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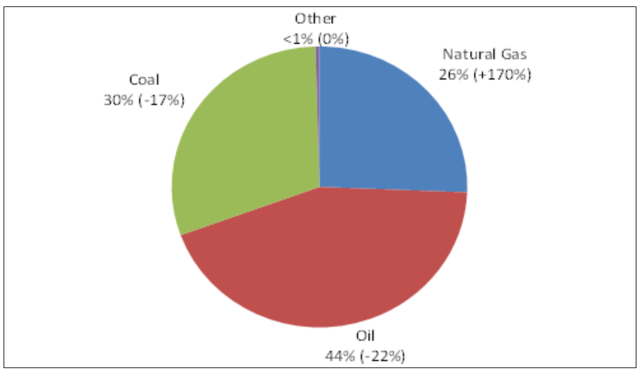
Antitrust Case Complicates Israel's Energy Future

Background: Natural Gas Development, A Big Change for Israel

In 2009 and 2010, U.S.-based exploration and production (E&P) company Noble Energy (see below for brief description), along with its private Israel-based partners, made two large natural gas discoveries offshore of Israel—the Tamar and Leviathan fields, respectively. Israel does not have a significant E&P sector and thus relies on the expertise of international companies, particularly in offshore work. These discoveries, and the production from Tamar that began in 2013, have changed Israel's energy consumption mix, strengthened its energy security, lowered its carbon emissions, and led to trade benefits.

Figure 1. Israel's Primary Energy Fuels 2013

(Change from 2012)



Source: BP Statistical Review of World Energy, 2014.

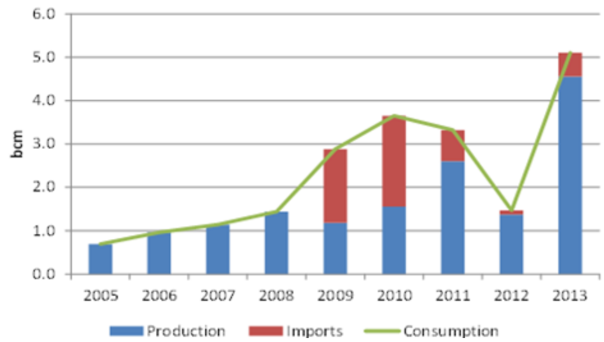
Notes: The percentage figures in parentheses represent changes between 2012 and 2013. In 2013, Israel's total primary energy consumption was 24.2 million tonnes of oil equivalent (mtoe), compared with 24.8 mtoe in 2012.

The rise in natural gas production from Tamar has mostly been consumed by Israel's electric power sector, replacing both oil-based and coal-based generation. Israel's natural gas consumption reached a new peak in 2013, 5.10 billion cubic meters (bcm), an almost 40% increase over its previous high in 2010. Unlike 2010 when most of Israel's natural gas was imported, consumption in 2013 was mostly from domestic production (89%). These changes have decreased Israel's reliance on energy imports, while curbing its emissions.

> Noble Energy is a U.S.-based (Houston, TX) independent oil and natural gas exploration and production company. Noble Energy has production assets in the United States, Cameroon, Cyprus, and Equatorial Guinea, in addition to Israel. Production from Israel comprises a minority portion, less than 25%, of the company's total 2014 production.

Figure 2. Natural Gas Supplies and Consumption

2005-2013



Source: Cedigaz statistical database.

Notes: Units = billion cubic meters per year (bcm). Israel does not export natural gas at this time.

Recent Activities

Recent U.S. Legislation Encouraging U.S.-Israel Energy Cooperation

On December 19, 2014, President Obama signed into law the United States-Israel Strategic Partnership Act of 2014 (P.L. 113-296), which among other things, stated, "...United States-Israel energy cooperation and the development of natural resources by Israel are in the strategic interest of the United States." It goes on to say, "...the United States and Israel have a shared interest in addressing immediate near-term, and long-term energy, energy poverty, energy independence, and environmental challenges facing the United States and Israel, respectively."

Both the United States and Israel, albeit on a different scale, have undergone major transformations in their energy sectors. The new law (in Section 12) highlights these changes and encourages closer ties in the energy sector between the two countries. Energy production, particularly of natural gas, has increased tremendously in both countries, prompting the possibility of exports. Domestic use of natural gas is also on the rise in both countries.

Antitrust Dispute

An antitrust dispute has disrupted plans for production of the Leviathan field. Israel's Antitrust Authority, an independent regulatory body, announced in December 2014 that a consent decree for the development of Leviathan would not be approved—despite previous indications that it would—because of concerns regarding monopolistic effects on Israel's energy market. Israel's government has established a committee in hopes of resolving the dispute. In February 2015, the committee proposed a multifaceted solution that would allow Noble Energy and one of its Israel-based partners, Delek Group, to maintain their stakes in Leviathan if Delek completely divested from Tamar and

Noble Energy sold part of its Tamar stake. Israeli officials may seek to have Noble Energy maintain a prominent role in projects linked with export deals involving Arab countries, partly due to Israel's dependence on international E&P expertise, and partly due to calculations that the U.S.-based company's role might make the deals less vulnerable to anti-Israel populist sentiment.

