

Interview Jean-Louis Schilansky

'I am convinced that this is a lasting change'

As the global economy slows down, consumers are cutting back on their oil consumption. Jean-Louis Schilansky, chairman of the French oil industries, says this change is here to stay. EER caught up with him to find out more about the oil expert's views of changing behaviours in changing times.

| by Yves de Saint Jacob

Having reached a peak, the price of oil has fallen again. Even if it is impossible to make predictions in a time of global financial crisis and geopolitical uncertainty, do you discern any serious long term tendencies in a change of attitude by producers and consumers?

The basic phenomenon is the turnaround in demand. During 2008, we realised that the global demand for crude oil was not going to grow at the rate we anticipated, and the International Energy Agency, as well as other bodies, revised down their growth predictions. This was later borne out by the actual demand figures. In the US, demand has clearly gone down. In France, we have also noticed a fall in demand for fuel since June. China has reduced its internal market subsidies. In the context of a global economic slowdown, there are enough indicators to demonstrate a consumer reaction to prices.

But is this a lasting phenomenon, or will demand recover if prices fall and growth takes off again?

It is difficult to say because two elements are linked: the present global economic slowdown and the more structural realisation by consumers, throughout 2008, that prices were going to remain high. We have seen changes in behaviour encouraged by governments (like the system of bonuses and penalties in France to encourage the purchase of small cars) and by companies (like decisions taken by American car makers). These are things we never even spoke of in 2007, or at least not with such keen interest. I am personally convinced that this is a lasting change. There is too much evidence of the evolution of behaviour, which we are gathering every day, for there to be any

doubt. In France, the development of car-sharing, the increase in rail traffic, lower speed limits on the motorways and the fall in the number of kilometres driven – this all clearly shows a change in behaviour. French people are being careful, not only because of fuel prices, but because there is a much stronger collective consciousness about the necessity of conserving energy and protecting the environment.

But these phenomena are specific to OECD countries. Elsewhere, demand is growing.

Yes. However, what is going to happen in emerging countries, with China and India in the front line, in a climate of economic slowdown? It seems likely to generate a slower rate of growth in demand, even in those two countries. So it seems that OPEC was quite right when it said the market was over-supplied. OPEC's recent decision to cut production did not have much effect on the market. These days, markets have their sights set on oil demand. They have a strong feeling of over-supply, a feeling that markets are well provided for. It would need a massive cut in production for the markets to turn around. Take two spectacular examples. The Georgia-Russia conflict had a direct impact on the Baku-Tbilisi-Ceyhan pipeline, and yet it had no effect on prices. A year ago, such a conflict would have been enough to add \$10-15 to the price of a barrel. Also, when a series of hurricanes hit the Gulf of Mexico, there were immediate fears that led to a temporary increase in the price of a barrel of oil. But the moment the storms were downgraded, crude lost seven dollars. As soon as the risk faded, prices came down rapidly.



Opec headquarters at Vienna. Photo: Hein-Peter Bader/Reuters

In an interview with EER, Dr. Chakib Khelil refused to rule out that the price of a barrel could fall very low. Presently, we are talking about a range between \$80-100 as reasonable. What do you think? The market logic is not to say, '\$80 a barrel is a reasonable price'. If there is a sense of overproduction, prices will fall rapidly: they will seek a floor, just as they sought a ceiling in the past months. Some people say in the long term oil prices will rise because it is a finite resource. Sure, but that isn't going to happen yet. And market logic does not take such a long view.

One of the levers open to governments to influence the relationship between supply and demand and the spending power of people and their behaviour is taxation. As a representative of the oil industry, what initiative would you like to see at the European level?

We have different choices depending on the level of taxation:

- Excise duty or fixed taxes, which consumer countries levy.

The rate is still largely left to the discretion of each country, which explains the variation in the price of fuel from one country to the next. The non-harmonisation of excise duty creates a distortion in competition, particularly in road transport. We would appreciate a certain level of harmonisation.

- VAT, or a proportional tax on fuel. VAT is a standard rate that cannot be modified without an agreement with the European authorities. As professionals, we have nothing particular to say on the matter.

- Taxing oil companies. You won't be surprised to hear we are against a specific tax on oil companies. Profits made on crude

oil, are already taxed by the producing countries at a very high rate. To tax them a second time would deprive the companies of the financial resources they need to invest in research and exploration. What's more, if you introduce an exceptional tax in one country and not in another, you create unjustifiable distortions in competition.

At the present time, there is a sense of a return to a politically-managed economy. Are you aware of that in the energy sector?

Overall, I would say yes. Governments are getting more and more involved in energy matters, both in the producing and the consumer countries. But the position is not the same for all energy sources. As for oil, contrary to what some people think, the market is globalised and open; state intervention is particularly difficult. Even so, certain governments are tempted to intervene, by way of taxation, to influence prices.

Another constraint is the growing level of environmental standards. Some people refer to it as 'green tape'.

The big issue is the limitation of CO₂ production and the attribution of quotas. Clearly, Europe is in a leading position with advanced regulations on CO₂ emissions. To calculate and check all emissions from every factory requires a great deal of administrative work, but more importantly, if Europe is the only region in the world to follow this path, it is in danger of putting European industry at a disadvantage. A resolution will certainly depend on the position of the new American administration. ■