

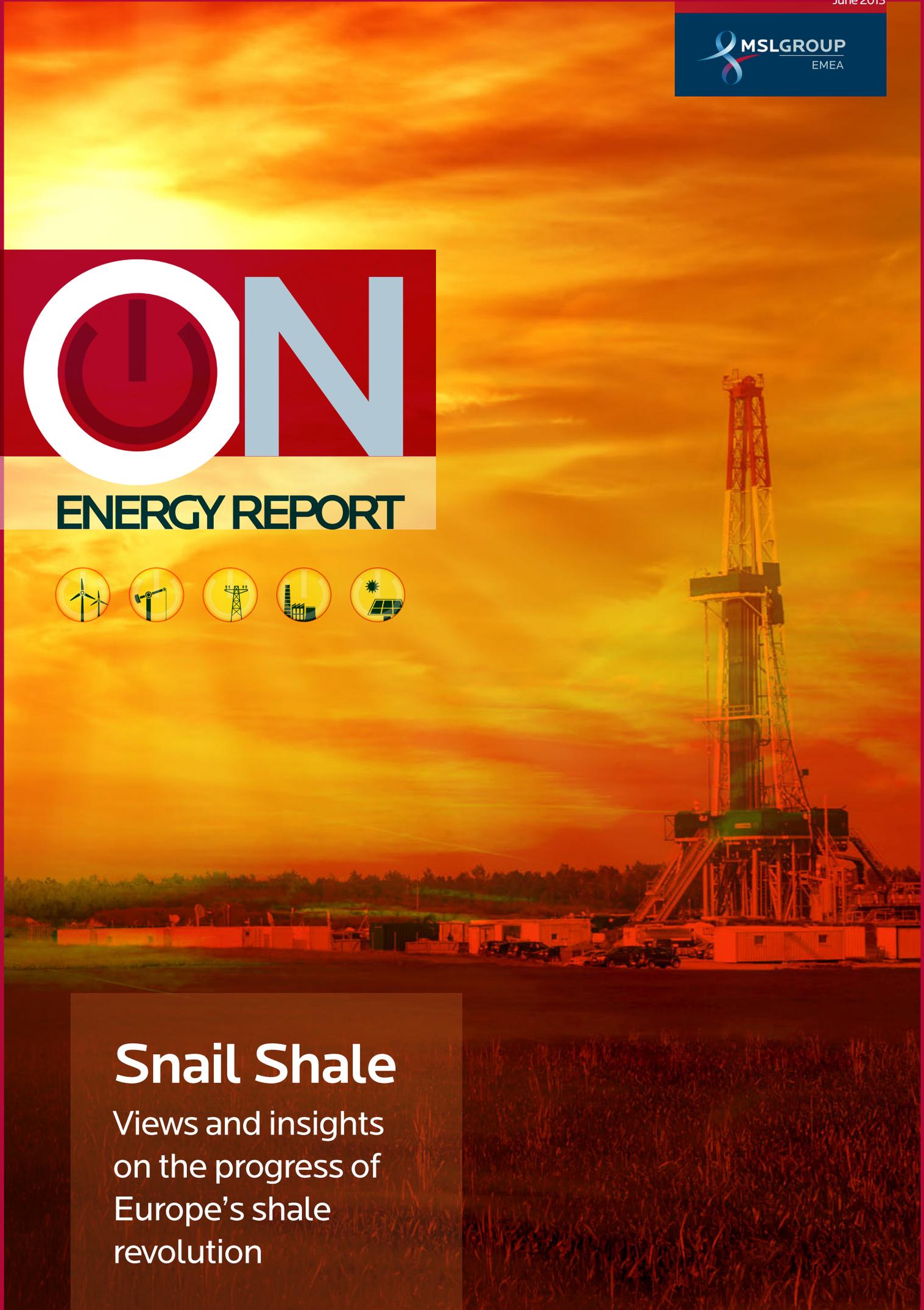
ON

ENERGY REPORT



Snail Shale

Views and insights
on the progress of
Europe's shale
revolution



Contents

INTRODUCTION

03

THE BENEFITS FOR
ITALY OF THE SHALE GAS
REVOLUTION

16

A YEAR OF TRUTH
FOR EU POLICY ON
SHALE GAS?

04

SHALE GAS SCENARIO
IN FRANCE

18

LEAVING THE DOOR FIRMLY
AJAR: WHY GERMANY'S
LACKLUSTRE APPROACH TO
FRACKING COULD STILL HOLD
POTENTIAL FOR SHALE

07

POLAND BREAKS
THE "SHALELOCK"

20

FRACKING IN THE UK –
THE BEGINNING OF THE END,
OR THE END OF THE
BEGINNING?

09

MSLGROUP CAN
MAKE THE
DIFFERENCE

24

SWEDEN:
SHALE WHAT?

11

WHERE WE ARE

26

DOES THE VOXPOP STILL
DOMINATE THE SHALE
DEBATE IN THE
NETHERLANDS?

13

Introduction

Welcome to MSLGROUP's Snail Shale Report in which my colleagues from around Europe reflect on the progress of the shale industry across the continent.

The contrast between Europe and the United States of America is notable. In the US, the industry has taken off like a rocket, leaving even seasoned market participants surprised at the speed and scale of development. However, in Europe, shale is still stuck in the slow lane, despite our growing energy needs and the economic morass we find ourselves in.

In the teeth of one of the longest and deepest recessions in living memory, one which is testing the European Union to its core, the lack of any policy consistency in this area in Europe is, perhaps, doubly surprising. While there are undoubtedly questions to be asked about the environmental impact of shale, the economic benefit is tangible.

Instead, we have a divided picture, from countries like France, which is continuing to resist the allure of shale, to Poland and the UK, which have become increasingly keen to exploit its potential. The UK Government, in particular, has been almost indecent in its haste to speed up the regulatory process so it can tap this new source of revenue and enhance its energy security.

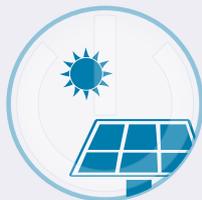
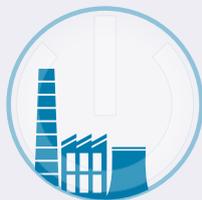
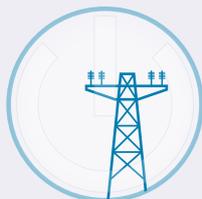
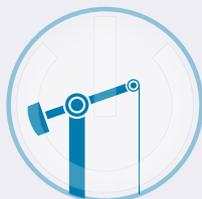
From a communications perspective, it is really about thinking locally; working on the ground with local communities and listening to their questions and concerns. It is not just the drilling and fracking, but also the logistics of moving heavy plant through country lanes that were not designed for such loads and the associated disruption. So a sympathetic ear and responsive communications are essential.

