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ISRAEL'S OIL & GAS INDUSTRY NEWSLETTER

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Regulator allows Leviathan gas export talks

The Antitrust Authority has allowed talks for gas exports to Turkey, Jordan, and the Palestinian Authority.

Sources inform "Globes" that Antitrust Authority director general David Gilo has allowed the partners in the Leviathan gas field to jointly hold talks for the export of natural gas to Turkey, Jordan, and the Palestinian Authority, because of their strategic importance to Israel. The approval is provisional, until Gilo makes a final decision whether to declare the Leviathan partners a cartel, in which case he may set rules to ban them from acting jointly on the sale of gas from the field.

Gilo's decision is unrelated to the upcoming government decision on gas exports, but could help Leviathan's partners to persuade ministers that gas exports strengthen Israel's regional geopolitical position.

Two months ago, Leviathan's partners - Noble Energy Inc. (NYSE: NBL), which owns 39.66% of the field, Delek Group Ltd. (TASE: DLEKG) units Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L), which each own 22.67%, and Ratio), which owns 15% - asked Gilo for an exemption to jointly market gas from the field. His response last week was, in the professional jargon "No action". He gave provisional permission to open talks with Turkey, Jordan, and the Palestinian Authority, without the Antitrust Authority taking any enforcement action against the companies.

In the response, the Antitrust Authority said that the provision permit was only for initial talks, and that it provided no indication about Gilo's final decision on the alleged cartel by the companies. The subject has been under review for two years, since Gilo announced on September 6, 2011, that he intended to declare Leviathan a cartel because of the cross ownership by Noble Energy and Delek in the Tamar, Leviathan, and other offshore gas fields.

"Globes" has reported that in an extreme case, Gilo could order Delek, controlled by Yitzhak Tshuva and Noble Energy to sell their stakes in Leviathan, or he may order separation rules for its management to ensure that each partner hold separate negotiations for its proportionate share of the gas.

Parties involved in the process told "Globes" that Gilo's decision was given on the Antitrust Authority's understanding that of the urgency and strategic importance of opening sales talks with Turkey, Jordan, and the Palestinian Authority. Talks between Leviathan's partners and these countries are of interest to the US administration, and came up during Secretary of State John Kerry's visit to the region and during Turkish President Recep Tayyip Erdogan's visit to Washington.

Published by Jerusalem Post on May 24, 2013

Shalom: Zemach Committee protocols to be published

Gas export recommendations released to public; Peretz: "The export of 40% of our natural gas does not meet the real needs of the citizens."

Energy and Water Minister Silvan Shalom at Tamar natural gas rig, March 27, 2013. Photo: Moshe Binyamin

Energy and Water Minister Silvan Shalom announced on Thursday that he has decided to publish, in the near future, all of the protocols of the Zemach Committee, which made recommendations this fall about natural gas export quantities.

"I studied the issue at length since I took office and after talks with the Justice Ministry, I reached the conclusion that we must increase transparency in public discourse and include the public in discussions before advancing the committee's conclusions," Shalom said.

This declaration comes the day after he told Channel 2 that he intends to set the maximum natural gas export allocation at 40 percent rather than the expected 53% figure.

As companies continue to explore and drill through Israel's eastern Mediterranean waters, export allowances have become a topic of contention across the country. The 282-billion cubic meter Tamar reservoir is already flowing into Israel, and its neighboring Leviathan basin, approximately 535 billion cubic meters, is slated to come online within the next few years. Although the Zemach Committee – headed by Energy and Water Ministry Director- General Shaul Zemach – recommended a maximum export allocation of 500b. cu. m. this fall, the government has yet to officially approve any export policy.

The Zemach Committee's conclusions, which also called for a minimum of 450 billion cubic meters of gas to be allotted for domestic use, have been under constant criticism from environmentalists across the board, who say that much more of the resource is needed at home.

Gas explorers and producers, on the other hand, contend that a stable export policy will attract additional entrepreneurs to enter the region and thereby discover more resources – bringing a benefit to Israel's citizens as well.

After hearing the 40% export cap presented on Channel 2, environmentalists maintained on Wednesday night that they would not be satisfied with this figure.

"The export of 40% of our natural gas, as was published this evening, is an offer that was presented to us but our position is that this proposal does not meet the real needs of the citizens of Israel," said Environmental Protection Minister Amir Peretz.

According to the Environment Ministry's tests and analyses, at least 600 billion cubic meters of natural gas will be required for the energy, transportation and chemicals industry at home, Peretz added.

MK Dov Henin (Hadash) likewise slammed the 40% allocation, calling on the Energy and Water Ministry to "stop playing with numbers and return to talk about principles."

Henin explained that such a decision needs to be discussed in the Knesset and needs to be a transparent matter with public input.

Presenting this reduction of percentages as a "social" decision is false, since export percentage can only be relevant once Israel knows exactly how much gas it has, added Amit Bracha, executive director of Adam Teva V'Din (Israel Union for Environmental Defense).

"This discourse is not about amounts of percentages of gas that Israel will export, but is a substantive issue of who owns Israeli gas," said a statement from the Struggle for the Preservation of Israeli Gas movement.

However, environmentalists also praised Shalom for his decision to publish the protocols of the committee and stressed the importance of involving the public in the country's natural gas future.

Henin also welcomed the move and said that the next step is to bring the discussion of the issue to the Knesset.

"In principle, it is not possible that discussions of this type that are so important will be hidden from the public and from the Knesset," Henin said.
But once the financing is secured for building the power station, the bonanza begins. For example, Dalia Power Energies is using a fixed availability model, which means that the government will assume 97% of the power station's operating risk. For example, the company will receive a full refund from the government for any financial loss caused by the purchase of natural gas to generate electricity, failure in the gas pipeline, or force majeure. The government also assumed market risk, or finding customers to agree to pay a good price. The government undertakes to pay the company the full price in exchange for availability, or willingness to generate electricity.

The price set gives Dalia Energies a return of at least 15% on the project's capital. As for equity, interestingly, the company's innovative financing model allows its shareholders extraordinary leverage: they only had to provide NIS 240 million in equity out of the NIS 4 billion needed to build the power station, and they raised the remaining NIS 3.75 billion through issues of bonds and preferred stock.

"The fixed availability model effectively guarantees the developers the risk of government bonds with a 15% yield," said an independent power producer.
Government bonds with a 15% yield sounds like a good investment, but this is small change in the private electricity market. For the developers, the fixed availability model is only a default option; their real objective to switch to a variable available model, where the really big money lies.

Under the variable available model, the government assumes "a mere" 80% of the venture's operating risk, even as it directly challenges IEC. But this competition is not powerless. To find customers, the independent power producer has to offer its electricity at a price that is a few percent less than the electricity tariff. The electricity tariff reflects IEC's costs, which include employing 13,000 workers, interest payments on its huge debt, the construction and maintenance of the national grid, planning units, and grid management.

Competition is not equal in the electricity market: IEC is required to keep a reserve, or power stations which only operate as back-up, and are shut down most of the year. IEC is required to use a range of fuels to generate electricity, because of the national risk of relying on only one fuel, even if it is the cheapest. IEC also operates old power stations, some of which are almost 40 years old.

The resulting numbers look more or less like this: the marginal cost of generating one kilowatt/hour at an independent power producer which uses natural gas is NIS 0.20-0.30. A power station, such as Dorad's, which was designed to operate at peak hours when rates are higher, receives an estimated NIS 0.65-0.85 per kilowatt/hour. The return on capital under this operating model is 18-21% a year.

