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P R O C E E D I N G S

MS. MALONEY: Good afternoon and welcome. I'm Susan Maloney, senior fellow at the Center for Middle East Policy at Brookings. And on behalf of that Center and the Brookings Energy Security and Climate Initiative, I'm very pleased to be here today to moderate a discussion involving not one, not two, but three new papers released today that address an important dimension of issues raised by gas discoveries in the Eastern Mediterranean.

Beginning in 2009, major natural gas fields have been discovered in the Levant Basin of the Eastern Mediterranean. These discoveries have the potential to both transform the energy outlook of individuals and to foster cooperation in a region that has seen far too little of it and needs it far too badly.

We are pleased to be here today with three of the authors of the papers, as well as a commentator on all three of the papers. And I'm going to introduce them in turn as well as to introduce the papers themselves. Each of them will speak for a few moments, we'll carry on a conversation up here at the podium, and then we'll hope to involve all of you in a broader conversation.

Let me start with our first speaker, Natan Sachs, a fellow at the Center for Middle East Policy. He writes about Israeli, foreign, and domestic politics, and the Arab-Israeli conflict. I would commend to you his recent series of blog posts on the upcoming Israeli elections on our Center blog, www.brookings.edu/blogs/markaz. He's writing a book on the domestic politics of Israeli foreign policy. Before joining Brookings, Sachs was a fellow at Stanford Center for Democracy Development and the Rule of Law as well as a Fulbright Fellow in Indonesia.

Our second speaker is Harry Zachary Tzimitras, director of PRIO Cyprus Centre and professor of international law and international relations. He's taught at

several universities in Istanbul as well as the University of Cambridge and the Institute of International Relations in Athens. His teaching and research interests lie primarily in fields of public international law, the law of the sea, foreign policy energy geopolitics, and the Eastern Mediterranean region.

Our third speaker is Tim Boersma, fellow and acting director of the Brookings Energy Security and Climate Initiative. His research focuses on energy policy coordination, energy security, gas infrastructure, and resource scarcity. He's the co-author of a book released last year entitled *Want, Waste, or War: The Global Resource Nexus -- The Struggle for Land, Energy, Food, Water, and Minerals*. And he is the author of a forthcoming book entitled *Energy, Security, and Natural Gas Markets in Europe*.

Finally, we have David Koranyi, director of Eurasian Energy Futures Initiative at The Atlantic Council. He works on the geopolitics of energy, European, and U.S. foreign energy policy. He served as a senior official in the government of the Republic of Hungary, an advisor to a member of the European Parliament, and as a researcher in several institutions, including the Hungarian National Assembly.

So let me just speak for a moment about several of the papers that we have here today, which Natan will discuss having co-written with Tim. It's called "The Energy Island: Israel Deals with Its Natural Gas Discoveries"; the second paper, "Gaza Marine: Natural Gas Extraction in Tumultuous Times"; and the third paper, which deals with Cyprus and is a heavier volume that I have not brought up here, but hopefully each of you picked up as you came through here.

Let me just say a word about one of our funders to The Brookings Institution, Noble Energy, which is referenced in one of the reports -- the report entitled "Energy Island" -- is, in fact, a donor to the Brookings Institution. It is not a donor to this

report. And like all of our work, the analysis and recommendations reflect only the independent findings of the authors. And I believe that both Tim and Natan's comments here today will reinforce that independence and perspective.

I'm going to start with Natan, to talk a little bit about the "Energy Island" paper. It's a really terrific paper. For those of you who are experts in the field, I think you will find it both comprehensive as well as engaging. For those of you who are new to this issue, I think you will find it to be an amazing introduction that weaves in energy security, national security, and domestic politics.

You talk a lot about the boundless possibilities that were opened up by these discoveries and yet, in practice, it's proved a lot more complicated. I wonder if you can recap the paper for us and talk a little bit about the process of Israeli energy development.

MR. SACHS: Thank you very much, Susan, and thank you all for coming despite the inhuman weather. I'll say just a word before that on how Tim and I actually got this project. We started looking when these discoveries were made and we thought about the region of brand new development that really incorporated a new kind of region, including especially Israel.

And then we started on a process that actually started within Cyprus, with Harry and PRIO Cyprus, at an absolutely excellent conference that PRIO organizes, so we owe a lot to the collaboration with PRIO and their excellent work. And then we were looking specifically at what enables this kind of regional cooperation or, as I should say, potential regional cooperation.

Tim and I, I think, this morning woke up very pessimistic about the possibility of regional cooperation, and then we met Harry and became suddenly more pessimistic. (Laughter) And I think that one of the keys to this cooperation, if any of it

happens -- and I think some of it might -- is the major finds. And the major finds are in Israel. And so Tim and I subsequently went to Israel and conducted quite a few interviews, as well as the Palestinian Authority, the West Bank, to try to understand two different things: both the Israeli scene, which we discuss in the paper we just referenced, but also the possibility of cooperation with the Palestinians, which Tim will discuss more later.

And to your question, Israel found a large deposit -- or I should say, companies found a large deposit of energy in the Israeli waters, and this was a transformative moment for Israel. Israel was always dependent on foreign energy and this was a major national security concern for Israeli leaders throughout the years.

And these discoveries took the Israeli system partly by shock. Israel didn't quite know what to do with these things. The policy was not really in place for it, and so we saw a subsequent long and arduous process of revision of policy, one that is not over. In fact, we have breaking news from yesterday and today that we have yet, perhaps, the final piece of the puzzle -- or one of them, at least -- on the possibility of breaking up the monopoly or the very large market share that two companies hold in the Israeli market.

What Israel did was to try and look at all these different aspects, pulled by public opinion, pulled by the decisions of policymakers, but also pulled by an acute crisis in 2012 that we discuss in the paper. Israel found itself in a potential energy crisis with the shutdown of energy from Egypt through the Sinai, multiple attacks on our gas pipelines from Sinai that cut off gas to Israel and to Jordan.

And as a result, Israel looked at these various things. It looked at taxation and revised quite dramatically the taxation scheme after the finds. This was, of course, opposed by the energy companies who claimed it was retroactive and the Israeli

policymakers took that quite a bit into account, actually. The process leaned towards the energy companies quite a bit, but, nonetheless, it was an important revision.

A second very important process which you've probably heard of was the question of how much to export, if at all. There were very strong concerns in Israel about exactly this question of energy security. The reason it was so hard for Israel to overcome the crisis is that it's very difficult for Israel to import, partly because it has a very complicated relations with its neighbors, has not diplomatic relations with several of its immediate neighbors, and the ones it does have -- Egypt in '79 and Jordan since '94 -- are today good with the governments, but terrible with the people, which makes every kind of business deal very complicated and often has to be laundered in complicated ways.

For example, Noble has to take the front that it looks like an American company doing business, doing the deal, even though it's the consortium doing it. The problem of importing also meant that exporting, of course, is difficult. So once Israel decided on how much to export, and eventually there was a decision of 60 percent maintained for the domestic market, we come to a very difficult question of how this gas would be exported. And I imagine Harry will discuss this furthermore from the Cypriot process perspective, but this is, I think, crucial for the question of regional cooperation.

The revision of this export -- the question of export licenses was extremely divisive and involved the core of what has become a very divisive, very contentious argument. The Israeli public, by and large, had a very strong sense that this gas, being the property of the Israeli citizens, should remain in Israel and should be used for the Israeli citizenship for years to come.

The opposing argument was that if the gas remains in the ground, underneath the Mediterranean, it will help no one, including the Israeli citizenship. And,

therefore, the terms of trade for business have to be predictable, have to be fair, have to allow for investment in the future. And this argument came to a head, I think, even more dramatically today, this morning, with questions of market share. Delek, an Israeli consortium, and Noble Energy, based in Houston, have a controlling majority in the two by far largest fields in Israel, Tamar and Leviathan, which potentially creates a very difficult situation for the Israeli market.

Now, you hear the companies complain a lot about the fact that the Israeli system has decided to deal with this. This morning it looks like the decision is to break up this monopoly, which was declared a cartel, or potentially a cartel, to break it up. Tim and I look at this and we argue that the best way to deal with this is, in fact, with robust regulation. We, in fact, think it is absolutely necessary, but the much better kind of regulation would probably be on prices. Again, something the companies have objected to very vocally. We nonetheless think it's essential.

