ISRAEL'S OIL & GAS NEWSLETTER

SPECIA L EDITION

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REGULATOR DECIDES TAMAR AND LEVIATHAN FORM MONOPOLY

Noble Energy: Having to sell Tamar or Leviathan influences our continued investment in Israel.

Israel Antitrust Authority head Prof. David Gilo today has told lawyers acting for **Delek Group Ltd.** (TASE: **DLEKG**) and **Noble Energy Inc.**(NYSE: **NBL**) that he is going back on his decision, subject to a hearing, to let the companies continue holding both the Tamar and Leviathan gas fields. The State will now require the companies to sell their holdings in one of the fields.

Sources in the energy market believe that such a step will delay development of the Leviathan field by several years and could see Israel dragged into the international court of arbitration by US company Noble Energy, which has been developing both fields.

Noble Energy Israel Country Manager Binyamin (Bini) Zomer said, "For 16 years, Noble Energy has invested in the exploration and development of Israel's gas and oil resources. To date we have invested with our partners close to $6 billion in developing the country's oil and gas sector. These investments contribute to the Israeli economy and environment, and at the same time grant Israel energy independence while providing an opportunity for regional cooperation and contributing to regional stability." He added, "The entry of Noble Energy into the licenses, which then became the Leviathan discovery, took place with the full knowledge and approval of the Israeli government, and subject to the Petroleum Law and all laws.

The reservations of the Antitrust Authority regulator over Noble Energy's entry into these licenses, after they were declared a discovery, were without legal basis when first mentioned, and remain groundless today."

Zoma continued, "In an attempt to satisfy the regulator, Noble Energy and its partner, agreed to part from the Tanin and Karish discoveries, which were assets legally and legitimately acquired by them. That agreement was the result of long and exhaustive talks, and in effect allowed speeded up investment in Israel and continued project development in Israel's gas and oil sector."

over the future of Israel's gas and oil sector and influences Noble Energy's continued investment in the country."

Published by Globes on Dec. 23, 2015

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IN ISRAEL, ANTITRUST REGULATOR REVIEWS NATURAL GAS DEVELOPMENT

LONDON — Israel's fledgling natural gas industry was rattled on Tuesday over a threat by the country's antitrust regulator to break an American-Israeli group's hold on the country's gas resources.

Israeli officials and the antitrust regulator have said that they are concerned that Noble Energy, a Houston-based oil company, and its partners, Delek Drilling and Avner Oil Exploration, had a lock on Israeli gas production.

Noble and its partners produce nearly all of Israel's gas from an offshore field called Tamar, and that gas is used to generate about half of the country's electric power. They are also developing an even larger field, Leviathan.

Together, Nobel estimates that the Leviathan and Tamar fields hold more than 800 billion cubic meters of gas, enough to meet current Israeli demand for about a century.

With such a wealth of gas, the companies and the government are backing plans to also export gas to Israel's neighbors.

Given significant reliance on the gas in Israel, the regulator is objecting to the group's dominant position over the two fields. One worry is that Noble and its partners could overcharge for the gas, hurting consumers.

"The entry of Delek and Noble into Leviathan has created a situation in which these groups control all the gas reserves on the coast of the state of Israel," Israel's antitrust commissioner, David Gilo, said in a statement. Mr. Gilo said he would hold a hearing for the companies before making a decision.

A move by the regulator to break up the consortium would lead to further delays on Leviathan, which has already proved difficult to develop. Noble and its partners have spent years trying to find ways to finance the development of Leviathan, whose first phase could cost up to $8 billion.

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Nati Birenboim, a former adviser to the Israeli minister of energy and water, said he thought it likely that the regulator would try to force Noble and its partners to sell their stakes in Leviathan. Such a move could delay development by at least two or three years, he said, as the companies would most likely bring the decision to the courts and as new developers would have to be found.

Israel may also have a tough time finding other developers. While Leviathan represents a significant find, companies may be wary of working in the politically volatile region.

Mr. Birenboim, a lawyer who is co-chief executive of the consulting firm Tamuz Group, which advises business on energy matters, said that some officials in the Israeli government were opposed to the decision by the antitrust administrator, which is independent.

The shortfall in tax income "is going to cost billions," Mr. Birenboim said. "We are sending a very pessimistic message to the business market around the world."

In his statement, Mr. Gilo said he was aware that his "determination could have consequences for the economy."

The current plan, supported by the United States government, is to sell the gas to Jordan and Egypt through long-term arrangements that could help cement existing peace agreements between Israel and the two Arab countries. The Noble-led group has reached preliminary deals to export substantial quantities of Leviathan gas to Jordan and to liquefied natural gas facilities in Egypt. Changing owners could put these agreements at risk.

In an interview with Israel Radio on Tuesday, Gideon Tadmor, the chairman of Delek Drilling and the chief executive of Avner Oil, said that those deals were in Israel's interest.

"We are in advanced negotiations for signing agreements for export of gas to Jordan, and customers in Egypt, and possible partnership with Cyprus and possible export to Turkey," Mr. Tadmor said. "It's a geopolitical change" for Israel, he added.

Shares of Delek Drilling and Avner Oil both fell more than 10 percent in trading in Tel Aviv on Tuesday. Shares in the Delek Group, which controls the two companies, were down about 16.5 percent. All three companies are controlled by the Israeli businessman Yitzhak Tshuva.

Noble Energy's stock was down about 4.4 percent in New York.

Mr. Tshuva and Mr. Tadmor teamed up with Noble Energy to begin developing Israel's gas reserves at the end of the 1990s. The partners have made a series of discoveries including Leviathan, which is one of the largest fields to have been found in recent years. The companies have also discovered gas off Cyprus.

Noble owns about 40 percent of Leviathan, and the Delek companies hold about 45 percent. Ratio Oil Exploration owns the remaining portion.

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The companies already had an agreement with Israel's antitrust regulator to sell two smaller fields, called Tanin and Karish, to address monopoly concerns. Mr. Gilo of the antitrust commission said he was reconsidering this decision because it "did not create a real competitive solution to solve the problem of a monopoly in the market."

Noble expressed disappointment with the developments on Tuesday. A decision to reconsider the earlier settlement would "cast a shadow over the future of the oil and gas industry in Israel and will impact Noble Energy's continued investment there," Binyamin Zomer, the company's country manager, said in a statement.

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GILO DEFENDS GAS DECISION, ATTACKS ENERGY MINISTRY

"Delek and Noble Energy are an initimidating monopoly."

Antitrust Authority director general David Gilo today responded to the Ministry of National Infrastructures, Energy and Water, which criticized him for his decision to break up the natural gas monopoly. Gilo stood by his decision, and counterattacked.

Gilo expressed surprise that the Ministry of Energy had not taken a position in principle until he had intervened, saying, "You completely refrained up until now from expressing a position in principle on the outline in the consent decree, even though it involved the most momentous event in the Energy Ministry's history. Now, you are complaining about our decision to change this outline, and in effect are supporting the arrangement that had been proposed."

The Ratio Oil Exploration (1992) LP (TASE:**RATI.L**) share, which rose today in morning trading, reversed direction following Gilo's answer.

Gilo added that the Ministry of National Infrastructures, Energy and Water director general's letter "expressed a stance giving top priority to preventing the threat that the monopoly in Leviathan will not develop the reservoir, even if it means subjecting the entire Israeli economy to an intimidating gas monopoly likely to control most of the economy's energy sources for many years. With all due respect,

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I completely disagree with this attitude. The Israeli consumer deserves not just natural gas. He deserves natural gas at a competitive price, and he deserves a competitive gas industry."