The Ministry of Finance says that, naturally, the first players entering the electricity market and which face high entry barriers should benefit from the highest returns. Lower electricity rates for small consumers will only be seen when there are seven or eight independent power producers in Israel and there is real competition.

Meanwhile, the Ministry of Finance hopes that the small consumer will benefit indirectly through lower power generating costs for big business, either through economic growth, which will create jobs, or through lower prices of end products. But Moshe Tzur, a former top official at the Public Utilities Authority says that this is not enough. Currently, small electricity consumers are subsidizing the power producers for their back-up and grid management costs - costs that the producers do not have to pay. "I do not envy the industrialists who will profit from the cheaper electricity, but it is unacceptable that I, a small consumer, will pay the extra," he says.

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Gas exports will create jobs in Israel

Amid heated debate over exporting Israel's gas finds, visiting US commerce VP Myron Brilliant encourages a flexible, balanced approach.
The Israeli government must educate the public as to how a strong natural gas export policy will not only strengthen the country's economic position globally but also create jobs at home, a United States Chamber of Commerce official told The Jerusalem Post on Monday.

"I think there's a good debate going on in the government – a healthy debate on how to maximize the gas finds and how to strengthen the domestic economy and have a supply that provides energy security for 30 to 50 years, combined with the reality that there could be an abundance of gas that could be exported," said US Chamber of Commerce executive vice president and head of International Affairs Myron Brilliant.

Brilliant was in Israel from Saturday through Monday meeting with various government officials with the aim of fostering further cooperation between the US and Israel on the latter's emerging hydrocarbon industry.

Just a week-and-a-half ago, Brilliant sent a letter and a detailed 12-page memo to Prime Minister Binyamin Netanyahu as to how the two countries can advance this partnership, which could also serve as a "catalyst" for elevating overall commercial ties.

In order to maintain and strengthen the relationship, however, Israel must establish stable, supportive and transparent policies and regulations for handling its gas both at home and in its export capacity, the Chamber of Commerce official wrote.

Because the US has recently gained a wealth of experience from its own gas finds, Israel should take advantage of the country's expertise as it develops those policies that will regulate the industry, the memo said. Although warning that excessive regulation can threaten economic and security goals, the memo stressed, the government must push forward scientifically rooted environmental safeguards to protect its resources.

Meanwhile, an export program for gas must be grounded in certainty and clarity, as an unstable program could "paralyze energy sector activity" and discourage future investors, the memo said.

Israel must also be able to guarantee uninterrupted gas flows by accumulating reserves in gas reception terminals so that backups exist in the event that a terminal fails.

Revamping the archaic Petroleum Law of 1952 will also be critical, as will streamlining regulatory framework so that investors and stakeholders do not have to contend with such a plethora of regulatory bodies, the memo argued.

Together, Israel and the US should move forward with work on improving cyber and physical protection mechanisms for energy facilities, and should continue cooperative research and development activities on an academic level, the memo stressed.

Opening a branch of a US non-governmental organization in Israel – such as the American Petroleum Institute – could also be worthwhile for Israel's regulatory future, the memo noted.

The memo was well received and was widely distributed among different ministers and government officials, Brilliant noted on Monday.

Throughout Israel, environmental organizations have been up in arms over the possibility of the country exporting up to half of its natural gas resources, if recommendations from the Zemach Committee – chaired by Energy and Water Ministry director-general Shaul Zemach – do end up receiving government approval.

While Brilliant said he is fully aware of and understands the concerns, he stressed that "an export policy that gives some regulatory clarity" can only serve to benefit the country.

Only such a policy can bring in new participants to the market, who will potentially be able to increase natural gas explorations and finds, Brilliant explained.

"It's not just the direct beneficiaries," he said. "It's the indirect beneficiaries."

Increased dialogue between the US and Israeli governments on energy matters may be able to provide constructive support for Israel's potential aim of exporting some of its finds, he continued. The US, too, has been undergoing a similar debate on hydrocarbon exports, and all the while the Chamber of Commerce has been advocating exporting the resource in a liquefied natural gas (LNG) state, Brilliant explained.

"We believe that we can keep costs low in our economy, secure energy resources but also develop export markets that can create jobs," he said. "You can secure growth in your domestic market by having a balance."

Like America, Israel needs to develop a stronger energy policy, with the understanding that energy protocols cannot be separated from economic and security strategies, according to Brilliant. In part, this mission can be accomplished by strengthening "the vibrancy of the economic relationship between Israel and the US in technology fields," he said.

It is the goal of the Chamber of Commerce to see more US energy firms coming to Israel's Eastern Mediterranean for natural resource exploration, Brilliant noted.

Although expressing certainty that a decision to export gas would be the correct path forward, exactly how Israel should position itself in the global energy market, Brilliant argued, can be flexible.

One such option, he noted, would be working together with neighboring Cyprus, a nation that also has sizable gas discoveries and plans to construct an LNG export facility.

"There's no question that in looking at new markets in the region that Israel will have to be creative in finding partners in distributing, and going through Cyprus is just one of perhaps a few options that may be available," Brilliant said.

"There are only a few options so it makes sense for the Israeli government to consider all options recognizing the logistical challenges."

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Yam 3 drilling resumes

The drilling to the oil-bearing target strata will continue via an alternative engineering route.

Shemen Oil and Gas Resources Ltd. (TASE: SOG) announced last night that the well operator in the Shemen license had notified the company that measures taken in the Yam 3 well's borehole to deal with the high pressure, which had halted drilling in the upper gas-bearing strata, had been successfully completed. The operator notified its partners in the license that it will continue drilling using an alternative engineering layout, which the licensees have approved, in order to reach the well's primary target strata.

As a result in the delay in the timetable caused by the high pressures in the borehole and the engineering change, the licensees approved an updated budget for the well, which is expected to cost $138 million. Shemen Oil has filed a claim with the insurance company, which insured the drilling, for compensation under the terms of the policy.

Shemen Oil's share of the well will be $111 million. The updated budget does not include the cost of production tests, if it is decided to carry them out. Drilling of the well began on December 3, 2012, and was estimated to take nine months, including the production tests.

Shemen Oil currently has $11 million in financial resources, after spending $73 million on the well. The company is examining several alternatives for increasing its financial resources to fund its $27 million share of the revised budget. The alternatives include the $4 million in current commitments by the company's parties at interest. The amount could be reduced if the insurance claim is accepted and the insurance company compensates Shemen Oil for the expenses to overcome the high pressure in the borehole.

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Knesset lobby seeks to block gas exports

A meeting of the environment-social lobby called for the decision to be made in the Knesset, not the government.

"The opponents forget two important facts," said Tzemach Committee on gas exports coordinator Michal Franco in her first response to criticism of the report's recommendations, and says that a decision on gas exports must be taken now. "First of all, Noble Energy Inc. (NYSE: NBL) (a partner in an operator of the Leviathan field - A.B.) has updated its estimate about the Leviathan field's reserves. According to the updated estimate, the field has more gas, increasing its conditional resources by two trillion cubic feet (TCF) (56 billion cubic meters (BCM)). The opponents also ignore the Karish field, which Noble Energy estimates has 2 TCF. Despite the higher estimates for these two fields, the opponents do not call for increased exports.

"Secondly, the opponents forgot to mention that the committee took the most conservative position on prospective fields, and more importantly, conditioned exports on the realization of these values. This means that, in practice, exports will only be allowed from currently discovered fields and from prospective fields, and not from the future potential supply of natural gas."

