Don't be Nigeria: Israel must keep its gas, expert urges

We could emulate Norway and develop a vast, profitable gas industry, or emulate Lagos and wind up short of fuel, warns Yossie Hollander

By Itai Trilnick Jun.21, 2012 | 11:01 AM

The oil rig drilling at Tamar, somewhere in the Mediterranean Sea. Photo by Itai Trilnick

The biggest lie the exploration companies have been selling is that if banned from exporting the gas they found at the bottom of the sea, they can't get financing to develop the fields. Thus says Yossie Hollander, chairman of the Israeli Institute for Economic Planning.

The gas explorers have been pressing the government to let them export most of the gas that has been, or will be, discovered in the Mediterranean Sea. Hollander doesn't buy their claims and abhors the official policy taking shape that the companies be allowed to export 50 percent of the gas.

In his opinion, the interim recommendations of the Tzemach Committee, charged with shaping Israel's fuel policy, doom Israel to be a second Nigeria. The committee is headed by the director-general of the Ministry of Energy and Water Resources, Shaul *Tzemach.*

“Nigeria let oil companies take control of its assets," Hollander elaborates. "It exports all its oil - it doesn’t even have a single refinery – and most of the country suffers a perennial shortage of fuel. They simply sold their natural capital to outsiders."

Norway also found huge amounts of oil and gas but kept the resources and managed the business itself. Norway created an industry of offshore drilling and has become the best in the world at it, says Hollander. "So who do we want to be, Norway or Nigeria?”

Vast quantities of natural gas were found in the Mediterranean seabed. How much exactly can be extracted remains to be seen. One vast field, called Tamar, is expected to start producing in 2013; another, the Leviathan, will take longer. Because both lie in deep water, their development is both risky and expensive.

On the oil rig drilling at Tamar, somewhere in the Mediterranean Sea. Photo by Itai Trilnick

Obtaining financing for developing Tamar ran into a snag when the government refused to let the companies use their holdings in Leviathan to borrow money to develop Tamar. That snag has been overcome, and Hollander pooh-poohs the excuse that without export licenses, the companies can't get bank funding.

“It's no problem to get money for oil or gas projects around the world," he says, even though the price of gas has fallen. In the U.S. the current price for gas is $2 (as opposed to $5-$6 in Israel) per million British Thermal Units and new wells are being drilled all the time, says Hollander. "Why? Because it’s profitable. The banks finance it because there's a guaranteed resource in the ground."

Why should he be believed rather than the companies? “Look at who submitted reports to the Tzemach Committee," Hollander snorts. The Israeli Institute for Economic Planning is practically the only group without vested interests, he says. "I don’t see how Delek Group or Noble Energy safeguard the country's interests. They safeguard the interests of their shareholders. It would benefit the country to swap oil for gas and create an industry around gas. The gas companies don't take the country’s interests into account because their concern is to make profit."

If they don't want to develop the gas fields under the terms determined by the state, fine, Hollander says. "We can take the reserves away from them. No one promised them an export license. Five minutes after you tell them their licenses are being revoked, you'll find them running to work."

Yossi Hollander: Once the gas is sold, its' gone forever.

Photo by Ofer Vaknin

Tzemach Committee: Let the gas go

The Tzemach Committee submitted its interim report for public review in early April. It seems to have bought the line that if the companies can't export at least some of the gas they find, development of the undersea fields will be badly constrained. Israel doesn’t use enough gas to assure cash flow and returns on investments, the committee seems to have decided.

The committee recommended assessing the gas reserves at a 25-year horizon, until which time the companies should be allowed to export. To encourage the development of smaller reserves (such as Noa), the committee recommended allowing the companies to export more than 50 percent of the extracted gas.

In the case of smaller fields the proportion could be as big as 100 percent.

The Israeli Institute for Economic Planning praised the Tzemach Committee's conclusions on supply reserves and system sustainability, but disputes its committee's findings on nearly every other issue.

