

# European Communities

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EUROPEAN PARLIAMENT

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### Report

drawn up on behalf of the Committee on Energy, Research and Technology

on the proposal from the Commission of the European Communities to the Council (Doc. 415/74) for a regulation concerning support to common projects for hydrocarbon exploration

Rapporteur: Mr Tom NORMANTON



By letter of 10 December 1974, the President of the Council of the European Communities requested the European Parliament, pursuant to Article 235 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation concerning support to common projects for hydrocarbon exploration.

The President of the European Parliament referred this proposal to the Committee on Energy, Research and Technology as the committee responsible and to the Committee on Budgets for its opinion.

On 6 January 1975, the Committee on Energy, Research and Technology appointed Mr Tom Normanton rapporteur. It considered this proposal at its meetings of 6 January and 4 March 1975.

At its meeting of 4 March 1975, the committee unanimously adopted the motion for a resolution and explanatory statement, with one abstention.

Present: Mr Burgbacher, oldest member; Mr Normanton, rapporteur; Lord Bessborough, Mr Dondelinger (deputizing for Mr Lautenschlager), Mr Hansen (deputizing for Mr Nørgaard), Mr Laudrin (deputizing for Mr Cointat), Mr Leenhardt, Mr Ney, Mr Noè, Mr Pintat and Mr Vandewiele.

The opinion of the Committee on Budgets is attached.

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The Committee on Energy, Research and Technology hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation concerning support to common projects for hydrocarbon exploration

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council<sup>1</sup>,
  - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 415/74),
  - having regard to the report of the Committee on Energy, Research and Technology and the opinion of the Committee on Budgets (Doc. 3/75),
1. Is of the opinion that support to common projects for hydrocarbon exploration may contribute to greater security of supplies in petroleum products by reducing the Community's dependence on external sources;
  2. Notes that the world trend in energy prices may affect the problem of financing the search for new oil supplies and provide industry with a special need to develop new sources;
  3. Considers it essential to take urgent steps to remedy the present situation of insecurity of oil supplies due to the Community's dependence on its present sources;
  4. Calls for the institution of an overall Community strategy aimed at stimulating rapid expansion of known hydrocarbon resources while ensuring a phased exploitation of them;
  5. Questions whether the financial and taxation provisions applicable to undertakings in the field of hydrocarbon exploration are conducive to achieving the required rate of extraction;

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<sup>1</sup>OJ No. C 18, 25 January 1975, p. 3

6. Supports the Commission's proposals for encouraging deep-sea prospecting, where special difficulties and risks apply, by granting such exploration more favourable treatment than applies to prospecting on land;
7. Considers that this Commission proposal is fully in line with action already undertaken by the Community and is aimed at going further and more directly towards achieving its objectives;
8. Considers that the criteria both for eligibility of applications for financial support and for repayment of loans in the event of 'commercial success' are insufficiently precise and need to be clarified before presentation of the Commission proposals to the Council;
9. Requests that the decision on the implementation of a three-year exploration programme and the Community financial commitment to it should only be taken after the European Parliament has been consulted;
10. Notes that common projects for hydrocarbon exploration are founded, as was previously requested, on Article 235 of the EEC Treaty; which affords them a legal basis;
11. Expresses concern at the continuing absence of a comprehensive system of control for monitoring and auditing the financial activities of the Community's institutions, and insists that the proposals for providing financial support for hydrocarbon exploration be linked to the establishment of a European Court of Auditors empowered to exercise detailed external auditing control;
12. Approves the Commission's proposal whilst urging it to accept the following amendments, pursuant to Article 149, second paragraph, of the EEC Treaty;
13. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

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Proposal from the Commission of the European Communities  
to the Council for a regulation concerning support to  
common projects for hydrocarbon exploration

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Explanatory statement, preamble and Articles 1 to 5 unchanged

Article 6

1. The Council will decide unanimously on the proposal by the Commission on a three-year programme of exploration chosen from among the projects presented under Article 5 and will allocate financial support to different projects according to their anticipated contribution to the supply of the Community and the inherent risks from difficulties of a technical, climatic or meteorological kind linked with their achievement.

