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A European Vision for Oceans and Seas"
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Session 4: Research and Innovation

The Views of the International Association of Oil & Gas Producers
Presented by Mr. Barry King, EU Committee Chairman

Thank you Mr. Chairman and good morning ladies and gentlemen.

It is a great honour for me to represent OGP, the International Association of Oil and Gas Producers. And I am delighted to share with you our views on the European Commission's Green Paper on Maritime Policy. I want to thank the German Presidency for organising this high level conference and for the opportunity to make our contribution.

In the next15 minutes I want to take you through the following three main points:

I will start with a brief introduction of what OGP is and what it does. Next I will outline some of the key elements in our response to the Green Paper and try to place it in the context of the broader EU Energy and Climate Change policy. This will lead me in to the third point, in which I will indicate what the oil and gas industry requires, to maximise ongoing research and innovation efforts.

So, let me start by saying something about what OGP is and what it does.

OGP represents companies and associations engaged in the exploration and production of oil and natural gas. OGP membership spans the globe and accounts for more than half of the world's oil output and about one third of global gas production.

Now, on to our second main point: the Maritime Policy Green Paper and OGP's views on it..

Most people are not aware of it, but Europe, that is the EU and Norway, is the 4th largest oil and gas producer in the world, after Russia, the United States, and Saudi Arabia! It may therefore come as a surprise to you that we are producing around 35% of our oil consumption and no less than 60% of our natural gas consumption.

And as more than 80% of European oil and gas production is taking place offshore, OGP and its member companies clearly have a great interest in the Maritime Policy Green Paper.

As an important wealth creating and environmentally responsible industry, we support the Commission's objective of developing a thriving maritime economy and realising the full potential of sea-based activity in an environmentally sustainable manner. That is – a growth and jobs agenda.

And in order to seize the full potential of Europe's offshore oil and gas resources, a consistent, well-developed, and value-adding Maritime Policy should focus on the following three points:

One, promote continued access to oil and gas resources:

Europe has been producing significant quantities of oil and gas since the 1960s. And European resources are essential for the future EU energy balance. Despite the growing maturity of its fields, the offshore oil and gas sector continues to have an important future. Potential resources here are equivalent to up to more than 27 years of oil supply and considerably more for gas.

Second, the Maritime Policy should encourage economically and environmentally viable legislation for operations, whilst avoiding duplicating existing well-functioning regimes.

The oil and gas industry typically makes large investments in projects that can have a long life-span i.e. multi-million Euros over several decades. Before making such important investment decisions, companies assess the relative attractiveness of one region to another, not just the market conditions themselves but also the long-term stability and predictability of the fiscal and regulatory regimes. In other words, there is competition between different regions in the world for investment in oil and gas projects.

The offshore oil and gas industry is one of the most regulated industries. In the development of new oil and gas resources the offshore oil and gas industry has to comply with laws and regulations stemming from international, regional and national regimes.

The regional seas conventions, such as OSPAR and the Barcelona Convention, set challenging regulations for offshore operations.

Moreover, the regional seas conventions provide ambitious short- and medium-term objectives as well as long-term strategies for the oil and gas industry. This way, the current laws and regulations ensure that new offshore

oil and gas developments are carried out in an environmentally sustainable way.

So, a European policy aimed at seizing the full potential of its energy resources should ensure that the regulatory framework at national, regional, and EU level is such that **one** access to resources is provided – subject as now, to appropriate environmental impact assessments - and **two** investment is encouraged through appropriate frameworks for operations.

The third point a Maritime Policy should focus on is to ensure the co-ordination of EU policies affecting our industries.

A future Maritime Policy for the EU needs to be consistent with other relevant EU policies, particularly those relating to Energy and the Environment, including Climate Change.

A coherent European policy for our industry would be one that aims to stimulate investment to meet the requirements of a secure, sustainable and competitive energy market.

The industry will invest in new reserves and responsible production provided access to potential acreage is ensured and business conditions are favourable.

The industry will also continue research and innovation to further increase the recovery rates of oil and gas.