Franco accuses the Israel Union of Environmental Defense (IUED) of distributing an erroneous position paper. "The Tzemach Committee recommendations are based on wrong information and baseless optimistic assumptions about future reserves," says the NGO in a position paper sent to MKs as part of a public campaign against gas exports.

Franco says that not only did the IUED use disproven claims, it did not even bother to accurately copy the relevant citations from the Tzemach Committee's report. "Public dialogue is very important, but more importantly, it should be based on facts," she says. "Regrettably, I've seen reports saturated with errors and inaccuracies. For example, IUED's position paper from last April states, 'The committee increased the gas export quotas', even though the opposite is the case. The interim report did not include a numerical restriction, and the final recommendations capped exports. IUED's paper states, 'The committee promises to keep gas for a brief period of only 15-25 years'. The committee saw this as a reasonable time frame, but explicitly recommended a 25-year period. The problem with position papers of this kind is that they are sent to MKs and other parties which are liable to rely on them, even though they are full of factual errors."

The Tzemach Committee report, published in August 2012, makes a number of proposals for creating a natural gas industry, but the recommendation which ignited public debate was to allow the export of half the gas from each field, subject to certain conditions. The final report estimated the total amount of gas exports at 500 BCM, and that 450 BCM of gas would be set aside as a strategic reserve for meeting Israel's domestic needs for 25 years. At the time of the report, Israel had 800 BCM in reserves, 150 BCM less than the total amount calculated in the report. The committee believed that the shortfall would be made up from discoveries at planned wells. But a string of dry holes at Myra, Sarah, Simshon, and Ishai, following the report's publication rendered its estimates irrelevant, in the opinion of the critics.
"Globes": Would you agree with the statement that the developers and tycoons have an interest in gas exports, while organizations which claim to see the national interest support keeping the gas?
Franco: "No. Concern for people's future is everyone's objective. The question is which means make the optimal use of a resource to achieve the maximum, both in terms of changing the energy mix and making it cheaper for Israeli consumers while guaranteeing their future and independence, and increasing the state's revenues. The public interest requires, first and foremost, keeping a natural gas supply for the domestic market. On this side, it is important to export natural gas to make it worthwhile to develop the fields and supply gas for all consumers."

But gas exports will raise the price for Israeli consumers.

"There are many factors which affect the price of natural gas, but, in general, there is no proven direct connection between developing the export market and higher prices in the domestic market. In the committee's discussions, Bank of Israel representatives said that severing the link between the domestic price and the export price was undesirable because, in the long term, this was liable to create incentives for developing inefficient industries.

"Attempts to keep prices artificially low resulted in the underdevelopment of infrastructures and the creation of over demand in the domestic market, resulting in gas shortages in the domestic market and frequent power outages. There are countless examples of countries which undertook undesirable export policies, resulting in serious damage to domestic economies. Indonesia, Trinidad, and Argentina are examples. In 2008, Egypt greatly restricted exports and sought to keep 60% of gas for the domestic market in order to ensure low prices. As a result of the lower worthwhileness, exploratory operations and the development of new fields were curtailed in favor of the domestic market. The increase in gas

supplies did not meet the increase in demand for gas, and Egypt now suffers from daily power outages, and it is now preparing to import gas to meet the shortfall which resulted."
Egypt has larger natural gas reserves than Israel.

The US has sufficient gas reserves for 100 years, and there is a huge argument whether to allow exports. Why should Israel be satisfied with reserves for 25 years?

"This comparison greatly misleads the public. It is manipulation which fails to take into account the expected growth in demand. On the basis of this rationale, if you take Israel's total reserves - Tamar and Leviathan - as 900 BCM, compared with current domestic demand, there is enough gas for 90 years! The committee discussed something completely different: how many years should we keep the gas. A 20-year time frame is realistic, in terms of economics, to prefer keeping the gas over exports. This is the time frame characteristic of investments in the energy industry (including take-or-pay agreements), and indicate prevailing practice. The time frame chosen by the committee is even more conservative."
It is claimed that you did not properly estimate potential domestic demand for gas, and therefore rejected construction of a gas-to-liquids refinery, for example.

"The original recommendation in the interim report was to keep 400 BCM. Ahead of the drawing up of the final report for the government, and at the recommendation of the Natural Gas Authority, the amount to be set aside was increased to 501 BCM (450 BCM would be kept in 2017-40). This is an inconceivable amount, when taking into account that current domestic demand is only 6 BCM a year and that energy security considerations require diversification of energy sources. The natural gas demand forecast which was ultimately chosen assumed, among other things, that all Israeli factories will switch to natural gas, 75% of electricity will be generated by natural gas (up from 40% today - A.B.), and that half of all the countries' gasoline-powered vehicles will switch to compressed natural gas or another natural gas-based fuel. The recommendations did not rule out building a GTL facility. As I mentioned, the decision on the issue should be taken on the basis on the specifics of its worthwhileness. If the decision is yes, there is enough gas for it."

We cannot wait
The government says that exports are needed because gas for domestic use is already largely guaranteed by the Tamar field. It is therefore necessary to guarantee exports from the Leviathan field, otherwise the developers will not be able to raise the financing needed to develop it and connect to the Israeli coast at a cost of $3-4 billion.

Is it possible to develop a gas field without promising 50% exports from it? Can the government develop the fields itself, or at least provide guarantees?

"Theoretically, it's possible, but it is important to understand the significance. Investment in an Israeli government company involves assuming the risks on one hand and the many costs on the other. People who propose building a production system using the state budget should think about where the money will come from. Greatly increasing the deficit is liable to result in a credit downgrade for Israel, which will raise the interest on government debt. Financing through tax hikes will only increase the risk of recession and will reduce consumption, and will naturally hurt the middle class. Cutting the budget will almost definitely affect government services. If the critics have other sources of financing, I am sure that the government would like to hear about them."

Why not wait until we know exactly how much gas there is, as Labor Party chairwoman MK Shelly Yachimovich and former Minister of Environmental Protection Gilad Erdan propose?

"At least three to five years are needed to prepare for gas exports from the moment a decision is made. That's the minimum amount of time needed to build a liquefaction system or to lay a pipeline to the export destination. Even if we were to wait two or five years now, this amount of time will not shorten. But if the decision on exports is delayed, we'll have to make it under conditions which most assessments believe will be much worse. Israel has a very narrow window of opportunity to market the gas. Discoveries in the US and the development of fracking technologies for oil and gas production guarantee many years of supply in the US and outside of it. The US, which until recently was readying for massive imports, has approved ever growing gas exports. For example, in late March, a $10 billion deal was approved to sell 2.5 BCM of gas to Britain.

"The US entry into the LNG market will have major consequences. The prevailing difference in prices between Japan and the US ($18 per British Thermal Unit in Japan, compared with $2-3 in the US - A.B.) will greatly narrow, rendering many future projects around the world not worthwhile. Alongside developments in the US, huge gas offshore gas discoveries - 100 TCF (triple Israel's discoveries - A.B.) - have been made in Mozambique and Tanzania, which are relevant for East Asian markets, and which are an alternative to other gas sources. There are estimates that an additional 250 TCF of gas will be discovered in Mozambique in the coming years.
"Bottom line, it seems that the longer we wait to decide on exports, and as regional and global competition increases, the chances of fulfilling the current potential will fall. A strategic and economic decision to maximize the discoveries and enable their development must be taken, and we'll be left with nothing."

