INTERVIEW

Some 25% to 30% of Refineries Could Close in the European Union over the Next 20 Years,

Francis Duseux, President of the **French Oil Industry Union (UFIP),** tells **AOG**

- In the short-term future the **equilibrium oil price** could be in the region of $50-60/barrel
- The reduction in the **oil companies' investments** would have been even greater had the downstream sector not generated good results
- ***COP21***: my fear is that the **European Union** might be the only one to take strong measures
- The world will need **hydrocarbons** for a long time to come
- The **competitiveness of our economy** is also a fundamental consideration

(Following is the text of an interview with Mr. Francis Duseux, President of the **French Oil Industry Union**, the **Union Française des Industries Pétrolières** - UFIP, www.ufip.fr. The interview took place at the head office of UFIP in Paris on 23 July - see following page for a brief biography of Mr. Duseux.).


Photo courtesy of UFIP.

Arab Oil & Gas (AOG): *How might **oil prices** develop in the future?*

■ **Francis Duseux**: The failure of **OPEC** to react to recent developments at its conference in June was very surprising and has had a depressive effect on the markets. Some people refer to a strategy based on defending market shares and an attempt to drive down shale oil production in the United States. But there has not been any drop in American oil production up to now. The fall in prices will have a negative impact on investment decisions, but it has not penalized the exploitation of fields in production. The surplus of world oil supply over demand could amount to some 2 million barrels/day.

Furthermore, marginal production costs are going to decline as a result of rationalization efforts, technical progress and the pressures being exerted on oil services companies. The equilibrium price could be in the region of $50-60/barrel. This does not mean that prices will not pick up in 12 or 18 months perhaps, but a return to levels of $100-110/b is not for tomorrow. That should be seen more in a medium-term perspective, possibly after 2020.

AOG: *The agreement on **Iran's nuclear program** is going to complicate the situation further.*

■ **F.D.**: Sanctions are not expected to be lifted before the beginning of 2016, but this prospect is already having a downward effect on prices. Iran could probably step up its oil production by around 1 million barrels/day, but investments will be necessary. That said, one cannot rule out the possibility of even more acute tensions in the Middle East that would drive prices upwards, but these geopolitical factors are by their very nature unpredictable.

Another element to be taken into account is the social and political impact of low oil prices in several producing countries such as Venezuela, Nigeria, Angola, Libya, and indeed Russia. If the situation were to persist, it could be explosive, which would push OPEC to search for a compromise among its members and facilitate a reduction in its production, possibly in agreement with certain non-OPEC countries.

AOG: *The fall in crude oil prices is having, and will have, a negative impact on **oil industry investments**, which will help restore a balance between supply and demand.*

■ **F.D.**: The fall in the leading oil companies' investments in 2015 will be very significant and will have very real consequences on supply. But we are in a medium-term perspective here, of around five years, not a short-term one. The reduction in investments would have been even greater had the downstream sector not generated good results. Refining and petrochemical margins have risen appreciably and the situation in the distribution sector is satisfactory.

WHO'S WHO

> Francis Duseux

President of UFIP

At its meeting on 19 November 2014, the board of directors of the **French Oil Industry Union** (**Union Française des Industries Pétrolières** – UFIP) elected Francis Duseux as its President with effect from 1 January 2015.

Francis Duseux holds engineering degrees from the **Ecole Nationale Supérieure de Chimie de Paris** and the **Ecole Nationale Supérieure du Pétrole et des Moteurs** (ENSPM). He spent his whole career with **ExxonMobil**, where he occupied different managerial posts in the refining, procurement, logistics and distribution departments in the United States, the United Kingdom, Belgium and France.

After being appointed Distribution and Pipelines Director for Europe in 2003, Francis Duseux became Chairman of **Esso SAF** in 2006, with responsibility for all of ExxonMobil's subsidiaries in France, while retaining his European attributions. He held these posts until June 2014.

Francis Duseux took over from Jean-Louis Schilansky, who had been President of the French oil industry body since June 2008, after acting as its General Secretary from 2001 to 2008.

UFIP

UFIP is a professional body that represents companies in France engaged in one of the three major sectors of the oil industry: oil and natural gas exploration and production, refining and distribution. From the "well to the pump", UFIP represents and voices the professional and industrial viewpoints of some 19 companies that are active members of the Union and 20 companies that are associate members.

