

NOBLE ENERGY LEVIATHAN PROJECT COMPLIANCE REVIEW

APPRAISAL REPORT

This report documents the compliance appraisal process carried out by OPIC/DFC's Office of Accountability (OA) in response to a request it received to conduct a compliance review of the Noble Energy Leviathan Project in Israel. The report is organized as follows:

1.0 Description of the OA's compliance review process

2.0 Background on this case

3.0 Scope of the appraisal for a full Compliance Review

4.0 Findings of the OA Appraisal

5.0 Conclusions

1.0 Compliance Review Process

1.1 General

In a compliance review, the OA reviews and reports on OPIC/DFC's implementation of relevant environmental and social policies and procedures with respect to an individual Project or a set of Projects about which a request has been made. The compliance review generates knowledge that Management can use to improve the environmental and social responsibility of the Project(s) under review and of future Projects. The review focuses on OPIC/DFC's actions rather than the client's performance with respect to relevant OPIC/DFC policies, contract provisions or other client actions.

1.2 Scope of Review

The potential scope of an OA compliance review includes OPIC/DFC's implementation of policies and procedures governing environmental and social impacts, human rights and worker rights. Because OPIC's policies evolved over time, the benchmark for a compliance review is the same version of the policies that OPIC applied to the subject Project. A compliance review may examine (1) whether or not the set of policies applied was appropriate and adequate to prevent harm from the project, and (2) the actions taken by OPIC to implement relevant policies (up to the time when the request for review was submitted). In particular, the review examines whether or not appropriate implementation steps were followed and whether these steps were adequate to meet the objectives of relevant policies.

1.3 Appraisal

The OA first performs an appraisal in order to determine if a *full review* is the appropriate response to the incoming request. In conducting the appraisal, the OA examines available - project-related documentation and discusses OPIC/DFC's role in the project with relevant staff and possibly other stakeholders. The OA refers the request to the relevant OPIC/DFC departments with a request for comment and information. The appraisal process identifies OPIC/DFC policies that are relevant to the incoming request but does not evaluate OPIC/DFC compliance with them.

1.3.1. Appraisal Considerations

A number of criteria help guide the OA in determining whether or not the potential benefits from the information generated by a full review merit the time and resources involved in conducting it:

- a) How likely is it that the Project's environmental or social impacts have harmed or may harm Affected Stakeholders?
- b) How strong are indications that the manner in which OPIC/DFC implemented its environmental and social policies and procedures is related to the harm or risk of future harm?
- c) To what extent has OPIC/DFC been working with the Client to address the underlying causes of harm?
- d) Is there evidence of adverse social and environmental outcomes that indicates that policy provisions may not have been adhered to or properly applied?
- e) Could a full compliance review yield information or findings that might better inform the application of policies to future projects?

1.3.2. Appraisal Report

The OA prepares an appraisal report that includes its decision whether or not to conduct a full compliance review, the reasons for that decision, and possibly observations and suggestions relating to the subject Project or to future Projects. If the OA determines that a full review is warranted, the appraisal report will outline its scope and approach.

The OA Director transmits the appraisal report to the President and CEO, Board, Requestor and Client. If the appraisal report contains substantive observations about OPIC/DFC's role in the project to date, the OA will request that OPIC/DFC management prepare a response to them. If a full review is not to be conducted, the OA will close the compliance review component of the case after posting the appraisal report and any Management response on the OA's website.

2.0 Background on the Case

Description of Project and Sponsor

This project involves the development and operation of the offshore Leviathan Gas field (“Leviathan Field”) pursuant to leases granted by the Israeli Ministry of National Infrastructures, Energy and Water Resources on March 27, 2014 to a consortium of investors. The investors in the unincorporated joint venture are Noble Energy Mediterranean Limited (“NEML”), the operator of the Leviathan Field, and the Israeli oil and gas companies Avner Oil Exploration Limited Partnership (“Avner”), Delek Drilling Limited Partnership (“Delek”) and Ratio Oil Exploration Limited Partnership (“Ratio”), collectively the “Leviathan JV Partners”

The project is located offshore from Israel in the Mediterranean Sea. The Sponsor requested standard expropriation coverage (i.e. political risk insurance from of OPIC) of up to \$250,000,000 but an insurance contract was never signed.

