The Association of Foreign Banks in Israel (A.F.B.)
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Ministry of Finance
1, Kaplan Street
Jerusalem

To Professor Eytan Sheshinski,
Chairman of the Sheshinski Committee on Gas Royalties and Taxes

Dear Professor Sheshinski,

Our Association represents most of the foreign banking groups which are present and active and present in Israel. Our member institutions have a strong commitment to the State of Israel and have a strong vested interest in the long-term development of Israel's economy supported by a stable and secure supply of energy. In particular, several of our members are already financing - or are considering to finance - many national energy-related projects.

The recent discovery of significant quantities of recoverable gas resources off the coast of Israel will help deliver such security of supply. The financiers represented here are committed to assisting both international and domestic partners to help realise this resource potential, which will provide sustained economic benefit to the State. Further, we support the Government's drive, through the development of a natural gas industry, to diversify away from fuel oil power generation to cleaner gas technology.

In connection with the recent prolific discoveries, we understand that the Government is taking steps to possibly renew its tax and royalty policy. To investigate whether current tax and statutory royalty laws are appropriate in the context of these recent discoveries, we understand that the Committee which you head has been appointed and will shortly report to the Government on its findings.

A number of recent media reports have suggested that the Committee may recommend revisions to the tax and royalty policy concerning oil and gas developments and that there may be a significant rise in both the level of taxes and royalties paid by developers. Further, we understand that such taxes or royalties may be applied retroactively to projects currently under development.

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Whilst we do not wish to pre-suppose the conclusions of the Committee or to seek to limit in any way the sovereign right of the Government of Israel to determine its fiscal policies for the future, we respectfully call your attention to two important items, as follows:

(i) major revisions to the tax and royalty regime which has formed the basis of previous investments in gas projects may have a negative effect on the general appetite of financiers to invest further in the energy sector in Israel, particularly when this industry remains in its infancy, and

(ii) To the extent that any such changes have a retroactive effect (on new projects or on projects which have already been part-funded by international and domestic financial institutions under agreed economic assumptions), this may be very difficult to understand for our foreign banking members and may constitute a very negative precedent with respect to any future international investments of this type in Israel.

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With best regards,

Jimmy Pinto
President of the Association of Foreign Banks in Israel