2013
July
Issue N° 7

ISRAEL'S OIL & GAS INDUSTRY NEWSLETTER

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A service provided by:
U.S. Commercial Service - Israel
Department of Commerce
07/23/2013

Published by Globes, Israel business news on July 18, 2013

Leviathan may have 15-year Israel oil supply - report

"Bloomberg" reports that the Leviathan partners hope to find 1.5 billion barrels of oil deep beneath the Mediterranean seabed.

"The deepest oil well drilled in Israel's 65-year history may be the most important," says "Bloomberg" in a report on the new Leviathan well, which will target oil-bearing strata, 6,500 meters below the Mediterranean seabed. The strata may have as much as 1.5 billion barrels of crude oil, equal to about 15 years of Israeli demand. The oil-bearing strata are beneath the gas-bearing strata, where 17 trillion cubic meters of gas has been discovered.

"While explorers have found enough natural gas in the past five years to turn Israel into an exporter, a major oil discovery would break new ground. The Middle East's third-largest economy spends about $10 billion a year importing 98% of the oil it uses. Domestic production would increase tax revenue, boost the country's balance of payments and reduce vulnerability to supply disruptions," notes "Bloomberg".

"The economic impact on Israel would be far greater than that of natural gas," Delphi Global Analysis Group director David Wurmser told "Bloomberg". "Finding the oil would mean big money for the Israeli companies and the government."

Leviathan is owned by Noble Energy Inc. (NYSE: NBL), the well operator, Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L). Australia's Woodside Petroleum Ltd. (ASX: WPL) is due to acquire 30% of Leviathan. Noble Energy will begin drilling the well to the oil strata in late 2013, when a new drilling ship is delivered from South Korea. The company rates its chances of success at 25%. "We believe there is potential for significant oil resources at this prospect and the basin," said Noble Energy SVP exploration and business innovation Susan Cunningham.

"Bloomberg" says, "The key to finding Israel's offshore energy deposits has been technology - developed in places like the US Gulf of Mexico and Brazil - to drill in deeper waters and further under the seabed. The Leviathan oil well will be drilled in 1,600 meters of water and probe a further 6,500 through the rocks below, according to company filings."

"Thanks to advances in drilling technology, Israeli companies and their international partners can now reach greater depths that will enable oil exploration at lower geological levels than ever before," Delek Drilling LP (TASE: DEDR.L) CEO Yossi Abu told "Bloomberg".

"Bloomberg" adds that the new well will probably cost more than the $120 million spent making the original Leviathan discovery. It cites a report by IBI Investment House analyst Guil Bashan, who says that the greater profits from pumping oil over gas make the expense worthwhile, because while gas requires expensive pipelines or export terminals, oil can be easily put in tankers and shipped wherever it's wanted.

Published by Jerusalem Post on July 16, 2013

Navy-Defense Ministry squabble delays gas fields protection

The Navy prefers a cheaper German bid for ships to protect gas rigs, but the Defense Ministry wants a deal with Korea.

The Navy is angry at the Ministry of Defense's strange conduct, which is liable to delay the plan to protect Israel's offshore gas drilling rigs by three years. The dispute began over the two bids to supply ships which were submitted to the ministry, one German and the other South Korean. A document obtained by "Channel 2 News" shows, that, in April 2013, the commander of the Navy and senior officers decided that they preferred the German bid, which was also cheaper than the South Korean bid by NIS 500 million.

Nonetheless, several top Ministry of Defense officials have insisted on a deal with South Korea. In the past few weeks, top ministry officials met at least twice with Korean officials. Defense sources believe that this may be an attempt to compensate Seoul for an earlier deal which did not materialize.

The Ministry of Defense said in response, "The information presented is only partial. We are conducting thorough staff work on the matter. After reviewing the various bids, the Ministry of Defense decided to publish a tender for ships to protect the rigs."

If it is decided to hold a tender at this stage, it means a delay of almost three years in the protection of the gas rigs, protection which was supposed to be ready this year.

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Published by Globes, Israel business news on July 14, 2013

Karish condensate brings smell of oil

Condensate is a substance midway between natural gas and oil.

The discovery of large quantities of condensate at Karish is good news that presages hopes of much bigger news to come. In the next few weeks, Noble Energy Inc. (NYSE: NBL) will try to find the source of the condensate discovered in the well. The answer could lead it to previously unknown nearby and deeper oil fields.

Condensate is a substance midway between natural gas and oil. Its properties could be similar to kerosene (which was discovered at Leviathan) and white naphtha (which was discovered at Tamar). The price of condensate is usually linked to the price of Brent crude.

Noble Energy and Delek Group Ltd. (TASE: DLEKG) already have already agreed to sell oil from Tamar to Paz Oil Company Ltd.'s (TASE:PZOL) Paz Ashdod Refinery at almost $100 a barrel, and they may sell condensate from the field directly to the petrochemicals industry at a much higher price.

The discovery of condensate at Karish immediately raises the question whether there is a chance of a large oil discovery. Noble Energy and Delek plan resume drilling of the Leviathan 1 well near the end of the year. Drilling will take at least six months to reach two oil-bearing target strata at depths of at 5,800 to 7,200 meters, below the gas bearing strata, where there is a 25% probability finding 600 million barrels of oil.

