This country-specific Q&A provides an overview to energy laws and regulations that may occur in Israel.

For a full list of jurisdictional Q&As visit [here](#).
1. **Does your jurisdiction have an established upstream oil and gas industry? What are the current production levels and what are the oil and gas reserve levels?**

   The State of Israel was established in 1948. In its early days, Israel’s oil industry had some modest success. The first oilfield, Heletz, was discovered in 1955, and yielded 17.2 million barrels of oil. Unfortunately, only small amounts of oil have been discovered since then, though the exploration continues, with the hope of discovering more fields.

   Israel’s natural gas industry was set up in 1999 with the discovery of the Noa reservoir off the coast of Ashkelon by the Yam Tethys partnership. A few months later another reservoir, Mari B, was discovered. It was estimated that these reserves held about 45 billion cubic meters (bcm) of natural gas, which provided a limited amount of natural gas to the Israeli market and primarily to the Israeli Electric Corporation, its main customer. Today, these fields are nearly depleted. More fields have been discovered since then, chief among them are the Tamar field off the coast of Haifa, holding an estimated 283 bcm of natural gas, which commenced commercial production in April 2013, and another maritime reservoir, the Leviathan field (535 bcm), which commenced commercial production at the end of December 2019, as well as the Karish and Tanin fields that are set to start production in 2021. Due to these discoveries, a significant portion of Israel’s natural gas demand is now met by local production, independent of foreign import. As of March 2019, Israel estimates that its seabed contains 75 trillion cub feet of gas and 6.6 billion barrels of oil.

2. **How are rights to explore and exploit oil and gas resources granted? Please provide a brief overview of the structure of the regulatory regime for upstream oil and gas. Is the regime the same for both onshore and offshore?**

   Norway exercises jurisdiction over significant petroleum resources located in the seabed of the Norwegian continental shelf (NCS). Exploration and production activities related to these resources are governed by the 1996 Petroleum Act, supplemented by regulations (Royal Decrees, Ministry or Directorate decisions outlining generally applicable rules) and a dedicated gradually developed concessionary regime that has been in place since 1965. The standardised production licence is the core petroleum rights documents awarded pursuant to public administrative law and is not a contract. The conditions for award and the procedure implemented for competitive bidding prior to an award of production licences are consistent with Norway’s EEA obligations and compliant with EU internal market rules including the 1994 EU Hydrocarbons Licencing Directive. The production licence requires licensees to enter into mandatory standardised joint operating agreement and accounting agreement establishing an unincorporated joint venture for each production licence.

   Petroleum resources in the subsoil of on mainland Norway and any associated activities are regulated by the 1973 Land Petroleum Act. As most of the Norwegian mainland is without sedimentary rocks no activities have to date been conducted on the Norwegian mainland. Any activities related to petroleum within the territory of Spitsbergen is regulated by Norwegian law and jurisdiction expressed primarily through a 1925 Royal Decree – *Bergverksordningen,*
established pursuant to the 1920 Svalbard treaty (entry into force in 1925). Very strict environmental regulations apply for most economic activity due to the sensitive Arctic environment. Only limited exploration activities have been undertaken at Svalbard and no commercial production.

3. **What are the key features of the licence/production sharing contract/concession/other pursuant to which oil and gas companies undertake oil and gas exploration and exploitation?**

The petroleum sector in Israel is regulated by way of two primary laws: the Petroleum Law, 1952 (the “Petroleum Law”) including the Petroleum Regulations, 1953 promulgated thereunder (the “Petroleum Regulations”) and the Natural Gas Sector Law, 2002 (the “NG Law”).

The Petroleum Law governs and regulates Israeli upstream activities (onshore and offshore) with respect to exploration and production of petroleum, broadly defined in the Petroleum Law as: petroleum fluid, whether liquid or gaseous and oil, natural gas, natural gasoline, condensates and related fluid hydrocarbons and also asphalt and other solid petroleum hydrocarbons when dissolved in and producible with petroleum fluid.

The NG Law governs the midstream and downstream activities and sets out a licensing regime for Israeli natural gas infrastructure, including distribution, transmission, storage and LNG facilities. For more details see question 17.

