Report of the State Comptroller of Israel | January 2025

Europe Asia Pipeline Company (EAPC) – Financial Audit and Various Aspects of Its Activities

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Background

In 1968, the Government of Israel granted the Eilat-Ashkelon Pipeline Company (the historical EAPC) a subsidiary concession for transporting oil through a land bridge between the Red Sea and the Mediterranean Sea, as well as for establishing and operating oil facilities along its route (the Concession).

In 2017, the 49-year Concession expired, and the Oil Transport and Storage Infrastructure Law, 2017 (the Infrastructure Law) was enacted in order to establish alternative arrangements for some of the matters previously regulated under the Concession agreement. Following the expiration of the Concession, and by force of the Infrastructure Law, a new company was established in 2017 for this purpose, fully owned by the State of Israel: the Europe Asia Pipeline Company Ltd. (the Company or EAPC). In 2019, the activity and employees of the historical EAPC were transferred to the new Company. According to the Infrastructure Law, "the Minister of Finance shall be the minister in charge of matters related to the Company." As of March 2020, the Company has been classified as a government company under the Government Companies Law, 1975.

The Company operates in five main activity sectors: (a) crude oil – services include unloading, loading, storage, and pumping. A significant portion of Israel's crude oil in 2022 was unloaded at the Company's ports; (b) refined products – services include unloading, loading, storage, and distribution; (c) liquefied petroleum gas (LPG) – services include unloading, distribution, storage, and filling of portable containers; (d) port services – services include piloting, mooring, and unmooring of ships; (e) natural gas – various services for the natural gas sector. EAPC operates three separate pipelines for transporting crude oil and owns an additional pipeline for transporting fuel products, operated by Energy Infrastructure Ltd. The total length of the pipelines is 747 km. In addition, the Company owns energy ports in Ashkelon and Eilat (a pier within Eilat Port) alongside tank farms for storing crude oil and fuel products with a total capacity of 3.7 million cubic meters.

In December 2020, the Company and Med-Red Land Bridge Ltd. (Med-Red) signed a ten-year agreement[1], under which the Company was expected to significantly increase the volume of crude oil unloaded at the Eilat port. The Ministry of Environmental Protection (MoEP)

1 A non-binding Memorandum of Understanding (MOU) was signed between the parties in October 2020.

opposed the expansion of the Company's activities in and from Eilat and restricted the annual scope of operations at the Eilat port. In November 2021, the MoEP established a Zero Additional Risk to the Gulf of Eilat policy (Zero Additional Risk Policy[2]) stipulating that, under this policy, it would neither review nor approve (under any circumstances or conditions) any increase in the volume of activity beyond the current level, unless the government decides otherwise.

Subsequently, an updated annex to the Med-Red agreement was signed, under which the parties agreed to reduce the volumes of oil allowed to be unloaded and transported, in line with the restrictions imposed by the MoEP in the hazardous materials permits for Ashkelon and Eilat. In May 2024, an inter-ministerial team led by the Prime Minister’s Office[3] completed its review process of the Med-Red agreement and the Zero Additional Risk Policy, which began in September 2021. The team found that there are benefits to expanding the "transport of oil through the Eilat port," which were extensively presented for the first time during its work. Chief among these benefits are improvements to the country’s energy security and operational continuity during emergencies. The failure to lift the restriction stemming from the Zero Additional Risk Policy, without risk management, and the failure to expand the refined products terminal, may lead to the closure of the Eilat terminal, thereby preventing the ability to respond effectively in times of emergency. Accordingly, the inter-ministerial team, except for the MoEP representatives, recommended, among other things, that the MoEP specifically review the Company’s request to expand its activities at the Eilat port within three months and not condition this review on a government directive requiring it to do so.