There is also a serious issue over the financial benefit of such potential riches. In the US, where the landowner holds the mineral rights, you have landholders welcoming exploration and production. Unsurprisingly, in markets where there is no direct benefit – such as the UK – landholders are much less solicitous. A direct form of profit share for communities would unquestionably help smooth the passage of such developments.

In addition, the industry could do a better job in communicating the broader benefits that shale can bring – not just the hydrocarbons themselves, but all the associated jobs and services too. With Europe in an economic funk, the wealth that shale can create should be most welcome.

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A year of truth for EU policy on Shale gas?

The specific interest of the European Union institutions in shale gas is relatively recent, but the debate around the nature and scope of EU action in this area is gaining momentum rather quickly in the Brussels policy arena.

The European Commission, the EU executive body, will resume its planning for future activity by the end of 2013.

The impetus for this activity was given by Heads of State and Government at the EU Summit in February 2011. EU environmental legislation, which is also applicable to hydrocarbon projects, dates back to 1985¹, although, since 2008², several members of the European Parliament have raised the issue

of shale gas exploitation. The EU Summit resolution recognized the intrinsic value of shale gas for the European economy and called on the European Commission to proceed with a full assessment of Europe's potential for the sustainable extraction and use of unconventional fossil fuel resources, including shale gas³.

Following this mandate, the Commission has been focusing on gathering fact based evidence



At the domestic level, each Member State is free to choose its own energy mix from the sources available. Nevertheless, the European Commission is entitled to propose measures aimed at ensuring the correct functioning of the EU energy market while preserving and improving the environment. EU environmental legislation applies to shale gas exploration from planning until the cessation of the activity

and stakeholder views, to create a framework for an informed decision on the way forward. The results of three research studies, carried out on behalf of the Commission, on the climate and environmental impacts of shale gas extraction, and on the impact on the energy market of the development of unconventional gas extraction, aims to contribute to such goal. Meanwhile, the record number of 23,000 responses submitted to the European Commission in the context of an open stakeholder consultation, offer a tangible indication of the interest and views of concerned parties throughout Europe about shale gas.

Today, there are no less than four European Commissioners and four European Parliament Committees, with about 200 MEPs, that are already directly involved in addressing and designing the future direction for policy on shale gas.

Earlier this year, at a round table discussion on EU industrial policy in Brussels, French Commissioner Michel Barnier shared his views on the pre-conditions for relaunching the European industry and articulated a true pan-European industrial policy.

He considered the high cost of energy as one of the key factors that undermine the competitiveness of the European industry, while acknowledging the need to consider carefully the impact on the environment. For Connie Hedegaard, the Commissioner responsible for climate change, shale gas will not be the “game-changer” that it has been in the US. She agrees with her colleague Janez Potocnik, Commissioner for Environment, who insists on the risks to the environment and the need for its adequate protection.



The Commissioner for Energy Günther Oettinger is in a rather different position: he seems to be in favour of shale gas production, particularly for its ability to reduce gas prices and enhance security of supply. The same wide range of views resonate in the European Parliament and in the Council of Ministers meetings.

Last year, MEPs adopted two reports on shale gas, one from the Environment Committee emphasizing the dangers that fracking might pose to water supplies, and one from the Industry Committee, emphasizing the

potential for shale gas to reduce Europe’s dependency on imports of energy. At an Informal Energy Council on 24 April 2013 in Dublin, national Ministers for the first time debated together about unconventional fossil fuels such as shale gas. More notable, the shift of tone and focus at the EU Summit of Heads of State or Government last May where the emphasis was on the diversification of supply and price reduction, with shale gas being a potential solution worth deeper investigations. This will encourage the Commission to come out with pan-European guidelines by the end of the year, which are likely to be further examined at the 2104 EU Summit in March. Meanwhile, discussions will continue to be tough, as Member States remain deeply divided on their approach to shale gas. While some of them have already gone ahead with exploiting

shale gas resources, others are banning the practice, and in the middle other countries that are now accelerating the assessment of the related pro and cons. Member States favourably disposed towards shale gas include the UK, Romania and in particular Poland, which has announced that it would invest around €12 million to develop exploration by 2020. Bulgaria and France, on the other hand, are opposed to fracking and have already imposed moratoria on hydraulic fracturing in 2012, with France going even further to demand a total ban on fracking at EU level.



The development of this important energy resource in Europe will only go ahead if it proves to policy makers, industry and local communities to be both economically and environmentally viable.

Can the EU help to overcome the economic versus environment divide that we have already seen in other areas? How can an EU framework add value? How can we make progress towards at least ensuring greater certainty and transparency of the national and pan-European regulatory frameworks? If EU policy makers can start considering the environmental and industrial aspects of shale gas as two sides of the same

coin; as a common challenge that we need to face and reconcile in every sphere of our daily life, because it involves all of us, as business people, as employees, as consumers and as citizens, we will certainly make progress.

The first test that will measure the EU's ability to reconcile its views on shale gas is later this year, when the European Commission will propose an "assessment framework" setting regulatory options for the production of unconventional gas. It is not clear yet whether the Commission will propose soft laws in the form of industry guidance, or will seek to amend existing legislation, or propose a new standalone instrument in the form of hard law. For the time being, the applicable EU environmental legal framework includes about eight different directives, implemented with varying nuances in the 27 EU member countries.

According to a recent Pan-European public opinion poll carried out on behalf of the European Commission by an independent research institute, six out of ten Europeans support an EU-wide harmonised and consistent approach to the management of unconventional fossil fuels, although a large majority of Europeans (74%) would be concerned by a shale gas project located in their neighborhood.

The development of this important energy resource in Europe will only go ahead if it proves to policy makers, industry and local communities to be both economically and environmentally viable.

It is time for European industry, for researchers and other interested parties to step up with bolder and richer research analysis into the Pan-European debate to contribute to well informed decisions without ideological bias.





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Leaving the door firmly ajar: Why Germany's lacklustre approach to fracking could still hold potential for shale.

A coalition compromise to regulate fracking may have come too late. Ultimately, this could be to the advantage of shale gas exploration in Germany.

