Ladies and gentlemen, good morning. Let me begin by thanking the IGU for the opportunity to address such a distinguished audience from industry and policy circles.

This meeting offers an invaluable opportunity for frank dialogue among an informed group which is actively engaging in the commercial exchange which is at the core of Europe’s energy security. My Director for Energy Markets and Security, Mr Didier Houssin, who is here tonight, will take part in tomorrow’s roundtable and represent our views in your discussions.

But tonight, I would like to discuss three things. First, I want to offer some comments on the energy market, particularly with regard to gas. I will then discuss how this situation may affect European-CIS relations. And I would like to finish by telling you what we do at the IEA to affect gas security in particular.

However I want my message to be clear – the relationship between European consumers and CIS producers must be based in commercial and regulatory reciprocity, legal and transparent investment climates, and mutual political trust. This is important on both sides, to guarantee security of supply and also security of demand. Our interests are simply two sides of the same coin, and they will not go away any time soon.

On the market... The entire period since 2007 has been eventful, but the last year has been particularly turbulent.

Certainly the most pressing issue is the outlook for economic growth, which holds the key to energy prospects for the next several years. Unfortunately, the risks appear to be increasingly on the downside. Those risks are largely responsible for the modest decrease in
oil prices since earlier this year. Potentially lower energy input costs are of course welcome, but not if they are the result of another economic crisis. Uncertainty in energy markets and highly volatile prices risk hindering industry efforts to plan and realise new energy investment.

- After the Fukushima Daiichi nuclear incident, there are also new uncertainties about the future role of nuclear power. Changed policies have been most visible in Europe, but it has affected the debate everywhere. In analysis to be published in our upcoming World Energy Outlook, we believe that a scenario with significantly reduced nuclear would put upward pressure on energy prices in all countries, raise concerns about energy security, and make it harder and more expensive to combat climate change.

- I should say that we don’t actually project such a scenario, particularly since the main emerging economies driving nuclear growth are unlikely to change tack dramatically. Still, it is fair to say that past projections for nuclear growth now seem optimistic.

- It is also fair to say that natural gas is the fuel that will benefit the most from a switch away from nuclear in Europe.

- And mounting worries over climate change are creating further opportunities for natural gas. These are some of the reasons why in the current market environment we can call natural gas the “fortunate fuel”. But whether we are on the cusp of a “golden age” of gas is not yet certain.

- What do these developments mean for our discussions? Well, there are many aspects of this picture that look positive for CIS producers. Russia is the largest reserve-holder of the ‘fortunate fuel’, and Caspian producers play an increasingly important role. Both are well placed to increase output if the demand for natural gas is there. That means both traditional markets in Europe, and to new export markets in Asia and particularly in China, where policies are now very supportive of a rapid increase in gas consumption.
• And new market dynamics in Europe are changing the nature of Russia’s gas relationship with the European Union. Comparatively high oil-indexed gas prices have sparked tough negotiations between some European companies and Gazprom. Indeed, the case for coupling gas prices to oil prices in long-term contracts is weakening – gas demand growth in Europe is increasingly concentrated in power generation, and oil is no longer a competing fuel in that sector. Gas prices should reflect competing alternative sources as well as spot market trends, and thus more closely follow supply and demand patterns.

• All this being said, I do not believe that prices or pricing mechanisms should ever be legislated or mandated. But competition rules have to be respected, and in this regard I will be interested to learn the results of the competition investigation the European Commission started this week.

• Market dynamics are also being affected by new sourcing options. Indeed European gas consumers have more choices than in the past. This is thanks to the expansion of LNG trade; to the development of unconventional gas resources; and to continued progress towards a more interconnected European natural gas grid. But the impact of growing Asian demand on global LNG markets means that there is no room for complacency on gas supply security. Investment must continue along the entire gas value chain.

