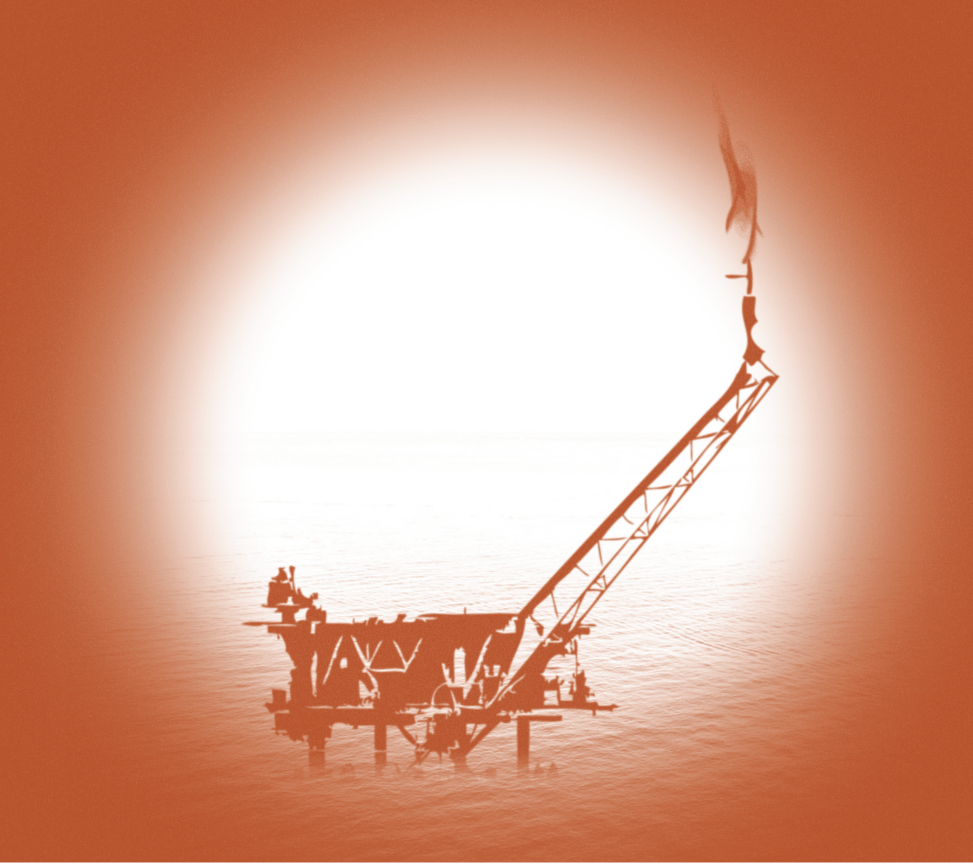
THE ALTERNATIVE INFORMATION CENTER

Shir Hever

The Economy of the Occupation

A Socioeconomic Bulletin



Flammable Politics: Political-Economic Implications of Israel's Natural Gas Find

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Table of Contents

Introduction

The discovery of natural gas reserves off the shores of Israel created much excitement in the Israeli business community. The newspapers used images and phrases hinting that Israel might become a natural gas empire. Reality quickly set in, however, and long before any gas was produced for commercial use, the public discussion descended into a heated argument about the projected profits, in which capitalists did not shy away from exerting influence through "bought" politicians.

The discovery of the natural gas came at a critical moment in Israeli politics. The protests in Arab countries promised to revolutionize the politics of the Middle East and Israeli politics were increasingly mired in unprecedented existential anxiety, created, in part, by anxiety over the Palestinian push for statehood in September 2011 and the growing BDS (Boycott, Divestment, Sanctions) movement against Israel. Both domestically and internationally, there is a debate as to whether Israel can continue to call itself a democratic state as its right-wing government clamps down on civil liberties and freedom of speech, while stepping up discrimination against non-Jews.

The political-economic analysis of the natural gas discovery offshore of Israel is a prime example of how a seemingly unconnected issue of the gas has been dragged into Israel's ethnic policies, and an indication of the level of irrationality and panic that is creeping into the public debate in Israel.

Timing of the Gas Find

In January 18, 2009, as Israel was ending its battering of the Gaza Strip known as "Operation Cast Lead," the Israeli media reported the discovery of commercial reserves of natural gas under the Mediterranean Sea, off-shore of Haifa, within Israel's territorial waters. This discovery turned out to be more lucrative than originally expected, with the potential for gas extraction worth many billions of dollars (Atias, 2010).

> *The discovery of natural gas in Israel stirred a hornet's nest of politics of anxiety.*

The timing of the discovery raises some speculations. Some scholars such as Michel Chossudovsky argued that Israel invaded Gaza in order to ensure its control over the gas fields in Gaza, which were discovered in 2000 but not yet developed because former Israeli prime minister Ariel Sharon prevented the British Gas company from drilling in Gaza's waters (Chossudovsky, 2009; The Economist, 2010; Weiss, 2010a). The discovery of gas off the shores of Haifa mere days after the attack on Gaza gives rise to the question whether Israeli officials already knew that a large discovery of natural gas is likely, and wanted to delay the development of the natural gas in Gaza in order to ensure higher prices for Israel's gas. However, both of these speculations are currently unfounded by facts, and no proof exists of the connection between the two gas fields and the Israeli invasions of Gaza.

Extent and Ownership of the Gas Fields

Noble Energy estimated the value of the natural gas reservoirs offshore Israel's coast at about US$ 20 billion, and the gas drilling is expected to generate net profits of about US$ 1.5 billion annually (Portugali, 2010a).

Natural gas was discovered shortly after Israel invaded Gaza and set back the possibility to develop natural gas there.

In June 2011 the discovery of another gas field was announced, called Mira, but its full extent and profitability are yet unknown (Bar-Eli, 2011g).

The table below (p. 8) shows the estimated amounts and values for five gas fields as well as the distribution of the ownership of drilling rights by companies. These companies, which are sometimes a combination of smaller investors, have joined forces in order to distribute the risk of failed drills, and to raise the necessary funds for the drills.

The biggest owner in the gas fields is Delek Group, owned by Yitzhak Tshuva (Israel's seventh richest man, according to Forbes Magazine, 2011). Tshuva has also become the most visible face of the exploratory drilling companies, and has openly attempted to influence the decisions of the Israeli parliament and government to favor his business interests. The second biggest is US-based Noble Energy.

Below (p. 9) is a map of the gas fields (Ministry of National Infrastructure, 2011).