Following the Swords of Iron War, which began in October 2023, and for the duration of the emergency period only, the Ministry of Environmental Protection (MEoP) permitted an exception to the annual volume restriction set for Eilat, given the port's importance in emergencies and its role in serving the local economy[4] in such times. In its May 2024 conclusions, the inter-ministerial team led by the Prime Minister’s Office recommended extending the temporary permit to exceed the annual volume restriction in Eilat due to the prolonged nature of the Swords of Iron War. The team also recommended lifting the limitation that restricted the exception to local use only.

2 A zero-risk policy was adopted, according to which no expansion of activity at the Eilat port and its surroundings would be allowed, if it could increase environmental risk beyond the current level. In other words, the scope of EAPC’s activities at the Eilat port must be maintained in alignment with the restrictions that applied prior to the signing of the Med-Red agreement for expansion.

3 The team included representatives from the Prime Minister's Office, the MoEP, the Ministry of Energy and Infrastructure, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Health, the Ministry of the Interior, the Ministry of Tourism, the National Security Council, the Shipping and Ports Authority within the Ministry of Transport and Road Safety, the Governmental Authority for Water and Sewage, and the Government Companies Authority.

4 As EAPC can also provide storage, unloading, and pumping services at its Eilat facilities to foreign customers.

Key Figures

119 km

of the 254 kilometers (47%) of Pipeline 42 (the crude oil pipeline connecting Eilat and Ashkelon) pass through areas classified as "high to very high" environmental sensitivity; 101 kilometers of the pipeline traverse nature reserves and national parks at various classification levels

2.5 years

passed since the start of governmental discussions (September 2021) regarding the Med-Red agreement and the Zero Additional Risk Policy, on which discussions began in August 2023, until the completion of the review led by the Prime Minister’s Office in May 2024

Up to 17% rate of women in senior management

17% of board members are women, while only 13% of senior management employees are women

NIS 7.6 million

The cumulative salary of the external legal advisor in the years 2021–2023

Many years

The period over which the Company's spokesperson has served without a public tender at EAPC

Audit Actions

From August 2023 to May 2024, the State Comptroller's Office conducted an audit on financial and operational matters related to Europe Asia Pipeline Company Ltd. (EAPC), including issues related to environmental protection; an analysis of the regulation applicable to the Company; an examination of the Company's future and its development; a review of the external auditor's work (the External Auditor); and issues concerning corporate governance. The audit was conducted at EAPC, the Government Companies Authority, the Ministry of Finance, the Fuel Administration in the Ministry of Energy (the Ministry of Energy), the Ministry of Environmental Protection (MoEP), the Israel Nature and Parks Authority (INPA), the Prime Minister's Office (PMO), the National Security Council (NSC), and the Eilat Municipality. Supplementary examinations were carried out at the Israel Competition Authority, the Israel Ports Company Ltd. (IPC), Energy Infrastructure Ltd. (TASHA), and the Shipping and Ports Authority (SPA).

Key Findings

An examination of the Company's financial status revealed the following –

- In 2022, the Company invested part of its funds in tradable securities. The investment yielded negative returns due to a decline in the value of the securities and exchange rate differences.
- The Company does not provide a written explanation of all sources of profit or loss from regular and other activities.
- The Company does not separate general and administrative expenses from the cost of revenue, as is customary in similar government-owned companies. This impairs comparability with similar companies, such as Energy Infrastructure Ltd. (TASHA) and Natural Gas Lines Ltd. (NATGAZ), and diminishes the ability to assess the Company's efficiency.
- Due to various restrictions on the Company (such as environmental regulatory barriers), it may face difficulties in raising capital from banks and the public through bond issuance. This is in contradiction to the position of the Government Companies Authority.

- EAPC has five main operating segments. It was found that EAPC does not present its operating results by key operating segments. Presenting results by segment is particularly important for EAPC – both geographically, given the challenges it faces at the Eilat port (see below), and by operating segments, given the anticipated changes in the energy market as the transition to a low-carbon economy gains momentum.

