

MARITIME STRATEGIC EVALUATION FOR ISRAEL 2021/22

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The Chevron Corporation and the State of Israel

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Since October 2020 there has been a new actor in Israel's strategic maritime space and economy, predominately the energy sector. This is the result of the Chevron Corporation acquiring Noble Energy Inc.—hereafter Chevron and Noble—both US companies. Is Chevron here to stay?

Israel has been a hot potato as far as the global energy industry was concerned. Major energy companies have had too many interests in the Arab world to risk association with Israel. The discovery of natural gas in Israeli territorial waters is not large. But the strategic dynamics have changed since September 2020 with the signing of the Abraham Accords. The Gulf countries have warmed to Israel and so too have energy companies.

At the time of writing, October 2021, it is clear that in the maritime strategic evaluation of the first year of Chevron in Israel, it has not been easy for anyone. There was a rocky start to the new relationship, making it appropriate to examine and review the relationship between Chevron and the State of Israel.

The Financial Aspects

On 5 October 2020, Chevron announced that it completed its acquisition of Noble. At the time, it held a 39.66 percent stake in Israel's Leviathan offshore gas field and a 25 percent stake in the smaller, older Tamar field. Chevron is the sixty-first largest public company in the world. Chevron announced its intention to honor the terms of all existing agreements and contractual obligations that the State of Israel and others had had with Noble (Noble Energy, 2021).

Israel's then Minister of Energy Dr. Yuval Steinitz responded that he welcomed the entry of Chevron into the Israeli market. In accordance with Israeli law, the rights to gas fields cannot be transferred without approval of the State of Israel as the regulator. After an appraisal, the Petroleum Council recommended that the Ministry of Energy Petroleum Commissioner approve the take-over with Noble continuing to operate as a Chevron subsidiary (Ministry of Energy, 2021).

Regional Politics

The financial significance may be overshadowed by the political role Chevron could play because it has operations and economic clout in other countries, for example in

Cyprus, Israel's maritime neighbor in the Mediterranean Sea. Israel's Mediterranean Basin gas fields lie below the Mediterranean Sea between Israel and Cyprus leading to shared and joint interests. Now Chevron holds an interest in safety, security, environmental protection, and in the export of gas to third parties, possibly by a pipeline. Chevron holds a 35 percent stake in the Cypriot Aphrodite gas field with a license until 2044 (Chevron, 2021).

Egypt, the country with the highest population in the Middle East and a peace treaty with Israel, is no less important. In Egypt, Chevron has a 90 percent stake in four oil and gas exploration blocks in the Red Sea and in the Mediterranean Sea (Chevron, 2021). So here too are joint interests in safety, security, environmental protection, and the export of gas to third parties, possibly by a pipeline.

Moreover, Israel will no doubt wish that Chevron would use its connections and clout in Arab states to influence Lebanon to speed up efforts to resolve the issues between Israel and Lebanon regarding the demarcation of the maritime boundary and economic waters between them. Chevron might well do so for a win-win outcome and development of any gas fields that could emerge in Lebanese waters adjacent to both Israel and Cyprus.

Perhaps there might be quicker and more successful progress with Jordan, with whom Israel also has a peace treaty. There have been internal pressures in Jordan by those who oppose normalization with Israel and Noble's deal with the Jordanian electricity company, whereby Jordan would be provided with gas from the Israeli fields. Perhaps there will be less likelihood that Jordan will cede to these pressures considering Chevron's powerful economic clout globally, including in the Arab world (Ersan, 2020).

The Eastern Mediterranean Natural Gas Pipeline

The most significant strategic endeavor that will require the closest partnership between Chevron and Israel is the transportation of gas to external markets. It is fair to assume that Israel will wish that Chevron assists in negotiations with neighboring countries, for example for a gas pipeline to Europe—the proposed Eastern Mediterranean gas pipeline (EastMed). This would be in the financial interests of all.

It is also fair to assume that Chevron's activities are for financial gain and so the company might not wish to be involved directly in any regional politics. But it will need to make a choice. Support EastMed and maybe become embroiled in the emergence of an anti-Turkey bloc of countries. Turkey views the proposed EastMed

pipeline as a threat to its territorial claims in the Mediterranean Sea and believes that the pipeline, which bypasses Turkey to connect Israel with Greece through Cyprus and Crete, would undermine its status as an energy hub powering Europe (TRT, 2020). Alternatively, Chevron may choose not to support EastMed but then lose revenue by not being able to transport gas to a larger market in Europe.

Israel would also like Chevron to promote the Eastern Mediterranean Gas Forum (EMGF) that Israel formed with Egypt, Greece, Cyprus, Jordan, and the Palestinian Authority (Sukkarieh, 2021). The goal is cooperation rather than competition and overcoming the baleful politics of the East Mediterranean—Turkey threatening Cyprus, Hezbollah threatening Israel, and populism delaying Israeli energy development. Such a forum has significance, in a maritime strategic evaluation, for the entire Eastern Mediterranean, beyond the issue of gas production.