And the reason it is essential is because of the effect it has on the owners of this gas. If you think of the Israeli citizenship, they are looking at what will determine the prices of electricity for years and decades to come. And so while you're probably going to hear about the rest of these aspects of this question, regional cooperation, and all that depends on the extraction of Israeli gas, the bosses of the regulators in Israel, nonetheless, are not Cyprus, the United States Government, which has been involved in this, lobbyists from the United States -- for example, one you may of heard of, Bill Clinton, who wrote letters to Israeli officials in the middle of the revision process on behalf of interested parties -- but, in fact, the Israeli citizenship.

Now, that does not mean that populist mood in Israel needs to be accommodated, but it does mean there's an enormous countervailing argument in favor or determining the electricity price for many, many years to come. Tim may have slightly

different views on part of this, but I think, to sum up this point, the process we've seen in Israel has been very bad. It has been very bad for Israeli reputation, it has been bad for the possibility of development of energy, it has been bad for regional cooperation. But the substance of it is not the populist nonsense that it is claimed to be by many abroad.

The substance of it has to do with vital concerns of the Israeli economy. And despite the objection of private interests and private businesses involved, much of the substance is very justified: what to do about it, whether the remedy is smart or not. That's another question, and Tim and I have a slightly different view than what seems to be the remedy coming in today. But, nonetheless, it stems to my view at least from a very valid concern.

MS. MALONEY: All right, thank you. Harry, I wonder if you can give us the Cypriot angle.

MR. TZIMITRAS: If Natan thinks it's bad in Israel, then I think he should take a trip, which we'd pay for, to come to Cyprus. Thank you very much for having us here and I'm very glad the reports made it on time, literally on time, as I understand it. Half of it blamed on the weather, half of it on stereotypes about Mediterranean efficiency.

But half jokingly, half not, the situation is not as rosy in Cyprus and in the region. And yesterday we had a panel discussion at the Atlantic Council, at a wonderful event that David put together, and there we started also by saying how much worse off we are this year compared to exactly one year ago, when we effectively started compiling the report that you have in your hands today.

The problem with current affairs, of course, is that things change before anything is published and, of course, with Murphy's Law, this has been the case here. But if you look at things from an energy point of view, but also situating it within the regional and international environment, we're really much, much worse off than we were

exactly when we started writing the report, which was about discussing ways of extraction and exporting of gas; but, also, beyond that, using gas as a platform for reconciliation between the communities on the island and perhaps beyond in the region.

And since then the negotiations on the Cyprus issue broke down. They froze and are still frozen, as such. The findings of gas have been coming back very disappointing. Indeed, none at all. Total have asked the government of Cyprus to release them from their contract. ENICO Gas are still going on without any findings at the moment. And even if there will be findings, there's a lot of discussion whether this would be commercially viable in the end for them to pursue.

The political conjunction is such that because of a number of issues going ahead at the same time, the Republic of Cyprus has managed to alienate a lot of its alliances in the form of individuals, organizations, and institutions and states, the last victim being the Secretary-General of the United Nations himself.

The way that politics are going on the island means that the Turkish Cypriots in the elections coming up in April will vote most probably -- nearly certainly -- for the incumbent leader now, who is perhaps one of the more hard-line abiders in the North. There's Greece's situation, which is very problematic in itself, and, vis-à-vis Russia, that Cyprus is also courting. You have the new Cypriot-Russian deal that will be coming up to be signed by President Anastasiades, effectively allowing naval facilities -- although I know what the official rhetoric is -- to Russia. You have a Russian-Turkish rapprochement, you have the oil prices plummeting, you have the Israeli Regulatory Authority decisions that Natan talked about, you have the Turkish NAVTEQ, you had a report by Ban Ki-moon, which in the Greek-Cypriot community has been branded the worst of the last 10 years. So obviously, the framework within which the discussion of energy takes place is a rather challenging one as things stand.

The problem all along, I think, in my mind -- and, of course, I might be wrong -- is that we started from premises that were potentially problematic. I think we lost very valuable time -- three years at least -- being fixated on the possibility of building an LNG facility, even though it was clear early on that this would not have been viable because the premise was, how could it be possible to find the optimal solution which excludes Turkey as things stand? And, of course, politically it might be a position that one can see the logic of, but commercially perhaps not.

And now we've reached the stage whereby findings are so poor that even that -- a pipeline to Turkey -- would have been a good solution, but not anymore. The whole energy situation, if you like, in the discussion in Cyprus, was one that I think was hijacked, if you like, by the Cyprus issue. To put it in different terms, it was the Cyprus issues perception that informed public opinion on the matter of energy, and I think that was the wrong premise to start with.

Depending on where one stands, we continue along the same lines. Today the Cypriot energy minister is visiting Iran to discuss energy and there have been discussions going on with Egypt. But I would agree with what Natan says, with the regime, I would say, of Egypt, because things do change in that region.

And Turkey's reaction was, I submit to you, not necessarily for the first time against Cyprus, as such, but against Israel and Egypt that, A, Turkey cannot tackle or doesn't wish to tackle, so Cyprus is the easy horse to beat. But also penalizing Cyprus, and by this I mean the Republic of Cyprus and the Greek Cypriots, to be politically correct, for not taking into account Turkish Cypriots' interest, but also doing business with President Erdoan's important enemies, Israel and Egypt at the moment.

So if the premise is wrong, then I think we're going down a very problematic way. It might very well be that there's nothing to talk about in the sense that,

unfortunately, gas is -- what they want found or documented -- very little. It is very little, certainly, compared to original expectations where the presumption was that Cyprus would be the new hub for half of the world. But otherwise, they might not.

Documented findings of about 3.5 BCM only in the Aphrodite fields, the first that Noble Energy discovered, would have been enough if that was in the beginning of the discussion, in providing very cheap, extremely cheap, next-to-nothing electricity for the whole island for 120, 140 years. And that would be a huge thing for a small island in the vicinity of the Mediterranean. It's just, I think, the illusion of believing something bigger that led us to lose time rather than seeing the things at their exact parameters.

Whatever the case, now, as Espen Barth Eide, the Secretary-General's advisor on the Cyprus issue, says, it's a very, very bad time not to have a solution to the Cyprus issue that would be conducive to better energy exploration simply because the region is experiencing challenges, and perhaps we haven't seen the worse yet.

The fact remains that we need to decide on next steps now because if Cyprus is on the verge, hopefully, of becoming a hydrocarbon-based economy, then decisions made today will affect generations to come. So it's extremely important that we're pragmatic, realistic today, taking into account the region as it stands, but also in the way possibly it could develop in the foreseeable future and beyond because we don't have the luxury of not doing so.

Having said that, of course, realism does not seem to be prevailing, although at least the current government had it going for them in the past. The way things stand it is very probable that in a couple of years from now we will have leaders on both sides of the island that will be less prone to a solution, coupled with a very erratic potential behavior on the part of Turkey. And unknown developments in the region might mean that those energy resources might very well stay in the ground, if they exist,

benefiting no one. Or, if they are to be extracted, they might become a problem before they become a potential solution.

Unfortunately, Cyprus might become yet another example of the situation whereby natural resources further accentuated existing disputes rather than becoming platforms for reconciliation. And I think it's important now to bear in mind all this discussion on the financial prospects of perhaps dealing with Egypt, and beyond, that even though they might make sense financially -- and this is a very big if -- I think we're missing a wonderful opportunity for the gas to be used beyond its financial capacity as a reconciliation platform for the people on the island and beyond, anything, hopefully, up to leading to an Israeli-Turkish rapprochement, which would be very much needed -- at least for the United States -- in tackling bigger issues in the region.

So, I think realism could lead us to a more pragmatic evaluation of things and that is what I would urge us all to think along the lines of. Thank you.

MS. MALONEY: Thank you. Tim, you're going to focus on the second of the two papers that you and Natan co-authored together. I notice that the subtitle, "Gaza Marine Natural Gas Extraction in Tumultuous Times," has a question mark at the end of it.

MR. BOERSMA: Right.

MS. MALONEY: Talk a little bit about the uncertainties that have impacted this project and where you see the possibilities for the future.