Source : UFIP, December 2014.

AOG: *Low oil prices could also* ***stimulate demand****.*

■ **F.D.**: We are effectively already seeing signs of increased demand for fuels in the United States. That is not the case in Western Europe due to the weight of taxation. The impact on demand could be significant in emerging and developing countries.

In the short term, you also have to take account of the abundance of oil stocks, which are at a record level in **OECD** countries. With such substantial inventories, prices could be even lower, and one cannot rule out a downturn [in prices] during this quarter.

AOG: *At the end of the year Paris will be hosting the* ***COP21*** *conference. What might be the impact of this event on the hydrocarbon sector?*

■ **F.D.**: Public awareness of climate change is very strong, but it seems to me that it will be very difficult to reach a global agreement. Yet that is the condition for an effective agreement, failing which there will be unfavorable consequences for certain countries, certain regions and certain industries. President Barack Obama is in favor of the United States making its contribution to the fight against climate change, but Congress will be appreciably harder to convince. My fear is that the **European Union**, in a bid to set an example, might be the only one to take strong measures, which will impose even more constraints on those of its industries facing fierce international competition.

We also want to stress that the world will need hydrocarbons for a long time to come. The consumption of natural gas, which is an energy of the future, especially for power generation, is expected to increase by 60% between now and 2040, and oil consumption by 30%. According to the **United Nations**, the world's population could rise from 7.2 billion in 2013 to 9.6 billion by 2050, and that will inevitably bring a significant increase in energy consumption. Rising average living standards in emerging and developing countries will have the same effect.

AOG: *France wants to introduce a* ***carbon tax*** *of 100 euros per ton eventually.*

■ **F.D.**: The fight against climate change is a legitimate objective, but you have to think about the consequences in terms of industrial activity and employment. The competitiveness of our economy is also a fundamental consideration. Reasonable tradeoffs have to be found, and that implies trying to quantify the economic and social effects of the planned measures before they are introduced.

AOG: *How might* ***France's motor fuels consumption*** *develop, according to UFIP?*

■ **F.D.**: We think the fuel consumption of light vehicles could fall by around 30% between now and 2030 due to the growing number of hybrid cars, the development of standards and continued technological progress. We think the number of electric vehicles will grow only slowly due to their higher cost and autonomy problems. In the European Union, hybrids could represent half of annual automobile sales within 20 years.

AOG: *The expected decline in consumption is not good news for* ***French refiners****.*

■ **F.D.**: The fall could amount to around 8 million tons/year.

AOG: *French* ***oil products consumption*** *totaled no more than 74 million tons in 2014,*

Photo courtesy of UFIP.

its lowest level since 1985, and the volume has fallen constantly since 2005. It is also expected to continue declining.

■ **F.D.**: Without doubt. In addition to the anticipated fall in fuel consumption, sales of domestic heating oil are also expected to continue declining. That is line with what the public authorities desire.

AOG: ***Diesel oil*** *accounted for 81.3% of France's consumption of motor fuels over the past 12 months. But the authorities' declared wish to progressively rebalance the taxation of diesel and gasoline is going to undermine this overwhelming domination of diesel.*

■ **F.D.**: Differences in the taxation of gasoline and diesel is not peculiar to France. It exists in all leading European countries except the United Kingdom. In France, we had to import around 20 million tons of diesel last year, representing half our national consumption of 40 million tons in 2014.

We think we are effectively heading for a greater balance between gasoline and diesel due to the increase in taxes, the introduction of *Euro 6* standards, and the motor manufacturers' decision to no longer offer diesel-engined versions of small cars.

AOG: ***Refining margins in Europe*** *averaged 22 euros per ton in 2014, compared with 20 euros/ton over the 2009-2013 period. This year, on the other hand, the situation is far better.*

■ **F.D.**: Margins averaged 50 euros per ton in the first half of 2015. That comes as a surprise in view of the continued decline in European oil demand. The fall in oil prices brings a drop in refineries' operating costs, since fuels represent 40% of refining costs. In addition, demand for gasoline remains strong at a world level, which is underpinning refined product prices.

Unfortunately, the current buoyancy of refining margins cannot be expected to last, since oil demand remains on a downward path in Europe, where there remains excess refining capacity.