While Germany's estimated shale gas resources are not as big as that of other European countries, they are considerable and far surpass its conventional reserves. According to Germany's Federal Institute for Geosciences and Natural Resources, the country has technically recoverable shale gas resource deposits of between

0.7 and 2.3 trillion cubic metres. Conventional reserves and resources stand at a meagre 0.25 trillion each in comparison. This, combined with Germany's increasing hunger for gas in the wake of the country's nuclear phase-out and its already heavy dependence on gas imports, should have been enough to trigger an eager debate about shale gas in the country.



For those pursuing an interest in shale gas in Germany, this could well turn out to be for the best. While the current deal would open the door for fracking in principle, it is far from perfect. It could be much more promising to wait for the new Government to draw up a law regulating fracking during the course of the next parliament.



Instead, the picture has been one of scepticism and hesitation. On the back of wide-spread public concerns, action groups and opposition parties have been leading the charge against fracking pointing to extensive environmental risks. Crucially, they have not been alone: Germany's Federal Environment Minister Peter Altmaier (CDU) has repeatedly voiced environmental as well as public health concerns about the large-scale use of an allegedly "unsafe technology" in such a densely-populated country as Germany. At the beginning of this year, however, things began to gather speed. In February, a deal emerged between Mr Altmaier and his counterpart in the Federal Economics Ministry, Philipp Rösler (FDP), designed to set a legal frame for hydraulic fracking in Germany for the first time. While the deal prohibited drilling in well protection zones, it allowed for new exploration concessions to be granted outside such zones, provided the proposed drilling sites received the go-ahead in local environmental impact assessments.

The deal was an uneasy compromise between two ministers pursuing strongly divergent agendas. According to Mr Altmaier, the Government's plans ensured that fracking would be "severely curtailed" while the technology was unsafe, dirty and full of environmental risks. Meanwhile, Mr Rösler hailed the "considerable economic potential", predicting a promising future for shale gas in Germany. The delicate balance struck by two Government ministers is indicative of how contentious the issue of fracking has become in Germany's public debate. It now risks becoming an issue in the forthcoming election in September. The closeness of the election date has already led to some disquiet among members of the CDU's parliamentary party who

have been worried about a backlash in their constituencies. To appease backbenchers, the Government has been forced to revise the proposed law. Under a new deal struck in early May, German federal states will now be given the right to further limit the use of fracking in their territories. The Government is intent on pushing the revised fracking bill through parliament before the summer recess begins in July in order to keep the highly contentious issue out of the election agenda. However, given an opposition majority in the German parliament's upper chamber (Bundesrat) and the opposition's interest in keeping the issue alive, it is far from certain if the Government will be successful.

For those pursuing an interest in shale gas in Germany, this could well turn out to be for the best. While the current deal would open the door for fracking in principle, it is far from perfect. It could be much more promising to wait for the new Government to draw up a law regulating fracking during the course of the next parliament. This is partly because of the impending election but also partly because, today, reservations about the technology's safety record persist right across the board. As cleaner and safer fracking develops over the coming years, it is more likely Germany will open up to its potential, especially if gas prices in other parts of the world continue to decline making German business less competitive. In the meantime, it is crucial for gas companies to demonstrate to the public and political decision-makers alike how risks can be minimised to build trust and allay fears. However, much depends on the outcome of the German election in September. If the SPD and Greens emerge as victors from the election, the current Government's proposal on fracking will be the most liberal we are likely to see for years.



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Fracking in the UK – the beginning of the end, or the end of the beginning?

Ever since Cuadrilla sent shockwaves through the UK onshore E&P industry in 2011, when its drilling near Blackpool caused two earth tremors, the UK shale industry has been on a go slow, with little positive momentum.

That changed recently, when the UK Chancellor George Osborne indicated his support for shale and made it clear that it was an area where the Government was going to try and push for progress. With almost embarrassing celerity, a mere few weeks later, Michael Fallon, the Energy Minister, announced a new onshore licensing round and the creation of robust regulations to speed the development of shale.

There is no doubt that the UK has been enviously eyeing the extraordinary events in the US, where shale has rapidly transformed the energy landscape, turning the US into a potential net energy exporter by 2020.

The UK, which has been bemoaning declining North Sea oil production for years, has suddenly been presented with an opportunity to



The principal point is that in the US the landowner owns the mineral rights below the ground, whereas in the UK they are owned by the Crown (ie the State). Without that direct financial benefit, many are reluctant to support drilling, which can be hugely disruptive, potentially damaging to property values (another English obsession), and has disputed long term environmental implications.

rapidly enhance its energy security and benefit from its domestic natural resources.

While there are obvious contrasts with the US, not least the typically much higher population density, which makes drilling more challenging, the biggest issue lies around public acceptance. There are fundamental differences in this regard between the US and the UK, which have yet to be resolved satisfactorily. The principal point is that in the US the landowner owns the mineral rights below the ground, whereas in the UK they are owned by the Crown (ie the State). Without that direct financial benefit, many are reluctant to support drilling, which can be hugely disruptive, potentially damaging to property values (another English obsession), and has disputed long term environmental implications.

The Government has tried to address this by flying the kite of lower energy bills past local residents, to see if

that would turn perceptions around. It is too early to say if that will move the needle, but I suspect it won't be enough on its own. A more meaningful profit share has to be the way forward. This is the approach which has seen local opposition to wind farms turned into enthusiastic support. If local communities feel that they are directly, and transparently, benefiting from the exploitation of the resources beneath them, then, unsurprisingly, they are more likely to be supportive.

It is on the local level that hearts and minds need to be won and it is perhaps unfortunate that the super majors are so far resisting the urge to get involved, perhaps chary of the potential PR fall out. Typically, companies like BP and Shell often have a great understanding and sensitivity to the communities in which they operate, built up over years in challenging political and cultural environments. However, Shell's CFO has recently declared that they don't have any intention of putting themselves in the media firing line by pursuing shale in the UK, despite the size of the opportunity. While they may just be waiting for a pure play upstream explorer to do the heavy lifting before swooping in and acquiring the production phase, it does little to calm local market concerns.

Nonetheless, it is to the smaller upstream operators that we will have to look to if this industry is to get off

the ground in the UK. They are taking the debate to local communities, spending time explaining the benefits, highlighting the science behind the drilling and seeking to allay concerns over contamination of the environment and in particular the water table.

The UK, with its narrow, winding country lanes, is unquestionably more challenging to deploy major plant in than the wide open spaces of the US, and it is these practical issues that will also cause much local opposition. It is to be hoped that the major advances in horizontal drilling that we have seen in recent years will mean that far fewer holes will need to be drilled on the surface and that the disruption of moving rigs around acreage can be minimised in the UK's crowded countryside.