Article 6

1. The Council will decide unanimously on the proposal by the Commission, and after consulting the European Parliament, on a three-year programme of exploration chosen from among the projects presented under Article 5 and will allocate financial support to different projects according to their anticipated contribution to the supply of the Community and the inherent risks from difficulties of a technical, climatic or meteorological kind linked with their achievement.

Paragraphs 2 and 3 unchanged

Articles 7 to 11 unchanged

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<sup>1</sup> Complete text: see OJ No. C 18, 25 January 1975, p. 3

EXPLANATORY STATEMENTI. Introduction

1. On 23 August 1974, the Commission forwarded to the Council a proposal concerning support to Community projects in the hydrocarbon sector, in accordance with the regulation adopted by the Council on 9 November 1973<sup>1</sup>.

The Commission, in accordance with that regulation, had invited interested parties to submit applications for support by 13 March 1974 for the 1974 financial year.

2. By this deadline, 13 undertakings or exploration consortia in the Community had submitted to the Commission 23 technological development projects. Support requested for the first three years amounted to 74.2 million u.a., of which 16.8 million u.a. for 1974, 32 million u.a. for 1975 and 25.4 million u.a. for 1976. On 18 December 1974, the Council decided to grant 42.5 million u.a. to support 21 projects submitted to it under Regulation No. 3056/73. For the years 1974-1976, an amount of 25 million u.a. per annum has been earmarked for this purpose.

Regulation No. 3056/73 of the Council is a consequence of the Commission proposal on the application of the legal form of the joint undertaking to hydrocarbon undertakings.

3. In Mr Hougardy's report (Doc. 12/72), with the opinion of the Legal Affairs Committee (Mr Springorum), the European Parliament had adopted the Commission proposal, adding a single provision (Art. 5a) requesting that Parliament be regularly informed of measures taken.<sup>2</sup>

However, the Council in its Regulation No. 3056/73, took decisions concerning a support policy for Community projects in the hydrocarbon sector in general with no further mention of joint undertakings in that sector.

It would seem that the time was not yet ripe for such undertakings.

4. Once again the Commission called for tenders from undertakings in the Member States with a view to allocating during 1975 further financial support from the Community for projects of technological development connected with prospecting, extracting, stocking or transporting hydrocarbons

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<sup>1</sup> OJ No. L 312, 13 November 1973, p. 1

<sup>2</sup> OJ No. C 40, 1972



likely to improve the security of Community energy supplies. This call for tenders falls under Regulation No. 3056/73 which makes provision for the granting of support in the form of loans, loan guarantees or subsidies to be refunded under certain conditions. Replies to this invitation have to reach the Commission before 28 February 1975. They should comprise a detailed technical report on the project, an analysis of technical and economic aspects, means of financing, provisions for support by the Member States and any contributions from the European Investment Bank.

5. Projects particularly concerned are activities of technological development connected with hydrocarbon production at sea, e.g. the development of new equipment for prospecting and extraction, the building of a submarine storage tank for oil and the laying of marine pipe lines in very deep water.

6. In accordance with the provisions of the November 1973 regulation, the Commission, having examined the legal, economic, financial and technical aspects of each project submitted to the Council a proposal for a decision which provided for aid to be given to technological development projects and the allocation of sums to this end.

7. These projects are likely to make a considerable contribution to the security of Community energy supplies and accelerate the exploitation of Community hydrocarbon resources. Whilst the projects involve such technical risks and financial burdens that they could not be carried out or would have to be postponed without financial aid from the Community, they offer fair prospects of success both technically and commercially.

8. This Commission proposal is fully in line with action already undertaken by the Community and aimed at going further and more directly towards the achievement of its objectives.

