

Offshore Gas Reserves: Big Gas Find Sparks a Frenzy in Israel

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Editor's Note

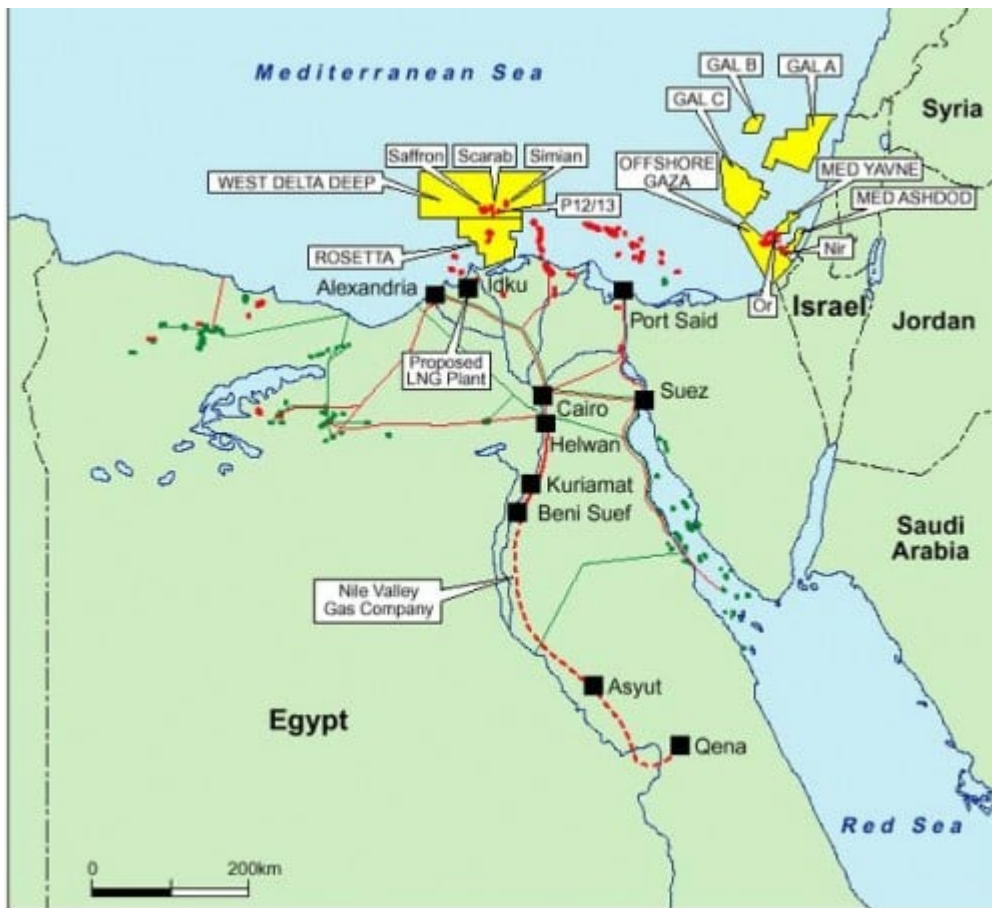
We bring to the attention of our readers a article in the WSJ focussing on Israel's offshore gas reserves. What is not mentioned in the article is the issue of ownership of these Israeli and Palestinian ownership of these reserves.

In this regard, the military invasion of the Gaza Strip by Israeli Forces in late 2008 bears a direct relation to the control and ownership of strategic offshore gas reserves. A large segment of these gas reserves lie off the coast of Gaza. The Gazanb reserves are contiguous of those of Israel. (See Michel Chossudovsky, War and Natural Gas, The Israeli Invasion of Gaza, <http://www.globalresearch.ca/index.php?context=va&aid=11680>, January 2009)

The military occupation of Gaza was intent upon transferring the sovereignty of the gas fields to Israel in violation of international law.

As suggested by Illan Pappé, Tel Aviv is now considering launching another military operation directed against Gaza. (See [The Drums of War Are Heard Again In Israel](#), December 30, 2010).

The hidden agenda is the outright confiscation of Palestinian gas fields (see maps below) and the unilateral declaration of Israeli sovereignty over Gaza's maritime areas. This would be implemented through the integration of Gaza's contiguous gas reserves with those of Israel. The militarization of the entire Gaza coastline, which is strategic for Israel, is contemplated.



Map 1



Michel Chossudovsky, December 30, 2010

TEL AVIV—Two years ago, Ratio Oil Exploration LP, an energy firm here, employed five people and was worth about half a million dollars.



Noble Energy

Operations in Noble Energy's Leviathan gas field, the world's biggest deepwater gas find in a decade.

Today it sits at the center of a gas bonanza that has investors, international oil companies, Israeli politicians and even Hezbollah, Israel's sworn enemy, clamoring for a piece of the action.