And as regards climate change, the oil and gas industry is already offering its experience and expertise on the capture and geological storage of CO2. I will come back to this area in a few moments.

In short, the oil and gas industry, through OGP, would welcome EU support in creating the right environment, which would allow us to continue to make a significant contribution to European energy supply, to mitigate climate change and to contribute further to economic growth and jobs.

I now come to my third main point: research and innovation.

Research and innovation are:

important for economic development,

fundamental for maintaining competitiveness, and

a high priority on the political agenda.

One of the key challenges that OGP members will continue to address is developing improved technologies to find and produce oil and gas as efficiently as possible, with a minimum of discharges and emissions.

Despite significant improvements in energy efficiency, global energy demand will grow over the next few decades.

And despite impressive growth rates of renewable energy the world will continue to rely on fossil fuels.

All energy scenarios foresee that oil and gas will continue to supply 60% of total energy demand in Europe and in the rest of the world in the next decades.

OGP members are working hard to make sure that:

1) global energy demand can be met by bringing oil and gas to the market and

2) carbon dioxide capture and geological storage, where economic, can be developed as an important option that can result in large reductions in emissions of carbon dioxide from large point sources.

In order to realise these, two points are essential:

ongoing research and development and the right framework for deployment of new technologies in the market.

Let me elaborate.

A major challenge for the industry is to maximise recovery of energy reserves, particularly for oil, where the average recovery factor in the world is 35%. In other words, there is still a lot of valuable oil left in reservoirs.

The challenge is to get as much of the remaining 65% out of the ground.

The International Energy Agency has calculated that increasing the recovery rate to 40% would result in more reserves than all of Saudi Arabia’s current and not inconsiderable reserves!

Recovery rates for natural gas can be up to 85%, but more complex gas resources pose formidable challenges too.

To boost recovery rates and to overcome such technical challenges, the oil and gas industry over many decades has been conducting research and development, often with universities and other research organisations.

Oil and gas technology “made in Europe” is literally fuelling its economic and social development, whilst also providing the raw materials and feedstock to associated industries, such as petrochemicals and pharmaceuticals.

Future business opportunities will be found for companies within the areas of mature reservoirs by significantly increasing recovery rates, by developing oil and gas resources in deep and ultra deep water, non-conventional reservoirs, and by exploring the technological and economic potential of hydrogen as an energy carrier.

A very topical area for the moment concerns the geological storage of carbon dioxide.

Research is ongoing and will continue to add to our knowledge about the behaviour of carbon dioxide when stored in carefully selected geological sites. These include depleted formations, which originally held oil and gas, for millions of years.

For European industry to maintain a competitive edge, investments in hydrocarbon R&D will continue to be needed.

But research is not an end in itself. It needs to be transformed into a product that can be deployed in the market place.

This requires an appropriate legislative and regulatory framework.

When we take CCS, apart from R&D and large-scale demonstration projects, there is a need for legal certainty for the private sector.

In that respect, it is particularly encouraging that the European Commission is working with OGP and other stakeholders on a regulatory framework for CCS.

In order to help overcome the current economic barriers for CCS projects, rules are needed to ensure that the storage of carbon dioxide is credited under the EU emissions trading scheme and the Clean Development Mechanism of the Kyoto Protocol.

So, clearly there is a need for continued research and the EU can contribute to this through its research framework programme. In addition, the EU and Member States will have to create an appropriate framework for the deployment of new technologies in the market place.

To wrap up I hope that you will take away from this session that the offshore oil and gas industry is an important maritime sector in Europe.

The oil and gas industry has been able to harness the potential of oil and gas resources under the European seas in an environmentally responsible way and continues to have an important future for the EU.

An EU Maritime Policy can contribute to that future by:

- promoting continued access to resources,
- encouraging viable legislation, whilst avoiding duplication;
- and finally by ensuring coordination with EU Energy, and Environment policies.

Technology will be key and therefore we need:

ongoing research and development combined with the right framework for deployment of new technologies in the market.

I thank you for your attention.