

## INTERVIEW

### *Unconventional Hydrocarbons Are One of the Factors Behind the Upheaval in the World Energy Market,*

Jean-Louis Schilansky,  
President of the **Unconventional Hydrocarbons Center**, tells AOG

- ▶ Shale oil production in the United States is equivalent to 10% of world oil trade, which is considerable
- ▶ I think oil prices are going to move back up, but I do not expect to see prices return to the \$100/b level very quickly
- ▶ Unconventional hydrocarbons have deferred the onset of potential oil supply problems but have not eliminated them

[Following is the text of an interview conducted on 16 February with Mr. Jean-Louis Schilansky, President of the **Unconventional Hydrocarbons Center** [the Centre hydrocarbures non conventionnels - CHNC], which was founded in February by several French industrial players to provide information about the technical, economic and environmental aspects of unconventional hydrocarbons. Until the end of 2014 Mr. Schilansky was President of the **French Petroleum Industries Union** [Union Française des Industries Pétrolières - UFIP]. See following page for his biography. Mr. Schilansky's last interview with **Arab Oil & Gas** was published on 16 February 2014 and can be consulted on our website - [www.stratener.com](http://www.stratener.com)).

**Arab Oil & Gas (AOG):** *How do you assess the spectacular fall in oil prices since the summer of 2014, a development that is closely connected with the upsurge in unconventional hydrocarbon production?*

■ **Jean-Louis Schilansky:** The period of great oil price stability that lasted from 2011 to June 2014 was already surprising. In view of the surplus of global oil supply over demand in 2014, a drop in prices to \$80 per barrel could probably have been expected, but the decision taken by **OPEC** at the end of November not to reduce its production was another major surprise. The scale of the downturn as far as \$45/b was also very unexpected. Lastly, the sharp rebound in prices to \$61/b [Editor's note: the price of **Brent** for April contracts on **ICE Futures** in London on 16 February] was yet another surprise on the oil price front.



Photo courtesy of CHNC.

If you stand back a little, you will recall a similar phenomenon that took place on the United States gas market some years ago. The gas price fell from \$10/million Btu to \$3/million Btu between 2008 and 2012. But although there is certainly a world oil market, that is not the case of natural gas, in which three large regional markets coexist. That fall in prices was thus confined to the North American market.

To come back to the collapse of oil prices, the impact of unconventional oil production in the United States [Editor's note: shale oil and tight oil. The term "shale oil" will be used in this interview to mean both these types of unconventional oil] is very significant. United States shale oil production is currently running at around **4 million barrels/day**, which is equivalent to Norway's production in 2000, when that country was at its peak.

That level of output is equivalent to 10% of world oil trade, which is considerable. The United States is not an oil exporter, but the increase in its domestic production has resulted in a very sharp decline in its imports, which has resulted in surpluses on the world market.

**AOG:** *What are your forecasts for the future of oil prices?*

■ **J.-L. S.:** I think prices are going to move back up. There will certainly be some impact on demand – that can be seen in the United States, where the level of fuel taxes is far lower than in Europe – and more significant repercussions on supply. We are already seeing a fall in the number of drilling rigs in operation and a reduction in companies' investment budgets. The adjustment is underway, but it will take time. The **IEA (International Energy Agency)** has just referred to a level of prices of \$70/b in 2016. In any event, I don't think we will return to prices of around \$100/b very quickly.

**AOG :** *The impact of the upsurge in shale oil production in the United States was greatly underestimated until very recently.*

<b>WHO'S WHO</b>	<p>&gt; <b>Jean-Louis Schilansky</b>  <b>President of the Unconventional Hydrocarbons Center (CHNC, Paris)</b></p>
	<p>President of the <b>Centre des hydrocarbures non conventionnels (CHNC)</b>, which was set up in Paris at the beginning of 2015.</p>
	<p>After occupying the post of Executive Director of the <b>UFIP (Union Française des Industries Pétrolières)</b>, between 2001 and June 2008, Jean-Louis Schilansky was appointed President of UFIP on 18 June 2008. He left this position at the end of December 2014.</p>
	<p>Jean-Louis Schilansky started his career with <b>Mobil</b>. He was responsible for the company's diversification activities and subsequently became Regional Director of the <b>Mobil France</b> network, Managing Director of <b>Mobil Cyprus</b>, Planning Analyst in New York, Planning and Supply Director in London, Refining and Marketing Director France, and Vice-President of <b>Mobil Europe</b> in London. In 1998 he was appointed President of <b>Mobil Europe</b> in London, and then in 2000 Regional Director for Europe of <b>ExxonMobil</b>, based in Brussels.</p>
	<p>Jean-Louis Schilansky holds a diploma from the <b>Ecole Nationale Supérieure des Mines</b> and since 2004 has been a member of France's <b>Economic, Social and Environmental Council (CESE)</b>, where he heads the <b>economic activities section</b>. He is also President of <b>Medef Paris</b> (Medef is the main employers' organization in France) and of <b>Business European Capital Cities</b> (since November 2014 for this latest position).</p>

■ **J.-L. S.:** The extent of this phenomenon had effectively not been anticipated. What is of paramount importance is that it took place in the United States, the world's leading oil-consuming country. Production of this new resource is following a purely economic rationale in an environment where there are a very large number of producers. The fall in oil prices is going to deal a savage blow to this segment of the industry, of course, but one has to remain prudent at this stage about the timeframe and extent of the adjustment.

