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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 (COM(84) 658 final - Doc. 2-1244/84) for a  
regulation on a programme of support for technological development  
in the hydrocarbons sector

Rapporteur : Mr Madron R. SELIGMAN

PE 96.993/fin.  
Or.En.

By letter of 7 December 1984 the President of the Council of the European Communities requested the European Parliament to deliver an opinion, pursuant to Article 235 of the EEC Treaty, on the proposal from the Commission of the European Communities to the Council for a regulation on a programme of support for technological development in the hydrocarbons sector.

On 12 December 1984 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 an opinion.

At its meeting on 28 February 1985, the Committee on Energy, Research and Technology appointed Mr SELIGMAN rapporteur.

The committee considered the Commission's proposal and the draft report at its meetings of 23 April 1985 and 15 May 1985.

At the last meeting, the committee decided by 14 votes to 4 and 4 abstentions to recommend to Parliament that it approve the Commission's proposal with the amendments hereto attached.

The committee then adopted the motion for a resolution as a whole by 14 votes to 5 with 5 abstentions.

The following took part in the vote:

Mr PONIATOWSKI (Chairman); Mr SELIGMAN (rapporteur and Vice-Chairman); Mr BARDONG (deputizing for Mr RINSCHÉ); Mrs BLOCH von BLOTTNITZ (deputizing for Mr MOLINARI); Mr BONACCINI (deputizing for Mr VALENZI); Mr CIANCAGLINI; Mr CORNELISSEN (deputizing for Mr SÄLZER); Mr CROUX (deputizing for Mr ESTGEN); Mr FORD (deputizing for Mr SMITH); Mr HINDLEY (deputizing for Mrs LIENEMANN); Mr HUCKFIELD (deputizing for Mr ADAM); Mr IPPOLITO; Mr KILBY; Mrs LENTZ-CORNETTE (deputizing for Mr SPÄTH); Mrs LIZIN; Mr MALLET; Mr METTEN (deputizing for Mr LINKOHR); Mr MÜNCH; Mr PETERS (deputizing for Mr SCHINZEL); Mr SCHREIBER (deputizing for Mr KOLOKOTRONIS); Mr STAES; Mr TOKSVIG; Mr TURNER; Mrs VIEHOFF; Mr de VRIES (deputizing for Mr LONGUET)

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The opinion of the Committee on Budgets is attached.

The report was tabled on 21 May 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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The Committee on Energy, Research and Technology hereby submits to the European Parliament the following amendments to the Commission's proposal and motion for a resolution together with explanatory statement.

- I. Proposal from the Commission of the European Communities for a Council Regulation (EEC) on a programme of support for technological development in the hydrocarbons sector

Text proposed by the Commission  
of the European Communities

Amendments tabled by the  
Committee on Energy, Research  
and Technology

Preamble and recitals unchanged

Articles 1,2 and 3 unchanged

Amendment No. 1

Article 4

Paragraph 2 to read as follows:

Support shall not exceed 49% the eligible cost of the project. When determining the amount of support to be granted, the Commission shall take into account other financial aid for the project received or expected from Community, national or other sources and the share of the risk borne directly by those responsible for the project.

Support shall not normally exceed 49% of the eligible cost of the projects except in the case of projects by small companies involving a Community contribution of less than 200.000 ECU. When determining the amount of support to be granted, the Commission shall take into account other financial aid for the project received or expected from Community, national or other sources and the share of the risk borne directly by those responsible for the project.

Text proposed by the Commission  
of the European Communities

Article 5

As a general rule, preference shall be given to those projects involving the association of at least two independent companies which are not established in the same Member State.

Amendments tabled by the  
Committee on Energy, Research  
and Technology

Amendment No. 2

Article 4

Add new paragraph 4:

"4. All contracts for support shall provide for repayment of the Community's contribution in the case of successful commercial exploitation of the project in question."