All petroleum resources in Israel and its continental shelf belong to the state. The Petroleum Law provides that no person may explore for petroleum without a preliminary permit, license or lease, and no person may produce petroleum without a license or lease.

The Petroleum Law falls under the jurisdiction of the Minister of National Infrastructures, Energy and Water Resources (the “Energy Minister”) who in turn is tasked with appointing a Petroleum Commissioner (the “Petroleum Commissioner”) to be responsible for matters related to oil and gas exploration within the territory of Israel, in conjunction with the Petroleum Council that advises the Energy Minister and the Petroleum Commissioner (the “Petroleum Council”). The Petroleum Council is comprised of 15 members, with at least seven representing the public and is required to meet at least four times a year.

4. **Are there any unconventional hydrocarbon resources (such as shale gas) being exploited and is there a separate regulatory regime for unconventionals?**

The Petroleum Commissioner, in consultation with the Petroleum Council, is responsible for all matters relating to the licensing regime. There are three main rights that may be granted under the Petroleum Law: a preliminary permit, a license and a lease. Such grants are all recorded in the Petroleum Register by the Petroleum Commissioner and are part of the public
A preliminary permit confers on its holder the right to carry out preliminary testing investigations, not including test drilling, in order to ascertain the prospects for discovering petroleum. The Energy Minister may grant a permit holder priority rights for the receipt of a license in the permit area for a period of up to 18 months.

A license confers upon the licensee: the right to explore for petroleum in the license area (such area is defined in the license and is limited to a maximum area of 400 square kilometers) and outside such area in certain circumstances; the exclusive right to conduct test or development drilling in the license area and to produce petroleum; the right to obtain a lease after having made a discovery in the license area.

The license includes a work program to be carried out, which would typically include at least one exploration well. A license is granted for an initial term of three years and can be extended in accordance with the conditions set forth in the Petroleum Law to up to a total term of seven years from date of grant of license.

Once the Petroleum Commissioner recognizes that a discovery has been made in a given license area, the licensee may be granted a lease in respect of any area chosen by the licensee within the licensed area (not exceeding 250 square kilometers). Such lease confers upon the lessee the exclusive right to explore for and produce petroleum in the leased area for the term of the lease. The term of a lease is generally 30 years from the grant date, and may be renewable for an additional term of 20 years, subject to various terms and conditions that may be set by the Energy Minister in consultation with the Petroleum Council.

A lessee may also construct pipelines for the transport of petroleum and petroleum products and install other facilities required therefor. The Petroleum Commissioner must approve the route of all pipelines, other than gathering pipelines leading to tankage, within, or adjacent to, the leased area. Additionally, the Petroleum Commissioner may, after consultation with the Petroleum Council, require the owner of an approved pipeline to allow other lessors to use its pipeline to transport petroleum (to the extent that the pipeline is not required by its owner), on such reasonable terms as the Petroleum Commissioner may prescribe.

The lease holder is required to produce with respect to each lease an autonomous, unconditional, irrevocable bank guarantee to the State of Israel, denoted in New Israeli Shekels and increasing at the different stages of development, up to a maximum of US$ 50 million per lease upon commencement of the flow of gas. The guarantees shall ensure the adherence to the leases and permits, and as a condition to the granting of the leases. The guarantees shall remain in force even after the expiration of the leases, until such time as the Petroleum Commissioner declares them no longer necessary.

The Petroleum Commissioner is entitled to collect all or part of the guarantee, if: (i) the lease
holder failed to implement the development plan, construct the facilities or did not begin commercial production or pumping to the reception facilities on the specified dates in the lease; (ii) a safety or environmental accident occurred and the lease holder failed to rectify the fault; (iii) the lease holder failed to carry out abandonment in accordance with the provisions of the lease; (iv) a claim or demand was filed against the State of Israel for payment of compensation pursuant to damage caused due to violation of the terms of the lease; (v) the State of Israel suffered damages or expenses due to cancellation of the lease; (vi) the lease holder failed to carry out the required inspections, or failed to submit required documents or reports; (vii) the lease holder failed to comply with the provisions regarding insurance as stated in the lease or by the law; (vii) the lease holder did not comply with the provisions of the lease with regard to the guarantee; or (viii) the lease holder committed a material breach of other conditions of the specific leases.