Gilo asserted that he had the authority to rule that the agreement between **Delek Group Ltd.** (TASE: **DLEKG**) and Noble Energy was a cartel, trade, saying, "Having reached the conclusion that the agreement formulated does not meeting these basic criteria, and is not consistent with the public interest, for which I am responsible, I have no intention of letting it go forward."

Gilo further claimed that the Ministry of National Infrastructures, Energy and Water had the authority to promulgate measures that would move the Israeli gas industry forward. He listed five powers he thought should be exercised:

1. The authority to order the construction of infrastructure that will facilitate an increase in the capacity of the Tamar reservoir;
2. The authority to promote a solution for storage of natural gas from the Tamar reservoir at Yam Tethys;
3. The authority to require the owners of the Tamar lease to set up a natural gas pipeline from Tamar to the Ashkelon region in order to bolster the reliability of the gas supply, in accordance with Cabinet Resolution No. 442, dated June 23, 2013;
4. The authority to require license holders who have already discovered gas to develop the reservoirs in order to produce natural gas, under the authority vested in the Israel Petroleum Law. To the best of Gilo's knowledge, these discoveries include the Shimshon, Karish, and Tanin discoveries;
5. The authority to demand that a prospect owner take action to produce natural gas in commercial quantities in the area of his lease within a specified time by exercising enforcement authority under the Israel Petroleum Law. For example, the Dalit reservoir was already defined as a prospect on December 2, 2008, but no commercial production activity has taken place in it yet.

The Ministry of National Infrastructure, Energy, and Water said in response, "We regret that the Antitrust Authority unexpectedly decided, without any consideration by the government of the consequences of its action, to reverse its previous decision. We do not intend to bandy words with the Antitrust commissioner; we will offer real, responsible, and professional solutions in order to move the natural gas industry in Israel forward."

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ISRAELI GOV'T FACES GAS CARTEL CONUNDRUM

Budgets Director Amir Levy: We'd prefer three companies operating in the gas market.

The government economic ministries and the Bank of Israel have begun to study the consequences of Antitrust Authority director Prof. David Gilo's expected decision to break up the cross-holdings of **Delek Group Ltd.** (TASE: **DLEKG**) and Noble Energy in the Tamar and Leviathan natural gas reservoirs. Government sources told "Globes" that Gilo's decision had come as a complete surprise to the Ministry of Finance and other ministries, where it had been assumed that Gilo would submit the compromise proposal signed by the parties on March 27. Under this proposal, Delek Group and Noble Energy could retain control of both Tamar and Leviathan, while selling Tanin and Karish, two smaller gas reservoirs. "We thought that this story was already behind us, but now we'll have to review it," a cabinet source told "Globes."

At a conference of the "Calcalist" newspaper today, Ministry of Finance budget director Amir Levy was the first senior official to publicly comment on Gilo's decision, saying that he "took responsibility" for the budget division not having dealt with the subject of gas up until now. "As long as we thought that Tanin and Karish was still a possibility, we hesitated between supervision and a single buyer. As of now, because something in the circumstances has changed, we want there to be three players. We can't afford to remain with a single player; that's intolerable. The desirable gas sector structure is at least three companies operating in the market. That's where we want to go.

"The searches were unsuccessful, and the deal for the sale of Tanin and Karish was apparently not good enough. We have two alternatives. One is to achieve this optimal market structure of three large companies; the other is to use regulatory tools, which I don't like so much, such as price controls or the establishment of a single buyer versus the natural gas monopoly. Of these two alternatives, I say definitely - we prefer a competitive market structure. We prefer three companies, and we'll try to bring it about. I don't know whether it's possible, but we'll try to do it by consent."

Yesterday, Prime Minister Benjamin Netanyahu decided to intervene in the crisis created by queries on the part of parties in the US administration. The Prime Minister's Office announced yesterday that Netanyahu had instructed National Economic Council head Prof. Eugene Kandel to do staff work, in view of the Antitrust commissioner's new stance. The staff work concerns the government's involvement in promoting competition in the gas sector. Kandel and his deputy, Morris Dorfman, were previously involved in the work of two inter-ministerial committees: the Tzemach committee for regulating the gas sector, which limited the amount of gas allowed for export, and the Sheshinski committee for determining a fiscal regime for profits on the sale of natural gas.

Sources in the Prime Minister's Office said that the correct balance had to be found that would make it possible to produce gas soon from the sea, and also to supply it at a competitive price to every Israeli. Kandel's team is due to recommend alternatives to the prime minister, but at this stage, it is unclear whether its recommendations will affect Gilo's decision making process.

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By law, the government has no authority to intervene in Gilo's decisions. The Antitrust commissioner is expected to publish his final decision after conducting a hearing for representatives of Delek Group and Noble Energy. Due to the holiday season in the US, which begins today, the hearing will probably be held only in mid-January.

Netanyahu's intervention in the gas crisis follows queries to his office from parties in the US administration seeking to understand the meaning of the expected decision. The US administration has recently made great efforts to bring about the signing of an agreement for the supply of gas from the Leviathan reservoir to the Jordanian Electric Power Company. The administration planned to hold a festive ceremony in the coming weeks for the signing of the gas agreement, to be attended by senior Israeli and Jordanian figures, but it appears that the ceremony will be called off, in view of Gilo's announcement.

Published by Globes on Dec. 24, 2015

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SHESHINSKI: BREAKING UP GAS MONOPOLY WON'T SOLVE ANYTHING

Prof. Eytan Sheshinski sees linking the Israeli gas price to other markets as the way forward.

The solution to the problem of natural gas prices in Israel is not the break up of **Delek Group Ltd.** (TASE: **DLEKG**) and Noble Energy's monopoly; it is establishing a mechanism for linking the price to an accepted international price, according to Prof. Eytan Sheshinski. Sheshinski headed the committee that altered the state's tax revenue from the natural gas reservoirs. In a "Globes" interview, Sheshinski warned that creating a duopoly in place of the current monopoly could even worsen the consumer's plight, and admitted that there was no perfect solution for the structure of the gas industry.

Sheshinski was very careful not to be perceived as someone spoiling the "euphoria surrounding the splitting of control over the reservoirs," as he described the enthusiastic public response to Antitrust Authority director general Prof. David Gilo's decision to retract the agreement he had signed. "I support Gilo's action in the sense that his motives were reasonable. From the outset, there was no chance of generating pressure on prices by selling the two small reservoirs (Tanin and Karish, A.B.), and I can therefore understand his withdrawal from the agreement. He did not propose follow-up measures."

Can you understand the developers' arguments?

Sheshinski: "The state has a right to change its mind under certain conditions, which are defined and precise. Stability is very important, and volatile changes are obviously undesirable, but there are other goals. If we now believe in retrospect that under the agreement with**Israel Electric Corporation** (IEC) (TASE: **ELEC.B22**) we'll pay higher prices than those prevailing around the world, the government can claim that the public interest requires some change in these agreements. That will create uncertainty for investors. It happened in the UK with North Sea oil, where investment stopped, and the government reversed itself. This is certainly a consideration. I don't want to people to think that policy here is volatile, so it's important that policy be set as soon as possible."

Do you see a problem with prices in Israel?

"As of now, there's nothing dramatic. The current price in Israel is $6.50 (per BTU, A. B.), not at the European level, and certainly not at the Far Eastern level ($8-10 in Europe and $15 or more in the Far East, A.B.).