Amendment No. 3

Article 5

Paragraph 3 to read as follows:

As a general rule, preference shall be given to projects in either of the following two categories:

- (i) projects involving the association of at least two independent companies which are not established in the same Member State;
- (ii) projects promoted by small and medium sized undertakings, solely, jointly, or in collaboration with large undertakings.

Text proposed by the Commission  
of the European Communities

Amendments tabled by the  
Committee on Energy, Research  
and Technology

Articles 6,7 and 8 unchanged

Article 9

A regular report shall be made by the Commission to the Council and to the European Parliament on the application of this Regulation.

Amendment No. 4

Article 9

The existing paragraph to read as follows:

Every two years, a report shall be made by the Commission to the Council and to the European Parliament on the application of this Regulation, such report to include a statement on the rate of repayments of subsidies.

A.

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on a programme of support for technological development in the hydrocarbons sector.

The European Parliament,

- having regard to the proposal from the Commission to the Council<sup>1</sup>
  - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 2-1244/84),
  - having regard to the report of the Committee on Energy, Research and Technology and the opinion of the Committee on Budgets (Doc.A 2-36/85),
  - having regard to the result of the vote on the Commission's proposal,
- (a) whereas the granting of support for technological development connected with exploration, production, storage and transport in the hydrocarbons sector has helped to reduce the Community's dependence on imported supplies of oil and natural gas,
- (b) whereas the support for technological development in this sector has also served the important purpose of promoting technological innovation by undertakings in the Community,

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<sup>1</sup>OJ C325 of 6.12.1984, p6



1. Approves the Commission's proposal;
2. Believes that the change in the conception of the programme from a system of annual decisions to a multiannual programme, together with the simplified decision-making procedure which the Commission has proposed, will facilitate the management of this activity;
3. Expects, accordingly, that the operation of the programme under the new regulation will show an even greater degree of cost effectiveness, in terms of the rate of repayment of subsidies;
4. Resolves to take account of the rate of repayments of subsidies when considering the level of appropriations to be allocated to this activity in the context of the European Community's annual budgetary procedure;
5. Emphasises the need for market research to help identify those projects which are most likely to be a commercial success;
6. Welcomes the Commission's intention to intensify its efforts to ensure a better dissemination of the knowledge and experience obtained under this programme, and to give greater encouragement to cooperation between promoters and users in applying the results of successful research projects;
7. Requests the Commission in making decisions on the grant of support under the new regulation, to give priority to small and medium sized undertakings;
8. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

EXPLANATORY STATEMENT

I. INTRODUCTION

1. The European Community has been providing support for technological development in the hydrocarbons sector since 1973. The legal base for this activity was Council Regulation (EEC) 3056/73 of 9 November 1973. This established the principle of providing subsidies to encourage technological innovations in exploration, drilling, extraction, storage and transport of oil and natural gas. The selection of projects for support was incorporated in successive Council Decisions, based on Commission proposals, which followed at approximately annual intervals over the period 1974-1984. The latest Decision was on 13 November 1984. This brought total subsidies since the adoption of Regulation 3056/73 to 342 million ECU, involving 370 projects. The subsidies are repayable if the project becomes commercially viable.

2. On 4 October 1983 the Commission published its most recent report on this activity<sup>1</sup>. In it the Commission stated that, in accordance with Article 5(2) of the Regulation, the main criteria it had used in selecting projects to submit to the Council had been as follows:

- (i) the contribution the project would make towards increasing the Community's resources in hydrocarbons;
- (ii) the amount of innovative technology to be used as compared with the state of the art;
- (iii) the nature and extent of the risks involved and the project's estimated profitability;
- (iv) the technical capacities and financial situation of those responsible for the project.<sup>2</sup>

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<sup>1</sup>COM (83) 571 final, drawn up pursuant to Article 10 of Regulation 3056/73

<sup>2</sup>Ibid p.2

3. Turning to the results of the projects, the Commission pointed out in this 1983 report that a project normally takes three to four years to complete, and that two more years are needed before a new technique can be exploited commercially. For this reason, the assessment of the results given in the report could only be partial and only covered a certain number of the projects launched during the first four years (1974-1978).