Ratio's market capitalization now approaches \$1 billion. The rally at Ratio is thanks to the company's 15% stake in a giant offshore gas field called Leviathan, operated by Houston-based [Noble Energy](#) Inc.

On Wednesday, the frenzy got fresh fuel: Noble confirmed its earlier estimates that the field contains 16 trillion cubic feet of gas—making it the world's biggest deepwater gas find in a decade, with enough reserves to supply Israel's gas needs for 100 years.

It's still early days, and getting all that gas out of the seabed may be more difficult than it seems today. But Noble and its partners think the field could hold enough gas to transform Israel, a country precariously dependent on others for energy, into a net-energy exporter.

Such a transformation could potentially alter the geopolitical balance of the Mideast, giving Israel a new economic advantage over its enemies.

Even before Wednesday's announcement confirming the size of Leviathan, the big field was causing a ruckus in Israel and the region.

Leviathan, named after the Biblical sea monster, and two smaller gas fields nearby have kicked up a broad speculative craze.

Israel's Gas Bonanza

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The energy index of the Tel Aviv Stock Exchange rose 1,700% in the past year. In recent months, energy stocks accounted for about a quarter of trading activity on the exchange, once mostly the domain of real-estate companies.

It's also shaken regional relations. Lebanese politicians are trying to lure companies to explore their nearby waters, while the two countries—still technically at war—have threatened each other over offshore resources.

A minor diplomatic furor has erupted between Israel and the U.S., which is lobbying hard against Israel's plans to raise taxes on energy companies, including Noble.

Leviathan sits some 84 miles off Israel's northern coast and more than three miles beneath the Mediterranean's seabed. Noble began drilling its first exploratory well in the field in October.

Even before Leviathan, a series of finds had put the so-called Levant Basin, stretching offshore in the Mediterranean, on the international energy map.

In March, the U.S. Geological Survey released its first assessment of the zone, estimating it contained 1.7 billion barrels of oil and 122 trillion cubic feet of gas. That's equal to half the proven gas reserves of the U.S.

The finds also exposed a grittier underside to Israel's financial sector. A string of criminal investigations launched by Israeli authorities into share-price movements and company disclosures have dogged some of the bonanza's highest flyers.

And a long-running shareholder fight at Ratio spilled into the public this fall, featuring a cameo appearance by a man wanted by U.S. authorities on racketeering and conspiracy charges.



Israel's recent discovery of offshore gas fields has Lebanon, its northern neighbor, looking to do the same to help feed its growing electricity demands. WSJ's Don Duncan reports from Lebanon.

Except for the occasional small oil and gas find in its early years, Israel has searched in vain for energy. Big Oil shied away, worried about antagonizing Arab and Iranian partners.

A hardy group of Israeli explorers kept at it anyway. Ratio was one of them. In the early 1990s, Ratio's chief executive, Yigal Landau, from a family of infrastructure magnates, and Ligad Rotlevy, whose family textile business goes back 80 years, formed the company to search for oil onshore.

By then, companies were also venturing offshore. In 1998, another Israeli energy firm, Delek Group Ltd., persuaded Noble, one of the first independents to operate offshore in the Gulf of Mexico, to start looking in Israel's slice of the Mediterranean.

Noble drilled its first Israeli well in 1999, and quickly scored two modest finds. Financial firms and local businessmen with little energy experience began snapping up offshore leases from the government.

Thanks to a 1952 petroleum law still on the books, Israel offered some of the world's best perks to energy companies, including low royalties and corporate taxes on exploration.

Ratio tried to buy into the offshore projects that Noble and Delek were pursuing, but was rebuffed. Instead, in 2007, Messrs. Landau and Rotlevy put up \$40 million and took a gamble on the rights to an offshore license neighboring the Noble and Delek fields. It would eventually become the Leviathan field.

Armed with promising seismic data, the pair then convinced Noble and Delek to buy into their lease. They sold a 45% stake to Delek and a 40% stake to Noble.

In January 2009, Noble made a landmark discovery. The Tamar field contained premium quality gas—almost pure methane. Noble had expected to find three trillion cubic feet at the most. The reservoir ended up containing nearly three times that. Two months later, the company found a second, smaller deposit of gas at the nearby Dalit field.

Then, last summer, Noble dropped a bomb shell. The Leviathan field appeared to be a supergiant, according to three-dimensional seismic studies, with almost twice the gas reserves of Tamar.

Ratio's shares soared, and so did those of other energy firms in Tel Aviv. The rally set off alarm bells among regulators.

"We saw new players, and these skeleton entities that had nothing to do with oil, had no experience or know-how, buying and trading leases, making baseless claims," said Industry, Trade and Labor Minister Uzi Landau. "We decided we had to stop this crazy atmosphere engulfing the market." He wouldn't discuss specific companies.

Officials at the Israeli Securities Authority declined to comment on specific cases, but said they were concerned about an ongoing pattern in which small energy companies publish vague or misleading reports that cause their share prices to skyrocket, and often to plummet later.

