



Remarks by Paolo Scaroni, Chief Executive Officer, **eni**
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Good evening ladies and gentlemen. I am pleased to be here tonight and thank Daniel Yergin for inviting me to address such a prestigious audience.

Around the world, energy and political leaders know how important CERAWeek is and the unique role it plays.

A year ago, at CERAWeek, the big issue for the industry would have been oil price volatility: on the 8th of March 2009, oil was trading at 44\$ a barrel, less than a third of its pre-crisis peak.

A year on, oil seems to have settled down quite nicely, between 70 and 80 dollars a barrel, through a combination of supply management from OPEC and the fact that the global economic system has escaped meltdown and shows signs of recovery.

The big issue today is no longer volatility in oil, but volatility in the natural gas market.

That leads me to my theme this evening. Natural gas is going to be an increasingly important part of our energy future. We believe that at **eni**, and it is central to our strategy. But we have to understand both what is changing and what the trends are.

The gas market has undergone something of a revolution. On the one hand, the emergence of shale gas has dramatically reduced the need to import gas into the US, freeing up a lot of supply for the rest of the world. On the other, global demand has collapsed owing to the economic crisis and recession.

The net result is that, where we used to see a tight market, we now have a world which is awash with gas. Where we used to see gas prices rising year after year, we have now seen, them fall to roughly a third compared to their peaks. And where we used to see investment in import infrastructure, we now see almost idle LNG terminals in the US and partly empty import pipelines in Europe.

Add this all up, and it looks like concerns about supply security are a thing of the past.

But there are three good reasons to believe that supply security will climb back on the global agenda before too long.

- The first is that low prices, coupled with the economic recovery, will stimulate a bounce-back in gas demand.
Just think - it is now cheaper to generate electricity using gas rather than coal, which clearly provides an incentive to switch to gas wherever possible.
In the US, for instance, in the context of a 5% decline in total electricity generation in 2009, gas-fired generation grew by 4%.
We can see the same trend everywhere we look: in the UK, for example gas-fired electricity production rose by as much as 9% last autumn.
- The second reason is that gas demand growth is not just driven by a cyclical bounce-back from recent lows. It is a secular trend.
One day, alternative energy sources will perhaps replace fossil fuels.
But until that happens, gas is the best way we have of combining economic development and environmental preservation - including tackling climate change.
Gas is by far the cleanest fossil fuel, emitting 50% less CO₂ than coal and 30% less than oil when used to generate one KW/h.
Gas can also complement renewable energy; given the intermittent nature of wind and solar power, gas-fired power plants are ideal for providing the necessary swing capacity.
- And finally consumption growth is only one side of the equation.
Low prices are also having an effect on gas supply, causing investment in production and infrastructure to more or less dry up.
Gas projects are being postponed all over the world and all along the value chain.

All this means that, in the not too distant future, gas will come full circle and we will need to prepare for a tight market, higher prices and concerns about security.

That will not be much of an issue in North America, which will be largely self-sufficient thanks to the shale gas. It will however be very much an issue in Europe and Asia.

Just think – in 2009, demand fell by 7% in Europe and 5% in Pacific OECD countries, knocking something like 50bcm off consumption, or, if you prefer 5bcf per day off consumption. Those 50 bcm are coming back – possibly as soon as 2012, assuming the economy recovers.
And after that, we will see further growth.

Overall, between 2009 and 2020, we estimate that Pacific OECD countries will consume an additional 50bcm a year – which will need to come from imports. Meanwhile, China and India will also have to import an extra 60bcm of natural gas as demand growth outstrips production growth. Last but not least, Europe will need to import an extra 180bcm a year, driven by a 100bcm increase in consumption and an 80bcm decline in domestic production.

Add this all up, and we are looking at something not far from 300bcm – almost 30bcf a day- of additional import flows to Europe and the Pacific region by 2020.

Let's now take a closer look at Europe, where I would like to focus for a moment because of its importance both for global energy markets and world politics. What should Europe do to prepare for the next wave of gas demand?

Reading the headlines of major international newspapers, one might think that Europe's key objective should be to reduce its dependence on Russian gas. But that rather misses two important points.

The first is that Russia has been a reliable supplier for over four decades - a period which included the Cold War - and there are no reasons why that should change. The EU and Russia are mutually interdependent, with the EU accounting for two thirds of Russian exports.

The second point is that Europe's reliance on Russia is much smaller than it was twenty years ago. 80% of the growth in European gas imports since 1990 has come from countries other than Russia, Norway, Algeria, Libya, Nigeria and the Middle East.

That has resulted in Russia's share of EU gas imports declining sharply, from 75% in 1990 to just over 40% today. We at **eni** have contributed to this diversification, being the European company with the most diversified supply portfolio.

The real issue is not the European Union's overall dependence on Russia. The issue is that some countries within the European Union - especially the new Eastern European member states - are 100% reliant on Russia for their gas. And the lack of solidarity and interconnections between European states means that it is this last figure that tends to catch the headlines.