No one seems to have been able to quantify the opportunity and potential benefit to the UK consumer or residents. If local communities could benefit financially in a meaningful way, and if consumers could see their bills fall materially due to an abundance of gas, then opposition would likely melt away. The perception that the only ones who will benefit are company shareholders and the Chancellor of the Exchequer is an obstacle to more widespread support, and that is something the industry needs to change.

It remains to be seen whether rational debate can win the day or whether the emotional response that shale triggers will win out. What is clear is that the geology of the UK is seductive to operators and the Government hungers after the revenues and economic benefits, so expect to see the pace of the shale snail speed up dramatically in the near future.





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Sweden: Shale what?

Shale gas and shale oil have transformed the energy market throughout basically the entire world, but this is not spoken about much in the Nordic countries. In Sweden, the largest Nordic energy consumer, shale gas is a non-issue. One reason for this is that voters and consumers do not have a relationship to natural gas. Nine in ten Swedish towns and cities are located outside the natural gas grid. Households and kitchen ranges that use gas can be found, but are viewed as something exotic.

Only three per cent of Sweden's energy supply is based on natural gas.

The term "fracking" remains unfamiliar to most people, including politicians and journalists. When the word is occasionally used by a foreign correspondent in the media, it has to

be explained and put into context. You have to search far and wide for an economic expert who believes that we should pay attention to American industry's access to cheap shale gas energy, since this may have an impact on Sweden and Europe. Some economists do talk about this, but they are few and far between.



Officially, Sweden has a deregulated energy market. But at the same time, parliament has decided that there's no question of developing a national gas grid. Any proposal to connect Sweden to the Russian-German gas pipeline that runs along Sweden in the Baltic would be political suicide. And hardly anyone is willing to invest

high global commodity prices, this has generated optimism in some of northern Sweden's sparsely populated areas.

But the investments in mining exploration have also generated public opinion against commodity extraction. A large demonstration



in a gas grid, since the combined heat and power market is claimed by waste fuels and biofuels. When it comes to electricity production, the doctrine on nuclear power is that it can only be replaced by renewable energy. So, few people count on an investment in natural gas in Sweden, although energy supply experts don't rule it out in the long term if old nuclear reactors are not replaced with new ones.

Swedish legislation on metal and mineral exploration was liberalised in the early 1990s, in the midst of the economic crisis. This has had a clear impact for the past several years, with a multitude of Swedish and foreign companies applying for permits to explore for underground treasure. Some promising new mining projects have been started and several more are in the pipeline. Coupled with

was held in Stockholm last winter to protest against mining, and all proposals for mineral and gas exploration in southern Sweden have faced angry opposition.

Due to the active public opinion against mineral exploration, combined with the market's lack of interest in natural gas as a fuel and the energy policy barriers to natural gas, fracking is a non-existent topic in the energy debate. There probably are some shale gas deposits in Sweden, but it would be nearly politically impossible to extract them. It is thus more likely that Swedish energy consumers will ask themselves in the future whether imported natural gas is extracted through conventional means or through fracking. The Swedish conscience might not accommodate fracking.

But the investments in mining exploration have also generated public opinion against commodity extraction. A large demonstration was held in Stockholm last winter to protest against mining, and all proposals for mineral and gas exploration in southern Sweden have faced angry opposition.

Although fracking is not an issue on any government political agenda, Minister of Energy Anna-Karin Hatt recently confirmed Sweden's negative view of shale gas on her blog, summarising a meeting with EU Energy Ministers:

"My French colleague, Delphine Batho, and I remarked on the negative aspects of shale gas. Although shale gas may have a smaller carbon footprint than coal, it is far from a long-term sustainable solution. Among other things, I highlighted that if Europe decides to invest more in inexpensive short-term fossil gas, it risks saddling itself with an infrastructure and cementing itself into heavy dependence on fossil fuels for a long time to come."

For most of Europe, this gas infrastructure is already developed – though not in Sweden. Yet.



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Does the Voxpop still dominate the shale debate in the Netherlands?

Last month, I had the pleasure of touring the US Midwest. If I'm being honest, it is not an area that you would particularly want to visit as a tourist, but since our daughter studies there, I had to!

While there, I learned that in the depths of America's heartland, shale gas potential has not only been identified but is being exploited, in marked contrast with the south of The Netherlands, where I live. At home, the potential for shale was identified some years ago after Cuadrilla, a British company, filed for a test drilling permit, and was poised to get it until it was blocked following a populist intervention, fuelled by environmentalists.

I regret to say that in the Netherlands, a balanced discussion on shale appears close to impossible. You are either for it or against it; no reflection on the impact, no balanced opinions, nothing of the sort – as yet. The opposition voices are the loudest. Municipalities and communities declare themselves 'shale free', as if we are reliving the days of the fierce debates around the neutron bomb or nuclear power, back in the 1980s. I have to admit, environmentalists

Does the Voxpop still dominate the shale debate in the Netherlands?



manage to cleverly manipulate public opinion, using the Gasland documentary as a pseudo threat of Armageddon.

Having said that, media reports are getting more and more balanced. After the initial horror stories about 'burning water', feature articles are now starting to appear in leading national media outlets, highlighting both sides of the story and calling for a more unbiased, balanced assessment.

Many would argue that this attitude towards shale gas is long overdue, as the big corporates get more nervous by the day, having grasped the full impact of the American shale revolution on their operations in Europe and The Netherlands. They have tried to set up a lobby but, up until now, they have forgotten to attempt to influence the average Dutchman, whose welfare depends very much on the availability of gas. Let us not forget that this largely self-sufficient country has become extremely wealthy thanks to the availability of gas in the northern areas.