Chevron did not play a significant role in either the EastMed or EMGF in its first year of operations in Israel, from October 2020 to October 2021. Yet it is well within its capability should it wish to do so, as demonstrated when it and other partners signed an agreement under which Israel Natural Gas Lines Ltd. will lay a new subsea pipeline and expand some of its existing ones to export to Egypt. It is possible that Chevron could respond differently to the EMGF and EastMed pipeline in the future. Added into the equation is a new government in Israel including changes in cabinet ministers, among others for Energy, Finance, and Foreign Affairs all with different priorities and interests compared to their predecessors. Only time will tell what will transpire.

The UAE and the Abraham Accords

The State of Israel as a regulator promotes competition, in part to prompt efficiency and safety and in part to reduce costs and increase profits. At the same time, the state works to reduce or prevent monopolies that could lead to the opposite. Chevron is prevented at this time from further bidding by the Committee for Reducing Business Concentration because of anti-monopoly legislation and practices.

Chevron's global connections and status can play a significant role without it having an increased stake in ownership. There can be mutual benefits through strategic endeavors to further Israel's increasingly successful diplomatic efforts, for example, the Abraham Accords signed in September 2020.

There are inferences that this is already happening. The Chevron takeover of Noble is not the only deal on the market. Another is for Delek Drilling, under orders

from Israel, to sell its stake in Tamar by December 2021 to prevent a monopoly situation. In April 2021, there were market rumors that Scotland's Cairn Energy was in negotiations with Delek. There were also suggestions that Chevron had a role in finding an alternate purchaser: the United Arab Emirates' Mubadala Petroleum whose board of directors is led by Abu Dhabi Crown Prince Mohammed bin Zayed, a key figure in the Emirati decision-making system.

On 2 September, it was announced that Delek had finalized a deal to sell its 22 percent stake in the Tamar gas field, operated by Chevron who has a 25 percent stake, to Mubadala for about \$1 billion making it the biggest commercial deal to be signed between Israeli and Emirati groups (Odenheimer, 2021). This deal, along with exporting gas to Egypt and Jordan, are actions on the ground that could be indisputable proof, that economics and politics go hand in hand, and that Chevron and Israel are working together for mutual interests and benefits in a strategic partnership.

The Security Aspects

In its first year in Israel, Chevron has experienced the full spectrum of the unique relations between the State of Israel, its citizens and private companies. For example in the ongoing security situation with terrorist groups. There are two main features of this unique relationship, compensation legislation and the Israel Defense Forces (IDF).

First, but beyond the scope of this article, is whether Chevron or other companies would be compensated and by how much if the gas platforms were to be closed during a security event. Any sustained closure could no doubt lead to substantial financial loss and place the very existence of any company in doubt. Israel's government decides when to close and restart production; Chevron and other companies do not.

Such a topic is more real than theoretical, for example, during IDF Operation Guardian of the Walls. On 12 May 2021, Chevron shut down and depressurized the Tamar gas platform at the direction of the Ministry of Energy. It is located 25 kilometers offshore from the city of Ashdod, which was under rocket fire from Gaza. Chevron was instructed to restart operations nine days later, and production reached full capacity within thirty-six hours of its restart (Bouso & Rabinovitch, 2021).

Second, the IDF's mission is not only to protect the gas platforms for the benefit of their owners, but also because they are of strategic significance to Israel. By 2020,

75 percent of the electricity generated for domestic and industrial use in Israel has been from the gas drilled from these platforms (Israel Defense Force, 2021)

The Israeli Navy (IN) is an important branch of the IDF whose roles include protecting the new gas fields, desalination plants, and ports, shipping, and shipping routes for the vast majority of Israel's imports and exports are by sea. There are constant threats in the maritime space and landward from terrorist organizations and other states, as well as drug and gun smugglers and violators of environmental and fishing regulations.

There are significant risks facing the gas fields and especially the gas platform infrastructure from rockets and missiles launched from ships, from landward Gaza and Lebanon, and from unmanned drones. The complex decision of how to ensure their security is taken by the IDF and not by Chevron or other companies and includes weapons procurement at the expense of the State of Israel.

For example, a contract was signed to purchase four new Saar 6 corvettes in May 2015 manufactured in a German shipyard. An interim measure was to install the land-based Iron Dome missile defense system on existing warships to protect the gas platforms. All four were handed over to the IN during Chevron's first year in Israel—the INS *Magen* in November 2020, the INS *Oz* in May 2021, and the INS *Atzmaut* and INS *Nitzachon* on 27 July 2021 (Manaranche, 2021).

Each ship has advanced systems that can quickly assign the right interceptor for a rapid hard kill of adversarial projectiles. They are also equipped with advanced electronic warfare capabilities for a soft layer of defense. This multilayered defense of the gas rigs forms a virtual and real fence that will protect them against an array of threats.

With the Saar 6 the IN could also have a broad shift in naval doctrine in two directions, if it so chooses, given their capabilities. The first shift could be to a greater Brown Water doctrine, which places a focus on sea-to-land combat, founded on the building block of interconnectivity. That means a joint air-sea-land situation picture and a new level of interoperability between the Navy and the Israel Air Force (Lappin, 2021).

