

Gas Pains During Israel's Election



Polls in Israel are notoriously biased by the polling organizations. Probably worse than in the US. As Mike Bates, my colleague at 1330amWEBY in Florida, [said](#), during a recent Voice of Israel National Security segment, “you only get the response you are seeking by asking biased questions”. That may explain a lot about why Israeli Prime Minister Benjamin Netanyahu got only a modest bounce overall in Israeli polls following his compelling Address before a Joint Meeting of Congress on March 3rd. Some polls had results that favored Netanyahu’s speech and views about the overarching threats to Israel’s security on Israel’s Golan frontier and a looming nuclear one from apocalyptic Shia Mahdist regime in Iran.

What is perplexing is why the opposition in Israel during the last 10 days of the upcoming March 17th Knesset elections is pounding home the line of “anyone but Bibi”. The so-called Zionist Union with former Justice Minister Tzipi Livni of Hatnua and Labor Party leader, Yitzhak Herzog, aka Tzipi and Bluji, were reaching out to the Unified Arab list to form a working coalition so that they might be selected to form a government. Perhaps they were seeking to be included in a rotating government should a draw occur with the Likud party list headed by PM Netanyahu. The Zionist Union appears to follow the line set by the Obama White House that Netanyahu has torn the fabric of the long enduring relations between the US and Israel. They further contend that he has thrown over a possible peace deal with the corrupt Palestinian Authority in an uneasy alliance with terror group Hamas. A peace deal virtually dividing Jerusalem along the 1949 Armistice line. What legendary Foreign Minister Abba Eban called the “Auschwitz Line”. There are even leftist extremists among the supporters of the Zionist Union party list who favor replacing the Jewish nation’s anthem, “Hatikvah – the Hope”, because they consider it ‘racist’.

It would appear that Netanyahu will need all on the luck of the loyal Yiddish sons of Ireland on St. Patrick’s Day to win, let alone form the next ruling coalition in the new Knesset.

There is a more troubling aspect of the 2015 Knesset election. It is the debacle over a major impetus to the spectacular growth of Israel, exploitation of its significant offshore gas fields. The prospect has been hamstrung by the December 2014 ruling of the country’s independent Israel Antitrust Authority (IAA) headed by former Tel Aviv University law

professor, Dr. David Gilo. That ruling, as we have [written](#), accused the partnership of Houston, Texas-based Noble Energy, Inc., Israel's Delek Drilling Partners and Ratio Oil of being a cartel. It requested that the partners sign a consent decree forcing them to sell the existing Tamar offshore gas field virtually stopping development of the Leviathan field in Israel's Exclusive Economic Zone. This after \$6 billion was spent to develop the off shore gas fields, denying the realization of an [estimated](#) \$65 billion in future royalty values to Israel. Gilo [revealed](#) that he was an ally of the opposition Zionist Union slate when he virtually kicked the can down the road until after the March 17th election. One wonders if he would cancel his consent decree calling the Noble Energy – Delek partnerships a cartel if a new government was led by the opposition Zionist Union? He is intent on [fixing the price of gas](#) by placing a cap on it. The Netanyahu National Economic Council, Infrastructure and Energy Ministries produced a convoluted proposed solution to the IAA cartel consent decree. Dr. Gilo and the government authors of the failed alternative proposal are [reported](#) to be off on a junket to The Netherlands to see how they regulate their on-shore and offshore North Sea gas fields.

All of this comes on the cusp of the March 17th election. There has been some good-bad news about the idiocy of the IAA recommendations. Professor Norman Bailey of Haifa University, a former Reagan National Security official, lambasted the IAA cartel consent decree stopping Israel's gas development in a March 5, 2014 *Globes Israel Business* article, [“Antitrust commissioner spoiling the picture”](#):

On the other side of the ledger, however, is the ongoing crisis of offshore gas development, triggered by the December decision by David Gilo, director of the Antitrust Authority, to renege on his agreement of the previous March with the developers, Noble Energy of the US and the Israeli Delek and Ratio groups, demanding that they relinquish control of either the Tamar or the Leviathan gas fields.