The prolonged government discussions regarding the expansion of fuel activity in Eilat –

- The Company signed a commercial agreement with Med-Red, including provisions for unloading and delivering crude oil through Pipeline 42 (which connects Eilat and Ashkelon). In November 2021, the Director-General of the MoEP (at the time), with a copy to the Minister (at the time), announced that the ministry had decided to adopt a Zero Additional Risk Policy in the Gulf of Eilat and that it would not permit any increase in activity at the Eilat port "beyond what was approved for the Company in its hazardous materials permit and its existing emergency plan." In practice, due to the Zero Additional Risk Policy, the MoEP did not advance its review of the revised risk survey submitted by EAPC and, as a result, the Company's emergency plan was not updated. The MoEP conditioned its review of the revised risk survey on a government decision.

- As a result of the restrictions imposed by the MoEP, an updated annex to the agreement between the Company and Med-Red was signed, under which the parties agreed to reduce the volumes of oil that could be unloaded and transported. The cancellation of the original Med-Red agreement (from 2020) and its replacement with the new Med-Red agreement adapted to the MoEP's restrictions impacted on the Company's revenue.

- It was found that EAPC informed the MoEP at an early stage about the anticipated expansion of activities at the Eilat port under the Med-Red agreement, as early as October 2020, when signing the non-binding Memorandum of Understanding. However, EAPC did not inform the Ministry of Energy about the agreement's content, despite its substantial implications for the energy sector in both routine and emergency periods. It should be noted that there is no legal obligation to inform the Ministry of Energy.

- The summary of governmental discussions regarding the Med-Red agreement and the Zero Additional Risk Policy[5], was written in September 2023, approximately two years after the discussions began. The Ministry of Finance, the MoEP, the Ministry

5 A zero-risk policy was adopted, according to which no expansion of activity at the Eilat port and its surroundings would be allowed, if it could increase environmental risk beyond the current level. In other words, the scope of EAPC's activities at the Eilat port must be maintained in alignment with the restrictions that applied prior to the signing of the Med-Red agreement for expansion.

of Energy, and the PMO, which led the discussions on the Zero Additional Risk Policy starting in August 2023, were divided on the reference scenario for an oil spill event (compared to the scenario set by the MoEP – 25,000 tons). Furthermore, the probability of a spill event, which serves as the basis for assessing and quantifying the negative implications of expanding activity in Eilat, was not presented. Similarly, the economic costs, including the cost of energy redundancy that would be imposed on the economy as a result of the Zero Additional Risk Policy, have not yet been estimated.

- Only during the audit and after the outbreak of the Swords of Iron War did the PMO, in May 2024, publish the conclusions of the inter-ministerial team it led, along with a series of recommendations. The inter-ministerial team, excluding representatives from the MoEP, recommended, among other things, to "restore the routine operations of government ministries" as detailed below:

    - The MoEP should specifically review the request to expand oil transport through the Eilat port within the powers vested in it, within three months of these recommendations. As part of this, the risk survey should be completed in alignment with the MoEP’s guidelines.

    - The MoEP should provide instructions on the steps required to reduce the probability of oil spill incidents, including addressing and providing guidance on protective measures related to the Eilat coastline, the biodiversity in the Gulf, including the coral reef, public health, and the desalination facility in Eilat. This should include measures to ensure the supply of drinking water in the event of the reference scenario (an oil spill) – all subject to the ministry’s legal authority and accepted practices.

    - The MoEP should conduct a review of the Zero Additional Risk Policy and the guidelines given to its staff under this policy in the context of administrative law.

    - Regardless of the review in question, and even though the issue was not raised during the team discussions, the MoEP must adequately prepare for dealing with a national oil pollution event in the Gulf of Eilat, as determined by government decisions.

    - It was found that even two and a half years since the beginning of the review of the Med-Red agreement (July–September 2021) and the subsequent Zero Additional Risk Policy (August 2023 to May 2024), the MoEP remained in disagreement with other government ministries involved in the inter-ministerial team examining the Zero Additional Risk Policy (and submitted a minority opinion to the team's conclusions).

