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Will Israel Sell its Natural Gas to China?

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Several issues related to the production of natural gas in Israel's exclusive economic zone (EEZ) have not yet been properly analyzed and no decision concerning them has been adopted. Some of these issues have economic as well as political strategic implications, and particularly as they are within an industry that is guided by long term policies and a contractual framework, it is important that they be considered thoroughly.

An inter-ministerial committee that looked into government policy regarding natural gas, headed by Director General of the Ministry of Energy and Water Resources Shaul Zemach, submitted its recommendations to the government, some of which deal with the ratio between exports and domestic Israeli consumption. They do not, however, prioritize the external markets (and in any event, the government has not adopted the recommendations).

Moreover, even if the price paid by all external buyers is equal, it is still important to consider the geo-strategic aspects in the debate about prioritizing markets. That can be done mostly by the government itself, informed in part by contributions from the private sector. It is not clear whether such a process within the Israeli government has taken place. Nor is it clear to what extent the government wishes and is capable of guiding the private sector to direct export to specific markets. Again, this is said with the assumption that the net income to the producer and the Israeli government from different potential markets is equal.

On December 3, 2012, the Australian Woodside Company on the one hand, and the partnership comprising the American Noble Energy Ltd. and the Israeli Avner Ltd., Delek Drilling Ltd., and Ratio Ltd. on the other, announced that they had reached an agreement in principle. According to this agreement, Woodside Petroleum Ltd. will acquire a participating 30 percent interest in the Leviathan field, which is estimated as containing 17 trillion cubic feet of recoverable natural gas. They added that their intention is to sign a full agreement by the end of February 2013.[1]

Woodside will, according to its statement, deal with the natural gas other than that supplied to Israel and its liquification. Noble Energy Ltd. will continue to be the operator for the gas channeled to Israel. Woodside also announced that the payments schedule for the 30 percent it will purchase will depend on the Israeli legislation permitting exports of natural gas. If the full agreement is signed by Woodside and its partners, two foreign companies, Woodside and Noble, will retain 60 percent of the rights in the Leviathan gas field.

Reading through Woodside's website reveals the company's intensive activity in the Far East, with a focus on Japan and China. Woodside Energy Ltd. has partnered with Chinese companies since 2002, particularly in the area of gas liquificiation. In 2006, Woodside was one of the partners that signed the agreement to build the de-liquification terminal in the Guandong Province. Present at the inauguration ceremony were China's then-Premier Wen Jiabao and Australia's then-Prime Minister John Howard. Since 2007, Natural Gas has been supplied from Australia's North West Shelf Venture (NWSV), in which Woodside is a partner. The agreement between Woodside Energy Ltd. and PetroChina Company Ltd. on the sale of LNG was signed in September 2007, with John Howard and China's President Hu Jintao in attendance.

The Chinese National Offshore Oil Corporation Ltd. (CNOOC) is also a partner in the North West Shelf Venture; as such, it is entitled to 5.3 percent of North West Shelf Venture reserves and titles. As said, Woodside Energy Ltd. is an equal partner and operator in this field. CNOOC is a peer company among the shareholders of Woodside.

It is inconceivable that all of this was unknown to Woodside's new partners in the Leviathan gas field. On the contrary, in their announcement to TASE, they mention Woodside's activity in the Far East.[2] Thus, unintentionally and without the Israeli government deliberating this issue, a possibility has been created that Israel will sell to China part of, or the whole quantity that will ultimately be available for export (between 25-50 percent, and potentially more of the extracted quantity).

Woodside was not the only company to be interested in obtaining rights in Leviathan. According to press reports,[3] Russia and Gazprom, the French Total, and CNOOC itself were interested. If so, China, through the CNOOC ownership share in Woodside and ts partnership in other ventures, can expect that Woodside will give China priority for its share of the gas in the Leviathan when determining the markets.

Thus without a government decision, Israel may export its gas to China, which would have important strategic implications. The sale in itself is not necessarily problematic; disturbing here is the absence of a proper process that weighs the pros and cons of selling natural gas to specific potential customers. Thus it is possible that if materialized, this option may prevent the establishment of a partnership, even if through a third party, with other regional producers, should Egypt, the Palestinians, Lebanon, Cyprus, and possibly Syria, individually or collectively, decide that Europe is their preferred market. Israeli gas exports to Europe could be leveraged to prevent an economic boycott of Israel and help in the long run to upgrade Israel's formal relations with the EU. Cooperating in major economic regional ventures cannot substitute for a political process between Israel and its neighbors, but it can certainly facilitate it.

At the same time, linking Israel to the Chinese economic giant has its own advantages that may surpass those that could be expected from a long term contract with the EU. All of these aspects should be weighed and considered in an orderly process, conducted by the proper and relevant departments and agencies of the government of Israel.

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[1] ASX Announcement: "Woodside Enters Major Gas Discovery Offshore Israel," December 3, 2012.

[2] Avner Ltd. at the Tel Aviv Stock Exchange (TASE) website. Both announcements are from December 3, 2012.

[3] *The Marker*, December 5, 2012, pp. 28-29.

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