MR. BOERSMA: Yeah, thanks, I'd be delighted. Listening to the first two speakers made me realize that we should have picked a sunnier day for all this great news that we're bringing to you. (Laughter) I feel sorry for, after braving the cold, bringing all this not-so-rosy news to you.

MR. SACHS: That will teach you to cooperate with the Middle East

Center. (Laughter)

MR. BOERSMA: Exactly. I'm also not exactly sure whether I'm going to add to that trend. I probably am. Hopefully, we can turn to David after to shine some sun on all of this, I'm not entirely sure.

The reason why we looked at the Gaza Marine field was because we got internal questions, of course. The U.S. Government, in particular, has been very interested for a number of years because natural gas could potentially, theoretically, be an instrument to bring the Palestinian Authority and Israel closer together. Now, of course, it's a big if. I think that's the first hunch at the question mark in our title, and I think it stands where we currently are.

The Gaza Marine field, I should say, I would like to talk about three issues related to it. First of all, I want to mention briefly a couple of characteristics of the field, then I want to talk about its potential relevance, then I'd like to talk about a way forward and sort of suggesting how it could, theoretically, be developed. And then maybe we'll come back to the question mark at the end.

So the Gaza Marine field, compared to certainly the two larger fields, the (inaudible) offshore Israel, is a relatively small, relatively modest field. It's about 1 trillion cubic feet, which is not that much of natural gas. It would be about two decades of natural gas consumption for the Palestinians, though. So looking at the modest size of Palestine, it is a relevant field.

It's located only 20 miles offshore the Gaza Strip, which makes it interesting in that it's not far away and that it's in relatively shallow waters. It's about -- I have to look it up -- 2,000 feet of deep water, 600 meters, which is a lot less deep than the larger finds that we've found offshore Haifa. It's important to keep it in mind for you because it makes it relatively cheap to develop this gas and to bring it on shore, and that

would, again, in theory, be a good argument in favor of development. It was one of the earlier discoveries, discovered by the BG Group that is currently the operator and the license holder in the area.

Now, developing Gaza Marine from a Palestinian point of view would be extremely relevant for a number of reasons. First of all, it's good to outline that electricity demand in both the Gaza Strip and in the West Bank is growing rapidly due to the rapid growth of the population in both of these areas. The West Bank currently consumes about 860, 850 megawatts of energy per year, a number that's going to grow to about 1,300 by 2020. Currently, all the electricity is supplied by the Israel electrical companies. It comes from outside and then is produced in Israel and then is transmitted to the West Bank.

There are a couple of plans to develop new power plants in both Jenin and in Hebron. It could well be that the Jenin power plant would be supplied by natural gas from Leviathan, were it to be developed, which I guess remains to be seen, where we are today. But there are some plans to expand the electricity generation capacity, and it is direly needed because the demand is so much higher than what is currently being delivered.

In Gaza, the situation certainly is more dire. Currently, about 200 megawatts of electricity is consumed. Demand is already 400 megawatts, so about half of it is met currently. That demand is going to grow up to 850 megawatts by 2020. So it gives you an impression of the needs in terms of electricity demand that need to be fulfilled. And if it doesn't get fulfilled, it is potentially a major security risk for the Israelis, as well, where basic conditions of the Palestinians are not being met. That would obviously be a problem.

The Gaza Strip, too, depends heavily on imports; most of it comes from

Israel, a little bit from Egypt, I believe. Contrary to the West Bank, where the electricity supply is relatively stable, in the Gaza Strip that's not the case. You have power outages of up to 12 hours a day, which are fairly normal and common practice. The lack of electricity, it's not just about lighting your home and about charging your batteries, it also affects access to fresh water in the Gaza Strip, which is required not just for basic human consumption, but also for medical usage, for sewage treatment, and for sanitation.

Current water needs, both the West Bank and Gaza, are around 400 million cubic meters and they're going to grow significantly with another 200 million cubic meters in the coming years, which could not be sourced by using existing aquifers, so be it in the Gaza Strip or in Israel. So that lack of water then, in turn, has an effect on agricultural activities, in particular in the West Bank where lack of water also affects food production in that part of the Palestinian Authorities.

Of course, you could have more water if you have more efficient wastewater management, if you have more recycling, and such. That's all true, but, at the end of the day, the only viable option to have enough fresh water is to desalinate some of the salt water, a practice which is very energy intensive. It's broadly applied in Israel, but at this point in time, not yet in the Palestinian Authorities. And, of course, it would be great if it could.

Now, we, in our paper, discuss in large detail the history of negotiations going back and forth between the Palestinian Authority, the government of Israel, and the license holder of the field, which is the BG Group, formally known as British Gas. Now, needless to say, it's been a very cumbersome process. It's been very complicated with arguments going back and forth. And so far, obviously, it has not had a meaningful result.

For now, I don't want to focus on what has happened since the field was

discovered in 2000. I'd like to look forward and I'd like to stress that I think in both our views there is significant benefits to developing potential benefits to developing Gaza Marine, both the Palestinian side and the Israeli side.

So, on the Palestinian side, obviously developing Gaza Marine would develop several billions of dollars of revenue, depending on what global prices would be and how much would be extracted. It would add in terms of security of supply. The Palestinians would have their own energy resource. It could possibly attract new investments in energy infrastructure, which, as I outlined, are direly needed. It could alleviate some of the shortages of fresh water, which is also direly needed, in particular in the Gaza Strip. And it could reduce or eliminate some of the open debt that the Palestinian has in terms of electricity bills to the Israel Electrical Company.

On the Israel side, there are significant benefits, as well. This is not just a field that's interesting from a Palestinian point of view. Of course, from an Israeli point of view, increasing the financial and political stability of the Palestinian Authority is of great interest. Also, developing Palestinian natural gas could ease diplomatic tensions with some of the neighboring countries, in particular Jordan and Egypt, which would have an easier time selling at home that they're buying Palestinian molecules than that they're buying Israeli molecules, as ridiculous as that may sound.

Then, domestically, the Israeli market could use, as Natan has outlined, some competition, to say the least. There's been a lot of concerns about the current market consolidation and bringing additional resources on-stream that are developed by a different supplier than the usual suspects. And Israel would be good if it could at least generate some form of competition, even if (audio interruption).

And then finally, of course, the repayment of the debt to the Israel Electrical Company would be in the interest of the Israeli citizens, which are waiting for a

significant amount of money to be returned.

One of the major concerns that continues to be linked to making a deal with the BG Group to develop this field is that there is a concern in Israel that some of those revenues would flow back to Hamas and not go to the Palestinian Authority, and so, indirectly, it would fund terrorist operations in the Gaza Strip.

We believe that by using existing infrastructure -- and this is one of the plans that has been debated in the past -- existing infrastructure just north of the Gaza Strip in Ashkelon could be efficient to bring this gas on shore, have power produced in Israel, and then have that be transmitted to both the West Bank and the Gaza Strip, if you will, would be a good initial solution. And then if you could develop a more structural payment solution and you could develop infrastructure, then in the longer run you could look at opportunities for the Palestinians to generate their own electricity.

We believe that could be done. If all the licensing would be done through the Palestinian Authority, there would be no direct ties to Hamas and so that could, in theory at least, work. Now, of course, having said that, it is not just about theory. And as much as I hate to admit it, in this part of the world, it's also not just about economics. Politics are, of course, extremely important, if not determining, to the outcomes.

And so I think in this case that Natan and I both concluded that for this to work you'd need political leadership of a very significant caliber. And as much as we've talked to representative of both the Israeli and Palestinian side of the aisle, and people with great intentions, so far we can observe that the political leadership and will has not been sufficient to actually get this off the ground.

We do believe that the majority of those decisions and the key to solving this lies on the side of the Israeli government, but obviously leadership on both sides is

required. But a lot of the final decisions need to be made in Jerusalem and Tel Aviv, not necessarily in the Palestinian Authorities alone.

As we outline, I think there are great benefits to both sides of the aisle. It's not necessarily just a great thing for the Palestinian Authority and the people of Palestine. Whether this will, in fact, materialize I guess remains to be seen.

MS. MALONEY: Thank you. David, you have the pleasure of trying to bring all these strands together. And I would love your reaction to what you've just heard as well as to the papers and to the edited volume.

