



Prime Minister's Office

Government Decision

Amendment to the outline for increasing the quantity of natural gas produced from the “Tamar” natural gas field and the rapid development of the “Leviathan”, “Karish” and “Tanin” natural gas fields and additional natural gas fields¹

Decision number: 1465

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From: Prime Minister's Office

Department: Government Secretariat

Government decision number 1465 dated 22.05.2016

Subject of the decision:

Amendment to the outline for increasing the quantity of natural gas produced from the “Tamar” natural gas field and the rapid development of the “Leviathan”, “Karish” and “Tanin” natural gas fields and additional gas fields

Resolved that:

Further to Government Resolution No. 476 dated 16.8.2015 regarding the “outline for increasing the quantity of natural gas produced from the “Tamar” natural gas field and the rapid development of the “Leviathan”, “Karish” and “Tanin” natural gas fields and additional gas fields (hereinafter: “Government Resolution 476”), and the decision regarding an exemption from a restrictive trade practice in accordance with Article 52 of the Antitrust Law 5748-1988 (hereinafter: “the Antitrust Law), which was granted

¹ The English version of all translated law and regulation documents is a non-binding, unofficial translation from the original, binding, Hebrew version and is published for the convenience of the Public. Only the Hebrew version, as officially published in the official gazette (Reshumot) or in the Ministry of Energy website, or in the Israel Government Secretariat, as applicable, shall be binding.

by the Minister of Economy and Industry and published in the Official Gazette (*Reshumot*) on 22.12.2015.

1. To readopt the provisions of what we decided in Government Resolution 476, with the exception of Section J of Resolution 476 which was titled “Stable Regulatory Environment,” which shall be replaced with the following:

J. Maintaining a Regulatory Environment that Encourages Investments

1. The government is aware that the development of the deep offshore natural gas production sector has unique characteristics and requires substantial investments. These are exceptional investments in scope in comparison to other investments in the Israeli market. Thus, the rights’ holders in the leases have invested more than US\$ 5 billion to date and have undertaken to invest additional similar sums. These investments serve an important public interest.
2. The government recognizes the need for a regulatory environment that encourages investments by international and local companies in the natural gas exploration and production sector, including obtaining the necessary funding from international and local financial institutions. Such an environment serves the public interest. Thus, to this end the government wishes to create the conditions that can help increase the confidence, speed up the investments in this aforementioned sector, promote and encourage additional investments in this sector, including through the entry of new investors.
3. The government’s resolution is also based on the obligation of the current rights’ holders in the leases to develop the leases quickly and with due diligence in accordance with the deeds of lease and provisions of the Petroleum Law, 1952. In addition, it is based on the obligation of the current rights’ holders in the leases to meet all conditions of the outline stipulated in Government Resolution 476.
4. Over the last few years, the government has taken a number of significant and material measures to regulate the natural gas production sector. These consist mainly of the Petroleum Profits Tax Law and Government Resolution number 442 dated 23.6.2013 (and its amendments in Government Resolution 476) which mainly deals with ensuring the supply of natural gas to the domestic market. To these one needs to add also the structural arrangement in accordance with the exemption under the Antitrust Law, as stipulated in the decision of the Minister of Economy and Industry in accordance with Article 52 of the Antitrust Law.
5. The government therefore resolves that:

- a. In the event that there will be changes in legislation that would be viewed as material by a reasonable investor in the maximum public share of the rights' holders profits (the rate of government take), the government shall positively consider devising solutions to maintain the economic feasibility that is acceptable in similar projects in the sector in the world for the investments made in developing the lease (hereinafter: "the government assessment").

The economic feasibility assessment shall take into account the investments made since the grant of the exploration license preceding the lease in question, as well as the investments that shall be made under the approved development plan of that lease.

It is hereby clarified that the government's resolution does not apply to a system wide change in the tax regime that does not apply solely to the natural gas production sector.

- b. The government attaches importance to changes in the fiscal regime, including legislative changes, aimed at realizing the principles which the Petroleum Profits Tax Law and Petroleum Law are based on, as well as changes aimed at protecting the public's adequate share as currently anchored in these laws.

Without derogating from this general principle, the government attaches importance to closing tax loopholes and clarifying the existing laws, including by legislative amendments. In addition, the government attaches importance to promoting the collection process and routine amendments to the tax and royalties laws, even if these have implications for the rights' holders in the leases, including fiscal implications.

- c. In the event that there should be material changes in the arrangements stipulated in Government Resolution 442 dated 23.6.2013 (and its amendments in Government Resolution 476), the government shall positively consider devising solutions to maintain the economic feasibility that is acceptable in similar projects in the world for the investments made in developing the lease (hereinafter: "the government assessment").