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Published by Globes, Israel business news on July 11, 2013

IEC to start $9b Leviathan gas talks

Sources: IEC CEO Eli Glickman has ordered the fuel administration to open talks with Leviathan's partners, subject to converting the Hadera power station to gas.

Israel Electric Corporation (IEC) (TASE: ELEC.B22) is preparing to buy natural gas from the Leviathan field. At stake is a multibillion dollar deal for its Hadera power station, which will only go ahead if IEC decides to convert the power station to gas. A decision is due within days, subject to the project being financially worthwhile.

Sources inform "Globes" that IEC CEO Eli Glickman has ordered the utility's fuel administration to open negotiations with Leviathan's partners, Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L). The amount of gas needed to operate the Hadera power station is estimated at 2 billion cubic meters (BCM) a year, amounting to $600 million. Given the usual 15-year gas purchasing contract, a deal would be worth $9 billion.

The talks will reportedly begin after the High Court of Justice rules on the petitions against the government's gas exports decision. Leviathan's partners say that if the petitions are accepted, it will not be worthwhile to develop the gas field.

Gas flow from Leviathan to Israel is slated to begin in 2016, according to the development plan that the partners submitted to the Ministry of Energy and Water Resources in 2012.

Meanwhile, IEC has increased its gas purchases from the Tamar field, owned by Delek, Noble Energy, Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L), and Alon Natural Gas Exploration Ltd. (TASE: ALGS) from 3.5 BCM a year to 5 BCM, after the IEC board approved the exercise of an option in the contract signed with the Tamar partners in December 2011. IEC has now committed to buying 78 BCM of gas from Tamar, but the updated figure does not include gas for the Hadera power station, because the gas conversion project has not yet been approved.

The gas conversion project comes as the Hadera power station's first four generators are nearing the end of the life spans. The power station has six generators. The generators, installed in 1980, were Israel's first coal-fired generators. The proposed NIS 1.9 billion gas conversion project calls for the installation of four 350-megawatt gas turbines. The power station's other two turbines will continue to use coal, following the installation of scrubbers to remove pollutants.

The Ministry of Energy wants IEC to convert the power station to gas, in order to reserve coal-generated electricity for emergencies. But the project is controversial on economic grounds. "Globes" has reported that there are strong internal objections at IEC against the proposed project. The gas-powered turbines will have very low energy efficiency, raising concern that they will rarely be used and the return on investment will be very low. IEC will apparently not approve the project without a guarantee that the turbines will operate a minimum number of days a year to make them worthwhile.

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Published by Globes, Israel business news on July 11, 2013

Woodside withholds $696m Leviathan payment - report

"The Australian": Woodside was expecting at least half of the gas to be available for the more lucrative export market.

"The Australian" reports that Woodside Petroleum Ltd. (ASX: WPL) is holding back an A$765 million (US $696 million) initial payment for 30% of the rights to the Leviathan project, two weeks after the Israeli government decided to keep a larger than expected amount of gas for domestic consumption. It adds that Woodside would not comment on why it still had not made the initial payment.

"The Australian" says that Woodside was understood to be expecting at least half of the gas to be available for the more lucrative export market. However, in June, the Israeli cabinet last month approved exporting 40% of natural gas and setting aside the remaining 60% for domestic needs for 25 years.

Since Woodside agreed to acquire the Leviathan stake from Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) for $1.4 billion in December 2012, the Australian dollar has fallen over 12% against the US dollar. "The Australian" cites analysts as saying that Woodside might have to go back over the numbers to see if the joint venture project is still viable.

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

Maritime dispute with Lebanon is marginal

Even if the UN were to adopt the Lebanese version of the maritime border, there would be no serious harm to Israel's exploration licenses.

To judge from the main headline in one of this morning's newspapers, Lebanon is about to seize Israel's natural resources worth billions of dollars with the unexpected support of the US.

But reality contrasts starkly with such panic inducing headlines, and is as far from the truth as Cyprus is from Israel. The reality is so far from the media headlines that even the volatile Tel Aviv Stock Exchange accepted the new-old threat to the licenses of Ytizhak Tshuva and his partners with apathy.

The proposed maritime border that was approved by the cabinet today was prepared by the Israel Mapping Center in consultation with jurists familiar with maritime law. The route of the border has been presented by the legal department at the ministry of foreign affairs to US diplomats that visited the region on several occasions. The route that the border follows is now being submitted to the UN, about a year after Lebanon submitted its interpretation of the sea border route between the two countries. The decision on the matter will be taken by an arbitration body appointed by the UN, and not the US.

However, the entire story has been taken out of all proportion. Even if the UN were to adopt the Lebanese version of the maritime border, there would be no serious harm to Israel's exploration licenses in the region.

A professional Israeli source that examined the border route under contention said that it involved the northern extremes of the Alon and Ruth licenses, in the northern part of Israel's licenses region. As far as is known, in these areas there are several structures that might contain gas or oil, but these structures are relatively small, and are not top of the agenda of Noble Energy Inc. (NYSE: NBL) and Delek Group Ltd. (TASE: DLEKG) who own the licenses.

The only fallout from moving the Israel Lebanon maritime border south would thus be in the Ruth and Alon gas and oil fields, if there are discoveries in these licenses, and if they spill over the border into Lebanon. If that is the case then development of these fields, which are far from the top of the agenda, would be delayed.

