

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 532 final.

Brussels, 25 October 1977.

Proposal for a
COUNCIL REGULATION

on support for joint hydrocarbon-exploration projects
(Amendment to the proposal from the Commission to the Council
of 29th November 1974)

(presented by the Commission to the Council pursuant to the
second paragraph of article 149 of the EEC Treaty)

Proposal for a
COUNCIL REGULATION

implementing Council Regulation (EEC) on support for joint
hydrocarbon-exploration projects

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* OJ N° C 18/3 of 25 January 1975

Proposal for a Council Regulation on support for joint hydrocarbon-exploration projects.

(Amendment to the proposal from the Commission to the Council of 29 November 1974)*

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas the implementation of a Community energy policy is one of the objectives of the Community; whereas the Council, in its Resolution of 17 September 1974 concerning a new energy policy strategy for the Community, has affirmed its political will to draw up and implement a Community energy policy;

whereas, in view of the hydrocarbon supply difficulties caused by the international situation, specific efforts are required in the field of hydrocarbon exploration;

Whereas the encouragement of exploration projects which are of paramount importance for safeguarding the hydrocarbon supply of the Community serves to carry out this policy, in particular by means of searches for reserves of hydrocarbons situated in regions under the jurisdiction of the Member States;

Whereas the primary responsibility for financing such activities lies with the petroleum industry; whereas, in view of the risks and investments involved in such activities, provision should be made for the Community to grant them financial support;

Whereas such support should be repayable in the event of the exploitation of the fields discovered;

* OJ N° C 18/3, 25 January 1975.

Whereas, in view of the need to limit such support to that which is strictly essential, the Community must have all possible means of assessing benefits which may accrue to it from such projects and their conformity with the objectives of Community energy policy;

Whereas such support should as a general principle constitute only a minority share of the financing of a project during the period in which a subsidy is granted; whereas the geographical zones in which these investigations will be made must be well defined;

Whereas the Treaty does not provide the powers necessary for these purposes,

HAS ADOPTED THIS REGULATION:

Article 1

1. Subject to the following Articles, the Community may grant support for hydrocarbon exploration projects in regions under the jurisdiction of the Member States.
2. The above-mentioned projects shall relate to geophysical work, stratigraphic drilling and exploratory drilling, as defined in Article 2, for the purpose of determining the existence of accumulations of hydrocarbons in the subsoil of the territory and of the continental shelf of the Member States.

Article 2

The work referred to in Article 1 is defined as follows:

- (a) "geophysical work" means prospecting involving the use of magnetic, seismic, gravimetric or other physical methods for the purpose of collecting information in connection with the search for hydrocarbons, but not involving geophysical study of the wells drilled;
- (b) "stratigraphic drilling" means the drilling of a well intended, essentially or to a large extent, to collect stratigraphic information such as the thickness, lithology, sequence, porosity and permeability of the rock penetrated or to locate the position of a distinctive stratum;
- (c) "exploratory drilling" means the drilling of a well in a promising structure for the purpose of determining the presence or absence of hydrocarbons.

Article 3

1. Support for exploration projects shall be granted in the form of a subsidy repayable in the event of the exploitation of the fields discovered.
2. Such support may not exceed:
 - (a) 75% of the actual cost in the case of geophysical work, and
 - (b) 50% of the actual cost in the case of stratigraphic and/or exploratory drilling.

Article 4

Projects may emanate from Member States or from the Commission.

After consulting the Member States, the Commission shall submit to the Council a proposal for support for one or more projects, accompanied by a report including:

- a detailed description of the project and, where appropriate, of the drilling programme;
- indications as to the probable presence of hydrocarbons in the exploration zone, and the results of geophysical work;
- the cost of the project, and the financing arrangements proposed for carrying it out;
- any other information which may justify the type and extent of the support proposed for the project by the Commission;
- any support provided for, or expected from, Member States for the project.

The Council may ask the Commission for additional information.

Article 5

The Council, acting unanimously on a proposal from the Commission, shall decide on the projects to be supported.

Article 6

The Commission shall invite applications to carry out the projects in the Official Journal of the European Communities.

