

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 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 2017 Israel imported almost all of its coal as well as its primary and secondary oil product needs, with coal mostly used to generate electricity. Despite the current dependence to imports, the share of indigenous natural gas production is expected to increase following the recent discovery of one of the largest known gas reservoirs in the world (the Leviathan), with production expected to start beginning 2020. As of 2017, the country’s electricity output is currently mainly generated from natural gas (64%) and coal (33%), while 3% of it is generated from renewables. As natural gas will start flowing

from the Leviathan gas field, this fuel’s share of electricity generated 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 at 34%, coal will decrease to 12%, and wind and solar will increase to about 5%. At the end of 2018, Israel joined the Powering Past Coal Alliance (PPCA) and committed to completely phasing out its coal power generation by 2030.

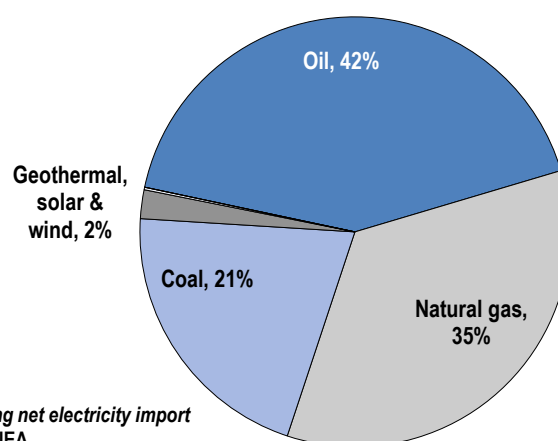
Israel’s energy sector is yet to become fully competitive. Electricity generation and distribution are dominated by the state-owned Israel Electric Corporation (IEC), although the share of electricity generated by private operators has increased reaching 35% in 2018 and it is expected to increase further, as all generation from renewables in Israel is private. Coal imports 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

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%.

Over the last decade, Israel has advanced reforms to deregulate its oil sector, particularly the gasoline industry. Some price controls for end users of petroleum products were eliminated and the country’s two

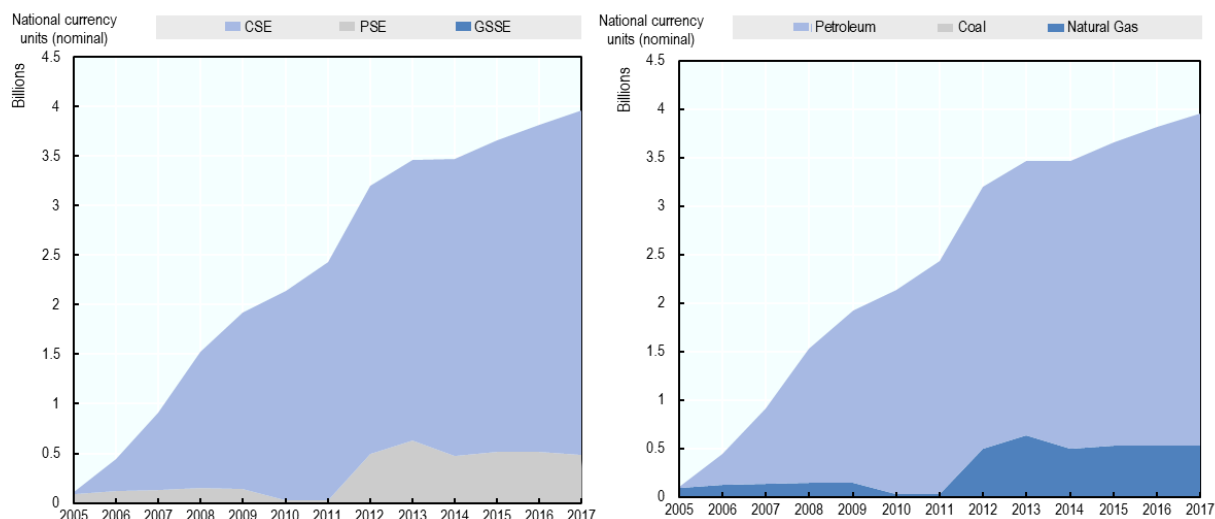
Total Primary Energy Supply* in 2017



*excluding net electricity import
Source: IEA

oil refineries were privatised. Excise duties on motor fuels are relative high in Israel, making prices reach levels comparable to a number of European countries. In September 2009, a five-year fuel tax reform was concluded, with excise-tax rates on diesel and gasoline almost made equal and the diesel annual car licensing fee reduced to equal that of gasoline engine cars. Excise duties are also imposed on fuels used for stationary purposes. Taxes on coal are now substantially higher than the excises on heavy oil (mazut) and natural gas , which may further encourage a shift away from coal-fired generation.

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 bulk of fossil fuel support measures observed in Israel can be traced to the following measures: (i) Excise Tax Exemption on Diesel Fuel, (ii) Reduced Royalty payments, and (iii) Gas Agreement Between Israel Electricity Company and the Tamar Gas Field. 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, from ILS 2.4 million in 2011 and now stands at ILS 3.6 million in 2018.

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.