All in all, today's price is reasonable, but I understand the concern about future developments. The concern is not to be at the mercy of a monopoly selling to the entire economy. This isn't a monopoly selling a given product; it's a monopoly supplying energy to broad sectors, and any change in the price therefore will have an effect on the entire economy."

What is your opinion about Gilo's original intention to require Noble Energy and Delek Group to sell one of the two reservoirs?

"I'm worried about this euphoria surrounding a split. Forcing Noble Energy and Delek Group to sell Tamar or Leviathan through a legal battle could take 10 years, and the Antitrust commissioner said so himself. I beleive that it's worthwhile embarking on such struggles only when you know that there is a definite advantage at the end of the road. Both experience around the world and economic theory explicitly state that anyone who thinks that a duopoly will lead to perfect competition is wrong. On this question, you can rely on our experience here in Israel."

What is the minimum number of players needed for true competition?

The question is not how many players; it's what their share is. In Israeli banking, **Bank Hapoalim** (TASE: **POLI**) and **Bank Leumi**(TASE: **LUMI**) jointly control 80% of the credit in the economy, even though there are quite a few other small and medium-sized banks. The situation with gas is very similar, because we have two very large reservoirs (Leviathan and Tamar contain almost 90% of Israel's gas reserves, A.B.), and I don't see any small and medium-sized players that can arise around them and compete with them."

Do you support price controls?

"Just as I have doubts about a duopoly, I also have objections to price controls. Price controls give a lot of authority to a bureaucratic system, and experience does not justify optimism."

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What do you suggest?

"I think the solutions should begin from the end, meaning that we define what goal we're trying to achieve. In my opinion, the goal is to ensure that gas prices in Israel do not differ from those prevailing in similar countries around the world. A revolution in global energy prices is taking place now. The US is becoming the world's largest oil producer, and prices are sliding - for both oil and gas. In my opinion, this trend will persist, and our goal should be not to pay more than the reasonable price in countries whose situation is similar to ours with respect to gas reservoirs.

"The solution is therefore to set a binding linkage formula of a weighted average of gas prices in various countries. That is connected to other matters that have already been discussed in the past, and which will now have to be reopened, such as export quotas. If the government now reopens the agreement, from now on, there will be a given linking formula. The formula itself will have to set a floor price, for example. The question of energy security will be reopened. They will also have to reopen the agreement between Tamar and the Spanish company - it isn't clear who will sell the gas to the Egyptians."

Published by Globes on Dec. 25, 2015

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Companies' Reaction

NOBLE ENERGY INDICATES IT WILL FIGHT GAS CARTEL DECISION

Noble Energy chairman Charles Davidson: We will vigorously defend our rights relating to our assets.

In response to the decision by Prof. David Gilo, Director of the Israel Antitrust Authority, not to submit the consent decree embodying the compromise he had reached with **Delek Group Ltd.** (TASE: **DLEKG**) and Noble Energy, Inc. (NBL) allowing the two companies to continue owning the rights in both the major gas reserves in Israeli waters, Tamar and Leviathan, to the Antitrust Tribunal for final approval. In response, Noble Energy says it and its partners have requested a hearing on the topic with the Antitrust Authority, which it says it expects, will occur in the next few weeks.

In March 2014, the partners and the Antitrust Authority reached agreement for the consent decree that included the divestiture of the Tanin and Karish gas fields. Noble Energy says that this agreement is a key component for the final investment decision on the Leviathan development. Noble Energy chairman Charles Davidson said today, "The actions of the Antitrust Authority are another disturbing example of the uncertain

regulatory environment in Israel. Specifically, this is a matter that we believed was resolved some time ago and follows on recent assurances from the Antitrust Authority that approval was forthcoming. We believe this is a harmful precedent for Israel to set and we will vigorously defend our rights relating to our assets."

Noble Energy president and CEO David Stover added, "We are disappointed in this latest communication from the Antitrust Authority. Final resolution of this item, as well as a number of other regulatory matters, is required before we proceed with additional exploration or development investments in our Israel business."

Published by Globes on Dec. 24, 2015

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NOBLE ENERGY SUSPENDS DEVELOPMENT OF GAS PROJECTS AMID REGULATORY UNCERTAINTY

Partner in offshore fields says it's waiting for final decision on monopoly status; Energy Ministry sides with the producers and lambastes Antitrust Commissioner

Noble Energy signaled on Wednesday that it was suspending further development of the Leviathan and Tamar gas fields until Israel makes a final decision on resolving the natural gas monopoly and other regulatory matters.

"We are disappointed in this latest communication from the Antitrust Authority," David Stover, CEO of the Texas-based company, said in a statement. "Final resolution of this item, as well as a number of other regulatory matters, is required before we proceed with additional exploration or development investments in our Israel business."

The warning came a day after Antitrust Commissioner David Gilo said he was rescinding an agreement he had reached with Noble and Delek Group last March that would have allowed the two companies to retain majority stakes in Israel's two biggest gas fields, Tamar and Leviathan, even though it would leave them controlling more than 90% of the country's gas reserves.

Gilo has not yet decided how he will act to break up the monopoly, but analysts have said any move will likely delay the start of production at Leviathan, which has been scheduled to begin in 2018, by two years while a new regulatory framework is prepared and, as is likely, Noble and/or Delek have to sell stakes in the field. Tamar has been in production since March 2013.

Delek, a holding company controlled by Yitzhak Tshuva, reportedly offered in a meeting with Gilo late on Monday to split up the marketing and sales operations of the Leviathan field between the two companies so that they would compete with other.

Noble, however, appears to be taking a more aggressive stance, saying on Wednesday it would fight Gilo's policy reversal and did not publicly at least, offer any counter-proposals. Noble said that the

company and its partners had requested a hearing with the Antitrust Authority, which is expected to he held in the next "few weeks."

"The actions of the Antitrust Authority are another disturbing example of the uncertain regulatory environment in Israel," said Charles Davidson, Noble's chairman and former CEO. "Specifically, this is a matter that we believed was resolved some time ago and follows on recent assurances from the Antitrust Authority that approval was forthcoming. We believe this is a harmful precedent for Israel to set and we will vigorously defend our rights relating to our assets."

Shares of Noble have fallen more than 4% in New York since news of Gilo's about-face on Monday.

But in Tel Aviv Stock Exchange trading Wednesday, energy shares were rebounding strongly after two days of sharp declines. Delek Group was up 6% in the early afternoon at 965 shekels ($246.26) while its subsidiaries Delek Drilling and Avner were both ahead about 2.5% to 14.73 and 2.69, respectively. Ratio, another Levaitan partner, advanced 5.5% to 33 agorot.

Published by The Marker on Dec. 25, 2015

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NOBLE ENERGY FREEZES TALKS WITH ISRAEL SHIPYARDS

Noble is suspending negotiations for the NIS 15 million deal until the future of Israel's natural gas industry becomes clear.

Noble Energy Inc. (NYSE: **NBL**) is suspending its negotiations with Israel Shipyards until the future of the natural gas industry in Israel becomes clear, according to a letter sent this week to Israel Shipyards' management.

The negotiations are for a seven-year extension of the lease for the base of Noble Energy's marine activity. The base area covers 28 dunam (seven acres), for which Noble Energy would have paid over NIS 15 million a year for more than five years.

Antitrust Authority director general David Gilo decided last week to revoke a compromise reached with the Leviathan partnership in which the partnership would have sold two smaller gas reservoirs, Karish and Tanin, while retaining the larger Leviathan reservoir.

