

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
ON THE PRINCIPLES TO BE APPLIED TO FINANCIAL SUPPORT
OF COMMUNITY PROJECTS IN THE HYDROCARBONS SECTOR

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COMMUNICATION FROM THE COMMISSION

on the principles to be applied to financial support of
Community projects in the hydrocarbons sector.
(Regulation (EEC) of the Council No. 3056/73 of 9.11.1973*).

Introduction

1. During the Council examination of the fifth round of Community projects, the Commission announced its intention to review the whole programme of Community support in the hydrocarbons field.

The review aims at the following points :

- (a) the nature of the projects, some of which are in fact refinements of earlier technological developments rather than true innovations in the sense of Council Regulation 3056/73;
- (b) the lack of sufficient information for the assessment of these projects as regards the progress of work on projects granted Community support in earlier financial years;
- (c) the changes which may have to be made either to Regulation No. 3056/73 itself or to the way in which it is implemented, in order to ensure that Community support is as effective as possible.

2. The Commission initiative followed conclusions which arose during the Luxembourg Symposium on new oil technologies in April 1979. At that time, the results from 75 Community development projects were presented and discussed by representatives from the oil and the equipment industry.

3. Presently the Commission is submitting to the Council and the Parliament reports dealing with the results obtained in implementing Regulation 3056/73, with a particular focus on the very positive contribution of this scheme to the development of new technologies in the hydrocarbons sector.

4. This present document has been produced in cooperation with national experts in the field, during meetings held in Brussels on September 6th and December 11th, 1979. Their outcome is given below.

REASONS FOR THE PROGRAMME

5. Traditional sources of oil supplies can be expected to decrease rapidly following the decision by the oil producing countries to cut back or at least put a ceiling on their output in order to prolong the period of production. The events of the last few months have removed any doubts in this respect.

In order to meet their essential needs, the industrialised countries, particularly in the Community, will have to look for new fields and undertake a major exploration programme in new areas, particularly offshore. Encouraged by an improvement in their profit margins, oil companies are already spending rapidly increasing amounts on these activities. Before they undertake new exploration programmes, however, they must first master the required new production techniques.

These techniques are not being developed or perfected solely by the oil companies themselves but also by specialised service companies or manufacturers of equipment for the petroleum industry, whose financial resources are not so extensive. The aim of the Community's support programme is to help these companies develop advanced technology by giving financial support for design and development work and the testing of prototype equipment. In the event that projects become commercially exploitable, the subsidy must be re-paid in principal and interest by the beneficiaries.

6. Experience over the last five years has shown the effectiveness of the Community support programme. We must now continue along this path and, within the framework of plans to develop new energy resources, make further financial commitments appropriate to the size of the requirements to be met.

Many of the techniques supported in the past have now been fully developed and, although further work may be needed on some of them, new guidelines must be worked out for the programme if it is to remain fully effective.

PRIORITY AREAS

7. Articles 1 and 2 of Regulation (EEC) No. 3056/73 state that the Community may grant financial support for the carrying out of projects "which are of fundamental importance in ensuring the Community's supply of hydrocarbons". These projects

"shall concern technological developments directly connected with exploring for, producing, storing or transporting hydrocarbons".

8. The working party of experts considers that, because of advances made in oil technology since 1973, the programme should be redirected to take account of the Community's long term requirements. To this end, priority should be given to the projects having the following aims :
- (a) ensuring the continuity of supplies by developing new improved techniques and equipment in the fields of :
 - geophysics
 - oil and gas recovery
 - drilling
 - optimum use of natural gas, including associated gas
 - the improvement of inspection and maintenance techniques;
 - (b) maximising the yield, by the use of enhanced recovery techniques, from known fields and particularly from reservoirs where the natural drive is weak, so as to :
 - increase their flow rate and total production
 - make marginal fields viable;
 - (c) developing techniques for exploiting reservoirs located in difficult areas (e.g. deep water, in the Arctic, etc.) and making systematic advances in techniques for exploiting deep sea fields (500 metres and beyond);
 - (d) cutting down the lead times for exploiting newly discovered fields.
9. The projects to be supported should be considered not only from the point of view of this order of priority but also with regard to cost effectiveness.
10. Construction and running demonstration plants can also be supported if it was to be seen that newly developed methods or equipments could not be introduced into the market before being tested.

11. This list of priorities is given as a guide and is based on the present state of techniques. The Commission will have to change it as time goes on, in particular in the light of the opinions sought from the oil industry.

In three or four years, another symposium might be organised to examine the progress made and, if necessary, to draw up possible new guidelines for the programme if it is to be continued.