MR. KORANYI: Thank you. I won't even try to summarize this very rich discussion so far. Just a couple of points I wanted to make. But before I do that, thank you for the kind introduction. I just wanted to make sure that everyone knows that I used to work for the previous Hungarian government and the previous Hungarian prime minister, not the current one. (Laughter) I am at pains to emphasize this these days, and I'm sure you're all familiar with the Hungarian political situation.

Speaking of optimism, I think the paper I wrote that is based on a speech I gave at Harry's and PRIO's excellent conference in Cyprus about a year and a half ago, I was in a much more optimistic mood than I am these days rereading that paper. And this is probably one of the key points in trying to summarize what I have heard so far and what we have witnessed in 2, 2-1/2 years, is that the age of illusions is over. There were so many optimistic, grandiose plans for the Eastern Mediterranean, how these natural resources will serve regional reconciliation. And so far, what Harry said, what we have seen so far is only the exacerbation of tensions in that region and I am not very optimistic going forward that this is going to change.

I, among many other people, belong to those who believe that there is a unique regional consolation that is very conducive to all these grandiose plans to use the

gas to build a platform for regional reconciliation. It turned out to be illusory. It turned out to be built on quicksand. All the premises, what we have been thinking about, that Turkey is a big, evolving, natural gas hungry player in the region that is trying to play a bit more constructively in the foreign policy arena turned out to be illusory, unfortunately.

The notion that this is the right and ripe moment for the Cyprus settlement to move into the next stage, I'm still hoping that this will prove to be the case, but, so far, that's not what we have seen, unfortunately. Israel and the Israeli-Palestinian angle, I would like to share your optimism, but I'm also very concerned about the political pieces there.

There is one aspect we haven't talked about and I wanted to flag, and that is an important aspect, particularly there is a dramatically different situation in Europe because of the Ukraine crisis and the Russia crisis I would rather say is the European energy security angle. Because in my mind, the Eastern Mediterranean natural gas finds should have three primary usages.

One is the domestic use you have talked about in Israel and Cyprus. I'm actually quite optimistic about those, although there is a lot that needs to be done in Cyprus to proceed with that.

The second is the regional reconciliation part and the various pieces to that: the Egyptian, the Palestinian, the Turkish, the Cypriot piece.

And then the European energy security piece because that's the largest market in the neighborhood. It is a market. It's a union that is in deep trouble because of the exposure to Russia still and it's in a diversification drive, looking at various different resources, including LNG from the United States and other places, including piped gas from the Caspian, including piped gas from the Middle East. In my mind, the Eastern Mediterranean resource can also and should also be used to that.

Again, the obstacles are quite high. From a commercial liability standpoint, to actually bring that gas from the Eastern Mediterranean (inaudible) pipeline through Crete and then Greece or through LNG are somewhat distant as of now, especially that the resource base is a lot smaller than we expected. Nevertheless, talking to commercial players and others, this is still very much being disputed and explored, so I just wanted to flag and highlight aspect, that even though the resource base is smaller and, so far, it has been quite disappointing, but there is a European energy security component to the Eastern Mediterranean gas finds that needs to be explored further.

MS. MALONEY: Great. Well, thank you so much. I think that's an important dimension to bring in and, in fact, it's part of the conversation that I'd like to kind of initiate. I will say as someone who focuses on the Gulf and on Iran and energy issues in both of those regions, a lot of what you said rings familiar, both in terms of bad process as well as in terms of the challenges of using energy as a platform for either domestic or regional reconciliation.

So I wanted to pose a couple of questions and encourage each of you to tackle them as you see fit, to focus on only one or to address any of the three. And that's really the sort of domestic, regional, and market levels.

From a domestic level, I'm interested in these bad processes, particularly from the Israeli point of view or from the Israeli context, because Israel has, in many ways, been very successful at cultivating industries and at getting the process right. So why has the process been so bad, particularly because the interests are so vital? Can any of you talk a little bit about that?

The regional reconciliation platform I think is really an intriguing issue and it seems to have fallen short in each of these contexts and in the general broader context of this basin. You know, are there examples we can look to? What role can

outside players have in sort of fostering a better outcome? Is there a natural way that energy can create a better platform for reconciliation? Or are we really very much, as I think Tim's final closing remarks suggested, almost reliant upon the revolution of some of these rifts and crises before we can really see the commercialization of some of these projects?

And finally, if you can just talk about the sort of context of the current broader energy markets and, in particular, the market for international trade and natural gas, and what that does to the commercial prospects for some of these projects. We're in a different position today than we were five or eight years ago in terms of supply and in terms of pricing. And so I wonder if you can say a little bit about what that may mean for this.

So please, all of you feel free to sort of jump in at any piece of all pieces of those questions. And we'll just run across the row here, starting with Natan.

MR. SACHS: Sure. So why has the process been so bad? Well, it's been bad for a few reasons, partly because, objectively speaking, this was a huge change in Israeli economy and Israeli outlook and Israeli policy. Before there was very little domestic production of energy. There was some, but it was very little. And so most of the policies were woefully outdated.

And if you look at it from an historical perspective, I don't think the process was as bad as perhaps even I described earlier. From an historical perspective and a long run, Israel will have to redo many of these different aspects, export taxation, licensing, market share, and some things that have not been resolved that we highlight: environmental regulation in the sea, which has not yet even been dealt with and is crucial to our minds. Of course the security aspects of the rigs is very difficult. But all these issues are very difficult for a country that is very small and relative to its size these

findings are large, although they're modest in a global sense. That is one reason.

The second reason is that Israel has changed quite a bit. These findings coincide over the dramatic change in Israeli politics, which I won't bore you with because that's what I usually do. But by and large, Israel has shifted from an almost singular focus on national security issues and the political scheme, where right and left even mean that, hawkish and dove as opposed to neoliberal and socialist, to a politic inside Israel that is focused very strongly on economic issues, as well. And so suddenly, we have, some would say, populist cries for tackling big interest, big companies. I would say that exists, too, but also a very healthy debate about the outcomes of the taxation policy, the regulation policy, the export policy, usually things that in many countries of the world would simply be done in a quiet, smoke-filled room with the leadership. And in another era, in Israel, it wouldn't be corrupt necessarily, but it was done quite quietly and would have passed.

This time it didn't. This time the public is keenly aware of all these aspects. In Israel, most voters know what we're talking about, and that should come as a shocking surprise that voters would know actually about these debates about energy. They truly do. This is something people care about. This is something politicians that are getting ready for elections in a month are yelling about this morning because of these decisions.

That, of course, makes for a more difficult process. You would see that in D.C., as well. It makes for one that halts and goes back and does all sorts of strange things that businesses don't like. But it also, from a democratic perspective, has a very healthy aspect to it. It means that the citizenship, which, after all, elects the officials and is the boss of the government, has a say in what happens. And I may be the only one in town who thinks this, but I do think that is actually very healthy. And the substance that

comes up through that, although difficult, although cumbersome, is very important.

I'll let others speak much more about the regional thing, but I would like to point out a few things. If you look at the regional pieces, as others have mentioned, it's not one or two problems. Right? Israel and Jordan have some cooperation, but not as much as they should. Israel and Egypt could have much more cooperation and there could be LNG production. There are actually idle plants in Egypt and that yet may happen. Palestinian-Israeli cooperation should be a no-brainer. The electricity already flows in the same grid itself.

But then, of course, the much more important ones. To Turkey, there could be a pipeline to Turkey. Economically speaking, it could have already been started building at least of a pipeline to Turkey that would tap into the European market, the obvious answer. Cyprus could have been solved. All of these different aspects, each one of them has a unique set of political problems. And so we have a region that has always suffered from these terrible relations that is now in hyper drive.

I haven't even mentioned Syria, another neighbor of Israel, which in another era maybe would not have any dealings with Israel, of course, but via Jordan, who knows? There is no state to speak of in Syria. There's just one horrific tragedy.

Lebanon has not yet even delimited the border with Israel, partly for its own domestic reasons. And so the region today, with all its volatility, what's happening after hour the awakening in Egypt and, of course, the tragedy in Syria, all these things have compounded these problems dramatically. And they've affected in very complex ways Turkey, as well, which is a very central player. Of course, for the Cyprus question it's the most important player, but also from the Israeli and Egyptian aspect. Harry alluded to it very well and I think this depends quite a bit on, in fact, one man: the president of Turkey right now, who has had a very, shall we say, tumultuous relationship

with all sorts of different neighbors, Egypt included in this current regime, but also Israel.