Article 7

1. The carrying out of exploration projects shall be entrusted solely to groups of natural persons, who are nationals of the Member States, or to legal persons, constituted in accordance with the laws in force in the Member States of the Community, who shall undertake to be jointly and severally liable to the Community.
2. However, the carrying out of such projects may be entrusted to a natural person who is a national of one of the Member States, or to a legal person constituted in accordance with the laws in force in the Member States of the Community.

Article 8

Those responsible for carrying out exploration projects shall submit an annual report to the Commission upon the progress of the work and the expenditure incurred. Representative of the Commission shall have access at all times to the technical and financial documents relating to the projects.

Article 9

All information contained in the reports referred to in Article 8 shall be confidential.

Article 10

The Commission shall report annually on the progress of each of the projects to the European Parliament and to the Council.

Article 11

This Regulation shall enter into force on the day following its publication in the Official Journal of the European Communities. It shall remain in force for a period of three years from the date of its entry into force.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council

The President

EXPLANATORY MEMORANDUM

1. The Council, in its Resolution of 17 September 1974 concerning a new energy policy strategy for the Community (Doc. R/2391/74 (ENER 45) of 19 September 1974), has affirmed its will to draw up and implement a Community energy policy. One of the guidelines adopted was the use of hydrocarbon resources in the Community in order to improve the security of the Community's energy supply.
2. The Council, in its Resolutions of 17 December 1974 (1) and 13 February 1975 (2), has spoken in favour of the development of hydrocarbon exploration and production on shore and on the continental shelf of the Member States through the provision of financial support in certain cases.
3. On 29 November 1974 the Commission submitted to the Council a proposal for a Regulation concerning the provision of financial support for joint hydrocarbon-exploration projects (OJ N° C 18/3 of 25 January 1975). During the discussion concerning this document in the Council on 26 June the vast majority of the delegations were in favour of financing a phased programme of well-defined exploration activities.
4. The Commission therefore placed a panel of geologists in charge of studying and selecting subsoil-investigation projects designed to bring to light zones in which there are likely to be accumulations of hydrocarbons on the territory and on the continental shelf of the Member States, through geophysical work, stratigraphic drilling or exploratory drilling. These experts have presented their report to the Commission which has informed the Member States' experts of it.

(1) Doc. R/3649(74), ENER 79.
(2) Doc. R/505(75), ENER 24.

This report shows that there are in the Community vast, hitherto unexplored sedimentary zones, whose geological structures favour the accumulation of hydrocarbons. Investigation of these zones would provide better knowledge of the potential reserves of hydrocarbons in the Community, encourage further exploration by the petroleum industry and increase Member States' hydrocarbon resources in the long term.

5. The petroleum industry which has been consulted by the Commission, has expressed an interest in such projects, but has indicated that, in view of the technical and economic risks entailed, it does not contemplate taking sole responsibility for them in the near future.

Also, as mentioned in the geologists' report, the petroleum industry's interest in exploration projects will depend on the terms offered by the Member States in question regarding mining concessions and the economic exploitation of fields discovered. An appropriate statement to be included in the Council minutes is proposed.

6. Under the framework Regulation, the Commission proposes to grant financial support to an initial group of projects involving geophysical prospecting in zones under the sovereignty of the Member States or contiguous thereto, and exploratory drilling at sites in zones which are also under the sovereignty of the Member States.
7. The three projects covered by this proposal have been chosen by the Commission from the projects selected by the panel of geologists. These projects meet the following criteria:
 - Existence of sedimentary basins whose characteristics favour the accumulation of hydrocarbons, e.g.
 - thick sedimentary sequence,
 - possibility of the presence of traps,
 - presence of impermeable sedimentary overburden.

- Possibility of gaining access to the sedimentary strata using technology available now or in an advanced state of development.
- Foreseeable extraction costs economically acceptable, though higher than those of fields now being worked.
- Vast extent of the regions concerned, entailing a significant increase in the Community's potential hydrocarbon reserves if the results are positive.

