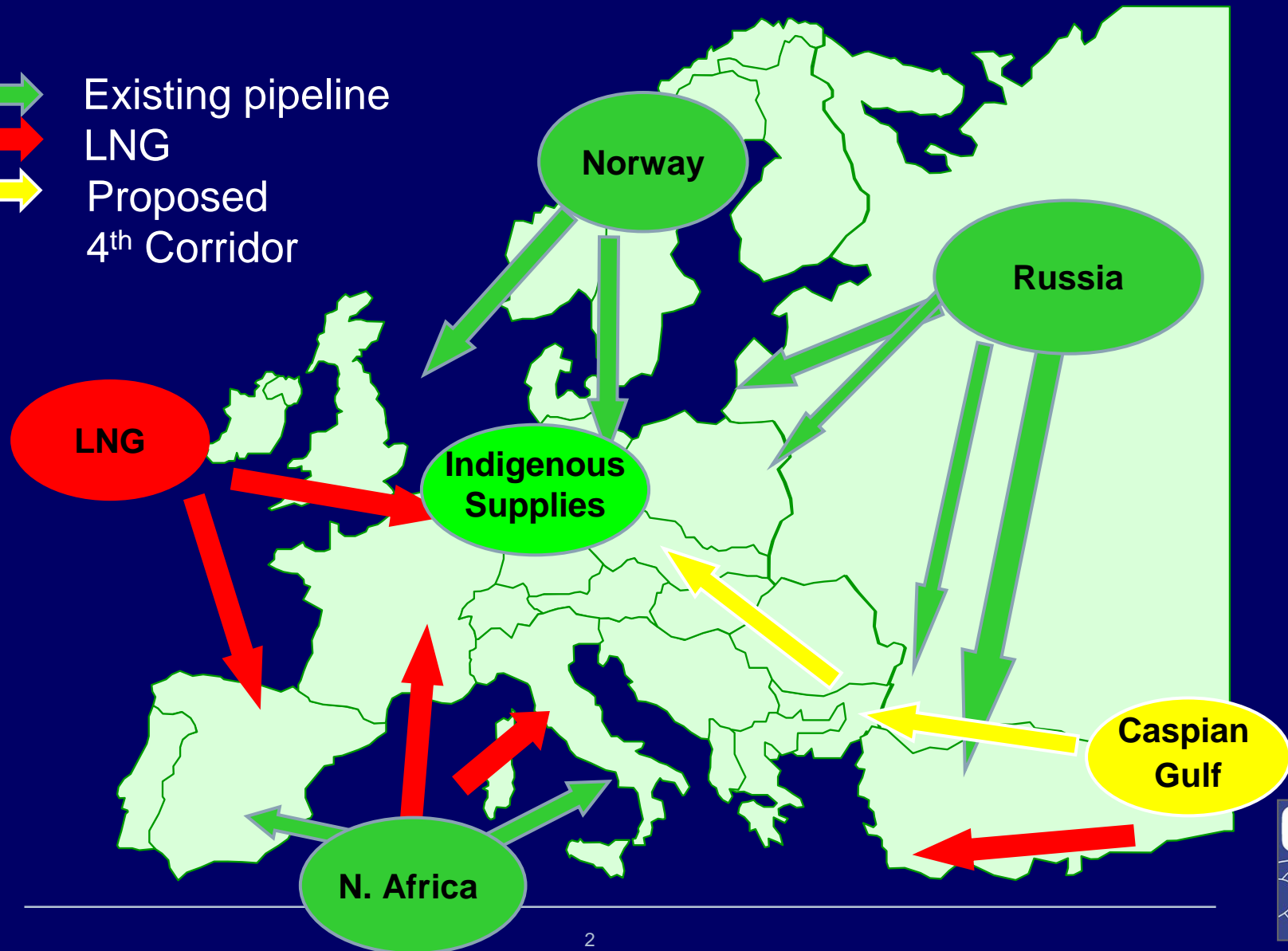


Development of the European Gas Market from a Producer's Perspective

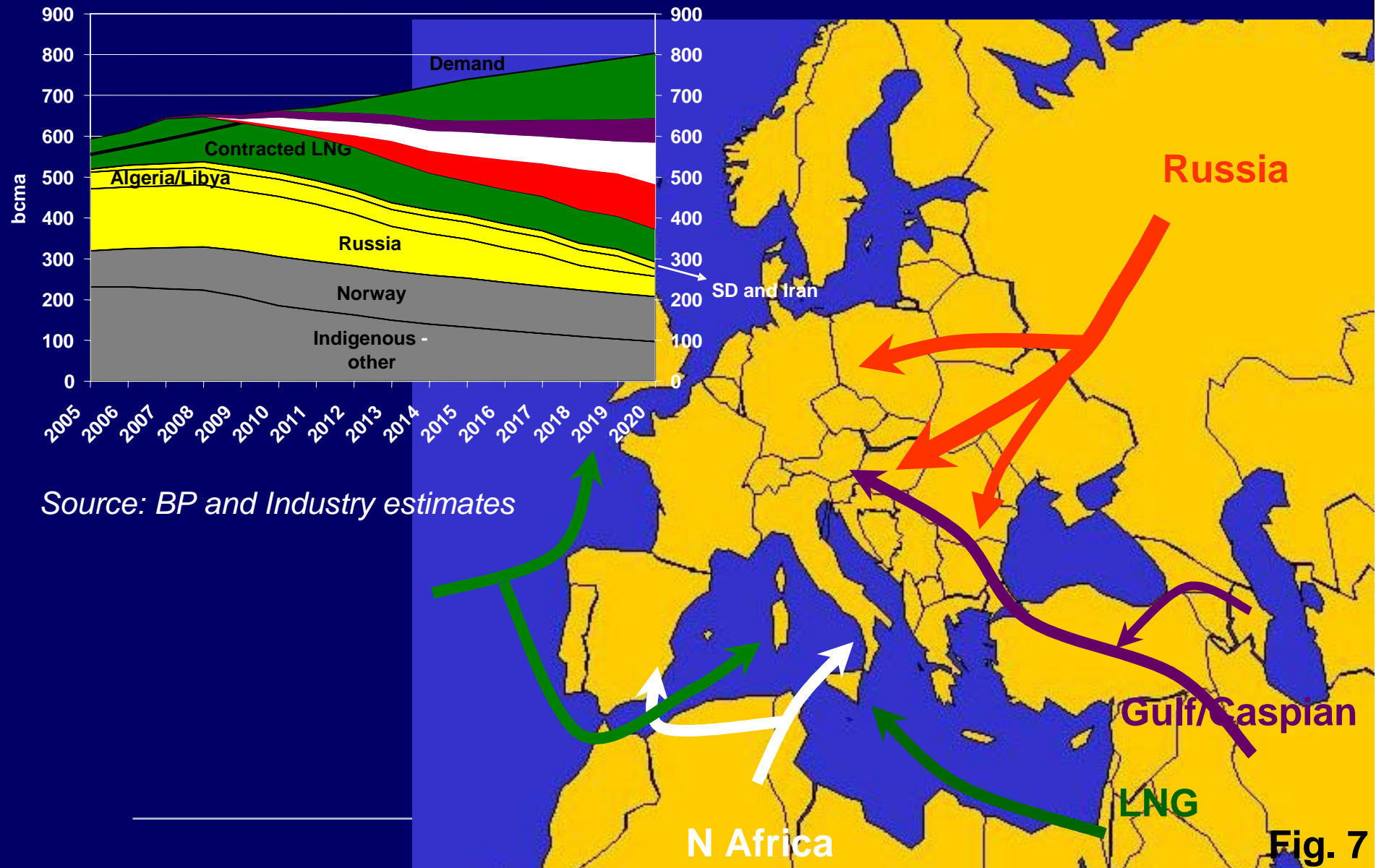
Madrid, September 15th, 2005

Europe's Five Gas Corridors

- Existing pipeline
- LNG
- Proposed 4th Corridor



European Supply and Demand – Filling the Gap



A Changing Market

- 2000 Green Paper: “Towards a European strategy for the security of energy supply”
 - Multiplication of gas transport routes
 - Further integration of European gas networks
 - Dialogue with gas producing countries
 - Role of long term contracts
 - Contractual freedom within the competition law
- Significant changes in supply pattern
- Gas market liberalization evolves



The Right Investment Climate

- OGP member companies welcome liberalization
 - For developing a competitive market
 - For establishing a level playing field
 - For promoting efficient economic signals
 - Regulation to be proportionate to meet objectives



The Right Investment Climate

- Stability and predictability is needed
- OGP believes:
 - Full implementation and application of Gas Directive will lead to market opening
 - Madrid Forum, EASEE gas activities, benchmarking will help to identify constraints and improve interoperability
 - Article 22 exemptions will improve interconnection and SoS



Likely Future Developments

- No shortage of accessible gas resources
 - However, increasing competition for supplies from US/Asian markets
 - Indigenous production continues to play significant role
 - Decline can be mitigated if regulatory and fiscal framework conditions are proportionate and predictable (incl. access to North Sea)