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Following the decision, Noble Energy chairman and former CEO Charles Davidson stated, "The actions of the Antitrust Authority are another disturbing example of the uncertain regulatory environment in Israel." Noble Energy president and CEO David Stover added that the company was disappointed with Israel and the Antitrust Authority director general, and had decided to suspend its investments in Israel.

Published by Globes on Jan. 1, 2015

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GILO AND TSHUVA SEEK GAS MONOPOLY COMPROMISE

These were a sense of optimism after Delek's controlling shareholder met the Antitrust Authority head today.

A just concluded meeting between Antitrust Authority director general David Gilo and **Delek Group Ltd.** (TASE: **DLEKG**) controlling shareholder Yitzhak Tshuva, **Delek Drilling Limited Partnership** (TASE:**DEDR.L**) chairman and **Avner Oil and Gas LP** (TASE: **AVNR.L**) CEO Gideon Tadmor, and Delek Drilling CEO Yossi Abu indicates that the two sides will attempt to reach a compromise before the upcoming hearing. Intensive negotiations between the parties are scheduled for next month.

National Economic Council chairman Prof. Eugene Kandel yesterday headed a meeting that included representatives of the Ministries of Energy, Justice, and Finance. A representative of Gilo also attended. This meeting was one of a series of meetings expected in the coming weeks designed to first achieve a governmental consensus on a position vis-a-visa the gas monopoly, and in order to analyze the consequences of the events in recent days.

Another meeting took place on Sunday between Gilo and Tshuva, with the participation of Tadmor and Abu. At the meeting the senior executives tried to understand what led Gilo to change his mind and reject the already-signed compromise on ownership of the natural gas reservoirs.

It is believed that the hearing on the existence of an agreement in restraint of trade will take place in late January, not in the coming days. The government ministries involved will try to formulate a uniform position by that time.

At the hearing, the Leviathan partners will try to convince Gilo that they acquired 85% of the rights in Leviathan from Ratio Oil Exploration (1992) LP (TASE:**RATI.L**) legally, or else that they should not have received his permission at all. If Gilo is not convinced, he will rule that the investment in Leviathan is illegal and involves an agreement in restraint of trade. In that event, the parties will begin proceedings in the Restrictive Trade Practices Tribunal.

Gilo decided last week to repudiate the consent decree allowing the Leviathan partnership to retain ownership of both large natural gas reservoirs, Tamar and Leviathan, in exchange for the sale of two smaller reservoirs: Karish and Tanin.

Published by Globes on Dec. 30, 2015

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DELEK SEEN SELLING TAMAR RATHER THAN LEVIATHAN

The regulator's decision to declare Tamar and Leviathan a monopoly could hit Delek's planned London IPO.

Delek Group Ltd. (TASE: **DLEKG**) controlling shareholder Yitzhak Tshuva will propose to Israel Antitrust Authority head David Gilo giving up the Tamar gas field and continuing holding the Leviathan field, energy market sources believe. This follows Gilo's decision to backtrack on his previous agreement, subject to a hearing, to let Delek and **Noble Energy Inc.** (NYSE: **NBL**) continue holding both the Tamar and Leviathan gas fields.

Gilo now feels Delek and Noble have a monopoly in natural gas production in Israel and will demand splitting ownership of the fields. Following Gilo's decision, the shares of the Leviathan partners, Delek units **Avner Oil and Gas LP** (TASE: **AVNR.L**), **Delek Drilling Limited Partnership** (TASE: **DEDR.L**) and Ratio Oil Exploration (1992) LP (TASE:**RATI.L**) fell sharply on the Tel Aviv Stock Exchange.

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Gilo's dramatic decision could also halt Delek Group's plans for a major offering on the London Stock Exchange next year. Delek Group sources said, "It's a little bit too early to think about that now. The Group has time to promote the step before April 2015."

However, market sources said that at the very least the turbulence generate by the Antitrust Authority decision means the planned London IPO will be delayed while the capital market digests the significance of this new complex situation.

Delek has been promoting an overseas IPO for the past year as part of its strategy of focusing on energy activities including exploration, production, transport, and marketing, and exiting non-core activities. Delek had considered spinning-off activities but ultimately decided to dual list and raise money in London. The latest regulatory decision now leaves the planned offering in doubt.

Published by Globes on Dec. 23, 2015

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Political Pressure

KERRY PRESSES NETANYAHU TO SOLVE GAS MONOPOLY CRISIS

US State Department: It is important for all countries to have a strong investment climate, including a consistent regulatory framework.

The US is urging Israel to find a solution that does not harm the interests of American company **Noble Energy Inc.** (NYSE: **NBL**), according to a US State Department spokesman. The spokesman said that US Secretary of State John Kerry had even spoken to Prime Minister Benjamin Netanyahu on the matter.

State Department spokesman Jeff Rathke said, "We continue to engage and we support all parties to move forward with the natural gas deal signed between Noble Energy and entities in Jordan and Egypt. We strongly believe that these deals would enhance energy security in the region."

Rathke added that the dispute between Noble and Israel is "a legal debate" that does not involve the US and he said, "It is important for all countries to have a strong investment climate, including a consistent and predictable regulatory framework."

Last week, Israel's Antitrust Authority head David Gilo ruled that the Tamar and Leviathan field's in which Noble Energy and **Delek Group Ltd.** (TASE: **DLEKG**) units **Avner Oil and Gas LP** (TASE: **AVNR.L**) and **Delek Drilling Limited Partnership** (TASE: **DEDR.L**) have 85% and 67% stakes respectively, constitute a natural gas monopoly, and that the partners must sell one or the other. This reverses Gilo's previous

decision that Noble and Delek could keep both fields, providing they sell the smaller Tanin and Karish gas prospects.

Published by Globes on Dec. 31, 2015

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NETANYAHU ORDERS POSITION PREPARED ON GAS CARTEL DECISION

Prime Minister's Office sources: The prime minister has no power to intervene.

Sources at the Prime Minister's Office said yesterday evening that Prime Minster Benjamin Netanyahu had instructed Prof. Eugene Kandel, who heads the National Economic Council, to coordinate staff work in response to the decision by Director of the Antitrust Authority David Gilo that **Delek Group Ltd.** (TASE: **DLEKG**) and Noble Energy cannot continue to hold both the Tamar and the Leviathan gas reserves, contrary to his previous position on the matter.

The Prime Minister's Office sources also said that the right balance had to be found that would both enable gas to be produced soon from Israel's undersea reserves, and ensure that it would be supplied at a competitive price, but they stressed that the prime minster was not intervening in any way in the Antitrust Authority director's decision, and that he had no power to do so.

Published by Globes on Dec. 24, 2015

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US SPECIAL ENVOY: GAS FIELDS MUST BE DEVELOPED QUICKLY

Amos Hochstein wants to ensure that gas agreements with Jordan and Egypt are implemented.

"We'll support any agreement that will satisfy both parties, the Israeli regulators and the companies, and facilitates developing the gas fields as rapidly as possible. I believe this is also in Israel's interest," Special Envoy for International Energy Affairs at the US Department of State Bureau Amos Hochstein said in a "Globes" interview. He added, "We have no intention of intervening in discussions concerning legal rights (of Noble Energy, A.B.)."

US involvement in development of the Israeli natural gas sector over the past two years has been mostly behind the scenes.

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For example, US mediation played a key role in the Jordanian government's decision to sign a letter of intent ahead of a strategic agreement to purchase gas from the Leviathan reservoir for the Jordanian National Electric Power Company (NEPCO). Signing the agreement is reportedly expected at the end of this month. US involvement became open following the decision of Antitrust Authority director general Prof. David Gilo to rescind a compromise agreement with **Delek Group Ltd.**(TASE: **DLEKG**) and Noble Energy, and to declare the 2007 transaction in which those companies acquired the licenses in which the Leviathan reservoir was later discovered to be an agreement in restraint of trade. Gilo's decision is subject to a hearing scheduled at the end of the month.