The proposal for a regulation under consideration now concerns the actual exploration activity. From a legal point of view, the form which has been adopted is very close to that which was used for Community projects, viz. decisions to be taken case by case by the Council on proposals from the Commission and financed by funds included each year in the Community budget.

## II. Assistance in financing

9. It is recognised that the financial burden for all exploration must for the most part fall on the oil industry itself. Furthermore, the increase in oil prices gives the industry a special incentive to develop new oil resources in areas less exposed to the risk of interruption.

10. It would appear there are a number of operations which the industry is unwilling to engage in, either because the risk involved is too great to justify the heavy investment, or because profitable exploitation of the new sources would be too slow in materializing. It is generally considered that in order to undertake exploration at depths between 300 and 1000 metres - and it is known that in these areas there certainly are at least potential oil reserves - 8 or 10 years would probably be required for the work to lead to profitable exploitation. It is rare for the industry to assume such a great responsibility, particularly in view of the tremendous sums involved.

11. It would be possible in such cases to offer the oil industry particularly favourable conditions (e.g. a specially low rate of taxation or special low-interest finance) but it is quite certain that it would be the country in which the oil was situated that would bear the costs of the operation virtually alone. From a Community point of view it should be the Community as a whole which encourages the development of such resources and not exclusively the country in which they are situated.

12. Financial support could be given through loans or grants, to be refunded if oil is found. This is the procedure which has already been adopted for Community projects and it is also the procedure followed in several Member States, in particular Germany and France, for providing support to exploration activities. At Community level, operations of this kind should be encouraged. Naturally, the commercial nature of the find must be ascertained.

13. Community financial support would be envisaged for an amount not exceeding a quarter of the expenditure involved. It would be the industry that took the major risk, Community participation being essentially of a supplementary nature. In principle, financing is proposed only for new projects, that is to say projects for which exploration has not yet been started by the applicant.

It is clear that initially, the first time support is granted, there may be some questions about the eligibility of certain expenditure by undertakings where prospecting is already under way.

14. A problem has already arisen in the context of Community projects, and the Council settled the matter by deciding that by the date laid down for the submission of applications (last year this was 1 April), work should not have commenced. The reason for this was that it considered support could not be granted to a company unless it were absolutely impossible for the operation to be undertaken otherwise. If the company had already begun preliminary work before submitting its application, then support could not have been considered indispensable. Thus the deadline could be taken as the date by which applications had to be submitted. Perhaps a similar procedure could be considered in this case; the proposal for a regulation does not make provision for it, but it is clear that some legal precedents should be established.

15. The Commission must make its choice, and determine the financial responsibility for various types of exploration, drilling and other activities; it must include or make provision for a number of measures and provide for a procedure of financial control and supervision at every stage in order to avoid any possibility of deviation from the proposed objectives. Thus the line to be taken is extremely delicate. Whereas exploration must be stimulated quickly, a balance must be struck between making Community finance effective while at the same time ensuring its availability and expenditure is strictly in conformity with the Commission proposals and rules for implementation.

### III. Community support

16. To allow for wider scope for action at Community level, it is proposed that all projects to be supported in this manner would be incorporated into a multiannual programme of exploration, which it is assumed would be of a roll-over nature. Naturally, undertakings participating in one or other of the projects would be required to exchange information on the results obtained and co-operate on the technical level so that, for example, as far as capital expenditure was concerned they would make every effort to minimise capital investment by maximising equipment utilisation, as well as exchanging technical know-how and experience.

Such support would not only help each of the companies to fulfil their individual projects, but also, through pooling of results, would make it possible for them to operate to greater effectiveness.