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Published by Jerusalem Post on July 05, 2013

Beyond natural gas: Does Israel have oil in its future?

CEO of Shemen Oil and Gas Exploration hopes drilling off Ashdod will lead to find natural gas if oil drilling results unsuccessful.

Twenty-three years after he got a taste of oil off the shores of Ashkelon, Yossi Levy has unfinished business.

As the head of the government- run Naphtha Company in 1988, Levy was part of a team that drilled deep into the Mediterranean Sea and discovered black gold. But the project, which relied on the secret cooperation of US-based Occidental Petroleum at a time when the Arab boycott of Israel was in full swing, hit a wall in 1990.

"They found oil, but they couldn't continue because the temperature and the pressure were too high and it was impossible to continue drilling," Levy told *The Jerusalem Post* on an industrial boat near the old drilling site on Thursday.

Though they squeezed out 800 barrels, he says, as the price of oil dropped, searching for deep-sea oil became a poor business proposition, and the industry turned its attention to natural gas.

"They stopped and they said, 'Okay, we'll come back to it in the future,' but in the future they never came back!" Now, with oil prices back up and significant advances in technology to help overcome the technical difficulties in the exploration, Levy has returned to his old drilling grounds to finish the task he started all those years ago.

In 2011, he signed on as CEO of Shemen Oil and Gas Exploration and commenced drilling in the Yam-3 field in December of the following year.

"I didn't think I'd come back here, but when the time came I knew this is the project I want to join. I want to find oil in Israel's waters, so I hope I'll be the first to find oil," he said.

To do so, the company pulled in the Atwood Beacon ocean rig. Rising out of the sea 16 kilometers off the Ashdod coast, the rig, which has been dragged from India to South America before coming to Israel, has been drilling since December, though a technical snag along the road halted the process for several weeks (and drove the cost from $22 million to $138m., forcing the company to raise more funds).

Though Levy had drilled 5,300 meters down in the past, "the last 500 meters are always the hardest."

The 170 degree centigrade underground heat and immense pressure on the pipes do not help. And while the history of oil in the area is a good sign, just finding it will not be enough.

"We'll find oil, but the problem is its commercial viability: The size, the quantity. At sea you need a minimum quantity to produce. There's a certain bound under which there is no point in producing, even at $100 a barrel," Levy said.

An NSAI study commissioned by the company estimates that there are 120 million barrels of oil, a quantity that Levy says could net $20 billion to $24billion in licenses. If nothing goes wrong, drilling should wrap up this month and the results should be in by August.

"I think it's very important – not just economically, but strategically – to become energy independent," said Gabi Ashkenazi, a former IDF chief of staff who serves as chairman of the company.

But what if that oil isn't there? "I try not to think about it," said Levy. Even if there is barely a drop of oil to be found, there is a chance of finding more of the natural gas that has recently come onto the market.

"What's wrong with gas?" Levy said with a smile. "Gas [is] good too!"

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Published by Globes, Israel business news on June 26, 2013

Delek, Noble Energy sign Cypriot LNG plant MOU

The Tamar and Leviathan partners signed a MOU with the Cypriot government to build an LNG plant on the island's southern coast.

Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva and Noble Energy Inc. (NYSE: NBL) have signed a memorandum of understand with the Cypriot government to build a liquefied natural gas (LNG) plant at Vasilikos on the island's southern coast. The companies are partners in Israeli offshore fields Tamar and Leviathan and in Cyprus's Block 12.

The companies' objective is to reach a final agreement by the end of 2013 to establish a joint special-purpose vehicle which will seek investors for the €7-8 billion LNG plant. "On this basis, it is planned that the first LNG cargo would be delivered from the Vasilikos plant to international markets in late 2019, early 2020," said an official statement.

Delek Drilling LP (TASE: DEDR.L) CEO and Avner Oil and Gas LP (TASE: AVNR.L) Chairman Gideon Tadmor said the memorandum of understanding demonstrates the Cypriot government's and the companies' commitment to go ahead with the construction of the LNG plant.

"The signing of the memorandum between the Republic of Cyprus and the companies represents the next milestone on the road map for the exploitation of indigenous gas reserves in Cyprus' exclusive economic

zone", said Cyprus Minister of Energy, Commerce, Industry and Tourism Yiorgos Lakkotrypis. He added that the LNG plant would be the basic and necessary infrastructure which would allow the export of Cypriot natural gas to the European and global markets.

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Published by Globes, Israel business news on June 23, 2013

Energy Ministry, Tamar partners in pipeline dispute

The Energy Ministry wants the Tamar gas field partners to build a second pipeline from the production platform offshore from Ashkelon to a new onshore terminal.

A serious dispute has broken out over the Ministry of Energy and Water Resources' plan to require the Tamar gas field partners to pay to build a second pipeline from the production platform offshore from Ashkelon to the new terminal which will be built onshore. The government is expected to require Tamar's partners - Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L), and Alon Natural Gas Exploration Ltd. (TASE: ALGS) - to lay the second pipeline, in addition to their proposal to increase the capacity of the current pipeline.

