FOSSIL FUEL SUPPORT COUNTRY NOTE

OECD BETTER POLICIES FOR BETTER LIVES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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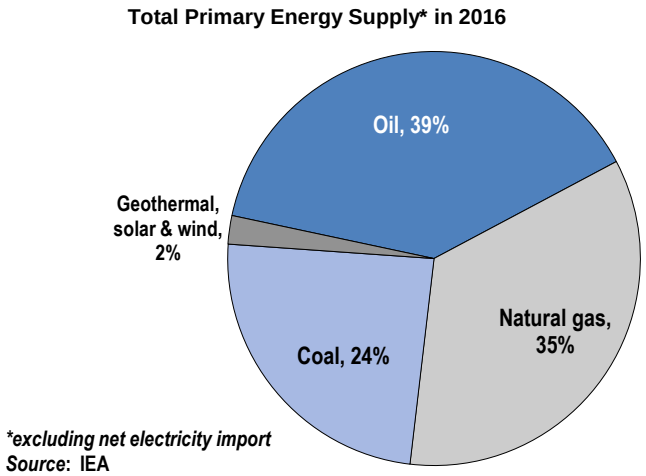
Israel

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure



In 2016 Israel obtained nearly one-fourth of its total primary energy supply from mostly imported coal and 35% from natural gas, both mostly used to generate electricity. However, the share of natural gas is expected to increase substantially following the recent discovery of one of the largest known gas reservoirs in the world (the Leviathan), production from which is estimated to start beginning 2020. Total off-shore explored fields contain an estimated 1000 billion cubic meters of gas. The country's electricity output is currently mainly generated from natural gas (55%) and coal (45%), while 5% of it is generated from renewables. As natural gas will start flowing from the Leviathan, the share of electricity generated from it is expected to rise to 70%. At the same time, half of the country's coal plants are expected to shut down and the share of coal-generated electricity output will decrease to approximately 15%. By 2022 it is expected that the share of natural gas in the TPES will be 50%, oil will represent 34%, coal in the will decrease to 12%, and wind and solar will increase to about 5%. Israel's concession-based regime for taxing hydrocarbon production, dating from 1952, was revised in April 2011. The new law provides that royalties on hydrocarbon discoveries will remain at 12.5%, according to the Oil Act, and another profits levy (in addition to regular corporate tax) will begin after the developers have paid back investment outlays plus a return allowance. The rate of such levy increases gradually up to 60%. Israel's energy sector is yet to become fully competitive. Electricity generation and distribution are dominated by the state-owned Israel Electric Corporation (IEC), although the share of electricity generated by private operators has increased reaching 35% in 2018 and it is expected to increase further—also due to the fact that all generation from renewables in Israel is private. Coal import for electricity generation is in the hands of the National Coal Supply Corporation, established and owned by the IEC. The development of off-shore gas fields is conducted by the private sector, much of it by a consortium of companies headed by a US oil company (Noble Energy) and Israel's Delek Drilling. Gas transmission, on the other hand, is carried out by the Israel Natural Gas Lines Company (INGL), a government subsidiary established in 2003.

