Ladies and gentlemen, good morning. Let me begin by thanking Professor Mangold for this opportunity to be with you today.

This is the first external event I have participated in since taking over as the Executive Director of the IEA yesterday. Personally, I cannot think of a better way to start in the job; this meeting offers an invaluable opportunity for a frank exchange of views with such an informed group of leaders from government and industry.

Although the entire period since 2007 has been a historically turbulent one, it now seems calm compared with the events of only the last year. But, I believe a number of the developments that have taken place have given a new impetus to EU-Russia relations.

Certainly the most pressing issue is the outlook for economic growth, as this holds the key to energy prospects for the next several years. Unfortunately, the risks appear to be increasingly on the downside. There are persistent concerns over debt levels in Europe and the US, and signs of a slowdown in growth in China and India. These factors have contributed to oil prices dropping back from worryingly high levels since early-August. Lower energy input costs are of course welcome, but not if they are the result of
another economic crisis. Such uncertainty leads to unpredictable energy markets and highly volatile prices which hinder industry efforts to plan and realise new energy investment.

• The devastating Fukushima Daiichi nuclear incident has further complicated energy markets by raising questions about the future role of nuclear power in meeting the world’s energy needs. A few countries have already changed policies, either by abandoning previous steps towards building new nuclear plants, as in Italy, or by accelerating or introducing timetables for the phase-out of nuclear plants, as in Germany and Switzerland. In view of this post-Fukushima uncertainty, the next World Energy Outlook which the IEA will be publishing in November will include a special analysis to illustrate the possible consequences of a much smaller role for nuclear power in the global energy mix. We believe that such an outcome 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.

• But it is important to stress that in our base case scenario we don’t actually project a dramatic shift away from nuclear power. Those key economies which are driving expansion of the industry – such as China, India, Russia and Korea – are unlikely to change track. And while even in Europe policy reactions will vary considerably, it is fair to say that past projections for growth in nuclear capacity may now be viewed as optimistic. It is also fair to say that natural gas is the fuel that will benefit the most from a switch away from nuclear power 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”.

- Another key issue shaping energy markets at present is the so-called Arab Spring in the Middle East and North Africa. This led to an almost complete halt to the supply of oil from Libya, prompting IEA member countries to release emergency stocks for only the third time in the organisation’s history. There are now promising signs that we are arriving at a post-Gaddafi Libya, and could see a resumption of production, hopefully in the near future.

- Nonetheless, these events have highlighted that consuming nations face a significant risk of short-term disruptions to energy supply as a result of political instability in the MENA region. In response, it is essential that we step up efforts to maintain diversified energy supplies sourced from multiple import partners, while also expanding domestic energy production including from renewable sources.

- What do these developments mean for today’s discussion? Well, there are many aspects of this picture that look positive for Russia. Russia is the largest reserve-holder of the ‘fortunate fuel’ and, in our view, both Gazprom and non-Gazprom producers are well placed to increase output if the demand for natural gas is there. This applies both to Russia’s 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.

- Russia has also been a major beneficiary of the run-up in international oil prices since 2009 – even if these have tailed off in recent weeks. We estimate that, if today’s oil prices become the average for 2011, this will mean 100 billion US dollars in additional oil and gas export revenues for Russia this year, compared with 2010.

- But the current situation also carries some risks. Oil and gas exports account for around two-thirds of overall export earnings in Russia and revenues from these sectors contribute over 40% of federal budget income. As we saw already in 2009, this leaves the Russian economy quite exposed to the impact of any downturn in international economic activity and energy demand. These circumstances underline the importance of Russia’s political priority to reduce reliance on oil and gas in the national economy and also to improve the efficiency of Russia’s own energy consumption.

- And new market dynamics in Europe are changing the nature of Russia’s gas relationship with the European Union. In terms of pricing, oil-indexed gas prices have proven to be highly problematic since the economic crisis. In 2009, spot gas prices were up to three times lower than oil-indexed prices. This has put many European gas companies in a difficult position, and sparked tough negotiations with 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 no longer a competing fuel in that sector. Nowadays, it is hardly used for power generation in Europe. Gas prices should reflect competing alternative energy sources as well as spot market trends, and thus more closely follow supply and demand patterns. Spot markets need to develop further. Russia could benefit from such developments, which would limit the impact on Russia of demand swings in Europe.

- In terms of sourcing options, European gas consumers have more choices than in the past, not least because of the unprecedented expansion of LNG trade. These choices could expand further with the development of unconventional gas resources and continued progress towards a more interconnected European natural gas grid. Nevertheless, due to the increasing impact of growing Asian demand on global LNG markets, there is no room for complacency on gas supply security.

- And yet despite such new options, traditional transit routes and relationships are still important. I understand that Russia is in difficult talks with some of its transit-state neighbours, and of course this is for the parties themselves to resolve. However let me stress, that disputes with transit countries should never be allowed to interfere with the delivery of gas to European consumers, whose wellbeing and livelihood could be adversely affected through no fault of their own. Our message is that neither oil, nor gas, 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. Otherwise, the deservedly prominent role of gas in the European energy mix could be jeopardized as policymakers take steps to minimize perceived security risks associated with import dependency. And as for upgrading transit infrastructure, I would like to express support for approaches that involve both suppliers as well as customers to reach sustainable solutions.

- While the nature of the energy relationship between the EU and Russia may be changing, the potential for a productive, beneficial relationship in the future remains very strong – even as Russia diversifies its export markets and Europe looks to transform its energy economy.

- As you may know, every year we choose a country or region for special examination in the IEA World Energy Outlook and, this year, we are in the process of completing a major analysis of the energy outlook for Russia. Reading the draft over the summer, I was struck - once again - by how much Russia can contribute to the achievement of Europe’s broader policy objectives – and vice versa.

- How can this happen? Improved EU-Russia energy relations will revolve around trust. Facilitating and encouraging greater investment, particularly upstream investment, will continue to prove a major challenge in Russia. I am pleased to see this week’s Exxon-Rosneft deal in the Arctic, but stress that the legal and regulatory impediments to other such deals unnecessarily restricts the secure supply of Russian resources.
• Greater access both upstream and downstream, and indeed the facilitation of broader cross-border energy investment overall, will require modern and stable governance including greater transparency, and respect for the rule of law in corporate governance in Russia, and liberalized and fair competition on both sides.

• Recurrent transit issues would also benefit from increased transparency, and I believe the time is right to put a trilateral gas consortium in Ukraine back on the table.

• Diversified markets, and indeed diversified sources and customers, should be seen as a boost to EU-Russia relations by reducing frictions due to excessive interdependence and helping to de-politicize energy flows. Both would improve trust, and enhance interregional cooperation and investment.

• Such moves could help unleash the great potential for broader, mutually beneficial EU-Russia energy relations. Europe provides a natural partner for Russia as it seeks to develop a more diversified, efficient and broad-based national economy. And Russia, with its wealth of natural gas and also of renewable energy resources, can be instrumental to achieving European energy and climate goals.

• Realising such a positive vision will require a strong dialogue between governments, companies and other stakeholders on all sides; this is another reason, Mr Chairman, why I was particularly
pleased to make this my first engagement as IEA Executive Director.

- Thank you for your attention.