Sources inform "Globes" that a last-minute government decision was added to the paragraph which states that, at the same time that the companies lay the pipeline by December 31, 2016, they will complete the work to expand the current pipeline's capacity by July 1, 2015. Sources close to Tamar's partners warned that the economy will face gas shortages if the government insists on the pipeline, because they have no intention of carrying out the two projects simultaneously.

The draft government gas exports decision states in the first paragraph that the Tamar partners will connect the gas field by a second onshore terminal at Ashkelon by December 31, 2016. The subject is a bone of contention between the companies and the Natural Gas Authority. The companies opposes the pipeline on the grounds that it expensive and inefficient, because the additional quantity of gas deliveries will be small because of the limited capacity of the pipeline from the Tamar wellhead to the production platform.

Instead of a second pipeline from the production platform, which cost $250-350 million, the companies propose installing compressors to boost the current pipeline's capacity, and to use the depleted Mari B field, owned by Noble Energy and Delek's Yam Tethys, as an operational storage reservoir. The companies say that this is a much cheaper solution, which can be completed far more quickly because it does not require approvals from planning and building commissions.

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Published by Globes, Israel business news on June 19, 2013

Pipeline to Turkey or LNG to China?

The question is not whether Israel will export gas, but how.

This Sunday, the government is due to discuss policy on gas exports. Russia, Turkey, the US and Cyprus are all closely following the decision making process. The question that interests these countries is not so much whether Israel will export gas, as how. Constructing a pipeline to Turkey would give Israel entreé to the geopolitical arena and to the major league. Official and unofficial Israeli representatives are already talking to their Turkish counterparts. Several senior figures in the Turkish government have recently spoken in favor the export of gas, and for its part Israel has authorized special energy envoy Michael Lotam to coordinate negotiations with the Turks. In an exceptional step, the Antitrust Authority director gave the go ahead to the Leviathan gas field partners to open business negotiations with Turkish companies, because of the political importance of such talks.

The argument over the method of exporting gas begins where the argument about exports as such ends. The amount of gas that the government will approve for export will be sufficient for one large export project. Two possibilities are on the agenda: laying a pipeline on the seabed from the Israeli gas reserves to Turkey; or constructing a huge land-based installation for liquefying gas that will enable the gas to be exported to China and the markets in the East.

Economists versus politicians

The contest between the Turkish pipeline and the LNG installation is taking place on several levels simultaneously: economic, political, and strategic. At the economic level, a victory on points emerges for the LNG installation. The reason for that is that gas prices in China and the East are currently 50% higher than the price that would be obtained via a pipeline to Turkey. The Tzemach committee on gas exports had in mind the LNG option and no other. Since constructing an LNG facility will cost $10-15 billion, as much gas as possible needs to be exported to justify the project. During the Tzemach committee hearings, National Economic Council head Prof. Eugene Kandel calculated for the other committee members the minimum quantity of gas that would justify constructing a standard installation with two production lines (trains). The quantity of gas that the committee recommended for export was determined according to that calculation. The final quantity decided upon by the Minister of Energy and Water Resources reduces the Tzemach safety margin but still leaves enough gas to make constructing an LNG installation worthwhile.

The possibility of constructing such an installation drew Israel to Australian company Woodside, which specializes in constructing similar installations in Australia. Woodside agreed in principle to invest $1.5 billion in buying 30% of the Leviathan field, with the intention of constructing the installation for exporting the gas produced to its customers in China.

Woodside's CEO recently declared in an interview with an Australian newspaper that the company had no intention of going through with the Leviathan deal if it was decided to export the gas from it by a different method, and not via an LNG installation. Woodside's stance has prompted different approaches by its prospective partners. US partner Noble Energy is considered a firm supporter of Woodside's position. The Israeli partners in Leviathan on the other hand, Delek Group Ltd. (TASE: DLEKG) and Ratio Oil

Exploration (1992) LP (TASE: RATI.L), are perceived as wavering between the LNG installation and the Turkish option.

Alongside its clear advantages, the LNG installation also has large disadvantages. The main one is the difficulty in finding a suitable coastal site in Israel for building it. This is a huge and dangerous plant that must be a distance of one kilometer away from the nearest residential area. The state controlled Eilat Ashkelon Pipeline Company (EAPC) wants to construct the plant in the Gulf of Eilat in order to shorten the distance to the East, but the Ministry of Environmental Protection has already announced that it will oppose such a project. The State of Israel has been trying for five years to build a small gas terminal in the Hefer Valley and Dor Beach area. It is very doubtful whether it is capable of deciding upon, and obtaining the permits for, constructing an LNG installation.

The gas pipeline to Turkey, by contrast, is a relatively simple project that does not require special permits and approvals. This is a project similar to the pipeline that connects the Tamar gas field to the Israeli shore, and it can be completed within two years. Turkey is of course a gateway to Europe, but the Turkish market alone could absorb the quantities of gas that Israel can supply. It is a market growing at the rapid rate of 3% a year, currently consuming 50 billion cubic meters (BCM) of gas a year. Russia supplies two-thirds of that quantity, with the rest coming via pipelines from Iran and Azerbaijan, and a small amount in the form of liquefied gas that Turkey imports from Algeria. All the sources apart from the Russians sell the gas to Turkey at a much higher price than the prices the Israeli developers could offer. Even those prices, they say on the Israeli side, are highly profitable for the developers. Israeli sources estimate that the payback period for the investment in the Turkish project would be just two years, so that even if a crisis were to erupt in Israel-Turkish relations, the risk is not all that great.

