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Israel strikes gas in the Mediterranean

Two huge finds off Israel's coastline could turn the country into a supplier for Europe and transform energy politics

Danny Fortson Published: 10 April 2011

The expertise of an oil giant will be needed to tap the Leviathan field (Terry Vine)

As thousands of protesters thronged into Cairo's Tahrir Square in February, bedouin tribesmen hundreds of miles away blew up a remote desert gas terminal. The sabotage instantly cut off a fifth of the supplies to Israel and threw into doubt a long-standing supply agreement with Egypt.

Israel may soon be able to stop worrying. Just before the new year a group of oil companies made the world's largest gas find in a decade in Israeli waters, 80 miles off the coast of Haifa.

The find has the potential not just to make the tiny nation energy independent but turn it into one of Europe's biggest gas suppliers and, in the process, reshape the political landscape of the Middle East.

"Having made the largest gas discovery globally in 2010, and given the additional potential, it is only a matter of time before Israel becomes a big gas exporter," said Philip Wolfe, an energy banker at UBS, the investment bank. As the Arab protests that began in Tunisia spread throughout the region — the heart of global oil production — the implications could be profound.

The Leviathan field sits under 5,000ft of water and 20,000ft of rock, halfway between the Israeli coast and Cyprus. It was found by Noble Energy, a Texas oil explorer, and companies owned by Delek, the mini-conglomerate controlled by Yitzhak Tshuva, an Israeli billionaire.

The reservoir holds up to 16 trillion cubic feet of gas, far more than Israel needs. A discovery in 2009, by the same group of companies, already has the potential to secure Israel's energy needs for the next two decades. The Tamar field holds 8.4 trillion cubic feet of gas, and it is set to start flowing by 2013.

Israel's newfound treasure has the energy world agog. Gideon Tadmor, chief executive of Delek, said: "Basins of this magnitude are not often discovered. We have stirred the pot and, with so much going on in the region, we are now at the centre of focus. We have opened the eyes of the industry to the potential."

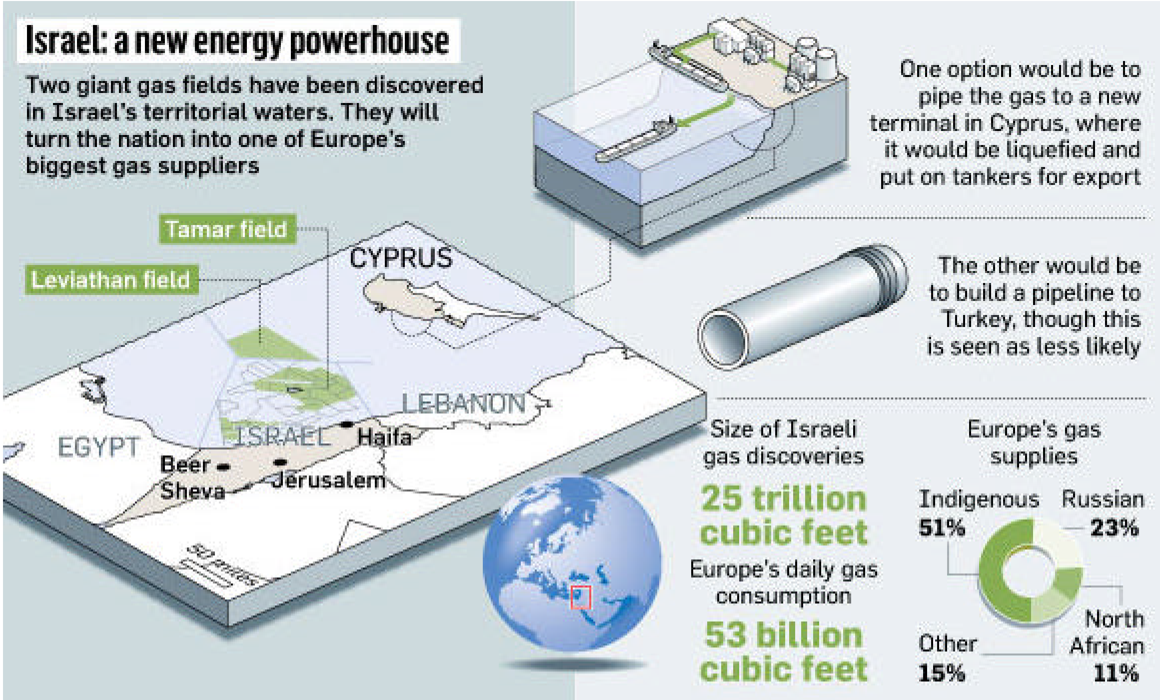
The fields will cost billions to develop. Bankers say their owners will need to team up with a large oil company such as Royal Dutch Shell or BG that has the deep pockets and technical expertise needed to realise their potential.

Politics, though, may complicate matters. Benjamin Netanyahu's government recently raised royalties on profits from natural gas fields. The previous level, about 33%, was low by oil industry standards.

The Israeli parliament agreed last month to increase this to as much as 62% — the level to which George Osborne recently raised rates for North Sea producers.

There are other problems. Lebanon, which was involved in a brief war with Israel in 2006, claims some of the gas may lie in its territory.

The exact boundaries, it claims, are unclear, and it has asked the United Nations to intervene. Michael Williams, the UN's special co-ordinator for Lebanon, last month said: "The UN supports Lebanon's right to take advantage of all the resources that may be found within its territorial waters."



The Israeli government insists the fields are well within its waters. Delek's Tadmor said: "We know it is not [in Lebanon's zone]. The maritime borders are clear."

What is certain is that as coal and oil-fired power stations are put out to pasture thanks to stringent new climate change regulations that cap carbon dioxide emissions, demand for cleaner-burning gas is growing, especially in Europe.

Analysts at UBS said: "While we project demand growth [for gas in Europe] at about 2%, we expect indigenous production [including that of Norway] to decline by an average of 1% between 2010 and 2020, leaving an import demand gap."

European politicians, meanwhile, have long talked about reducing dependence on Russian gas, fearing that the Kremlin will use its stranglehold over supplies as a political tool. Last year it met nearly a quarter of Europe's needs.

For Israel, there are a number of development options. The most likely, according to sources in the sector, is an undersea pipeline to a new terminal on Cyprus. From there the gas could be chilled into liquid form and sent by tanker to Europe or Asia.

Britain has built three liquefied natural gas (LNG) terminals in recent years to fill the gap left by dwindling North Sea supplies. Some shipments come from as far as the Arctic and Australia. Getting gas from the eastern Mediterranean would be a faster and more secure option.

The opportunity is not lost on the Israeli government. Netanyahu recently visited Cyprus — the first trip to the island by an Israeli prime minister — to discuss possibilities.

The other option is to build a pipeline to Turkey that would connect to the European network. Doing a deal there, however, could be politically difficult and also limit export options to Europe.

Japan, already one of the world's biggest LNG customers, has ramped up orders in the wake of the shutdown of nuclear plants disabled by the earthquake and tsunami. Its heightened demand looks set to continue for several years while it builds replacement power stations, which may end up being gas-fired anyway.

Analysts at Citigroup estimate that the Leviathan field alone could account for 3% of the world's shipped gas within a decade. They added that it would be "in competition with Australian, Nigerian and potentially Qatari projects for customers. A phased approach to a project of this size is likely and may require the involvement of a partner with a larger balance sheet even than Noble Energy to facilitate fully".