IUED said in response, "IUED stands behind the facts and arguments presented in the report. Ms. Franco's claims that the committee's recommendations did not include numerical errors is pure demagoguery, since the committee's recommendations included percentages, from which it is possible to calculate the amount of gas that the committee recommends leaving in Israel, exactly as IUED did. As for the second claim, we advise Ms. Franco to reread the report which she signed and to focus on page 91, which shows the committee's calculation for keeping gas reserves for 15-25 years.
"It would be better if Ms. Franco and the Tzemach Committee members, instead of trying to sow confusion about the data, were to mention most material matters in the committee's conduct and recommendations, such as its overestimate of the amount of gas, the ignoring of the scale of Israeli demand for gas, and the fact that gas powers like the US export only 6% of their gas."

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We must decide on gas exports now

Tzemach Committee coordinator Michal Franco says Israel cannot delay the gas exports decision due to increasing global competition.

"We expect the Leviathan agreement will be finalized during the next couple of months," Woodside Petroleum Ltd. (ASX: WPL) CEO Peter Coleman told "Globes" in his first interview with the Israeli media. He expressed concerns over the government's delay in deciding on a natural gas export policy, and over calls to change the Tzemach Committee's recommendations on gas exports.

In early December, Woodside signed a letter of intent to acquire 30% of the rights to Leviathan with its current owners, Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) for $1.25 billion. The bulk of the payment will be paid when the deal is finalized, after the Tzemach Committee's recommendations are approved.

"Globes": You decided to sign the letter of intent even before the Tzemach Committee conclusions were approved by the government. Was it based on the belief that they will approved even though the elections were imminent at the time? Coleman: "Yes, it was. We actually felt that the process the Tzemach Committee went through was a very good one. They in fact spoke to us by telephone before they finalized their report, so we had have some input into that, but we felt that the recommendations were quite balanced, although the percentage of gas reserved for domestic use is high on a world scale. But we felt that we could put together an export project around the remaining quantity of gas. That gave us some confidence in moving forward at that point in time. We knew the government was going into elections, so we respected that process. Now a government's formed. It's time now for us to get back in and ensure our voices are heard, so the government's considering whether to pick up the report as is, or whether, as some people would like, to make some modifications to it."

How much did your meeting with Prime Minister Benjamin Netanyahu influence your decision?
"We were pleased with the meeting we had with the prime minister. It did give us some comfort that Israel was looking very broadly with respect to the use of its gas resources and understanding what was the best way in the long term to ensure that it's utilized for the best of the Israeli people."

Four months have passed since the meeting, and nothing has happened. Are you in any way less certain about the final outcome that you had been previously?
"I don't think the length of time has been helpful at all. We felt the process was going to provide certainty. Now there are people questioning the outcome of that particular process."
Coleman added, "It's not helpful from the point of view that the world is moving on. It's becoming very, very competitive. If you look at the resources now in the US that are being developed around shale gas, if you look at what's happening in East Africa, and let's put it into context. A year ago people were just starting to talk about Africa. A year before that people hadn't - they're weren't talking about it at all. So two years ago, East Africa wasn't being spoken about, yet we now know that in Mozambique alone there's about a hundred TCF of gas and more gas being discovered.
"So it is a competitive world and whether it's LNG or other exports, they require certainty in the marketplace, because they are very long term investments. The design and engineering can take 3-4 years. If we're doing well, to be quite honest. And then it takes another 6-7 years to build it. So you're starting to talk about markets that are 8-10 years from now and trying to position yourself so you can enter that marketplace. That requires a lot of certainty." Coleman noted that the investments amounted to billions of dollars on projects that could take 40 years.

Criticism of the Tzemach Committee's recommendations began the day they were published. Since then, there has been a string of dry holes, which have led to calls for reviewing the recommendations and increasing the proportion of gas reserved for domestic consumption at the expense of exports.
"It's a fact that there is uncertainty in drilling exploration wells and I understand some people have questioned whether the reservation policy is too generous, given the fact of the recent unsuccessful wells. I would put to you a much different view on that. I would suggest quite strongly the best way to deal with that in fact is to encourage more exploration rather than discourage exploration… If the gas cannot be exported, then there's no clear path to monetization because the domestic market has enough gas for many, many years. The only way to monetize is through export contracts."

The Tzemach report advises the government to keep a reserve to meet Israel's needs for 25 years, and to export the rest. In the absence of new discoveries, there are calls to keep half of the gas reserves for domestic use.

"The range is typically around 15%. We say 15% here in Western Australia, and in fact I think we're a very good analogue for what Israel is dealing with at the moment. I have seen it go up to 30% in some places. 50% I have not seen before. Understanding Israel's quite valid concerns about preserving resources for the future, I could understand why 50% was arrived at in that regard. I would put back to people who are concerned about that, that the very best place to find hydrocarbon or gas is where you've already found it. And the best thing to do in fact is to encourage exploration and further exploration." He added that the Levant basin is full of natural gas, and exploration has only just begun.

Coleman says that the first offshore gas discoveries in Western Australia were made 30-40 years ago, and that for years, the state and federal governments invested heavily in laying pipelines and building infrastructures. Woodside brought in oil majors as partners for their capital and drilling know-how. "We're on the way to become the world's biggest LNG exporter, and we reserve 15% of gas for domestic use. I'm talking about a 40-year process, but for this happen, Israel must also encourage exploration and development," he adds.

Why were you interested in the eastern Mediterranean for Woodside?
"We were looking for somewhere where we could bring our capabilities to create additional value to a joint venture, and so as we looked at Leviathan, we were also attracted by the quality of the Leviathan resource and it's a world-class resource by any measure. And we felt that given the potential for export from Leviathan, then Woodside had capabilities not only in development and production, but also in our marketing activities, and particularly in LNG and pipeline gas. So that was the attraction for us, and then of course with the partners in Leviathan that we felt we could work with very well, particularly Noble Energy and the local partners as well."

You believe that you can find markets for Leviathan even in East Asia, even though the distance is far greater than from Australia?
"I absolutely do. We think we can get Leviathan gas east of India, and certainly it could go into China. There are other options for it to go into Europe, but there's a lot of head-to-head competition in Europe. Our preference is to establish new relationships with existing Woodside customers in Asia and to continue to build on that. But there's a lot of competition out there. Leviathan will be competing with gas coming out of East Africa, and so the earlier that we can get certainty around our export options from Leviathan, the earlier we can get into market and secure those customers."
Australia Israel Chamber of Commerce executive director Tel Aviv Paul Israel, who has provided support for Woodside's Leviathan deal since initial talks began, said, "Woodside is a natural partner for the Israeli industry. They are one of the world's most experienced LNG operators; their involvement here increases the chance that the gas will be exported in a most effective manner ensuring maximum benefit to Israel and its citizens."

Woodside is Australia's largest energy company and the world's largest non-government liquefied natural gas (LNG) exporter, after the government-owned companies of Qatar, Indonesia, and Malaysia. The company has been developing huge offshore projects in Western Australia, centered on the Karratha LNG plant, which has an annual production capacity of 16.3 million tons. The company also began operating the 4.3-million ton capacity Pluto LNG plant last year, after an investment of AU$14.9 billion. The company also owns floating production, storage and offloading (FPSO) ships, which may be used at Leviathan. It is involved in the construction of the Sunrise floating LNG (FLNG) facility in East Timor; an FLNG facility is under construction for the Tamar gas field.