The Petroleum Law provides that the Petroleum Commissioner may cancel an owner’s petroleum right, subject to 60 days’ prior written notice, for non-compliance with any of the provisions of the Petroleum Law, Petroleum Regulations, any condition of the petroleum right, or the submitted work program. Additionally, if a lessee fails to produce petroleum in commercial quantities in the initial three years of the lease, or has thereafter ceased commercial production, the Energy Minister may condition the continuation of the lease on the production of commercial quantities of petroleum within a defined period (which will be at least 60 days), subject to various restrictions set forth in the Petroleum Law. If production is not resumed as required by the notice, the lease will expire at the end of the period determined by the Energy Minister.

5. **Who are the key regulators for the upstream oil and gas industry?**

The Petroleum Commissioner, in conjunction with the Petroleum Council, has primary responsibility for regulating all upstream oil and gas activities. Other regulatory bodies, including the Ministry of Environmental Protection, the Natural Gas Authority and the Public Utilities Authority – Electricity, are responsible for the regulation of environmental matters and various aspects of the midstream and downstream activities.

6. **Is the government directly involved in the upstream oil and gas industry? Is there a government-owned oil and gas company?**

The government is not directly involved in the upstream oil and gas industry, however, pursuant to Regulation 2592 adopted by the Israeli government in 2017, the government owned Israel Natural Gas Lines Co. (INGL) was tasked with the establishment and operation of a pipeline system to connect the offshore gas wells to the shore for productions stemming from small and medium sized fields.

7. **Are there any special requirements for or restrictions on participation in the upstream oil and gas industry by foreign oil and gas companies?**
Prior to the implementation of the Natural Gas Framework in 2016 (the “Framework”) (as further described in question 18), the biggest impediment to foreign companies’ participation in Israel’s upstream oil and gas industry was the deemed monopoly held by the few companies which dominated this industry in Israel. The Framework, mandated specific divestment and relinquishment of holdings by the primary leaseholders in order to encourage more foreign investment and diverse participation in the industry. Under the Framework, each of the Delek Group, an Israeli limited partnership publicly traded in Tel Aviv (“Delek”) and Noble Energy, a Houston based energy company and publicly listed on the U.S. Stock Exchange (“Noble Energy”), were required to make certain divestments of their rights in the Tamar, Karish and Tanin fields. Noble Energy, sold their rights in Karish and Tanin to Delek, and Delek, in turn, sold all their rights in each of Karish and Tanin in December 2016 to Energean Oil & Gas, a Greek company. With respect to the Tamar field, Noble Energy is required to sell a portion of its rights and Delek all of its rights, by the end of 2021. Both have taken steps to meet these requirements, beginning as early as the summer of 2016 and continue to do so in a piecemeal manner, which has allowed new foreign players to enter the market in their place. The Israeli Ministry of Energy has held meetings with international energy companies in order to encourage international participation, with some minimal success. Currently, five companies (including Israeli and international companies) submitted proposals to explore for oil and gas in twelve new blocks out of nineteen which the Ministry of Energy has tendered.

8. What are the key features of the environmental and health and safety regime that applies to upstream oil and gas activities?

Israel’s oil and gas operations are subject to a complex and varied body of health, safety and environmental laws, regulations and other requirements, which address, inter alia, (1) the generation, handling, use, storage, transportation, disposal and remediation of hazardous or regulated materials and waste, including petroleum and its by-products; (2) climate change; (3) the discharge and emission of such waste and materials into the environment; (4) the protection of natural resources; (5) human health and safety; and (6) noise pollution.

These laws are enforced through various sanctions, such as fines, suspension of operations and revocation or delayed renewal of permits.

Under the Petroleum Law and the Petroleum Regulations, drilling activities are to be carried out with due caution in order to prevent the uncontrollable release of gases and liquids, leakage into the ground, and penetration from one geological layer to another. In addition, it is forbidden to abandon a well before it has been properly sealed and marked.

