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REVISITING THE PRICE OF NATURAL GAS IN ISRAEL?

(BRENT, THE PRICES OF GAS, AND DECISION MAKERS IN ISRAEL)

According to "Wikipedia" "Shell" calls the oil fields under its control using the names of birds. Accordingly one of the fields is called "Brent" after the name "Brent Goose" and in combination with the letters of the type of oil discovered in the fields—Broom, Ness and Tarbert, Etive, Rannoch. Wikipedia further states that this crude oil is of low density and has a low sulfur content, 0.37%. The price thereof constitutes a standard for determining the price of two-thirds of crude oil trades throughout the world. As of January 2015, the price of a barrel was at the "low" price of U.S.\$ 40—as opposed to its high of U.S.\$ 110— which was the price in January 2014.

A simple "technical" examination of the price of a barrel accompanied by a basic examination of the world consumption of low Sulphur fuel would have shown that the price of a barrel could expect better days and increased prices. Accordingly, the attitude of gas producers who agreed that the price for a unit of energy to be sold to the Electricity Corporation would be based on a formula of linkage to the price of "Brent".

The passage of time has shown that the price of a barrel has risen from its previous "low", according to publications, to a price of 6 U.S. dollars for a unit of natural gas.

The voices presently being heard to "re-open the agreement may sound "populistic", but are likely to be subject to legal scrutiny.

Prices of BRENT barrels from 1987 onwards. reference from Wikipedia.

(Andrew Inkpen, Michael H. Moffet. The Global Oil & Gas Industry. PennWell Corporation, Oklahoma, 2011. p. 372. ISBN 978-1-59370-239-7).



The situation is that the Government of Israel and the gas production companies arrived at a number of agreements and understandings known as "the gas rules".

These include the granting of an exemption to the gas producers from the cartel law, the formula for determining the price for the sale to the electricity corporation, export licenses and taxation matters. With that the two gas producing companies had to "renounce" their holdings in the gas fields, "karish" and "tanin" and to sell same. They are also obliged to continue to develop their fields and to invest hundreds of millions for these purposes.

The "gas rules" were the subject of legal proceedings before the Supreme Court of Israel, case No. 4374/15. The "quality of Government Movement" vs. the Prime Minister and Others. Although the only issue that the court considered that it should consider was the Government's and the Knesset's abrogation of their authority to change their decisions for a period of the following 10 years as determined in a further Government Decision in 2016.

When the question of the price of the natural gas as determined in the gas rules, was considered by the Court, the Applicants argued that the linkage of the price of the gas to a "barrel" of crude oil was inappropriate as they were two completely dissimilar products and that as the price of crude oil was low (at the time) the anticipated price for gas was above the market price. It also desirable to state the position of Orit Farkash-Hacohen the chairperson of the Electricity Authority who stated on 15.12.04 that instead of the above linkage to the price of crude oil, it was necessary to regulate the prices with a maximum sale price. Her recommendation was rejected and shortly thereafter she left her position. The position of the State was that there should not be a

maximum price. In a situation where there were conflicting views, the court decided not to intervene in the government's discretion.

To illustrate the position, at the time of this article "future" Brent oil for February 2019 was U.S.\$ 54, a barrel, being an increase of 30% from the price in 2015.

The debate before the Supreme Court, clarifies the "gas rules" as a "regulatory contract" and as such includes an undertaking by the State on the one hand and the reliance thereon by the gas companies on the other hand.

It follows therefore that any "call" to "open" the price fixing formula – amounts to a "call" to be in breach of the state's obligations towards the Gas companies giving rise to a claim for damages which will eventually be borne by the citizens of the State. If anyone believes that there is no real significance in such a situation. It is worth remembering the international arbitrations involving Israel against the National Iranian Oil Company (NIOC).

Under a Swiss Judgement published in relation to the foregoing (previously reviewed by us) under an arbitration award Israel was held liable to pay 1.2 billion U.S. \$ at their value in 2015, plus linkage

differentials and interest and in the other an arbitration which is still being conducted, the claim against Israel is for payment of 800 million U.S.\$ at their value in 1994.

Returning to the Israel Electricity Corporation, it appears that not only does it pay any an excessive price for the natural gas it purchases, it also purchases excessive quantities. As recently as November the Director of Natural gas in the ministry of Energy allowed the electricity corporation to market "excess" natural gas, which excess was caused by a lower consumption than that contemplated.

In other words, it is apparent that the calculation of natural gas which the Electricity Corporation is obliged to purchase is excessive, resulting in the Electricity corporation having a surplus hence the request of the electricity corporation to sell this surplus internationally.

The above situation, more correctly described as being a joke, is for our account.

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