- It was also found that approximately 3.5 years after the initial signing of the agreement (December 2020) and by the end of the audit period, and even three months after the inter-ministerial team concluded its work (May 2024), the government, and particularly the PMO, the Ministry of Finance, the Ministry of Energy, and the MoEP, had not yet discussed the conclusions and recommendations of the inter-ministerial team, and therefore, they had not been granted binding status.

This situation illustrates a sequential, prolonged, and cumbersome governmental process for reviewing a policy that the relevant government ministries agreed has far-reaching implications for the environment, the economy, and the energy sector, as well as for EAPC's operations, particularly in light of the ongoing state of emergency following the outbreak of the Swords of Iron War in October 2023.

Risk of damage and leaks from the Company's pipelines – although the risk survey conducted for the Company in 2015 – a requirement for the annual renewal of the hazardous materials permit for the Company's pipelines – recommended installing two additional shut-off valves along Pipeline 42 (deemed to involve environmental high risk, requiring the examination of alternatives for their installation) and relocating another shut-off valve (with low risk) connecting the Ashkelon port to the Eilat port, the alternatives for installing the two shut-off valves have not been fully examined and, as of the conclusion of the audit, the third shut-off valve has yet to be relocated (nine years after the recommendation).

It was further found that only in 2022, seven years after it was determined that the two shut-off valves should be installed or alternatives considered and the third valve relocated. The MoEP, in its hazardous materials permit, required the Company to evaluate alternatives to reduce the risk of a leak instead of installing and relocating the valves identified for action in 2015. Additionally, due to the flow of floodwaters in certain areas of the Negev, the Company's pipelines are occasionally exposed, as observed during a joint field survey by the Israel Nature and Parks Authority (INPA) and the Company in the Negev in December 2019, and during maintenance work on Pipeline 42 in 2022. This is contrary to the Water Regulations, although the regulations do not apply to pipelines (including Pipeline 42) laid before their enactment. Exposed fuel pipelines face an increased risk of leaks due to impact from washed-away rocks and external blows. It should be noted that in past years, several significant leaks occurred from the Company's pipelines, including during the historical EAPC period (a leak in the Avrona Nature Reserve in 2014 and a leak in the Zin River in 2011) and a leak during EAPC's current operations near the Mash'en community in 2021.

Risk to the fuel sector during emergencies in the Swords of Iron War – Israel has four ports where refined products and crude oil required for the economy during emergencies can be unloaded, impacting Israel's emergency fuel reserves: the TASHA fuel port in Haifa, offshore fuel mooring points near Ashdod, the EAPC port in Ashkelon, and EAPC's fuel jetty in Eilat. The audit revealed that during the Swords of Iron War (2023–2024) and Operation Guardian of the Walls (2021), Israel was on the brink of a crisis in its emergency fuel sector. On one hand, the Ashkelon port was shut down due to security threats, and the Haifa port and offshore fuel mooring points near Ashdod were at risk of shutdown in a scenario of escalating conflict on the northern front. On the other hand, the Eilat port was rendered unfit for unloading refined products, as well as for maintaining port redundancy and ensuring continued operation for the unloading and storage of crude oil. This was due to restrictions imposed by the Ministry of Environmental Protection on the amount of crude oil that could be unloaded, as of the eve of the Swords of Iron War.

Audit findings:

- Restrictions imposed by the Ministry of Environmental Protection (MoEP) in May 2022 on the Company's activities in Ashkelon and Eilat, as well as limitations on the activity of foreign clients in Eilat prior to this date, significantly reduced the crude oil stock available for Israel's two oil refineries. Consequently, following the outbreak of the Swords of Iron War, and in response to a letter from EAPC's CEO to the PMO's Director General on October 8, 2023, the MoEP permitted EAPC to exceed the crude oil unloading limits during the war and for several weeks thereafter. This illustrates the conflict between the energy sector's emergency needs and the Zero Additional Risk Policy adopted by the MoEP.

