

Russian Gas Society Annual Forum
Moscow, 16th November 2010
"Gas of Russia - 2010"

"The importance of promoting the image of natural gas"
by JF. Cirelli

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Ladies and gentlemen,

Before sharing with you my strong beliefs on the importance and need to promote the image of natural gas, I first wish to thank the "Russian gas society", especially M. Yazev, for the organization of this event to which I am very pleased to participate as President of Eurogas. We will also be celebrating the 10th anniversary of the EU-Russia Energy dialogue next week in Brussels. These two opportunities are essential to strengthen the ties between Russia and Europe, particularly at times like the ones our industry is going through.

I cannot start without sharing with you some observations about the current situation. The natural gas market has suffered from an unprecedented situation for the last 18 months, and has been challenged on a number of fronts: i.e., (i) the sharp drop in demand over 2009, (ii) at a time when additional gas production capacities came on stream with both new LNG projects and the US unconventional gas production, (iii) which translated into the price decoupling between spot gas and long term contracts. This situation has challenged the **balance of interests between natural gas suppliers and buyers**, which had secured a steady growth in gas demand over the last 40 years.

As if the gas market situation was not challenging enough, the gas industry also had to cope with a number of initiatives on the forefront of EU regulation that also questioned the

existing equilibrium between the gas industry's stakeholders. I will come back to this in a minute.

Regarding the economic crisis, the two questions that are in the mind of everyone of us are (i) how long the gas glut will last and (ii) whether we are moving away, temporarily or permanently from traditional oil indexed long term contracts.

In return, let me just say that we have been seeing welcomed signs of recovery in natural gas demand in Europe in the first half of 2010. According to Eurogas, the European natural gas consumption in 2010 compared to last year could increase between 6 and 8%. EU natural gas demand will recover to pre-crisis level faster than expected but we have yet to confirm the robustness of the recovery. **Eurogas does believe that, even though it will take several years before gas demand reaches the high recorded levels, new imports will be necessary at the latest by 2015.** But for a couple of months, maybe some years, it is clear that the oversupply in Europe will last with the continuation of adverse consequences.

Regarding the second question, long term contract offers flexible, efficient, proven tool to cope with the interests of buyers and sellers. For forty years now, they have served very well the industry both in the European countries as well as in our suppliers countries including Russia. Today they are challenged in this difficult environment. We need pragmatism and long term commitment to adapt our relationship to this environment. I personally think that, more than the indexation itself, it is today the absolute level of long term contracts which causes problems of gas competition.

The current situation is, by no means, a call for relying on spot gas markets. The situation is essentially reflecting the fact that a new balance must be found between hub gas

markets and long term commitments. Yet, this new balance must be found quickly, because the burden is weighting too heavily on the shoulders of our companies.

We need to see beyond today's crisis and establish the appropriate conditions for the investments in the natural gas industry. All players will have to cooperate, to keep investing but also to re-think the way we do business.

These investments will undoubtedly need to be based upon closer relationships with suppliers. In that context Russia has a key role to play, and **the mutual misunderstanding between Russia and the European Commission on energy issues must be lifted.** Europe is not more depend on Russian supplies than Russia is dependent on Europe. Russia is and will continue to be part of the solution to supplying Europe in the long term. Our partnership is clearly benefiting both parties.

Looking at the internal Russian market we can see a lot of very positive developments. In this respect we can welcome the increasing share of the independent producers in the last few years and note that more and more European companies are operating on the Russian market. Regulatory stability and visibility is key to attract further investments in the Russian market. European companies are following very closely the regulatory developments in Russia such as the new energy strategy, the scheme for development of natural gas sector, the tax reform and the energy efficiency initiative. We are also looking for more visibility on the future evolution on the internal Russian gas prices.