Companies conducting gas and oil exploration drilling or gas production under the Petroleum Law and the Petroleum Regulations are required to submit an environmental report, which includes a background monitoring program for the marine environment, and an emergency preparedness plan for the treatment of oil pollution events. The Ministry of Environmental Protection continuously supervises the implementation of the submitted plans, by reviewing
environmental management reports, as well as determining conditions to be included in permits and licenses that will ensure that the public and the environment will not be harmed as a result of the operations.

In addition to the environmental guidelines of the Ministry of Energy and the Ministry of Environmental Protection, holders of petroleum rights may be subject to environment-related requirements issued from time to time on behalf of other governmental bodies, including, *inter alia*, the Israel Lands Administration, the Ministry of the Interior (regional committees for planning and construction), the Water Authority and the Nature and Parks Authority. Certain permits for the dumping and flowing of sewage and waste into the sea, which is otherwise prohibited, can be granted by the Committee for the Grant of Licenses, pursuant to the Israeli Prevention of Sea Pollution from Land-Based Sources Law 1988 and in accordance with the terms of such permits. According to the Hazardous Substances Law 1993, a holder of petroleum rights must obtain a permit from the Ministry of Environmental Protection to work with certain hazardous materials. In addition, a holder of petroleum rights must obtain an Emission Permit According to the Clean Air Law 2008.

It should be noted that local activists, namely communities in the Haifa Region, took steps to halt activities from the Leviathan rig, including demonstrations and seeking a court injunction. On December 17, 2019, a district judge in Jerusalem issued a temporary order halting the commencement of the production phase from Leviathan as he assessed environmental and health concerns raised by activists. Ultimately, the judge decided that not enough evidence was provided to refute claims that production would cause a serious health and environmental hazard and the injunction was overturned the following day. The court, however, left open the possibility for further injunctions and as a result, it appears that the courts may take a more active role in reviewing public health and environmental concerns as they relate to the oil and gas industry in Israel.

*International Framework:*

The Barcelona Convention deals with the exploration and production of natural gas and oil in a dedicated protocol called “The Protocol for the Protection of the Mediterranean Sea against Pollution Resulting from Exploration and Exploitation of the Continental Shelf and the Seabed and its Subsoil”, 1994. The protocol came into force in March 2011. Israel has signed this protocol on October 1994 however the government of Israel has yet to ratify the protocol.

9. **How does the government derive value from oil and gas resources (royalties/production sharing/taxes)? Are there any special tax deductions or incentives offered?**

*Royalties:*

The Petroleum Commissioner is tasked with the collection of royalties and fees, in addition to
his other responsibilities regulating the oil and gas industry. Under the Petroleum Law, holder of a petroleum right ("the holder") must pay the Israeli government a royalty equal to one-eighth (12.5%) of the wellhead value of the petroleum produced from the leased area, subject to certain exclusions set forth in the Petroleum Law. The Petroleum Commissioner may elect to collect the royalties in cash or in kind. Additionally, the holder is required to pay a small lease fee on the area covered by the lease. In the event that the holder fails to make timely payment of any fees or royalties, the Petroleum Commissioner is entitled to place a lien on all of the rights to such holder’s stored petroleum, facilities and equipment and to seize anything so attached until payment is made.

Tax:

There are three key elements of taxation relevant to the oil and gas industry in Israel. The first element relates to the royalties that a holder must pay to the Israeli government in the amount of one-eighth (12.5%) of the wellhead value of the petroleum produced from the leased area, as further described above.

The second element is a levy imposed on profits derived from the sale of petroleum pursuant to the Petroleum Profits Tax Law 2011). The levy applies only to the profits from petroleum production (upstream operations) and is not intended to apply to the midstream and downstream segments of the petroleum chain. The levy is calculated and imposed separately for each project and each holder of a petroleum right in a petroleum project is required to pay the levy according to its proportionate share in the petroleum right. Any levy actually paid is also recognized as a deductible expense for income tax purposes.

The third element is Corporate Income tax at a rate of 23% for 2019. Historically, holders of petroleum rights incorporated as a partnership so as to be transparent for tax purposes. Accordingly, search expenses attributed to the holder’s lease are considered as deductible expenses or a deductible asset. Any levy actually paid according to the Petroleum Profits Tax Law 2011 is also recognized as a deductible expense for income tax purposes.