- The Ministry of Energy failed to transfer the budget allocated in 2020 as part of the economic growth promotion plan in response to the COVID-19 pandemic. The budget, amounting to NIS 130 million, was designated for preparing the Eilat port to unload and store refined products, but it was not transferred at all. The lack of funding for this project resulted, among other things, in EAPC having to prepare, on short notice during the Swords of Iron War, for quick unloading of refined products directly onto trucks for transport north, without storage or pumping capabilities at the site.

In summary, Israel was unprepared for the state of emergency on the eve of the Swords of Iron War due to the inability to unload refined products in Eilat and the restrictions on crude oil unloading imposed by MoEP.

Subjecting EAPC to the designated minister for the energy sector – although the Ministry of Energy acknowledges that EAPC plays a key role in providing several essential services in Israel's fuel and energy sector, its primary activities are – pursuant to the Oil Transport and Storage Infrastructure Law, 2017 – under the authority of the Minister of Finance. The Company has not been subordinated to the designated minister and ministry, i.e., the Minister of Energy and the Ministry of Energy. This is despite the Ministry of Energy's 2016 request to transfer responsibility for EAPC to its authority, similar to other transmission companies in the energy sector, such as NATGAZ and TASHA. According to the Ministry of Energy (2021), the EAPC – unlike government companies subordinate to it – did not notify the ministry about the Med-Red agreement, which has significant implications for the fuel sector. There is no evidence that the Ministry of Energy's claims were examined, nor did the ministry pursue this issue further.

The role of the Price Supervisor in the Ministry of Energy and the Price Committee – although the Oil Transport and Storage Infrastructure Law, 2017, mandated the Ministers of Energy and Finance to examine the application of the Fuel Order[6] and its adaptation to EAPC's activity no later than one year after the concession expires (2017), and despite EAPC being the leading company – considered a de facto monopoly in providing unloading, storage, and pumping services for crude oil (responsible for approximately 75% of imported crude oil) – the Fuel Order primarily applies to similar services provided by TASHA, including unloading, pumping, and storage of crude oil in Haifa and Kiryat Haim (where TASHA's facilities are located), and not to the services provided by EAPC (to the local market). Additionally, despite the Company's central role in the fuel sector, the Price Committee – Energy and the Director of the Fuel Administration, in his role as a committee member, failed to conduct a competitive review to assess compliance with Section 6(a) for applying price controls and making decisions in the fuel market, at least since the Company's establishment in 2019.

Employment of legal advisor, external auditor, and internal auditor – EAPC has not yet completed all the regulatory arrangements required of it as a government company in line with the circulars of the Government Companies Authority: legal advisor, external auditor, and internal auditor.

Adequate representation on the board of directors and in Company management – it was found that EAPC's Board of Directors lacks adequate representation of women. Since 2021, only one female director has served on the board out of six directors (approximately 17%), contrary to the Government Companies Law and Government Resolution 1362 which set a goal of gender equality in government company boards. Additionally, only 13% of the Company's management consists of women, while the proportion of women in senior and mid-level management is 9% and 19%, respectively. Furthermore, the board of directors has no representation (0%) of persons with disabilities, individuals of Ethiopian descent, or new immigrants, contrary to the Government Companies Law, which stipulates that proper representation must be provided for these groups.

Payment of a certain salary component to senior employees – the achievement of personal performance targets for the Company's employees from 2020 to 2022 was high, ranging between 95% and 100%. This suggests that the personal targets were not sufficiently challenging during these years. Additionally, regarding the payment of a

6 Control of Prices of Commodities and Services (Fuel Sector Infrastructure Tariffs) Order, 2014.

certain salary component to senior employees, the 2021 oil spill incident near Mash'en (August 2021) was not taken into account, despite a hearing on the matter held by the Ministry of Environmental Protection.