The second shift could be toward greater power projection. With the Saar 6 the IN has gained a significant extra strategic maritime capability. The IN is now capable of defending more maritime areas further from Israel's coast and beyond Israel's Exclusive Economic Zone (EEZ) for a longer period of time, including the EastMed pipeline; moreover, it is also capable of projecting forces for other national security interests.

Chevron and Local Companies

The energy infrastructure in Israel can be a complex economic-security issue. In 2021 it was not evident that Chevron was working to achieve a win-win outcome. An example is relations with the Israel Electric Corporation (IEC) that is 99.85 percent owned by the State of Israel, who through the Public Utilities Authority for Electricity is also its regulator. The IEC runs the only national electricity grid and supplies almost all the domestic and industrial needs (Israel Electricity Company, 2021).

By 2020, 75 percent of the electricity generated for domestic and industrial use has been from the gas drilled from the platforms in the Tamar and Leviathan fields, where Chevron is the largest stakeholder. Within days of Chevron's entry into Israel in October 2020, the Israeli Antitrust Authorities announced its intention to investigate it. The catalyst was a new agreement that the IEC had reached with the Tamar partners for about 10 percent less than the price agreed in a separate previous deal for Leviathan gas. Chevron decided not to sell gas to IEC and was allegedly abusing its large stake in Israel's natural gas holdings to keep electricity prices high.

The dispute was resolved in January 2021 with estimated savings of \$35 million for the IEC and for Israeli consumers. This was before the regulator investigated. Chevron was reminded that the contract between Noble and the IEC, which Chevron said it would respect, includes a clause that allows the IEC to veto any change to the price at which gas is sold to the IEC. Chevron realized that it had a contractual obligation it could not rescind (Yeshayahou, 2021).

A somewhat better relationship arose when Chevron awarded Israel Shipyards a 16-month coating repair service contract for offshore and onshore facilities, in collaboration with a British company with the requisite expertise to assist and in implementing the localization program. That includes training of Israeli workers, project managers, and coating inspectors and their gradual integration into the project (Offshore Staff, 2021).

Scandals and the Environmental Aspects

While there is optimism that Chevron will play a positive role, there are also allegations leading to causes for concern. These relate to accounting practices, labor relations, environmental matters, and human health. Any of these could have a significant and detrimental impact in the geo-strategic space of a small demographic and geographic country such as Israel.

Many experts and local and international environmental groups gave evidence to a Knesset committee and at the fore were alleged irregularities in environmental matters. The committee was informed of allegations in thirty-one countries where Chevron has left a trail of environmental and humanitarian disaster (Surkes, 2020).

In Israel, there were alleged irregularities in accounting practices. Quoted was an investor in Noble who sued in a New York federal court about a materially incomplete and misleading registration statement lodged with the US Securities and Exchange Commission that had been used deceitfully as a bid to persuade shareholders to approve Chevron's takeover.

The Knesset committee was also told about alleged irregularities pertaining to labor relations. Upon taking over Noble, Chevron declared an estimated run-rate synergy of about \$300 million a year. It noted that such synergies in part would be related to cutting its workforce in Israel and reducing the number of office buildings, information technology, and insurance costs. Indeed, since May 2020 Noble had already begun to lay off dozens of employees in Israel as part of a streamlining plan. This could lead to a reduction in safety and service that the company provides its customers.

When the Knesset committee challenged the government on all these examples, as is its obligation in the parliamentary process of oversight and checks and balances, it was disclosed that the government was going to approve the Chevron takeover of Noble but without checking the allegations and its environmental past.

Conclusion

Chevron's first year in Israel can be viewed as a prototype—a work in progress. Thus far, it appears good for Chevron financially after its acquisition of Noble, but what does it do for Israel?

October 2020 to October 2021 has not been an easy year for anyone. Chevron has not had prior experience in working in Israel's unique and complex economic-security environment nor with such a strong regulator as the State of Israel.

In turn, Israeli companies, both state and private, and most citizens have not had experience in working with such a large global corporation as Chevron. Their experience with large US corporations has been in the defense sector with the US government playing a major role. This is not the case with Chevron.

Looking forward positively is with the hope everyone has learned that the way forward for a win-win outcome is to work together, to understand each other, and to make compromises when needed. In doing so Chevron can become an even more significant strategic maritime and economic partner to the State of Israel, Israeli companies (both state and private), and citizens as well as to Israel's partners in the region, predominately Egypt, Jordan, Cyprus, and the UAE.

What's next? Chevron has the capital and presence in all the key countries to make the EastMed pipeline happen. This may be the only means it has to substantially increase its sales and thus its profits. Israel as a strong regulator will not permit Chevron to bid for or to gain a larger stake of the gas fields, or even increase prices to the IEC and its consumers. Israel will insist that Chevron does not cut corners to reduce costs that would result in labor issues, health and safety dangers, and environmental catastrophe. A functioning EastMed pipeline could also have positive ramifications for regional politics. For the Israel Navy, it has four new warships of a type and capability never before commissioned, thanks to the gas fields' direct security needs, permitting a Brown Water doctrine shift while enabling enhanced power projection capability.

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