Last week, Prime Minister Benjamin Netanyahu received a worried call from US Secretary of State John Kerry. This week, a US State Department spokesman expressed veiled criticism of the Israeli regulator's behavior. After being asked what the Obama administration's stance was on the Antitrust Authority director general's decision, the spokesman answered, "The US does not intervene in legal disputes but we believe that it is important for all countries to have a strong investment climate, including a consistent and predictable regulatory framework,"- criticism perceived in some circles in Israel as patronizing.

"This dispute has consequences for the investment environment in Israel and the incentives for a company like Noble Energy to invest in Israel," Hochstein attempts to explain. "The second issue that bothers us is that we supported Noble Energy's talks with potential buyers like Jordan and Egypt, and we believe that the gas discoveries in Israel should be an opportunity for fostering a new level of cooperation between the countries in the region: Jordan, Egypt, the Palestinian Authority, Turkey, and Cyprus. It can be an opportunity for bolstering security and enhancing prosperity for all those operating in these areas. We wanted to ensure that the agreements and letters of intent are respected and implemented."

"Globes": Can you understand why your involvement in a legal dispute like this is interpreted in Israel as an effort to protect a private company's commercial interests?

Hochstein: "The US does not speak in the name of Noble Energy - it is an excellent company that can speak for itself. We will support any agreement, but as long as there is doubt and uncertainty, and no agreement with the regulator, it is hard to visualize any agreement to sell gas from Leviathan or Tamar for export to Egypt, Jordan, or anyone else. The company exporting gas from Israel has to know with certainty what its rights are in the reservoir and what the regulatory regime is. Stability and the ability to foresee the regulatory framework are an essential need in the energy sector - this is a special sector in which the major investment is made at the initial stage, with an expectation for a return on the investment."

"The rules of the game must be known"

The foreign media that reported the Antitrust Authority director general's decision were usually more critical than the Israeli media. The "Financial Times," for example, attributed the decision to a "mood of economic populism… in Israel." Other reports portrayed the Israeli regulators as capricious and acting

contrary to Israel's national interests. The sharpest criticism came from commentators considered pro-Israel. Israel is "shooting itself in both knees," economic and political commentator Norman Bailey wrote.

Hochstein prefers not to comment on such criticism, but US administration sources are afraid that the Israeli regulator has climbed too high a tree, which is liable to lower the chances of finding a compromise solution.

"Globes": The Antitrust Authority in Israel operates according to US antitrust rules, so why are you so surprised at the decision?

"We don't deny the regulator's right to act on behalf of the Israeli public, but a great many considerations are involved. Energy is a very young industry in Israel, and it's an industry that can become a source of jobs and the ability to create a cleaner economy. When you come to an economy that still has to grow and develop specialization, it is important for the government, and not just the regulator, to see the complete picture and all the aspects involved. A company that wants to invest in Israel has to know exactly what the rules of the game are, what the taxes are, the market prices, the export rules and the antitrust rules. In addition, it is important to make sure that any agreement reached in any of those areas will be valid."

Noble Energy is threatening to petition for international arbitration against Israel. What is your stance?

"I'm always optimistic, and I always believe that politics is the art of compromise, but Noble Energy will decide for itself whether it will institute legal proceedings or seek international arbitration.

That is a decision that they have to make. It's true that international arbitration is one of the tools available to companies for these purposes."

"Nothing has been canceled"

Hochstein joined President Barack Obama's administration three and a half years ago, after spending more than 15 years advising US elected officials, candidates for public office and thought leaders on domestic and global energy policy intiatives. He served as policy director and policy advisor to to senior Democrats in Congress. Before that, he worked in the private sector in companies dealing in connections with the administration and in energy. The description of his current job, which he entered a year ago, says he "advises the Secretary on global energy security and diplomacy, as well as promotes US interests to ensure energy resources are used to increase economic opportunity, stability and prosperity around the world."

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As part of his current job, Hochstein pays particular attention to the Middle East. Among other things, he played a key role in the attempts by the US to mediate between Israel and Lebanon on the dispute over the dividing line between the two countries' exclusive economic zones (EEZs).He is also responsible for implementing US sanctions against Iran and is currently leading the effort to curb ISIS energy holdings and revenue. Hochstein's appearance at an energy conference in Israel last November made him a recognizable figure in local energy sector circles. He says, "My job is to encourage the use of energy as a basis for cooperation, rather than as a cause of conflict, which makes our mandate fairly flexible." He was also involved in the Tamar and Leviathan transactions with customers in Jordan, saying "We created the connection between the parties, and took part in the initial meetings between Noble Energy and its potential customers," adding, "We're always glad to serve as a mediator, and to support parties in reaching agreement. He cites an agreement that was completed for the sale of gas from Tamar to potash companies on the Jordanian side of the Dead Sea. The talks about gas from Leviathan were not completed. My impression is that the parties were very close to an agreement when the regulator had his change of heart. A decision must be made about the deadlock that will make Nobel Energy willing to develop the project."

Globes: Will the planned ceremony in Washington at the end of the month for signing a gas agreement with Jordan be called off?

"I don't know anything about a planned ceremony. I understand that the companies spoke about the intention to sign an agreement, but nothing was settled, so nothing was canceled. The reports about such a ceremony were premature."

Hochstein, who came to Israel following the Antitrust Authority director general's announcement that he was revoking the agreement with Delek Group and Noble Energy, has held a series of meetings here, among others with senior officials in the Ministry of National Infrastructure, Energy, and Water Resources and the Prime Minister's Office. "We're glad that the prime minister directed the chairman of the National Economic Council to examine the state of the gas sector, following the Antitrust Authority's decision," Hochstein says.

Was progress achieved in your contacts with parties in the Israeli administration?

"There are good discussions. Everyone realizes the urgency, and that a decision solving all the unsolved and outstanding matters must be taken, so that the market does not feel that the laws are constantly changing, and that companies can invest here. We'd like to see more US companies coming to invest here. I think that they understand the strategic importance, that the strategic moment must be seized in time. Israel has a new sector and a new energy source that can supply the needs of its neighbors. The challenge is to weigh all these matters together from the regulatory, economic, and strategic perspectives."

How are Jordan and Egypt perceiving Israel's behavior?

"I believe that at the moment, everyone is waiting patiently for Israel to solve this problem and move forward. I think that at this point, it's fair to expect the government to work with the companies and reach a compromise."

"Globes" recently reported that pressure was being applied to **Israel Electric Corporation**(IEC) (TASE: **ELEC.B22**) to withdraw its petition demanding over $4 billion in compensation in international arbitration against Egyptian natural gas companies. The lawsuit was filed after Egypt failed to renew the supply of gas to Israel, and canceled its agreements with IEC and EMG. The total damage caused to the Israeli economy by the Egyptian gas crisis is estimated at NIS 20 billion. Israel has had bad experience with its neighbors in carrying out gas agreements.

"I can't say anything about past transactions, and certainly not about those that have reached arbitration and the courts. For the future, my answer is relevant for this region, just as it is relevant to any other region around the world: to the extent that the process leads to the signing and implementation of a more transparent agreement, there will be fewer disputes in the future. We see a rare opportunity for regional cooperation in the Middle East - Secretary of State John Kerry and Vice President Joseph Biden said this explicitly: Israel and Lebanon have the potential to export gas, Egypt already has export infrastructure, and Jordan and Turkey have demand for gas. There is so much potential here that it would be a pity to let it get away. There's a short window of opportunity here, and we want to support it."