Key Recommendations

- Regarding the Company's financial status, it is proposed that the Government Companies Authority and EAPC's Board of Directors evaluate the need to expand the written explanation provided for the Company's regular activity and other operations. Additionally, it is recommended that EAPC's Board of Directors, for the sake of transparency and to improve oversight by the Government Companies Authority, reflect general and administrative expenses separately from the cost of revenue and provide detailed information on the significant amounts included within these expenses. It is further suggested to examine the presentation of information on general and administrative expenses for purposes of comparison over the years within the Company and against similar data from other government companies (e.g., TASHA and NATGAZ).

- It is recommended that the Company's Board of Directors, in collaboration with the Government Companies Authority, assess the need to present the Company's operating results by its main profit centers.

- It is also recommended that the Government Companies Authority, together with the Company, the Accountant General in the Ministry of Finance, and the Legal Bureau of the Ministry of Finance, work to develop a permanent mechanism for raising foreign capital in order to finance major projects for the Company's expansion, subject to approval by the Government Companies Authority and the Ministry of Finance. Moreover, it is advised that the Government Companies Authority and the Ministry of Finance (as regulators) explore ways of improving efficiency, optimizing the Company's resource utilization, and integrating it into strategic projects to advance its development.

- The Company should consult with the Israel Nature and Parks Authority (INPA), as some of the Pipeline 42's shut-off valves are located in nature reserves. The Company should also expedite and complete the assessment for installing the two shut-off valves or evaluate alternative measures to reduce the risk of leaks along the pipeline at the points where the shut-off valves were planned (Ramon Crater and Zin River). Accordingly, it is recommended that the MoEP insist on the prompt presentation of alternatives for installing the two shut-off valves, assess their implementation, and ensure completion of the relocation of the Be'er Sheva shut-off valve, particularly if a decision is made to permit the expansion of activity at and from Eilat port with northbound pumping. The Company must act without delay to bury its exposed pipelines as soon as they are exposed, especially in environmentally sensitive areas, such as the exposed pipelines in the Ramon River and Ein Zik areas documented by INPA.

- The Ministry of Energy should collaborate with the MoEP and the Ministry of Finance to ensure the energy sector's needs are met, both in general and specifically at Eilat port, during routine times and emergencies. Accordingly, when the Company's risk survey is reexamined by the MoEP (as recommended in the inter-ministerial review report from May 2024) and when renewing the annual hazardous materials permit for the Eilat terminal in the future, it is recommended that the MoEP, in collaboration with the Ministry of Energy, assess the minimum inventory levels of crude oil and refined products required to be maintained in Eilat for emergency purposes. Furthermore, if the MoEP, following its re-evaluation, allows EAPC to exceed the 2 million tons per year limit but at a scale that may continue to restrict the Company from fully implementing the original Med-Red agreement, and given that, according to the Ministry of Energy, activity at such a scale is not economically viable, a solution must be found for meeting emergency needs. This may include preparing for the possibility of purchasing inventory with state budget funds, establishing a regulated tariff to cover storage costs, or identifying alternative funding sources. It is also recommended that the Ministry of Energy expedite the development of a plan for renovating the Eilat port and its pumping infrastructure.

- It is recommended that the Prime Minister's Office (PMO) facilitate a discussion to decide and adopt the conclusions of the inter-ministerial team regarding the expansion of activity at the Eilat port, particularly in light of the state of emergency in Israel following the outbreak of the Swords of Iron War in October 2023. Additionally, it is recommended that the PMO assign responsibility to the relevant ministries for implementing the inter-ministerial team’s recommendation to expand the capacity for receiving refined products at the Eilat port and set clear timelines for its implementation, given the importance of this capability amidst the prolonged Swords of Iron War and the emerging security threats in this period.