So, what has the Dutch Government done so far? They appear to be taking a very cautious position, seemingly

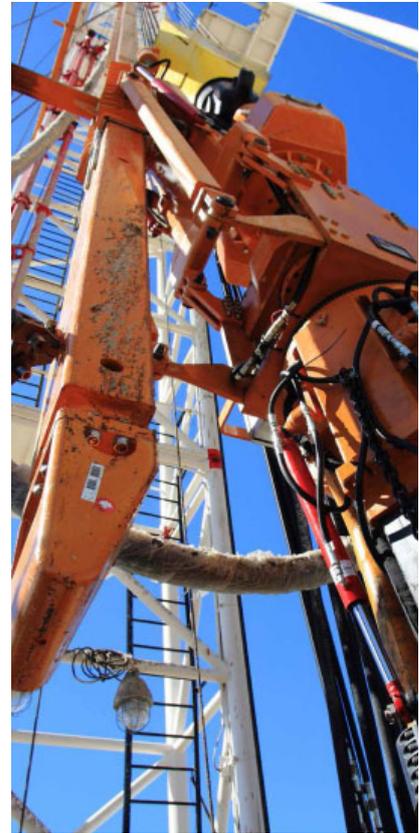
Only recently, one Social Democrat MP, an expert spokesman on energy, expressed a rather balanced opinion stating that 'drilling after shale would be feasible, but only after a thorough impact analysis and under strict circumstances'.

ignoring the international energy revolution that is taking place around us. To take a slightly more cynical (and personal) stance: what else could you expect of a Government formed by liberals and social democrats – a group that can be belligerent in nature having found themselves forced into this unusual political marriage?

The extent of the Government's intervention so far has followed the traditional Dutch tactic of installing a committee of stakeholders to 'investigate and assess the situation'. Every stakeholder involved gets their say, which is the way the Dutch try to create 'consensus'. Clearly this process could take years and years.

After a long tendering process, the Ministry of Economic Affairs chose Dutch engineering company Witteveen+Bos to conduct the study. On the very day the announcement was made, opposition groups labelled this respected engineering company as 'biased on shale'. By doing this, they applied proven tactics of naming, blaming and, cunningly, framing.

What especially worries me is that parties at the centre of the political spectrum seem to shy away from being outspoken on the topic. One of the ruling parties for example, the social democrats, is a good case in point. Only recently, one Social Democrat MP, an expert spokesman on energy, expressed a rather balanced opinion stating that 'drilling after shale would be feasible, but only after a thorough impact analysis and under strict circumstances'. A perfectly sensible opinion, you would think. However, the voxpop grew louder as a consequence, the result being that, less than a week later, the MP had to backtrack and distance himself from his earlier, inoffensive comments.



I am not particularly for or against shale gas, but I do expect to decide for myself without being rebuked for doing so. Before making up my mind, I would like to know what the impact will be, both economic and environmental, whether on a local, national or an international level. Both factors will weigh equally but what is important is that the situation is analysed and assessed in a balanced and objective fashion, taking all factors into account. The political decisions ought to be taken after such a study and analysis has taken place, enabling firstly the Government and ultimately Parliament to make the right decisions. In my view, that is how it works and that is how it should work. Of course everybody is free to lobby the process, but the final political decision, whatever it may be, should be respected. That's democracy.



To finish my American story; in a hotel bar in Wichita, Kansas, I asked a man what he thought of the exploration of shale in his neighbourhood. He looked at me, somewhat puzzled and uttered the word: 'PUMBY: Please, Under My BackYard'. Perhaps we could learn from his enthusiasm.

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Shale in Dutch Parliament: the positions

VVD (Liberals)

The VVD, the Government coalition partner and largest political party, fully supports the test drilling for shale in The Netherlands, in order to verify whether this can be done safely

and in a sustainable way. The VVD wants to diversify Europe's energy sources, believing that high energy prices are pushing back economic recovery and growth.

PvdA (Labour)

The other Government coalition partner, PvdA, has an ambiguous position on this issue. It has changed sides during the debate, saying that it wants to wait for the report about the consequences of test drilling being put together by the Ministry of Environment. If this report is positive, the PvdA would be willing to support test drills. However, the PvdA member congress recently put forward and passed resolutions countering this point of view. The PvdA leader Diederik Samsom has now declared his party will vote against initiatives for test drills until technical developments can enable responsible drilling.

D66 (Progressive Liberals), SP (Socialists) and CDA (Christian Democrats)

These parties have yet to take a definitive stance on this matter. They want to wait for the report by the ministry of Economic Affairs, Agriculture and Innovation on the safety and risks of shale drilling.

PVV (Nationalists)

The PVV views shale as potentially a viable alternative energy source but has not spoken out definitively on the issue. It does consider supporting test drilling in order to analyse whether or not shale could be an option for The Netherlands.

GroenLinks (Greens) and Christenunie (Christian)

Firmly against test drilling and shale overall, due to environmental concerns.





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The benefits for Italy of the shale gas revolution

How to seize the opportunities provided by the Energy Strategy of Italy's Ministry for Economic Development

While many world economies are poised to enjoy the benefits of shale gas development, Italy is planning to tap the shale gas potential without extracting it from its soil. For a country that is dependent from other countries to satisfy over 90% of its demand for gas, this may seem unthinkable. Yet, Italy's National Energy Strategy launched on March 14, 2013 under the auspices of the Ministry for Economy Development leaves no doubt: Italy intends to boost its competitiveness starting from its energy system, but with no shale gas extraction.

How can this be possible? Our country is aware of the global acceleration in the use of this unconventional fuel, and it intends to tap its potential not by extracting it, but in an indirect way, i.e. by strengthening its national infrastructure for gas storage and gasification in view of the large quantities of gas that are going to be imported into the Continent of Europe in the future, and become the South European hub for gas imported into Europe from the South.



The Government's decision appears cautious in some respects. This is certainly due to the strong pressures from environmentalists – from Greenpeace Italy to the Greens who on several occasions have opposed shale gas development in our country. Opponents claim fracking – the technology used to extract the gas from the soil – causes uncontrolled release of methane into the atmosphere, contamination of groundwater aquifers due to the chemicals used, and also micro-seismicity. Criticism was particularly harsh when last year Emilia Romagna was hit by two strong earthquakes and there were allegations – later proven wrong - that unauthorised drilling for shale gas in the area had contributed to them.

This time, however, it seems that Italy does not want to miss the opportunity to have its share in what Fareed Zakaria former editor of Newsweek called “the game-changer in the geopolitics of energy”. And it intends to do so, not by joining the club of countries that extract it and, churning away the near-monopoly of current producers, will become the new gas exporters, but by reinforcing the infrastructure for gas import and storage. Italy's plan seems to provide equal benefits.

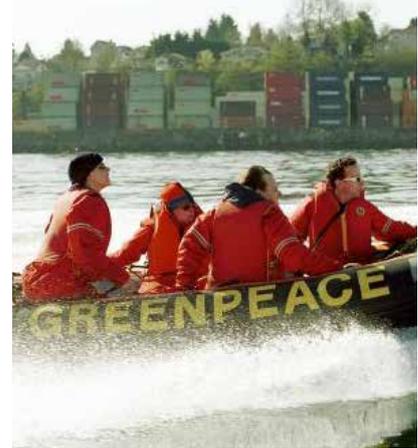
As to infrastructure for gas imports, in Italy at present there are only two gasifiers (one in Panigaglia in the province of La Spezia, and one in Porto Viro in the province of Rovigo), yet numerous others could be installed in coastal areas. The plan to increase gasifying capacity includes the entry into operation of a third plant off the coast of Tuscany as well as a further increase in capacity by at least 8-16 billion cubic meters (bcm) from the current 12 bcm to 24-32 bcm.

