatory, financial, political and environmental issues. Moreover, opponents of the regulatory framework are not giving up. Further battles in court and in front of the regulators can be expected.

Israel's natural gas exports, for now at least, will be coming from a single field – the giant Leviathan reserve. The one major change to the Tzemach committee recommendations the cabinet made was to reserve the Tamar field's gas for domestic use, which means that 75% of Leviathan's output can be sold abroad.

But three years after the first Leviathan discoveries were made, its legal ownership remains cloudy.

Two years ago, the antitrust authorities ruled that the partners – Delek Group (45%), Noble Energy (40%) and Ratio (15%) – are a monopoly because they control almost all of the country's gas reserves. The partners were given a chance to respond to the decision in a hearing last May, but they have not done so yet.

The delay is apparently due to concerns that the Leviathan partners will mount a legal challenge to the decision that could delay the start of production at Leviathan. The two sides, as a result, would rather just wait and see who blinks first.

Broadly speaking, antitrust chief David Gilo has two options. The first is to insist that the partnership be broken up altogether, and the second is to require them to market their gas in the domestic market separately (while exporting gas jointly).

The rig drilling into leviathan

Meanwhile, the cabinet's decision to reserve Tamar's gas for local consumption has upset Isramco and Alon Gas, which hold a combined 33% in the field. They are appealing the decision.

Another question facing the Leviathan partners is who will finance development of the facilities needed to export the gas. At the end of last year, the partners signed an agreement with Australia's Woodside to sell its 30% stake in the field for $2.5 billion. A final accord was supposed to be signed two months later, but the sides waited for the government to decide on its gas export policy.

Meanwhile, Leviathan's estimated reserves have been revised upward by about 20%, raising its value. The two sides have virtually stopped talking in the last several months, but they are now expected to be revived.

Woodside lauds decision

On Sunday, however, a Woodside spokesman praised the High Court decision. "The court's decision adds further certainty to the gas export policy settings on which Woodside based its proposed investment in the Leviathan field," a Woodside spokesman said.

However, Nobel or Delek are divided on Woodside. Delek prefers the cheaper alternative of exporting gas to nearby Turkey, whereas Woodside's expertise is liquefied natural gas and markets in the Far East. Noble, backed by Ratio, still favors the Australian company.

The next item on the agenda is where to site the gas export facilities. In the last several months, both the Leviathan partners and the government have reportedly reached the conclusion that developing them on dry land either in Israel or Cyprus will be impossible.

Finding 1,000 dunams on the Israeli coast to build the facility would run up against environmental obstacles and public opposition. Cyprus, meanwhile, is a major credit risk, its gas reserves are yet proven and the security establishment opposes shipping a major natural resource through the island country.

Over the next few weeks, the Leviathan partners will likely be discussing a short- and long-term alternative. The first would be shipping the gas by undersea pipeline to Turkey, a plan supported by Jerusalem for geopolitical reasons. Such a pipeline could transport eight to 10 billion cubic meters of gas annually.

Assuming that all the political and regulatory obstacles can be overcome, the pipeline would cost about $5 billion and take three years to complete. It would generate income of $3 billion to $4 billion annually for the Leviathan partners and provide the cash flow to help finance the long-term export facility, a floating LNG terminal.

An FLNG facility would solve the problem of locating the facility on land, but it would cost in the range of $4 billion to $5 billion to build a terminal capable of exporting $5 billion of gas annually. Woodside's expertise in the field would be critical.

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Leviathan partners want Woodside to pay more

The reasons for a higher price are larger estimated natural gas reserves, greater chance of finding oil, and interest from Turkish buyers.

Negotiations to sell 30% of Leviathan to Woodside Petroleum Ltd. (ASX: WPL) for $1.25 billion will resume, following Monday's High Court of Justice ruling on natural gas exports, industry sources believe. Leviathan's partners will reportedly ask Woodside for a much higher price, but this will not wreck a deal.

The main reasons for a higher price are the larger estimated natural gas reserves at Leviathan from 16 trillion cubic feet (TCF) to 19 TCF, the greater chance of finding large quantities of oil, and increased competition from Turkish buyers for the gas.

Noble Energy Inc. (NYSE: NBL) owns 39.66% of Leviathan, Delek Group Ltd.(TASE: DLEKG) units Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L) each own 22.67% and Ratio Oil Exploration (1992) LP (TASE:RATI.L) owns 15%. In December 2012, Woodside signed a non-binding letter of intent to acquire 30% of Leviathan for $1.25 billion in cash. The deal was subject to milestones, including the signing of a final agreement in exchange for a down payment of $696 million, and the obtaining of regulatory permits for gas exports and the construction of liquefied natural gas (LNG) infrastructures. Woodside also agreed to pay up to an additional $1 billion if the price of gas exported from Leviathan was higher than set out in the formula appended to the letter of intent.

Delek and Ratio did not conceal their unhappiness with the size of Woodside's offer and hinted that they could get higher offers. Russia's Gazprom JSC (RTS: GAZP; LSE: GAZD; DAX: GAZ), Korea Gas Corporation (Kogas), and other companies were mentioned as interested in Leviathan before the deal with Woodside.