Earlier this month, Woodside cancelled plans to build a third LNG plant in Australia, Browse, after its cost escalated to $45 billion, rendering it not worthwhile. One energy expert believes that rising prices in Australia was why Coleman was interested in expanding the company's operations to new markets, including Israel.

Did you face political pressure to stay out of Israel?
"The answer to the question is in short: no. In fact there was encouragement to continue to strengthen the relationship that we have with Israel for many, many years now. Our relationship with Israel - as you're aware it's a very strong relationship and it's going back to the formation of Israel - and it's one that in fact the Australian people and the Australian government hold very dear. I would tell you from both sides of government in Australia, including current and former prime ministers, who made representations on Woodside's behalf to introduce us into the country."

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Published by Globes, Israel business news on May 13, 2013

Tshuva: Gas exports worth $100b to Treasury

Delek controlling shareholder Yitzhak Tshuva: Gas exports alone will generate NIS 100 billion for the treasury over the next 20 years.

"It is especially important these days to remember that gas exports alone will generate $100 billion for the treasury and the Israeli economy over the next 20 years," said Delek Group Ltd. (TASE: DLEKG) controlling shareholder Yitzhak Tshuva at Mizrahi Tefahot Bank (TASE:MZTF) business customers conference today. He said that keeping reserves for the domestic market, while allowing exports, as the Tzemach Committee recommends, are important for the economy.

"The government should encourage gas exploration deals in Israel, and ensure that more companies, both Israeli and foreign, will enter the industry. More companies means more drilling, and Israel will strengthen its position as an important player in the field. It should be remembered that the government's take from the gas industry, from taxes and royalties has been set at 60%, which means that the Israeli public and the state's treasury are the main beneficiaries of the industry's success," said Tshuva.

"Gas will be a lever for developing bilateral relations between Israel and many countries in the region and for the development of joint economic projects by Israel and its neighbors, a fact which will greatly strengthen Israel's geopolitical power."

Avner Oil and Gas LP (TASE: AVNR.L) DEO and Delek Drilling LP (TASE: DEDR.L) chairman Gideon Tadmor said, "We now have an historic opportunity to change the Israeli economy and use the gas discoveries as a growth engine for the economy and society, in a way that will affect the lives of every citizen. We must not stop this momentum."

Ratio Oil Exploration (1992) LP (TASE:RATI.L) CEO Yigal Landau told "IDF Radio" (Galei Zahal) that $500 million has been invested in Leviathan, which the company owns with Delek and Noble Energy Inc. (NYSE: NBL), and that its development budget is an additional $5.4 billion. "When the government decided in the 1990s to hand the oil and gas exploration industry to the private sector, it was after 40 years during which government companies wasted a lot money and failed. It took us 20 years," he said.

As for exports, Landau said, "The domestic market is small and limited. Agreements with Tamar (jointly owned by Delek, Noble Energy, and Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L)) have closed the domestic market for many years. It is important that Leviathan supply gas to the domestic market, but to finance its development, it is important for exports to be permitted."

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Published by Globes, Israel business news on May 13, 2013

Stormy Knesset session muddies waters on gas exports

Energy Ministry director general Shaul Tzemach: Until there are 450 billion cubic meters of gas, there will be no gas exports from Israel at all.

"I have managed many discussions, but I have never been in a discussion in which after an hour of talk, I cannot get a simple number," Knesset Economic Affairs Committee chairman MK Avishay Braverman (Labor) said during a stormy committee meeting on the Tzemach Committee recommendations on natural gas exports from discoveries in the Mediterranean.

Labor Party chairwoman MK Shelly Yachimovich suggested that lobbyists be ejected from the meeting room, and MK Micky Rosenthal (Labor) suggested ejecting the representatives of Noble Energy Inc. (NYSE: NBL).

Braverman said, "In the press, and I do not rely on anything in the press, there have been reports that the Ministry of Finance supports reopening the Tzemach Committee recommendations. We must not allow the monopoly, which currently controls gas production, to also control gas transportation. On the other hand, the government must move forward on this matter."

Ministry of Energy and Water director general Shaul Tzemach said that the public debate on gas exports included utterly incorrect figures. He said, "A great many of the recommendations, which I hear as the committee's recommendations, were never written. Anyone who claims that we've allowed gas exports from unproven fields does not know what he is talking about.

"Until there are 450 billion cubic meters (BCM) of gas, there will be no gas exports from Israel at all. Above 450 BCM, every field must set aside 50% of the quantity for domestic needs. Besides, the 450 BCM refers to proven reserves."

The committee meeting erupted, when MK Dov Khenin (Hadash) said that the Tzemach Committee had allowed for the export of more than half the gas. Tzemach replied that the committee had never said that, and Khenin then cited the report.

MK Ariel Atias (Shas) said, "If that is the case, then the amount of gas for export above 450 BCM is only 50% of the additional amount."

Braverman told Tzemach, "I understand from you that if there is 450 BCM above the 450 BCM, then the amount for export is 225 BCM?"

Tzemach replied, "The half of the 450 BCM."

Braverman said, "Until we solve this arithmetic problem, we will not leave the room. We cannot understand."

Tzemach replied that half the gas from the second field could be exported.

"How can it be that you cannot explain such a simple number?" asked Braverman, to which Tzemach replied, "Because it isn't simple."

Rosenthal said, "If it's not simple, then we're screwed."

Former Ministry of Finance director general Yarom Ariav, who now represents Italian energy major Edison International SpA, told the Economic Affairs Committee, "This argument should be about economics. I don't understand how it has turned into an ideological argument. Gas is gas. It is fetishism to give emotional value to gas. Anyone who wants to break up the over-concentration in the Israeli economy should bring in new players, and to bring in new players, you must give an export horizon."

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Published by Globes, Israel business news on May 13, 2013

How much would a gas export ban cost Israel?

"Globes" asked an independent energy consultant to calculate the cost to the state of banning gas exports.

When Israel's natural gas reserves will run out, whether in 2040, 2045, or 2053, is behind the important, fundamental, and soul-searching public debate on gas exports. The fields discovered so far have enough gas to meet Israel's needs through 2053 - if there are no exports.

If the Tzemach Report is scaled back and gas exports are limited to 50% of the Leviathan field, then the gas will run out in 2045. If Israel allows gas field developers to export the amounts of gas recommended by the report, the gas will run out by 2040.

What will happen here until 2040? A lot of things. It is possible that the liquefied natural gas (LNG) market will become very sophisticated and the price of imported gas will equal the price of domestic gas. It is possible that cars will be powered by hydrogen. Who knows?

But this is only a small part of the story. The bigger story is the money. The state is due to take about $0.70 for every dollar of the gas field developers' profit. The government take includes the Sheshinski tax on excess profits, 11% (net) in royalties, and the companies tax or income tax. The Sheshinski tax sets a uniform rate on gas for exports and gas for domestic consumption, but the companies tax and royalties will rise substantially if the gas is sold, say, to Turkey for 50% more than the price of domestic gas.

"Globes" sought to answer the question that no one has yet asked: How much money will the state lose if gas exports are banned?

The examination was made by Amir Foster, an independent energy consultant who does not advise the gas companies operating in Israel. He compared the government's expected revenues under a limited Tzemach scenario, i.e. limited gas exports only from the Leviathan field, with a complete ban on gas exports. The thought exercise assumes that the various risks for gas exports will not materialize. He assumes that the price of gas for export will be $12.50 per British Thermal Unit from 2019.