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Economic Fallout

"NO FOREIGN INVESTOR WILL PUT A CENT INTO ISRAELI GAS"

Financier Edouard Cukierman accuses Israeli officialdom of seeking popularity instead of doing what's right for the economy.

"The bureaucrats and politicians who come along with populist ideas need to understand that it takes two to tango. No international investor will put a cent into oil and gas as long there is uncertainty in the industry," says Edouard Cukierman, chairman of **Cukierman & Co. Investment House Ltd.**, and joint manager of the Catalyst funds. Speaking to "Globes", Cukierman levels criticism at antitrust commissioner David Gilo's decision to void the compromise agreement with Delek Group and Noble Energy and to declare the deal whereby they bought control of the licenses in

which the Leviathan gas reserve was discovered a cartel: "We are freezing the growth of the State of Israel's economy for many years ahead because of this wretched decision."

Isn't that rather an exaggeration?

"Noble Energy has announced a freeze on investment that could have contributed 2% to the economy's growth rate and yielded huge amounts in tax it's all frozen."

Cukierman says he has so far raised investments amounting to $5 billion in Israeli companies, $300 million of this via Catalyst. "Our investments are in mature companies, and our job is to present Israel to the investors. I'm in a constant road show."

And how are overseas investors reacting?

"This affair is prompting sharp reactions chiefly among investors who know Israel. There are in any case many challenges in connection with investment here: the geo-political environment, the political environment, the state of war, the opportunities that crop up in other places, and now, on top of all this, comes the regulatory risk. These days we aren't trying to raise money in Europe at all, but last week I spoke to Chinese investors whom we are trying to attract to Israel to invest in oil and gas. If you want to attract them to Israel, uncertainty is the thing investors hate most. The worst thing that can happen to a foreign investor is that he doesn't know what will happen tomorrow. Will there be a new regime? Will there be some bureaucrat who wants to be popular and decides to limit the profit to three of four times the investment?"

If Tshuva and Noble Energy sell the rights in Leviathan tomorrow, who won't want to buy this huge gas reserve?

"OK, the Leviathan reserve is a massive discovery, but why did Woodside withdraw from the deal? Even if there's a massive opportunity, you can't calculate the profitability of the investment if the targets change on the move. In a situation of uncertainty, the only way to determine the value of a deal is on a worst-case scenario basis. In the case of Leviathan, what will be its value if tomorrow they impose controls that limit the return on capital to 5% or 10%?"

Every time regulation is changed here in favor of the public, we hear threats that foreign investors won't come here anymore, but they do come.

"It's true that the government still doesn't interfere in high tech, but every time that there's regulatory involvement, in the banks, in transport, in energy, as soon as it's in the bureaucrats' hands, there is systematic destruction of the State of Israel's main assets. In infrastructure, you see projects like the light rail making no progress for fifteen years. Everyone pulls in his own direction and ruins the national interest. They cancelled the franchise for the international company that won the tender to build the Tel Aviv light rail system, and since then the project has been stuck. Our public transport infrastructures lag those of all the OECD countries. Explain how it is that almost all the banks here are for sale, and no-one wants to buy them? There aren't even potential buyers.

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At one point I brought over a group comprising Frank Lowy, Lord Jacob Rothschild, Mort Zuckerman, and my father, who wanted to buy Bank Leumi and turn it into the world's number one Jewish bank, the next Safra or Lazard. A finance ministry official called Yaron Zelekha declared that this was the greatest piece of corruption in the State of Israel because Olmert's son worked at the law firm that supposedly provided services to this consortium. The State Comptroller jumped on it, Israel Police sent policemen who know nothing about finance to Brazil and Australia to question these people, and in the end they dropped the deal. And it's a fact that, to this day, no-one has bought Bank Leumi. There's no owner, and the management does what it likes.

"In the oil and gas industry, Israel basically has one serious international investor, Noble Energy, who invested even though they aren't Jewish. I have no business dealings with Noble Energy or with Tshuva and I have no shares in Noble, but this investor was fortunate enough to obtain one of the biggest discoveries in the world, and what does he get? Restrictions on exporting in an economy with very limited demand, he gets a change in the taxation method, and now the straw that breaks the camel's back. It's exactly the same story, because here too you have bureaucrats who want to be popular. Who will pay the price of Israel making a mockery of itself before the international investment community? The public will pay it.

"The official who wrecked the Leumi deal when he threw his bomb gained his media popularity. No-one counts the damage he caused."

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EXPERTS: FOREIGN INVESTORS MAY BE DETERRED FROM INVESTING IN ISRAELI GAS

Antitrust head refutes Energy Ministry criticism, says locals deserve competitive prices; Cukierman: some of the financiers are shocked.

As the future of the Leviathan gas reservoir becomes more and more uncertain, experts fear foreign investors are becoming increasingly hesitant to direct funds into Israel's hydrocarbon industry.

Israel Antitrust Authority commissioner David Gilo announced last Thursday that a proposed consent decree regarding the entry of Delek Group and Noble Energy into Leviathan would not be submitted to the Antitrust Tribunal for approval as had been agreed upon earlier this year.

By backpedaling on the previous agreement, the government may cause undue delays in the development of the country's gas basins and deter future investments, industry sources say.

"Some of the investors are shocked by the decision," Eddy Cukierman, founder and managing partner of Catalyst Investments and chairman of Cukierman & Co. Investment House Ltd., told *The Jerusalem Post* on Sunday.

Should Gilo ultimately decide to force the companies to sell their assets, it would "become ridiculous for

an international investor to look at Israel as a serious place to invest in," he said.

At Catalyst Investments, Cukierman works with a variety of international investors – particularly from Europe and China – focused on financing Israeli technologies.

Meanwhile, Cukierman & Co. has raised about $5.5 billion for Israeli companies from Europe, Asia and the United States.

"The delay of the process will freeze investments in oil and gas infrastructures, which are so much needed in the Israeli economy," he said.

As rules change constantly, with new limitations and new constraints all the time, Cukierman feels potential investors will turn elsewhere.

"Eventually, they will see there is so much risk associated with investing in Israel," he continued. "It's not an easy place to invest in the current geopolitical context. If you add on to that the changing views of the different regulators, then it becomes almost impossible to attract quality investors in our environment."

The proposed consent decree would have enabled the two companies, which are the main partners in both the Leviathan and neighboring Tamar gas reservoirs, to remain in the basins without being defined as a cartel.

Instead, they would be required to sell their smaller nearby reservoirs Karish and Tanin.

In addition to nixing his support for this arrangement last week, Gilo informed Delek and Noble Energy that the authority would be considering whether their ownership of Leviathan constitutes a "restrictive agreement," meaning a cartel, which is illegal in Israel.

Cukierman attributed the sudden change in position to resentment of Israeli business mogul and Delek Group Chairman Yitzhak Tshuva, as well as Noble Energy.

"There is some jealousy about the success of one entrepreneur, especially coming from people working with a limited salary," he said. "The only power they have is to say 'no.' They don't understand what is the economic impact."

The Tel Aviv Oil & Gas Index dropped to its lowest in more than two years on the day Gilo announced his intention to renounce support for the proposed consent decree, Bloomberg reported on Sunday, also citing investment- house traders and researchers who called into question the merit of pouring funds into Israeli hydrocarbons.