If I may plug, in a month we're going to have an event on Israeli-Turkish relationship from CMEP and please come. But all these fascinating different aspects of it during this tumultuous time has made things even worse than they are. I think a decade ago, it would still be far, far from perfect, but we may have been able to have some quiet deals. Israel-Turkey may have been possible. Israel-Egypt was possible; it actually happened. Certainly Israel-Jordan, which might yet happen. Today it is simply much, much harder.

MS. MALONEY: I thought I heard a bright note in there somewhere and then it went south again.

MR. SACHS: I'm sorry. No, no, let me just say actually a bright note. I think on the Israeli thing, as well, the process has been bad, et cetera, but the economics are there, the numbers are there, the gas is there. The companies complain tremendously about what's being done to them in Israel, but they're still in the deal. They're being actually consulted about regulation, which is quite abnormal.

And so I am optimistic that much of this can still happen, especially with some of the neighbors. I don't know what shape or form it could have. There are risks that it might not happen. Those are very real risks. But nonetheless, on at least the energy-gas aspect and perhaps the Jordanian and Palestinian aspects of this, I think there is room for some optimism.

MS. MALONEY: David.

MR. KORANYI: The regional reconciliation aspect, I mean, even though my optimism is tempered, I still believe that the original assumption and ambition was right. But what happened, what actually happens very often in that part of the world or in Central Europe or in the Middle East is that the medium- and long-term strategic

considerations have got hijacked by daily tactical positioning and politicking with these issues. And as Natan referred to, all these relations come with their own baggage and own set of political issues.

So, first of all, there was a failure to build a common vision. And then also there was a failure to overcome these daily battles, if you like. Part of the reason why some of these processes or most of these processes failed is the lack or the insufficient outside support, let's put it that way, because you need a big player or players to bump heads together to make that happen.

And in my mind, the United States and the United States energy diplomacy has done a tremendous job and a very active job, but especially on the front of Israel-Jordan, Israel-Egypt, and I wouldn't say neglected the Cypriot part or the Cyprus part. But because of the difficulties and because of the changing nature of Turkish domestic politics and the region, it was a lot more difficult of the U.S. energy diplomacy to intervene. And then the European energy diplomacy was not there at all. And, again, there are institutional reasons for that because there is no such thing as a European energy diplomacy as we speak, unfortunately, in Brussels. Probably at some point there will be, but it's unclear right now how it's structured and related between DG Energy and the (inaudible) Action Service and how that's going to look like in the future.

And the European Union has traditionally been very bad at dealing with delicate political and diplomatic situations as long as one of its member states -- Cyprus -- is involved. So that also prevented and precluded the EU to play a larger role in the Eastern Mediterranean. That was also missing and is still missing.

MR. BOERSMA: I'll say a few words about gas supply and demand, I guess. I think that I'm less optimistic that -- a little bit less optimistic that natural gas from the Eastern Mediterranean can play a very significant role in Europe. I was actually very

pleased when we visited Israel in June, I think, that policymakers there, after a very long and extensive debate about conquering the global LNG markets and becoming filthy rich off all these great spot market prices of LNG that look so wonderful -- of course, none of that was going to happen -- and finally, in June, it seemed evident to me that policymakers in Israel had realized this and said, look, we're going to look around in our region where there's actual demand growth. And given the relatively modest size of our reserves, it makes much more sense to look there. We're going to try and see if we can establish working relations again with some of these countries, in particular Turkey and Egypt, I think, and see whether we can sell off our commodity there.

I thought that was very encouraging. I thought, you know, I think you're more on the right track now. Globally, we see that LNG demand in Asia is not as large as a lot of people thought even a year ago or a couple months ago. Natural gas demand in Europe overall has plummeted fairly dramatically over the last year or two, and is not expected to recover anytime soon without a functioning emissions trading scheme. They are also into fuel sources like cheap coal, which are just much more competitive. So the business case for natural gas in general in Europe doesn't look that good.

In that context, I am not extremely optimistic that natural gas that's relatively expensive to produce in the Eastern Mediterranean's deep water, relatively expensive to produce, you have to build all the infrastructure and then you have to build some of the world's largest pipelines to get it to Europe, these are very, very cost-intensive projects. So I'm not sure that that will come off the ground anytime soon.

Also, because, as David rightly said, the division of labor within the EU is very unclear. So it's unclear who would pay for that infrastructure. The European Commission does not have any precedent in building pipelines and it won't do here either, at least I don't know with what money it would do it.

So having said this, it makes a lot of sense that producers both in Israel and in Cyprus, I guess, look regionally for opportunity. This is an area where you have actual demand growth and significant growth. But then, of course, there's politics. There's regulatory uncertainty and so those make it then, again, very complicated to sort of monetize some of the findings that have actually reconfirmed.

If we could get behind, if policymakers in that part of the world could get behind the regulatory uncertainty, just get a clear idea in place and leave it there and actually attract investment, then that could work. But, of course, it's easier said than done. Politics, again, seem to trump most of the economics that would make it seem like a logical thing to do.

MR. TZIMITRAS: Natan was saying that people and voters truly know. I would say that in Cyprus they truly think they know. And this is an issue because, of course, in a participant democracy otherwise working, it makes it very difficult for the government, any government, to introduce bold measures that -- because the public is convinced of certain things and it is very difficult to let go of this. This is why, I think, this government that in principle seems to me to be a president and a government that was both realistic and held the highest possible expectations for a solution are trapped into a paradigm that they think -- because they think that the public would not be prone to accepting it.

You see, one of the problems in the East Med, and that holds true for a number of the players, and Lebanon in particular, is that gas contains a lot of methane. And methane if you inhale it, gives you hallucinations. And this is exactly what has been happening, it's the hallucination of becoming something more than it actually was.

You're very right in the sense that domestic problems exist, in the sense of regulatory authorities, in the sense of the way things are approached. In Cyprus, if I'm

not mistaken, please correct me, there are at least 16 different agencies a company needs to approach in order to get a simple commercial license, let alone a big license for exploration of natural resources, and this is not an environment conducive to investment.

To take the example of Total that we were discussing earlier, Total, unfortunately, came up with no findings very recently and asked the government of Cyprus to be released from its contract, offering to pay the relative cost of the clause. And the reaction of the government, of the president was to get the political leaders in the presidential palace and the attorney general and start devising ways for coming down on Total in legal measures. This is not the message you want to give either to Total or to potential other investors in the future.

But beyond this, be it as it may, the perception, the possibility of having gas I think is the first platform we found in 40 or 50 years of the crisis, depending on when you start counting it, that could offer a win-win situation irrespective of the financial amount imposed. It would be a perceptive thing for the public to accept something as a reconciliation platform that would be win-win.

But the other problem, and especially (inaudible) especially in the case of Cyprus is the fact that there's a lot of Cyprus-centrism, if you like, a lot of introversion on both sides and cumulatively speaking. And a lot of island mentality, if you like, where there is absolutely no conception of the region, of realities beyond this, of, if you like, the bigger picture within which the is situated, be it security-wise or commercially so.

Now, in view of the fact that -- certainly in the case of Cyprus, but I think beyond this, the governments are not putting in a single penny. They need to respect the timelines of the commercial companies. It's a choice not to go down this way, but if you do, then you absolutely need to take into consideration the commercial viability of projects make it an environment conducive to investment and lure it in.

You know, I think I might be wrong on Israel, but I think, cumulatively speaking, for the East Mediterranean the finding of natural gas gave people, elites, and governments the sense that they could lie back and then being lured by companies whereas I would submit to you it's the other way around. Because, of course, it's a very different world if you see it from the viewpoint of a government in the region or outside and the viewpoint of a vice president of an oil company sitting in Houston, looking at the map. You can make it difficult for him once, twice, three times before he starts moving to other parts of the world where sort of administrative fees would get you there in certain African countries that hold 1,200 larger reserves, the whole of the Eastern Mediterranean potentially, and so on and so forth.

So I think it's not the governments that -- it's the governments that should be luring the companies in rather than lying back on their laurels on this. Thank you.

