

**RUSSIAN GAS SOCIETY VI INTERNATIONAL FORUM
RUSSIAN GAS – 2008**

Moscow – JSC Gazprom, 18th November 2008

**SPEECH BY MR. DOMENICO DISPENZA
PRESIDENT OF EUROGAS**

Last time Eurogas and the RGS met, last May in Berlin, the motto was "Evolution".

Today, just 6 months after and in the middle of a financial crisis of historical proportions, the first word that comes to my mind on the relationship between Russia and Europe is "interdependence".

The current economic situation put in full light topics like security of supply, evolution of European gas demand and the role of various players, like EU institutions, national governments and the industry itself. Since such topics affect both Europe and Russia, they underline once more the degree of interdependence of our longtime relationship.

One topic of strategic relevance is the effect of the credit crisis on new capital-intensive export projects.

Probably only the most solid ones will stand the scrutiny of increasingly cautious lenders.

Survival of projects will depend on strong commercial rationale, proven associated upstream resources and a suitable project framework. Some Russian projects may be at an advantage in respect of other suppliers', but this crisis will have anyhow an impact on gas projects.

A certain slowdown or rescheduling of upstream and midstream project will occur in Russia as in other part of the world.

Difficulties in securing or in renewing finance flows for highly complex and challenging projects may have some lasting consequences:

- first, it may slow upstream development and future production both in absolute terms and in diversity.
- second, it may push Russia to further rely on imports from the Caspian and Central Asia, further increasing intra-regional export prices.

The economic turmoil may also make politically hard for the Russian government to gradually increase internal industrial prices toward netback parity. This may alter the strategic long term balance between gas volumes allocated for export and those for the internal market and could cause a rethinking of Gazprom's market approach and of their revenue expectations

Another element of uncertainty lies in transit Countries for Russian gas to Europe. Such Countries seem to be among those most heavily hit by credit and sovereign debt issues; their national budget problems may create the potential for tensions also for transit.

In Europe, uncertainty on the trend of demand may become an issue as the common wisdom of unstoppable growth in gas demand is being challenged by two full years of decrease, the combined effect of mild winters, marginal fuel competition and efficiency measures.

A generalized economic slowdown may of course reduce the consumption in the industrial and power generation sector, but even more detrimental for European gas demand are the long term uncertainties associated with the financial crisis:

- Will efficiency measures planned by consumers at 140 dollars per barrel be confirmed in a much lower energy price environment and with strongly reduced access to credit for capital investment?
- Will nuclear, coal or oil power plants marked for decommission be left online longer due, again, to restrained credit for building new ones?
- How the renewed debate among EU member States on attainment of 20/20/20 targets impact on gas demand?

Such uncertainty may also increase Europe's gas suppliers' worries for security of demand. Russia, engaged in a very serious effort to best balance export growth with profitability of his huge internal market, could be particularly affected.

There are some potential elements of mitigation.

The price of steel and other materials seems to have reduced.

Another potential positive point is that the European institutions may be made more aware of the importance of granting an adequate rate of return and some security for capacity for the stakeholders in gas import projects. Such awareness may translate in more openness towards TPA exemptions or other measures to reassure lenders and partners.

At Eurogas we believe that more than ever this is the moment to engage the European gas industry and the Russian in joint investment and in export projects. Shared vision and mutual understanding will reinforce both our security of supply and Russia's need to rely on a more stable demand scenario.

It appears that the western oil and gas majors have suffered less than others in the credit crunch, due to a somehow traditionally lower borrowing attitude and good cash reserves. Those operating in Russian JVs can therefore inject not only industrial, scientific and managerial know-how but also financial resilience and overall robustness in the Russian gas system. Their role and presence in Russia should therefore be rewarded through a more favourable operating environment.

In this respect it should be avoided that a crisis-led reinforcement of the State role in Russian oil and gas companies translates into a dirigistic attitude and into interference in JV's management and strategies.

In Europe we may run a similar risk, in which single Governments or the EU institutions may be tempted to over regulate energy markets.

I believe that we can improve our relationship and manage uncertainty just by maintaining and reinforcing a pragmatic attitude and by fostering a more open climate for mutual investment and cooperation.

This is no time for entrenchment, for radicalizing positions or for allowing broader geopolitical tensions to interfere in the relationship between Russia and Europe.

The gas industry needs to take advantage in this period of its successful record, so to attract the current residual financial resources available to sustain investment and to be ready, before other industrial sectors, to profit from a turnaround in the situation.

Concepts like the Trojka of gas suppliers or improbable ideas like the single European buyer don't exactly fit with the necessity for developing viable commercial and industrial ventures and projects rooted in the reality of gas markets.

In the current situation the role of Governments and the EU should consist in establishing stable relations for interdependence and cooperation between producers, consumers and transit countries, leaving commercial negotiations and investment decisions to the gas industry.

To this purpose, Eurogas supports the need for modernisation of the partnership and cooperation agreement (PCA). In this context, it will be important to integrate the key principles of the Energy Charter, such as security for investments and reciprocity, in a PCA.

There should be in principle no discrimination against foreign investors in either areas in line with good international practices and free movement of capital. Along such path it is very important to develop reciprocity and clear access rules and mechanisms in Russia and the EU with regard to investments, infrastructure, markets and production.

We, the gas industry of Europe and Russia, should decline our good intentions in improving EU-Russia relationship through actions aimed at pursuing some well defined goals:

- The acceptance of Russia as a key partner not only on energy, with a view to broadening and deepening the energy partnership beyond gas supplies;
- The maintaining of the good record of the Russia-EU trade in natural gas in terms of security of supply and reliability;
- The preservation and development of mutual confidence in all market tools, including long- and short term contracts, as a basis for confident, secure relations;
- The consistent pursuit of a common action of advocacy towards the EU and the Russian government, asking that the design of any future legal framework for gas markets' regulation should allow stability and predictability for economic players in both Russia and the EU;
- The utilization of the potential for increasing energy efficiency and for cooperation on climate and environmental protection, further contributing to the sustainability of our industry.

- Another way for improving transparency could be the exchange of data and supply and demand scenarios. Such a task is already carried out in the framework of the EU-Russia energy dialogue and could be further formalised.

I believe that the gas industry, should those actions be pursued with dedication and vision, will be able to weather out any critical issue deriving from the current global crisis.

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