- New projects for new external supplies
 - Entail long lead times and pay back periods
 - Require returns, reflecting risks and high capital costs
- Long term contracts are important tools in
 - Risk sharing incl. geological and technical uncertainties, market supply/demand balances and market liquidity
 - Project financing



Framework of Market Opening to be Improved at National or at Community Level...

- Stability and predictability of regulatory framework needed
- Focus on:
 - Implementation - incl. simplification of permitting and exemption
 - Interoperability issues - removing barriers through quality harmonization etc.
- Long Term Contracts remain important for Security of Supply



Measures to Protect Consumer's Interest ...

■ OGP

- Supports competitive markets with a level playing field equally fair to all participants
- Believes in effective implementation of the Gas Directive

■ Open competition to be pursued without jeopardising:

- System integrity and reliability,
- Customer service
- Infrastructure developments



Summary

■ Energy demand

- Oil & gas remains the dominant source of supply to 2030

■ Resources

- Availability not the issue but investment and technology are key

■ Current market conditions

- Strong demand growth for gas continues by ~ 1.7% to 2030
- Future for EU is imported gas underpinned by rapid growth in trading
- LNG expansion will interlink markets of Europe, US and Asia

■ Indigenous production

- A major contributor to EU supply - significant potential remains

■ Stability and predictability of regulatory framework is needed