4. Nevertheless, the Commission reported that the results available seemed to be "very substantial". A detailed analysis was given in Annex II to the report. Among the more significant achievements, the Commission considered the following to be noteworthy:

- (i) the sub-sea pipeline laying trials in the Straits of Messina and the Sicilian Channel had resulted in a completed sub-sea pipeline linking Algeria and Italy. The pipeline came into service at the end of 1981;
- (ii) the installation of drilling equipment on board the dynamically positioned drill ships "Petrel", "Ben Ocean Lancer" and "Pelerin" which were capable of drilling at sea at great depths (up to 1.000m); exploration programmes using these vessels began in 1978;
- (iii) in the field of deep-sea production and the use of articulated columns, floating platforms, risers and underwater storage containers, the results obtained so far also showed that an underwater production system operated entirely by remote control was viable;
- (iv) the completion of pilot projects involving the enhanced recovery of hydrocarbons; the data obtained should mean that in future it will be possible to perfect industrial scale techniques for enhanced recovery, thereby improving the rate of recovery from currently exploited fields.<sup>1</sup>

5. As regards the repayment of subsidies, the report said that in respect of the first four annual series of projects the average subsidy recovery rate had been 20.2%. Meanwhile the rate of technological setbacks, it was reported, had been very low, at 5.8%. Given the good record of technological

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<sup>1</sup>Ibid pp. 4-5

success, one might have expected the rate of subsidy recovery to be higher. The Commission has pointed out that technological success is not necessarily the same thing as commercial success: a technological innovation may be efficient in its own terms, and yet not find a market. This is, however, a double-edged argument. It tempts one to enquire whether the Community is supporting technological innovations which the market does not want. This suggests a need to improve market research.

6. Although the Commission has not yet published a second evaluation report on the programme, it has supplied the rapporteur with the latest figures on project execution and subsidy repayment, covering the years 1974-1979. These figures are discussed below, in the concluding section of the present report.

7. On 17 May 1984 the Commission published a Communication which drew conclusions from the Community's experience of the past workings of the programme with a view to making improvements in it<sup>1</sup>. The principle conclusion of this document was "that the uncertainties persisting in the medium to long term as regards the Community's security of oil and gas supplies fully justify the continuation of the programme of financial support for the development of new oil technologies<sup>2</sup>". Notwithstanding the current abundance of oil and gas supplies in the world, which has led to production restrictions in certain areas, the rapporteur considers this to be a fair judgement for the longer term.

8. On 21 November 1984, the Commission published its proposal<sup>3</sup> for a new basic regulation to replace 3056/73. This proposal, which calls for a five-year multiannual programme costing 200m ECU, was based on the ideas which had been aired in the earlier Report and Communication. The main innovations can be described under the following four headings:

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<sup>1</sup>COM (84) 272 final

<sup>2</sup>Ibid p.14. Presumably the last words of this sentence should have read: "of new oil and gas technologies".

<sup>3</sup>COM (84) 658 final

- (i) the change to a multiannual programme;
- (ii) changes in the decision-making process;
- (iii) the definition of priority objectives;
- (iv) improvements to the procedure for implementing the programme of support.

## **II. THE INNOVATORY ELEMENTS IN THE PROPOSAL FOR A NEW REGULATION**

### **(i) The change to a multiannual programme**

9. Hitherto, the progress of the programme has depended on the ability of the Commission to get the Council to agree each year to a new round of projects. The Commission would like to be able to plan its activities in a more coherent way. It is proposing the adoption of the "multiannual programme" model which is commonly used in the Community's research sector and has already been adopted for one area of activity in energy, namely the demonstration projects programmes in new energies and energy savings.