Political knock-out

This is where the political level comes in. On this level, the pipeline to Turkey beats the LNG installation by a knock-out. "The pipeline to Turkey is a diplomatic instrument that could have a dramatic effect on our standing in the region," diplomatic sources in Jerusalem told "Globes". "The LNG installation, on the other hand, has no geopolitical utility. You can't 'paint' Israeli gas sold to China."

Gas and politics are very closely bound up with each other, especially in our region. Gas, it turns out, has considerable influence on the diplomatic and strategic planes. Take for example Hezbollah secretary-general Hassan Nasrallah, who has spoken out against Israel's gas discoveries several times in the past. Since Lebanon itself started encouraging gas exploration, Nasrallah has fallen silent. "The money in gas is so big that it gives even Nasrallah pause," an Israeli source in Jerusalem says, pointing out that the Iranians want to participate in developing the Lebanese gas reserves. Another example that arose recently is the possibility that Prime Minister Benjamin Netanyahu promised Russian president Vladimir Putin that Israeli natural gas would not reach Europe, in return for Putin freezing the sale of S300 ground-to-air missiles to the Syrians. This possibility was raised in a question submitted in the Knesset by Meretz chairperson Zahava Gal-On. Netanyahu has yet to respond to this question, but the subject of gas did arise in the recent meeting between the two leaders.

As far as is known, the US administration is an enthusiastic supporter of the Israeli-Turkish pipeline link-up. Just as the Americans are putting pressure on Israel to supply gas to Jordan, the Palestinian Authority, and perhaps even to Egypt, they see in the laying of a gas pipeline to Turkey a way of strengthening ties between the two most important US allies in the Eastern Mediterranean.

The Turkish option also entails political risks. The first is that the Russians generally oppose anything that they perceive as being in the interests of the US. Beyond that, Putin's administration is busy defending the interests of Gazprom. The Russian government gas giant is engaged in a battle for survival to keep its European customers, and any rival gas source is seen as a threat. Even if Israel undertakes that its gas will not find its way to Europe via Turkey, the Russians are liable to object to the gas reaching the Turkish market.

Another country with a big stake in Israel's decision is Cyprus. This small country wanted to construct an LNG installation on its soil via which to export Israeli gas to the East, but in effect the Tzemach committee rejected that idea. A pipeline to Turkey would be liable to leave the gas discovered off Cyprus's shores in the ground, but on the other hand it could be that the pipeline will have to traverse Cyprus's Exclusive Economic Zone, in which case Israel and Turkey will have to secure Cyprus's agreement.

The experts are not unanimous about the diplomatic potential of the gas. Dr. Brenda Shaffer, an expert on Central Asia, argues that gas pipelines between countries don't ensure peaceful relations between them. As an example, Shaffer cites the blowing up of the Egyptian gas pipelines in Sinai, which led to energy crises in Israel and Jordan. Israel government sources however see things differently. "The difference between a deal with Turkey and the Egyptian gas deal is that here the stick is in our hand and not over our head," an Israeli source told "Globes".

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Published by Globes, Israel business news on June 15, 2013

Shemen resumes Yam 3 drilling

Shemen Oil and Gas suspended drilling in April because of high pressure.

Sources inform "Globes" that drilling of the Shemen Oil and Gas Resources Ltd.'s (TASE: SOG) Yam 3 well resumed over the weekend, after it was suspended in mid-April, due to a breakdown. Drilling was resumed after the company widened the borehole and overcame the problem of high pressure in it, which had halted work.

In mid-April, Shemen Oil announced that it had halted drilling at the Yam 3 well, offshore from Ashdod, because of high pressure, which exceeded the original estimates, in the borehole. Shemen Oil's most prominent shareholders are Israel Financial Levers Ltd. (TASE: LVR), controlled by Avraham Nanikashvili, and his former partner in it, Jackie Ben-Zakan.

Shemen previously announced that, due to high pressure in the borehole in a well drilled in the area by Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L) in the 1990s, "The company intends to drill the Yam 3 well using equipment and drilling machinery which will suit the high pressures and temperatures."

Shemen Oil's budget for the well is estimated at $128 million, including production tests. The company, chaired by former IDF chief of staff Gabi Ashkenazi, has raised financing for the drilling in two ways so far: an allocation of shares to external parties in exchange for a capital injection; and the sale of rights in the licenses, which has reduced the company's share in the drilling costs.
Shemen Oil declined to comment on the report.

Published by Globes, Israel business news on June 16, 2013

Edison to operate Ratio's Neta, Roy licenses

Italy's Edison will own 20% of the offshore licenses. The deal challenges Noble Energy's hegemony in Israel's gas exploration market.

Ratio Oil Exploration (1992) LP (TASE:RATI.L) today notified the TASE that it has signed farm-out and joint operating agreements with Italy's Edison International SpA (BIT: EDN) for the Neta and Roy offshore exploration licenses. Under the agreements, Edison will be the operator of the two licenses. Ratio will own 70% of Neta and Roy, Edison will own 20%, and Israel Opportunity Energy Resources LP (TASE: ISOP.L) will own 10%.