While many investors have expressed increased reluctance toward venturing into the Israeli oil and gas industry in light of the latest delays, others are looking to seize a potential opportunity.

Indian business newspaper The Financial Express reported that state-owned company ONGC Videsh (OVL) has expressed interest in buying a stake in Leviathan, according to Globes.

"OVL would like to participate in the Leviathan fields and other blocks offered for farm-in in the Levantine basin in Israeli waters," The Financial Express quoted an unnamed official as saying.

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"Since India has been importing crude oil from West Asian countries such as Iran, Iraq, Kuwait and Saudi Arabia, opportunities in Israel were not pursued so far."

Meanwhile, as the world's hydrocarbon stakeholders await a firm decision on Leviathan's future, Gilo responded in a letter on Sunday to criticism from National Infrastructures, Energy and Water Ministry officials, including Director-General Orna Hozman-Bechor, who sent a letter to Gilo on Thursday arguing that freezing the development of Leviathan could have serious geopolitical and fiscal implications for Israel.

"No changes in the circumstances have been presented to justify the move," she said, adding that the changes could cause "significant and fundamental harm to the energy sector in Israel."

In his response on Sunday, Gilo called Hozman-Bechor's letter "surprising," pointing out the Energy Ministry's "lack of an explicit position in the past."

When Antitrust Authority officials held a meeting with Energy Ministry officials on February 17, in light of the ongoing Leviathan negotiations, the representatives failed to express any position on the matter, he said.

"From your letter, and likewise from the policies of the [Energy Ministry] over the years, arises a stance that puts above any other interest the prevention of the threat that the monopoly in Leviathan will not develop the Leviathan reservoir," Gilo wrote.

The antitrust commissioner accused Energy Ministry officials of prioritizing this goal "even if the significance is the subordination of the entire Israeli market to a formidable gas monopoly, which is expected to control most of the economy's energy sources for many years."

"With all due respect, I disagree with this approach outright," Gilo wrote. The Israeli consumer does not just deserve natural gas. He deserves natural gas at a competitive price, and he deserves a competitive gas sector."

Published by Jerusalem Post on Dec. 29, 2015

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ISRAEL SHOOTS ITSELF IN BOTH KNEES

Generally positive regional developments for Israel are overshadowed by the appalling gas cartel decision.

I had hoped to write an optimistic column due to interesting developments in the region that are potentially good for Israel.

The Egyptian president has announced that Egypt will be willing to station troops in the Palestinian territories to ensure compliance with any agreement reached on their political status, especially with reference to demilitarization. Along with the draconian measures taken by Egypt on the Gaza frontier and the abortive offer of land in the Sinai to be united with Gaza to form a homeland for the Palestinians, an offer rejected by Abbas, of course, it shows that Egypt continues to take measures and offer solutions entirely to the benefit of Israel.

The Saudi energy minister, speaking on behalf of King Abdullah, stated that the kingdom would be willing to sell oil to Israel, a startling reversal of decades of Saudi policy. In some ways even more interesting is that he referred to Israel as "the Jewish state", not "the Zionist Entity" or any other epithet so dear to Palestinian and other Arab propagandists.

Finally, it would appear that another attempt is underway to replace Mahmoud Abbas with Mohammed Dahlan, an effort undertaken by Egypt, Saudi Arabia, the UAE (where Dahlan resides), and Jordan. A massive demonstration in favor of Dahlan recently took place in Gaza, not interfered with by the Hamas authorities. When a similar project was on the verge of coming to fruition some months ago, Abbas quickly formed a unity government with Hamas, offering funding to Hamas in return for protection by the much more heavily-armed coalition partner. Now the unity government has collapsed due to the inability of the Palestinian Authority to fulfill its financial promises to Hamas. A Dahlan government in Ramallah, especially if, as rumored, he reinstalled Salam Fayyad as prime minister, would be good news indeed for Israel, not to mention the Palestinians themselves.

However, just as I was about to set pen to paper as I have just done above, a regulatory bombshell exploded on the Israeli scene. The head of the Antitrust Regulatory Authority, David Gilo, announced that he had changed his mind and was reversing his decision of last March, in a formal agreement signed with Delek and Noble Energy, and had now decided that the partners must divest themselves of either the Tamar field or the Leviathan field.

This, after billions of dollars of investment and multiple agreements with the Israeli government, including the antitrust authority itself, as mentioned above.

This decision, or rather reversal, is not only an ethically reprehensible move on the part of the authority, but if carried out will inevitably damage the most important natural resource ever found in Israel, jeopardizing energy self-sufficiency and export revenues.

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It also brings into question gas supply contracts already signed with Egypt, Jordan and the Palestinian Authority, thereby severely damaging not only the international reputation of Israel as a reliable business partner, but the whole geo-strategic regional value of the gas (and eventually oil) finds.

This is not Israel shooting itself in the foot, it is Israel shooting itself in both knees. This incredibly stupid, illegal and immoral decision will undoubtedly be reversed by the courts and/or international arbitral tribunals, but by the time that happens much of the damage will have been done and recovery will be difficult or perhaps impossible. Even if an accommodation is reached without legal action, the image of Israel as a reliable partner will have been severely degraded.

Thus, what was to have been an optimistic column has been turned into an unexpectedly pessimistic one by the action of a single individual. The Romans in such cases used to ask *cui bono*? That is, who benefits, when something is done that appears inexplicably negative? The answer here, although hard to fathom, appears to be nobody, certainly not the Israeli state and people.

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ECONOMIC FALLOUT OUTWEIGHS ANTITRUST CONSIDERATIONS

Splitting up ownership of Leviathan and Tamar will mean consumers paying more for electricity in the long-run.

The decision taken today by Antitrust Authority director general David Gilo is correct: narrow and purely legal logic, which is supposed to dictate the regulator's decisions, does not allow a situation in which two private entities own cross holdings controlling interests in Israel's two main natural gas reservoirs. This decision should have been taken a long time ago, perhaps during the term of Ronit Kan, the preceding regulator.

This is where the tough questions come in, however. Why has Gilo changed his mind at such a late stage, and on such short notice? Why did it take him two years to make a decision, and another year to retract it? Will liquidating Tshuva and Noble Energy's holdings bring about competition in the electricity sector and lower consumer prices, or will it cause much greater economic damage? Did Gilo behave irresponsibly by ignoring the far-reaching effect of his decision on the economy, state revenue, and even Israel's foreign relations? Did he give in to popular pressure and act out of narrow concern for his public image?

In September 2011, the Antitrust Authority announced that it had begun to examine suspected restraint of trade involving the Leviathan natural gas reservoir. It was suspected that the Noble and **Delek Group Ltd.** (TASE: **DLEKG**), which controlled the Tamar gas reservoir, had not requested an exemption from

restraint of trade regulations in 2007, when they acquired 85% of the rights to the gas exploration licenses in the area where the world's largest natural offshore gas reservoir was discovered three years. This suspicion was no trivial matter: in the deals for acquisition of the rights in the licenses where the Tamar and Mary B (Yam Tethys) reservoirs were later discovered, requests for exemptions from restraint of trade regulations were filed and approved. What should have been queried was why no such request was filed in the Leviathan deal, when Ronit Kan was director general. Gilo, who took up his position in April 2011, had to deal with the difficult legacy that Kan left him.

Already when he announced the beginning of his inquiry, it was obvious to Gilo what the correct result was. In legal language, this is called splitting off the cross holdings of Noble Energy and Delek Group in the Tamar and Leviathan reservoirs. In practice, it means that Tshuva and Noble will have to choose whether to sell their holdings in Tamar or their holdings in Leviathan, just as "Globes" reported three years ago.