When the letter of intent was signed, Woodside believed that the final deal would be signed by February 2013. But the Israeli elections in January delayed a decision on gas exports recommendations by six months, and, at the insistence of Minister National Infrastructures Silvan Shalom, cut the export quota from 50% to 40%. The talks between Leviathan's partners and Woodside remained frozen even after the government decision until the High Court of Justice dismissed the petitions against the decision yesterday.

In the meantime, there has been substantial progress in talks between Leviathan's partners and a Turkish consortium that wants to buy gas from the reservoir and deliver it to customers via pipeline. A Turkish pipeline would jeopardize Woodside's plans for an LNG plant for exports to its customers in China. The Turkish plan has the support of Israeli government officials and the plan's return on investment would be much faster than the return on an LNG plant, which would cost $10-15 billion. On the other hand, Israeli-Turkish relations have been unsettled of late. In addition, Woodside gives great weight to Prime Minister Benjamin Netanyahu's reportedly strong support for its deal.

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Navy wants $600m for ships to protect gas rigs

The Navy wants four missile corvettes to defend Israel's exclusive economic zone.

The Israel Navy is preparing a plan to procure four missile corvettes to protect the gas rigs in Israel's exclusive economic zone in the Mediterranean. The ships cost an estimated $400 million and systems that will be installed on them cost an additional $200 million. A senior Navy officer says that the plan is due to be presented to the government for approval in a few weeks.

The corvettes were priced after a long process in which the Navy obtained quotes from several foreign shipyards, including in Germany, South Korea, and the US. Because of the high cost of the Saar 5-class missile corvettes, four of which are in service with the Navy, the IDF decided to procure ship platforms designed for civilian use. This process should substantially lower the ships' cost, since a Saar 5-class missile corvette reportedly costs $400 million.

A senior IDF officer says that for the cost of one missile corvette, it will be possible to procure four large civilian ships and then train the Navy to respond to security challenges in the Mediterranean. The plan calls for converting the civilian ships to warships, which will carry a wide range of offensive, defensive, communications, and warning systems developed by Israeli defense companies. The Navy estimates that 4.5 years are needed from the signing of a contract to bringing the ships to operational use, with the first ship delivered within three years.

"The new ships are a fantastic answer to our needs to meet the new challenges in the maritime space," says the officer. "They can be used for routine protection of Israel's economic interests in Mediterranean, and when needed, to use them in combat operations. We've examined how other countries are protecting their maritime interests, and found that they all use this method."

A Navy expert familiar with the complexities of protecting offshore rigs says, "For the IDF, this is a reasonable demand to respond to a need in a huge region, where interest has grown greatly in recent years."

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High Court gives green light to gas exports

The High Court of Justice has rejected the petition against the cabinet's gas export decision.

The High Court of Justice has given the green light to gas exports from Israel after rejecting the petition to nullify the cabinet decision to allow gas exports, on the grounds that the Knesset is required to legislate on the issue. The petition was filed by Labor party chairperson MK Shelly Yachimovich, other MKs and social organizations. The High Court did not publish the reasoning behind its ruling but said that the decision was reached by a majority of five justices with a minority of two justices supporting the petitioners.

The significance of the ruling is that gas exports can now go ahead, especially from the Leviathan field in accordance with the cabinet decision last June. The petitioners argued that the cabinet did not have the authority to decide on such an important national matter and that Knesset legislation is required.

In June the cabinet ruled that up to 40% of Israel's gas reserves can be exported.

The seven judge panel hearing the petition was Supreme Court President Asher Grunis, Vice President Miriam Naor, Edna Arbel, Elyakim Rubinstein, Salim Joubran, Esther Hayut, and Noam Sohlberg.

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Israel Corp inaugurates gasoline from natural gas facility

The experimental facility in New Jersey will produce up to 100,000 gallons of gasoline annually, refined from natural gas.

Israel Corporation (TASE: ILCO) unit IC Green Energy Ltd. has inaugurated an experimental facility in New Jersey to produce gasoline from natural gas. IC Green Energy develops technologies to refine fuel from natural gas and biomass.

Israel Corp CEO Nir Gilad and IC Green Energy president and CEO Dr. Yom-Tov Samia attended the inauguration along with New Jersey Lt. Governor Kim Guadagno and other dignitaries.

The plant, owned by IC Green Energy subsidiary Primus Green Energy Inc. can produce up to 100,000 gallons (440,000 liters) of gasoline a year

"There is a major global need for alternative fuels derived from non-petroleum sources, which will contribute to energy independence and energy security for both the US and Israel and Primus is uniquely poised to take advantage of attractive economics and a first-of-its-kind technology to make alternative fuels a commercial reality," said Samia.

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Any questions? Feel free to contact any of the following people:

Maria Andrews, Senior Commercial Officer
Tel: 972-3-519-7476
Email: maria.andrews@trade.gov

Irit van der Veur, Senior Commercial Specialist
Tel: 972-3-519-7540, Mobile: 972-54-242-8744
Email: irit.vanderveur@trade.gov

Alan Wielunski, Senior Commercial Specialist
Tel: 972-3-519-7390, Fax: 972-3-510-7215
Email: alan.wielunski@trade.gov

U.S. Embassy - Israel
71 Hayarkon St., Tel-Aviv
Tel: 972-3-519-7476 • Fax: 972-3-510-7215
www.export.gov/israel