- It is further recommended that the Prime Minister, together with the Minister of Energy and the Minister of Finance, and in collaboration with the Government Companies Authority and the minister in charge of the Government Companies Authority, evaluate the Ministry of Energy's position regarding the need to regulate EAPC’s activities under the sectoral minister and ministry – the Minister of Energy and the Ministry of Energy. Considering the Company’s significance to the energy sector and the crossroads at which the energy sector currently stands – transitioning from fossil fuels to renewable energy - it is recommended, if necessary, to initiate legislative amendments in order to address this matter.

- It is recommended that EAPC's Board of Directors, in collaboration with the Government Companies Authority, the Ministry of Finance, and the Ministry of Energy, evaluate the anticipated impacts on the Company’s future due to changes in the energy sector and the resulting regulatory restrictions.

- It is recommended that the Ministry of Energy and the Price Committee, in consultation with the Competition Authority, complete a competitive analysis divided into the various segments of Israel’s fuel sector, particularly regarding infrastructure services in this sector, where two de facto monopolies operate – EAPC and TASHA. Furthermore, such a competitive analysis, which has not been conducted for years, should be submitted to and utilized by the Price Committee and decision-makers in the fuel sector.

- The Minister of Finance and the minister in charge of the Government Companies Authority should, through the Government Companies Authority, ensure adequate representation of women and diverse populations on the Company's Board of Directors, as required by the Government Companies Law. EAPC is encouraged to explore, in collaboration with employee representatives, the possibility of integrating women into the board of directors, once the terms of the current employee representatives on the board conclude.

- The Minister for Regional Cooperation (in charge of the Government Companies Authority) and the Minister of Justice should promptly appoint members to the committee in charge of appointing external auditors to enable the replacement of external auditors in government companies. It is recommended that EAPC's Board of Directors, Company management, and the Government Companies Authority consider the option of replacing the external legal advisor.

Summary

In 1968, a sub-concession for oil transportation was granted to the historical EAPC. In 2017, 49 years after its issuance, the concession expired, and the Infrastructure Law was enacted, under which EAPC was incorporated as a company fully owned by the State of Israel. In 2020, it became a government company under the Government Companies Law. EAPC plays a central and essential role in the energy sector during both routine and emergency times and is considered a de facto monopoly in some of its areas of activity. Although the Ministry of Energy acknowledges that EAPC is a significant entity in the energy sector, it has not been subordinated to the designated minister and ministry – the Minister of Energy and the Ministry of Energy. Moreover, the Ministry of Energy (in collaboration with the Ministry of Finance) does not determine the Company's tariffs in areas where it is a de facto monopoly, while it does set the tariffs for TASHA in these areas.

It was further found that EAPC has not yet completed all the regulatory requirements expected of it as a government company, in line with the Government Companies Authority circulars.

These include employing a legal advisor, an external auditor, and an internal auditor, limiting the tenure of senior employees, and ensuring adequate representation of women in the Company's management and mid-level positions.

In recent years, there have been oil leaks from the Company's pipelines and storage tanks, exposed oil pipelines in sensitive areas, and lawsuits filed against the Company due to odor nuisances.

The occurrence and recurrence of these environmental risks expose the Company to financial, administrative (mainly enforcement actions by the Ministry of Environmental Protection), and even criminal liabilities (as was the case with the historical EAPC).

Additionally, during the Swords of Iron War (2023–2024) and Operation Guardian of the Walls (2021), Israel faced risks to its fuel sector during emergencies due to the lack of capacity to unload refined products outside Mediterranean ports. Similarly, challenges were identified in maintaining redundancy and ensuring the continued operation of the Eilat port for receiving and storing crude oil. These issues were exacerbated by restrictions on unloading quantities at the Eilat port on the eve of the Swords of Iron War.

The Prime Minister’s Office should promptly convene a government discussion in order to decide and adopt the conclusions of the inter-ministerial team regarding the expansion of activity at the Eilat port. This is particularly urgent given the state of emergency in Israel during the Swords of Iron War and the associated risks from multiple fronts.