Foreign entities operating in the Israeli Petroleum industry are obligated to establish a branch in Israel that is then defined as the entity’s Permanent Establishment in Israel.

Further, pursuant to the Framework, as discussed in more depth in Question 18 below, qualifying loans from foreign lenders in the financing of natural gas projects may be subject to a five percent tax withholding rate on interest payments (unless a lower rate applies due to a tax treaty). The intention of this leniency was to encourage foreign investments and diversify sources of funding.

10. Are there any restrictions on export, local content obligations or domestic supply
obligations?

The Tamar and Leviathan leaseholders are obligated under the Framework to invest in “local content”, by investing US$ 500 million over the course of eight years in such content. “Local content” is defined to include, inter alia, purchase of goods and services from Israeli registered entities, investment in research and development, and professional training and donations in the area of social responsibility. Up to US$ 80 million may be spent on engagements with Israeli employees. Reports shall be provided on a yearly basis to the Authority for Industrial Cooperation at the Ministry of Economy regarding previous and planned investments.

The Framework also provides a domestic supply obligation, namely that gas exports are restricted to a predetermined quantity of natural gas calculated as a pro rata percentage of all natural gas resources available for the domestic market, in order to ensure an aggregate minimum quantity of at least 540 bcm for local consumption. Further restrictions provide that set percentages of natural gas derived from individual reservoirs are reserved for the local market as well (50% for reservoirs of 200 bcm or greater, 40% for reservoirs of 100 bcm or above, and 25% for reservoirs in the range 25-100 bcm).

On December 16, 2019, the Energy Minister approved the first export permits to export a maximum quantity of about 85 bcm from Israel to Egypt for a period of 15 years. Under the agreement between the Tamar Partners, Leviathan Partners and Dolphinus (an Egyptian gas company), Tamar and Leviathan would each supply Dolphinus with total gas volumes of about 25 bcm from the Tamar reservoir and about 60 bcm from the Leviathan reservoir. The Energy Minister conditioned approval of the export permit on an undertaking from Delek Drilling and Nobel Energy (two of the major partners in Tamar and Leviathan) that domestic pricing would never exceed the export pricing.

11. **Does the regulatory regime include any specific decommissioning obligations?**

The Petroleum Law does not contain detailed provisions relating to the decommissioning of offshore petroleum facilities. It does state that upon expiry of a petroleum right, a rightsholder must remove all its possessions and structures from the land within the period determined by the Petroleum Commissioner and leave the land in the state, from a safety perspective, as instructed by the Petroleum Commissioner. However, the leases themselves may include requirements regarding submission of a decommissioning plan and other decommissioning obligations and usually petroleum rightsholders are required to submit a bond or guarantee to the Petroleum Commissioner to ensure they fulfil their obligations under the submitted and approved decommissioning plan. The Natural Resources Administration has also published guidelines for decommissioning drilling sites based on international standards, including in August 2013 and May 2018.

12. **What is the regulatory regime that applies to the construction and operation of**
offshore and onshore oil and gas pipelines?

The Natural Gas Sector Law, 5762-2002 and the Natural Gas Sector Regulations 5768-2008 regulate the construction and operation of offshore oil and gas pipelines. The Natural Gas Sector Law authorizes the Natural Gas Authority, a segment of the Ministry of Energy, to promote the law’s goals, such as regulating the natural gas facilities and maintaining their safety, including the pipelines connected to these facilities. Pursuant to Regulation 2592 adopted by the Israeli government in 2017, the government owned INGL was tasked with the establishment and operation of a pipeline system to connect the offshore gas wells to the shore for productions stemming from small and medium sized fields. In addition, the Offshore Pipeline Director Israel (“OPDI”), a supplement to the Partial National Outline Plan for Natural Gas NOP 37/A/2 (TAMA) December 2002, the Natural Gas Law, and Safety Decree, provides instructions and guidelines set forth by the Natural Gas Authority to assist the INGL in obtaining the necessary permits for the planning, design, manufacture, construction, operation, and maintenance of offshore high pressure natural gas pipelines.

13. What is the regulatory regime that applies to LNG liquefaction and LNG receiving terminals? Are there any such terminals in your jurisdiction?

