



MINISTRY OF FINANCE
MINISTER'S BUREAU

November 10, 2010
2010-2274

**Minister of Finance's Address at the Press Conference Before Submission of the
Draft Conclusions by the Committee to Examine the Policy on Oil and Gas
Resources in Israel, Headed by Prof. Eytan Sheshinski**

Ladies and gentlemen,

The Sheshinski Committee is handling one of the most important macro-economic and macro-social issues in the history of the State of Israel. There is no doubt that the existing gas discoveries, and possible future discoveries, are the nation's greatest and most significant natural resource. These discoveries are a sign of foreseeable prosperity for the citizens of the State of Israel. One cannot overstate the importance of these discoveries for our future, for our ability to continue to finance our defense, and for our ability to ensure the highest levels of education of our sons and daughters in the near future.

Therefore, I would like, first and foremost, to thank the six members of the Sheshinski Committee, particularly the chairman, **Prof. Eytan Sheshinski**, for undertaking the important task of examining Israel's fiscal policy on gas and oil. This is a superb professional committee, headed by a professor with an international reputation in the field of taxation and public finance, and the most senior representatives of three government ministries, each one an expert in his field: **Mr. Shaul Tzemach** and **Dr. Yaakov Mimran** of the Ministry of National Infrastructures; **Prof. Eugene Kandel**, head of the National Economic Council in the prime minister's office; **Mr. Yehuda Nasradishi** and **Dr. Udi Nissan** of the Ministry of Finance; the deputy attorney general, **Mr. Avi Licht**, who is serving as an observer; and **Dr. Amit Friedman** of the Bank of Israel, who is also serving as an observer. I would also like to mention the members of the team who have been working day and night: **Shaul Meridor, Udi Adiri, Udi Remer, Na'ama Kaufman, Alon Padan** and **Morris Dorfman**.

The committee deserves praise not just for its professional and dedicated work, but also for admirably working under the difficult pressure that was exerted on it from the very day it was established. Particularly worthy of condemnation is the campaign of pressure and intimidation that was directed personally at the committee chairman, Prof. Sheshinski and his family. Thank you, Eytan, for withstanding the pressures – I know it was not easy, but you did not break. I thank you in the name of the government of Israel for volunteering and for taking on this important national mission. At this point, I would like to emphasize that the executive summary that was submitted to me today, and the draft of the full report that will be published on the website by Sunday, is a draft which may yet be amended after the stage of the second hearing, which will be held in the coming weeks.



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Ladies and gentlemen,

The oral and written guidelines for the Sheshinski Committee were clear: You must examine the fiscal policy and the system of taxation and royalties with regard to the oil and gas deposits of the State of Israel, against the accepted standards in the Western world. You must find a balance between the obligatory concern for the interests of the entrepreneurs and the investors, and the obligatory concern for the economic and social welfare of the nation and the state. As Minister of Finance, I insist on the right of the investors and the entrepreneurs to profit and to enjoy the fruits of their investments, according to the accepted standards in the developed world.

The actions of the investors and the entrepreneurs, who acted, among other things, for the purpose of making a profit, are essential for the development of the economy. To the same extent, I must also firmly insist on the right of the State of Israel, and the right of the citizens of Israel, to benefit from the state's natural resources in accordance with the international criteria. In effect, the committee was asked to standardize and normalize the issue of gas and oil taxation in Israel with regard to accepted standards throughout the world. I would like to emphasize that I am not envious of those wealthy people, owners of companies, whose wealth may be a thousand times or even ten thousand times that of ordinary mortals like me. But our genuine concern for the economic interests of those people and companies cannot supersede the economic and social interests of the entire nation.

It is sometimes difficult to grasp the magnitudes we are dealing with. Have you ever thought, for example, of the impact of tens of billions of shekels that will be infused into, say, the education system over the next twenty years – billions that will be invested in improving the lower school system and the higher education system in Israel, and financing infrastructures for science, technology, and the highest possible level of human capital? Have you thought of the national, economic and social positive ramifications, for example, in closing social gaps by improving education, resulting from those investments? These Investments can be financed by a logical and reasonable level of taxation and royalties according to the accepted standards in progressive and developed democratic countries, like us?

A short time after to I assumed the office of minister of finance, I was amazed to hear that the share the State of Israel acquires from gas and oil discoveries on its territory is one of the lowest in the world. After an intense study of the matter, together with my advisers at the Ministry of Finance and people from the academia I decided that this complex and weighty issue, with its historical ramifications, required the establishment of a committee of professional experts to advise me, and afterwards the government and the Knesset. I was also amazed to learn that the system of taxation and royalties in this field had remained unchanged over the past 60 years. It is astonishing to think that the Gas and Oil Discovery Law was last changed in 1952, in other words, before the start of the exploration and the significant discoveries of gas



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and oil in Israel, and even before the energy crisis of the 1970s. I was surprised to discover that in most countries throughout the Western world, the tax laws pertaining to gas and oil had been changed many times since the 1950s, including in the past two decades, in Israel, nothing happened, except for two abortive attempts between 2001 and 2003, attempts that were defeated within months by the enormous pressure that was exerted by interested parties in Israel and abroad. As Minister of Finance, I would have failed in my duty if I had listened to the advice I received not to deal with the matter because of the anticipated pressure that would be brought to bear, and to leave the task to those who came after me.

The time has come when the State of Israel, the citizens, the Knesset and the government must decide: are we a modern state that takes care of its citizens and belongs to them, or are we a state in which intimidation and threats by interested parties prevent us from becoming similar – both in the taxation and royalty system on the gas and oil areas, and in other matters – to the developed countries of the OECD?

Once again, I would like to thank the Sheshinsky Committee for its professional and dedicated work, and I am certain that the State of Israel and its citizens will build and grow from its recommendations.