Table 1: Offshore Gas Fields in Israel's Territorial Waters

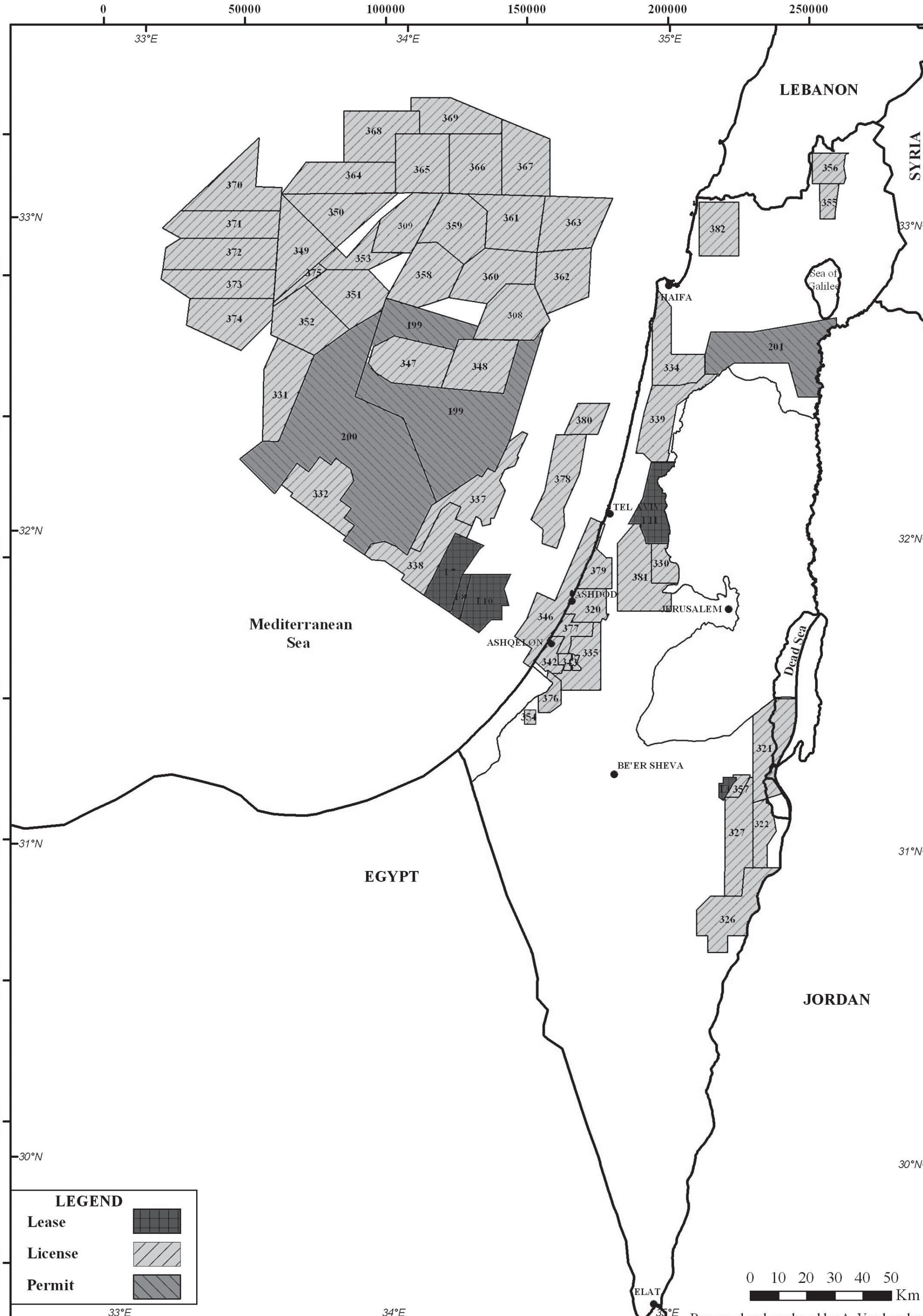
Field Namev	Estimated Value (US$ billions)	Potential Amount (BCM)	Companies
Dalit	3	14.2	Noble Energy (36%), Delek group (31.25%), Isramco (28.75%), Alon Gas (4%).
Leviathan	90-100	453	Delek group (45.34%), Noble Energy (39.66%), Ratio (15%).
Noa + Mary B	6	40	Delek group (53%), Noble Energy (47%).
Or (Med Yavne)	0.15-0.2	1	Meimon group (72%), Ratio (12.3%), others (15.7%).
Tamar	50	247	Noble Energy (36%), Delek group (31.25%), Isramco (28.75%), Alon Gas (4%).
Total	149.15-159.2	755.2	Delek group (40.74%), Noble Energy (38.64%), Isramco (9.88%), Ratio (9.26%), Alon Gas (1.38%), Meimon group (0.08%), others (0.01%).

Based on (Bar-Eli, 2011a).

Ministry of National Infrastructures | State of Israel | Oil and Gas Section

Petroleum Rights

Updated October 15, 2009



Gaza's Gas Reserves

The untapped natural gas reserves in the Gaza Strip are considered one of the most important natural resources for a future Palestinian state (if the two-state solution will be adopted), and essential for the state's development. However, the siege conditions in Gaza prevent the development of the gas fields, and there is a risk that the Israeli exploratory drilling companies will drill the gas reserves in such a way that will appropriate some of the gas reserves of Gaza (The Palestine Monitor, 2011).

Yam Tatis

In 1999 two Israeli companies: Avner and Delek Drilling, formed a partnership called Yam Tatis (after the ancient sea that used to cover what is now Israel/Palestine). The partnership discovered gas off the shore of Ashdod, at the edge of the Gaza territorial waters. This find proved to be modest, and might be exhausted by 2012 (The Economist, 2010).

The maps of the gas fields show that the Israeli companies adopted a favorable interpretation of the division of territorial waters. But a future

Gaza's gas was discovered in 2000. The rights to the offshore field are currently divided between British-Gas (60%), the Lebanese company CCC (30%) and the Palestinian Authority Investment Fund (10%). They are estimated at 1.4 trillion cubic feet (TCF) worth approximately US$ 4 billion (Bar-Eli, 2007).

Israel is actively preventing the Palestinians from developing its gas fields, arguing that gas profits could be used to "fund terrorism" (Ibid.).

The Palestinian Authority was prevented by Israel from developing Gaza's natural gas.

But the damage caused by Israel's restriction on the development of Palestinian gas is compounded by the discovery of natural gas in Israel. The Palestinian's gas is being delayed while Israel goes ahead in developing its own gas fields, and as soon as Israeli gas will begin to be exported, the eventual Palestinian gas exports will meet fierce competition. Israeli gas companies will get the first choice in export markets in the region and

division of the territorial waters might indicate that some of the fields, specifically Noa, Or and Mary, which have already yielded commercial quantities of natural gas, would lie within Gaza's territorial waters. In such a case, Israel might be required to repay the value of the gas that has already been drilled and depleted from these fields.

When the (softened) Sheshinski recommendations were finally accepted (see below, pp. 12-13), the royalty structure adopted was gradual, and increasing over the years. The Yam Tatis field, however, got a special exemption from the decision because it began operating before the other fields, and received an additional 50% discount in royalties (Bar-Eli, 2011e). This special benefit was a response to the threats of the gas companies about inadequate gas supplies in the short term as a result of the increased taxation.

will be able to sign deals with customers, and the Palestinian gas exports will have to make do with the leftovers, probably paying more for infrastructure (laying longer pipes) and receiving lower prices for the gas.

According to the map below (p. 14), from the Israeli Ministry of National Infrastructure, the state of Israel is aware of the sensitivity of drilling for natural resources in the OPT (Occupied Palestinian Territory), but the map does indicate several dry wells—meaning that the Israeli government authorized search-drills in occupied territory. Also, the map demonstrates that two gas wells are in operation on the border with the Gaza Strip, and two oil wells are on the border with the West Bank. These

The Sheshinski Committee

The Committee for the Investigation of Fiscal Policy Regarding Oil and Gas Resources in Israel, known as the "Sheshinski Committee," was convened by the Israeli Ministry of Finance in April 2010, and was tasked with creating recommendations to reform Israeli taxation of the extraction of energy resources. It was headed by Professor Eitan Sheshinski, a professor of economics at the Hebrew University. The committee included five other members. It published a first draft of its recommendations in November 2010, and its final recommendations in January 2011.

Its recommendations were as follows:

- Leaving the current royalties, set in 1952 (at 12.5%), in place.
- Cancelling the exhausting fee.
- Implementation of a progressive tax on oil and gas profits, starting only after a profit of 50% has been accumulated.
- The progressive tax will start at 20%, and will grow up to 50%, according to a formula based on the ratio of revenue to expenses.
- Search costs will be doubled for

drills are done right on the Green Line, and although Israel can claim that the drilling point is within Israel's legitimate borders, the actual gas or oil reserves are unlikely to follow the political demarcation of the land, and some of the product of these wells is likely from the OPT. Normally, such borderline wells are built with an agreement between neighboring countries, but Israel has been taking unilateral action and the Israeli government expressed no consideration for the Palestinians' possible rights to natural resources in their land (Ministry of National Infrastructure, 2011).

purposes of the tax's calculation.

• Financial costs will be recognized in the project's costs, according to the LIBOR interest rate with a premium of +3%.

• Payments to third-party participants in the projects will be taxable as profits.

• Taxation will apply to each oil or gas reserve separately. Expenses or revenues may not be shifted between the reservoirs.

• Investments in developing the oil and gas projects will enjoy accelerated depreciation of 10%.

• The recommendations will come into effect from the day of the publication (January 3, 2011) of the recommendations, for all the oil and gas reservoirs.

• Investments completed by the end of 2013 will enjoy 15% accelerated depreciation.