The Natural Gas Authority regulates this industry, as it regulates the transportation and distribution of oil and gas to the Israeli market. The Hadera Deepwater LNG Terminal was launched in 2013 by INGL and transmits gas from the Tamar reservoir and tankers to Israel. Israel currently does not have a terminal for the liquefaction of LNG.

14. What is the regulatory regime that applies to gas storage (not LNG)? Are there any gas storage facilities in your jurisdiction?

Natural gas is transported from the offshore production platforms to an onshore receiving terminal and from there through a state-owned transmission system operated by INGL. This system is designed to feed a distribution network to deliver natural gas at low pressure (up to 16 bar) to local consumers, industrial zones and small to medium sized facilities. Customers are limited to the distribution company that operates in their region, as described above in question 15.

The Natural Gas Authority sets certain infrastructure rates relating to the purchase of gas. When a customer wants to purchase natural gas, they have two options on where to turn. They could purchase directly from the Tamar or Leviathan partnerships, however, these actors tend to sell mainly to large customers and not to smaller consumers. The second option is to turn to regional distribution companies that act as middle men between the producers and consumers. These regional distribution companies buy vast amounts of gas directly from the gas fields and then sell at negotiable prices to consumers. There is no regulation mandating specific pricing or rates for these consumers, barring the exception of electricity companies whose purchase of natural gas is regulated by the Electricity Authority and guarantees that pricing to electricity companies will not exceed the maximum price as
determined by the Electricity Authority.

Once component of pricing for natural gas is an infrastructure tariff in respect of the transmission and distribution of gas, such tariff is fixed and nonnegotiable and applicable to all consumers although it varies based on locality. The tariff rate is determined generally by the Natural Gas Authority and locally by the regional municipalities.

15. **Is there a gas transmission and distribution system in your jurisdiction? How is gas distribution and transmission infrastructure owned and regulated? Is there a third party access regime?**

Once natural gas reaches the shoreline, INGL has the exclusive license to transmit the gas to its facilities and distribute to consumers. For larger consumers, INGL brings the gas directly to a facility adjacent to such consumer’s factory. For small and medium consumers, certain third parties have regional licenses to transmit the gas from INGL’s regional storage facilities to smaller local factories.

The regional distribution networks are planned, constructed and operated by distribution companies who are required to provide equal, nondiscriminatory service to any consumer. Israel is divided into six license regions: Southern region, Negev region, Arad Area, Central Region, Jerusalem region, Northern region. Each region is constructed and operated by a single distribution company. These companies have exclusivity for the construction, operation and maintenance of the distribution network within the region, for a period of 20 to 25 years.

There are marketing companies that purchase the natural gas from the offshore production companies and sell the natural gas to small and medium size facilities through the distribution network.

16. **Is there a competitive and privatised downstream gas market or is gas supplied to end-customers by one or more incumbent/government-owned suppliers? Can customers choose their supplier?**

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17. **How is the downstream gas market regulated?**

The Gas Law, the Natural Gas Sector Law, 5762-2002, and the Natural Gas Sector Regulations 5768-2008, as well as the Gas (Safety and Licensing) Law, 5749-1989, the Gas Order (Safety and Licensing) (Natural Gas Distribution Facility), 5759-1999, and the Planning and Building Regulations (Licensing of Natural Gas Installations), 5764-2003 govern the midstream and downstream activities and sets out a licensing regime for Israeli natural gas infrastructure, including distribution, transmission, storage and LNG facilities.

The Natural Gas Authority in the Ministry of Energy acts by virtue of the Natural Gas Sector Law and promotes the law’s goals such as developing the natural gas sector, ensuring regular and reliable supply, encouraging competition, ensuring the maintenance of safety and setting suitable tariffs. The Director of the Natural Gas Authority is appointed by the government, pursuant to a recommendation from the Minister of Energy and in consultation with the Minister of Finance, for a five year term. The Director works in conjunction with the Natural Gas Council, which is comprised of a Chairman, a representative of the Minister of Finance, a representative of the Minister of Energy, and two public representatives. The Council’s role is to advise on the tariffs system. The Natural Gas Authority also includes a Supervisor of Safety who works in coordination with the Council and handles the safety of the natural gas economy in accordance with the NG Law and NG Regulations.