8. The three projects selected entail capital investment totalling 48.7 million u.a., with 15.3 million u.a. for geophysical prospecting and 33.4 million u.a. for exploratory drilling.
9. The Commission is proposing support of 75% in the case of stratigraphic prospecting and 40% in the case of exploratory drilling (Article 3 of the proposal for a framework Regulation). The support involved would therefore be 11 475 000 u.a. and 13 360 000 u.a. respectively, a total of 24 835 000 u.a. Support will be granted in the form of a subsidy repayable in the event of exploitation of the fields discovered by the recipients of Community support.
10. The Community's Budgetary Authority included 24 million u.a. of appropriations for commitment for joint hydrocarbon-exploration projects in the 1977 budget (item 3201). The support which the Commission is proposing for the three exploration projects is therefore covered by the appropriations available.
11. The Commission would entrust responsibility for the projects to Community companies, or consortia of Community companies, following the receipt of applications in response to invitations published in the Official Journal of the Communities. (Articles 6 and 7 of the proposal for a framework Regulation).

The Commission would administer the contracts.

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The Council is therefore asked to adopt the following Regulation.

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PROPOSAL FOR A COUNCIL REGULATION

Implementing Council Regulation (EEC) N° of
on support for joint hydrocarbon-exploration projects

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) N° of
on support for joint hydrocarbon-exploration projects, and in particular Article 5 thereof,

Having regard to the proposal from the Commission,

Whereas it is necessary to encourage exploration activities in new zones in the Community;

Whereas studies carried out by the Commission have shown that there are in the Community vast, hitherto unexplored, sedimentary zones whose geological structures favour the accumulation of hydrocarbons;

Whereas the development of these resources would increase in the long term the Member States' availability of hydrocarbons;

Whereas it is important to carry out hydrocarbon-exploration projects in order to assist the development of these resources;

Whereas, because of the high risks inherent in carrying out such projects, the petroleum industry would defer the investments necessary to carry them out unless financial support were provided by the Community;

HAS ADOPTED THIS REGULATION:

Article 1

The hydrocarbon-exploration projects set out in the Annex hereto shall receive Community support in the form of subsidies repayable in the event of the exploitation of the fields discovered, up to a maximum amount of 24 830 000 units of account.

Article 2

The amount of subsidy shall be calculated by applying to the actual project cost, as audited and accepted by the Commission, the percentages laid down for each project in the table in the Annex subject to the maximum amounts set out therein.

Article 3

Following the receipt of applications in response to an invitation published in the Official Journal of the European Communities, the Commission shall negotiate and conclude with the persons and undertakings selected by it, the contracts necessary for the implementation of the projects. These contracts shall not be concluded until the mining licences and rights required for the implementation of the projects have been granted by the Member States concerned. The Commission shall administer the contracts.

Article 4

This Regulation shall enter into force on the day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council,

The President

I. MEDA PROJECT

Situation: Western part of the Mediterranean bounded:

(a) to the west, by the meridian 5° west of Greenwich,

(b) to the east, by the meridian 20° east of Greenwich.

Project description

(a) Carry out detailed seismic surveys in deep water (1 000-3 000 m);

(b) Supplement the initial seismic data in order to locate an appropriate drilling site;

(c) Make an exploratory borehole at the site thus defined.

Importance of the project

Work and experiments already carried out have shown that this basin is filled with 5 to 7 kilometres of sediments at depths of 1 000 to 3 000 metres of water.

The sedimentary sequence comprises a thick salt formation (over 1 500 m thick) providing an excellent cover for the underlying horizons which probably comprise permeable, porous strata likely to conceal accumulations of hydrocarbons. In addition, these salt strata have caused the formation of very many salt domes which can act as hydrocarbon traps.

The thickness of the sediments, the existence of a salt cover isolating the strata likely to contain hydrocarbons, the structural features provided by the salt domes and the very large extent of the basin show that the Western Mediterranean could constitute a source of oil of the same order of magnitude as the Arabian platform.

II. NAD PROJECT

Situation: south-east part of the continental shelf of Greenland situated between:

(a) to the north, parallel 70° N

(b) to the south, parallel 55° N

Project description

(a) Carry out detailed seismic surveys on the edge of the continental shelf to the south-east of Greenland;

(b) Carry out detailed additional seismic work in order to determine an appropriate drilling site;

(c) Possibly drill an exploratory borehole at a site thus defined.

