Speech 14-5-2019 – Flame – Anton Buijs (GasTerra)

Subject: What will the Dutch energy market look like with fast declining gas production? How can the industry adapt to political & social drivers?

Good afternoon, ladies and gentlemen,

I would like to thank the Flame organisation for enabling me to speak to you today about a subject that is of the utmost importance for my company, GasTerra, and that is being viewed with apprehension within the gas industry at home and abroad. If you look at the screen now you'll see a gloomy example of the phenomenon I'm describing: the earthquakes in the Dutch province of Groningen resulting from natural gas extraction at that site. And in particular – this is a gas conference after all – about the consequences of this for our sector.

For the record: I won't be showing you any graphs or tables. I'm a communication and public affairs specialist. Every day I'm involved in the interaction between social and political developments on the one hand, the reality as our sector sees it on the other hand and how we should react to this as a company and as a sector. My concern this afternoon is to make it clear to you that facts, figures, calculations, models and all the other areas in which our sector excels are of secondary importance in particular circumstances. And we're experiencing such circumstances at the moment. The earthquakes in Groningen are the perfect illustration in my country that sober, rational analyses *do not,* or only partially, define how society deals with “objective” facts. These circumstances create new realities requiring the companies affected to learn how to cope.

Unfortunately it often appears that we, as an industry, don’t do that very well. The knowledge and skills that you need to be a successful energy company operationally and financially may seriously hamper you in your efforts to acquire a successful social and political image. Moreover, this applies not only to our sector; in our part of the world the multinationals, in particular, are not in the best of health. To my mind this is mainly because they are oblivious to what is going on in society or at least incapable of taking what is going on seriously enough. Management and staff are just people. They are usually focused upon their own work environment, are happy to support each other in their views, even coming across as patronising towards the outside world in certain cases.

Ladies and gentlemen, back to this afternoon's case: Groningen.

Many of you who are here know the history of the gas sector in Europe. In the Netherlands, this began at the end of the 1950s with the discovery of what was then the biggest known gas field in the world. At one point the reserves were determined to be almost 3000 billion cubic metres. After the discovery the Netherlands developed into a gas land in no time at all. Incomes were so high that, at one point, the Netherlands became a semi-OPEC country. This also led to what The Economist magazine described decades ago as the *Dutch Disease*: living off natural gas profits in order, in the words of a social democratic prime minister of the time, to benefit the political left, whilst ignoring fiscal discipline. Anyway, that all happened long ago and possibly clouds our view of what has been the most significant achievement of the Dutch authorities, working together with oil companies Shell and ExxonMobil: the development of a Dutch and, as a result of that, European gas industry and gas market on a continent chiefly reliant on oil and coal for its energy supply until the discovery of the Groningen field. For whoever is wondering about the origins of the existing and still indispensable long-term contracts, with renegotiations and arbitration, I refer to the period in the early 1960s, when gas extraction here was still synonymous with prosperity and well-being. Since then, hundreds of billions of euros in gas income have flowed mainly to the Dutch state. That's not to say that the oil companies involved got only a pittance. For several years, a considerable proportion of their net group profits came from gas extraction in the Netherlands.

The largest part of the Groningen field is situated in the Province of Groningen, just a small part extends as far as the German region of Ostfriesland. There have been concerns regarding the local effects of the gas extraction for some time. These focused mainly on subsidence but there were also some experts who warned of earthquakes. And there were in fact earthquakes, from the 1990s onwards, but they didn't cause much unrest as they were not too severe. It wasn't until 2012 that problems really escalated; near the village of Huizinge an earthquake measuring 3.6 on the Richter Scale was recorded on August 16. The damage proved to be considerable and this quake was followed by more. It became apparent that this could no longer be regarded as a manageable risk. The Mines Authority which in the Netherlands is responsible for safety aspects connected with the extraction of oil and natural gas, warned that it was no longer possible to rule out earthquakes above 5 on the Richter Scale. This announcement had a huge social, political and psychological impact and led ultimately to thousands of claims notifications and a series of production-limiting measures. In January 2018, after another serious earthquake measuring 3.4, this time near the village of Zeerijp, the Dutch cabinet unexpectedly decided to cease production completely in a relatively short term. This *in spite of* recommendations from the Mines Authority to maximise production the level considered safe of 12 BCM. So, operations will close down by 2030 at the latest. Until then, production will be further strongly reduced, to the extent allowed by the guaranteed security of supply. In this connection, 2022 is a crucial year; this is when Gasunie Transport Services' new nitrogen plant will come on line which will ensure that high calorific gas from other sources can be brought to the low calorific quality of the Groningen gas. Gas extraction from Groningen is therefore going to end at least a decade earlier than we previously thought.

