Dear Forum Participants,

As representative of Gazprom Export I will share with you our views on the future of natural gas in Europe. In my presentation I will focus on projections for gas demand in Europe and the benefits of broader use of natural gas in the European energy mix. Why are these questions so important?

In the time of a crisis, European gas importers are having difficulty forecasting demand for future gas imports. “How much gas import will we really need?” This is the key question going forward. Similarly, for suppliers, like Gazprom, to quantify the need for future investment has also become difficult. What we often hear from various analysts is that demand for gas in Europe will be in decline for years to come or stay flat year-on-year.

Slide 2.
To begin with let me share with you the preliminary results of the past year, a year that turned out to be extremely difficult for the industry. First of all we do not see a catastrophic decline in demand. According to preliminary data from the IEA and our estimates, gas consumption in Europe, and in Germany especially, has shown strong resilience in the crisis and contracted only 6.4 percent compared to a 14 percent decline in total industrial output for Western Europe in 2009. As of March 2010, it is possible to observe that demand in Europe has not been irreversibly damaged and that there are clear signs of recovery.

Slide 3.
According to major forecasting agencies, the situation will normalize within several years as result of an adjustment of supply and demand. The majority of scenarios point to 2012 as the year when demand is expected to fully recover. However it cannot be ruled out that the market will return to strong growth earlier than generally expected. Our conclusion is that the current gas demand contraction is temporary in nature and that it is a function of the economic cycle, not a sign of a structural crisis.

Slide 4-5.
To understand our strategy properly it is important to touch upon a subject of long-term demand: Nobody knows what the future will be. But without some estimate of the future, it is impossible to make any major strategic decisions today, including those that relate to price, volumes and needed infrastructure for sale of
natural gas. Gazprom’s business is based on long-term projects supported by long-term contracts, so forecasts for 20 years ahead are extremely important for us. The next slide presents a summary of key forecasts for gas in Europe up to 2030.

Gazprom Export made a composite of all the gas demand and European production forecasts for the next twenty years made by the leading global forecasting agencies. All these forecasts were made within the last 12 months. These forecasts have taken into account the effects of the economic crisis, shale gas, LNG and policies for limitations on carbon emissions, all the so called “game changers”. The collective wisdom of these forecasts indicates that demand will keep on rising while the indigenous production in Europe keeps on falling.

The consensus forecast derived from the above-mentioned forecasts indicates that there is a looming 240 bcm gap between demand and European domestic production by 2030. This gap has to be met with increasing supplies of imported natural gas. Let me point your attention to the fact that this is not Gazprom’s forecast, it is our aggregation of different forecasts by the agencies generally perceived be the most internationally respected.

What conclusions can be drawn from this consensus forecast? The gap between demand and European production has to be met with increasing supplies of imported natural gas. Even with Iranian gas and shale gas expected to be available at that time, it will be difficult for Europe to fill this gap. In addition to the problem of availability of overall volumes of supply, there will also be insufficient pipeline capacity to transit natural gas to Europe.

Slide 6

Therefore we do not see any objective reasons to oppose or impose limits on construction of any new pipelines bringing gas to Europe, including Nabucco. Given the level of projected demand, we feel that there is room in the market for many projects and suppliers. We also welcome shale gas developments in Europe and elsewhere. In fact, we believe that the abundance of economic shale gas will be good for the gas industry in alleviating concerns about security of supply.

Slide 7

It is premature to make any conclusion on how shale gas will change the European indigenous production but potential is high. Recoverable reserves of shale gas in Europe are estimated at 15 trillion cubic meteres, nearly half of Gazprom’s reserves of conventional gas. Who knows, it could be a right time to rethink the idea of a first gas lamp flared up in Freiburg many years ago.

EU policymakers obsessed with renewables have not yet addressed the shale question publicly. EU energy commissioner Günther Oettinger has not taken a
position on the issue but repeatedly stressed the value of renewable energy, pressing the EU to meet its renewable goal for 2020.

Slide 8.

Unfortunately views of the industry and of the politicians often do not match. And natural gas industry could serve as example of this. Let me quote in this respect recent statement made by the CEO of Gazprom, Aleksei Miller: “So far, the main goal pushed forward by some politicians amounts to nothing more than just a decrease in hydrocarbons consumption. Meanwhile, millions of our consumers will be at the mercy of a costly model for future energy consumption, a model that they will have to pay for.”

We also share opinion on this subject expressed by another respected industry leader, Tony Heyward, CEO of British Petroleum, a company which has been a trailblazer among energy majors in development of renewables and which has advertised itself under the theme “beyond petroleum.” In a recent speech in Argentina, Heyward said: “In the realm of alternatives, promising too much too soon is dangerous. It risks rendering the entire global effort – both politically and economically – unsustainable. And the world can’t afford that…Gas is the fuel that offers the greatest potential to provide the largest reductions at the lowest cost – and all that by using technology that’s available today. If we get it right, gas can transform the global energy outlook.”

Still the energy and climate change strategies of European countries fall short in attributing the importance of natural gas in a cleaner energy mix. The coalition agreement of the new German government is a good illustration for that. Calling for a “dynamic energy mix”, it fails to mention the importance of natural gas as a cleaner alternative to other conventional fuels.

Slide 9.