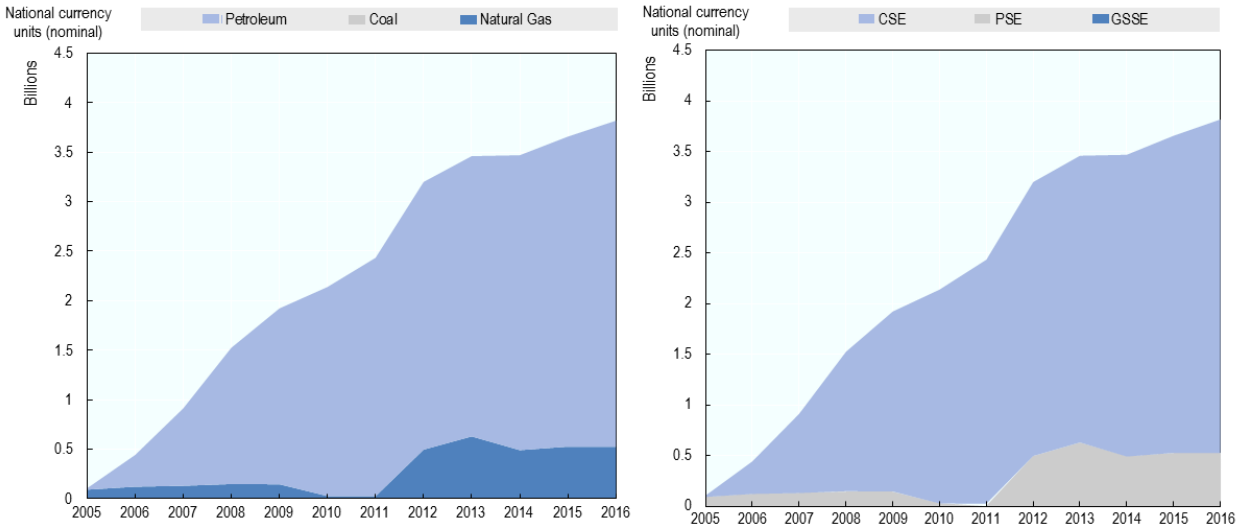
Energy prices and taxes

With the objective of maintaining a balance of interests between consumers, the Electric Corporation, electricity manufacturers, and the state, all rates and payments in the field of electricity are regulated by the Electricity Authority and are not directly subsidised. Over the last decade, Israel has advanced reforms to deregulate its oil sector, particularly the gasoline industry. Among other changes, some price controls for end users of petroleum products were eliminated and the country's two oil refineries were privatised. The retail price of gasoline before taxes and excises remains based on a formula linked to

crude oil prices. Adding the excise duties on motor fuels, which are relative high in Israel, prices reach levels close to those found in a number of European countries. In September 2009, a five-year fuel tax reform was concluded, as a result of which the excise-tax rates on diesel and gasoline were almost matched and the diesel annual car licensing fee was reduced to match the fee on gasoline engine cars. The reform intended to reduce economic distortions influencing the choice between diesel- and gasoline-powered cars. Excise duties are also imposed on fuels used for stationary purposes. The tax on coal is now substantially higher than the excises on heavy oil (mazut) and natural gas and may further encourage a shift away from coal-fired electricity production

Israel's natural-gas market is confined by its rigidity, as gas prices are set by long-term supply contracts for large customers.

Total support for fossil fuels in Israel by fuel type (left) and support indicator (right)*



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Recent trends and development in support

The rapid increase in consumer support for fossil fuels observed in Israel can be traced back to three measures: (i) Excise Tax Exemption on Diesel Fuel, (ii) Reduced Royalty payments, and (iii) Depletion Deduction. The exemption on diesel was stipulated in the *Excise Tax on Fuel Order* of 2005. This particular measure provides for tax rebates on diesel fuel used in buses, taxis, fishing boats, and working vehicles such as tractors. The fuel tax reform concluded in 2009 considerably increased the revenue foregone resulting from the tax rebates on diesel fuel that large businesses and industries continue to enjoy. The Depletion Deduction and the Reduced Royalty payments originate in the '50s and have gradually increased since 2004, first year from which data are available in the Inventory.

Examples of measures	
Reduced Royalty Payments (1952-)	According to Israel's 1952 Oil Law, the rate of royalty payments that the holder of a lease is normally required to pay amounts to 12.5% of gross income. For natural gas produced from the Tethys concession, this rate was reduced to 10.6% of gross income over the 2004-10 period. For 2011-12, information came from various gas companies' annual reports. The estimates for 2013–16 were calculated using the same method as for previous years but they concern the Tamar field only.
National Coal Ash Board Funding (1993-)	This measure is designed to promote more economical uses for coal ash accumulating in Israel's coal-fired power stations through funds for research and development.