Importance of the project

Initial aeromagnetic prospecting of a general nature shows the probable existence of a very thick sedimentary basin (over 10 000 m thick). Extrapolating from the geological data obtained on shore there is a case for thinking that these marine sediments are likely to contain excellent oil-bearing structures.

III. UD PROJECT

Situation: Any deep horizon situated in the territory of the member countries and below the zones where oil is usually found, i.e. at depths of penetration greater than 5 000/6 000 m.

In the first place, the objectives of the UD project will be restricted to the following zones:

- (a) In Italy (Puglia region and Apenines)
- (b) In France (Aquitaine-Languedoc zone)
- (c) In the Netherlands (on shore).

Project description

Carry out broad seismic surveys with existing techniques in order to define the major prospects in the above-mentioned deep zones. These techniques will include seismic reflection and refraction, gravity and magnetism adapted to the peculiar problems of these sites.

Adaptation of geophysical diagraphy to the high pressures and temperatures existing at great depth.

Importance of the project

Recent developments in modern geochemistry have shown the compatibility of porous, permeable strata and hydrocarbons (especially gaseous ones) at temperatures of around 350°C and at pressures corresponding to depths down to 10 000 m. Exploration of ultra-deep structures is a new aspect of the search for oil, an aspect which could be as important to the Community as its offshore operations have been from the 1960's onwards.

Proposed support for joint hydrocarbon-exploration projects

(in U.A.)

1	2	3	4	5	6	7	8
Projects	Cost of geophysical work	Rate of support	Corresponding amount	Cost of drilling work	Rate of support	Corresponding amount	Total amount of support (4 + 7)
I. "MEDA"	9 000 000	75%	6 750 000	20 000 000	40%	8 000 000	14 750 000
II. "NAD"	1 800 000	75%	1 350 000	10 700 000	40%	4 280 000	5 630 000
III. "UD"	4 500 000	75%	3 375 000	2 700 000	40%	1 080 000	4 455 000
Total	15 300 000		11 475 000	33 400 000		13 360 000	24 835 000

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FINANCIAL RECORD

1. Relevant budget heading: Article 320 - Item 3201
2. Title of budget heading: Joint hydrocarbon-exploration projects
3. Legal basis:

Proposal for a Regulation sent to the Council on 29 November 1974 (OJ N° C 18 of 25 January 1975) on support for joint hydrocarbon-exploration projects.
4. Description of the operation: Provision of Community financial support for three hydrocarbon-exploration projects.
5. Objective of the operation: Geophysical work and exploratory drilling in deep sedimentary basins of the continental shelf and in ultra-deep structures on shore in the territory of the member countries.
6. Justification of the operation: Exploration for oil offshore and in ultra-deep regions entails very great technical and financial risks. Without a financial contribution from the Community towards these risks, the oil companies would prefer not to carry out this type of exploration or to postpone it, which would seriously impair the security of the Community's supplies of hydrocarbons in the future.
7. Appropriations: (See table on the next page).
8. Inspection arrangements
 - 8.1. No provision for inspection by the member countries. The authorising department and Financial Control will carry out periodic in situ and documentary checks and will follow up the projects on the basis of the technical and financial reports which the firms are required to send periodically.
 - 8.2. The Commission is required to report annually to the European Parliament and to the Council on the execution of the exploration programme and on the state of progress of work on each project.

7.1. Multiannual schedule of non-differentiated and differentiated appropriations (in EUA from 1978 onwards)

Year	1976	1977	1978	1979	1980	Total
Appropriations	Payments					
<u>A. Non-differentiated appropriations</u>						
1976: 1 000 000	1 000 000	-	-	-	-	1 000 000
<u>B. Appropriations for commitment</u>						
1977: 25 000 000	-	9 000 000	-	8 000 000	8 000 000	25 000 000
1978: 25 000 000	-	-	9 000 000	8 000 000	8 000 000	25 000 000
Total	1 000 000	9 000 000	9 000 000	16 000 000	16 000 000	51 000 000

PROPOSAL FOR A STATEMENT

TO BE INCLUDED IN THE COUNCIL MINUTES

The Member States will determine the conditions on which they will ultimately grant concessions for the production of fields discovered in the execution of support contracts, and which will permit their economic exploitation.