INTERVIEW

The World May Have Entered a Period of Greater Oil Price Stability,

Jean-Louis Schilansky, President of the **French Oil Industry Union** (**UFIP**), tells **AOG**

- The **oil markets** lived through the political crises of 2013 without too much difficulty.
- **Energy transition** remains necessary due to the dangers posed by climate change.
- The search for greater **energy efficiency** remains an essential strategic priority.
- The **European refining industry**'s breakeven point could be appreciably lower than its current production capacity.
- We think there is significant shale **hydrocarbon potential in France**.

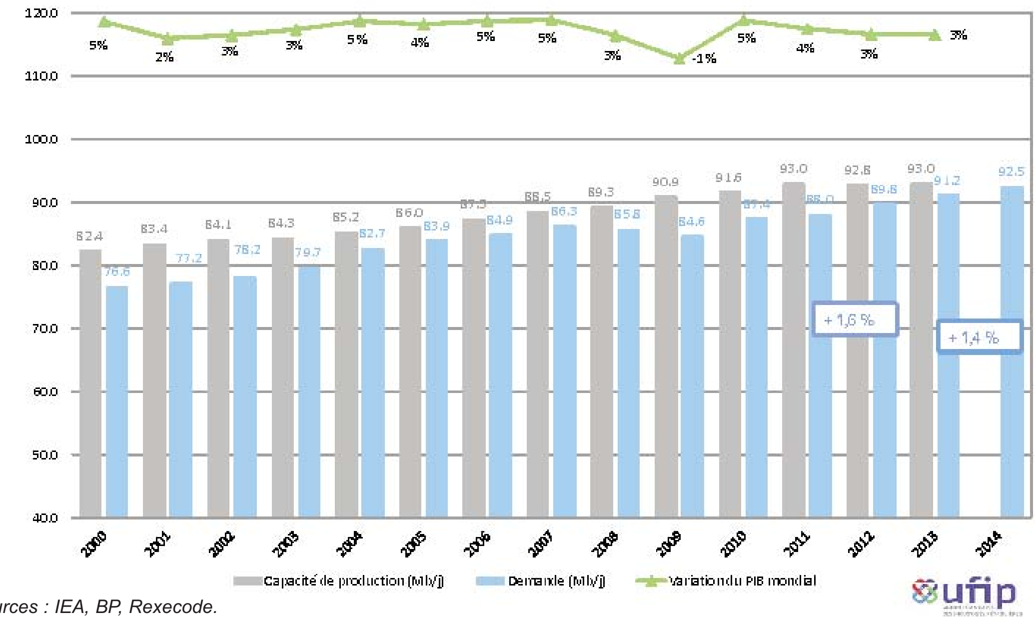
[Following is the text of an interview with Mr. Jean-Louis Schilansky, President of the **French Oil Industry Union** (**Union Française des Industries Pétrolières** – UFIP) – see page 10 for his biography. The interview took place at the headquarters of UFIP in Paris on 5 February. **AOG** last published an interview with Mr. Schilansky in its 16 April 2013 edition.].

Arab Oil & Gas: ***Crude oil prices**, and especially that of North Sea **Brent**, have settled within a bracket of $100 to $110 per barrel over the past three years (2011-2013) and you have pointed out that both crude prices and refined product prices were less volatile in 2013 than in previous years. How can one explain this phenomenon? Have we entered a period of greater oil price stability after the crazy years of the second half of the last decade?*

■ **Jean-Louis Schilansky**: This reduced volatility is taking place at a time when the gap between world oil production capacity and demand has narrowed significantly over the past few years. It was estimated at 1.8 million barrels/day in 2013, compared with 3 million b/d in 2012 and 5 million b/d in 2011. In the past, however, the smaller this safety cushion became, the greater the volatility of prices, which is easily understood. In 2013, it appears that the situation was reversed, despite the fall in crude oil production in **Libya** and **Syria**. The oil markets lived through these political storms without too much difficulty. They are thus seeing reasons for things to calm down, and there are essentially three of them: the prospect of **Iran**'s return to the oil market if an agreement is concluded on the country's nuclear program; **OPEC**'s policy of keeping the level of its production in tune with market conditions; and the growth in the **United States**' oil production.

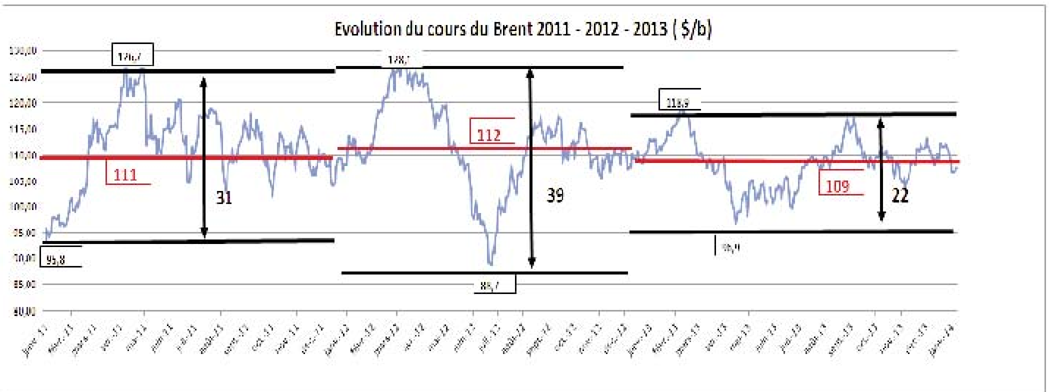
With a degree of caution, one might think that, were these three factors to prove lasting, the

World Oil Demand (Mb/d)



Sources : IEA, BP, Rexecode.