Increasing spot and short-term capacity would enable the country not only to structurally align prices

on the Italian market with European ones, but also be less dependent from current non-European gas suppliers. Italy would import the liquefied gas by ship, gasify it and export any surplus to other European countries. Considering that this would require an initial investment of about €1 billion and reduce the country's gas bill by up to €1.5 billion p.a., the cost-effectiveness of the project is self-evident. Last but not least, this would lead to the creation of new jobs, a key benefit in a country where today unemployment is at 11.5%. In a nutshell, Italy has a long-term strategic plan to tackle its energy needs and solve situations that appear contradictory, like the one resulting from its agreement with Russia for a constant supply of gas, which, as demand fell, has generated a gas surplus that is hard to sell to others given its above-market price.

This plan, too, may encounter some opposition owed to the potential hazard posed by gasifying facilities. In fact, recently the Ministry for the Environment rejected a project submitted by the Spanish energy company Endesa for the installation of a gasifier in the Gulf of Trieste and another one offshore (19 km west of the city of Trieste), due to the opposition of local authorities and environmentalists; and the company Brindisi Lng, a British Gas subsidiary, renounced to install one in Brindisi.

Given the influence exercised at local level by environmental lobbies and the circulation of distorted news that often accompanies these protests, only providing true facts and broad information to the population and all stakeholders using novel, open, two-way communication models including via social media can ensure the survival and the development of those projects that bring benefits to the local communities and to the entire Country as indicated in the National Energy Strategy.



The Government's decision appears cautious in some respects. This is certainly due to the strong pressures from environmentalists – from Greenpeace Italy to the Greens who on several occasions have opposed shale gas development in our country. Opponents claim fracking – the technology used to extract the gas from the soil – causes uncontrolled release of methane into the atmosphere, contamination of groundwater aquifers due to the chemicals used, and also micro-seismicity.

Isn't it about time for our Country-System to have its fair share of success in the complex European arena? Is it possible to overcome the NIMBY (not in my backyard) approach and embrace the more long-sighted PIMBY (please in my backyard) approach, through a strategy that pursues dialogue, consensus building and identification of tangible benefits for the populations involved?



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Shale gas scenario in France

For the past three years, France has been entangled in a legal, political, and social imbroglio over the prospective exploration and production of its shale resources.

At stake are thousands of jobs, a potentially drastic cut in France's trade deficit, and much-needed support to an increasing number of industries suffering from the shale gas boom in the United States, from the petro-chemical side to water treatment companies. As some European countries move ahead with their research projects in this field, French politicians faced strong opposition in the winter and spring of 2011, which resulted in a law banning hydraulic fracturing over that summer.

Environmentalist and European MP José Bové, famous for his media attention-grabbing stunts with a local French McDonalds in the late 1990's, took up the cause against shale gas in December of 2010 when he learned that French oil company Total could soon be fracking near his beloved farm, in the Larzac region. Ensued six months of bitter and intense lobbying by his legions of followers, who marched thousand-strong to small towns all over France, began Twitter and Facebook campaigns against big oil and gas



companies, stormed offices with cameras ready, and popularized the US-made documentary, Gasland. Environmental militants used the now infamous scene with a lighter and a faucet on fire from the movie to rally populations around their cause. With no factual information on hand, the militants launched a campaign based on outrageous lies and conspiracy-spurned theories, leading the national media to write about birds falling from the sky because of hydraulic fracturing. Local MP's were soon faced with a growing number of constituents who clamored for information and a stop to this potentially disastrous technique, during a tense senatorial campaign. In the early spring of 2011, all eyes were on the National Assembly, then led by the majority party UMP. After several law proposals, bickering amongst MP's, growing concerns from the population and no efficient communication on the part of oil and gas companies concerned, the "Jacob Law" was promulgated in July of 2011, effectively banning the technique of hydraulic fracturing. A caveat was however written in the law, which allowed for a national commission to be created and potentially experiment techniques and alternatives.

Two years later, the industry is still facing a tremendous amount of skepticism and opposition by local populations to several exploration projects granted by the government. The result is that even conventional permits are now being blocked. Despite an increased communications flow from such companies, and attempts at transparency and dialogue, the lack of factual information initially provided has resulted in growing fears and a complete distrust. Gone are the days when one could explore and produce in complete anonymity, and with no interest from mayors and residents. Social acceptability has become the key to a successful exploration and production campaign, whether it is conventional or not. The "NIMBY" effect has spread throughout France, and local populations demand information, demand to meet the people behind such projects, and demand that such companies be trustworthy and honest.

The lessons learned are proving hard to put in place. While the industry has understood the importance of social acceptability, going back on fifty years of total independence and minimal communication towards the populations concerned is not an easy transition to make. Efforts have been made to open doors, create a dialogue and inform more effectively, but the right arguments and key messages are not always proving to be as impactful as one could have hoped. The job creation and added revenues for local communities, despite the positive impact it could have created, has not been received all that well by some, and was discredited by others. Environmentalists claim that no energy independency will come despite a potential massive production, but that environmental damage is a certainty. And while some efforts were praised, for the most part, local populations have

not budged on their position, partly leading the government to remain stand-still on the issue, while at the same time being pressured by the Green party, ahead of municipal elections next year.

As gas prices soar, unemployment hit an all-time high in France and companies invest abroad, the ban on hydraulic fracturing remains in place. With a national debate on energy transition currently occurring in France, and a new mining code being drafted, everyone looks to the future and its neighboring countries to envision what tomorrow may look like. While it appears that the industry is not nationally or internationally coordinated, the opposition is cross-border and well-organised. The debate has been influenced by what we hear from other countries, as we move towards a new French energy mix. Will it include shale gas? Will it be comprised of coal, nuclear, or solar panels and windmills? Will there be a consultation process for the attribution of exploration permits? Will the national commission for the experimentation of hydraulic fracturing be named? A certainty is that social acceptability will now weigh heavily when the time comes for the government to take another closer look at the shale gas question. The only way forward is to gain the trust, and approval, of those directly concerned by such projects.