10. The principle of a multiannual programme is that, once the basic regulation has been adopted, the continuation of the programme over the specified number of years, with an appropriate level of finance, is guaranteed. This helps the Commission to plan ahead, and it removes, or ought to remove, the harmful element of insecurity which exists when neither the promoters nor the participants know whether the programme is going to carry on being funded from one year to the next.

### **(ii) Changes in the decision-making process**

11. Under the old system, the Commission decided which projects to recommend, and then the Council made the actual decision awarding the support. In the Commission's view, this was contrary to Article 205 of the EEC Treaty which says, in essence, that the Commission shall implement the Community budget on its own responsibility. Accordingly, a new procedure is proposed in the draft regulation. Under the new Article 5(2), it will be up to the Commission to decide whether to grant support for projects "after consulting an advisory committee made up of representatives from the Member States".

12. Parliament will support the Commission in its view that the Council ought not to interfere in the running of the programme. Equally, it will have reservations about the procedure involving consultation of an advisory committee. It must be clearly understood that the last word rests with the Commission, and not the advisory committee.

13. It is important not to consider the decision-making procedure for this programme in isolation. The Commission is drawing an implicit analogy between the hydrocarbons technology programme and the energy demonstration projects programmes, in respect of which proposals for new regulations have also just been published.

14. In the new demonstration projects draft regulations, the Commission is proposing the same decision-making procedure as it has proposed here for the hydrocarbons programme. However, in the context of demonstration projects programmes this marks a significant departure from past practice. Under the old demonstration projects regulations, there was a right of appeal to the Council by any Member State which disagreed with the Commission's proposed allocation of support. This right of appeal had to be exercised within 20 days. In its new demonstration projects proposal, the Commission points out that this is a source of delay, and is in any case incompatible with Article 205. Therefore, no mention is made of any right of appeal to the Council in either of the current sets of proposals - demonstration projects or hydrocarbons technology.

15. The Commission's position is consistent with the line taken by Parliament on this matter in the past. Parliament will certainly continue to support the Commission on this point.

**(iii) The definition of priority objectives**

16. It appears to be the Commission's intention to move from a procedure whereby each application that happens to come in is treated on a case-by-case basis, to one in which target areas are announced in advance. The Commission has said in the explanatory memorandum to its current proposal<sup>1</sup> that for the definition of priority technological objectives it "will take account of the

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<sup>1</sup>COM (84) 658 final, p2

opinions of the Member States' experts obtained during discussions in the Council and of the representatives of the industry meeting at the end of the year in Luxembourg at the second symposium on new oil technologies".

17. This intention to involve industry representatives in the definition of the target areas is welcome. It is to be hoped that it will lead to even more accurate forecasts of the chances of particular projects becoming commercially marketable.

(iv) **Improvements to the procedure for implementing the programme of support**

18. The proposed improvements relate chiefly to (a) the calls for projects and (b) the dissemination of results. In the calls for projects, the Commission will in future state the priority areas. It will also make an additional effort to ensure that the calls are published and read as widely as possible throughout all the Member States of the Community. As regards the dissemination of results, it will intensify its efforts to ensure that the knowledge and experience obtained is shared by means of technological conferences, publications, a data bank (SESAME) and symposia. The Commission says it will also try in future to give greater encouragement to cooperation between promoters and users.

**III. CONCLUSIONS**

19. In principle, the Community activity under discussion has a double benefit. It helps in the fight to reduce the EC's dependence on imported hydrocarbons, and it also fosters technological innovation. In practice, however, account must be taken of the cost-effectiveness of this type of Community aid, and here there is some cause for concern.

20. Figures supplied by the Commission to the rapporteur disclose, inter alia, that

- (i) At the end of 1983, 319 projects had been selected and financed of which 140 (44%) had been completed on schedule, and only 42 (13%) had been commercially exploited; another 98 (31%) were still trying to find a market;

- (i) Only 30% of projects contracted in 1974-1979 have so far led to the commercial marketing of the product or process in question (43 projects out of 144);
- (ii) Only 31.7% of the money paid out by the Community has been repaid (44.5m ECU out of 140.2);
- (iii) The above figure of 31.7% falls to 15.5% if one excludes the years 1974 and 1975, when an exceptionally high repayment rate of 80.3% was recorded (although one should bear in mind that final figures are not yet in for 1978 and 1979).