17. As to Community projects for technological support, an entry has been made in the Council minutes that Member States were prepared to undertake to put up funds of up to 25 million u.a. For projects of this sort, however, it will be clearly necessary to exceed such amounts considerably as what is envisaged amounts to support for the actual operations themselves. By way of comparison, it is estimated that, for all exploration in the North Sea, funds of approximately 1,500 to 2,000 million u.a. will be invested over the next ten years. The support proposed could be approximately twice that amount and, given that the probability of finding oil in deep-sea areas is quite high, such a contribution, while not insignificant but within the financial capacity of our countries, is clearly worthwhile and would no doubt help to increase considerably the oil resources of the Community as a whole. An open-ended Community commitment would not be acceptable.

#### IV. Viability

18. Clearly, the viability of the scheme will depend on the tax system to which the undertakings are subject. Nevertheless, and this is the case with all Community legislation in this field, a margin of profit must always be left for the promoters of such schemes.

19. Once a deposit has been discovered, it would be normal to expect exploitation to follow, but there are instances where, through low expectations of profitability or the impact of excessive taxation, full exploitation becomes unattractive.

20. In such cases it is clear that Community support may be appropriate and effective in maximising exploitation.

21. It is understandable that some Member States, for reasons of domestic policy, may hesitate to allow the oil industry a sufficiently high level of profitability. These proposals of the Commission may well be appropriate for ensuring a sharing of the costs borne by one producer country with other states of the Community, where the ultimate projects will benefit the Community as a whole.

#### V. Allocation of funds

22. How will it be possible to ensure that funds allocated for this purpose are not diverted from their objective? Obviously, there will have to be close supervision of the use to which grants are put and the sums involved must be related to the results obtained. As is the case

for other Community projects, the sums allocated will be proportionate to the expenditure actually undertaken. Grants will be made up to a maximum of 25%, on the total of accounts submitted for expenditure actually undertaken. But where desirable advance payments may be made at the time of signing the contract, provided that the undertaking proves subsequently that it has, in fact, spent such sums. The promoters will also have to provide a detailed break-down of expenditure, and the Commission must be given every opportunity of checking that the use made of such funds corresponds to the objective initially envisaged and laid down in the project submitted to the Community.

23. In this connection it is essential to establish appropriate procedures and machinery for scrutiny and verification of claims for financial support. Experience in other sectors of Community finance has confirmed the need for this.

#### VI. Confidentiality of information

24. It is important for confidentiality to be maintained on all information given to the Commission. The Commission will be in a similar situation to that of the national authorities of Member States when they give financial aid.

25. Whereas it has generally been the practice of the Commission to adopt a policy of 'open government', there is evidence to show that the Commission can maintain confidentiality where this is considered vital as a matter of policy.

26. This is not incompatible with the provisions of Article 10 of the proposal for a regulation, which stipulates that the Commission is to report annually to the European Parliament and to the Council on the results of the programme. There can clearly be no question of revealing in these reports information which is confidential.

#### VII. Compatibility with the Treaty and competition policy

27. The provisions of Article 3 of the proposal for a regulation are fully in accordance with the Treaty. It is a regulation to be adopted by the Council on the basis of Article 235, i.e. it is not an activity provided for in the Treaty itself but one which aims to meet the objectives of the Treaty.

It is, therefore, very important that the rules on competition laid down in Articles 85 and 86 of the Treaty are respected.

28. The Committee on Energy, Research and Technology has often drawn attention to the fact that there will be industrial and economic developments in the Community which may necessitate some liberalization of competition policies.

The committee also considers that competition as such should not be distorted by action of this type. This is, of course, a delicate point, since support is granted to certain undertakings, which will therefore enjoy more favourable conditions of competition than others. It must first be made clear that this opportunity is open to all undertakings in the Community without discrimination. Thus, if an application for support has not been submitted, it is the fault of the applicant not of the Commission, so long as the availability of support has been fully publicised.

29. The whole concept of the Community is based on free and complete competition, but it is conceivable that in a number of sectors connected with the implementation of these proposals, the full application of this principle may be difficult to achieve.

#### VIII. Definition, description and allocation of territorial waters

30. This poses a particularly delicate problem. The Commission must make it clearer what it has in mind when referring to 'zones in which Member States exercise sovereignty.' All evidence to date indicates that the Commission thinking on this is not in conflict with the interpretations by Member States.