Ladies and gentlemen,

As I've already said, my speech today will not address the specific market effects of the rapidly diminishing Groningen production. Anyone who takes an interest in this is already very familiar with these effects. My aim is to make it clear that significant external events that do not, in themselves, need to be related to the gas industry (for example) may nevertheless influence it enormously. A former British prime minister, Harold MacMillan was renowned for a statement he once made, with a sigh, in reply to a young reporter who asked him what he most feared: *"events my boy, events"*. Sometimes those events are natural disasters such as the tsunami in Fukushima, Japan. More often they relate to complications caused by people themselves. Governments take decisions that are well received by the majority of the population, but which companies consider to be 'irrational' or harmful to the economy and employment (in other words: their continuity). Citizens may rise up and conflicts may destroy countries and regions. Industrial activities can lead to disturbances and/or social unrest compelling governments to take measures at the expense of the profits of the companies involved. And so on.

The earthquakes in Groningen fall into this latter category. Of course, no one was expecting this to happen but, once the first blow was struck, a chain of events was set in motion that will ultimately lead to the premature demise of the biggest and most productive cash cow the Netherlands has ever seen and will ever see in the future. Hundreds of billions of euros will remain buried in the Groningen soil. The local population is miserable because the claim handling has proved to be an arduous process. And the mood in the country has turned against gas. Even the government supports the idea that we should get rid of it as soon as possible and has adopted a policy that favours alternative energy solutions. So, not the reduction of gas production itself has a major impact on the gas market – this can be replaced by imports – but the anti-gas movement which resulted from developments in Groningen.

In this regard, the situation in Groningen is no more than an example. Now that we are increasingly confronted by the consequences of climate change we will have to ask ourselves what corporate social responsibility means precisely for our sector. In my view, we need to change course drastically and abandon the old ways of thinking as quickly as possible.

Ladies and gentlemen, what do I mean by that exactly?

Organisations naturally focus on safeguarding their continuity; in companies this stance is reflected by the way they protect their products or services as well as their market share, for these things are, after all, the company's *raison d'être*. Usually, therefore, corporate lobbyists have a clearly-defined task. They have to promote the interests of the company by encouraging directors, politicians and other stakeholders not to do anything to damage those interests, in fact to develop policies to boost the popularity of their organisation. I understand this, of course, but it is short-sighted. Certainly at a time when we are contending with a number of social issues for which shareholder capitalism has no credible answer. Worse still: free interplay between supply and demand may even exacerbate the problems if this is not kept in check by a regulatory framework as well as companies being willing to practise *self-restraint*. This applies *a fortiori* to companies selling products that are, on the one hand, still desperately needed – such as fossil fuels – but on the other hand contribute to environmental damage and must, therefore, be replaced over time by solutions providing the benefits but not the disadvantages of the original product. If they don't do that then I'm convinced that they will lose their *license to operate* and, as a result of that, their earnings model and continuity.

If we seek to apply this to the gas sector, it means that we must examine our business model critically. Just like other sectors, our traditional focus is on maximising sales and profits. However, in the light of the climate crisis, I'm convinced that we will have to make every effort to minimise emissions, CO2 and methane. For the record: “Groningen” has nothing to do with climate policy (people often forget this in the Netherlands), it is first and foremost a safety issue. But it is good example of what can go wrong if we try to preserve the old tried and tested business model for as long as possible while the external environment actually is making this impossible.

Ladies and gentlemen,

I am going to finish my speech. Today, I focused on what can happen if authorities and companies too long stick to strategies that in fact are no longer sustainable. In those circumstances, I believe, dealing with the issue that concerns the outside world most, such as climate change, should be put at the centre. The product should be strategically repositioned. And as a communication professional I add that companies should strongly embed the communication strategy in all the activities of the company. Not just after the fact, but before. Our stakeholders need to trust us. They should remain or become confident once again that our product is part of the solution instead of the problem.

Given the continuing indispensability of gas, including natural gas, for the world’s economic and social wellbeing, I would regard it as a true disaster if we wouldn’t be able to pull that off.

Thank you for your attention!