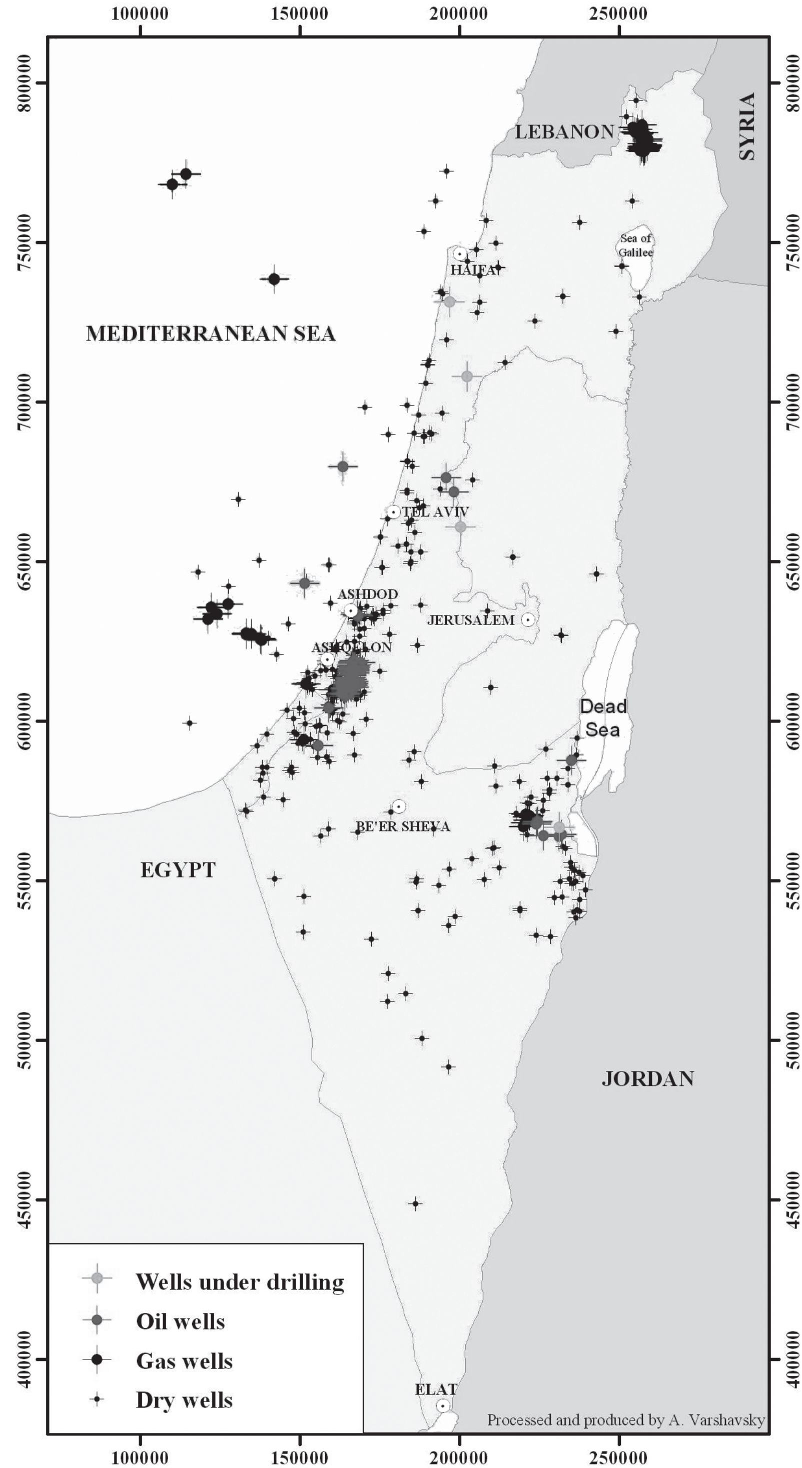
• Reservoirs that have already been in operation before the committee was established will pay up to the minimal tax level (20%) for the first year, and the result of the formula for calculating the tax level will be halved.

• Reservoirs that will be developed no later than January 1 , 2014 (but after the committee was established) will enjoy double the normal tax exemption, and their profits will only be taxable after their profits will reach 100%.

Ministry of National Infrastructures State of Israel Oil and Gas Section

Oil and Gas Wells in Israel

(Updated January 27, 2010)



Border Dispute

The first sign that political tensions were destined to plague the gas discovery came just a few days after the gas discovery was announced on January 18, 2009. Lebanon issued a statement that some of the gas found by Israeli companies belongs to Lebanon. Nabia Bery, chairman of Lebanon's parliament, argued that the gas reserves are partially located in Lebanon's territorial waters. The response of Israel's Minister of National Infrastructure, Uzi Landau, was to threaten Lebanon with war. Without checking the validity of Lebanon's claims, Landau stated that Israel "won't hesitate to use force to protect the maritime gas reserves" (Goldstein, 2010a). There is a disagreement between Israel and Lebanon over where the border passes between the two states' territorial borders, and Israel imposes its position with force of arms. Landau, a minister from the Israel Beiteinu party,* saw Lebanon's statement as a political challenge thrown against Israel, and a matter of national pride. His statement was not

Israel's Minister of National Industries threatened Lebanon with war over the natural gas territory.

* Israel Beiteinu is an ultra-right party, which has focused its rhetoric on scapegoating Palestinian citizens of Israel, threatening them with deportation unless they demonstrate sufficient loyalty to Israel as a Jewish state.

only an attempt to intimidate Lebanon, but also an assurance to the drilling companies that their profits will be backed by Israel's military power.

However, as Israel's relations with Turkey have deteriorated recently—especially following the attack on the Mavi Marmara in May 2010, in which nine Turkish activists were killed (Booth, 2010)—Israeli companies are hoping to export surplus natural gas to Greece. Greece, on its part, might refuse to sign an agreement until Israel reaches an understanding with Lebanon over the border (The Economist, 2010).

An interesting insight into how the interplay of political and economic interests is revealed through the natural gas issue comes from Tshuva's response to Lebanon's demands. Tshuva argued that all of the gas found by his company is inside Israel's borders, but hinted that Lebanon might also have undiscovered natural gas reserves. He offered to "share his knowledge with Lebanon in exchange for real peace." Although it is doubtful that Tshuva truly offers to provide services to Lebanon without expecting payment in money, his comment demonstrates that he seems himself as more than a businessman, but also as a statesman who can offer incentives to Lebanon to sign a peace treaty with Israel (Goldstein, 2010b).

The UN has, so far, given conflicting responses to the demand by Lebanon (Bassam & Evans, 2011).

The Struggle for Royalties

Soon after the Israeli newspapers celebrated the high projected value of the natural gas reserves, ironically depicting the Israeli owners of the gas companies as equivalent to Arab "oil sheiks," it was discovered that Israel's tax system is extremely lenient by international standards, and that the government take* in Israel for the extraction of natural resources is much smaller than in other countries (Goldstein, 2010c). Further, while the government take in Argentina, Ireland, Russia, the UK and the US was increased between 1998 and 2007 by an average of 10.8%, the government take in Israel was decreased by 7% in the same period (Byte and Switch, 2010).

The gas companies prevented the update of a 1952 law, which assured that they would pay very low royalties.

It was suggested by the social activists who later formed the Forum for Civil Action that Israel should immediately raise the royalties to a more acceptable level, so that the entire public

* "Government take" is a term that describes the combination of direct royalties and direct taxes applied to the extraction of resources, or in other words the percentage of value which remains with the government. Merely comparing royalties could create a misleading picture, because countries in which the company taxes are higher divide extraction profits differently than countries with similar rates of royalties but lower company taxes.

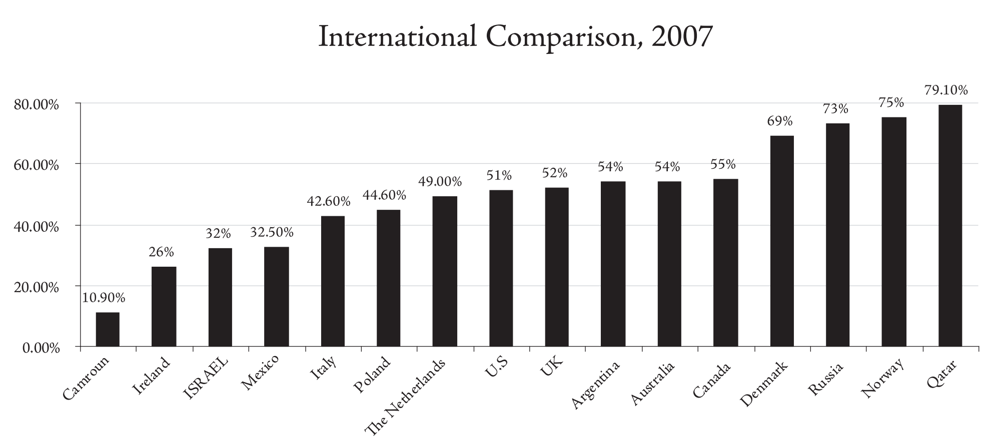
will be able to gain from the discovery of the gas fields. The companies who stand to pay these royalties, however, opposed these demands and argued that they invested in the exploratory drilling believing that the royalties would remain low (Sheffer and Kane, 2010).

The graph below demonstrates Israel's government take (prior to the changes suggested by the Sheshinski Committee) compared to other countries.

The argument that was immediately raised against raising royalties up is that the government should not be allowed to make retroactive changes to laws and agreements that took place while the companies made their decision to look for gas. The argument is that the companies made an economic decision based on their cost-benefit analysis which was based on a certain level of royalties, and invested money and effort in searching for the gas with no guarantee that they will find any.