• Because despite these new options, traditional transit routes and relationships are still important. Indeed such relationships are also key within the CIS, between producers and transit states. New pipeline projects (such as the recently-completed Nord-Stream) increase supply diversity for Europe but obviously complicate those relationships. I understand that Russia is in difficult talks with some of its neighbours, and of course this is for the parties themselves to resolve.

• However let me stress, that such disputes should never be allowed to interfere with the delivery of gas to European consumers, whose well-being and livelihood could be adversely affected through no fault of their own. Our message is that neither oil, nor gas, nor a transit monopoly, should ever be used as a political tool in bilateral relations. And commercial discussions on transit should be settled through legal procedures, without putting at risk the
supply security of end-consumers. The danger is that gas comes to be seen as relatively insecure, and this could put in jeopardy its rightly prominent role in the European energy mix.

- So while the nature of the energy relationship between the EU and CIS countries may be changing, the potential for a productive and beneficial relationship in the future remains very strong – even as these countries diversify their export markets and as Europe looks to transform its energy economy.

- How can this come about? As for Russia, let me say that improved energy relations will revolve around trust. Facilitating and encouraging greater investment, particularly upstream, will continue to prove a major challenge in Russia. Foreign investment is important to unlocking resources in places that are deep, cold, and hard to access.

- But the legal and regulatory impediments to such deals unnecessarily restrict the secure supply of Russian resources.

- For all CIS countries, greater access and cross-border investment both upstream and downstream, will require modern and stable governance including transparency, respect for the rule of law in corporate governance, and liberalized and fair competition.

- Diversified markets should be seen as a boost to European-Russian relations. This is true whether we are talking about imports to Europe from other CIS countries, or about Russian markets in Asia. Diversity reduces frictions born of excessive interdependence, and helps to de-politicize energy flows. Both improve trust, and enhance interregional cooperation and investment. Neither security of demand nor security of supply suffer from diversity.

- Such moves could help unleash the great potential for broader, mutually beneficial European energy relations with CIS partners and especially Russia. That includes cooperation on various issues such as energy efficiency, the liberalisation of markets, and the phasing out of energy subsidies. On all these issues the IEA has sound capacity and a
willingness to share its expertise. But energy security remains at the core of EU-CIS relations, and indeed it is at the core of our mission as well.

- Yes - the IEA was founded on energy security, and specifically oil security. But our mission is comprehensive to all fuels, and the IEA is also looking closely at gas and electricity security.

- How do we add value here? We are continuously reviewing the gas emergency policies of all IEA countries, and give recommendations for improvement where necessary. Well integrated markets, both in terms of trade and physical flows, are essential. In time of need, gas must be able to flow to where it is most needed. But shortages can and will occur, so diversified portfolios, gas stocks, fuel switching capacities, and demand response can all contribute to better resilience.

Such tools need to be functional and on-call at all times, because often disruptions are caused by accidents or natural disasters - and totally unrelated to geopolitics.

- IEA countries are now implementing these recommendations. We also stand ready to conduct similar assessments of non-Members, if called upon. Recently both Chile, a candidate country to the IEA, and Thailand asked the IEA to assess their oil, gas and electricity security. I have no doubt that other countries will follow, and we are happy to share our knowledge.

- So to conclude, let me leave you with a few messages.

- First, we live in a time of great uncertainty in global markets, and particularly energy markets. But gas is particularly well positioned to benefit from that situation.

- Second, European energy relations with CIS countries - and especially producers such as Russia – will therefore stand to gain in prominence. But a close partnership and sufficient investment will both depend on reliable investment frameworks in CIS countries - and also on fair and stable European policies.
• Third, relationships among the CIS countries, particularly between producers and transit states, are understandably complex. New transport options to Europe and Asia ultimately help to depoliticize energy trading and diversify markets, but can disrupt existing patterns. Trust and transparency among CIS states will be as important to those tensions as they are to relationships with Europe.

• Finally, the IEA was founded on the principle of promoting energy security, and actively reviews and advises both member and non-Member governments. We stand ready to help.

• Thank you for your attention.