31. There are areas of the 'territorial waters' where the difficulties and the degree of risk are relatively limited. In the North Sea as a whole, at present each undertaking is covering the whole risk on its own, since the preparatory work is sufficiently well-developed to give a clear indication of the likelihood of obtaining oil. Consequently, with a view to reducing the Community's support burden in this sector, it is proposed to limit such support to depths greater than 100 metres, these being areas where new techniques have to be developed or where climatic conditions are particularly difficult (e.g. north of the 60th parallel).

32. The areas more particularly contemplated are the Atlantic coast, Scotland, Ireland or France, and certain Mediterranean areas. There is also a very promising region from the point of view of oil exploration off

the Faroes and Greenland. However, in Greenland, the technical difficulties are immediately apparent and are currently considered as almost insurmountable. The deposits are believed to lie at great depths and in areas where the climatic conditions are clearly unfavourable.

33. According to the oil companies, or companies prospecting at sea, 100 metres is not very deep. The technical problems are fairly simple, and it is only at 200 metres or deeper that serious difficulties arise.

Oil exploration is currently developing in those regions, the legal status of such operations remaining, however, obscure. Obviously, the depth of 100 metres is rather arbitrary, seeing that the latest prospecting work carried out in the North Sea has gone down to depths between 120 and 130 metres. Nevertheless, it can be stated that at present, given the existing techniques, there has not yet been any systematic exploration beyond 150 metres. Obviously, aid need not necessarily be granted simply because an exploration company is established in one of the areas mentioned. Each case will have to be assessed individually, so long as common criteria are adopted. In any event, the whole area involved covers not only the Atlantic region but also the Mediterranean and certain parts of the Adriatic.

Moreover, throughout this region exploration is already under way. In the South Adriatic, there are clearly a number of areas which could be covered by the regulation.

#### IX. Drilling

34. Seismic prospecting can be considered in two phases. First of all there is a general search, for which it is unnecessary to hold a permit or government authorization. Here the various operators carry out exploration in competition with each other. There is no question of an exclusive concession.

This permits a fairly rough geological survey of the terrain which makes it possible to distinguish the areas where there may be a chance of finding oil. At this stage the operations cannot be financed by Community aid, because there is no certainty of such exploration locating a deposit and of developing it.

35. If a deposit is to be discovered, a second more precise and more detailed seismic survey must be carried out, and above all there must be drilling.

It is this second stage where support is required for detailed seismic prospecting and the drilling of up to 3 bores to determine the approximate situation of a deposit and the quantity of oil likely to be found.

X. Pipelines and storage

36. Where exploration and exploitation of oil at sea is concerned, aid should be granted for exploration. However, pipelines and land-access are also essential. There are therefore regions which are likely to be thought more suitable and developed because they afford better pipe-laying possibilities and land-access.

In Norway, for example, oil has been discovered and developed, but it has not been brought to the Community because there is no pipeline connection with the Community. In such a case, Community financing would be problematic.

37. The Commission has already put forward proposals to finance storage at sea because, according to their estimates, sea storage tanks are to be preferred. This will also have implications for exploration and may act as an incentive if there are possibilities for storing the oil that is discovered.

38. No provision is made for the financing of pipelines and storage on the basis of this regulation, since these two activities only begin once the exploitation of a deposit has begun. We are only concerned with the prospecting phase.

39. Under the existing regulation for support to Community projects, three applications concerning storage and four concerning pipelines were submitted and adopted by the Council because they aimed to perfect new techniques for storage or transport. These were operations which had never been undertaken before and which involved quite different techniques to those generally in use.

40. If it were simply a question of a purely commercial operation, where a deposit had been discovered and the product only required to be transported to the coast, that would be an operation calling for normal banking support. It could not be financed, either in whole or in part, under these two regulations.