The Leviathan was (and still is) opposed by some local activists in Israel who filed a number of lawsuits and made other attempts, sometimes joined by environmental NGOs and local and regional authorities to halt its development. All the judgements in the court cases have dismissed the petitioners’ claims and the Ministry of Environmental Protection confirmed that all professional environmental criteria had been met by the project prior to start-up. It became fully operational in December 2019

A rough chronology of the project is as follows:

Spring 2015 – The sponsor approached OPIC for financing in the form of Political Risk Insurance

22 September 2016 – Project ESIA was posted on OPIC’s website and the posting period ended on November 21, 2016. No comments were received during the OPIC posting period.

December 2016 – Project approved by OPIC’s Board of Directors.

January 2017 – OPIC issued a Commitment Letter to Noble Energy to provide Political Risk Insurance. This Commitment Letter was extended twice, the second extension until September 2021. The Insurance itself was never issued.

June 2019 – One US and two Israeli NGOs filed a complaint with the OA.

September 2019 – OA determined the eligibility of the complaint.

November 2019 – The OA initiated a problem-solving dialogue.

February 2020 – Noble Energy cancelled its Commitment to the DFC. As no insurance had been issued, the withdrawal of the Commitment letter concluded the process and the OA terminated the problem-solving assessment.

OPIC policy requirements

In general, OPIC's environmental and social requirements for proposed projects are based on those policies in effect on the date of the client's application for OPIC's consent. At the time of the application for the Noble Energy Project, OPIC formally relied on its 2010 Environmental and Social Policy Statement to determine the client's environmental and social requirements. OPIC also used the 2012 Performance Standards of the International Finance Corporation (IFC) to inform its appraisal of the project, specifically:

PS1: Assessment and Management of Environmental and Social Risks and Impacts;

PS2: Labor and Working Conditions;

PS3: Resource Efficiency and Pollution Prevention

PS4: Community Health, Safety and Security

PS5: Land Acquisition and Involuntary Resettlement;

PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources; and

PS8: Cultural Heritage.

In accordance with PS3, the IFC's Guidelines applicable to the Project include: General environmental, Health, and Safety (EHS) (2007): Offshore Gas Development (2007); and Gas Distribution Systems (2007)/

In addition, the Project was required to comply with all the applicable host country environmental, health, and safety regulations.

Once OPIC identifies applicable policy standards, it notifies clients of their corresponding obligations, including associated studies and reporting requirements, as a condition of receiving OPIC financing.

Request for compliance review

The initial (June 2019), request for both problem-solving and compliance review came to the OA from Prof. Rick Steiner of Anchorage, Alaska and by two Israeli NGOs: Zalul and Israel's Homeland Guards. (As a matter of practice, the OA considers confidential, but not anonymous, requests to be eligible for compliance review and problem-solving services.)

The OA sequenced problem-solving first and deferred a decision on whether/when to initiate compliance review until the outcome of problem-solving became clear. On 21 February 2020, the OA closed out the problem-solving phase after learning that the Commitment Letter with the client had been cancelled and concluded that continuing to support it further was unlikely to lead

to a resolution of the dispute. Shortly thereafter, the OA initiated an appraisal for compliance review. ***(Further information on the problem-solving phase of this case can be found on the OA’s webpage.)***

The range of allegations of non-compliance in the request is broad. The letter received from the complainants (dated 8 March 2020) request that:

“DFC conduct a full compliance Review, to assess and clearly identify failures in the process used by OPIC in its consideration and approval of the Leviathan project. As is clear from the supporting documentation provided in our original complaint, many citizens of Israel believe the process was flawed, and must not be repeated in in future project consideration by the U.S. government. Specifically, we believe the Environmental Impact Assessment performed as part of the project was misleading and systematically omitted available information on the risks of building a gas processing platform in close proximity to shore.”