Edison, a subsidiary of France's national energy corporation EDF SA (Euronext: EDF), is a well operator on a par with Noble Energy Inc. (NYSE: NBL), which until now has dominated the Israeli drilling market. Following a string of failures and dry holes by new players in the oil and gas exploration industry, Neta and Roy are the last big hopes of creating real competition against the dominance of Noble Energy and Delek Group Ltd. (TASE: DLEKG). The two licenses are in the area of the former Gal prospect, located southwest of the Rachel and Amit licenses, where the Leviathan discovery was made.

Neta and Roy are estimated to have at least 3 trillion cubic feet (TCF) of natural gas, according to information previously reported by "Globes", but the licensees deny this. Other estimates cite much larger quantities of gas at the two licenses.

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Gas Export Dilemma

Published by Energy Voices, June 27, 2013

Israel mulls natural gas exports. Is that a good idea?

In an era of high volatility in energy prices and supplies and in a country surrounded by unfriendly neighbors, one would think that Israel would want to keep this valuable energy prize all to itself, Cobb writes. Still, Prime Minister Binyamin Netanyahu is seeking approval for Israel to jump on the natural gas exports bandwagon.

As the United States contemplates exporting natural gas to the rest of the world, previously energy-poor Israel seems about to jump on the export bandwagon. The current government is seeking approval to export about 40 percent of the production from its newly discovered offshore natural gas fields.

*Kurt Cobb is the author of the peak-oil-themed thriller, '**Prelude**,' and a columnist for the Paris-based science news site Scitizen. He is a founding member of the Association for the Study of Peak Oil and Gas—USA and he serves on the board of the Arthur Morgan Institute for Community Solutions. For more of his Resource Insights posts, click here.*

In an era of high volatility in energy prices and supplies and in a country surrounded by unfriendly neighbors, one would think that Israel would want to keep this valuable energy prize all to itself. Current estimates suggest that the remaining 60 percent of production will allow Israel to supply all its needs for 25 years.

My question is: What will the country do after that? Presumably it will need natural gas after 25 years. And, what if estimated reserves turn out to be too optimistic and the supply doesn't last that long? No one really knows what's in a reservoir until it is actually produced.

What if the current steep rise in the rate of natural gas consumption continues for a number of years? Estimates stated in years of supply are usually based on the current rate of consumption. But if the rate of natural gas consumption continues to accelerate, the 25-year supply will shrink to a fraction of that number and the inevitable peak in production from these fields will occur even sooner. Moreover, additional supplies are unlikely to come--at least at favorable prices--from any of Israel's neighbors.

Wouldn't Israel benefit from maintaining a lower rate of natural gas production in line with its domestic needs so as to stretch out supplies as long as possible? Of course, it would. The country's energy security would be greatly enhanced if its natural gas supply could be assured for, say, 40 years instead of 25 (though the period is likely to be quite bit less if consumption continues to rise).

So, who benefits from overproducing natural gas for export? The private companies involved in the drilling and extraction of the gas, of course. It is in their interest to produce as much as they can as soon as they can in order to reward their management and stockholders. As if to put an exclamation point on this interpretation, Bloomberg reported that one of the partners in the project, Delek Group Ltd., is swimming in debt and desperately needs the extra sales that exports represent to make its debt payments.

Though the Israeli Parliament is expected to act on the proposal to export natural gas, it could just as easily pass legislation that would restrict flow rates from these reservoirs. For a country as sensitive about its security as Israel, it is surprising that no apparent consideration has been given to this approach.

There are dissenting voices. But my guess is that the interests of the private companies involved in natural gas exploration and production will be given precedence over the long-term security needs of Israel. And, I expect this to happen very shortly.

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Published by Globes, Israel business news on June 23, 2013

Cabinet approves 40% gas exports

Prime Minister Benjamin Netanyahu: We have withstood the populist wave against people who don't know how to run an economy.

The cabinet today approved exporting 40% of Israel's natural gas reserves, and increasing the amount of gas to be kept for the domestic market to 540 billion cubic meters (BCM). Data presented to the cabinet stated that Israel consumed 7 BCM of gas in 2012 and that the projections of a massive increase in gas consumption indicate that the amount held in reserve would suffice for at least 25 years.

The vote was 18:3. The no votes were cast by Minister of Communications Gilad Erdan, Minister of Environmental Protection Amir Peretz, and Minister of Health Yael German.

At the start of the cabinet meeting, Prime Minister Benjamin Netanyahu said that the decision to export 40% of Israel's gas reserves and keep 60% for domestic use was the right balance. "Today, I am submitting to the cabinet a decision that I made along with Minister Energy and Water Resources Silvan Shalom, Minister of Finance Yair Lapid and Governor of the Bank of Israel Prof. Stanley Fischer. We held serious, in-depth, significant discussions because we are delving into the depths of the sea, and made a decision about Israel's gas economy," he said.

"Israel has been greatly blessed with gas in the Mediterranean Sea. This gas can meet two of our basic needs: one is to move the local economy forward by consuming cheaper energy, that part which can use gas; and the second thing is to fill the state coffers with billions of shekels from gas exports and the taxation that we will levy on it. The correct balance between the two is not self-evident. We discussed it, we discussed and we decided. I think that we found the correct balance. We were not swept away on the waves of populism that are washing over the country, the world, and we did the right thing for the State of Israel."