41. On the other hand, the facilities of the European Investment Bank are available. There are in fact a number of pipelines, particularly in the North Sea, for which the EIB is already participating to some extent in financing the operation. These, however, are purely commercial activities and the two regulations - the one already adopted by the Council and the one now proposed by the Commission - are mainly intended to provide an incentive for the future rather than support as such for the present.



## XI. Opinion of the Committee on Budgets

42. Apart from the budgetary implications of the role played by the multi-national companies in the execution of Community proposals - over which there is considerable controversy - the need for transparency of budgetary measures leads the Committee on Budgets to request an amendment to the Commission's proposal for a Council regulation.

43. First of all, it is felt that the decision on the implementation of this three-year programme in this field of exploration should only be taken after the European Parliament has been consulted. We feel this to be justifiable, particularly as this decision involves the application of Article 235 of the EEC Treaty. It should be logical, not to say legally necessary, for the same principle to govern the adoption of this programme. In addition, the programme will certainly have budgetary implications, so that consultation of Parliament would become obligatory under the Treaty.

The Committee on Energy, Research and Technology therefore approves the proposed amendment to Article 6(1).

44. We take no position regarding the criticism made by the Committee on Budgets in paragraphs 10 and 13 of its opinion concerning the inadequacy of the financial indications. However, we insist that this fault be remedied when the three-year programme provided for in Article 6(1) of the regulation is put forward.

## XII. Conclusions

45. Parliament has always called for the development of Community energy resources, at the lowest possible cost compatible with the overriding need for security and continuity of supply.

In principle therefore the Commission proposal is acceptable.

46. It should be stressed that the Committee on Energy, Research and Technology attaches considerable importance to the strengthening of the security of supplies of hydrocarbons, by reducing Community dependence on external resources, seeing that the trend in world energy prices may influence the problems of financing exploration for new oil sources.

47. It is the Community's view that development of oil resources should be encouraged, and not exclusively efforts by the countries in which they are situated, so that Community oil resources may be appreciably expanded. In the light of the above considerations, the Committee on Energy, Research and Technology approves the proposal for a regulation, and considers that the Commission has taken positive action with a view to bringing about a common energy policy and, in particular, with a view to improving Community hydrocarbon supplies.

48. The only amendment requested is that the European Parliament be consulted when the future three-year programme in this sector is submitted. With this reservation we recommend that the European Parliament approve the Commission's proposal.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr Frankie Leopold HANSEN

On 3 February 1975 the Committee on Budgets appointed Mr Hansen draftsman.

It considered the draft opinion at its meeting of 25 February 1975 and adopted it unanimously.

Present: Mr Spénale, chairman; Mr Durand, vice-chairman; Mr Hansen, draftsman; Mr Artzinger, Mr Cointat, Miss Flesch, Mr Kirk, Mr Lagorce, Mr Lautenschlager, Lord Lothian, Mr Notenboom, Mr Pêtre and Mr Shaw.

## Introduction

1. The Communities' need for a stable supply of energy has led to the adoption of a series of regulations under the auspices of Article 235 of the Treaty enabling the Community to intervene in order to encourage the exploration for hydrocarbons and their exploitation.

The most important decision in this field was the adoption of Regulation (EEC) No. 3056/73 of the Council of 9 November 1973 on the support of Community projects in the hydrocarbon sector. This envisaged Community financial help for enterprises involved in technological development directly connected with prospecting, producing, storing or transporting hydrocarbons. Under this appropriations from the Community budget can be allocated for help for specific projects on the basis of a report, submitted to the Council by the Commission giving details of the action, and of a decision by the Council.

2. The first batch of decisions on individual projects came in December 1974 when the Council agreed to Community participation in the financial burdens of some 21 projects submitted by the Commission. Under the present regulation the Council has already agreed to the expenditure of some 42.5 million u.a. on approved projects<sup>1</sup>. Multi-annual appropriations totalling some 33 million u.a. remain available and the Commission has called for tenders to be submitted by the end of February 1975.