MS. MALONEY: Well, great. We have about a half an hour for a broader conversation. And I would like to ask you before we begin -- I see a number of hands up; I'm going to try to get to everyone -- I'd like to ask you to wait for a microphone, if you could identify yourself and any affiliation, and if you could please try to ask a question. If it's directed to one or another of the speakers, if you could mention that, as well.

We'll start with Charlie Ebinger right up at the front.

MR. EBINGER: Harry, picking up on your last point and Natan may want to -- well, anybody may want to comment, but I think you hit it right on the nutshell with Israel. It's one thing for a Delek and a Noble because they found the reserves to stay the course if they can with the proposed reorganization and breaking up of the monopoly because they've got a lot of (inaudible) costs. But why in God's name would any other investor go to Israel if you now face the prospect that having invested huge dollars with a

thumb on a piece of paper that can be changed overnight?

MR. TZIMITRAS: In the presence Natan and Tim, I feel very hesitant to touch upon Israel. Well, I'll quote Brenda Shaffer, or maybe I shouldn't quote her, in saying that, you know, Israel has a unique ability of shooting itself in the foot sometimes with these things. But I'll take responsibility if I copy her wrongly on this.

Honestly, I'd be hesitant to venture on Israel. I can talk about another place, but.

MR. BOERSMA: Harry, I'm happy to --

MR. TZIMITRAS: Please.

MR. BOERSMA: Charlie, I fully agree with you. We've been going back and forth about this, obviously, in the past few months. And, of course, it is possibly -- well, it's certainly very risky to the investment climate, if not devastating to the investment climate. As you rightly say, why would you invest in a country when you don't know what your agreement is worth? And that's the bottom line of a lot of resource extractive environments, of course, and it seems to happen here. It's a major risk. So, yes, I think it's a very valid point and I think it's a risky undertaking.

We don't know exactly what the plans are and how they're going to play out in the coming months, likely endless court fightings, I could imagine. And I don't know what it then means for Noble, whether it will commit to the region or not. It's hard to say at this point, but it doesn't do any good if you want to get a resource out of the ground. That seems fairly obvious.

MR. SACHS: I agree. I think it's unlikely that new engines will come. And, in fact, the plan that we've seen in the last couple of days seems to assume that at least two new companies will get involved, and that seems speculative at best. And you've seen in the past, even the former arrangement, a very modest, very minimal

arrangement organized by the Anti-Trust Authority assumed a new company taking control of two very small or relatively small fields that would alleviate the market share problem.

And so I think, as you know, I think we don't think that breaking up and assuming new companies coming in is likely going to solve the problem, the pricing one. But I will go back to what I said before. I think the pricing issue from the perspective of the policymakers looms much larger than it does from here in Washington, D.C.

I think a useful thought experiment is to consider if the United States had to decide its policy that would affect the pricing of all electricity in the country, or almost all, for years and perhaps decades, maybe up to 30 years in the country. And imagine for yourself what lengths the U.S. Government, the U.S. policymakers, the U.S. legislatures would go to, to ensure a low price of electricity for the whole U.S. economy and what the public would demand if they were told the electricity prices would be determined for 30 years.

All that not to say that the policy is smart. Okay. It's to say that there is good reason to fight for this and there is very good reason for the Israeli authorities and the Israeli regulators to think that the interest of the private businesses, while important, are not nearly the only story, especially from their perspective. Their bosses are not Noble Energy or anyone else.

Now, is it smart? Probably not, and particularly because of exactly what you raised: you're playing a dangerous game. Every time you change policy, every time you make it more difficult or less profitable, the lower the price, the better it is for the citizen, the consumer, but the worst it is, of course, for the seller. And you're playing a very risky game.

Tim and I write we think that, in essence, both sides have been playing a

game of trying to guess where exactly the breakeven point is. And, of course, the companies have a big advantage in guessing where that is, but the companies don't know either. Probably there's a lot of uncertainty involved. This is a dangerous game. It could backfire.

But my point, and I stand by it, is that the countervailing argument, the countervailing interest is not a small one. It is one of utmost importance for the Israeli economy for many years to come. It's true, it's not good for the business environment and there's a price to be paid. It's already being paid.

We also don't think that probably breaking up the monopoly along the guidelines that seems to be emerging in the last two days, in essence, Delek would have to sell in Tamar and then Leviathan would be marketed separately, and a bunch of other arrangements, is likely going to happen. And even if it did, it might not even help the market too much. Even a duopoly is not very good. Instead, as you have suggested, price regulation, or monitoring at least the price and, if necessary, then regulating it, is probably the better way to go.

But in all of this I would just caution, again, the bosses, the people deciding this, are not just the echo chamber you hear in Washington, D.C. They don't sit in Houston. They don't sit in Washington. They don't sit anywhere else. They're the citizens and they also happen to be voting right now. And cumbersome, ugly, et cetera, it's also the way it should be in a democracy.

MS. MALONEY: I'm going to abuse my prerogative as moderator here and weigh in on an issue that I really have no expertise on, but I will raise the issue of the rest of the region, and the fact that energy companies are certainly used to problematic conditions in a lot of other countries in the region. And despite the difficulties that they faced, both in terms of the business climate as well as broader security issues, you find

that they're often more willing to go back and try their chances again, even after a bad experience. And there I would point to Iran.

So I do think that the tolerance for risk and the readiness to engage in a climate that shown some degree of uncertainty about legal status of ownership may be higher than we presume it to be if the prospect, if the upside is considered to be positive enough. And that's something that all of you can speak to.

MR. SACHS: To me it's, in a sense, a game of chicken. I think exactly what Suzanne is saying is that there's constantly guessing is the other side bluffing? And we constantly heard in our interviews accusations, for example, by activists saying the government just bought the bluff of the companies. And, of course, we don't know actually where the chicken game actually lies and, in fact, no one actually knows. But that is what's being played to a certain degree notwithstanding the fact that there is an important question of precedent and reputation, and all these are real.

MS. MALONEY: Let me get to some more questions in the room. I see a hand that's been up, one finger, toward the back over here. If we can get a mic and maybe a mic to the other side. Why don't we take two at a time here so that we can keep the pace going?

MR. HENDERSON: Yeah, hi. Simon Henderson, the Washington Institute for Near East Policy. And if I could thank you for the five footnote references I had in the Gaza report. I've actually rather -- I've written more about Israel than about Gaza and my question is about Israel.

And one is to try -- Natan, you've danced on the head of a pin and you've changed direction during the course of the hour so far. And you're balancing between this is the way democracies function and this is complete idiotic economics. If I may just push it in the direction of idiotic economics, because Israel has this gas. If it wants to get

it out, it has to acknowledge an international investment climate. And my personal sense of speaking to Israelis on this isn't that the ones who want this so-called fair price isn't because they know anything about the subject. To the contrary, they know damn all about the subject. They're just motivated by the politics of envy.

But if I could just -- there's a logical question which follows from this. If the Israelis are going to charge themselves a comparatively low price, what is a fair price for Israel to charge the Palestinians, the Jordanians, and the Egyptians given that this is an important part of the extraction exploitation scheme being hatched for Tamar and Leviathan? And the notion that Egyptians, Palestinians, and Jordanians would have to pay a premium price for Israeli gas is politically incompatible with a smooth diplomacy in the region.

MS. MALONEY: Can we get another question in here, perhaps right here?

MR. FARSAKH: Thank you. I'm actually glad you raised that. Nizar Farsakh. I used to be advisor to the Palestinian negotiators on border issues from 2003 to 2008, so my question follows from there.

The other question, other than price, is actually the quality of the gas. One of the arguments that were made back then was that marine gas was of a higher quality, so it was better for the Palestinians not to use it for producing electricity, but, in fact, sell it to Europe or to Israel to get a high profit on it, and then use Israeli gas for the -- or Egyptian gas for the electricity grid, producing electricity. So what is the politics of the quality of the gas with Leviathan, marine and what have you?

And the other aspect of it is a lot of the speakers mentioned that politics stood in the way of reasonable economics. So maybe I could reword it the other way. To what extent are Israeli politicians for that matter looking at gas as a political tool in the

sense, whether it's marine gas or the straddling gas reserves, Noa South and Mari-B, as a tool positively or negatively, as a carrot or a stick, in their relationship in the region?