Development of Brent Prices, 2011 - 2013



Source: Reuters

world might have entered a period of greater oil price stability. Some people talk about the possibility of a sharp fall in prices as early as this year, but that scenario looks implausible over time, since crude oil production costs are climbing ever further and OPEC countries, especially **Saudi Arabia**, would not stand idly by in such a situation. For these same reasons, a sharp rise in prices also seems unlikely, barring major political events. The greater price stability we are now seeing could thus prove structural. The growth in production in non-OPEC zones outside the Middle East – the United States, Canada, Brazil, Kazakhstan – is contributing to this stability.

AOG: *For the first time in many years, there is a significant likelihood of economic sanctions against* ***Iran*** *being lifted. Iran is a major oil and gas power in terms of proven reserves, so this would be a new development of potentially great importance.*

■ **J.-L. S.**: That prospect and the possibility of its becoming reality are firstly a factor of stabilization for the international oil market. It is probably a factor that would push down prices, but one has to bear in mind that the effective return of Iran to the markets will take a long time. That said, we are not heading for a global oil shortage, quite the contrary. The age of oil is really far from over, especially at a time when **China**, the world's second largest oil consumer after the United States, seems to be slowly succeeding in disassociating its economic growth from the growth in its oil demand.

The age of oil is really far from over

As regards natural gas, downward pressures could be stronger than in the case of oil, since the world is heading for an abundance of this energy source. In particular, there is greater potential at a world level for shale gas than for shale oil, which requires very specific geological conditions. The United States will become a net gas exporter in the coming years. And in the

WHO'S WHO

> Jean-Louis Schilansky

President of the French Oil Industry Union (UFIP) since June 2008

French Oil Industry Union (**Union Française des Industries Pétrolières** - UFIP) is a trade association that represents companies operating in France in one of the three main segments of the oil industry: oil and natural gas exploration and production, refining, and distribution.

After occupying the post of Executive Director of the UFIP between 2001 and June 2008, Jean-Louis Schilansky was appointed President of UFIP on 18 June 2008. He is the official spokesman of this organization, which has around 30 member companies.

Jean-Louis Schilansky started his career with **Mobil**. He was responsible for the company's diversification activities and subsequently became Regional Director of the **Mobil France** network, Managing Director of **Mobil Cyprus**, Planning Analyst in New York, Planning and Supply Director in London, Refining and Marketing Director France, and Vice-President of **Mobil Europe** in London. In 1998 he was appointed President of **Mobil Europe** in London, and then in 2000 Regional Director for Europe of **ExxonMobil**, based in Brussels.

Jean-Louis Schilansky holds a diploma from the **Ecole Nationale Supérieure des Mines** and since 2004 has been a member of France's **Economic, Social and Environmental Council** (CESE), where he heads the **economic activities section**. He chairs the Energy Committee of the French industry federation, **Medef**, and is also President of **Medef Paris**.

Source: UFIP.

case of conventional gas, new producers are going to emerge in sub-Saharan Africa and the Near East. As regards Iran, it has considerable gas potential but it will require a lot of investment and the development of large-scale and costly infrastructure.

AOG: *At UFIP's annual press conference this morning, when you referred to the* ***energy transition*** *in France, you seemed to indicate that it would not really be necessary due to the abundance of fossil fuel resources. Can you explain your opinion on that subject?*

J.-L. S.: That relative abundance certainly makes it hard for the general public to understand the need for energy transition. This remains necessary because of the threat that climate change represents for the world. In that regard, the search for greater energy efficiency has to remain an essential strategic priority. In the case of renewable energies, the situation is more complex, since one has to take account of the rise in energy costs that their development generates, the cost of subsidies, and the issue of electricity storage. The intermittence of wind and solar power raises technical and economic problems that one cannot ignore and is a factor limiting the potential for the development of these renewable energy sources. As for biomass, there is a need to shift towards second-generation biofuels, which do not come into competition with the planet's food needs.

Yes to energy transition, but in a sensible manner

Energy transition is essential, and that is true of all countries and not solely of France. We have to go down this road, but do so in a sensible not an ideological manner, in good time and taking account of the associated costs.

AOG: *On the subject of the* ***European refining sector****, you pointed out that its margins are low, that the industry is caught in a "competitiveness pincer movement" between the new refineries in Asia and the Middle East and refineries in the United States, and that operating conditions are extremely difficult. You added that the restructuring of the European refining sector had not been completed and that more refineries would close in the future. In other words, we are not out of the woods yet. But can we see any light at the end of the tunnel?*

J.-L. S.: I'm afraid we are not there yet. Economic operating conditions remain very unfavorable in relation to our principal competitors, and the industry's breakeven point could be appreciably lower than its current production capacity.