However, Israel created the law governing royalties in 1952—a time

Graph 1: Total Government Take from Natural Reserves



Note: the figures include all taxes that would apply to the extraction of natural resources. In Israel the gas royalties themselves are only 12.5%, and the figure of 32% of government take quoted in the graph includes corporate taxation as well (Goldstein, 2010c; Byte and Switch, 2010).

when government-company relations were resolved in negotiation—and it was clear that the royalties outlined in the law are merely a starting point from which the government will go up when the case becomes relevant. This interpretation leads to the conclusion that the drilling companies would have realized well in advance that they will be expected to pay much higher royalties than the ones set by the 1952 law (Weiss, 2010b). Furthermore, according to Michael Malchior, a former cabinet minister, the gas companies received their licenses to search for gas for free from the government, and later sold some of the licenses for money, indicating that they have already received gifts from the state (TheMarker, 2010).

In the past, other capitalists in Israel have made their fortunes by taking advantage of Israel's low taxation and the government's tendency to assist capitalists. The most notable example is the Ofer family, which has become one of the most powerful and influential families in Israel (Forbes, 2007), and which made a fortune from Israel's phosphates, through purchasing the Chemicals for Israel company from the government during the 1990s* (Rom, 2010).

For the past decade, Yitzhak Tshuva, one of the biggest capitalists that stands to gain from the gas discovery, has been lobbying to prevent the government from updating the royalties on the discovery of resources (Yachimovich, 2010). At the same time, companies investing in the Tamar gas field, including Tshuva himself, signed a contract with Israel's Electricity Company stipulating that the agreed natural gas price could be increased if the government will decide to increase the taxation over the gas. This suggests that the companies did expect an increase in the royalties, and prepared themselves for it (Bar-Eli, 2011d). It is also noteworthy that since the tax only applies to gas profits, not production, the extra taxes cannot cause the investors to actually lose money, only

* The Ofer brothers have a long history of business with the Israeli government, which has been the source of much of their wealth, through Israel Corp, Zim and other companies (Hever, 2008).

to reduce their profits. Thus, there is no economic justification to increase the price when the tax is increased (Arlozorov, 2011e).

Nevertheless, the gas companies demanded a 40% increase in the agreed-upon gas price. The government responded by forbidding the (government owned) Electricity Company to increase the price. Meanwhile, Tshuva's company Delek, which already owns a power plant in Ashkelon, has the right to start two more and is trying to get a permit for a fourth power plant. This will give Tshuva control over the supply chain from natural gas to electricity, something that the Israeli Electricity Authority is trying to prevent (Bar-Eli, 2011f).

Arguments against raising the taxes included biblical references and comparisons with Holocaust survivors.

Israel's Minister of Finance, Yuval Steinitz, chose not to make such a sensitive decision on his own. He appointed Eitan Sheshinski, an economics professor from the Hebrew University, to head a committee to make the decision. The committee was called "the Committee for the Investigation of Fiscal Policy Regarding Oil and Gas Resources in Israel," or the "Sheshinski Committee" for short. The committee was responsible for creating recommendations for updating Israel's taxation of oil and natural gas production.

The committee immediately came under pressure from the companies that stand to profit from the gas extraction, as well as from social groups who demand a fairer distribution of wealth and by environmental groups. Among the companies that lobbied the committee were the exploratory drilling companies (mainly Delek and Noble Energy), Israel Corp and Chemicals for Israel (which also mine for natural resources), Rafael and the Israel Aerospace Industries (weapon companies), and Teva (a pharmaceutical company, Korin-Lieber, 2010).

Arguments were mounted to prevent the increase of the gas royalties, including the argument that the US has in the past protected its companies' advantage in foreign markets, that the gas companies are similar to released soldiers who are at risk of having their benefits revoked after years of service, arguments based on biblical references and the argument that raising the royalties resembles hurting the rights of Holocaust survivors (Sheffer and Kane, 2010). Later Moti Moral, one of Israel's most famous public relations experts, assembled a press conference to represent the "small investors" who would lose some of their profits if the taxes would be raised, among them a Holocaust survivor (Zano, 2010c).

At the same time, the companies tried to use more rational and academic arguments to bolster their claims.

Three of the companies that own the enterprise, Avner Oil Searches, Delek Drilling and Delek Energy, submitted a position paper opposed to raising the royalties which the state may collect from them. Their main argument was that the royalties may not be changed retroactively after the gas was discovered, but may only be changed for future gas finds (Levy-Weinreib, 2010c).

Professor Yoav Dotan, former dean of the Hebrew University Department of Law was hired by the Delek company to write an opinion which supports the company's view (against raising the royalties) while Professor Barak Medina, the current dean at the same department, volunteered to write his opinion, which argued that the state does have a right to increase the royalties (Levy-Weinreib & Barkat, 2010).

The numerous arguments leveled against the Sheshinksi committee seem almost random, but in fact they have a clear structure. At their heart is a weak and unconvincing economic argument, that high royalties might be a strong disincentive for extracting the gas. But this weak argument is amplified by appealing to political arguments, invoking similar reasoning that is often used to justify Israel's military and demographic policies.

Meanwhile, Eitan Sheshinski himself received anonymous threats on his life (Bassok, 2011c). Sheshinski commented that although interest groups should have a right to express their opinions freely, the campaign was disproportionate and unprecedented, as was the use of nationalistic arguments (Wolfson, Bing, 2011).

Moral arguments and physical threats were also accompanied by the threat that the exploratory drilling companies will not develop the gas fields if their profits won't be high enough. Because Israel's energy market depends on natural gas, and because of the uncertainty of gas shipments from Egypt (see below, pp. 40ff.), this threat proved eventually much more effective than the all other arguments (Bar-Eli, 2011b).

One of the companies with a clear economic interest in low natural-gas prices is Israel Corp, which owns the refineries in Haifa and several chemical plants.

Following the death of his father Sami Ofer, Idan Ofer stands to inherit his father's holdings in Israel Corp (Hever, 2008). The refineries are expected to increase their profits by US$ 130 million in 2011, and an additional annual profit of US$30 million starting from 2012 from refining the natural gas extracted offshore of Haifa (Gabizon, 2010). Another estimate offered that the refineries will reap US$ 360-400 million from the natural gas (Gabizon, 2011). While this suggests that Idan Ofer has a clear economic interest to lower the taxation on the extraction of gas, his business sense may also tell him that Israel's right-wing policies could prove much more destructive than a high tax.

Unlike other interest groups in the natural gas, Idan Ofer was not quick to find comfort with the extreme right in Israel, seeing that other economic interests could be threatened by Israel's hard-line policies. He convened 80 Israeli businessmen to discuss how Israel's refusal to accept Palestinian statehood could lead to widespread boycott against Israel. He threatened that Israel could become a pariah state "like South Africa" (Zarchia, 2011g). Ofer's position demonstrates that Israeli capitalists are in a difficult spot—because the right wing politicians who are willing to protect their domestic economic interests are also increasing the risks from global economic pressure on the Israeli economy.

Several Israeli businessmen expressed concern that Israel's right-wing sentiments will bolster the boycott against it.

The Media Takes Sides

Two prominent Israeli economic newspapers: *Globes* and *TheMarker* have launched a series of articles on the topic, with *Globes* clearly favoring the gas companies, and *TheMarker* taking the view that raising the royalties might be acceptable.

TheMarker is a sister newspaper of the *Ha'aretz* newspaper. Both are owned by Amos Shocken, a media giant in Israel who sometimes promotes Zionist and liberal ideas.

Globes magazine is owned by much bigger media giant Eliezer Fishman, who also has extensive holdings in other media venues, as well as real estate and textiles.

TheMarker interviewed famous economist Joseph Stiglitz, who argued that corruption is rampant in the energy market, and that the interference of US officials in support of Noble Energy in Israel's consideration of increasing royalties is a good example of such corruption (Bar-Eli, 2010a). The argument that officials from the US interfere with Israeli policy implies a breach of Israel's sovereignty, and brings the topic of royalties on the gas to a wider political context. Thus, Stiglitz has also appealed to Israeli national pride to make an argument about economic justice, though his argument supported the social, rather than the corporate, argument.

Globes retaliated with a story about Danny Gillerman, former Israeli ambassador to the US. Now a consultant for gas companies, Gillerman brought out the "big guns" by insinuating that Israel's scramble for international legitimacy is jeopardized by the risk of raising the royalties. Gillerman, who has been interviewed by the Israeli media regarding Israel's deteriorating international image, argued that Israel's image could be severely hurt by a retroactive move to raise the royalties. The *Globes* newspaper tried to gloss over Gillerman's connection with the gas companies and emphasize the fact that he wrote his opinion voluntarily and without pay, while mentioning in passing that Gillerman does receive payment from the gas companies for consultancy on "different matters" (Levy-Weinreib, 2010b). Such words from a public figure like Gillerman inevitably make a connection between the real reason for international criticism of Israel (cruelty to Palestinians) and the issue of royalties on the extraction of natural resources ("cruelty" to gas companies). Professor Eyal Benevenisti has even submitted an opinion to the Sheshinski Committee that Noble Energy could sue Israel in the International Court of Justice in The Hague if the royalties would be increased (Ben-David, 2010).