As a result of that reversal, development of the Leviathan field has ceased, Jordan and Egypt are looking for alternative sources of gas, such as Cyprus' Aphrodite field, and Edison of Italy has withdrawn from consideration of a bid on the development of the smaller Karish and Tanin fields. A committee set up by the government proposed a compromise settlement so complex and unworkable that it was immediately rejected by all sides and withdrawn.

Now the Ministry of Energy has reported that in 2014, the first full year of production from the Tanin field, the government earned 744 million shekels in royalties, expected

to rise to 820 billion this year "...and climb to 3.2-3/4 billion by 2019, PROVIDED THAT PLANS FOR EXPANDING THE ...GAS RESERVOIRS ARE CARRIED OUT WITHOUT ANY DELAY CAUSED BY THE RECENT EVENTS IN THE ENERGY SECTOR." (emphasis mine) It goes on to say "The contribution of natural gas to the Israeli economy is extremely significant".

The *Globes* headline said it all about the current dilemma, "David Gilo's zigzag on Noble Energy and Delek's gas holdings is an economic and political wrecking move." Those royalties from the Tanin gas field, *Globes* [reported](#) were up by more than 40% over earlier estimates. Our colleague Shoshana Bryen of The Jewish Policy in Washington, DC told us that Professor Bailey will have more to say on Israel's gas pains in the next quarterly journal of the JPC's [inFocus](#). Her comment on the current situation was that if Israel's offshore gas development is not speedily resolved it could delay development by more than three decades.

Criticism of Gilo and the IAA's consent decree on off shore gas regulation also came from Shraga Brosh, of the National Manufacturers Association, in a March 1, 2015 *Globes* [article](#):

An examination by the Manufacturers Association Research Department of the macroeconomic effects of a delay in development of the Leviathan reservoir found that already in 2018-2019, the economy will lose NIS 15.5 billion from a delay in development of the reservoir. 57% of the loss will consist of lost state tax revenues and royalties. The remaining 43% will result from extra energy costs paid by the economy."

Brosh added, "The government decided to combat bureaucracy and excess regulation only a few months ago, but by 2018, the current regulators will probably no longer be in their positions, while we, the citizenry, will be left to pay the prices of their irresponsibility."

We had earlier noted that the royalties from revenues produced by Israel's off shore gas fields would [finance](#) a Sovereign Wealth Fund for invest both domestically and abroad. Moreover, tax revenues produced from the gas fields revenues could materially offset the current defense expenditures that [claim](#) over 17% of Israel's budget. There may even be funds made available to take care of social programs and housing issues behind opposition complaints. But Gilo, Tzipi and Bluji appear indifferent to that largess for Israel arising from the offshore gas developments.

MIT- educated PM Netanyahu has assiduously navigated the shoals of conflicting Knesset coalition partners to foster a more open economy than the one the country's Labor Socialist founders created. We should recall that during the Second Yishuv pre-state period, leading sectors of Israel's economy, were created by the [Histadrut Labor Federation](#), including the country's health program, construction, Israel Electric Corporation, the Dead Sea Works and Israel Chemicals Limited. One example is Koor Industries. Koor was a conglomerate of consumer retail, electronics, fertilizer, pesticides and even bio tech enterprises that has been partially broken up through privatization.

Israel has talented world ranked economists and well respected entrepreneurs. This is reflected in billions of investments in high tech sector start ups and direct investments by

firms like Intel, Microsoft and recently Chinese firms. Israel's current gas pains arise from the IAA director general's misshapen economic views which may be the last gasp of the Socialist Labor origins of the country's economy. Instead of Dr. Gilo running junkets to Holland, he might best read Austrian émigré Friedrich Von Hayek's, [*The Road to Serfdom*](#). As *The Economist* [wrote](#) in 2014 about the debates between Von Hayek of the London School and Lord Keynes at Cambridge University:

[von Hayek] "argued that the extension of central planning is the start of the growth of constraints on individual liberty, which inevitably leads to the emergence of tyrannical regimes, both communist and fascist in nature."

Let us hope that the Israeli polity will see the wisdom in returning Netanyahu as Prime Minister following the March 17th Knesset elections. Perhaps, one of his first orders of business following formation of a new government might be to eliminate Israel's gas pains so that the Jewish nation has a robust economic future to complement its national security and social program needs.