

**Eurelectric - Eurogas Conference on  
"Can Europe finance secure and clean Energy in the future?"  
- Impact of the current economic and financial challenges on the energy agenda -**

How to finance secure energy supply for Europe  
Speech by Domenico Dispenza – President of Eurogas

Ladies and Gentlemen,

The current economic situation and its implications for European energy flows have brought up for debate topics like security of supply, evolution of European gas demand and the role that various players, like EU institutions, national governments and the industry itself should play.

The high degree of dependence on external sources of energy is a fact in the European market. Such dependence is poised to increase under every scenario, due to the expected decline in our internal hydrocarbon production. Every discussion we make of future investments in energy must therefore be centered around the external dimension of such market.

Energy in general is a capital-intensive business, especially in respect of gas procurement and power generation, therefore we must expect some repercussions from the global economic crisis.

The European gas industry in particular finds itself in a quite uncomfortable position these days, because it must deal with both upstream, seller-side uncertainties and with downstream, market-induced ones.

The effects of recession on industrial and power gas demand have been acute in most European consuming countries. Such effects propagated to gas transit countries and to the exporters' own markets. Producers so suffer from lower foreign revenues together with a consistent erosion of their own local revenues.

Some elements of comfort in such a critical situation however exist.

For example, Europe as a gas buyer, even if in competition for incremental supply with other regions of the world, has also some advantages over them in terms of proximity to supply sources, choice between pipes and LNG, internal stability as a collective entity, robustness and experience of its gas industry.

However, and I speak of gas now, the main element of comfort, in my opinion, is the fact that new gas supply projects are still viable in the current context. They are indeed a potential source of stability for the whole credit system and for the involved stakeholders, provided such projects are "good projects" and that the environment for their development is also a good one.

What projects can qualify as "good gas supply projects" in general and in a credit-crunch situation in particular?

Strictly market-oriented projects can be good projects:

gas demand development has always been hard to guess; in the past, however, headroom for gas penetration was still significant, and potentially it still is, at least in some countries.

Today, however, the variables at play have increased in number, degree of interplay and direct significance for gas use, and the economic climate is definitively far from optimistic.

Therefore, it is even more important for a new supply project to have a sound business rationale to justify it through the whole transport chain. The transported gas must in the end be able to effectively compete for demand in its target markets.

Projects with long term perspective can be good projects:

In fact, even if an economic downturn is underway, the European gas industry needs to maintain the right perspective. Energy demand will always be there to satisfy, even if strategies for its procurement, use and marketing will evolve. For example, a substantial involvement of European gas marketers in partnership with exporters is increasingly necessary in the upstream and in transportation.

The scale of such involvement is substantial; long gone are the days of almost automatic renewal of gas supply contracts or of easy negotiations for new contracts; for many reasons, the relationship between suppliers and marketers has of late greatly evolved, as each part is seeking to extract the best value from such relationship.

Stakeholders in projects for new supply must therefore overcome short term fears and must look several years in advance to the markets of tomorrow.

To step up in this way, from the fears of today to a different, bolder vision, you need strong European players, reliable gas producers with proven gas availability and a stable European and transit regulatory framework.

Regulatory framework should grant an acceptable rate of return for investors. TPA exemption, optimal use of the TPA portion, certainty in transit rights and obligations must be properly addressed by the prevailing regulatory regime.

While we are entering a regulatory framework hopefully more stable after the approval of the Third Directive, signs of residual lack of clarity still exist, for example on important issues like the relationship between investment discretion and obligations of project sponsors, or with the uncertainty associated with the non permanent feature of TPA exemption status, that doesn't take into account the complexity and completion risks of most projects.

On transit we note the strong debate on the merits or alleged weaknesses of the Energy Charter Treaty and the increased involvement of some key current or prospective transit Countries in the supply equation. Success of new projects and our own overall security of supply require a safe and guaranteed movement of energy across multiple borders.

A good project needs also to rely on sound technologies. Future gas will come from challenging onshore and offshore regions, and it will need to travel increasingly longer distances either by pipeline or as LNG. Examples of Arctic or sub-arctic LNG are already here, while we see an increase in designing and deployment of increasingly long and deep-laid sub sea pipelines.

The complexity of such technological and capital efforts naturally calls for involvement of multiple subjects, NOCs, IOCs, engineering and service companies. A good project is also as good as it can manage such complexity of players, accommodating their expectations while sticking to its sponsors' original vision and timeline.

Finally, a good project is also one with strong political support; the EU authorities must provide for an equal treatment of all initiatives potentially relevant for a real diversification in both gas supply sources and routing.

As we can see, the ingredients needed for a good supply project must be found together at the same time, in a positive combination very difficult to achieve.

This is probably the reason why the number of projects currently underway is not so huge at the moment.

My feeling is however a positive one; the European gas industry can raise to the challenge of engaging in ambitious projects even in time of recession; we must all work in order for such positive mix of conditions to be found behind a larger number of ventures. This would at the same time provide better security of supply, enhance diversity in the market and help Europe to weather the economic downturn that we all are facing.

Thank you