Ladies and gentlemen of the press, it is a great pleasure for me to address you today, on the occasion of tomorrow’s celebrations.

In these short remarks, I would like to consider this important event in the context of some of the changes that we see in today’s energy world. I will be drawing upon the recently published IEA World Energy Outlook, which contains our analysis of global energy trends and developments out to 2035.

My main message to you today is that the foundations of the energy system are shifting in ways that affect all of us. No one is immune from this process - not Russia, not the South Stream project that we are here to mark, and not the IEA member countries.

I would like to highlight just a few of the most relevant changes affecting the gas sector.

As many of you will be aware, we are living in extraordinary times for gas markets. The resurgence in gas production in North America, driven by unconventional gas, means that this region is expected to become a small but significant gas exporter, a development that was almost unthinkable a few short years ago.
Unconventional resources are not limited to North America. Elsewhere in the world, rising consumers like China can also expect that domestic unconventional gas will meet a part of their future demand.

But the outlook for gas markets among the main regional markets varies significantly, accompanied by huge discrepancies that we see in prices - from very low levels in the United States to prices four or five times higher in Europe, and six to eight times higher in the Asia-Pacific region.

In the United States, gas is edging coal out of power generation and giving industry across the region a competitive boost.

In Europe, we see the opposite result, with coal making a comeback at the expense of higher-priced gas. Against a backdrop of economic uncertainty, European gas demand declined by 11% in 2011, and the indications are that there may be a further decline in gas consumption in 2012.

There is one notable and major exception – and that is Turkey, where gas consumption is steadily growing. Russia already plays an important role in supplying Turkey, and that relationship has the potential to strengthen further.

In the Asia-Pacific region, we see strong policy support for gas and very strong potential for consumption growth, but widespread concern among importers at the cost of new supplies.

Looking at today’s market conditions, investing in a major new infrastructure project on the promise of a brighter future for European gas could be seen as a brave choice. South Stream represents many things to many people, but it would also be a vote of confidence in the future of European gas.
From an IEA perspective, we see some reasons to believe in a brighter future for European gas markets, even if this will take some time to materialise. In our projections, European gas demand takes until the end of this decade to return to 2010 levels, but it continues rising steadily thereafter.

It is pushed higher by the same factors that are pushing gas use higher in many countries around the world, particularly in Asia:

- Gas is an attractive fuel; it is flexible and well suited to power generation, including power systems that are integrating electricity from renewable sources of energy,
- It offers environmental benefits compared with other fossil fuels,
- Gas reserves – both unconventional and conventional – are more than sufficient to meet global demand for many years to come.

Although coal use is buoyant for the moment, over time we believe that there will be a trend of declining coal fired power generation in Europe. Old coal-fired power plants will be decommissioned during this decade, alongside some nuclear capacities, while electricity demand will increase. There will be a strong development of renewables in Europe but it will leave much room for gas to grow.

What’s more, over the coming years, demand for gas imports to the European Union is boosted by a continued anticipated decline in EU gas production, and uncertain prospects for widespread development of the continent’s unconventional gas potential.

So in our projections, the requirement for imported gas in the European Union is set to rise from around 340 bcm today to well over 500 bcm in 2035. This is
more than enough for Europe to retain its place as the largest market for imported gas in the world.

But in the future that market will not be governed by the same certainties that exporters may have become used to.

This market will be open to any competitive player. There will be room for higher imports from Europe’s main traditional suppliers, including Russia, Norway and Algeria, as well as from new external suppliers. This diversification of supply sources can create the competitive environment in European gas markets and boost the potential role of gas in the future European energy mix.

At the IEA it is not our role to favour one pipeline project over another. But as a general rule, diversification of supplies to Europe should be in the interest of the gas industry – and in the interest of European gas security.

And our projections suggest that a variety of suppliers will be ready to respond. These could be on Europe’s periphery, but also more distant exporters in North or South America, West Africa, the Middle East or the Caspian. They could be bringing gas to Europe by pipeline or an increasingly flexible LNG trade. They could be projects supplied by conventional gas or, in the case of the United States for example, by unconventional gas. At the same time, new regions – such as Eastern Africa, the Black Sea or the Eastern Mediterranean – are appearing on the European gas radar screen.
The European regulatory framework is evolving in favour of a fully open and liberalized market, extending not only across the Union itself but also across non-member countries that are part of the Energy Community Treaty in Southeast Europe and Eastern Europe.

This development is one that the IEA fully supports, and it is the environment in which South Stream would have to operate. Regulatory conditions that support well-functioning markets will be key to flexibility, competition, and investment both in Russia but also in Europe. A well functioning single EU gas market is in the interest of Europe as well as Russia.

Ladies and Gentlemen, we all have an interest in projects that can:

- enhance Russian gas supply security to Europe;
- strengthen European-Russian cooperation;
- and enhance the development of European-Russian gas trade.

At the same time, we have to recognize that Russia faces a more competitive gas environment for export.

I believe that Russia has the resources, the capacities, and the infrastructure to meet these challenges.

But the picture that I have tried to paint of gas markets in the future will create some new pressures along the way:

- It will mean pressure to control costs and improve efficiency all along the value, chain and to adapt business models and operations to the European Union third energy package;
- It will mean pressure to price gas in a way that makes it competitive with the terms offered by other suppliers.

- It will also mean pressure to adapt and react to developments in an increasingly globalised gas marketplace, and to find new ways to manage the risks that accompany investment in large projects.

I am convinced that these considerations will not only determine Russia’s ongoing role as a pivot of European supply. They will also be important as Russia develops its presence on the other end of this continent, and looks to expand its presence as a gas exporter to fast-growing Asian markets.

Thank you.