Newspapers took sides in the struggle, dedicating hundreds of pages to arguments for or against the tax increase.

Gillerman, through *Globes*, has attempted to win public support for the corporate agenda for lower taxes by appealing to the Israeli public fear of international criticism. Needless to say, international criticism of Israel does not focus on Israel's mistreatment of corporate entities, but on the aggression towards Palestinians and other minorities, a fact which Gillerman chose to ignore.

After the Sheshinski Committee published its recommendations, *TheMarker* published celebratory articles, phrasing the titles to create a false picture as if the government take will be higher than it was really said to be. While the Sheshinski Committee recommended a gradual increase in the government take up to a maximum of 60%, *TheMarker* came up with the title: "Sheshinski Decided in the Public Interest: 66% of the Gas Income Will Go to the State, 'Natural Resources are the People's Asset'" (Bar-Eli & Zano, 2010).

A less prominent economic newspaper, *Kalkalist*, owned by the Mozes family (with extensive holdings in Israeli media, Eilam, 2011), also published several reports exposing the links between Israeli politicians and business interests, and hinted that corruption could be swaying the Knesset's decisions regarding the gas taxation question (Khoval, 2010; Sheffer and Kane, 2010; Avital, 2011; Izisko, 2011).

Yitzhak Tshuva

Taxation is Treason?

The political undertones of the disagreement reached even higher levels, once extreme Israeli right-wing organizations launched a campaign against raising the gas royalties.

The campaign, which is estimated to have cost millions of NIS, included an animated video and large newspaper advertisements. Signed by an organization called "The Forum for the Land of Israel," a small student group from Bar-Illan University, the campaign refused to declare the source of the funding for the campaign.

The campaign suggested that the Sheshinski Committee was populated by leftists and was influenced by outside "leftist" forces (such as the New Israel Fund).* It alleged that the "leftist" agenda was to raise the gas royalties to scare off investors, thus cementing Israel's dependence on gas imported from Arab countries. It should be mentioned that Egypt is the only Arab country from which Israel imports natural gas (Zarchia & Bar-Eli, 2010).

A television show by Micky Rozenthal attempted to investigate who is behind the campaign, and whether the energy companies themselves have

* The New Israel Fund is a social fund which invests in projects related to democracy, freedom, justice and equality in Israel. However, it should be noted that the fund does not deal with the occupation of the Palestinian territories, with Israel's foreign relations issues, and it defines Israel as a "democracy." As such, it is a fund for promoting internal Israeli reform and for alleviating social injustice in Israel (NIF, 2010).

tried to harness anti-Arab sentiments in Israel to protect their capitalist gains, but failed to locate the source of the funds (Rozenthal, 2010).

The fact that Israel imports natural gas from Egypt, a state that has signed a peace treaty with Israel and which is Israel's ally in imposing the siege on the Gaza Strip, did not matter much to the campaign writers. Also, the idea that investors might decide not to extract the gas if Israel will increase the royalties to a more acceptable level lacks any empirical basis, and has been refuted by experts, such as Professor Danny Rabinovitz (Rabinovitz, 2010).

The Forum for the Land of Israel suggested that raising the taxes is akin to promoting "Arab gas."

It should be noted that the campaign failed to catch much public attention, and few people took its arguments seriously. A survey conducted in January 2011 showed that a large proportion of the public (48.3%) supported the Sheshinski conclusions, 14.3% believed that the committee sided with the gas-companies, and only 10.9% believed that the committee's recommendations hurt the gas companies (Bassok, 2011a).

One notable exception is the Israel Beiteinu party, one of Israel's most extreme-right parties. Israel Beiteinu adopted the rhetoric of reliance on low gas royalties as a path for "energy independence" uncritically (Michaeli, 2010). In the government vote on the Sheshinski Committee recommendation, the five ministers from Israeli Beiteinu party were the only opposition (Bassok & Zarchia, 2011b).

Landau, Israel's Minister of National Infrastructure (Likud) threatened that Israel's electricity supply could be in danger if taxation would increase (Basok and Zarchia, 2010).

Another organization was quickly set up to lobby the government to keep the government take as low as possible, The Gas Finders Association (Zano, 2010a).

These organizations tried to promote the idea that lower taxes on the exploratory drilling companies is in the best interest of the citizens of

Israel, and is therefore the patriotic thing to do, although a US company controls 38.64% of the natural gas finds (Bar-Eli, 2010e).

The Forum for Civil Action, an organization formed to demand an increase in the royalties paid by the gas companies, stood in the other corner of the ring. The Forum for Civil Action created petitions, lectures and citizens meetings and argued that the profits from the gas extractions must be divided 80% to the public and 20% for the companies (TheMarkerOnline, 2010a). This argument actually does not object to enriching the already wealthy gas company owners who profit from natural resources, but merely tries to divide the profits differently. Their call for an 80-20 division is arbitrary, and not based on any calculation or principle, except for outrage that the gas companies will keep 68% of the value of the gas to themselves.

The Israel Beiteinu party unified in blind support for the capital owners.

The controversy surrounding gas royalties provided a rare opportunity to highlight the divisions of the political map in Israel. The Israeli Zionist left and parts of the non-Zionist left have organized a demand for higher royalties, comparable with developed countries around the world. The right wing and the extreme-right generally took the opposing view, that the property of the capitalists must be defended. Indeed, even within the Knesset Finance Committee support or objection to raising royalties was largely based on the left/right distinction (Zarchia, 2011b).

This map reveals subtle undertones of Israel's political sphere. At face value, there seems to be no reason for political groups that support Jewish supremacy in Israel, the continuation of the occupation, and the disempowerment of Palestinian citizens in Israel, to help protect the rights of capitalists. However, the surprising alliance between the extreme right and corporate interests reveals a great deal about the hidden interests behind Israeli politicians' racist and populist statements.

Politics and Capital

The Knesset's Finance Committee's first debate on the recommendations of the Sheshinski Committee ended in a rejection of the recommendations. This decision by the Knesset's Finance Committee didn't mean that the recommendations would be shelved, but it did undermine their legitimacy and the chance of them being endorsed by the government.

The Knesset committee's vote was decided by Knesset Member Nissim Ze'ev from the ultra-orthodox Jewish-religious Shas party. Although the vast majority of the party's voters are lower-class Israelis, Ze'ev voted for the corporate interest. Shortly afterwards the *Kalkalist* newspaper found out that many senior position-holders in Shas's newspaper *Yom Leyom* ("Day to Day") also occupy positions in the Equital company, which owns the Isramco exploratory drilling company. For example, Ronen Peretz, *Yom Leyom*'s CEO is also a director in Equital and in Nafta, two companies that own Isramco. *Yom Leyom* suffered from a liquidity crisis in 2003 and was bailed out by an anonymous investor, who funneled funds through offshore companies registered in Panama. Israel's state comptroller warned that *Yom Leyom* is a Shas propaganda tool, which was essential to the party's campaign in recent elections. Shas's chairman Eli Yishai, who is currently Israel's Minister of the Interior, used Equital's fax machine to call on all Shas members to subscribe to *Yom Leyom* (Izisko, 2011), but after the newspaper's exposé, the Knesset Economic Committee convened again and reversed its position, voting in favor of the Sheshinski recommendations (Zarchia, 2011e).

It should be added that the Knesset Committee was debating the final Sheshinski Committee recommendations (see box in pp. 12-13) after they were already softened following corporate pressure.

MK Ronit Tirosh (Kadima) offers another example of business trickling into the Knesset. She attacked Sheshinski and demanded that no change in the tax policy apply to the gas that has already been found. Tirosh also hired Moshe Klughaft as her parliamentary aid. Later, when he was working as her outside spokesman, Klughaft was also the spokesman for the Forum for Eretz Israel, the organization which launched the campaign against Sheshinski arguing that the committee's recommendations would give a boost to Egyptian gas. Thus, he received money to promote the interests of the exploratory drilling companies, even though he was on MK Tirosh's payroll (Avital, 2011).

Several Knesset members had extensive links to the exploratory drilling companies.

