

15th Annual Session of the UNECE Committee on Sustainable Energy

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- Old and new trends in EU gas market liberalisation
 - *Future of long-term contracts*
 - *Ownership unbundling*
- Rising risks for producers and consumers alike in securing stable and reliable deliveries
 - *Unstable legal regime*
 - *Investment uncertainty*
- Producers' strategy to preserve and develop their market position

Future of long-term contracts

Ability of free markets and market forces to promote energy security is widely questioned.

Reasons:

- *Gas release programmes*
- *Volume and duration constraints for contracts between importers and distribution companies*

Results:

- *Increased pressure on long-term contracts*

Ownership unbundling

- *“liberalisation process itself creates investment uncertainty for the producer countries...and this could cause a supply shortfall in the next decade” (1)*

More reasons for it now:

- *“There has to be a structural solution that once and for all separates infrastructure from supply and generation. In other words: ownership unbundling.” (2)*
- *“We will undoubtedly propose separation in the European energy market...this really is the current tendency” (3)*

(1) “Study on Energy Supply Security and Geopolitics”, January 2004.

(2) Neelie Kroes, European Commissioner for Competition Policy, A new energy policy for a new era Conference on European Energy Strategy – the Geopolitical Challenges, Lisbon, October 30, 2006

(3) President of the European Commission Jose Manuel Barroso, Joint Press Conference following the Russia-EU summit meeting, November 24, 2006, Helsinki

Ownership unbundling (cont.)

- will ownership unbundling which undermines fundamental private property rights stimulate investments in gas industry?

Multibillion decisions are now difficult to take:

- *investment decisions on construction of Nord Stream and participation in BBL pipeline need to be taken soon*
- *previous investments in Germany and Great Britain are at risk*

- Integration risks add to the uncertainty of legal and investment framework
- Polish demarche sets a potentially precarious precedent in the EU external relations
- the problem of managing “27 *different voices*” recognized in EU at the highest level



Summer 2006:

- *Agreement with E.ON Ruhrgas to prolong gas supply contracts till 2035 (total volume - 300 bcm);*
- *Supply contract with E.ON Ruhrgas till 2036 to deliver up to 100 bcm via Nord Stream*



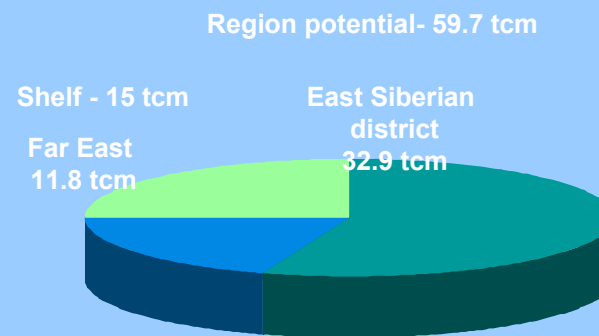
November 2006:

- *Strategic partnership agreement with ENI envisaging prolongation of supplies to Italy till 2035.*

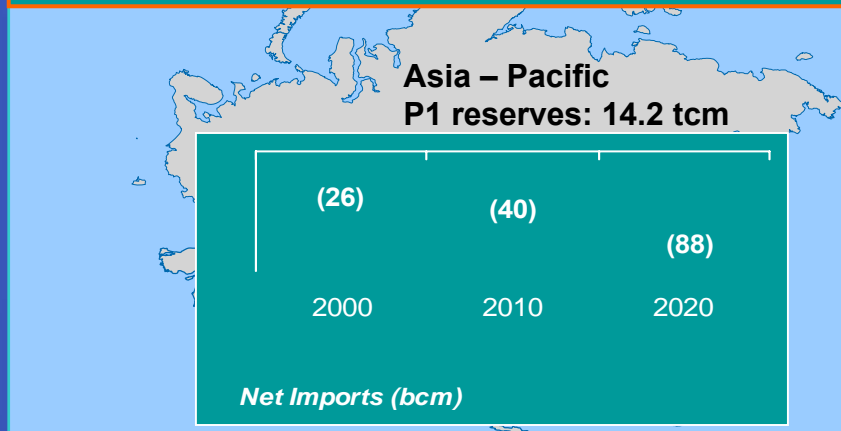
Meeting East Asia's Future Demand



East Siberia and Far East gas reserves⁽¹⁾



Strong Growth Expected in the Asian Gas Market



East Siberia and Far East Gas Production Projections⁽²⁾

bcm p.a.