As the Communities' energy needs have become more urgent the Commission feels it necessary to propose direct Community support in the development of new undersea resources. The existing regulation allows support for the acceleration of the development of the necessary techniques. It is now felt that the Communities financial participation should be extended to certain operations which are too expensive and too risky for the industry to undertake alone.

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<sup>1</sup> After requests for a total of 74.200.000 u.a. had been made and after the Commission had forwarded requests for 58.861.066 u.a.

### The Commission's proposals

3. In the present proposal the Commission suggests that a maximum 25% Community financial participation be permitted for projects concerning hydrocarbon exploration which contain the following tasks - exploration, drilling of strata and a maximum of two test bores to determine the importance and profitability of the deposit (Draft Article 2).

The extent of participation is further limited by the annex which suggests that the benefit from Community support should only be applicable where exploration is carried out in the territorial waters of Member States, or in adjacent zones not subject to sovereignty by non-Community States and in certain areas of deep water in a confined geographic area.

4. The procedure proposed is similar to that already proposed under Council Regulation (EEC) No. 3056; namely that the Council should decide on the basis of a report giving details of the project that a Council decision should be required for each scheme. Furthermore, the Commission would submit a triennial programme of exploration from among the projects put forward allocating financial contributions on the basis of the general contribution of the project to the Communities' energy needs.

The Commission hopes that the framework of a triennial exploration programme would make Community support 'totally efficient'.

### The financial consequences of the Commission's proposals

5. The Committee on Budgets was not consulted on the financial consequences of Regulation (EEC) 3056/73 nor was Parliament on the resulting decisions of Council concerning financial aid to individual projects. Now it is consulted for a programme for which no financial indications are given apart from a maximum upper limit of Community contributions in percentage terms.

6. The Commission has selected a maximum of 25% as the Community participation in the expenditure for any project. It bases the justification for this on the need to limit the risks for the Community, in a field where risks are inherent. It remains to be seen whether this participation will be sufficient encouragement to the enterprises concerned. It is worth recalling that under Regulation No. 3056/73 Community intervention was permitted up to 50%. This was directed towards the field of research.

7. Since 1974 the Community has set aside 25 million units of account under Articles 393 of the 1974 Budget and 321 of the 1975 Budget concerning Community projects in the field of hydrocarbon and a multi-annual provision of some 25 million units of account per year over three years has been made. Under the decision of Council of 18 December for the 21 projects, Council support of 42.5 million units of account has been committed for the 3-year period so clearly present estimates for Community expenditure in this sector will have to be revised - as the Commission itself pointed out in its communication 'Towards a new energy policy strategy for the European Community'.

8. Your draftsman understands that for each project under the proposed new regulation the Community would have to expect to contribute at least several million units of account. So that, in order to avoid being limited to the support for a very few projects, the appropriations will have to be increased.

One source of satisfaction is that the Parliament as well as the Council are to be presented with an annual report from the Commission on the programme of exploration and on the progress made on each project. In order to complete the Parliamentary control aspects, the European Parliament should also be consulted on the multiannual programme. Your draftsman has hence drafted an amendment to Article 6 to this effect.

The Committee on Budgets is informed that it is the intention of the Commission to introduce a new Budgetary item to cover expenditure in this field with appropriations amounting to 100 million units of account in 1976. This is to be coupled with appropriations already provided in the Budget under the Regulation No. 3056/73. The Commission justifies this figure .. taking into account the long-term energy priorities for the Community as set out in the energy programme.

9. The remaining important point where information is inadequate concerns the form of repayments of Community contributions. Regulation 3056/73 envisaged a grant reimbursable under certain conditions. The new proposal simply envisages, in Article 4, that support may take the form of 'Community financing of this project as part of the appropriations made for this purpose in the general Community budget, taking into account any other Community financial intervention from which this project may benefit, especially by the European Investment Bank, by a subsidy repayable in the event of the commercial success of the project'.

