Second Ministerial Gas Forum
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Panel session 2

The industry's response to new opportunities for natural gas

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Opening statement

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Excellencies, ladies and gentlemen, friends

Looking into the future we see an increasing need for energy.

- The global population is growing.
- There is impressive economic growth in Asia and elsewhere.
- At the same time, there is an urgent need to curb carbon emissions.

I will address what contributions the gas industry can make to solve the climate challenge and at the same time deliver a competitive and reliable energy system.

- I will use **Europe** as an example,
- but the considerations should be applicable for other consuming regions.

Natural gas has been rather absent when the European Union is discussing its future energy and climate strategy;

- Policy is tilted to favour zero-emission technologies and renewable energy.
- The energy legislation prescribes binding targets for the share of renewable energies in the future energy mix, and
- The politicians are trying to pick winners, – i.e. the EU is <u>not</u> trusting markets to reach a specific CO2 abatement target, and finally

The European policymakers appear to be increasingly focused on the situation all the way to 2050 and a perception of only marginal use of hydrocarbons – rather than addressing what is required in the coming years to reduce CO2 emissions.

My point is that we need to focus on the first years ahead of us and how we can create cost-efficient growth solutions leading to a low-carbon economy.

My conclusion is that natural gas will remain indispensible in a Europe that is seeking to

- strengthen its competitiveness,
- enhance its energy security, and
- reduce its CO2 emissions.

It is difficult for me to see how the EU can live within its own carbon constraints without more use of natural gas in the short to medium term.

In Europe, gas-fired power plants have been the preferred technology when utilities have decided on new power plants. There are good reasons for this – and you know them all;

- Gas-fired power plants emit less CO2 than coal plants,
- they are flexible in use and thus essential to back-up power systems increasingly dependent on intermittent renewables, and
- they apply well-known technology, need short construction time and – importantly – require no subsidies due to attractive build costs.

Starting tomorrow, a higher utilization of gas plants against a lower utilization of more polluting technologies could give a material contribution to solving the climate challenge.

Looking further ahead; more use of gas now would allow that large-scale implementation of other and more expensive CO2-friendly technologies can be delayed to later years when they will be further developed, more affordable and more reliable.

Statoil and some other gas companies have recently conducted a study with an external consultant quantifying the saving potential of a more prominent role for natural gas in Europe's future energy mix.

Going the gas way, Europe could meet its ambitious climate targets for 2050 – an 80 per cent reduction in CO2 emissions, at more than 400 billion Euros lower costs than those presented in the well-known study made by the European Climate Foundation.

The gas pathway can save costs equal €150-250 per household per year compared to a policy concentrating on renewables, infrastructure investments and other costly technologies.

In short, Europe can through a "natural gas pathway" realize its CO2 abatement targets

- with limited investments implying the lowest costs for energy,
- with limited implementation risks while promoting innovation, and
- be able to keep policy and technology options open for the future,
- be able to promote Europe's competitiveness, and finally
- be able to ensure a secure energy system based on huge global gas reserves.

Although **supplies of natural gas** to Europe are plentiful and available, there is a concern in European capitals about declining indigenous production and increasing import dependency.

It is correct that domestic production is on decline in Europe – with the notable exception of Norway. However, I am convinced that **the industry will invest** in new gas supply infrastructure once there is a reasonable certainty that the gas will be needed.

- Unfortunately, the prospects for natural gas as portrayed in energy policy documents leave uncertainty on this point.
- If this uncertainty remains, the upstream industry will have strong incentives to re-allocate its capital investments to other regions

A concern for security of supply is **one** argument against the use of natural gas.

- Leave aside a high import dependency on uranium and oil, the European Union currently imports **less** than 50 percent of its gas from non-European countries,
- but – perhaps less known – Europe imports more than 40 percent of its needs for hard coal.
- It is therefore time to dispel the myth of a Europe being exposed to a particular high import dependency for natural gas.

The security of supply concern originates in the perception of constrained global gas resources and that they are concentrated in a limited number of countries.

However, the ongoing **shale gas** or unconventional gas revolution will have implications on both concerns:

- First IEA data suggest a reserve production ratio of more than 200 years; thus there should be no discussion on 'peak-gas' as the case may be for oil.
- Secondly, the shale gas revolution broadens the geographical distribution of global gas resources.
  We all know how shale gas has turned the outlook for the North American gas balance upside down, but resource additions are also impressive in Asia and Australia.

How to conclude on Europe?

- Although we should have realistic expectations on shale gas in Europe, the availability of gas to Europe from a multiple of sources – indigenous gas, pipeline imports and LNG – should alleviate security of supply concerns.
- Combined, they should give European authorities and utilities comfort on the prospects for long-term use of gas in power generation and other market segments.

That is why I am convinced that natural gas has the potential to remain a highly important energy resource in all key markets.

And this is why it is a big **paradox** for me that natural gas does not have a more prominent place in the energy policies of the EU and its member states.

Thank you for your attention!