Another example is MK Haim Katz (Likud), who is a friend of Kobi Meimon (owner of Isramco), and himself an owner of Isramco stocks. Katz informed the Knesset's Ethics Committee that he will not participate in the discussion regarding the Sheshinski recommendations because of his personal stake in the matter, but at the same time he proposed and successfully passed a law which was suggested and promoted by Moti Ben-Ari, a senior manager at Israemco, protecting the rights of bond owners (Israemco itself owns more than NIS 200 million in bonds, some of which are in a state of uncertainty). Katz invited Ben-Ari to Knesset discussions without explaining Ben-Ari's connection with him (Shporer, 2011). MK Carmel Shama (Likud) accused Katz of threatening to withdraw support from Likud members during the party primaries if they expressed support for the Sheshinski recommendations (TheMarker, 2011).

In June 2011, the Tshuva-owned Delek Group announced that it had hired Roni Hizkyahu, who had previously supervised a number of Israeli banks. In the past, Hizkyahu had significant authority over Tshuva's business with the banks, but there is no evidence that he has used his authority unprofessionally. He will be employed by Tshuva to deal with energy-related matters (Rochwerger, 2011). The move sent a powerful message to government officials: if they deal with corporations "properly" they could be generously rewarded with cushy jobs (Peretz, 2011b).

Eitan Sheshinski

The Sheshinski Committee

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The Ministry of Finance made the Committee to Examine Oil and Gas Resource Policy in Israel, commonly known as the "Sheshinski Committee," responsible for creating recommendations to the government as to the preferred taxation approach for newly found natural gas reserves.

The Sheshinski Committee was under attack from the outset.

Right from the start, the Sheshinski Committee was pressured to make a specific decision.

The Knesset's Economic Committee held a special session about the gas royalties on October 5, 2010. Committee chairman Ofir Akunis (Likud) held the position that royalties must not be increased, citing "security concerns." Many of the attendants were on the gas companies' payroll—and there were fifteen lobbyists present for the seventeen Knesset members who attended. The New Israel Fund was forbidden from sending representatives to the discussion (although the NIF was attacked in the discussion), but Yitzhak Tshuva himself attended, and was greeted warmly by Knesset members who argued that the gas extraction was being delayed by "hostile elements from within the state." Only after three hours of discussion was a non-Knesset member allowed to make an argument for increasing the royalties (Saporta, 2010; Zarchia & Bar-Eli, 2010).

The brute display of corporate

power in the Knesset committee convinced MK Moshe Gafni to bar lobbyists from attending the meeting of the Knesset Finance Committee in January 16, 2011 (Zarchia, 2011c). At the last moment, however, Gafni changed his mind and lobbyists came to the meeting (Zarchia, 2011d).

Yuval Steinitz, Israel's Minister of Finance, supported the Sheshinski Committee, denouncing the personal attacks against Sheshinski (Steinitz, 2010). But, as the brunt of the pressure fell on the Sheshinski Committee, it appears that by forming the committee, Steinitz successfully deflected the criticism that would have been pointed at him.

On November 10, 2010, the committee gave its preliminary conclusions. The committee found that, under the government's current taxation system, the companies were exempt from exhaustion tax. In most countries companies are expected to compensate the state for exhausting publicly-owned natural resources, in addition to paying normal taxes on their profits. Without this tax in place, a similar-sized company would pay the same taxes on its profits, even if it was not exploiting non-renewable resources (TheMarkerOnline, 2010b).

The committee also stated that the "retroactive" argument used by the gas companies is irrelevant, because the law from 1952 was legislated under a different corporate tax system, which has been relaxed dramatically over the past decades.

Additionally, the government take will be increased with a special oil and gas tax, which will only apply after the companies accumulate a 50% profit on their initial investment (Ibid).

The conclusion of the committee was that the oil and gas tax should be progressive, so that eventually, the government take will reach a maximum of 70%, and only after the investors received their 50% profit (Bar-Eli & Zano, 2010).

This announcement caused a plummet in the stock value of the gas companies—which lost seven percent in one day—dragging down the entire Israeli stock exchange (Ozri, 2010).

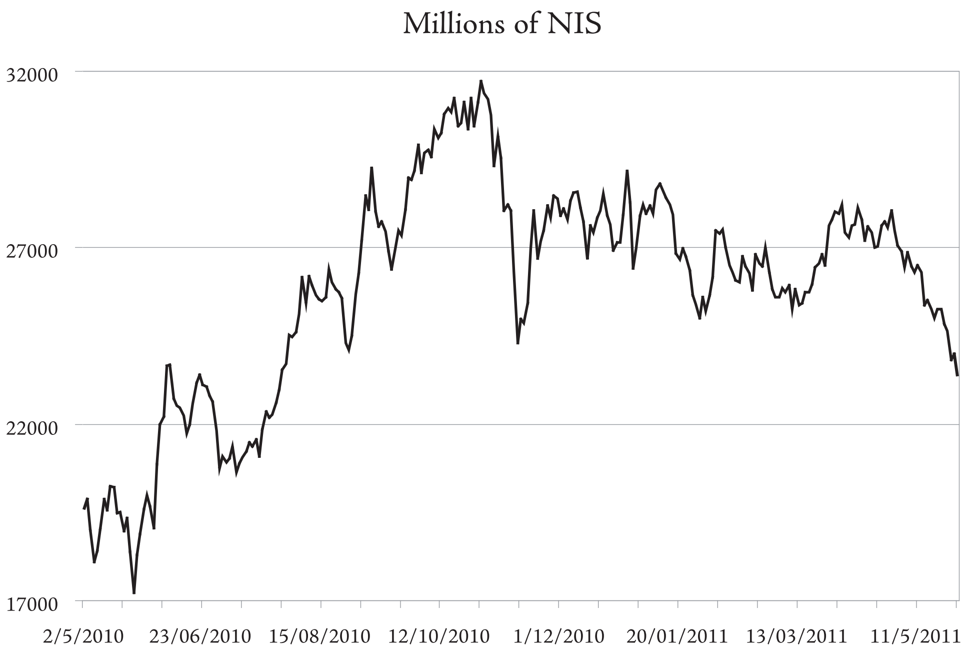
Nevertheless, a closer look at the Sheshinski recommendations shows that the taxation levied on the exploratory drilling companies is not particularly high. The committee suggested that the companies be exempt from taxes until their profits reach 50% (and sometimes 100%) of the initial investment, a benefit which does not exist in other sectors. Further, the companies enjoy an artificial inflation of their search costs, so that money invested in searching for oil or gas is considered 50% higher than what the companies actually spent (which translates into an additional tax break). All investments in extraction of oil or gas will also enjoy an accelerated depreciation—meaning that the companies will be allowed to argue that their investments in extracting the oil or gas lose their value after 6-10 years, and write them off as "expenditure" (thus paying less tax) even if the actual equipment will last for much longer. Further, gas royalties would be counted as an additional expenditure for the companies, allowing them to deduct the payments from the taxes they would normally pay on their profits. Additional drilling will grant the companies immediate deductions on royalties due.

> *The preliminary recommendations of the Sheshinski Committee assured the investors a return of 50% on their investment before any taxes would apply to them.*

The rate of depreciation on the drilling investments hasn't been determined, allowing the companies to keep demanding better tax conditions (profitable companies usually prefer a rapid rate of depreciation which allows them to pay lower taxes). This means that the companies will be allowed to exploit much of the gas reserves without paying nearly any taxes, and it would take between 8 to 15 years until the government will begin to collect royalties on the various fields. Even then the royalties will be low compared with many countries in the world (Bar-Eli, 2010b).

The rationale of the Sheshinski Committee was that the high-risk involved in oil and gas-searches should ensure high profits for investors if they find commercial quantities of

Graph 2: Exploratory drilling Companies Value



Note: this graph shows the total market value of the four major exploratory drilling companies between May 1, 2010 and May 30, 2011. Based on information from the Tel-Aviv Stock Exchange website: http://www.tase.co.il/tase/homepage.htm.

oil or gas. Regardless of how efficient the extraction process is and regardless of the fluctuations in gas prices, government taxation will only take effect after the companies accumulate sufficient profits—which were set at a 50% return on the investment. This profit ratio is already extremely high, but further benefits offered by the committee (such as an uplift of the exploration costs and accelerated depreciation), make the expected profits of the companies even higher (Blumkin, 2010).

An Israeli environmental organization, Adam Teva Vedin, published its opinion that the Sheshinski Committee ruled in favor of the gas companies

(Adam Teva Vedin, 2010).

Despite these generous recommendations, the exploratory drilling companies protested and kept demanding further concessions (Bar-Eli, 2010c). Some companies have been quoted as threatening Steinitz that he will lose his job if they lose gas deals (TheMarker Online, 2010c).

The above graph (p. 35) demonstrates that the gas companies' value skyrocketed following the discovery of the natural gas and then began a slow decline when the campaign to increase the royalties started to gain traction. The companies argued that the Sheshinski Committee's unfair recommendations drove stock prices down and made it easier for seasoned businesspeople to buy more of their company's exploratory drilling stocks on the cheap.

