

Poland's Shale Gas Hopes Suffer Blow

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WARSAW, Poland (AP) — News that Talisman Energy Inc. is pulling out of exploration for shale gas in Poland is a blow to the country's hopes that its deposits of the hydrocarbon will soon cut its dependence on Russian supplies and support the weakening economy.

Canada's Talisman said Wednesday it had not found enough gas to warrant further expensive exploration or extraction procedures. It will sell its Polish interests to a European company, San Leon Energy, and focus on easier-to-get deposits in North and South America, Southeast Asia and the North Sea.

The company's retreat — the second by a major company in less than a year — suggests Poland was too optimistic about the value of its deposits, or at least the speed with which it can retrieve them.

A key problem is that big energy companies are currently focusing on shale gas deposits that are easiest to extract. Poland's shale rock, running some 4,000 meters (13,000 feet) underground from the Baltic Sea coast, through central and eastern Poland to Belarus and Ukraine, has proven more difficult to mine than shale rock in the U.S. That is due both to the geological make-up of the land and to the fact that the region is much more densely populated than the U.S.

As a result, experts say, it will take many more tests, more time and much more money to produce shale gas here.

"The issue for us ... is to make sure that the industry is not disincentivized to carry on with exploration activity and carry on investing hard money in projects," said Kamlesh Parmar, chief executive of 3Legs Resources, the first energy exploration company in Poland to obtain test gas flow, in 2011.

So far, only 43 wells have been drilled, while hundreds of them will be needed to accurately assess the country's reserves potential. Only 12 have produced some gas flow, according to Jolanta Talarczyk, spokeswoman for the State Mining Authority.

The Polish government had been hoping that a boom in investment would help the economy, which has been slowing sharply. It grew just 1.9 percent last year, down from 4.5 percent in 2011. The shale gas industry was also expected to create thousands of jobs, helping to reduce the unemployment rate, which has risen to 14.3 percent.

Beyond economic concerns, shale gas was also meant to boost Poland's geopolitical independence from Russia. Like many other Eastern European countries, Poland has since the fall of the Soviet bloc been trying to move out of Russia's sphere of

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influence. It did so by joining the European Union but it still has big economic ties — it imports 70 percent of its gas and some 90 percent of its oil from Russia.

That has become an increasing concern in Poland as Moscow has shown it is willing to use its gas supplies as a weapon in political matters. It shut off supplies on two occasions in price disputes with Ukraine, affecting homes in central Europe in the middle of winter. Russia also dictates prices, making Poland pay one of Europe's highest, almost \$500 for 1,000 cubic meters of gas.

"We do not want Poland's strong economy to be dependent on energy deliveries from the East," Prime Minister Donald Tusk said on his website.

Early estimates by the U.S. Energy Information Administration that put Poland's shale gas reserves at 5.3 trillion cubic meters were revised last year by Poland's geology experts to below 800 billion cubic meters. But even that amount would help the country reduce its dependence on Russia and boost the economy. The question is getting the investment and encouraging major companies to persevere in the exploration.

The government is sticking with its plans to have commercial production start in 2015.

Hopes for quick returns from shale gas were initially fuelled by the enormous success of the industry in the United State over the past two decades. Large-scale production from thousands of wells in the U.S. cut gas prices to less than \$100 per 1,000 cubic meters, making the nation self-sufficient in the gas sector.

But outside of Poland, many European countries have been more reluctant to embrace shale gas because of the extraction method's potential environmental impact.

Shale gas is natural gas trapped in porous shale rock. It is extracted though hydraulic fracturing, or fracking, that involves pumping huge amounts of water — laced with sand and small amounts of chemicals — into horizontal wells drilled in the rock. That crushes the rock, releasing the gas.

Activists say the fluids make their way into the natural ground water reserves, poisoning tap water and contaminating agricultural land.

A study by the Polish Geological Institute last year declared shale gas extraction to be safe but experts remain divided. Some U.S. companies, like Halliburton Inc., are developing non-toxic extraction liquids.

With shale gas developing slower than planned, Poland continues to rely on its rich black coal resources, which are cheaper than gas. It is also building a liquid gas terminal on the Baltic Sea coast, to be operational in 2014. The government wants Poland to have a nuclear power plant in the 2020s and is encouraging development of renewable energy sources like wind turbines, biofuels and solar panels.

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