Despite an increased communications flow from such companies, and attempts at transparency and dialogue, the lack of factual information initially provided has resulted in growing fears and a complete distrust.



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Poland breaks the “shalelock”

While the US shale gas revolution is in the making and has already transformed the American energy sector, such a reality in Europe has been constantly constrained by expanding European Union law, bureaucracy, domestic regulatory environments, public consultations and competition among different energy sectors such as the nuclear and renewable industries.

The Polish experience has not been any different. Until now that is.

Develop your own shale

It's already been five years since shale fever started to take hold in Poland. So far, there have been 109

exploration concessions granted and 44 wells drilled. Poland's shale gas reserves may well be among the largest in Europe (depending on the methodology, their volume is estimated to be between 0.34 and 5.3 billion cubic metres)¹. Nevertheless, until at least 100

¹Polish Geological Institute estimated Poland's shale gas reserves between 0,34 and 0,76 billion cubic meters. EIA Energy Information Agency estimated Poland's shale gas reserves at 5,3 billion cubic meters.



Breaking the “shalelock”
Reflecting the political will, combined with the efforts to mitigate the environmental impact and comprehensive communications - factors considered to be crucial in defining the success of any shale project in Poland - there have been recent signs of the deadlock breaking.

wells are drilled these estimates are exactly that, estimates; it remains hard to predict when the industry will finally take off. On top of that, a recent study shows that the American technology behind extracting shale gas cannot be directly replicated in Poland. Shale deposits are non-homogeneous in Poland and their parameters differ from the American deposits in terms of permeability. Poland has to learn how to develop and extract its own shale gas.

Obstacles pile up

When domestic law was shown to be incapable of effectively regulating this new industry, it seemed that yet another problem was standing in the way of realising the Polish shale dream. Currently, according to the calculation of the Ministry of Finance the total tax or royalty on the extraction of hydrocarbons in Poland is 21%, unacceptably low in comparison to Norway (72%) or the UK (62%). The expectation that this will rise and the consequent uncertainty for international corporates looking to invest in Polish shale is another issue.

Unsettled taxation issues and an unclear regulatory environment has led to the withdrawal of several major shale gas operators from Poland and is considered to be among the reasons why international companies are not eager to start work in Poland, despite having been granted the largest number of concessions. This situation seriously jeopardises the Polish shale revolution because of the huge costs associated with the drilling of shale gas wells, which is far beyond the financial means of Polish companies.

Communications issues under control

In a series of public consultations conducted by the European Commission from March 2012 onwards, with the aim of discovering more about attitudes towards the development of unconventional fossil fuels such as shale gas, almost 50% of the 23,600 surveys were submitted by Polish citizens². This fact alone shows how high Polish hopes for shale gas are.

Furthermore, the European Commission's report entitled “European Attitudes towards Air Quality” (published in January 2013), indicates that out of all EU member countries Poland is the most in favour of shale gas. According to the research, less than 46% of Poles would feel anxious if shale gas was extracted in their vicinity (compared to 74% of EU citizens in general). Moreover, half of Polish citizens (49%) do not believe that any threats are posed by the exploitation of hydrocarbons.

These figures correspond nicely with the results of another public opinion research poll conducted by the institute for public opinion



²European Commission will publish the official results at the turn of July and August 2013 – http://ec.europa.eu/environment/consultations/uff_en.htm



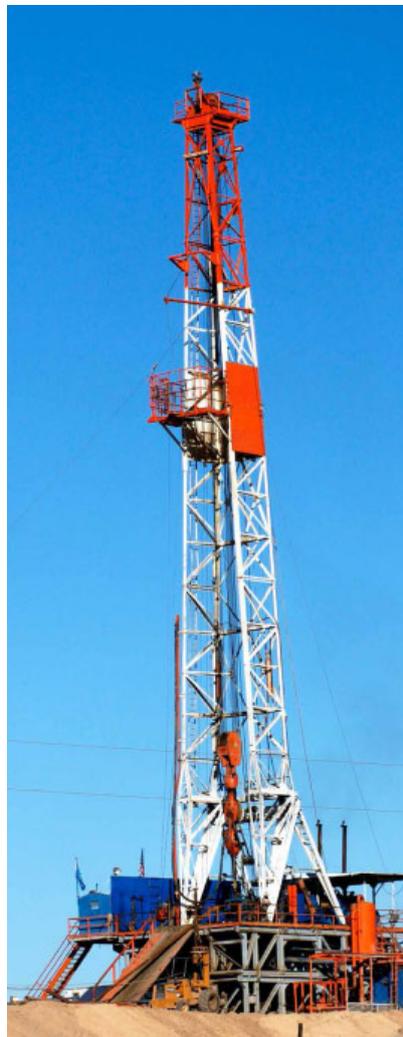
research, CBOS. According to CBOS, the support for shale gas in Polish society has increased along with the decreasing levels of support for nuclear energy. In March 2013, 47% of Poles were in favour of the development of the shale gas industry, compared to 43% in August 2011. Furthermore, over half of the respondents (52%) were against building nuclear power plants in Poland.

As for the attitudes of local government towards investing in shale gas, a poll conducted by the research company KB Pretendent in November 2012 indicated that 44% of members are in favour of shale development in their communities. Only 6% are against and 26% do not have a preference.

It also seems that NIMBY (Not in my back yard) syndrome does not apply to Poland. Evidence of this can be found in research conducted in January 2013 by PBS Sopot for PGNiG (a Polish state owned company holding a license to drill for shale gas in Poland), which revealed that 75% of citizens in Pomerania, where most of wells have been drilled, are in support of searching and extracting shale gas. Moreover, 97% of local government representatives are also in favor of hydrocarbons. However, 40% of citizens fear the effects on the environment, with 21% of local government representatives feeling the same way.

Breaking the “shalelock”

Reflecting the political will, combined with the efforts to mitigate the environmental impact and comprehensive communications - factors considered to be crucial in defining the success of any shale project in Poland - there have been recent signs of the deadlock breaking.



The Prime Minister’s intervention

The topic of shale gas has recently been brought back to the public’s attention as numerous shale gas producers decided to withdraw from Poland and move to more promising and investment friendly markets. The Prime Minister (PM), Donald Tusk publically intervened, setting shale development as a high priority. The Minister of the Environment, Marcin Korolec, was reprimanded by the PM, who demanded the accelerated introduction of hydrocarbon extraction legislation.

Mr. Tusk also stated that the required legislation would be passed by the end of the current year and stressed that there was an urgent need for a compromise between ecology and business in order to create a solution which might potentially attract shale gas investors.