**AOG:** *Some observers point out that the economic model of shale oil production in the United States is very different from that of conventional crude and that, if prices recover as a result of their sharp drop, the producers that have been forced out of the market will come back very rapidly and have a significant impact on supply. What do you think?*

■ **J.-L. S.:** One can imagine a situation in which the future price of oil is aligned on the cost of shale oil production in the United States or, in any event, is strongly influenced by it.

That said, one has to bear in mind the temporal framework. Oil will remain very important in the world energy mix over the long term, and prices will have to rise significantly if supply is to follow the growth of demand. Unconventional oil has deferred the onset of potential supply problems, but it has not eliminated them. Have they been deferred for 10, 15 or 20 years? The future will tell. The frontier has been shifted, but it has not disappeared for all that.

**AOG:** *Is the term "revolution" really appropriate when speaking of unconventional hydrocarbons?*

■ **J.-L. S.:** I think so. Unconventional hydrocarbon production – firstly gas and more recently oil – is one of the factors behind the upheaval in the world energy situation we are seeing at the moment.

**AOG:** *In that context, on 10 February you announced the creation of the **Unconventional Hydrocarbons Center** (Centre hydrocarbures non conventionnels – CHNC) in Paris. The vocation of the CHNC is to provide information about these hydrocarbons around the world, but not to undertake any lobbying in France, one of only two countries in the world that currently ban hydraulic fracturing. Do you really intend not to do any lobbying?*

■ **J.-L. S.:** Absolutely. The priority in France today is to compile factual and up-to-date information on these new resources and the upheavals they engender. The information we provide will be comprehensive, since it will cover the scientific, technical, economic and environmental aspects, including the impact on human health.

**AOG:** *You added that the aim was not to get the **Law of July 2011** amended [this is the legislation that bans hydraulic fracturing in France]. But could the purpose be to ensure that it is applied in its entirety?*

■ **J.-L. S.:** It is true that the law provided for the creation of a "National Commission on the Orientation, Monitoring and Evaluation of Liquid and Gaseous Hydrocarbon Exploration and Exploitation Techniques" and that this body would be able to authorize experiments for the purposes of scientific research. This commission has never been created, in fact.

**AOG:** *Given its basic mission, what is the CHNC going to do in practice?*

■ **J.-L. S.:** Our principal activities will be to produce factual information on unconventional hydrocarbons, maintain a watching brief over developments in this area throughout the world and participate in discussions in France.

**AOG:** *Who are the **members** of the CHNC (see the sidebar for the list)?*

■ **J.-L. S.:** There are about 20 members at present, of which three professional organizations.

**AOG:** *How might that number develop?*

■ **J.-L. S.:** We are in contact with some organizations and it cannot be ruled out that the list of member companies might increase in the future.

**AOG:** *Let us also talk about those who are not members, such as the **IFPEN**, the **BRGM** and the **CNRS**. You explained that, since they are publicly-funded organizations, they took the view that they could not participate in research into a technology, **hydraulic fracturing**, which is banned under French law. Yet the aim here is to inform, not break the law. Furthermore, unconventional hydrocarbons are a reality that cannot be denied, even though France does not want to go down this road. Lastly, the law prohibits hydraulic fracturing, which does not constitute a ban on thinking about other technological options.*

■ **J.-L. S.:** That is true, but the organizations in question nevertheless preferred not to become members of the CHNC, taking the view that their direct participation would not be in line with the Law of July 2011.

**AOG:** *: Is there a possibility that **other options besides hydraulic fracturing** might emerge in the not too distant future?*

■ **J.-L. S.:** Among the alternative technologies, **propane fracturing** probably looks the most promising avenue. It has numerous advantages: one does not have to use water and additives and it increases recovery rates. There are risks due to its flammability but improvements are being explored.

In the current situation of falling oil prices, however, optimizing hydraulic fracturing technology remains a challenge.

**AOG:** *The CHNC is assisted by a Scientific Committee composed of nine members, including its Chairman, Mr. Bernard Tardieu. The committee's role is particularly important.*

#### **The members of the CHNC**

- Three trade associations: **GEP-AFTP (Groupement des Entreprises et des Professionnels des Hydrocarbures et des Energies connexes)**, **UFIP (Union Française des Industries Pétrolières)** and **UIC (Union des Industries Chimiques)**.

- Participating companies: **Schlumberger, Entropose, Suez Environnement, Vallourec, CGG, Bureau Veritas, Total, GDF Suez, Arkema, SNF Floerger, Solvay, Technip, Sparkling Capital, Saltel Industries, Imerys, Accenture and Air Liquide.**

■ **J.-L. S.:** Yes, since it gives us access to the necessary panoply of scientific, technical, economic and sociological expertise. The committee will validate the technical studies produced by the CHNC, which will only be published after receiving this validation.

**AOG:** *What is the CHNC's objective for 2015?*

■ **J.-L. S.:** In a few words, to be recognized as a key interlocutor on all issues involving unconventional hydrocarbons.