In truth, we don't need to reduce our dependence on Russia to gain greater supply security.

We have the potential to do so by ourselves. Had Europe been fully interconnected, for instance, we could have got through the winter of 2008-2009 without any Russian gas at all: the shortfall in eastern Europe would have been compensated by the surplus in other countries.

The EU's key target should therefore be to build a European infrastructure of gas pipelines that is truly capable of meeting all the differing needs of the member states. That is something we have complete control over, and something which would ensure a high degree of supply security to all Europe's consumers.

That said, diversification will remain an important objective of the European strategy to ensure plentiful and affordable gas.

On this front, there are three key things we need to do.

1. The first is to develop complementary supply sources.

I see two major opportunities to make extra volumes available to Europe.

The first is the Caspian region.

On the plus side, countries like Kazakhstan and Turkmenistan have huge reserves.

On the minus, they are landlocked countries, with minimal and ancient soviet-era infrastructure and unsolved legal issues.

So getting the gas into pipelines and to Europe will require vast investments and innovative thinking.

Another opportunity is shale gas.

Profitable extraction of this unconventional gas is still a thing of the future, and in Europe, high population density provides a particular challenge.

But the US experience leads me to believe that shale gas, and particularly shale gas in Northern Africa may provide additional volumes for the growing European gas market.

2. The second thing Europe needs to do is to diversify transit routes.

At the moment, 80% of all Russian gas to Europe passes through Ukraine.

Any commercial dispute between Ukraine and Russia can and has resulted in supply interruptions, bringing Eastern European member states to their knees.

This situation is obviously sub-optimal, and there are new pipelines in the works which aim to bring gas into Europe through alternative routes.

In the southern corridor, **eni**, together with Gazprom, is fully committed to the development of South Stream, which will transport up to 63bcm (6Bcf per day) of Russian and Central Asian gas to Europe by passing under the Black Sea to the European Union.

The second is the Nabucco pipeline, which is designed to transport 31bcm of Central Asian gas from the eastern end of Turkey, across Romania, Bulgaria, and Hungary into Austria by 2020.

These pipelines are not alternatives – they are complementary.

Take a closer look at the two projects. Both require vast investments.

South Stream counts Gazprom, the world's largest gas producer, amongst its founders.

By contrast, a major producer amongst its partners is exactly what Nabucco is missing - which may explain why it has yet to get off the drawing board since its conception in 2002.

On the other hand, Nabucco's great strength is that it collects, under one umbrella, the energy companies serving the German, Austrian, Hungarian, Turkish, Bulgarian and Romanian markets.

What we have here is what investment bankers would call a strategic fit. Should all partners decide to merge the two pipelines for part of the route, we would reduce investments, operational costs and increase overall returns. They would bring together Europe's major actual and potential suppliers and its major consumers – the gas and the market for gas. And they would still meet their strategic objective of diversifying supply sources and transit routes.

Establishing interconnections, developing complementary supply sources and strengthening existing and new supply corridors are all necessary measures to ensure that Europe has ample, affordable and secure gas supplies.

Last but not least, we come to LNG.

LNG is the third pillar of Europe's diversification strategy, and the major import channel for Asia.

The great advantage of LNG is that it has the potential to turn gas from a regional to a truly global market, and as a consequence increase global supply security. But LNG, too, requires substantial investments: the average liquefaction plant costs somewhere in the region of one billion dollars per bcm.

To sum up, in the decade ahead, and probably well beyond that, the world energy scene will be increasingly dominated by the consumption of gas and the supply of gas. Supply security in Europe and Asia will once again be a key issue on the global agenda.

We need to ensure that we are well prepared to address these concerns, by developing complementary supply sources, investing in shale gas – inside and outside the US, establishing physical transport links and interconnections, and building LNG infrastructure wherever is needed.

What do all of these measures have in common? They require taking a long-term view and having access to vast amounts of capital.

As such, they make the gas market an ideal opportunity for international oil majors, which have the presence, the competences, the relationships and the balance sheets to succeed.

The majors are already more exposed to gas than they used to be. As their position in oil has been increasingly challenged by national oil companies, they have looked for new ways of securing access to resources and replacing reserves. And they have turned to gas – a sector in which they have a greater competitive edge and which is set for long-term growth.

The total volume of gas sold by global majors increased by 14% between 2004 and 2008. In 2009, oil companies further demonstrated their interest in gas with shale gas acquisitions from Exxon, BP, Total, Statoil as well as ourselves.

Of course, today's low gas prices keep money investments on standby. But when prices do pick up, the majors will undoubtedly continue to gain greater exposure to gas. The only question is how far will they decide to come downstream. Our history has brought **eni** all the way down the value chain, from upstream production to final customers.

Our fully integrated model continues to prove as effective and synergistic as ever.

Thank you for your attention.