Projected gas deliveries to China⁽³⁾

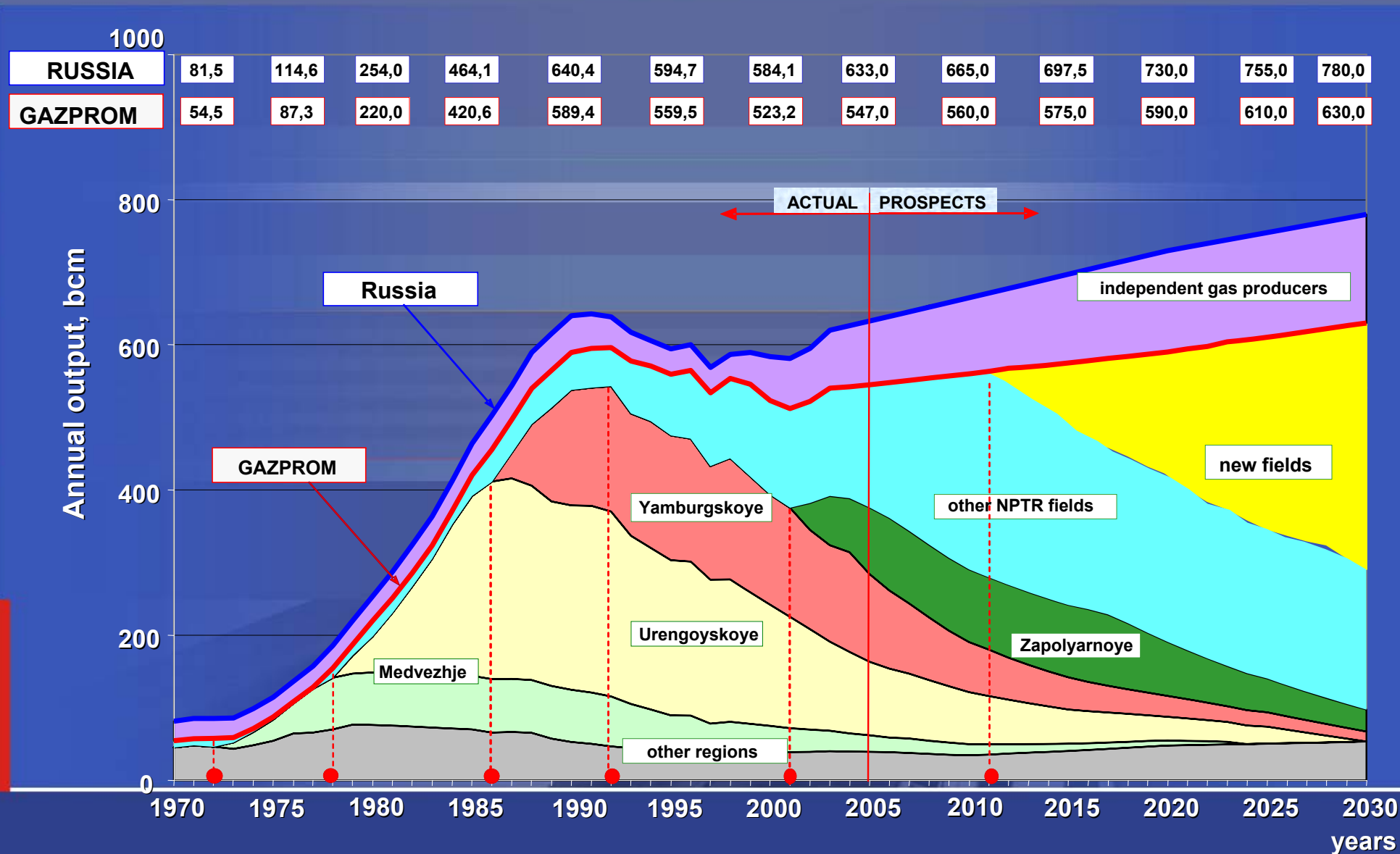
- Deliveries to start in 2011
- Annual volume - up to 30 bcm
- Deliveries period - 30 years

(1) According to the Russian classification A+B+C1+C2+C3+D

(2) According to the Program of the unified production, transportation and distribution system development in East Siberia and the Far East to be approved by the Government in 2006

(3) According to the Protocol of cooperation signed by Gazprom and CNPC on March 21, 2006

Gas Production In Russia



Urgent problems to address

If Europe wants to be competitive with other consuming markets it will need to address the following issues:

- *Transport infrastructure investments are burdened with legal, integration and entrepreneurial risks*
- *Companies willing to provide such investments need clear, stable and economically reasonable playing rules in energy sector*
- *Due to natural gas market becoming truly global Europe will face increasing competition from emerging demand centers*

Is Europe ready?