MR. SACHS: Okay. Well, if I was wavering, then let me clarify. I firmly think that the process was necessary. It's not the way democracies should work, but it is the way democracies work. I can think, for example, of one democracy that has two shutdowns of government in the past three years and is, of course, the paragon of good economics and business. (Laughter) And nonetheless, here in the U.S. we have failed to have very good process, as well.

This issue that Israel was dealing with is only tantamount, as I said, to the U.S. deciding the price of electricity for the next 30 years. I think the U.S. would probably have difficulty doing it, as well.

Is it idiotic economics? There is an idiotic economic aspect to it, but, no, I do not think this is simple Israel idiocy and I don't think it's only motivated by envy. There is a lot of populism involved. In fact, in the paper we talk about some of the nonsense that is being said. But the nonsense is being said on all sides and there are very many people who are very serious. Some of them economists, some of them even from the Ministry of Finance, some of them managing experts, who speak very differently from what you would hear from lobbyists in Washington, D.C. and others. Many of them critical, for example, of the breakup of the monopolies, saying that, in fact, it should be pegged to an international price, have very varied opinions.

This is not a black-and-white debate as it's often portrayed abroad, and that's the main point that I want to make. There is a real risk. As I said before, the economics are a serious issue and have to take account of the international business environment.

But I'd just like to point out Israel is headed by a government that is

validly and in practice extremely attuned to the international business environment. The prime minister called himself the Thatcher of Israel, and that's how he sees himself when he was finance minister of Israel. That's how he sees himself and that's how they see this issue.

They, of course, don't govern alone. Israel is a complex democracy. It's a very raucous democracy. There are regulators. And that is as it should be, although I would certainly have rather their process was better thought out, was more predictable, would not have this reputational damage. And from our perspective here in Washington, D.C., it would have been more helpful to regional cooperation, especially because most of the gas is in Israel. But if I was unclear, I certainly think that Israel needs to go through a lot of this process.

Envy? And then that's it, of course, envy exists. The price for the Jordanians and the P.A., I think Tim and I are very clear, especially on the paper on the P.A., I think there are two slightly different issues, three different issues.

First, the regulation of the price domestically and even what we're seeing emerging in the last few days, which we think is very suboptimal probably, is about the domestic market alone. It says nothing about export. And so the Israeli authorities, the Anti-Trust Authority, has nothing to say about the market price in the Palestinian Authority to the degree that it is independent of Israel. And we do not think it is nearly independent enough. That's a major point we make in the paper on Gaza Marine.

I think the Jordanian one is the second one. That's a matter of international agreement. By the way, most international agreements are between private companies and Jordan. Israel would be happy to facilitate this and it does, but this is mostly between international companies and Jordan. And I think the Israeli authorities, and I happen to think they're right on this point at least, would be happy with anything

that the King of Jordan decides to do on that.

Now, (inaudible) my personal point of view, this is not coordinated with Tim, although he may agree, Israel needs to show largess. The Palestinian economy is in a very difficult situation. The Palestinian Authority financially is in a terrible situation. We may be facing another crisis. And I'm talking now about P.A. in Ramallah. Anything that Israel can do, and the first thing it could do is release Palestinian taxation money, would be very beneficial not only for Palestinians, but for the interests of Israel.

That said, a lot of the onus also rests on the Palestinian side. Although Israeli leadership needs to take the lead here, the Palestinian Authority is broken up in two. The P.A. in Ramallah does not even govern Gaza. It could issue the licenses for Gaza Marine because it is internationally recognized, because Israel would deal with it, but it does not govern anything on the ground in the Gaza Strip and it does not show a special inclination to actually getting that done, to be perfectly honest. I don't think the biggest obstacle to unification is Israel. It's probably more the will of the Palestinians themselves and particularly the presidency in Ramallah.

On the quality, I think, again, I mean, from my point of view I think Israel needs to certainly go the extra mile. The Palestinians need to do anything the Palestinians themselves would like to do. But we shouldn't forget here the crucial role of the Palestinian agency. The Palestinians themselves need to take charge of what they want to do. It is really none of Israel's business if they sell the gas from Gaza Marine to Israel, to Europe, to anyone else or keep it for themselves. Israel should try to facilitate it and help it. It should do it from an economically viable standpoint. It can't be charity or it's meaningless.

And it should certainly take into consideration two very important concerns that are valid to my mind. One is the security of the infrastructure in Gaza

Marine, which is possible, particularly because it's shallow waters. It can be sent underwater to Ashkelon, which is also susceptible to Hamas rockets, but is no more susceptible than the rest of Ashkelon.

And it should also be done, of course, with concern with who gets the funds. The United States itself, also, and the P.A. in Ramallah would be extremely adverse to the idea that Hamas would benefit from it. But to my mind this is primarily a P.A. in Ramallah point of view and Israel should go the extra mile to try and help it. The United States has been helpful in trying to persuade the sides to do it. And there was some chance of it happening. Part of it, I think, was economics and other things, but, as Tim said, also a lack of leadership.

MS. MALONEY: Tim, do you want to add to any of this?

MR. BOERSMA: Yes, sure, briefly. Of course, we don't know what a fair price for buyers in the region would be. That, I don't think, anyone really knows. But as I said, I do think that development of Gaza Marine could be important in the sense that you have an additional source of supply that could be sold as non-Israeli gas. And even though, as I indicated, that's a pretty futile argument because you're talking molecules, if that would work and get it done, then that could be helpful. It would be another argument to develop Gaza Marine.

In terms of gas quality, I'm not really sure if that's an issue or a concern that should be high on the agenda at this point. I think the development of that fuel will be a huge victory in itself. I don't think there's any reason to be optimistic about that at this point. And I think there are huge bridges to cross before that will happen.

We're also talking, in all honesty, a very modest field. We're talking 1 trillion cubic feet (audio interruption) not even 30 BCMs. So I'm not really sure if talking about selling this commodity elsewhere, exporting it, I don't think that's very relevant.

You have a market that is in dire need of additional electricity, it's in dire need of fresh water, that we need to obtain through desalination, and you have a relatively cheap source of energy just off your shores. I think it would be a huge victory of that could be developed and I think that's where the bar should be set at this point.

MS. MALONEY: Anyone else want to go? Okay, great. Can we get a mic up here and maybe one toward the back. We'll do another batch of two and we'll keep going for the next few moments.

SPEAKER: Dr. Tzimitras, you mentioned that the negotiations broke down, but you did not clarify that the reason for that was that President Anastasiades had to suspend his participation in the negotiations because of the Turkish violations of international law and by performing exploration activities in (inaudible) of Cyprus. You recognize that President Anastasiades is realistic and he's in favor of resolution and, indeed, he has a vision of using energy resources as a tool for cooperation in the region. Cyprus already cooperates peacefully with Israel and Egypt and, hopefully, in the future, with Lebanon and Jordan. There can be regional cooperation and the only country that is missing from here is Turkey. And the reason for that is the Turkish behavior towards its neighbors. What do you have to comment on that?

MS. MALONEY: Let's just get one more question, and I think there was a hand back there.

MR. ATUN: Hi. This is Mustafa Atun from the Representative Office of the Turkish Republic of Northern Cyprus in Washington, D.C., another Turkish Cypriot here, a Cypriot.

My question is, sir, you were talking about the decisions that has to be taken at this moment and these decisions would affect future generations. Can you be more specific on your opinion about what decisions need to be taken? And wouldn't it be

good to incorporate these decisions into the overall settlement of the Cyprus problem, which we Turkish Cypriots believe is possible within the next three to six months if we just can bring the Greek Cypriot neighbors back to the negotiation table. There are ways to do it.

And wouldn't it be better to continue all these great projects with the confidence that the solution of the Cyprus problem would give to the countries and to the investors interested in these resources? Thank you.

MS. MALONEY: Those were both directed toward you, but if others would like to chime in afterwards, please.

MR. TZIMITRAS: You know, perhaps there should be a way because one of the things that we've been trying to say for quite some time now is a possible way out of each of these crises is to deconstruct their uniqueness. I think this is extremely important in the sense that people, of course, in various regions are focused, as expected, on their disputes, thinking that they have a unique value to them. And you talk to them and they give you this all the time.

