Mr. Jean-François Cirelli’s speech, President of Eurogas

"Ladies and gentlemen,

I first wish to thank the "Russian gas society”, especially M. Yazev, for the organization of this event in which I am very pleased to participate again as President of Eurogas.

I also wish to support the topics chosen for this conference as they are precisely on the top of everyone of us agenda’s :

- Impact of the European Energy regulation on development of the European and the Russian Gas Sectors
- Natural gas : The fuel of the 21st century

We are experiencing today a crucial moment in the history of the gas industry. The fundamentals of our business have deeply changed since the past two or three years. Cooperation between gas suppliers and gas buyers is, and will remain, a central feature of the European gas market. However, this business relationship cannot stay as it was in the past. It has to adapt to new challenges brought by market developments.

I would like briefly to pass three messages to you:

1. The European and Russian gas industry is facing important business challenges (changes in global market, constant changes of the European regulatory environment ... that’s why we need to enhance an open dialogue with our suppliers on those key challenges) therefore the relationship between EU and Russian gas industry has to adapt to this new environment

2. The European gas industry is optimistic about the future role of gas in Europe

3. Gas should move forward in the awareness of policy-makers

On the first point : The European gas industry is facing important challenges therefore our relationship between EU and Russian gas industry has to adapt to this new environment

Events in early 2011, North Africa and Middle East but also Fukushima, remind us of the interdependence of our world. All these events have an impact on the pattern of global gas trade, and on European markets.

And so we are reminded of the importance of diversity in energy trade—all parties need the flexibility and the ability to cope with an uncertain future that diversity, whether of demand or of supply, can bring.
Our industry also faces challenges of business realignment and adjustment. Changes in the global market for gas, in particular the disconnect between spot price and long term contracts based on oil indexation, bring a set of pressures.

All these current challenges are without precedent. Looking back two or three years ago, things were completely different. The fundamentals themselves of our business have evolved. To stay competitive in the energy mix, the gas market has to adjust to all those changes. It has to stay “economically marketable in the market of the buyer”. Needless to say that the actual period will be very important to reinforce the future of our cooperation serving the interests of both the European and of the Russian gas industry.

The gas market is globally-linked and the parties’ investments will undoubtedly need to be based upon closer relationships. It is in all our interests to maintain into the future the quality of the Russian-European business which has been and still is so important to both parties. 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, even though today’s evolution of the market requires an adaptation of this relationship.

One other key factor of pressure on European gas industry is the constant evolution of the EU regulatory framework, to say the least. We are constantly obliged to respond to a changing local and European regulatory environment. This is my main message to EU policy decision makers: don’t over-regulate. Please keep confidence in the market. It is an important message to deliver to investors if investments are to take place.

I also wish to mention the very positive developments of the internal Russian market. 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 including the future evolution on the internal Russian gas prices.

The European gas industry needs a renewed dialogue with its suppliers on all these changes and challenges. It is a major requirement to adjust in a way that can satisfy our customers, our co-workers, and our investors. Time is of the essence now.

**On the second point: the European gas industry is optimistic about the future role of gas in Europe**

The European gas industry strongly believes that gas has an important role to play in the future EU energy mix, and not at the expense of the development of renewable on the contrary. We, therefore, will continue to ensure that the necessary supplies for Europe will be available in time.

Today, natural gas is an important component of the EU27 energy mix, representing 24% of the primary energy consumption. In 2009, the European gas industry represented approximately 115 million customers and employed a little less than 300 000 employees with an annual sales volume of around 488 BCM. In almost all EU countries, the natural gas
demand between 2009 and 2010 increased, and the average year-on-year growth rate was 7.2%.

EU policy emphasis on environmental friendliness and on highly efficient technologies gives gas more than ever a key role in a realistic EU climate policy.

Therefore in Eurogas we estimate that natural gas consumption in EU member states is expected to rise up to 595 to 637 BCM in 2030, which corresponds to an increase of between 14% and 23% from 2007 levels. In the longer term, the positive natural gas growth trend should be maintained. Based on the highly efficient, proven technologies and environmental friendliness of natural gas, Eurogas expects continuing EU gas demand growth at about 1% per annum, confirming the key role of natural gas in achieving EU objectives.

Finally, because gas offers considerable potential for reducing CO2 emissions in power generation at low cost, Eurogas expects the largest increase in gas consumption (up to 80% of the planned growth) to come from power generation (from 156 BCM in 2007 to 216-241 BCM in 2030). As the power sector is characterized by a strong competition between the different fuels, it is of the highest importance to maintain the competitiveness of natural gas prices in Europe in the different market sectors. But we should not forget that gas heating for households is almost always the best and cheapest solution for our European citizens.

On the third point: Gas should move forward in the awareness of policy-makers

Our main objectives, in Eurogas, and with the support of the full membership, are to promote the role of natural gas in the EU energy mix and continue to lead the Eurogas work in 2011 towards an improved awareness of EU policy makers of the important contribution that our industry can bring to EU citizens and to EU policy objectives.

This is probably the most important challenge for us: to have EU policy makers fully recognizing that natural gas can bring great advantages in the fight against climate change. Natural gas, given its intrinsic properties, offers a much quicker and more affordable route to carbon reductions than any available alternative. And as gas can play a key role in balancing the intermittency of renewables, gas will support their market growth. Advocating for gas does not mean slowing the development of renewables, as several members of the European Commission seem to believe. On the contrary, gas is an ideal partner for renewables.

My second message to EU policy makers is that the industry needs visibility and security about the future use of natural gas in Europe, to give the necessary confidence to potential investors. Uncertainties are today too much on the high side.

I welcome you all, and wish you a successful conference.

I truly believe that this conference will be of a high value for everyone of us.

Thank you for your attention.”