Gilo sought to achieve this result through a compromise agreement, but made it clear that in the absence of any alternative, the last result would be a forced sale through an order issued at the request of the Restrictive Trade Practices Tribunal. For two years, Gilo and his men conducted lengthy businesslike negotiations with the lawyers of Noble Energy and Delek Group, led by Adv. Zvi Agmon. During the negotiations, it became clear to Gilo that his original goal could not be achieved. In its place, he formulated a compromise settlement based on the sale of two smaller gas reservoirs, Karish and Tanin, which together with an additional quantity of gas from Leviathan, would create a block of 70 BCM - an amount equal to Israel's gas consumption over 10 years (at the current level of demand).

Gilo did not conceal his opinion that this compromise was not an ideal solution. "I would prefer to get Delek Group and Noble Energy out of Leviathan immediately, thereby facilitating immediate competition between Tamar and Leviathan," he said in a discussion at the Knesset Economic Affairs Committee a year ago. "I have no legal authority to physically remove them from there. What I can do is declare that the fact that they are entering there is a violation. In such proceedings, only a court is authorized to issue an order ordering them to leave there physically. That requires a very complicated and lengthy legal hearing, which the parties have an interest in prolonging. Even at the end of the long legal hearing, if we win, it will be necessary to find a buyer for Leviathan to take Noble Energy and Delek Group's place - a proceeding that will also take a long time."

In internal discussions, the government predicted that the confrontation with Noble Energy and Delek Group would delay development of the Leviathan reservoir by five years, according to the following rough calculation: one year for the parties to complete the hearing procedure and get to court and two more years for the court hearing and appeal of the ruling to the Supreme Court, only after which would the process for the sale of the reservoir begin a process that would take at least two additional years. Such a delay could cause many billions of dollars in direct economic damage, and additional diplomatic damage, damage to Israel's credit rating, and damage to Israel's image among foreign investors.

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Why Gilo changed his mind

For an entire year, Gilo defended the compromise arrangement in every forum to which he was invited. He suffered the slings and arrows of popular opinion, which has no patience for regulators acting "for the benefit of the tycoons" against "the public good." Last Thursday, the Antitrust Authority was still talking about submitting an agreed order to the court. Then, on Sunday, the developers' lawyers were summoned to an urgent meeting the following day, with the explanation that "The director general is reconsidering the compromise agreement."

What happened to Gilo over the weekend? It is hard to say. At the Antitrust Authority, someone well acquainted with Gilo is convinced that the violent criticism in the Knesset and the media affected him. No less important was the position of the professional echelons in the Antitrust Authority, headed by legal advisor Ori Schwartz, and his colleague, Deputy Attorney General Avi Licht. Another legal figure mentioned in this context is Public Utilities Authority chairperson Orit Farkash Hacohen, who regards herself as a candidate for the next Antitrust Authority director general. She has consistently expressed "correct" opinions that have won her more than a little praise from Labor Party MKS Avishay Braverman and Shelly Yachimovich. The economists, on the other hand, were not in on the secret. Ministry of Finance director general Yael Andorn, for example, held urgent conversations yesterday in an attempt to understand the consequences of the dramatic development.

Another consideration that probably played a role in the background was early elections, which have now made Gilo immune to pressure from politicians. The economic leadership in the Ministry of Finance and the Prime Minister's Office is about to finish its term, and even frenzied telephone calls from senators in Washington did not manage to convince Netanyahu to exert pressure on Gilo.

Will the gamble succeed?

It was hypothesized today that Tshuva would agree to sell his holdings in Tamar in order to remain a partner in Leviathan. In my opinion, even if this is a real possibility, rather than just media spin, it still does not solve the problem. Noble Energy, the US company that discovered and developed the gas reservoirs in Israel, is unwilling to discuss compromise proposals. The company has already swallowed one bitter pill in the Sheshinski Committee, when it discovered that the Minister of Finance's verbal promises were worthless. They will not remain quiet this time in the face of maneuvers by the Israeli regulator. Noble Energy has an agreement dated March 27 and signed by Gilo, and it plans to fight for its rights in the courts, whether in Israel or overseas.

Such a widely publicized legal dispute between Israel and its largest foreign investor to date, except for Intel, will not only severely damage the country's business image. Whether you like it or not, Noble Energy holds Israel's entire natural gas sector in its hands. Without it, there is no one to operate the gas platforms, pumps, and control rooms.

Yachimovich, who, to our ill fortune, has become a guru for gas affairs, is sure that foreign investors will swarm in to take Noble Energy's place. "The economy will suffer no damage as a result of Gilo's decision," she stated today with her typical demagoguery. The way it looks now, however, the economy will be the big loser from Gilo's decision, at least in the short term. Gilo has taken a gamble with the economy's future, but has won a place in the grand society of regulators who are not about to let

anyone put one over on them. The consumer may pay a lot more for his electricity in the coming years, but who cares about that?

Published by Globes on Dec. 23, 2015

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JORDAN TO IMPORT GAS FROM GAZA MARINE FIELD – REPORT

According to Bloomberg, Jordan will import 1.5-1.8 BCM annually from the field off the coast of the Gaza Strip.

While it was reported in Jordan yesterday that the negotiations on importing Israeli gas from the Leviathan reserve had been halted, Bloomberg reports that Jordan, which is in need of cheaper sources of energy, will import gas from the Gaza Marine field 35 kilometers from the coast of the Gaza Strip. According to Bloomberg, the Jordanians will import 1.5-1.8 BCM (billion cubic meters) of gas annually.

The Gaza Marine reserve was discovered in 2000. It contains 32 BCM, and is owned by British Gas (60%), which also operates the reserve, Consolidated Contractors Company (CCC) (30%), and the Palestinian Authority (10%).

Meanwhile, despite the tension between Israel and Jordan in recent weeks, industry experts say that, since the proposed Leviathan deals are long term, for 15-20 years, both sides understand that there will be ups and down in relations between them, and this will not affect the signing of an agreement. Technically speaking, the option of exporting gas to Jordan is cheap and quick, since it requires laying an onshore pipeline only a few kilometers in length.

From an economic point of view as well, it would pay both sides to sign a deal. Jordan currently has to import 97% of the

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energy it consumes, and it pays for it at least double what it would pay for the Israeli gas. It is estimated that the Jordanian economy would save $1.5 billion annually by switching to Israeli gas. For their part, the Israeli gas partnerships would receive a higher price than they can obtain in Israel.

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ISRAEL-JORDAN GAS EXPORT TALKS HALTED

The Jordanian House of Representatives Energy Committee head says there can be no deal until the gas picture in Israel is clear.

Negotiations on exports of gas from Israel to Jordan have been halted, Jamal Gamouh, president of the Energy Committee of the Jordanian House of Representatives told the Jordanian press. Until the picture in Israel is clarified, Gamouh said, there will be no deal.

Gamouh's statement comes after Israel's antitrust commissioner David Gilo ordered the break-up of the gas monopoly controlled by **Delek Group Ltd.** (TASE: **DLEKG**) and US company Noble Energy, which are the main partners in Israel's two largest gas reserves, Tamar and Leviathan.

Last September, a letter of intent was signed with the Kingdom of Jordan for the sale of 45 BCM (billion cubic meters) of gas over 15 years, in a deal worth $15 billion.

The supply of gas to Jordan was to have commenced once development of the Leviathan reserve was complete. The target date for this was early 2018, but in the wake of Gilo's decision it is now not clear how long development will be delayed.

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