

Panel Session 1:
RECENT INTERNATIONAL DEVELOPMENTS - NEW CHALLENGES
AND NEW OPPORTUNITIES FOR GAS

(Third IEF - IGU Ministerial - Gas Forum in Paris, Friday, 16 November 2012)

Ladies and gentlemen,

May I start by saying how pleased I am to be here today. Indeed, the topic of this panel – “New challenges and new opportunities for gas” – provides me first of all with an opportunity to share with you the optimistic view about the global gas market we at Gazprom subscribe to.

Although the economic ups and downs experienced in Europe – well, mostly downs – have continued to affect the Old Continent’s demand, what we observe at the global level is a structural trend towards increasing needs for natural gas. In 2011 alone, global gas trade increased by 4.2%, mostly due to increase in exports from Russia, Qatar and Turkmenistan. Despite the high growth of LNG supplies, pipeline transport is still the leader. Regional pipeline systems are continuing to develop rapidly, while interregional transportation facilities for network and LNG complement them, responding to the dynamics of global growth.

Despite the powerful factors of globalisation, today we can observe the emergence of three macro-regional markets– North America, Europe and East Asia. Each of these markets retains its regional identity. Asia, thanks to the region’s economic prosperity and prospects, is expected to experience a fast growing demand for gas. Developing economies in Asia are demanding more and more energy, while often not able to be guided by environmental considerations in determining their energy priorities. In this region, the issue of access of the growing population to modern energy sources and the issue of ensuring energy sources in accordance with economic growth are gaining the greatest relevance. In order to respond to these

challenges, we are launching works designed to boost LNG export capacities in Asia. We have also initiated the exploitation of the Bovanenkovo field to support our export capacities.

Whereas North America is planning its economic future based on self-sufficiency in raw hydrocarbons, the reverse process can be seen in Europe. European consumers will need increasing volumes of imports. There is a conservative estimate that by 2030, Europe alone will require an additional 140 bcm of imports a year.

As demonstrations of that confidence, we at Gazprom have continued this year to carry out projects aimed at increasing our delivery capacities toward both Europe and Asia. The second pipe of Nord Stream was constructed while we do expect works for South Stream to begin in a couple of week's time.

All these projects amount to colossal investments, for which we made decisions sometimes in spite of adverse political approaches and regulatory frameworks. As the topic of our panel rightly points it, opportunities always come together with challenges. And we believe that some of the greatest ones that natural gas is facing lie in inappropriate regulations and politics.

The EU energy market regulation has illustrated these threats with a remarkable constancy. Although gas should appear as a relevant energy source with regards to the European carbon objectives, policies held so far at both the European and national levels focused only on highly subsidized renewable energies. Europe continues to invest its hopes in non-market based initiatives, such as new binding market share targets for renewable technologies.

Support schemes for renewable energies have spiralled out of control. For example, Spain recently had to pull the plug on its renewable industry because the price of electricity had risen 17% above the European average due to a fivefold increase in government subsidies. In parallel, heavily polluting coal and lignite plants are celebrating a revival under the current regulatory regime.

Rather than ‘picking the winners’, Europe should live up to its mantra of an open energy market and fair competition. An unbiased and market-based approach would avoid messy experiments that cost billions for European taxpayers and consumers. Today, the gas industry does not need subsidies; it needs a level playing field.

Dear colleagues,

Understanding our role as a key natural gas supplier to the Eurasia markets, we also think about what actions need to be taken, to the extent possible, in order to prevent climate change in the coming decades. We think that we need to unite our strength in expanding the use of natural gas. In this regard, transport is the area with the most prospects.

Transport accounts for more than a quarter in the world energy balance, foreseen to grow to 30.8% by 2035. However, it also accounts for about 28% of carbon emissions. We, at Gazprom believe that the use of natural gas in transport can bring considerable economic prospects, while in the same time providing positive economical benefits to consumers and drastically reducing harmful emissions.

If more investments in technologies for natural gas use, including in transportation is needed, we believe it could result in a boom similar to the gas boom we see today in North America. Eventually, this will lead to an expansion of the market for natural gas as motor fuel.

We have been working on this issue for a long time and believe it is now reaching a critical stage. Being the leader in the NGV market in Russia today, Gazprom is actively working on the development of corresponding segment of the national auto transport. In order to promote its initiatives on introducing gas-engine fuel, Gazprom together with the National Gas Vehicle Association, annually holds a specialized exhibition GasSUF, an International Scientific Conference "Gas in motors", regular auto races Blue Corridor. According to Gazprom, in those cities and regions where the Blue Corridor was held in the previous years, growth in the sale of gas-engine fuel reached 17% after some time.

According to our estimations, major demand will come from countries like China and India in the coming years, and this demand will maintain the appropriate dynamics of the Asian gas market. We also firmly believe in the potential of LNG as a transport fuel. Depending on today's choices the demand for natural gas vehicle fuel could reach 80 bcm in Europe by 2030, approximately 10 times its level today.

However, further international efforts are needed to achieve tangible results. Automakers and companies willing to cooperate in international fuel infrastructure projects should be involved in the overall activity.

Dear colleagues,

I look forward to hearing your views on these issues and thank you all for your attention.

Merci