3.0 Scope of the appraisal for a full Compliance Review

In conducting this appraisal, OA applied the three aforementioned criteria to the available information:

- a) How likely is it that the Project’s environmental or social impacts have harmed or may harm Affected Stakeholders?
- b) How strong are indications that the manner in which OPIC/DFC implemented its environmental and social policies and procedures is related to the harm or risk of future harm?
- c) To what extent has OPIC/DFC been working with the Client to address the underlying causes of harm?

The OA appraisal asks the question: Did OPIC assure itself that it had diligently reviewed and assessed the environmental and social risk, and potential environmental and social impacts, of the Noble Leviathan project? To support the appraisal, the OA reviewed various documents, conducted several meetings with OPIC staff in the Office of Investment Policy (OIP) – now re-named the Office of Development Policy (ODP) in the DFC – which was responsible for administering OPIC’s environmental and social assessment procedures, and drew extensively from information generated from the problem-solving phase of the case.

3.1 Scope of OPIC’ review of the Leviathan project

The project was screened by OPIC as Category A because it involves the development and operation of major natural gas production and transportation infrastructure that has potential impacts which can be diverse and irreversible. According to the project’s Environmental Clearance, “the projects includes the potential for:

- Accidental releases of natural gas from process upsets resulting in fire and explosion which could adversely impact the safety of both offshore personnel and the community near the Dor Valve Station;

- Impacts associated with particulate matter, nitrogen oxides and sulfur oxides releases from fuel combustion;
- Inappropriate handling, management and/or disposal of produced water, sanitary, and other effluent discharges, drilling muds, and hazardous and solid wastes;
- Spills of diesel and condensate into the marine environment;
- Hazardous materials management (including natural gas, condensate, and diesel);
- Maritime impacts associated with the offshore operations;
- Occupational health and safety; and
- Community health, safety, and security during Projects' construction and operation phases.

These impacts are addressed in several documents which are summarized in "Leviathan Project: Supplemental Lender Information Package – Overarching Environmental and Social Assessment Document." Environmental Impacts Assessments (EIAs) for the Leviathan Lease Development and include: (1) Environmental Impact Report for Production, Drilling, Production Tests, and Completion – Leviathan Field (the "Drilling EIA"); (2) Environmental Impact Assessment for Installation, Operation and Maintenance of pipelines and Submarine Systems for Leviathan Field Development (the "Production EIA"); (3) Translated TAMA 37H EIA Offshore Section: and (4) Translated TAMA 37 H EIA Onshore Section.

In addition, OPIC's review included: (1) emails from the Project Sponsor to OPIC in 2015 2016: and (2) a review of the operations of the Tamar Offshore Project facilities during OIC's E&S site visit in November 2016. OPIC staff visited the Tamar Offshore platform and pipeline corridor from the Dor landing site on the Jordan border. The visit to Israel included meetings with the local environmental regulator and the regulator from the Archeological Institute in Caesaria near Dor.

3.2 OPIC's ESIA Disclosure

The availability of the project's ESIA was posted on OPIC's Web Site on September 22, 2016 and posting period ended on November 21, 2016. No comments were received during the OPIC's posting period.

3.3 Applicable Performance Standards and Regulatory Framework

OPIC stated that the project had committed to comply with OPIC's environmental and social procedures as well as IFC Performance Standards with the exception of Performance Standard 7 which deals with Indigenous Peoples as there are not communities in the immediate area of the Israeli project site that could be considered indigenous under PS7.

PS 1. Assessment and Management of Environmental and Social Risks and Impacts OPIC requested an Environmental and Social Management Plan to address each major environmental and social issue as well as the preparation of a detailed Environmental Management and Monitoring Plan (EMMP) to guide management and monitoring over the Israeli project's life cycle. The ESMP identified the monitoring parameters for each of the major issues identified in the ESIA and IFC's sector specific and General EHS Guidelines. A Stakeholders Engagement

Plan was also developed in accordance with this PS and includes Stakeholder Identification and Mapping, Community Feedback Mechanism and Monitoring and Evaluation components.