The aforementioned bodies work in consultation with the Minister of Energy to advertise tenders, prepare licenses, supervise licenses and tariffs, engage with other authorities when there is intersection with real estate, determine and respond to safety orders, regulations and procedures, oversee gas storage facilities, determine the standards for services, fees, and
arrangements with consumers, regulate those companies distributing and selling natural gas, and recommend rates and tariffs to the Council.

18. Have there been any significant recent changes in government policy and regulation in relation to the oil and gas industry?

The Gas Law, the Natural Gas Sector Law, 5762-2002, and the Natural Gas Sector Regulations 5768-2008, as well as the Gas (Safety and Licensing) Law, 5749-1989, the Gas Order (Safety and Licensing) (Natural Gas Distribution Facility), 5759-1999, and the Planning and Building Regulations (Licensing of Natural Gas Installations), 5764-2003 govern the midstream and downstream activities and sets out a licensing regime for Israeli natural gas infrastructure, including distribution, transmission, storage and LNG facilities.

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19. What key challenges have been identified by the government and/or industry in relation to your jurisdiction’s oil and gas industry?

Leviathan began production on December 31, 2019 and Nobel Energy, the major stakeholder in the Leviathan Partners, announced that in early 2020 Leviathan would begin its international exports.

In September 2016, an agreement between the Leviathan partners and the National Electric Power Company of Jordan, under which the partners will supply around 45 bcm to the State of Jordan. On January 1, 2020, commercial sale to Jordan from Leviathan commenced. In February 2018, the partners also signed a $15-billion export agreement with Dolphinus Holdings to supply a total of 64 bcm to the Egyptian domestic market. These two regional
agreements were the first step in international exports.

On December 16, 2019, the Energy Minister approved permits to export a maximum quantity of about 85 bcm from Israel to Egypt for a period of 15 years. Under the agreement between the Tamar Partners, Leviathan Partners and Dolphinus (an Egyptian gas company), Tamar and Leviathan would each supply Dolphinus with total gas volumes of about 25 bcm from the Tamar reservoir and about 60 bcm from the Leviathan reservoir. The Energy Minister conditioned approval of the export permit on an undertaking from the Delek Drilling and Nobel Energy (two of the major partners in Tamar and Leviathan) that domestic pricing would never exceed the export pricing.

The question remains, how will Israel physically transport and export product beyond its region. For a time, there were discussions of utilizing Turkey’s expansive and established pipeline system to transport to Europe. However, as the mercurial diplomatic relations between Israel and Turkey deepened over regional geopolitical concerns, Israel indicated an interest in a US-backed natural gas pipeline deal with Cyprus and Greece instead. The proposed EastMed pipeline, which would link natural gas from fields offshore Israel and Cyprus (Eni’s Aphrodite) to Greece and Italy is a US-backed deal, which could transform the region into a regional energy hub. In December 2017, Israel, Greece, Cyprus and Italy signed a memorandum of understanding setting out their commitment to the project. This project has also received the support of the European Commission, which has allocated EUR34.5 million ($40 million) to complete planning of the pipeline. As of January 2, 2020, Energean Oil & Gas plc, one of the major stakeholders in the Karish and Tanin fields, signed a letter of understanding with the Greek gas corporation DEPA for the sale of up to 2 bcm of gas annually. The projection is for the gas to be exported through the EastMed pipeline to Europe. On January 3, 2020 Greece, Cyprus, and Israel formally signed an agreement for construction of the EastMed pipeline.

It is also important to note the region’s historical turbulence and geopolitical factors. Importantly, the ongoing dispute between Israel, Lebanon, Turkey, and Cyprus over gas fields in the Mediterranean remains a consistent geopolitical issue. Lebanon and Israel have an ongoing dispute over approximately an 856 square kilometers piece of ocean. Because Lebanon does not recognize Israel as a country, and has no diplomatic relations with it, negotiations over the disputed territory have hit fundamental roadblocks. Ultimately, the dispute rests over what constitutes Lebanon’s southernmost border and what constitutes Israel’s northernmost border (a small section of the Mediterranean at the bottom of “Block 9”). Lebanon plans to begin drilling in “Block 9,” one of the two blocks disputed over by Lebanon and Israel. This plan will directly impact an agreement signed between Israel Opportunity – Energy Resources Limited Partnership and PELAGIC Exploration Company for the acquisition of 10% of the participation rights in various offshore gas and oil exploration licenses, including one which touches on the territory disputed over by Israel and Lebanon.