Duality of the European energy policy towards Russia negatively affects perspectives for natural gas in Europe too. Let me specify what I mean by duality. Günther Oettinger, recently confirmed European Commissioner responsible for energy policy, articulated EU policy towards Russia when describing its major goals: “The EU should reduce its energy dependency on Russia but the EU should not back out of the mutual partnership” (January 14, 2010).

To my mind, pursuing these two contradictory goals requires sacrificing one goal for another.
To my mind, trying to reduce energy dependence and developing a true energy partnership with Russia at the same time is similar to driving a car and trying to
accelerate and break at the same time. Pursuing these two contradictory goals requires sacrificing one goal for another.

Let us start by examining the goal of reducing dependence on Russia. Accomplishing this goal would imply the following action plan:
- Downgrade energy projects in the EU priority list which the participation of Gazprom.
- Provide EU financial subsidy for projects to ship gas to Europe based on the criteria that it circumvents Russia, even when there is not enough private commercial or financial support for the project. Promote “team spirit” with the Russophobe minority in the EU.
- Speak with one “tough” voice with Gazprom on energy matters.
- Subsidize any energy sources that claim to be an alternative to natural gas for reasons of energy security.

Now let us examine the other goal: building a strategic relation with Russia, based on the serious and constructive approach of common interdependency. This goal implies a completely different action plan:
- Upgrade projects with Gazprom participation in the EU priority list.
- Consider gas projects circumventing Russia on a commercial, not political basis.
- Treat the EU solidarity principle as the right for any member state to buy Russian gas.
- Assure security of demand for Gazprom.
- Make broader use of natural gas in the EU’s energy mix as the cleanest fossil fuel.

The EU should review the validity of its goal of decreasing dependence on Russian gas in the name of energy security. There is no evidence of such a threat. Europe, like all large markets, is best served by a diversity of suppliers and a mix of energy forms to ensure a stable portfolio of supply. Gazprom understands this market reality and is embracing the competitive implications this holds for its long-term plans. Yet, this diversification of the energy supply portfolio for the EU should result from market drivers and not political drivers. It is not possible to create a true pan-European energy identity in a Machiavellian way by inflating a false threat.

Slide 10.

Let me now turn to the opportunities that Europe may miss in relation to natural gas. Increasing the natural gas share in the EU energy mix by just 1% would reduce CO2 emissions by more than 3%. And by replacing every second coal-based power plant with modern gas-turbine units, Europe could achieve practically half of its 2020 emission reduction targets in a short period.
By choosing low-cost, reliable gas technology, the net cost will be moderate in comparison to other solutions, such as nuclear or renewables. We estimate that the same amount of CO2 savings from renewable power (wind) would cost an additional $150bn, or almost 4 times more, in terms of investment cost. Currently, a large part of this cost is being provided via subsidies that are ultimately paid for by the end consumer. Compared with nuclear, we estimate the investment cost saving would be $100 bn.

One may ask me a question what to do with a fleet of gas-fired plants when Europe will move further on to carbon free economy after 2050. Believe you in carbon free economy or not, fleet of gas fired plants will be needed in the future. Every 4 installed megawatt of wind capacity requires at least 1 megawatt of back-up gas-fired generation. In any case gas plants are a must to shave demand peaks. Man cannot make the wind blow and the sun shine, but he can make the turbines roll. There is also a carbon capture storage (CCS) technology. Why not to apply CCS technology to gas-fired generation?

In short, there is no comparison between reliability in peak hour supply of power generation from renewables such as wind, wave, or solar, and from gas-fired generation. For example, in the UK, the load factor for wind generation at the peak system load in winter over the last six years has ranged from zero to fifty percent. But in two of those years the load factor for wind generation was in the range of zero to ten percent. In effect, wind cannot be relied on by planners or grid operators to meet system peak. Similar figures have been observed in Germany, Europe’s largest wind producer.

Slide 11.

The benefits of using gas in transport applications as motor fuel are numerous. Many industrial countries are naturally concerned about security and sustainability of dependence on oil. The electric car is one solution. Other solutions are biofuels. The benefit of using gas compared to these options would be fourfold.

- First, use of gas would also reduce reliance on existing liquid fuel suppliers, and therefore enhance supply security.
- Second, emissions of key toxic fuels – sulphur, combustion particulate matters (PM) and polyaromatic hydrocarbons (PAH) – would be avoided, significantly enhancing sustainability.
- Third, the distortion of agricultural markets and cannibalisation of the supply from these markets would be avoided - enhancing both security of agricultural supply and of transport fuel supply.
- Fourth, a level of subsidies and incentives for biofuels could be avoided – enhancing least-cost solutions and competitiveness.
Gas to liquid conversion (“GTL”) is one such technology that can be used in transport fuels. GTL is a developed technology originating from Germany, and one which makes sense at a given oil price. Another is CNG, already used in some transport fleets. But if subsidies are being handed and targets mandated for biofuels, obviously the provision of this solution via the market will be distorted. We, the gas producers, therefore need to be heard in the debate about use of energy in transport. Analysis of the benefits and costs is something that we will continue to develop, in both financial and qualitative terms.

It is high time to put the record straight and make the value of natural gas for combating climate change and peak oil in a timely and cost-efficient way plain. Let me also share with you another practical observation on this subject. Despite lower demand last year, our European buyers have not asked us to lower contract volumes for the longer term, which explicitly indicates their demand expectations.

Thank you for your attention.