

A few years ago the first successes of the US shale gas developments on a large scale, i.e. steady and significant rump up of the production, were met with scepticism if not disdain. Politicians and policy makers in Europe did not take them seriously. Some competitors, such as Gazprom, even made contemptuous comments. A few years later, with the economic crisis in the background, shale gas developments in the US proved to be a huge success.

Economic revival, including cheaper energy bills, bringing energy intensive industries back to the US, more jobs, less reliance on the outside world, more security, to name a few. It showed that shale gas can be developed in an economic way on a commercial basis. But this is where a European lesson from shale gas developments in the US ends. Europe is a bystander, wallowing in its economic crisis and expensive energy, planning to make it even expensive through climate policies.

Who owns the gas?

In the background of the US success is the fact that mineral rights belong to private landowners. They own the resources below the ground. This has two profound implications. Firstly it is in direct interest of landowners to develop the resources, to make most of them. Therefore a typical „not in my backyard attitude” to industrial developments which is so prevalent in Europe, gives way to „yes, in my backyard please, I want to maximise the potential of my land”. As a result a „social licence”, i.e. local social conditions conducive to shale gas developments, is by far more a difficult issue in Europe than it is in the US.

Secondly if mineral rights belong to a state as it is in Europe, companies developing shale gas have to deal with state officials. This is a corruption prone arrangement and the current scandal in Poland of officials taking bribes for handling licence applications should not come to anyone as a surprise. Moreover deals between private companies and a state are very tricky: anything that later may appear as a bad deal for a state, can have immense political implications. We enter the realm of „exploitation” and „theft of national wealth”. The dividing line between what with the benefit of hindsight can be perceived as such, or as a just bad business deal, or actually as the right outcome, is impossible to establish convincingly in such probabilistic business setting as natural resources industry. Such is the nature of this beast. Therefore state officials, especially in Central and Eastern Europe for which the idea of exploitation of natural resources by private investors is new, are unwilling to negotiate or see the other side of the arguments. They are in no win situation and their political and career risks are immense. This is a recipe for a stalemate, which – as predicted back in 2010 and 2011 – we observe in Poland now.

Leave this field empty if you're human:

Productivity matters

When the shale gas developments started accelerating in the US around a decade ago, the oil services industry there was ready for it. In the face of decline of conventional hydrocarbons exploration and production activities, many hundreds of rigs, well over a thousand, were available at very attractive rates. „Drill, baby drill” is maybe a caricature of the situation, but the attitude was buccaneering, and the tools were available. This created a push on productivity. Shale gas explorers could get more for their dollars. This, combined with the deregulated US internal market, created a background for small and medium size innovative companies to start pushing the technological and operational boundaries - which late George Mitchell first pushed a couple of decades ago - even further. And there is also a „do-it”, pioneering attitude in the US business in general. By comparison oil services market in Europe is far from being truly competitive and in countries like Poland controlled by a state monopoly. The number of land drilling rigs in Europe is dismal, less than a hundred.

Generally, neither companies exploring for shale gas nor their host state authorities in Europe realise that they are in economic double whammy, compared to the situation in the US. Generally the productivity of the US economy is higher than of European countries, especially those in Central and Eastern Europe. Therefore operating and financial risks in the US are generally lower across the entire economy. This situation is compounded by the fact that private companies and corporations which dominate the US oil and gas market are also far more productive (across all sectors) than their state controlled counterparts or so-called „national champions”, which dominate oil and gas business in continental Europe.

It's what's in the head

The above ground risks of companies exploring for shale gas in Europe are huge. These are: unfriendly and unpredictable legal and regulatory environment, low productivity, problems with social acceptance in the areas of operations, etc. Based on historical data of oil and gas industry, above ground risks constitute around 75%-80% of all investment risks. (The resource availability risks, i.e. what is in the ground and whether it can be exploited from technological perspective, are in the region of 20%-25%.) Facing these challenges, the European countries do not appear to understand them.

Likewise most companies exploring for shale gas do not understand that such is a state of

affairs: i.e. the European countries governments and the EU officials do not understand the business effects of high above ground risks. There is not much effort to create more competitive and deregulated markets to lower above ground risks in Europe. Instead the governments and the EU authorities are bent on creating new regulations, holding talking shops or starting initiatives in Brussels such as technological platforms, which will create even more barriers. Locally, the resource nationalism and local market protectionism is rife in oil and gas industry in Europe. This is killing the shale gas industry before it was even conceived on continental Europe.

The resources of shale gas in Europe (especially in Poland and France) can be huge. And companies can even believe in this. The gas below the ground in the US and Europe is not chemically that different. Even if technical, technological and operating challenges are different in the US and Europe, the last 150 years of oil and gas industry have shown that companies are not afraid to face them. But they need the right above ground conditions to do so. Clearly in the US and Europe, chemically the gas is nearly be the same: but the industry is completely different. Shale gas business is not really about what is in the ground. It is what's in the head.

Source: Comment Visions. [Read more...](#)