Netanyahu added, "The important thing now is to move quickly. We certainly understand that investors can lose hope. They can think that we have succumbed to populist pressures or endless bureaucracy. We want to move quickly. I want to tell you one basic thing: without gas exports, there will be no local gas economy. These are the basic rules. The most basic understanding on how we produce gas from the water. Without gas exports, there will be no local market. This mistake, succumbing to populism, 'Let's keep our gas at home' has been made by several countries and they keep their gas at home. It is buried under the ground or under the sea, beneath layers of populism and bureaucracy. We cannot do this. We must extract the gas. The correct balance between the local market and exports - this is what we will do today.

"I think that the ability to withstand the populist wave, against people who do not understand how to run an economy, who can easily destroy economies, this ability, is within this government. We are united and we have considerable strength and determination to enact this important move.

"I would like to say an additional word that must be said here. For decades, the State of Israel, the government of Israel in all its branches, unsuccessfully searched for gas. Those who succeeded were from the private sector, entrepreneurs who took risks and found it - and this must be said today. In the populist wave that is flooding the State of Israel, this also must be said, they must not be fobbed off, their contribution certainly cannot be denied, but we must also take for the state its due, and this is what we are doing.

"The correct balance is the decision that we will make here today. And I think that this is correct. It ensures the needs of the citizens of the State of Israel, both by filling the state coffers with considerable funds from exports and by supplying the local market with cheap energy."

Demonstrators protested outside the Prime Minister's Office in Jerusalem today. Last night, 100 demonstrators protested against gas exports in Jerusalem's Paris Square, near the Prime Minister's Residence, and nine protesters were arrested after trying to block the street.

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Published by Globes, Israel business news on June 23, 2013

Gas decision should be by Knesset not cabinet

The Knesset should set the gas export quota but there is nothing to prevent the cabinet from doing so.

Deputy Attorney General (fiscal-economics) Adv. Avi Licht's professional opinion on the setting of the natural gas exports quota by the cabinet fills almost a full page. Licht recommends that the government arranges the setting of the export quota through Knesset legislation but the bottom line is that he also says there is nothing to prevent the cabinet from the making decision, although he is not comfortable with it.

The Ministry of Justice has already referred to the High Court of Justice petition that will be submitted on this topic as a fait accompli and in the coming few days a more detailed draft will serve as a basis to the response to the petitioners.

The significance of this is that while the Ministry of Justice understands that the cabinet has decided to ignore the recommendation of legal bodies to pass the final decision on gas export quotas onto the Knesset, there is no intention to break rank and abstain from defending the cabinet decision before the High Court.

Attorney General Adv. Yehuda Weinstein who is on a working visit to London did not sit in on this morning's cabinet meeting and ordered that Licht's opinion should not be published although it has been partly leaked. In terms of the code of behavior between Weinstein and Prime Minister Benjamin

Netanyahu, the legal opinion contradicting a cabinet position is distributed only if there is no chance of reaching a verbal understanding on topics of legislation and policy or if the Attorney General decides that a particular position is unconstitutional and cannot be upheld by the High Court. This is not the case in this instance either because of unconstitutionality or because there is no chance of an understanding between the personalities involved.

The legal anchor for the cabinet's authority to set for itself the natural gas export quotas is in the Fuel Law enacted in 1952, and is not connected to the law which Sheshinski dealt with on taxation from gas production. According to a clause that was amended in 1989, the Minister of Energy and Water Resources is allowed to require the drill owners to provide, at market price, "the amount of oil and oil products for Israel's needs."

The legal question that arises is if this clause authorizes the cabinet to take an individual decision about a particular quota for domestic gas use over a given period, or if the decision covers all possibilities such as arrangements for limiting exports for the coming years.

Technically speaking the clause does not prevent the cabinet from setting "Israel's needs" for future generations, although the spirit of the law pulls in the direction of the opposite conclusion. The Fuel Law is a detailed law that arranges in fine detail the subject of licenses, regulatory areas and government supervision, tax exemptions on required products for oil production, and even goes down to setting instructions for requisitioning required land.

It is not reasonable that such a legislative formulation as this leave a fundamental decision on such a matter as gas exports to the cabinet or the minister responsible for the law as if it was but a technical regulation. This is the decision that the High Court justices must rule on.

In any event, the decision on an appropriate route for the arrangements - whether the Knesset or the cabinet - has no bearing on the content of what is being decided. In other words, the Ministry of Justice is not influenced by whether the cabinet wants to keep 90% of the natural gas produced for domestic use or the 60% as set. In both cases the bottom line is the same - setting a quota by the cabinet unacceptable but permitted.

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Published by Globes, Israel business news on June 23, 2013

"The market should decide gas exports"

Former Norwegian Prime Minister Kjell Magne Bondevik says it is strange for the Israeli government to decide on exports.

"It's not the job of the government to decide how much gas should be exported and how much should be kept for the domestic market," former Norwegian Prime Minister Kjell Magne Bondevik, a founder of the country's sovereign wealth fund, told "Globes" in an interview during the President's Conference. He outlined the considerations behind the establishment of Norway's sovereign wealth fund, considerations that may not necessarily be relevant for the sovereign wealth fund that Israel is planning to establish.

