

Natural Gas Europe recently interviewed Grzegorz Pytel, Energy Security Expert at the Sobieski Institute, on the development of shale gas in Poland.

NGE: According to the previous announcements, the Polish government will soon terminate works on the legal framework for the future conditions for companies willing to produce shale gas in the country. In over a year time, the Polish state will probably enter the phase of issuing first licenses for production. How will the Polish Geological Institute/Unites States Geological Survey [estimates of recoverable shale gas reserves in Poland - much lower than previous estimates](#) - influence positions of government and companies on a doorstep of negotiations?

Grzegorz Pytel: A very important issue in financial negotiations between the government and any companies, on any fiscal tax regime imposed on companies, is the assessment of the risk, that companies are taking in exploration and production of the resources. The greater the risk assessed at the outset, the lower the taxes and other fees that the government should be really prepared to collect later. For a simple reason: the higher the risk the higher the reward expected. Therefore the report published by the PGI which lowers the estimates and therefore increases the perceived risk, especially if it's based on government-financed report, improves the negotiating position of the companies against the government.

NGE: The type of methodology used in PGI/USGS examination tends to give rather conservative results. If such an outcome wasn't particularly difficult to predict, what could be the rationale behind a decision to prepare and publish this assessment, in the first place?

GP: This is the good question. The first thing is, that in my view governments should never be in the business of speculating. For example in the area where governments have to be in the business of speculating, like pensions, which is really forecasting some years ahead, they always get it wrong. In this case there was simply too little data to have any any credible assessment and in such a situation the government can never win. If they overestimate, then they later can be blamed for being overoptimistic and so forth. If they underestimate, they improve the financial position of the companies in the negotiations of tax regime.

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NGE: So why did they do it?

GP: Typically the answer should be based on the question in whose interest it was: a classic „cui bono” test. On the face of it, the whole thing looks like a huge PR and negotiating success of the companies exploring for gas in Poland. However looking for anything like conspiracy behind may be too far-fetched. Anyway, one of the people key in preparing this report, has already left the Polish Geological Institute and now works in the private sector, so maybe this is a kind of indication that possibly shows real things behind it. The straight answer is I do not know but it all looks quite odd to me. Draw your own conclusions.

NGE: Many critics have observed that this assessment was based on cores as mature as 50 years old. Do you share this doubts? Shouldn't Poland just wait for data from new drillings, undertaken by companies presently active in shale gas development?

GP: I'm myself not a geologist or geophysicist. However I've heard a very respected professor of geology, who was laughing at the research carried on fifty years core samples, which basically - if they had gas in the past - most likely it has evaporated anyway; whether the gas was there in the first place or it wasn't. Assessing 50 years old samples and data doesn't seem to be the best idea of all. Basically it has consequences on credibility.

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