CRITERIA FOR SELECTING PROJECTS

12. The working party considers that, irrespective of the order of priorities listed above, stricter criteria should be used for selecting projects than those used in the past.

Support should, in this connection, not generally be granted to projects which :

- (a) are simply engineering studies involving no technical risks;
- (b) are concerned solely to improve equipment which, although it represents a technical advance, has only very limited prospects of application in the hydrocarbon sector;
- (c) represent a stage in the development of an existing technique, but do not provide a suitable answer to future requirements;
- (d) are simply routine industrial investments.

13. In future, the following points should be emphasised above all :

- (a) projects should be concerned less with pure innovation than with the application of techniques which are already available but not yet economically viable;
- (b) projects in areas where the marginal utility of funding is low receive low priority. Several areas are already saturated and new research could lead only to refinements of no direct practical value ;
- (c) selection must continue to be practised so as to avoid useless duplication, confirming support for those projects which have the best chance of being realised as industrial developments.

14. The working party has examined and approved the criteria - given in the Annex - which the Commission is planning to apply in future for the selection of projects.

5. 5.

In its proposals to the Council, the Commission will indicate the importance attached to each of the criteria when the selection was made. The amount of support proposed for each project will depend on the extent to which each of these criteria has or has not been met.

CO-OPERATION WITH NON-MEMBER COUNTRIES

15. A number of projects supported by the Community have been carried out with the co-operation of firms in non member countries. For example, several projects have been carried out jointly with Norwegian firms. Moreover, oil companies from non member countries have purchased the right of access to the results of certain projects, which has helped to speed up their commercial application.
16. This kind of co-operation might be encouraged to the extent that it hastens the development of new oil resources and/or opens up outside markets to Community oil equipment manufacturers.

It is important, however, that the industrial ownership of these newly developed techniques should be protected, and that these arrangements should simply ensure that the newly acquired knowledge is more widely disseminated and to avoid any transfer of technology to third countries without a counterpart to be established case by case.

SUMMARY AND CONCLUSION

17. To sum up, the Commission considers that the risks which continue to beset the Community's oil supplies fully justify the continuation of the programme of support for new oil technology.

There is no reason to amend the basic regulation No. 3056/73 but its application should be adapted to take account of new problems which arise.

New priorities should be adopted to take account of technical developments and new criteria should be used for selecting projects.

CRITERIA FOR ASSESSING PROJECTS

Three types of criteria should be considered when selecting projects:

1. Technical reasons for the project

- (a) Degree of priority of project according to the principles set out in para 8 of the document.
- (b) Importance of the project to the Community (Community interest).
- (c) Does the project fit in with the programme strategy?
- (d) How far does the project break new ground in relation to existing technology:
 - within the compass of present technology
 - stage-by-stage development
 - complete innovation
 - danger of duplication: (i) of other existing techniques
(ii) of techniques under development
 - . research
 - . development
 - . field tests
 - . pilot plant.
- (e) Is the project concerned with the production of equipment or is it merely a conceptual study?
- (f) Will it remove bottlenecks? (Yes or no).
- (g) Technical feasibility of the project and chances of success.
- (h) Number or range of possible applications of the results of the project:
 - within one year
 - within 5 years
 - within 10 years.
- (i) Possibilities for co-operation with similar projects.
- (j) Justification of the manpower and other resources to be committed; their relationship to the foreseeable results.
- (k) Assessment of the technical risks
 - high
 - average
 - low

(l) Could the project easily be classified under one of the following headings:

- economic recovery in deep waters
- adapting technology to hostile environments
- making marginal fields viable
- rapid recovery system
- reducing the capital cost per barrel
- reducing the transport cost per barrel.

(m) Are there limitations because of the depth of the water?

(n) Feasibility of the project from the point of view of health and environmental protection standards.

2. Capabilities of contractors

(o) Are the technical capabilities and financial situation of those undertaking the project adequate?

(p) Are those undertaking the project genuinely capable of completing the project within the given time limit and within the budget, and of applying the results?

(q) The ability of those undertaking the project to develop it commercially.

(r) What results have they already obtained in this field?

(s) Possibility of the person undertaking the project working in association with partners in the oil industry as

- main contractor
- sub-contractor
- fee-paying participant
- adviser.

(t) Extent of commitment of companies based in non-Community countries.

3. Reasons for financial support

(u) Method of financing the project:

- self-financed
- contributions by associates
- bank loans
- future customers

(v) Financial risks involved.

(w) Need for Community support for the project.

Without Community support would the project be delayed:

- by one year?
- by one to five years?
- by five to ten years?
- indefinitely?