And then especially in this region, which I would be hard-pressed to find a place that is not crisis-ridden, perhaps would indicate to them that others have problems. It's not unique, especially regarding the expected involvement of the international community in theirs. So, in a sense, we're united by the bond of common suffering.

We had an Israeli colleague recently in Cyprus who got mad after a discussion and banged his hands on the table and said enough with this. You have a luxurious crisis here. Come to Israel and then you'll find out what we have, and so on. And I will be -- you know, easy to find other examples of that kind.

But here, in a sense, you have exactly the presentation of the problem.

And my hope was to go beyond this, understanding that there are powerful arguments on both sides, the validity of which are to be decided by each of us, but ultimately, of course, of the people who would vote in a referendum coming to them regarding the possible solution at play. So it is for the Cypriot people, not for me, to suggest.

The thing that, though, I would like to point out is the other leg, if you like, of being constructive through deconstruction. Deconstructing public expectations because I think this has, A, led us to where we are today. The possibility that they were becoming very rich very soon meant that people lost any will to negotiate with the other side. But it also means that it is very difficult for the leaderships involved to deconstruct what has already been in the public belief.

So although it for the people to make the decision in the end, I need to stress that sensible governments, indeed responsible governments and leaderships, need to present them with the facts for them to make a decision. Otherwise, they're being led to a decision. And I will submit to you that to a large degree this was the problem during the 2004 referendum for the Annan Plan. I think the reality was that, to a very large degree, on both sides people were exposed to very specific readings of that plan. And, of course, the voting outcome is absolutely respected, but I would submit to you that very few people read that 150 very difficult legal pages to be read over.

So in this respect, the responsibility of the authorities is to present them with realistic evaluations. And at the moment, the realistic evaluation regarding gas is that there is very little, if any, commercially viable gas that has already been found, with the possibility of, indeed, in the future becoming luckier in this respect. So, therefore, if the expectation was that the gas will lead us out of the crisis, it's not there, but, at the same time, the responsible leadership should try to use this as a reconciliation avenue thereof.

Now, decisions to be made, you mentioned. Well, what are the specific decisions to be made? Hydrocarbon-based economies, and I think the Norwegian model is the best here to speak of, require two things. They require transparency and they require long-term planning.

Anyway, if you're talking about energy, you're talking about long-term contracts to companies. You're talking about an investment in environment, and so on and so forth. This is what a hydrocarbon economy would mean. So in this respect, transparency is one of the avenues that need to be exploited more, certainly in Cyprus and in other parts of the world, as well.

And also start making long-term planning on infrastructure. The Norwegian model indeed says that for the first few years -- and by "few," I mean 30 or 40 -- you invest most of what is coming in public infrastructure for the next generations. And whatever remains in the end, goes into the public coffers somehow as an endowment for the future. So there is very little to be made immediately by people and to be exploited politically and financially. And if we're looking at an economy that will become a hydrocarbon economy as such, these are decisions to be made now.

Now, regarding Ms. (inaudible), what she asks about the President, I'm sure there is an argumentation on both sides. I don't want to go into this simply because it is a reading of a legal and political nature. It is certainly the reaction of the President to actions of Turkey. Legitimate or illegitimate has very little bearing at the moment.

What I tried to do is put down the facts together, and the fact is at the moment that the negotiations are frozen. This is the fact that I'm focusing on, in the sense that a frozen negotiations environment is making things even more difficult to tackle because simply there is no arena to discuss things as they stand. I do hope that we're resuming the negotiations, but, realistically, I wouldn't see that before the fall, much

after the elections in the northern part of -- well, the island, after the parliamentary elections in Turkey, and after a very long Cypriot summer.

MS. MALONEY: We have time for just one more quick question, if we can. This woman in the front.

MS. FOULT: Yes, good afternoon. My name is Christine Foul. I have two points to raise, which are questions. They're not comments.

First, in regards to -- well, there's been back and forth saying that the anti-trust was looking Tamar and Leviathan to have the working interest sold down by each of the partners. So I think the latest now they're looking at just Leviathan. Do we still know that it's just Leviathan? And is the anti-trust also looking at Tamar? And whether it be either or both, does the anti-trust have in particular a mine, a percentage that each joint venture must sell down to satisfy it or is this just being discussed in a vacuum?

My second point is on the pricing dispute. So the public authority seems to want to reduce the pricing. So does this mean that we can expect that Tamar off-takers contract -- did they off-take contracts of the Tamar to be reopened? Because I think it's been in operation since 2013, and they're significant contracts, I think over 20-some contracts. Of course, bringing it back to the breakeven point here, whether it be a requirement of a specific working -- a sell-down of a work interest in Egypt that the partners and the pricing dispute, Noble has been very blunt, I believe, in saying that it's ready to walk away.

Now, I think that we know that Noble Energy is the project operator, so is Israel really ready to have Noble walk away as a project operator? And is there a plan to replace it?

MR. SACHS: Okay. So most of what you're asking is about the news

from this morning, so we have little, I think, to say, probably because it's so far out, it's speculative, and it leaks. The outline seems to be that it certainly deals with Tamar and Leviathan both. What's reported this morning at least is that Delek would have to sell its share in Tamar, and then there would be restrictions on the domestic -- only the domestic -- sale of Noble from Leviathan. I think there are people in the room who would probably have better information than me on this, but the idea is also to then introduce the separate sale of the gas from Leviathan and even from Tamar, which would presume new actors.

But all this is news that, honestly, we don't even know the complete facts yet, so I can't really comment much about it. It seems not to include much on pricing at all. And even what you're referring to, that it was already discussed a few weeks ago, which is the opening up of contracts, those were newish contracts with private electricity, they supply our producers, which is so far a very small share of the Israeli market. I see the Israel Electrical Corporation, which is the major one, those contracts are probably not going to be touched including in this.

So this arrangement seems to be quite elaborate in terms of market share and who has to sell what. It's, by the way, not just Tamar and Leviathan. It would include licenses and also Tanin and Karish, the previous two fields that were supposedly part of the whole thing, but actually quite light on price regulation and contract regulation, although they're somewhat separate authorities on this, and so the regulatory authority inside Israel is -- there are some authorities that could have a different opinion and insight on this.

So in short, it seems to be strong on the monopoly on the trust-busting, less on the price regulation. We're not sure that that's how we would recommend, but that seems to be the way they're going.

Now, is there an idea of another one? No. There's all sorts of dreams that beforehand that a major would come in when the (inaudible) Committee wrote its report. That was the committee that dealt mostly with export, although with many other issues actually, as well, but it's most famous on the export. They spoke very clearly and several times about a major company coming in. That, needless to say, did not happen and is not likely to happen, so they don't have a plan. If Noble were to really come through and walk away, they'd be in a terrible situation. Hence I think it really is a risky strategy. Hence perhaps the right side of me was speaking and Simon heard.

But just to raise the red flag again, the question is, of course, where exactly is the breakeven point? And some of these -- even this regulation on this breakup is the product of negotiations with the companies themselves, in particular Delek. A lot of the envy has been towards the owner of Delek, Yitzhak Tshuva, who is very famous in Israel. He's one of the tycoons, supposedly evil tycoons. But needless to say, as a very major player in the Israeli market, no one can pity him too much. He really knows his way around the Israeli market and the Israeli political system extremely, extremely well.

If you look at a picture, even just a photo of the committees in the Knesset dealing with this issue, I promise you there are lobbyists in the background who work for Yitzhak Tshuva. So I have no envy, I have no animosity. I also lack pity towards (inaudible). (Laughter)

MS. MALONEY: Lest that not be our final note, Tim, would you --

MR. BOERSMA: Oh, god, no, no, this is going to be such a --

MS. MALONEY: -- say a word or two on this or just any final words to wrap up?

MR. SACHS: Here's the red pen.

MR. BOERSMA: I was going to say, this is going to be such a downturn because I just look forward to reading the final decision, which has not been published, so we don't really know what's going to happen.

MR. SACHS: That's what I meant to say.

MR. BOERSMA: Sorry that I couldn't bring you another red flag, but that's where I'll leave it. (Laughter)

MS. MALONEY: Well, I'd ask you all to please join me in thanking our terrific panelists for a wonderful discussion. (Applause)

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