AOG: *Appreciably lower?*

J.-L. S.: One cannot rule that out. But supply security considerations could nevertheless contribute to halting or slowing down the restructuring process at a certain moment and at a certain level.

AOG: ***Gross refining margins in Europe*** *averaged 18 euros per ton in 2013, half the 2012 level of 36 euros a ton. That figure corresponds to the average level between 2009 and 2011 (when margins averaged 15, 21 and 14 euros a ton respectively), but current margins are considerably lower than the average over the 1997-2012 period, which was 23 euros a ton. According to* ***UFIP****, the French refining industry lost 700 million euros last year. What rate of margin is required for this industry to stop losing money?*

J.-L. S.: To balance its accounts, our industry needs a margin of about 32 euros a ton. That level would enable it to cover its operating costs, not including depreciation.

AOG: ***French oil demand*** *continued to decline in 2013, dropping to 75 million tons from 76 million tons in 2012 and 89 million tons in 2001. Has it bottomed out?*

J.-L. S.: No, I don't think so. The slow decline in French consumption can be expected to continue under the effect of greater energy efficiency in all sectors, which is also a beneficial development for the French economy as a whole.

AOG: *Faced with that demand of 75 million tons in 2013,* ***available refining capacity in France*** *amounted to no more than 69 million tons, provided by eight operational refineries around the country. We are thus in a situation of overall under-capacity. Theoretically, no more refineries should have to be closed in France.*

J.-L. S.: There is no longer a situation of over-capacity in the French refining sector. But our industry remains vulnerable, since it is generally less competitive than its non-European competitors. Clearly, the industry cannot sustain the scale of the losses it suffered in 2013.

The scale of French refiners' losses in 2013 is not sustainable

AOG: *You pointed out that the s****hare of diesel-engined*** *vehicles in new car registrations in France in January this year showed a slight decline, at 70%. You nevertheless seemed to play down the positive impact of this trend for the French refining industry if this proved to be a lasting phenomenon. To the extent that France imports 56% of the diesel oil it consumes and exports 40% of the gasoline it produces, a possible rebalancing of the market would be very important in the long term.*

J.-L. S.: It would give the French refining industry some breathing-space and that could benefit some of the country's refineries. But such a development would not significantly improve refining margins.

AOG: *What is the situation as regards deepwater exploration off the coast of* ***French Guyana****?*

J.-L. S.: After the first well drilled on the **Guyane Maritime** block operated by **Royal Dutch Shell** in 2011 proved positive, the consortium holding this concession drilled four appraisal wells that all yielded negative results. It was decided to put exploration operations on hold for 2014. In-depth studies are going to be conducted of all the available data before a possible resumption of exploration operations from 2015 onwards.

AOG: *France is regarded as a country with a certain potential in terms of* ***shale hydrocarbons****. Of course, exploration work would have to be carried out to confirm or disprove that, but do you share that opinion on the basis of our current state of knowledge?*

J.-L. S.: We think there is significant shale gas potential in south-eastern France and shale oil potential in the Paris basin.

AOG: *You have vigorously defended the utilization of* ***hydraulic fracturing****, which is currently the only method used for extracting shale hydrocarbons on an industrial scale. UFIP seems to have adopted a harder line in this area than in the recent past.*

The environmental risks of hydraulic fracturing are largely under control now

J.-L. S.: Things have evolved a lot in this area, and several visits to the United States have enabled me to verify things on the ground. The operators that utilize hydraulic fracturing in the U.S., which are increasingly major oil companies, have made considerable progress in terms of protecting the environment and taking it into account. There has not been any established case of ground water pollution; we know how to recover almost all the water used in the hydraulic fracturing process; and the additives utilized are increasingly derived from the agro-food industry. The environmental risks of this technology have largely been brought under control and in that regard it is important to present the facts to French public opinion and political decision-makers.

AOG: *According to reports published by the French satirical magazine Le Canard Enchaîné, the French Minister of Productive Recovery, Mr. Arnaud Montebourg, is trying to promote the utilization of* ***heptafluoropropane fracturing*** *in a bid to get round the French ban on hydraulic fracturing. What is your view on that?*

J.-L. S.: We welcome the interest the Minister is showing in shale hydrocarbons and in what their development could contribute to French industry and the national economy, but firstly it has to be said that hydraulic fracturing should not be stigmatized, since it has largely proved its worth. However, it is necessary to allocate resources to conducting research into other possible fluids and it is clear that other methods will appear.

AOG: *One of your concerns in France is the award of new* ***hydrocarbon exploration licenses****. Two licenses were assigned in 2013, but another 112 applications remain blocked and you have raised this problem with the authorities concerned. The fact that a process for* ***reforming the mining code*** *is underway could justify these delays, but you don't seem fully convinced by that explanation.*

J.-L. S.: Officials have effectively responded to our concerns by using the argument of the mining code reform. We could understand that argument to a certain degree, but it might also be used as a pretext. It remains in France's essential interest to step up hydrocarbon exploration on its soil.