21. In its Communication of 17 May 1984, the Commission acknowledged that the commercial success of the projects had not in general measured up to their technical success<sup>1</sup>. It said this was probably due to a lack of cooperation between promoters and users, before and during the projects.

22. There are two possible attitudes to this question. One is to say that the support is not cost-effective and should cease. The other is to say that the management of the programme ought to be improved in such a way as to make it more cost-effective. It is this second view which the rapporteur recommends to Parliament. The Commission should be given the chance of showing that the improvements it is proposing can be made to work.

23. On a different point, some concern has been expressed to the rapporteur about the idea of the Community giving financial aid under this programme to the large oil companies.

24. The Commission has told the rapporteur that about one-third of the support goes to these companies. It explains that this encourages the companies to undertake work on technical innovation which they would not otherwise do. For example, they use the money to test innovatory equipment or processes which they would otherwise consider too risky to adopt.

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<sup>1</sup>COM (84) 272 final, p.13, para. 30



25. The rapporteur considers that it would be unrealistic to exclude the large oil companies from the programme. The Commission should, however, be encouraged to give preference to small and medium sized enterprises.

26. Another point which has given rise to differences of opinion concerns associations between companies from different Member States. The Commission is proposing that projects put up by two or more such companies jointly should, as a general rule, be preferred.

27. This is not unreasonable, given the Community character of the programme. However, small companies working on their own on a single product often have an especially great need of support. It would therefore be wrong to stipulate a particular proportion of the total support for allocation to joint projects.

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Budgets

Draftsman: Mrs SCRIVENER

On 23 January 1985, the Committee on Budgets appointed Mrs SCRIVENER draftsman of the opinion.

The Committee considered the draft opinion at its meeting of 13 May 1985. It adopted the draft opinion on 13 May unanimously.

The following took part in the vote: Mr COT, Chairman; Mr RYAN, Vice-Chairman; Sir James SCOTT-HOPKINS, Vice-Chairman; Mrs SCRIVENER, rapporteur, Mr ADAMOU (deputizing for Mrs BARBARELLA); Mr ARNDT; Mr BONACCINI (deputizing for Mr SPINELLI), Mrs BOSERUP; Mr CURRY; Mr DANKERT; Mr DI BAROLOMEI; Mr James ELLES; Mr FICH; Mr LALOR; Mr LANGES; Mr Br. NIELSEN (deputizing for Mr LOUWES); Mr d'ORMESSON; Mr PAPOUTSIS; Mr PITT; Mr PORDEA, (deputizing for Mr COLLINOT); Mr POTSCHKI, (deputizing for Mr SCHON); Mr TOMLINSON; Mr VON DER VRING; Mr VAN DER WAAL, (deputizing for Mr CICCIOMESSERE)

## INTRODUCTION

This proposal is based on Council Regulation (EEC) No. 3056 of 9 November 1973 on support measures for Community projects in the hydrocarbons sector. Under the regulation in force, support may be granted for specific projects with a view to promoting technological development directly related to research, exploitation, storage or transport of hydrocarbons.

Under Article 10 of the regulation, the Commission draws up a report each year for the European Parliament and the Council on the implementation of the regulation. The last report of this type is dated 4 October 1983 (COM(83) 571). In its communication to the Council concerning the programme of support for Community projects in the hydrocarbons sector (COM(84) 272) of 18 May 1984, the Commission makes an overall evaluation of the Community's support programme during the 10 years in which the regulation has been in force.