For the sake of balance, the assumptions underpinning the gas export ban are quite optimistic, and do not take into account the possibility that the development of the Leviathan field will be greatly delayed if gas exports are banned from it, even though the developers strongly state that this is exactly what will happen. Any delay in developing Leviathan will give Israel more years of gas, but will also greatly reduces the government's revenues from gas.

Foster found that the cumulative financial significance of preferring the position of the organizations which oppose gas exports is NIS 120 billion in government revenues, which are intended for a sovereign wealth fund and the Ministry of Finance. This huge financial loss is only part of the picture.
Another important aspect is the hope that, one day, competition in the gas industry would emerge as new companies challenge the intimidating monopoly of Yitzhak Tshuva's Delek Group Ltd. (TASE: DLEKG) and Noble Energy Inc. (NYSE: NBL). A ban on gas exports is liable to remove the most important incentive for new players to enter the gas market, a market which already has almost insurmountable entry barriers.

"Establishing obstacles, which will effectively prevent gas exports in Israel is dangerous gamble," concludes Foster. "We are likely to be left exposed on all sides, without energy reserves, without decentralized infrastructures and suppliers, with much less government revenues from gas, and a certain path to rising energy prices."

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Published by Cyprus Mail on May 12, 2013

Electricity cash would arrive quicker than gas

A gas powered electricity plant could complement an LNG terminal, but the profits would be felt for sooner. AN ISRAELI-led joint venture's proposal to produce and export lucrative electricity from possible gas reserves within offshore Block 3 is being "considered" by the government, the Sunday Mail has been told.

The venture had bid for Block 3 but was not picked, the exploration license ultimately awarded to the Italian-Korean consortium of ENI-KOGAS. But Dr. Eli Barnea, CEO of Sigma Explorations Holdings Limited - which has a 75 per cent stake and was the designated operator in the Israeli joint venture - said this week that their offer still stands. The Israeli-led group's proposal on Block 3 incorporated the construction of a power plant on the island for exporting electricity to Israel and for generating electricity for Cyprus' local consumption, by linking the two countries' grids via a subsea cable.

Due to their geography, both nations are currently isolated in energy terms and vulnerable to failures at their main power plants, argues Barnea, citing the Mari disaster of 2011. In that respect, a 1500MW capacity plant in Cyprus would be a win-win for everyone. Barnea says the Cyprus government and the

ENI-KOGAS consortium could be persuaded to 'farm-in' the Israeli-led joint venture. One option might be for the Israelis to purchase part of the Block 3 gas from the Italian-Korean consortium. They would then finance a natural gas-powered plant on the island and sell the bulk of the generated electricity to Israel. In addition to the jobs created in building a facility, Cyprus would benefit from charging a fee for the export of electricity to the neighbouring country.

Barnea sees Block 3 as being ideal for the project, because of the prospect's close proximity to Cyprus shores - some 65km from Cape Greco. Moreover, drilling there would cost far less - about US$40 million compared to US$100 million in other prospects - because of the lower sea depths. Lower development costs in turn would yield lower electricity prices, making them attractive to the Israeli market. "With electricity, you need only be competitive on a regional basis. With natural gas, on the other hand, you're competing on a global level," Barnea argues. And electricity exports from Cyprus to Israel could begin from late 2015 or early 2016; by contrast, the option of exporting gas via a liquefied natural gas (LNG) plant cannot be achieved sooner than 2020 or 2021.

Barnea holds that exporting natural gas is not the best option for Cyprus because the added value is not that high. According to his own estimates, Cyprus would stand to make $10 per million BTU from exporting electricity, compared to just $3 per million BTU from exporting gas via an LNG terminal. The proposal is not a new one. It was brought to the attention of the Cyprus National Hydrocarbons Company (CNHC) back in January through a detailed presentation. And a month ago, Barnea expounded on the plan's merits during a meeting with President
Anastasiades in Nicosia; the response from the president was "generally positive", says Barnea. It's also likely the idea was discussed between Anastasiades and Israeli premier Benjamin Netanyahu during the former's visit to Israel this week.

What's changed since January is the financial crisis here, which has taken a sharp turn for the worse. "Before 2020 - and that's being optimistic - LNG won't be making a penny for Cyprus. But if Cyprus can cash in on hundreds of millions of euros from electricity exports as of 2016, for a period of 20 years, that's a hell of an incentive," Barnea says. In the meantime, the CEO continues to lobby Tel Aviv. Barnea aims to persuade the Israeli state to issue a conditional statement of intent to purchase around €1bn of electricity a year from Cyprus. And in an unmistakeable display of can-do attitude, the entrepreneur thinks he can get that "in a month". To finance the approximately €5bn project, Barnea will be seeking an offtake agreement backed by the state of Israel. An offtake agreement is a deal between a producer of a resource and a buyer of a resource to purchase/sell portions of the producer's future production. It is normally negotiated prior to the construction of a facility (such as a mine) in order to secure a market for the future output of the facility. If lenders can see the company will have a purchaser of its production, it makes it easier to obtain financing to construct a facility. Offtake agreements are frequently used in natural resource development, where the capital costs to extract the resource are significant and the company wants a guarantee that some of its product will be sold. Barnea also suggests the Electricity Authority of Cyprus and the Israel Electric Corporation could be invited to co-finance and be stakeholders in the project.

Speaking on condition of anonymity, an energy official here called Barnea's pitch "both serious and worthy of consideration." What makes the proposal interesting, the source said, is that it does not rule out the LNG project - the stated cornerstone of Cyprus' energy plans. "Rather, the two can be complementary," the source said.

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Published by Globes, Israel business news on May 12 , 2013

Shemen Oil sells Yam 3 stake to Caspian Drilling

Azerbaijan's Caspian Drilling Company will bear 5% of the Yam 3 well's operating costs.

Shemen Oil and Gas Resources Ltd. (TASE: SOG) has sold a 5% of the rights in the Shemen offshore oil and gas exploration license to the well operator, Azerbaijan's Caspian Drilling Company Ltd. (CDC), in exchange for bearing 5% of the license's Yam 3 well's operating costs. CDC's investment for the well will total $6 million under the well's approved budget.

From the date of the closing of the deal, CDC will bear 5% of Yam 3's operating expenses under the work plan and joint operating agreement. If a commercial discovery is announced at the well, CDC will pay Shemen Oil $2 million within 60 days of the start of the license's development.

The sale is subject to approval by the Petroleum Commissioner.

Following the sale, Shemen Oil owns 79.16% of the license, CDC owns 10%, Zerah Oil And Gas Explorations LP (TASE: ZRAH) owns 7.5%, and Zmiha Investment House Ltd. (TASE: TZMI) owns 3.34%.

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Published by Globes, Israel business news on May 10, 2013

Israel's gas reserves near export threshold

The gas reserves are close to the 950 BCM minimum for exports to be allowed under the Tzemach Committee recommendations.

Israel's natural gas reserves are nearing 950 billion cubic meters (BCM), the threshold quantity for allowing exports under the Tzemach Committee recommendations. The figure is based on the revised estimate of gas at the Leviathan reservoir and an optimistic forecast for the expected discovery at the Karish prospect.