Consequently, the Minister of Finance – Jacek Rostowski announced that shale gas extraction taxation would be effective from 2020.

Subsequently, Polish scientists at the Military University of Technology have been working on a new method of fracking, which uses carbon dioxide instead of water to push gas up from shale reservoirs. The new technology may reduce the environmental consequences of water based hydraulic fracturing by eliminating the use of water but also provide a storage solution for CO₂ thus mitigating the effects of climate change.

³The report can be viewed here - http://ec.europa.eu/public_opinion/flash/fl_360_en.pdf

⁴The report by CBOS “Extract? Poles on shale gas” from September 2012 can be found here - http://www.cbos.pl/SPISKOM.POL/2011/K_112_11.PDF



Poles' attitudes towards shale are not to be taken for granted

Although public opinion in the past has shown that Polish citizens and the local government representatives are rather positive about shale gas, this is not to be taken for granted. There is still a lot of work to be done in terms of managing environmental issues brought on by hydraulic fracturing. In addition to this, the lack of clear priorities set by the government regarding supporting energy sources (e.g. nuclear energy, shale gas, renewables), inadequate domestic tax regulations and the new EU environmental regulations regarding the future exploitation of hydrocarbons all present real challenges for the future.

A lot of work needs to be done in order to educate the general public and to win their acceptance. There is a need for all issues to be effectively communicated and questions must be adequately answered.

The government and shale gas operators should look to utilise the experience and best practice of others in the energy sector that have been affected by similar issues, such as the nuclear or wind energy companies in Poland. Whether it's a question of dealing with the social fears of hydraulic fracturing, heavy trucking and water contamination, or the influence of wind turbines on the landscape and the bat population; the solutions are similar. Operators should act with patience and realise that objectors, even if sometimes lacking the technical information about shale gas operations, may be acting out of a genuine concern.

There are as many arguments defending for shale gas as there are for defending renewable energy investments (additional income for local communities, new jobs, percentage increase GDP, CO2 reduction, increased energy security, decrease in gas price and

strengthening a negotiating position with the current suppliers). There are negative cases that set a precedent, such as public consultations around nuclear energy. But similarly there are positive experiences to learn from, such as past experiences with wind energy. These present great case studies of what cooperation with local governments and communities ought to look like.

Finally, there are plenty of facts and figures at hand to deconstruct all the myths about shale gas, which need to be examined in a balanced fashion by the media.

It seems that the Polish shale revolution may be turning a corner. However, the technical, regulatory and communications issues of prospective shale projects will not solve themselves. They need to be urgently addressed in order to put the Polish shale dream firmly back on track.

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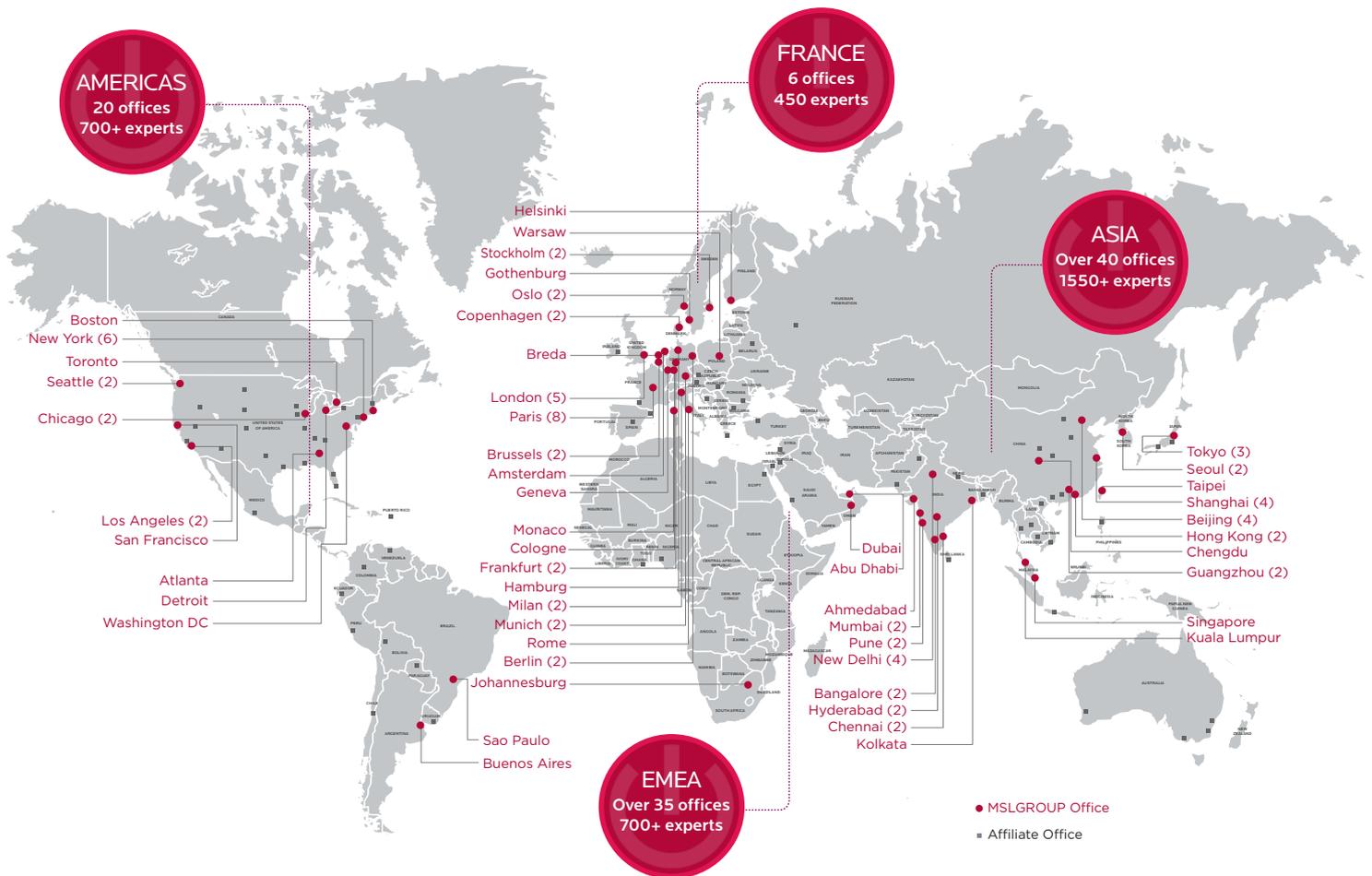
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