The gas companies issued their stock to the public before gas had been discovered to invite the public to share the risk of failed drillings. But when the drillings proved successful, the gas companies promoted the impression that government taxation would ruin their profits, thus convincing stockowners from the general public to back down and sell their stocks (Gorodisher, 2011).

The arguments that the Sheshinski Committee's recommendations levy excessive tax helped the owners of the exploratory drilling companies to buy their own stocks cheaply.

After the committee published its first batch of recommendations, Landau publically supported the gas companies. Shortly afterwards, two representatives of the Ministry of National Infrastructure in the committee, who have supported the preliminary findings, changed their opinions and threatened to pull out of the committee (Bar-Eli, 2010d).

Deutsche Bank financed Isramco's share in the Tamar field, which amounted to 28.75% of the field. It responded to the committee's recommendations by threatening to withdraw its funding of Isramco.

This argument intimidated the Sheshinski Committee into softening their recommendations by suggesting a lower tax-rate (Bar-Eli, 2010f), widening the tax brackets, and reducing the government take to 55%-60% compared to the original suggestion of 65%-70% (Bar-Eli, 2011a), thus increasing the return on the investment from 50% to 100%. These changes would increase the profits of the exploratory drilling companies by an estimated NIS 9 billion (Bar-Eli, 2011b). The committee did not explain why it decided to change its original recommendations (TheMarker Online, 2011b).

Yet bankers and financial experts found no reason to believe that exploratory drilling companies should have difficulties in raising money to finance the gas development, since the required investment in capital is estimated at 10% of the expected income from the project (Portugali, 2010b). In fact, Bank Leumi has already tried to get a piece of the financing of the Tamar drill, alongside Deutsche Bank, HSCB and Barclays, but, so far, have not been able to convince the companies to take loans from them (Barkat & Stein, 2010).

Pressure on the Sheshinski Committee "softened" the recommendations, saving the companies NIS 30 billion.

The committee's final recommendations included implementing a profit-based tax on oil and gas extraction, but also included a series of loopholes and tax-breaks to allow the investors a high profit on their investment, such as cancelling the exhaustion tax, inflating what can count as exploration costs, accelerated depreciation of investments in equipment, and a gradual implementation of the taxation which will allow investors a grace period in which they will pay reduced taxes (Sheshinski, 2011).

Even after the Sheshinski Committee softened its recommendations considerably and caved to pressure from exploratory drilling companies, the companies attacked the committee, accusing it of damaging Israel's energy market, enabling Egyptian gas to take over the Israeli market, and blaming it for retroactively changing the tax conditions on previous gas reserves (Zano & Zarchia, 2011). Tshuva had a series of meetings with Israel's ministers; Noble Energy engaged the Gilad lobbying agency; and Ratio hired the Tikshoret Plus lobbying agency. Three other PR agencies represented the exploratory drilling companies (Zarchia, 2011a). All the companies also sent representatives who spoke with Prime Minister Netanyahu (Bar-Eli & Bassok, 2011).

On the other hand, the Forum for Civil Action, members of Knesset, and the Adam Teva Vedin organization all criticized the committee for caving in to the demands of the capital owners, and changing their original recommendations even though no new information was revealed (Zano & Zarchia, 2011). Aside from a few scattered demonstrations (TheMarker Online, 2011a), the softened committee's recommendations passed with very little protest in the Israeli public.

Shortly after the publication of Sheshinski's softened recommendations, Yitzhak Tshuva purchased NIS 23.6 million worth of his own gas companies, suggesting that he did not expect the recommendations to make the companies unprofitable. While the rhetoric used by the exploratory drilling companies scared some of the investors into believing that the taxes are truly too high, thus driving down the stock value, Tshuva assessed that the companies are still likely to reap high profits, and he bought the stocks himself, thus benefiting directly from the scare campaign which he led (Zano, 2011a; Zano, 2011d).

Netanyahu gave another boost to exploratory drilling companies by promising that the state will fund the costs of security for the gas fields and drilling platforms (Peretz, 2011a) This proposal was mitigated by Finance Minister Steinitz, who offered that the state will fund up to 50% of the security costs (Bassok, 2011b).

Right before the recommendations were sent to the Knesset for the final vote (turning them into law), the Knesset members added 14 changes softening the decisions further, and further reducing the taxes of the gas companies. These changes were intensifications of the reductions already proposed in the second version of the Sheshinski recommendations, and are estimated to save the gas companies an additional amount of NIS 30 billion. Another last-minute change to the law also included limiting the maximum wage in the gas companies to 50 times the minimum wage (Zarchia, Ezran & Bar-Eli, 2011).

Last-minute changes to the Sheshinski law allowed the Ministry of National Infrastructure to withhold information from the tax authorities.

Just one day before the law was submitted for the final vote, National Infrastructure Minister Landau demanded one final last-minute change, which the Knesset Finance Committee approved after a hasty discussion. The committee cancelled a clause that forces the Ministry of National Infrastructure to provide data about the quantities from the drills to the tax authorities to help with tax calculations. Without this clause, the minister may withhold information from the tax authorities, forcing them to rely solely on the reports given by the exploratory drilling companies themselves. The minister argued that the law would appropriate responsibilities from the Ministry of National Infrastructure to the Ministry of Finance. But cancelling the clause creates a gaping loophole, which makes tax fraud much easier for the companies (Zarchia & Bar-Eli, 2011).

Also, Isramco investors appealed to the High Court, demanding to cancel the Sheshinski law (Rot, 2011). At the time of writing, the High Court had not yet given its decision.

Egyptian Gas

From the Israeli perspective, one of the biggest benefits of the Israeli-Egyptian peace treaty is trade agreements, namely those revolving around natural gas and oil supplies. Natural gas has been supplied to Israel from Egypt at very low prices—approximately half the gas prices paid in Europe—an effective subsidy that saved the Israeli energy market billions of dollars. Merav Arlozorov from *TheMarker* estimated that it saved the Israeli market US$ 10 billion (Arlozorov, 2011b; Arlozorov, 2011c).

> *Mubarak's Egypt subsidized Israel's natural gas, saving the Israeli market approximately US$ 10 billion.*

Why did Egypt agree to give Israel such a great deal? It's yet another indication of the support Mubarak's regime gave to US and Israeli interests in the Middle East. In addition to sending Egyptian soldiers to deploy along the Gaza Border in accordance to Israel's wishes (USA Today, 2005; Sharp, 2008)—soldiers who opened fire at fleeing Palestinians during the Israeli invasion of "Cast Lead" (Ha'aretz Services & News Agencies, 2008)—Egypt also gave Israel an economic subsidy by selling the gas under the market price. An odd turn of events considering that Israel's per-capita gross national income is approximately fourteen times Egypt's.

The issue of the Egyptian-Israeli gas deal surfaced in the early stages of the revolt against Mubarak's regime. The January 25th Coalition demanded that the flow of gas to Israel come to an end (Ha'aretz, 2011).

On February 5, 2011, on April 27, and again on July 4, the pipe carrying gas from Egypt to Israel was sabotaged. In March, Egypt's new petroleum minister Abdullah Ghorab criticized the low gas prices to Israel, Jordan, and six European countries, and called for amending the deal and demanding a fair price. Gas deliveries to Israel have not been regular and predictable ever since (Agencies, 2011a; Reuters, 2011; World Tribune, 2011).

The gas is exported from Egypt by EMG, a company whose value is estimated at US$ 18.3 billion. Although in Israel the company is depicted as "Egyptian," 25% of it is owned by Israeli investors (Globes Correspondent, 2011). EMG has enjoyed a tax-break from the Israeli government since 2004—a tax break that was kept from the public until 2005. EMG is taxed mainly in Egypt, and would only have to pay taxes to Israel for transportation and distribution activities inside the country, a small part of its operation. Still, the tax break demonstrates Israel's pro-corporate attitude, which goes more or less unchallenged in the public debate (Baum, 2011).

One of the owners of EMG, Hussein Salem, who the Egyptians accuse of corruption and the embezzlement of public funds, was arrested in Spain by Interpol (Ahram Online, 2011). The Spanish police found evidence that Salem was trying to smuggle large amounts of money into Spain—including, perhaps, profits from selling natural gas to Israel (Agencies, 2011b).

It is not surprising that the gas deal with Israel was a point of protest during the Egyptian revolution. The low price Israel pays for Egyptian gas was cited by Egyptians as one indicator of corruption in Mubarak's regime (Shechter, 2011).

Sheshinski said that Israel's ability to purchase natural gas from Egypt prevents the gas companies from having a monopoly (Zano, 2010b).