From 2011 to 2050: A challenging agenda for the European energy's future

As I mentioned earlier, in addition to the current market situation, the natural gas industry also had to cope with a number of on-going regulation, such as the Third Energy Package, which will enter into force in March 2011 or the Regulation on Security of Supply. The Third Energy Package and the Gas Regulation have themselves triggered additional initiative such as the Congestion Management Guidelines or the regulation on access to capacity.

I know that there are a number of concerns from our Russian colleagues on the impact of the Third Energy Package on the industry in general, and on the future of the long-term contracts in particular.

We also have a number of concerns related to this issue. We need to closely monitor the changes which are introduced. They should bring a clearer and more efficient business framework and not market rigidity and/or disruption. **Therefore, I can only but be pleased with the initiative taken by Chairman Miller and Commissioner Oettinger to form a joint working group to address the issue of the Third Energy Package. Eurogas fully supports the initiative. We also decided yesterday to create a Working Group between the Russian Gas Society and Eurogas on the implementation of the 3rd package.**

Regarding regulation, there is still more to come on the agenda. The European Commission has just adopted the 2011-2020 Energy Strategy and is about to adopt the infrastructure package. Moreover Energy is high in the European agenda as showed by the organization of a Heads of States meeting in February 4th. We have the ambition to ensure that natural gas will be fully recognized in these upcoming initiatives.

Regarding our energy future, we must be careful at not turning too dogmatic. We cannot afford it. We must ensure that all options are explored, and that the most efficient ones, both on an economical and environmental point of view are selected. For this: natural gas is THE solution. It is the energy of choice in a low carbon economy. But we collectively, buyers and producers need to join forces to make ourselves heard!

Last week in its annual World Energy Outlook, the International Energy Agency was even talking about a "Golden Age for gas" as gas could be the highest growing fuel among all the fuels, under all their scenarios ... This statement is very welcomed as it clearly states that gas is part of the solution.

But the image of gas has to be strengthened. Once considered as a "green" energy, natural gas is too often considered as a polluting and insecure fuel. It is true that natural gas is emitting CO₂ but by far less than other fossil fuel.

Natural gas will be among the most practical and economically efficient way to reach our CO₂ reduction objectives in Europe, without burdening too much the European consumers. In that respect, the voice of natural gas must be heard.

As another positive news, the natural gas resource potential is today under revision in particular due to unconventional reserves. We can be sure that we have sufficient gas for many decades.

Diversity of supply

For the last forty years, the natural gas industry has performed continuous investments to ensure diverse, flexible and secure supplies. Russia is, of course, an essential partner to the supply of natural gas to Europe with a share of 23%. In October of next year, additional

volumes will be supplied by Russia to European customers through Nord Stream. Natural gas has been a key element of the cooperation between Europe and Russia for decades. We must ensure that this remains so for the years to come.

Beyond power generation

In heating, industry and transportation, natural gas is already the preferred fuel for many customers. In that area, we must foster innovation with new lines of product such as micro-CHPs, natural gas-fired heat pumps and tomorrow fuel cells.

In power generation, the gas has clearly a brilliant future. In many industrial countries, the progressive switch from coal to gas is the key energy driver for the years to come.

In the transportation sector, natural gas has the best environmental scores on NO_x, dust and CO₂ emissions and is the lower carbon alternative compare to conventional fuel. The fleet of natural gas vehicles amount to over a millions unit in Europe with fast growing market. With the appropriate policies in place, natural gas car fleet can provide significant and rapid CO₂ emissions' reductions and air quality benefit to our cities.

In conclusion, natural gas is and will be an essential contributor to the competitiveness of the European and Russian economy and to its environmental challenges in the pathway to 2050.

Even if the current crisis increases uncertainties, which are never good for stable investments climate, the gas industry must continue to prepare for the future by carrying out the investments needed. It is the reason why natural gas players, producer and

consumer companies alike, must together find solutions and strengthen their partnerships and defend their product.

More than ever gas advocacy is needed. It is our common interest. Cooperation between Russia and Europe is key for that goal.

Thank you for your attention...