In September, the ISA raided the offices of two energy-exploration firms related to probes into trading irregularities.

In the case of EZ Energy, regulators stormed its offices Sept. 20, seizing computers and files after its stock shot up 150% in a single session. The ISA says EZ Energy is being investigated for criminal wrongdoing, but hasn't been specific.

EZ Energy declined to comment. The company has disclosed it held a private meeting with Ratio to discuss buying a small share of another, unstudied offshore gas license. Ratio said the company has stopped taking meetings with other energy firms. Ratio isn't accused of any wrongdoing in connection with EZ.

Amid the stock-market frenzy, the Israeli government started considering changing its 1950s-era energy royalties and tax regime, to boost the government's take of any gas find.

Earlier this year, Finance Minister Yuval Steinitz said he was considering changing terms retroactively—meaning the government could extract better terms on previously assigned leases. Noble and Israeli oil executives went on the offensive.

A retroactive change would be "egregious" and "would quickly move Israel to the lowest tier of countries for investment by the energy industry," Noble's chief executive, Chuck Davidson, wrote Mr. Steinitz in April.

The company enlisted high-level negotiators, including the U.S. State Department and former President Bill Clinton, to lobby against any change.

Mr. Clinton raised the issue in a private meeting with Israeli Prime Minister Benjamin Netanyahu in New York in July, according to a Clinton aide. "Your country can't just tax a U.S. business retroactively because they feel like it," the aide said Mr. Clinton told Mr. Netanyahu.

Mr. Netanyahu was noncommittal, the aide said. A spokesman for Mr. Netanyahu declined to comment on the meeting.

Finance Minister Steinritz has so far ignored the pressure. Last month, he said a government-appointed committee had made preliminary recommendations to abolish tax breaks for energy firms and impose steep tax increases of 20% to 60% on windfall profits. Any tax changes are subject to approval by Israel's cabinet.

"Israel is sovereign to make its own decision and change its tax regime," Mr. Steinritz said in an interview.

Shares in energy companies plummeted on news of the tax increases. Delek Energy said it would have to reevaluate the Tamar field. "This really threatens our ability to deliver the project on schedule," said Gidon Tadmor, the CEO. Funding for development of the gas field is now on hold, he said, due to banks' concerns about the new tax regime.

Despite these problems, Israel's gas find is making waves abroad. Lebanon has staked out its own claim to offshore gas. In August, lawmakers in Beirut rushed the country's first oil-exploration law through its normally snarled parliament.

Lebanon's oil minister, Gebran Bassil, an ally of the Shiite militant group Hezbollah, said in late October that his ministry hopes to start auctioning off exploration rights by 2012.

Iran, Israel's arch-nemesis and Hezbollah's chief backer, has also weighed in. Tehran's ambassador to Lebanon, Qazanfar Roknabadi, last month claimed that three-quarters of the Leviathan field actually belongs to Lebanon.

Mr. Landau, the Israeli infrastructure minister, denied the claim and warned Lebanon that Israel wouldn't hesitate to use force to protect its mineral rights.

Meanwhile, the poster child of the boom, Ratio, has seen its star fade after authorities launched a criminal probe of the company's relationship with an Israeli wanted by the U.S. on racketeering and conspiracy charges.

The Israeli investigation is ongoing and charges haven't been filed.

A disgruntled investor, Shlomi Shukrun, has publicly accused Ratio's founders, Messrs. Landau and Rotlevy, of recruiting Meir Abergil to pressure Mr. Shukrun out of his shares and money he says they owed him.

Mr. Abergil, along with his brother, currently sits in an Israeli prison awaiting extradition to the U.S. to face a 32-count federal indictment. He declined a request to comment for this article.

Ratio officials, meanwhile, say Mr. Shukrun hired people with links to a Georgian crime syndicate to threaten Ratio's Mr. Landau and his family into making up Mr. Shukrun's losses. Mr. Shukrun's lawyer said his client did send people to collect money from Mr. Landau, but he denied making any threats and denied any connection between his client and Georgian organized crime.

Instead of turning to the courts, the two sides say they turned to Mr. Abergil to help broker a solution. When Ratio's share price started its steep ascent, the dispute over a few hundred thousand dollars became a dispute over a few hundred million dollars.

The case is based on a quarrel that began in 2005. It only came to light in September, when

Mr. Shukrun went public with his version of the story, and tapes and transcripts of the private arbitration hearings were leaked to the press.

Mr. Landau, Ratio's CEO, says that after Mr. Shukrun threatened him, he turned to a private security company, run by the brother of a convicted (and now deceased) Israeli crime boss. That firm, in turn, brought in Mr. Abergil, Mr. Landau has said. The brother couldn't be reached for comment.

"The smell of gas in Israel has driven people crazy," he says.

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