First of all, the institute argues, it is completely unclear how much gas Israel actually has in its territorial waters. Nor have the Leviathan partners (Delek, Noble and others) defined the commercial potential of their find. In fact, only a small part of the reserve has been defined as extractable.

“This is like someone who fills out a lottery ticket and runs to collect his winnings,” says Hollander. "They're dividing the gas as if it’s obvious we already have it."

When it isn't a pig

But a pig in a poke can turn out to be pretty feeble. Hollander points at the precedent of the Tethys Sea reserves, also a deep-water Mediterranean Sea field. "We pumped out the gas too fast, because we thought there was more. Then we were surprised to discover there wasn’t enough," he says. "That's life in the world of gas and oil. How do we know that the geological conditions of the Leviathan allow an adequate pace of extraction?"

Israel barreled ahead and built conclusions based upon unknown factors, Hollander summed up. The gas is being divided as though it already existed in pretty little packages with bows on top. But it doesn't. It's at the bottom of the sea. The authorities, Hollander sums up, are being irresponsible.

"The committee should have met in 10 years, after we discovered just how much gas we really have, and first looked into how to develop an industry based around gas," he concludes.

And no, it isn't enough for the companies to "promise" to provide gas to Israel over 25 years. "Building the infrastructure takes five to 10 years," he begins. "Let's assume that the state decides to make public transportation run on gas, rather than gasoline. Who'd develop infrastructure that only works for 15 years? The moment you limit the development horizon to 25 years, you destroy the opportunity of developing things in this country. All over the world they ensure a 50-year supply period. Even the committee wrote that after this period there would be a shortage of gas."

Everywhere else, countries seek to lock in a 50-year horizon, he points out.

The Saudis, by the way, don't sell their gas, he stresses. "They're establishing a petrochemical industry, and are also using gas for desalinating water. So the Saudis desalinate, and we'll export our gas to the Chinese?"

Not the Bangladeshi model

The gas companies give Bangladesh as an example of one of the risks –they decided not to export their resources and failed to develop a market. Hollander isn't impressed.

“In Bangladesh they went towards a very extreme model, and with all due respect we are not Bangladesh. We are an organized state. Bangladesh didn't have the basis to generate an industry based around gas.

"Let's compare the situation to Argentina. They thought they had a lot of gas and they could export – but then political problems and production problems brought them to a point where they had a gas shortage. They can't breach their contracts today, because the neighboring countries hinted to them that this would lead to war. Therefore, Argentina imports gas at prices higher than what that which it exports.

"If we open the reserves in Israel now and sign long-term contracts with the Chinese, and in a few years they find out that the prices of gas over the world have plunged – do you think they will hesitate to breach the contract?"

The fracking conundrum

Fracking, a highly controversial processes that involves fracturing shale rocks to release natural gas trapped inside, is changing the global picture of gas. The environmental cost of the technology remains to be seen; meanwhile, though, the sudden new source of gas depressed prices.

On the other hand, upward pressure on price comes from burgeoning demand for gas, especially from the Far East.

However, the companies argue that fracking has more of an effect on the price of gas than the growing demand, and therefore, argue that being allowed to export is extremely urgent.

Hollander however feels the truth is that the companies are simply trapped in their habits.

"It's what they're used to and what they know how to do. It’s a traditional industry. They don’t like change. They know how to drill holes in the earth and sign long term sales agreements," he shrugs.

But the state's interest is to develop the reserves and reduce costs, and to develop an industry. "Take John D. Rockefeller, for example. When he founded Standard Oil, people didn’t even use oil. He was a clever man, so he sold them kerosene lamps in order to increase demand. We too need to create demand in order to hold onto the wealth. If we force companies to stick to selling gas in Israel, they'll create a market," Hollander explains.

Israel spends a fortune on importing oil, when it could invest in converting systems to gas. "Spending on oil could be reduced by $1,000 per capita a year by swapping oil for gas. Think of what that could do. They are currently trying to take this away from the citizens. This export of Israeli gas is underhanded opportunism and theft from citizens, without them even being aware of it." And the moment the gas is sold, it's gone, he points out. It is lost to Israel forever more.