The regulation does not strictly speaking cover basic research in the field of hydrocarbons, which comes under other programmes. However, certain phases in the technological development projects may consist of research activities. The Commission has submitted to the Council a proposal for a decision adopting a research and development programme for the optimization of the production and utilization of hydrocarbons 1984-1987 (COM(84) 273). The Commission has implemented this programme as part of the action programme of research into non-nuclear energy. The funds made available to carry out this programme are in the order of 35 million ECU.

Parliament delivered its opinion on this proposal by adopting the IPPOLITO report (Doc. 2-1331/84) in February 1985. It should be pointed out that, in its opinion, the Committee on Budgets, though accepting the amount proposed by the Commission, stressed that the powers of the Advisory Management and Coordination Committee set up under the action programme of research into non-nuclear energy should not impede Parliament in the exercise of its budgetary powers nor prevent the Commission from implementing the budget under Article 205 of the Treaty.

## THE COMMISSION'S PROPOSAL

On the basis of the communication to the Council concerning the previous 10 years, the Commission proposes to include the following, inter alia, in this regulation, which is to replace Regulation 3056 of 1973:

### (a) Adoption of a multi-annual programme

This programme is budgeted for 5 years to establish continuity of financial support, which is lacking under Regulation No. 3056 of 1973. The Commission also wishes to continue the system of stage by stage financing of projects (instead of making a commitment for the whole of the project, finance will be provided in stages, future support being based on the results obtained in the preceding stage).

Your draftsman considers it necessary to ensure that these two principles are not mutually contradictory.

(b) Changes in the decision making process

Under the current regulation, the Council takes a decision on a unanimous basis on a proposal for financial aid. This procedure is known as the 'hydrocarbon procedure'. It should be changed to take into account the provisions of Article 205 of the Treaty. Your draftsman notes that this proposal meets the wishes of the Committee on Budgets as set out in its opinion for the Committee on Energy, Research and Technology on the proposal from the Commission for a Council regulation on support for joint hydrocarbon exploration projects (Doc. 90/78 of 2 May 1978).

(c) Definition of priority objectives

(d) Improvements to the procedure for implementing the programme of support

As regards the definition of priority objectives, certain technical aspects are involved which are to some extent difficult to evaluate.

As regards improvements to the procedure for implementing the programme, your draftsman considers that the proposal's provisions in the event of a commercial success are of importance. The proposal provides for partial reimbursement of subsidies in these circumstances.

FINANCIAL ASPECT

Parliament has pointed out on several occasions the need for financial participation from the major oil companies and the industries concerned for the implementation of the various hydrocarbon programmes.

Community support should be seen in this context.

The Commission proposes a budget of 200 million ECU (non compulsory expenditure) for an initial period of 5 years. The programme does not require the recruitment of additional staff. According to the annex to the proposal, it is planned to eliminate commitment and payment appropriations.

During the second reading of the draft budget for 1985, the Council accepted the changes made by Parliament following the first reading by the Council. The amounts involved are 37 million ECU in commitment appropriations and 20 million ECU in payment appropriations.

On the basis of the results obtained to date owing to the amounts used and the level of reimbursement, the appropriations earmarked for the five forthcoming years appear reasonable and realistic. Your draftsman supports the principle so far put forward by the Commission and the Committee on Budgets of efficient and responsible use of appropriations even if the programme requires additional funding.

CONCLUSIONS

The Committee on Budgets calls on the Committee on Energy, Research and Technology to include the following points in the resolution to its report.

The Committee on Budgets:

1. Calls for annual support measures to be decided by the Commission after consulting an advisory committee consisting of representatives of the Member States. If the Council wishes to retain the 'hydrocarbon procedure' (whereby the Council takes decisions in each case), Parliament must be consulted before any decision is taken.
2. Considers that in view of the importance of this matter, Parliament should reserve the right to initiate a conciliation procedure if the change in the decision making process is not adopted.
2. Is in favour of the amount proposed by the Commission.
3. Supports the proposal for a system of reimbursement of Community support in the event of commercial success.
4. Stresses the need for financial participation by industry.