Last Thursday, Leviathan partner Noble Energy Inc. (NYSE: NBL) announced that it was revising upward the amount of gas in the reservoir from 17 TCF (trillion cubic feet) to 18 TCF following analysis of the results of the Leviathan 4 appraisal well, the drilling of which was completed a few days before. The company also announced that the Karish prospect in the Alon C license has a pre-drill gross mean resource estimate of 3 TCF. The Ensco 5006 rig, owned by Ensco plc, which drilled the Leviathan 4 well, will be relocated to the Karish prospect within days to drill an exploratory well.

Noble Energy owns 39.67% of the Rachel license, part of the Leviathan reservoir, and Delek Group Ltd. (TASE: DLEKG) units Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L) each own 22.66%. Noble Energy owns 47.06% of the Alon C license, and Avner and Delek Drilling each own 26.47%.

The new government, after it is formed, will have to decide whether to accept the recommendations of the inter-ministerial committee on gas policy, chaired by Ministry of Energy and Water director general Shaul Tzemach. The committee's final report, submitted on August 29, recommended allowing the export of up to 50% of gas from any reservoir, with the option of increasing the proportion to 75% by trading in export rights with other reservoirs. On the basis of these recommendations, Australia's Woodside Petroleum Ltd. (ASX: WPL) agreed to acquire 30% of the rights to Leviathan for $1.25 billion. Woodside president and CEO Peter Coleman said last week that he was certain that the deal would be closed, even though the Israeli government has not yet approved the Tzemach Committee recommendations.

The Tzemach Committee assumed that Israel's natural gas reserves would permit the export of up to 500 BCM of gas while keeping a national reserve of 450 BCM, which will meet Israel's domestic needs for 25 years. At the time of the report, Israel had 800 BCM in proven gas reserves, but the committee's estimate assumed that at least an additional 150 BCM of gas would be discovered with a 90% chance of success. The estimate has been the target of growing criticism since the failure of the Myra and Sarah wells and the disappointments from the Shimshon and Ishai wells.

Noble Energy's revised estimate for Leviathan and Karish increase Israel's gas reserves by an additional 120 BCM. Noble Energy and Delek also own eight licenses, in the Alon and Ruth bloc of licenses, which have not yet been drilled. Energy exploration industry sources estimate that additional gas reserves will discovered at these licenses which will boost Israel's reserves above the 950 BCM threshold.

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Published by Globes, Israel business news on May 8, 2013

Israel, Cyprus cooperation could impact gas market

Cypriot president stresses natural gas "can become the driving force" for partnership between Israel, Cyprus.

Only by combining their forces will Israel and Cyprus be able to make a significant dent in the global natural gas economy, the Cypriot energy minister stressed on Tuesday.

"We feel that through a close collaboration with Israel we will be able to be a major player in the world energy market, something that for each country individually might be too hard to achieve," said Energy, Commerce, Industry and Tourism Minister Yiorgos Lakkotrypis.

Lakkotrypis was addressing a group of Israeli and Cypriot business leaders and government officials at a seminar entitled "Cyprus: An International and Professional Center," held in Tel Aviv on Tuesday afternoon and hosted by the Cyprus Chamber of Commerce and Industry, the Cyprus Energy, Commerce, Industry and Tourism Ministry, in association with the Federation of Israeli Chambers of Commerce.

While the participants from approximately 100 Israeli companies and 30 Cypriot firms ranged in fields "from milk to gas," the focus of leaders from both countries remained largely on the Mediterranean natural resource that each of the nations has come to enjoy.

The amounts of gas discovered in each country respectively might be considered small individually, but, by working together, Israel and Cyprus have the capability to "create the third pillar of energy routes" in the world, according to Lakkotrypis.

"What an unbelievable opportunity we have as two countries to play a role in the energy market that is shaping as we speak, worldwide," he said.

Lakkotrypis and the Cypriot businessmen and women had arrived in Israel as part of a larger delegation that includes Cypriot President Nicos Anastasiades and officials from the country's Foreign Affairs Ministry.

Echoing Lakkotrypis's comments, Anastasiades likewise stressed during the seminar that natural gas "can become the driving force" for partnership between Israel and Cyprus.

Natural gas finds from the Tamar reservoir's 250 billion cubic-meters are already flowing into Israel, to be used for domestic purposes only. The neighboring, more than double-sized Leviathan reservoir should be providing gas within the next few years, and will likely be doing so in both an export and domestic capacity – pending government approval of an export policy.

Cyprus's first explored basin, the Aphrodite reservoir in Block 12 adjacent to Leviathan, is estimated to contain about 198 billion cu. m. of gas and is being drilled by some of the same partners working on the Israeli reservoirs – Houston-based Noble Energy and Israel-based Delek Drilling and Avner Oil Exploration.

There are two other clumps also slated for exploration in the Cypriot zone, under a combination of Italian, Korean and French firms.

Israel and Cyprus signed a delimitation agreement on their Exclusive Economic Zones in 2010, and a framework agreement is now underway concerning the development of cross-border hydrocarbon management, Lakkotrypis explained.

Anastasiades likewise confirmed that his administration would "remain dedicated to proceeding expeditiously with the conclusion of a framework agreement."

President Shimon Peres with Cypriot counterpart Nicos Anastasiades, May 2013. Photo: Courtesy President's Residence

At Aphrodite, the American and Israeli cohort should conclude drilling an appraisal well by October 2013, after which the team can determine for sure that its contents are proven reserves with commercial capacity, the minister said.

Gas flow from Aphrodite should start between 2020 and 2021, Lakkotrypis added.

Simultaneous to the exploration of Cypriot reservoirs, plans are unfolding to construct an onshore liquefied natural gas (LNG) generation plant, in order to facilitate the export of the country's gas.

While "the decision to go for an LNG terminal was not taken lightly" and is considered very expensive, the plant will allow for the most flexibility in Cyprus's export options, Lakkotrypis explained.

Unlike Israel, Cyprus is not facing much resistance among its citizens toward the idea of exporting gas, as the quantities likely found in the reservoirs are "very small compared to the needs of the country," Lakkotrypis explained.

The Cypriot government is therefore working with Noble Energy on developing its future LNG plant, which will likely be completed by 2019 or 2020. As competition around the world for natural gas surges – particularly due to the United States' massive shale gas discoveries – moving quickly with the plant's construction "is super critical," Lakkotrypis said.

Uriel Lynn, president of the Federation of Israeli Chambers of Commerce, emphasized that cooperation on natural gas and on other business ventures between the two countries would be beneficial "for our region as a whole."

To further this growing partnership, an Israeli business delegation would be officially visiting Cyprus in June, Lynn said.

Christakis Papavasilious, president of the Israel-Cyprus Business Association, emphasized "the new historic era" that Cyprus and Israel are entering together, and that the two countries should rely on each other in order to push forward.

"The discovery of energy resources in our region has created a very strong impetus in our relations," Papavasilious said. "There is no turning back."

Gad Yardeni, president of the Israel- Cyprus Chamber of Commerce, called the gas discoveries a "gift from mother nature" and stressed the need for middlesized energy firms in both countries to pursue connections with one and other.

At a luncheon that the Cypriot president attended earlier that day in Jerusalem with President Shimon Peres, Anastasiades spoke of "inaugurating a new era" for the two countries due to the natural gas discoveries.

"We are both committed to working together and we have a common blessing in our seas," he said. "God has blessed us with energy and it is our duty to see how we can secure each other."

Anastasiades expressed his feeling that Cyprus truly "needs" Israel and that he did not expect Israel to need Cyprus to the same extent in return. That being said, he declared his country to be a "reliable and credible friend and brother," and voiced the hope that both countries should enjoy stability, peace and prosperity.

