

NOEL: Thank you very much, Mr. Chairman, for inviting me today. I am Pierre Noel. I work at the Judge Business School at the University of Cambridge in the UK, but you will have already noticed from my accent that I am from another European country.

I will talk today on the EU-Russia gas relationship and the security, security treaties and what can be done about them.

What is the interest of Europe? The interest of Europe is quite clear. It's in the de-politicization of the gas relationship with Russia and it is in bringing Russian gas into a competitive framework to supply the European markets.

These two objectives were embedded into the energy charter treaty and its transit protocol.

What are Russia's interests? Russia's interests are maintaining and growing politicization of the gas relationship with Europe and toward limiting competition against Russian gas in Europe, in the European market, especially alternative gas from Central Asia.

So the gap between these two positions could not be greater. They are completely opposed and this gap cannot reasonably be bridged by some sort of a compromise position, and this fact is now well, I think, acknowledged in Europe it has always been the case over the past 10-15 years. But this is now quite well acknowledged in Brussels and in the European capitols.

This gap, I believe, is the root cause of the uneasiness in Europe, the growing uneasiness towards our dependence on Russian gas.

So where does it leave us? Can we live in such a situation? Well, we have (inaudible), our big external supplier, which has a conception, a perception of what this relationship should be, which is completely at odds with ours.

Can we live with that? What are the risks? What can be done to hedge against these risks?

I think that there are two risks, basically. One is the risk of supply disruption and the other one is what I would call the scarcity risk. The risk of supply disruption, it's important to note, would be with us even if Russia shared our view of what this conventional energy relationship should be.

What can be done? The key measure, I believe, is purely an EU-centered or EU-focused measure, is the creation of an integrated competitive European gas market. If we at last created this common gas market, we would create de facto solidarity between EU, EU countries. We would massively increase the fungibility of the EU gas market, just as the North American gas market is now completely integrated, completely competitive and completely fungible.

That's absolutely not the case in Europe. So the member countries, and I will not name them, but the member countries who oppose such a move against the will of

the EU commission and some of the member countries, these countries do the EU and energy security a disservice and they should, I believe, amend their policy.

You have (inaudible) to ensure quality review exceptions in terms of building strategic gas storage. We have, as everybody has, a lot of commercial gas storage, but no strategic gas storage. Maybe we should think more carefully about that.

We can also increase the shortened demand elasticity by requiring gas-fired power stations to maintain petroleum products inventory in case their gas supply contract had to be interrupted.

We can also, it would probably be expensive, but we can also mandate spare LNG re-gasification capacities to allow the gas market to attract more LNG (inaudible) from the open international market in time of crisis.

The second risk is the scarcity risk. It's, to be clear, the risk of -- I mean, if we have to face a sustained restrictive gas policy from Russia, in other words, if Russia is either unable or unwilling to expand its gas supply to Europe as our needs grow.

Well, it's very much the situation we are in, but how should we react? How should we respond to the prospects of this situation going into the future?

First of all, I think it's important to note that this Russian strategy is a self-defeating strategy. Russia is pricing itself out of the European markets, and I can give you the numbers, if you're interested, afterwards.

Beyond that, I mean, beyond the fact that they are damaging their own market share in Europe, we can do several things to maximize competition against Russian gas in Europe. Norway is benefiting massively from the Russian restrictive gas strategy in the European market. We have more liquid natural gas coming into Europe from various places in the world and we increase our North African imports.

The U.S., as far as Central Asia is concerned, and I will not repeat what has been said by the State Department officials, but the U.S. has worked quite effectively towards increasing competition against Russian gas in Europe from Central Asia.

I have to touch briefly upon the Iranian question. If you think globally, I mean, one of the obvious potential candidates to sort of check the Russian monopoly power on the gas market is Iran and, on this issue, the U.S. has been much less helpful than on the Central Asian case, though there are other barriers and it doesn't mean that there are not serious issues for treating Iran differently, but I think this had to be said.

Then, of course, competition against gas does not only mean non-Russian gas. It also means all the technologies to purchase electricity and so continuing and expanding R&D investment into clean coal and renewables and next generation nuclear power are all strategies that can make a difference in terms of reducing Russian market power in Europe and also in Asia.

So just to conclude, just a few thoughts as we have conclusion. I think the threat perception in Europe has been exacerbated by the Ukraine crisis. I believe that

the level of threat perception currently in Europe is probably a bit exaggerated as far as the risks are concerned linked to our dependence on Russia.

I think that provided we put in place the policies to deal with these risks, we can live with this gas relationship as it is, even given the deteriorating political context of this commercial relationship. But the perception gap between Russia and the EU that I have outlined at the beginning of this presentation makes it, I think, very unlikely that this trade between Russia and Europe will grow into the future. I think it will, at best, plateau and probably decline.

Thank you very much.