Such a provision seems imprecise and there is no clarification as regards the form of subsidy. Concerning repayment of such a subsidy the Commission adopts the criteria of a "commercial success", a condition which the Commission tries to define but for which an agreed definition will in any case be difficult to arrive at.

Finally, the form of repayment - and whether the repayment should be made at commercial rates of interest - is again unclear. This imprecision is all the more regrettable given the need to safeguard Community funds and to ensure that such funds are not simply allocated to boost the profits of private oil companies.

10. For 1976 it appears that the global appropriations for the hydrocarbon sector will be 150 million units of account, composed as follows:

Appropriations under Regulation No. 3056/73 - 50 million units of account (including the proposed increase in the inscription in the Budget following draft insertion in the Minutes of the Council (Doc. COM(74) 2018))

For the present proposal, 100 million units of account.

In this proposal from the Commission the absence of an exhaustive financial schedule is particularly perturbing, given the sums involved and the need for precision concerning modalities of payment and reimbursement.

#### Conclusions

11. Your draftsman welcomes the prospect of an enlargement of the Communities' energy programme and in particular the idea of direct Community participation in hydrocarbon exploration. It has been for many years one of the continuing preoccupations of Parliament to secure an active Community energy policy in order to guarantee for the Community security of supply.

12. As regards the particular proposal before the Committee on Budgets your draftsman can only protest at the insufficiency of financial details which permit the Committee no serious basis of assessment.

For 1976 a global appropriation for this sector of 50 m.u.a. is envisaged. No further financial details are provided.

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13. Your draftsman would also like to draw your attention to the unsatisfactory nature of the parliamentary role in the elaboration of this policy, particularly as regards the budgetary aspects. If the Committee on Budgets and the Parliament are not to be allowed to give a realistic basis of assessment for the general proposal, then it is clear that Parliament should seek consultation with the Council on the multiannual programme to be submitted. This would seem to be the only access point for parliamentary and budgetary control in this policy.

14. Your draftsman can understand the need for flexibility in any financial estimates for this field where the risks are great and the consequent expenditure is necessarily flexible. Given the fact that the Commission has not felt able to provide a financial schedule giving maximal and minimal hypotheses of expenditure, even on the basis of experience under the existing regulation, the Committee on Budgets seeks an amendment to ensure Parliamentary participation in the elaboration of the programme under this draft regulation.

15. In the absence of any financial schedule the Committee on Budgets is unable to give a favourable opinion on the proposal, and seeks to change the Draft Regulation by the following proposed amendment.



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Proposed Amendments to Proposed Council Regulation (EEC)  
concerning support to common projects for hydrocarbon  
exploration (Doc. COM (74) 1962 final)

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Preamble unchanged

Articles 1 to 5 unchanged

Article 6

Paragraph 1

The Council will decide unanimously on the proposal by the Commission on a three year programme of exploration chosen from among the projects presented under Article 5 and will allocate financial support to different projects according to their anticipated contribution to the supply of the Community and the inherent risks from difficulties of a technical, climatic or meteorological kind linked with their achievement.

The Council will decide unanimously on the proposal by the Commission and after consulting the European Parliament on a three year programme of exploration chosen from among the projects presented under Article 5 and will allocate financial support to different projects according to their anticipated contribution to the supply of the Community and the inherent risks from difficulties of a technical, climatic or meteorological kind linked with their achievement.

Paragraph 2 and Paragraph 3

Unchanged

Articles 7 to 11 unchanged

Justification

Parliamentary consultation on the 3-year programme of exploration is extremely important given the probable amount of appropriations involved and the fact that the present regulation enabling the Commission to present such a programme gives no indication of the overall financial effect. The Commission, in any case, under Article 10, proposes that it should report annually to the European Parliament and to the Council on the programme of exploration and the progress made on each project. It is

therefore only natural that the Parliament should be consulted at the time of the drawing up of the programme as well as over its execution.