Describing both countries as islands – Cyprus in the geographic sense and Israel in the political sense – Peres noted that the two nations share many similarities and reciprocal benefits.

"Without Cyprus, we would be far from Europe," Peres said. "We see in Cyprus a friend – politically and geographically."

In order to secure that European mainland connection, the two countries will need to work together by combining their resources to achieve a new route of energy, Lakkotrypis stressed back at the business seminar.

"None of our two countries individually can make a big difference," Lakkotrypis said. "The quantities that we have are negligible compared to the total needs that Europe has and will have."

"We are living in very important times, very exciting times for both countries," he continued. "We have our fair share of challenges, but the prospects do remain excellent."

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Published by Globes, Israel business news on May 8, 2013

Ratio in NIS 50.5m equity offering

Source: This offering will finance current operations, as approval of the procedures for exports are delayed.

Leviathan partner Ratio Oil Exploration (1992) LP (TASE:RATI.L) is holding a lightning equity offering of up to NIS 50.5 million, even as government approval of the Tzemach Committee natural gas exports has been held up and the closing of the Woodside Petroleum Ltd. (ASX: WPL) deal to acquire 30% of Leviathan has been delayed.

In a notice to the TASE today, Ratio said that it is offering up to 150 million participation units and 100 million warrants. The warrants are an extension of current warrants, which expire on January 8, 2015.

Ratio is offering the securities in 200,000 units at NIS 2.5275 per unit, each of which includes 750 participation units at NIS 0.337 per unit (today's opening price), and 500 warrants at no cost. The effective price of the offering, weighted for the options, is NIS 0.28 per participation unit, 15% less than Ratio's opening price.

A source at Ratio said, "This offering will finance current operations, as approval of the procedures for exports are delayed. We hope that decision will soon be made to allow gas exports and the development of discoveries for the good of the economy."

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Published by EIA U.S. Energy Information Administration, March 2013

Country Analysis Note

- Given that Israel's total primary energy demand is significantly higher than its total primary energy production (1.0 quadrillion Btu versus 0.1 quadrillion Btu in 2011) the country relies heavily on imports to meet its growing energy needs.

- As of January 2013, the *Oil & Gas Journal* estimated Israel's proved reserves of oil at 12 million barrels and its proven reserves of natural gas at 9.5 trillion cubic feet (Tcf). While neither figure places Israel in the top-40 globally, these totals are significantly higher than they were a few years ago and position Israel to develop its hydrocarbon potential.

- Energy exploration over the past several years uncovered significant natural gas resources in Israel, primarily in the country's offshore areas. The Mari-B field—discovered in 2000—provided the first significant volumes of domestically-produced natural gas to Israel's markets, but in 2012 production plummeted as the field entered the final stages of depletion. In prior years, the Mari-B field met up to 40 percent of Israel's natural gas demand.

- Israel hopes to begin commercial production of natural gas from the Tamar field (located offshore, near Haifa) as soon as April 2013. The natural gas produced from the Tamar field will be sent to onshore facilities via the existing infrastructure at the Mari-B development site. Until those volumes are secured, Israel agreed to a short-term supply contract for the delivery of liquefied natural gas (LNG) to the state-owned Israel Electric Company. Plans are moving forward on a floating LNG project that will draw from the Tamar field—and the nearby Dalit—to produce up to 3 million tons of LNG per year as soon as 2017.

- The most significant find in offshore Israel is the Leviathan field, located approximately 80 miles off the coast and situated in water that is more than 5,000 feet deep. Assessments of the Leviathan field indicate that there could be as much as 17 Tcf of recoverable natural gas in place. There is an ongoing debate inside Israel over how much of this potentially lucrative resource should be set aside for exports and how much should be directed to meet internal demand. The operator—American company Noble Energy—expects initial volumes of 750 million cubic feet per day (MMcf/d) in 2016.

- While historically Israel has been an importer of natural gas—most recently through the Arish-Ashkelon pipeline from Egypt—the discoveries of the Tamar and Leviathan fields (among several others) should allow the country to become a significant exporter of natural gas in the next decade. There are competing proposals to develop pipelines and LNG infrastructure to support natural gas exports, but deliberations about how Israel will get its natural gas to market are still ongoing.

- In 2011, Israel consumed 13.9 million short tons of coal, mostly for use in electricity generation. That figure is likely to go down as Israel's natural gas sector continues its rapid growth and coal-fired generating capacity is replaced by natural gas-fired generating capacity.

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In an interview with the Wall Street Journal, Woodside CEO Peter Coleman indicated that Woodside will wait weeks, not months for a government decision on gas exports.

Wall Street Journal (Ross Kelly) - .Woodside Restarts Gas Search for Pluto Expansion

CEO Says Woodside Isn't Eager to Expand Via Acquisition in the Current Environment.

BRISBANE, Australia—Woodside Petroleum will restart efforts to find natural gas for an expansion of a flagship Australian export facility early next year, but it isn't anxious to compensate for slow organic production growth with a big acquisition, Chief Executive Peter Coleman said.

Woodside, Australia's second-biggest oil company by output behind BHP Billiton has long led the nation's push to capture rising Asian demand for clean fuels, operating two of the country's three existing gas-export facilities and joining companies like Royal Dutch Shell in discovering new gas fields.

However, a lack of drilling success in recent years and rising costs means the Perth-based company is starting to lag rivals in developing new projects. Woodside put an expansion of its $15 billion Pluto gas-export facility in Western Australia on ice last year after it failed to find enough gas nearby and talks with rival suppliers broke down .Woodside has hired two rigs to drill in waters near Pluto from early 2014, targeting at least eight natural gas prospects, Mr. Coleman said in an interview. The rigs—for drilling in deep and shallow water, respectively—are contracted to Woodside for about two years.

Woodside wants to expand Pluto because existing infrastructure makes it cheaper to bolt on extra liquefied natural gas, or LNG, processing units than starting developments from scratch. The high cost of new LNG projects was cited by Woodside and partners in their recent decision to abandon plans to develop the Browse gas resource in Western Australia using an onshore plant .Analysts say the setbacks mean Woodside will struggle to increase its annual production until 2018 at the earliest unless it uses surplus cash to buy rival companies or oil and gas fields already in development.

Mr. Coleman said Woodside retains the ability to make a "sizable" acquisition despite a recent US$500 million cash return to shareholders and a pledge to pay more of future profits as dividends.But potential targets currently look expensive, he said".When you look at prices and so forth, it's not clear to me that it's a good time to be out in the market at all," Mr. Coleman said .He added that Woodside would only be interested in acquiring willing sellers, and therefore isn't eager to make hostile takeover bids.

Aware of a looming production plateau, Woodside last year bought some exploration acreage in Myanmar and agreed to acquire a stake in the massive Leviathan natural gas discovery offshore Israel for more than US$1.2 billion .Leviathan, which contains an estimated 18 trillion cubic feet of natural gas, is the world's largest deep-water gas find in a decade. Its discovery with other large fields off Israel's coast in recent years has potentially set up Israel as an exporter of energy.

Woodside is still waiting for advice from Israel's government on how much natural gas will be allowed to be exported from the country, holding up the deal's completion. "They've assured us that as soon as their budget's finalized they'll put their attention directly to energy policy. So we're expecting to hear back in weeks, not months," Mr. Coleman said.

Woodside has also submitted an expression of interest to develop an LNG plant in Canada, but Mr. Coleman said this was a "long-dated" investment option for the company

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

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