AOG: *According to UFIP, there were 101* ***refineries in operation in the European Union*** *in 2007 and 79 in 2014. But the European refining crisis is not over.*

■ **F.D.**: In effect, it is far from over. Some 25% to 30% of refineries could close in the European Union over the next 20 years. In addition to the continuing decline in demand, account has to be taken of the growing competition from refineries in the United States, where the industry has regained a large measure of competitiveness in recent years, as well as from very modern, large-scale refineries in the Middle East and Asia. European refineries are thus under very great pressure.

The European Union regards oil refining as a strategic industry. We should thus preserve a refining capability for security of supply reasons, but this will be scaled down as a function of weaker consumption.

AOG : *And what about France?*

■ **F.D.**: In the long term, our refining capacity could stabilize at around **60 million tons/year**.

AOG: ***Refinery utilization rates in France*** *averaged 79% in 2014. What are the prospects for 2015?*

■ **F.D.**: With the improvement in refining margins, the utilization rate picked up to 85% on average in the first five months of 2015. A utilization rate of less than 80% is far too low. You need a rate of at least 90% in a heavy industry such as ours.

AOG: *UFIP has condemned a freeze in the* ***award of conventional hydrocarbon exploration and exploitation licenses in France****. No exploration licenses were awarded in 2014, and there were 162 exploration license applications pending as at 1 January 2015. Is this a deliberate freeze?*

■ **F.D.**: There is clearly a wish to slow the award of licenses, and the declared reason is a fear that the companies concerned might circumvent the French law that prohibits hydraulic fracturing, whereas the operators submitting these applications have shown that they are solely interested in exploring for conventional oil or gas. The risk is that this attitude leads to the departure of several companies that will turn away from exploration in France. Given the volume of our imports of crude oil and natural gas, anything that could reduce that bill would be welcome for our country.

AOG: *Following your meetings with the relevant authorities, have you received assurances that the situation will improve?*

■ **F.D.**: We were told that the situation was going to improve progressively.

AOG: *Do you think the authorities will abide by their commitments?*

■ **F.D.**: We are reasonably optimistic that the freeze will be ended.

AOG: *Does UFIP intend to step up its promotional and lobbying campaign in favor of* ***unconventional hydrocarbons*** *in France?*

■ **F.D.**: Our operators naturally comply with the law of 2011 prohibiting the use of hydraulic fracturing, but we would like the law to be applied in full, which is not the case. The planned monitoring and orientation committee has never been set up. We have significant potential in unconventional hydrocarbons in France and it would be a great shame not to produce an inventory of the resources of the country. An independent state agency such as the **BRGM** could be asked to do that.

It is important for the future not to neglect France's exploration-production potential. The contribution that the **Lacq** gas field has made to our country is all too often forgotten. We also forget that we used to produce 3 million tons of oil per annum not so long ago.

AOG: *So you are not going to try and get the 2011 law amended?*

■ **F.D.**: That is not our priority at the moment. We have other more urgent issues, especially the one relating to exploration licenses for conventional hydrocarbons. On the other hand, given the national elections that are due to take place in the future, it will be useful to question the candidates about their opinions concerning unconventional oil and gas.

AOG: *UFIP has pointed out on several occasions that **French energy policy** does not take sufficient account of hydrocarbons.*

■ **F.D.**: That is something we regret, in effect. Fossil fuels will remain necessary and important for a long time to come. According to the latest forecasts of the **International Energy Agency** (IEA), their share of world energy consumption will still be around 75% in 2040. The oil industry remains a major player, and will remain so for a long time, and so we must not be forgotten.

As we have said, French oil consumption is going to continue declining, but our gas consumption could increase. And oil will remain the dominant fuel in the transportation sector for a very long time.

Our key messages to the authorities are the following: let us look energy realities in the eye; let us produce realistic scenarios about the future energy mix; let us try to measure the impacts; let us not add still more constraints for the French refining industry; and let us work together to guarantee the durability and competitiveness of our industrial fabric. We are involved in international competition and our competitiveness goal must be one of our priorities. The decline in industry's share of our gross domestic product and the fact that it is now considerably lower than in Germany and the European Union as a whole are alarm bells that have to be taken into account.

Compared with what is at stake with climate change, as we have discussed, another key message is that gas is the future of oil in a sense, since it is an energy source that represents a good compromise between the need to lower greenhouse gas emissions and to meet the world's growing energy needs.