PS 2. Labor and Working Conditions. OPIC assured itself that a workplace health and safety plan was in place consistent with the PS2 requirements and relevant guidelines and that it covered all workers and subcontracted labor.

PS 3. Resource Efficiency and Pollution Prevention. OPIC assessed the pollution impacts of the project and concluded that the project facilities would properly address and monitor safety hazardous management (including the risk of explosion and fire), hazardous materials management, emergency response measures, impact on physical resources (including air emissions, wastewater discharges, and solid and hazardous waste management) and mitigation, resource conservation and energy efficiency, and control of greenhouse gas (GHG) emissions.

PS 4. Community Health, Safety and Security. Based on PS 4, OPIC assessed the potential impacts on community, health, safety and security and concluded that they would be mitigated to levels that would not pose a significant community safety risk.

PS 5. Land Acquisition and Involuntary Resettlement. In compliance with this PS, OPIC required Noble to develop a “Livelihood Restoration Management Framework.” Under this Framework, Noble will compensate individuals for potential losses subject to legal revisions and provide developmental benefits to affected people (specifically fishermen). Noble would be required to report on the implementation of the Livelihood Restoration Framework in its Annual Monitoring Reports.

PS 6. Biodiversity Conservation and Sustainable Management of Living Natural Resources. The ESIA identified mitigation measures to minimize impacts on biodiversity. These measures address operations related to drilling, helicopter traffic, submarine infrastructure installations, valve controls, spills, noise, ballast water discharges and cumulative impacts. OPIC also required the Project to prepare a Biodiversity Action Plan to address actions to protect several threatened or endangered species that could be present in the Project’s affected locations.

PS 8. Cultural Heritage. Based on PS 8, OPIC identified a number of possible cultural (archeological) resources during baseline surveys on the seafloor. Surveys were used to ensure that they would be avoided. In the pipeline corridor a number of archeological sites were identified. It was determined that pipeline routes would be shifted if they crossed an archaeological or discovery (such as shipwrecks) to avoid possible damage. A cultural heritage management plan would be prepared and implemented to ensure the Project’s compliance with PS 8

4.0 Findings of the OA Appraisal

The key findings from this appraisal are as follows:

- Given the scope of the project on which OPIC's due diligence was based, the environmental and social impacts and risks posed by the project were potentially significant, consistent with its Category A screening classification.
- Even if a full compliance review were to identify deficiencies in how OPIC applied its policies, it would not be able to address any potential future impacts and risks as the commitment with Noble Energy has been cancelled and this is no longer an "active project."
- The OA finds that OPIC was previously aware of the issues subsequently raised in the complaint that relate to compliance with OPIC policies then in effect, and that OPIC had identified the need for numerous mitigation measures. OPIC also took a precautionary approach by assigning a Category A to the project and by invoking international standards.
- The OA finds no evidence that the ESIA "*systematically omitted available information on the risks of building a gas processing platform in close proximity to shore*" as asserted in the complaint.
- The suspension of the project (no political risk insurance contract has been issued) and the unlikelihood that the company will choose to re-activate the project further weakens the rationale for conducting a full compliance review.

5.0 The Office of Accountability (OA) Decision

The OA appraisal investigated whether there is evidence of risk of significant adverse social and environmental outcomes that indicate that policy provisions failed to provide an adequate level of protection --- whether or not OPIC complied with them. The OA finds that is not the case.

Based on its evaluation of the appraisal criteria the OA finds that conducting a full compliance review would yield little information or findings that might improve the application of policies to future projects. The OA also finds that conducting a full compliance review would yield little additional value to the requestors, DFC, or the client beyond what this appraisal has already identified. For all the above reasons, the OA has determined that a full compliance review is not appropriate and hereby closes the compliance phase of this case with no further action.