The economic feasibility assessment shall take into account the investments made since the grant of the exploration license preceding the lease in question, and the investments that shall be made under the approved development plan of that lease.

This applies to the restrictions that these arrangements impose on the current rights' holders in the leases.

It is hereby clarified that this position does not apply to a system wide change in the normative regime that does not apply solely to the natural

gas production sector or to enforcement proceedings under the existing laws.

- d. As part of the government's assessment, the government shall weigh, inter alia, the existence of export contracts which were signed on the basis of the lawfully issued export permits.
- e. The government assessment shall not extend beyond five months of the material changes under sub-sections (a) or (c) coming into effect, and no later than 60 days of receiving all relevant material for the government assessment process – the earlier of the two.
- f. Any change in regulation in the sector that might materially impact the feasibility of investing in the development of the leases by the rights holders shall be examined in detail. When establishing the regulations, the regulator shall strive to adapt the regulation, if possible, to the accepted standards in OECD countries where there is an oil and gas industry. It is hereby emphasized that this position shall not prevent the development of regulation in the sector, including both primary and secondary legislation, guidelines, enforcement proceedings, and decisions by legally authorized bodies.

6.

- a. The above section 5 shall be in effect for 10 years of the approval of Government Resolution 476, subject to all current rights' holders in the leases meeting the conditions of the outline stipulated in Government Resolution 476. An assessment of the government's policy following this period shall be made according to the circumstances at the time.
- b. In order to ensure the rapid development of the Leviathan field insofar as possible, the following arrangements shall apply:
 - (1) By the end of 2017, the rights' holders in the Leviathan lease must enter into binding agreements for the purchase of equipment and services for developing the lease at a sum of at least US\$1.5 billion, in addition to the sums invested up to the approval of Government Resolution 476. If said agreements are not entered into, the government shall re-examine the need for its policy on encouraging investments under this resolution in consideration of, inter alia, the provisions of section c(3) of Government Resolution 476.
 - (2) Five years after the effective date, as defined in Government Resolution 476, the government shall be entitled to assess its policy on encouraging investments under this resolution. Should gas flow from the Leviathan field to the domestic market have begun on said date, or should it become clear that the rights' holders in the Leviathan lease had actually invested, since the date of receiving the

licenses preceding the Leviathan leases, a sum of at least US\$4 billion and are in advanced stages of developing the Leviathan leases, then the policy shall not be changed until 10 years have passed from the approval of Government Resolution 476.

- (3) The above sub-sections (1) and (2) shall not derogate from the authorities of the Minister and the Petroleum Commissioner in accordance with the Petroleum Law 1952 and deeds of leases.
 - (4) When exercising the authorities under sub-sections (1) and (2), an effort shall be made not to harm the natural gas exploration activities and the development of additional natural gas fields other than Tamar and Leviathan.
- c. Insofar as other timetables have been set in the general outline, as stipulated in Government Resolution 476 and its annexes, under which the government shall refrain from making changes in accordance with certain authorities – then the specific timetables set in Government Resolution 476 shall apply.
 - d. None of the arrangements concerning the creation of a regulatory environment that encourages investments apply to any form of regulation whose hearing process began prior to the date of Government Resolution 476 or that were presented to the rights' holders in the leases prior to the date of Government Resolution 476. These arrangements also do not apply to the regulation detailed in Government Resolution 476.

7.

- a. From this point on, any change in the terms of the leases shall only be made under exceptional circumstances and under the conditions stipulated for changes in the terms of the Leviathan leases (Section 32 of the “Leviathan South” and “Leviathan North” deed of lease).
- b. The transfer of rights by the rights' holders in the leases and placing an encumbrance thereof to others shall be made in accordance with the Petroleum Law and its regulations. Accordingly, applications for transfer or encumbrance of petroleum rights shall be approved in accordance with the provisions of the law.
- c. The government recognizes that the efficient development of petroleum rights requires obtaining regulatory approvals within reasonable periods of time. This is in order to enable moving up the investments. As such, the government instructs the regulators to discuss the issues that require them to exercise their authority with regard to the development of the reservoirs within reasonable periods of time.

8. “The leases” – Tamar and Leviathan

2. To task the Minister of Economy and Industry and the Minister of National Infrastructure, Energy and Water with reviewing, if needed, the timetables pertaining to the definition of the “effective date for Karish and Tanin” in Annex A of Government Resolution 476. If it becomes clear that an extension is needed, then the extension shall not exceed a period of two months.