During the visit, Bondevik met Prime Minister Benjamin Netanyahu to discuss moving forward on peace talks with the Palestinian Authority. But Bondevik was also exposed to the lively debate about gas

exports, and his opinion may surprise many gas exports opponents who use Norway as a model for deep, but successful, government involvement in the oil and gas industry.

"Globes": What do you think about the proposal, which the cabinet is about to approve, to limit gas exports to 40%?

Bondevik: "It was strange for me to hear that the Israeli government had decided how much gas should be kept for the domestic market and how much should be exported. In Norway, we let the market make such decisions."

The worry in Israel is that there won't be gas left for us if we export it.

"It's clear to me that gas is a much more political decision in Israel. You're isolated and depend on gas far more (than Norway). Our reserves could meet our needs for 100 years. Nonetheless, I think that that it's best to let the market decide, so long as the country retains the option of influencing the decision should a national need arise. Norway's two biggest energy companies Statoil and Petoro are government-owned, and the government can, of course, order them how to act."

Norway's water reserves and mountains make it a perfect place for hydroelectric power, which generates over 90% of the country's electricity. Domestic gas consumption is just a tiny fraction of the gas that it produces from North Sea fields, with the result that the small country is the world's second largest gas exporter. Its gas exports exceeded 100 billion cubic meters (BCM) in 2012, ten times the maximum exports expected from Israel.

Norway's profits from oil and gas exports go to its sovereign wealth fund, called the Government Pension Fund of Norway, which has accumulated more than $700 billion in assets to date, making it the largest fund of its kind in the world, including in absolute terms. In contrast, the Israeli fund will ultimately total $70 billion. "I remember well the lively arguments over the fund in parliament," says Bondevik.

Why did you establish the fund?

"Without the fund, we would have suffered from the Dutch disease. Annual income from oil and gas profits now amounts to almost a quarter of our GDP. (In Israel, the income will amount to a few percent of GDP -A.B.) The fund only invests overseas in order to offset the appreciation of the krone from oil and gas exports. Besides, if the fund didn't exist, the politicians would be fighting anew over the money every year and the economy would be overheated. By the way, in 2000, we changed the rules to allow the government to withdraw 4% of the fund's assets for current budget needs. Thanks to this money, Norway has achieved a balanced budget in recent years."

What's the secret of your fund's success?

"Political consensus, adhering to the rules, and total government control of the fund's management and overhead. The fund's managers must not be compensated on the basis of the fund's performance, because that would cause speculation. We scrupulously ensure that the investment rules are ethical; for example, the fund does not invest in tobacco companies or defense contractors. Ethics are important for politicians' involvement and the decision is taken by the prime minister at the recommendation of the finance minister."

Bondevik did not mention it, but the Government Pension Fund of Norway's blacklist includes many Israeli companies, mainly because of business activity in the West Bank, activity which Norwegians consider to be illegal. Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT) was blacklisted in September 2009, Africa-Israel Investments Ltd. (TASE:AFIL) and its contracting arm Danya Cebus Ltd. (TASE: DNYA) were blacklisted in August 2010, and most recently, Shikun & Binui Holdings Ltd. (TASE: SKBN) was blacklisted in June 2012.

In your opinion, do the fund's financial results prove themselves?

"Absolutely. The results are very good."

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Published by Globes, Israel business news on June 11, 2013

Time to decide on gas exports

If we don't conclude the long-term gas export agreement now we may lose income of tens of billions of dollars.

After nine months gathering dust on the desk of Prime Minister Benjamin Netanyahu, the Tzemach Committee report will finally make the short journey down the corridor to the cabinet meeting room. The final date for its discussion has still not officially been set but sources hint that the birth is at hand.

What has happened to the report during those nine months? What has changed? As of this moment it seems that absolutely nothing has changed. The formulation being brought to the cabinet table closely resembles the report that the committee submitted to Netanyahu last September.

The anticipated cabinet discussion comes against the backdrop of the rapidly dwindling patience of Australian company Woodside Petroleum Ltd. (ASX: WPL) that signed an agreement to buy 30% of the rights to the Leviathan field for $1.25 billion cash. Woodside took its decision based on a promise received verbally from Netanyahu about gas exports. The agreement was meant to have been signed in February and as mentioned the patience of the Australians is wearing thin. As reported earlier this month, Woodside has set June 30 as the deadline for completing the deal.

Approving the export of gas is still far off. A range of tough decisions must be made by the cabinet such as how to export the gas, if a large, expensive and dangerous LNG facility should be set up, and if gas should be exported to Turkey or the Far East. At the current pace of decision making and their implementation it could be many years before we see the result of those decisions.

The world does not stand still. At the moment it is in the midst of the most important energy revolution of this century. New technology is being developed in the US for the non-conventional production of oil and gas by fracking at competitive prices. New energy powers are being born overnight and the map of sources and supplies is changing along with global gas prices, which threaten to plunge as new huge supply becomes available.

Market sources, business people and experts like Prof. Eitan Sheshinski warn that, "The window of opportunity for gas exports is about to close." If we don't conclude the long-term gas export agreement now we may lose income of tens of billions of dollars. Israel must choose whether it wants to dive in and

join the race, or take a step back and not participate in the game. As of now it looks like the government is choosing a third path, wanting to export gas, and compete on the markets, but it is no rush to get there.

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

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

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

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

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