INSS Insight No. 438, June 26, 2013

Israel's Public Debate over Natural Gas: Future Confrontations

Oded Eran

Israel‘s high ranking "quartet" – the Prime Minister, Finance Minister, Minister of Energy and Water Resources, and the Governor of the Bank of Israel – decided last week that 60 percent of the total of Israel's currently known natural gas reserves will be allocated for local consumption, and the rest will in principle be available for export. The quartet thus deviated from the recommendations of the inter-ministerial Tzemach Committee to export about half of the total quantity, thereby ensuring that Israel will be able to supply its energy needs until 2040. Although the decision earned a decisive majority when brought before the government for approval on June 23, 2013, it is highly doubtful that this will end the stormy public debate on the issue.

It is not clear what the quartet‘s considerations were and why they departed from the working assumptions of the Tzemach Committee. The public pressure and demonstrations against some of the four quartet members presumably had their effect, although the Prime Minister took pride in not surrendering to populism. Thus, the total amount to be allocated for the Israeli economy was raised from 450 billion to 540 billion cubic meters. The Minister of Energy and Water Resources explained that the decision stemmed from the desire to ensure that Israel has gas for thirty years, three years more than the time frame addressed by the Tzemach Committee.

Although the decision is not unreasonable, it is difficult to understand the logic behind it, since in its entire history, Israel has not faced a crisis concerning its energy needs. The Defense Minister and senior Defense Ministry and military officials did not participate in the discussions, nor did the Minister of Strategic Affairs. More important, it is also not clear whether the Prime Minister, in his capacity as acting Foreign Minister, addressed the political-strategic considerations during the quartet‘s deliberations regarding the twenty-five to thirty year period.

Published reports about the quartet‘s discussions indicate that the needs of neighboring countries, especially Jordan, were taken into account as political-strategic considerations.

This issue was discussed at an INSS conference on June 5-6, 2013 and in testimony before the Knesset Finance Committee, where it was noted that deliberation of these questions should be excluded from the greater deliberations on exports. In fact, the quartet determined that gas can already be exported to Jordan, although contrary to the quartet's recommendations, the government decided that the amount exported to Jordan should be calculated as part of the overall quantity designated for export and not considered as local consumption. At this juncture the difference between the recommendation and the final decision has no significance, as it is immediately possible to connect the pipeline between the Israeli and Jordanian sides of the Dead Sea to transport an annual amount of 500 million cubic meters. Any supply of additional gas to Jordan will be contingent on laying a suitable infrastructure on both the Israeli and Jordanian sides.

Yet even after the government's decision, the heated public debate will likely continue. Many questions remain unanswered, and the Knesset will not pass up the opportunity to debate the topic, given the great interest the public has shown in the issue and the pressure exerted by various interest groups. Significant changes in the quantities discovered, strong fluctuations in global gas prices, and disruptions in supply for technical reasons or because of terrorism will lead to a renewal of the public debate, as will construction of gas facilities onshore or a short distance offshore.

Among the different questions that have not been discussed at length in the various forums are those connected to Israel‘s political and economic ties with its neighbors. Thus, for example, the discovery of gas in the Palestinian Exclusive Economic Zone will affect the overall relationship. There will almost certainly be an argument with any governmental authority in Gaza about the outlines of the maritime border. The economic logic, on the other hand, points to the option of Israel purchasing the Palestinian gas in Gaza and in turn supplying gas to the Palestinians in Judea and Samaria. This would make it unnecessary to construct a gas-transmission network from Gaza to the West Bank, some 65 kilometers. Plans for laying the pipeline and any other infrastructure between Gaza and the West Bank would involve prolonged political negotiations and internal debates in Israel, as well as questions of environmental impact, and perhaps other questions as well. These could be avoided by the proposed by the proposed exchange

Thus far no discussions have been held on the preferred markets and whether it is possible to leverage the export of gas for diplomatic or economic purposes that go beyond the direct financial return. It is possible that the quantities of gas in Israel‘s possession are not sufficiently large to be a decisive element in the long term diplomatic considerations of states such as India, China, and Russia and the European Union. However, even before such a review of Israel's long term interests is held, Woodside, the large Australian oil and gas company, has reached the advanced stages of negotiations to acquire one-third of the value from the partners that make up the consortium that today has control over Israel‘s natural gas fields. Gazprom, the large Russian gas company, has reached an agreement in principle to purchase 84 billion cubic meters from the Tamar gas field. Now, in light of the decision to increase the amount of gas allocated for the Israeli economy, it is not clear whether it will be possible to implement this agreement. The interest shown in Israeli gas by countries and companies even before the government decision on the scope of the exports indicates that at the very least there is a need to examine the issue before the companies make huge investments and irrevocable facts are established.

Turkey is an example of the need for such a discussion, both as a potential consumer and as a transit state for Israeli gas transported to European markets. Given that delivering the gas to Cyprus or Israel, liquefying it and transporting it tankers to Europe is preferable economically, the discussion may be superfluous. However, the discussion is warranted if the difference in cost between this option and the option of connecting to pipelines in Turkey is negligible. This discussion must weigh the risks and opportunities of transporting gas through Turkey, be it from Israel or from neighboring states. There are certainly political considerations that go beyond the considerations of a gas company, no matter how large this company may be.

The Israeli government‘s decision about the ratio of natural gas for local consumption versus export is only one decision, and many others must still be reached. The question of the taxation of the exports has not been decided, and this also has international economic implications that the government must address. The debate on this issue will be deferred for at least four months, until the Finance Ministry submits its recommendations. The states with companies vying for pieces in the greater natural gas pie will likely level significant pressure to limit the amount they will be taxed. Thus the long journey to wealth, mentioned by the prime minister in the government meeting of June 23, 2013, is only just beginning. The first stop is clear: the Supreme Court. Initially the appeals will question which institution – the Knesset or the government – is mandated to decide issues such as the ratio between local consumption and export. In the future, appeals will concern transport of the natural gas, taxation of corporate revenues from exports, and the government's use of these revenues.

Natural gas is of course an important part, but only a part, of a wider range of energy issues. The ratio between sources of irrecoverable energy and renewable energy; the exploitation of additional sources, such as shale oil; regional cooperation; and the location of various kinds of energy facilities are just some of the issues that require the government's attention. Therefore, the government should establish a National Energy Authority that will deal with all aspects of energy in Israel while making use of all relevant government ministries and other institutions that have an interest in energy production, the various uses of energy, ways of transporting energy, economic aspects, safety and security issues, and joint projects with neighboring countries. The Tzemach Committee can be seen as the labor pains toward the birth of a National Energy Authority and proof of its necessity.