

Has Israel Bungled its Offshore Gas Development?



Israel Naval vessel patrols near offshore gas platform, August 2014

Source: Reuters

The UK *Reuters Business* has a telling article on why Israel's offshore gas development has been stymied, Insight, "[How Israel turned a gas bonanza into an antitrust headache.](#)" The *Reuters* author Steven Scheer writes:

When the Leviathan gas field was discovered off the coast of [Israel](#) in 2010, it was pitched as a game-changer – a vast energy reserve that would transform the economy and bolster public finances for years to come.

Five years on, poor policymaking, political infighting and a battle between Prime Minister Benjamin Netanyahu and the antitrust commissioner over a lack of competition mean Leviathan remains undeveloped. Meanwhile, Egypt has made a larger discovery that could make it a more attractive investment.

The case sends a worrying message to investors and may make them wary of the natural resources sector in Israel, which has struggled to diversify its economy much beyond technology.

Instead of billions of dollars in exports and tax revenue from the gas deposit over the next 25 years, analysts are now concerned Israel will end up with negligible additional income and may be forced to revise down its growth projections.

"It seems like (government leaders) are making every

possible mistake,” said Bank Leumi Chief Economist Gil Bufman.

“The government got mixed up. They counted how much they could make from this gas but forgot what they have to do to make it come true.”

Government officials declined to comment.

In 2009, against expectations, Texas-based Noble Energy and Israel’s Delek discovered the offshore Tamar gas field, a deposit about half the size of Leviathan, which was set aside almost entirely for domestic consumption.

The following year they found Leviathan and prospects soared. Economists and the government’s financial planners said not only would domestic energy demand be taken care of by Tamar’s cheaper gas, boosting competitiveness, but Israel would export most of Leviathan’s reserves, earning steady revenue to underpin a strained budget.

On the excessive power and a regulatory zealot, former Antitrust Authority head Dr. David Gilo and corrupt Economy Minister MK Aryeh Deri:

Antitrust chief David Gilo was convinced Noble and Delek’s position was still anti-competitive and would lead to higher prices and resigned.

Uneasy about the legal ground they stand on, Delek and Noble said they are holding back on investing the \$6 billion needed to develop Leviathan and bring it on-stream by 2019/2020.

The companies also confirmed they are threatening to take Israel to international arbitration in Switzerland, something that could further put off investors.

For the project to go ahead, Israel’s [economy](#) minister needs to sign off on a proposal circumventing Gilo’s antitrust ruling.

But the minister, Aryeh Deri, a member of the ultra-Orthodox community whose party is a linchpin in Netanyahu's right-wing coalition, is wary. He doesn't want to sign off until a new antitrust chief is in place and has given a second opinion.

Netanyahu could try to override Deri, but he would need to win a vote to do so and only holds a one-seat majority in the 120-seat parliament. It is too risky given Deri's coalition position. Without Deri, Netanyahu's government could collapse.

As a result, the project is effectively frozen, a constant aggravation for Netanyahu and his supporters.

This *Reuters* article on the anti-trust shenanigans over Israel's important offshore gas fields is a cautionary tale. We have chronicled the twists and turns of offshore developments in articles and blog posts in the *New English Review* for over five years. See for example: [Could Israel Lose the Energy Prize in the Eastern Mediterranean?](#) and [Misguided Israel Populists Protest Deal for Offshore Gas Development.](#)

Nevertheless, as pointed out in the *Reuters Business* article, Israel's offshore gas bonanza has been plagued by misguided bureaucratic regulatory zeal and political stalemate in the Knesset. Shas MK Member Aryeh Deri's corrupt 'tail wags the dog' of offshore gas development to Israel's lasting dis-benefit. No self respecting Western democratic parliament would have a convicted felon as a party leader in a coalition and Economy Minister controlling its energy resource development future potential. Only in Israel, with a razor thin one vote majority in the Netanyahu coalition, does this occur.

The clock is ticking on securing the 'glittering prize' of Israel's off shore gas fields. With the ENI discovery of the massive Zohr offshore Egyptian gas field, Israel is faced with

a classic warning from the legendary African American baseball great, Satchell Paige, "don't look back something might be gaining on you." Deri is the stopple gap preventing bounty of billions in royalty and tax revenues sufficient to fund its authorized sovereign wealth fund.

Of course, if the former director general of the independent Israel Antitrust Authority Dr. Gilo had reneged on a compromise deal struck with Houston – based Noble Energy, Inc and Israeli partner Delek Group in March 2014, most of this could have been avoided and development of the major Leviathan Field. Gilo's radical concepts of effective market competition, akin to those of Ralph Nader, consumerist anti-Semite in the US and his cunning political allies in the Labor/Zionist Union Knesset opposition enabled him to upend offshore gas developments prior to the March 2015 snap elections that produced the coalition with Deri.

Now the Netanyahu coalition, with its one vote margin, is faced with the daunting prospect of forcing a vote of approval for the compromise deal struck with Houston-based Noble Energy and Israeli partner, Delek Group. That vote might require more 'bribes' of corrupt Deri as the only means of avoiding the embarrassment of an international commercial arbitration Noble-Delek which would take well into the next decade to achieve. Then development of Leviathan and allied development of an LNG facility with the Republic of Cyprus and its adjacent Aphrodite gas fields might eventuate in building an important gas hub in the Levant Basin of the Eastern Mediterranean.

However there are rumors arising from PM Netanyahu's recent Moscow trip to visit with Russian President Putin, that the latter has his own designs on Israel's Leviathan field, now that he has committed military muscle to prop up his waning ally in adjacent Syria, President Basher al-Assad, in alliance with Iran.

The web of bureaucratic and political tangle foot blocking development of Israel's offshore gas fields is in many ways worse than Obama's six year attempt to block completion of TransCanada's XL-Keystone pipeline in the US. At least in the latter's case, a new President in the White House 2017 might finally approve the last link in the Keystone pipeline to process Canada's heavy tar sands oil on the Gulf Coast in the US.

Netanyahu must be both adroit and move quickly to snatch victory from the jaws of defeat in the development of Israel's important offshore gas fields.