Concurrently, the border dispute over Israel’s Yishai license and Cyprus’s Aphrodite license remains a concern. In November 2019, the Israeli Energy Ministry director general sent a
letter to the major partners in Aphrodite, Shell, Noble Energy, and Delek Drilling, telling them that they cannot develop the Cypriot reservoir until the border dispute is settled.

Layered upon these disputes, is the ongoing territorial dispute between Cyprus and Turkey. In May 2019, Turkey began drilling activities off the coast of Northern Cyprus, which it considers part of its territorial waters and by extension its Exclusive Economic Zone. For complex historical reasons, both Cyprus and Turkey claim the waters around Northern Cyprus as their Exclusive Economic Zone. Following heavy lobbying by Greece and Cyprus, the act was condemned by the European Council of the European Union. Turkey continued its drilling activities, even as they were labeled illegal by the European Union. Many argued Turkey’s actions would destabilize the already volatile region, and in particular the tense relations between Greece, Turkey, and Cyprus. Turkey promised, as recently as November 2019, that it would continue its drilling in the Mediterranean waters around Northern Cyprus, even as the European Union reduced financial assistance to Turkey for 2020 due to its illegal drilling. Further exacerbating regional tension, Turkey and Libya recently signed an agreement declaring a joint Exclusive Economic Zone which effectively creates a joint border stretching across the Mediterranean and challenging the sovereignty of other countries in particular, Greece and Cyprus and the economic interests of nearly all other regional players.

The oil and gas production has the potential to transform the region with agreements between Israel and its Arab neighbors. In doing so, it could foster greater regional dependence and dialogue overall. The challenge will be to take the frameworks in place with strategic partners and continue to develop them.

Another challenge facing Israel is the application of Israeli law to the Exclusive Economic Zone, which is defined for coastal states as the “sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the water superjacent to the seabed and of the seabed and its subsoil...” Israel’s Deputy Legal Advisor issued an opinion in April 2019 concerning the application of Israeli law to the Exclusive Economic Zone, finding that Israeli laws regulating the fields of natural gas and oil, amongst other issues, may apply in Israel’s exclusive economic zone. The Knesset is promoting a draft of the Marine Area Law, which would establish a legal framework for activities conducted in Israel’s territorial waters in the Mediterranean, however, as Israel is currently operating without a government it is unclear if and when the legislation process will conclude.

20. Are there any policies or regulatory requirements relating to the oil and gas industry which reflect/implement the global trend towards the low-carbon energy transition?

Israel has not implemented any regulation that reflects the global trend towards the low-carbon energy transition. It has, however, issued numerous statements and encouraged the development of renewables as an alternative to the use of coal. In fact, Israel has been introducing steps to reduce the use of fossil fuels like oil, gas, and coal, and the use of coal-
fired power plants so as to discontinue the use of coal entirely by 2030. According to some estimates, the country should reach its goal with respect to coal use by 2025. The Israeli government’s intent is to provide greater offerings to convert to natural gas and other alternative energy sources, thereby reducing overall emissions and moving away from coal long-term. To promote this plan, the Israeli government has provided the following incentives, amongst others: (1) providing financial incentives for the establishment of charging posts and compressed natural gas fueling stations in order to encourage the move to alternative energy run vehicles, (2) issuing tenders for the creation of small power stations for natural gas in regional distribution networks, for a total value of NIS 650 million, and (3) enhancing the natural gas distribution network and increasing accessibility.

To reduce its coal use, Israel has instituted a reform in the electricity sector and Israel Electric Corporation in compliance with this initiative has committed to selling five power stations, the first of which, Alon Tavor power station, was announced in 2018. In April 2019, GE announced that it has been awarded a contract by Israel Electric Corporation for the modernization of Orot Rabin power plant in Hadera.