Additionally, it is recommended that the Ministry of Finance (as the Company's regulator), the Ministry of Energy, and the Government Companies Authority, in collaboration with the Ministry of Environmental Protection, work to formulate a comprehensive governmental position regarding the Company’s future in light of the anticipated reduction in the use of

fossil fuels. This position should balance environmental impacts with the needs of the energy sector during routine times and emergencies, particularly given the concerns about vulnerabilities in the energy sector, as demonstrated during the Swords of Iron War and Operation Guardian of the Walls.

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Cyber Defense of Remotely Piloted Aircraft (RPA)

Cyber Defense of Remotely Piloted Aircraft (RPA)

Background

From September 2022 to July 2023, the State Comptroller's Office examined the Israel Defense Forces' (IDF) cyber defense of the Zik and Eitan UAV systems. The audit was conducted within the IDF, including the Air Force - specifically the Digital & Communications Department, the UAV Weapon Systems Department, the Technological Headquarters, and relevant UAV squadrons; the Cyber Defense Division of the Teleprocessing Directorate – within the Defense Division the UAV Directorate of the Directorate of Defense Research & Development (DDR&D – MAFAT) within the Ministry of Defense; and Israel Aerospace Industries. Meetings were also held with Elbit Systems, although it is not a formally audited entity.

According to Section 17(a) of the State Comptroller Law, 1958 [Consolidated Version], and considering the necessity, the subcommittee of the State Audit Committee decided not to present the audit report on this matter to the Knesset, nor to publish it.

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The IDF's Preparedness for Warfare in the Electromagnetic Spectrum Domain

The IDF's Preparedness for Warfare in the Electromagnetic Spectrum Domain

Background

From December 2022 to July 2023, the State Comptroller's Office examined the Israel Defense Forces' (IDF) preparation and readiness for warfare in the electromagnetic spectrum domain. The audit assessed the following areas: the reference threat and force buildup, conceptual and doctrinal foundations, intelligence, and operational plans. The audit was conducted primarily within the IDF, including the Teleprocessing Directorate – specifically the Spectrum and Cyber Defense Division; the Ground Forces Command; the Navy; the Operations Directorate; the Southern Command; the Northern Command; the Planning and Multidomain Force Buildup Directorate; the Intelligence Directorate; the Air and Space Force; the Depth Command; the Multidimensional Unit; as well as the Ministry of Defense - through the Directorate of Defense Research & Development; the Ministry of Communications; the National Cyber Directorate[1]; the Israel Airports Authority; and Rafael Advanced Defense Systems Ltd.

According to Section 17(a) of the State Comptroller Law, 1958 [Consolidated Version], and considering the necessity, the subcommittee of the State Audit Committee decided not to present the audit report on this matter to the Knesset, nor to publish it.

1 An operational and technological agency within the Prime Minister's Office, in charge of protecting the national cyber domain and advancing and strengthening Israel's capabilities in this field (as stated on the agency's website).

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IDF Forces' Readiness for Frontline Combat Under Chemical Threat - Follow-up Audit

IDF Forces' Readiness for Frontline Combat Under Chemical Threat - Follow-up Audit

Background

The State Comptroller conducted a follow-up audit on the Israel Defense Forces' (IDF) Readiness for Frontline Combat Under Chemical Threat. According to Section 17(a) of the State Comptroller Law, 1958 [Consolidated Version], and considering the necessity, the subcommittee of the State Audit Committee decided not to present the audit report on this matter to the Knesset, nor to publish it.

Report of the State Comptroller of Israel | January 2025

The Financial System of a Classified Security Agency

The Financial System of a Classified Security Agency

Background

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Classified Report

Classified Report

Background

The State Comptroller conducted an audit of a classified domain. For reasons of state security, and pursuant to Section 17(c) of the State Comptroller Law 1958 (Consolidated Version), the State Comptroller has decided not to submit this report to the Knesset or publish it.