After natural gas was discovered in Tamar and Leviathan, off Haifa's shore, EMG entered frantic negotiations with Israel Corp, which owns the refineries in Haifa, to sign a long-term supply agreement with Egypt. EMG offered a very low price, but demanded a long-term contract in order to safeguard from competition with the new Israeli gas. Israel Corp agreed to sign, in part to prevent Israeli gas providers from creating a monopoly (Peretz, 2010). According to the agreement, EMG will provide between 53% and 60% of the projected demand for natural gas between 2013 and 2015. Landau commented that it is "a shame that there is some committee with a professor at its head, and during its time an agreement was signed with a non-Israeli provider, causing damage of 1.5 billion NIS to the Israeli market" (Bar-Eli, 2011c).

The exploratory drilling companies profited from the revolution in Egypt and used it to demand further concessions.

Compared to Israel's very low government take, Egypt collects 75% of the gas revenue as tax—but the low price on the gas means low income for the Egyptian public (Zano, 2010d).

The Egyptian gas was actually used by the exploratory drilling companies as another means to seek lower royalties. MK Zion Finian from the Knesset Finance Committee responded to the revolution in Egypt by calling to exempt the Tamar field from the Sheshinski recommendations, in order to give gas companies an incentive to develop the gas sooner (Zarchia, 2011f). Indeed, the Egyptian revolution caused an immediate increase in the stock value of the exploratory drilling companies, and attracted recommendations from analysts, because the protest was seen as weakening the competitive power of the Egyptian gas (Zano, 2011b).

The Economic Significance of the Gas Find

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Despite the hype, the actual value of the gas find is debatable. From the point of view of added income to the Israeli government, the high-end estimates are two to three billion NIS annually (Shtrasler, 2010). The estimated profit of the gas companies was to be NIS 233 billion before the Sheshinski recommendations, or NIS 125 billion under the new tax system. The difference—NIS 108 billion or approximately US$ 31 billion—will reach the Israeli government over the course of a few decades (Arlozorov, 2011a).

As Israel spends approximately 15.5% of its budget on the military—not counting its expenditure on police, prisons and other forms of security—one cannot ignore the fact that any financial boost to the Israeli government could mean more weapons and ammunition for Israeli soldiers, which are commonly used against Palestinians and other neighbors of Israel. Natural gas sales are expected to provide 4.8 billion US dollars to the Israeli army, equivalent to about 1.5 years of US military support (ICBS, 2010).

As gas has been discovered in commercial quantities throughout the eastern Mediterranean Sea, prices have become fiercely competitive. Profits come from controlling the pipes and refineries, limiting the potential of the Israeli companies to increase their profits (Gilai, 2010a). However, Germany's decision to close its nuclear reactors in response to the nuclear disaster in Japan has increased the projected demand for natural gas. The expected jump in natural gas prices caused an immediate 4%-8% increase in the value of the exploratory drilling companies (Ezran, 2011).

New technologies for drilling and extracting gas have resulted in more discoveries of gas fields around the world. Foremost among them is the new ability to extract cheap gas from shale gas (Arlozorov, 2011d). The gas price peaked at 12 US dollars for one million BTU* in 2008, but dropped to 4 US dollars for a million BTU by the end of 2010. In fact, the rate of gas finds is so fast that the cost of energy produced from natural gas compared to the cost of energy produced from oil has dropped steadily in the past three years (Tzur, 2011).

Because Israel has poor relations with most of its neighbors, the only viable export option for the gas is Greece. But Israeli gas companies would have to compete with Gasprom, the Russian natural gas megacorporation which has near-monopolistic status in east and central Europe (Gilai, 2010b).

The gas companies working in Israel will also have to compete with Qatar, which is already exporting gas from a field that has approximately 56 times the amount of gas in the Leviathan field offshore of Haifa. Qatar nationalized the gas from the company Royal Dutch and used the profits to improve its public services (Tsur, 2011).

The economic prosperity initially promised by the natural gas find is unlikely in light of fierce regional competition.

In March, the Leviathan companies announced that they have discovered the potential for more gas reserves under the Leviathan field, possibly doubling the amount in that field. This could extend the lifespan of the field significantly, but is not expected to change the interim profitability of the field (Zano, 2011c).

However, in light of the Israeli Electricity Authority's June 2011 an-

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* BTU: British Thermal Unit, is the amount of energy required to heat one pound of water by one Fahrenheit degree.

nouncement that it plans to increase electricity prices in Israel by 20%, the importance of natural gas to Israel must be re-examined. The main cause for the sharp increase in electricity prices is the sudden shortage of cheap gas from Egypt, and no alternative sources for natural gas are available. Such an increase in electricity prices affects every aspect of the Israeli economy, industrial production costs, and, of course, the cost of living—it is nothing short than a blow to the Israeli economy as a whole. The natural gas from the recent discoveries will probably not be available for use before 2013, but even then it is not likely to make electricity cheaper, but merely to slow down the rate of rising prices (Bar-Eli, 2011g).

One positive effect of the public struggle over the gas royalties is that it led to the exposure of the vast tax relief enjoyed by the Israel Chemicals Ltd. (ICL) company, which mines potash in the Dead Sea without paying royalties to the state. This discovery created a media uproar, which led to a reconsideration of the agreements between the state and ICL (Khoval, 2010).

Israel may have to compensate the Palestinians for encroaching on the gas market while keeping the Gaza fields undeveloped.

The ecological ramifications of the gas find are still unclear. While natural gas is considered a cleaner form of energy than oil and coal, the drilling itself puts the maritime environment at risk. The Knesset, however, decided not to discuss the environmental risks involved in the extraction of gas. The World Wildlife Fund (WWF) issued a warning that the gas drills ignore international agreements to preserve wildlife, and that delicate eco-systems would be put at risk as a result of the drilling (Rinat, 2011).

Conclusion

After a heated debate, the Israeli government adopted the softened Sheshinski recommendations. Prime Minister Netanyahu promised to use the income from the gas royalties for education and security. He added that he expects "Israel's enemies" to try to harm the gas fields, and said that Israel's security forces will be charged with guarding the fields (Bassok & Zarchia, 2011a).

The capital owners made significant achievements through intimidation, threats, and lobbying, worth billions of dollars.

Furthermore, the Egyptian revolution and the disruption in Egyptian gas imports have made it far less likely that Israel would be able to export its natural gas reserves. Israeli capital owners promised that they would be able to compete with Egyptian gas, thus offering the consumer lower-cost energy. But they are now unlikely to keep the promise, in the absence of competition from Egypt. Israel can hope for very little from the natural gas beyond meeting its own energy demands.

Also, the natural gas development has a negative impact on the Palestinians' potential for developing their natural gas reserves offshore of the Gaza Strip. Because the Palestinian gas was discovered before the Israeli gas, but is not scheduled to be developed before the Israeli gas, a Palestinian state—if one should be created—will have a strong case for demanding compensation from Israel for preventing them from developing their natural resources, and for using force to tap the natural gas market before the Palestinians could enter it.

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About the AIC

The Alternative Information Center (AIC) is an internationally oriented, progressive, joint Palestinian-Israeli activist organization. It is engaged in dissemination of information, political advocacy, grassroots activism, and critical analysis of Palestinian and Israeli societies as well as the Palestinian-Israeli conflict.

The AIC strives to promote full individual and collective social, economic, political and gender equality, freedom, and democracy and a rejection of the philosophy (ideology and praxis) of separation.

The most urgent regional task is to find a just solution to the century-old colonial conflict in Palestine and confront the ongoing Israeli occupation-regime within its international framework. The AIC method of action develops from the awareness that local struggle must be practically and analytically situated within the framework of the global justice struggle.

The internal AIC structure and working relationship aims to reflect the above mentioned values.

Shir Hever

Economy of the Occupation

The Economy of the Occupation series, published by the Alternative Information Center, offers a new approach to the economic situation in the Occupied Palestinian Territories (OPT) and Israel. The series provides accessible and unique analyses of the socioeconomic interests behind the Israeli occupation of Palestine.

Most Palestinians and Israelis possess a limited understanding of their own socioeconomic situation and its deep connection to the conflict. On the rare occasion that the local media addresses the issue, it usually does so in a cursory manner, failing to make the necessary links between society, politics, and the economy in the OPT and Israel—leaving Palestinians and Israelis uninformed and disempowered. For this reason, it is crucial to offer alternative readings of the economic reality created by the occupation.

Flammable Politics: Political-Economic Implications of Israel's Natural Gas Find shows how the seemingly innocuous discovery of a natural gas reserve revealed deep divides in Israeli society and contradictions within the Israeli government. The heated debate that surrounded the natural gas also mirrored Israel's existential anxiety and the fear that the state will be held accountable for its actions.

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