Both Noble Energy and Delek have so far rejected the government's proposal, and the timing and nature of an ultimate resolution remain unclear. The Antitrust Authority has delayed its decision to bring restraint of trade charges until April 23 (a month after Israel's March elections).

According to Israel's Restrictive Trade Practices (RTP) Law of 1988, "The Minister [of Economy] may, following consultation with the Knesset's Economic Affairs Committee, exempt a restrictive trade practice from all or some of the provisions of this Law, if he believes that such action is necessary for reasons of foreign policy or national security." However, the RTP was amended on November 17, 2014, to authorize the Restrictive Business Practices Court "to force a monopoly or a member of a concentration group whose practices have been found to cause or to constitute a threat to business competition or the public to sell its assets."

Ramifications for Israel's Energy Security

The change of course by Israel's Antitrust Authority further clouds the already uncertain regulatory regime governing Israel's energy industry. International energy companies have previously expressed concerns about Israel's regulatory regime, particularly regarding domestic consumption quotas. In addition, possible price ceilings may inhibit future development. In May 2014, Woodside Petroleum, an Australian company with specialized expertise in liquefied natural gas (LNG), opted not to join the venture to develop the Leviathan field. Noble Energy and its partners plan to make a final investment decision on the Leviathan field in 2015. If Noble Energy's role in the development of Israel's natural gas fields is significantly downscaled, it is unclear to what extent other international companies with similar expertise would step in, given the regulatory environment and the ongoing antitrust matter. Israeli officials routinely express optimism that the economic promise of Israel's energy resources will attract the industrial help it needs. However, Israel's dependence on non-Israeli companies to develop these resources, especially offshore, complicates its efforts to balance economic, environmental, and security considerations.

One international company that likely would be interested in participating in Israel's natural gas development is Russia's national gas company, Gazprom. A motivation for a Gazprom acquisition would be to influence which market the Israeli natural gas gets exported to, if exports come to fruition. It has long been Russia's strategy to maintain its European market share by thwarting, acquiring, co-opting, or otherwise affecting projects that may send new natural gas resources to Europe. During Russian President Putin's June 2012 visit to Israel, energy industry press reported that one of the topics discussed with Prime Minister Netanyahu was Israel's natural gas development plans. Russia has expressed interest in developing other natural gas resources in the region, including offshore Cyprus and the Gaza Strip. However, given the financial challenges Russia is shouldering related to its geopolitical struggles, Western sanctions, and global oil prices, Gazprom's acquisition capabilities may be significantly limited at the moment.

Regional Dynamics

There are various export destinations for Israeli natural gas via pipeline. However, questions exist regarding Israel's ability to create and sustain energy ties with Arab and other Muslim-majority neighbors whose relations with Israel are marked by ongoing or intermittent political disputes, and/or sensitivities based on strong, long-standing anti-Israel public sentiment. It is unclear to what extent political difficulties with neighbors might be mitigated by the potential material benefits of energy cooperation or by other considerations, and how satisfactory logistical and transportation frameworks and security measures might be implemented. In addition to these overarching issues, the most-discussed potential export routes and destinations are described below, though these may be contingent on the outcome of the ongoing antitrust matter:

- **West Bank and Gaza:** The Palestinian Authority and the Leviathan consortium led by Noble Energy reached agreement in January 2014 on a 20-year supply of gas.
- **Jordan:** The Leviathan consortium signed a preliminary agreement in September 2014 to supply gas to Jordan's national power company, after the Tamar consortium reached agreement with Jordan in February 2014 to supply gas to Jordanian potash and bromine factories.
- **Egypt:** The Tamar consortium signed a letter of intent in October 2014 to provide gas to private Egyptian industrial users as early as 2015 through the pipeline that provided gas to Israel from Egypt. In 2014 press reported that the Tamar and Leviathan consortiums signed separate tentative agreements to supply gas to Egypt's underused LNG export terminals for export.
- **Cyprus:** Noble Energy's discovery of the Aphrodite Field offshore Cyprus in 2011 prompted Israel and Cyprus to discuss joint development of their resources.
- **Turkey:** Israel-Turkey relations continue to face difficulties, which present obstacles to an energy deal.
- **Greece:** There have been discussions between Cyprus, Israel, and Greece to transport natural gas to Greece for export into Europe. This scenario is not likely given technical and political hurdles.

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