

In Israel, Oil Quest Is Based on Faith

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Living in one of the few countries in the Middle East without substantial oil reserves, Israelis often joke that Moses turned left when he should have turned right.

But Zion Oil & Gas Inc., a small exploration company founded by an evangelical Christian from the U.S., hopes to change that and in the process transform the fortunes of a country simultaneously dependent on oil imports and at odds with the world's main exporters.

"Geopolitically, if we have what we think we have, it's going to make Israel energy independent for a long time," said Zion Oil's founder and chairman, John Brown. "You know what that can do for Israel geopolitically -- it changes everything."

Mr. Brown has faced more than his share of skeptics, due in part to the fact that 50 years of sporadic energy exploration in Israel haven't resulted in much until recently. The religious and political underpinnings of his quest for oil in the Holy Land have also raised eyebrows about the commercial logic of Zion Oil's project.

Making his fortune in industrial machinery, Mr. Brown had no energy-industry background before he was inspired by the Old Testament. Passages suggested to him that oil could be found at the meeting point of the biblical lands of Menasseh and Ephraim, the sons of Joseph, and of the land of Asher, coinciding with the area around Ma'anit in modern Israel.

Mr. Brown has been pursuing his dream to turn Israel into an oil producer, dubbed the Joseph Project, since 1985 and founded Zion Oil in 2000. The basis for the project is his desire to help Israel survive and prosper.

"I felt in my heart that this was exactly what I had to do with my life, and we were going to accomplish it," he said.

In an unrelated move, an Israeli company, Sedot Neft, had done seismic

analysis and had begun drilling a well on almost exactly the spot that Mr. Brown said was described by Scripture. The Israeli company was forced to abandon the well after failing to achieve results at a shallow depth and running out of cash, but the exploration license became available for purchase by Mr. Brown and a group of mostly evangelical Christian investors.

Initial study of the data by geologists along with Israeli government seismological studies seemed to confirm why Sedot Neft's search for crude at shallower depths was fruitless, but Mr. Brown's colleagues then began to examine a much deeper structure that yielded surprising results.

"We realized that we had a stratigraphic play with a structural feature to it and that all these geologists that were knocking the deal were dead wrong," said Glen Perry, a veteran U.S. drilling engineer who now manages Zion Oil's efforts in Israel. "It's a monster potential structure in there."

Independent estimates put the reserve potential of the formation at 484 million barrels, located at a depth of 16,500 feet in what is known as a Triassic reef -- a structure that has yielded oil in many other regions.

"It's science confirming Scripture," Mr. Brown said.

The depth of the structure makes the well riskier and more expensive -- a cost company officials estimate is double what would be typical in the U.S.

Managers stress that, while the impetus for the project stems from Mr. Brown's spirituality, he has demonstrated his seriousness as a businessman. "John is the visionary. He had the good sense to bring in oil and gas professionals," Mr. Perry said.

Mr. Brown has faced a number of obstacles in addition to persuading investors to part with cash for a vision inspired by biblical revelations. His efforts to bring in a multinational oil company failed even after the geological evidence became available.

"An industry player with international operations, as a general rule, will

not touch Israel with a thousand-mile pole," said Zion Oil's general counsel, Philip Mandelker. "The geopolitical risks and the risks with the Muslim world are just too great."

And wildcatters, Mr. Mandelker added, are afraid to drill in Israel because of concerns that their personal safety is at risk from terrorist attacks -- risks he said that are exaggerated by the media. "Unless a company is already in Israel, the odds of them pursuing a project like this are low," he said.

Multinational oil companies including Royal Dutch/Shell Group and BP PLC abandoned Israel in the 1950s under Arab pressure, BG Group PLC and Noble Energy Inc. do have operations there now. But BG -- which also works in Mauritania, Egypt, Tunisia and the Gaza Strip -- has quietly surrendered its license to develop its main prospect in Israel.

The lack of interest spurred Brown to raise \$7 million and found Zion Oil. "For me, it was a faith move. Basically, I invested everything on the basis of that, but some of the others needed both faith and geology," he said. "Those people are looking for return on investment, but they are givers and lovers of Israel as well."

Another factor that Zion Oil executives acknowledge made it easier to raise funding was the stream of successful energy ventures in Israel in recent years, helping to persuade investors that searching for oil and gas there isn't futile.

A series of offshore natural-gas discoveries with estimated reserves of over three trillion cubic feet put the country on the energy map, though Mr. Perry stressed that they come from a different geological formation than Zion Oil's prospect. "It's focused a little more attention on the country that, yes, there is oil here after 50 years of poor results," he said.

More tantalizing for investors is another company's recent oil find near Zion Oil's license area. Israeli company Givot Olam Oil Ltd. found substantial deposits but may not be able to commer-

cialize them because of the condition of the reservoir.

Yet there is potential to find something, especially in light of the fact that about 16 miles south, in a similar strata, there is oil but the permeability isn't high enough, said Yaakov Mimram, oil commissioner in Israel's Ministry of National Infrastructure. "We know we are in a good structure there," he said.

Mr. Mimram said Israel is already seeing substantial economic benefits from the gas field operated by the Yam Thetis consortium that has come online, and he is optimistic about the prospects for onshore oil and gas production as well as the development of other offshore discoveries.

Israel imports almost all of its energy needs. Despite being adjacent to the world's major hydrocarbon reserves, it relies on imports from outside the region, such as Russian oil and South African coal, which boosts its costs.

Zion Oil's Mr. Perry said that even if every project being planned is successful, Israel would at best be self-sufficient in energy. Still, he believes this would greatly enhance the country's security and its economy. "The state of Israel stands to get a big boost," he said.