



25th world gas conference
"Gas: Sustaining Future Global Growth"



CIS gas demand

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Energy balance of the CIS countries

Institutional and historical analyses of the development of CIS regional gas market

Major drivers of the regional gas demand

Domestic CIS gas demand future development

Conclusions

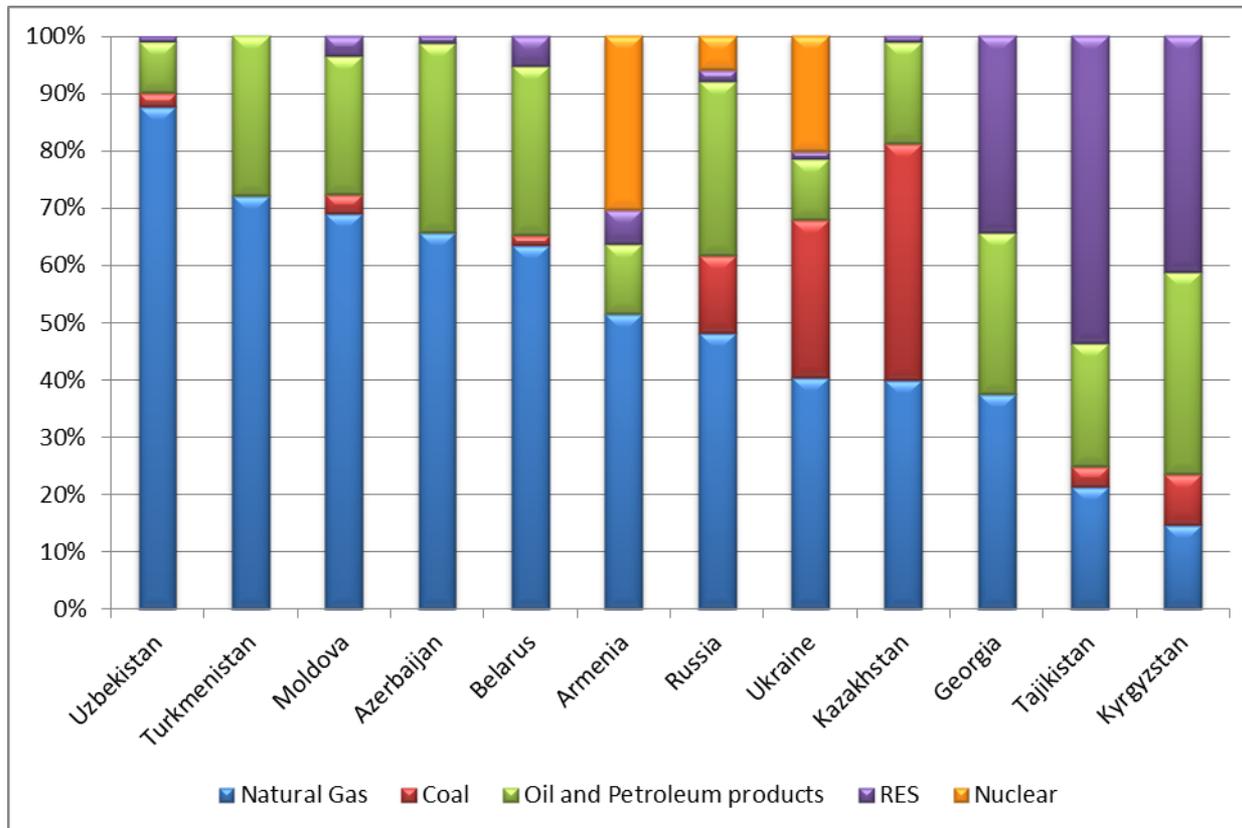
The CIS countries account for 8.5% of world energy consumption



For the majority of CIS countries gas remains the fuel of choice

- The role of natural gas in the fuel mix of the CIS countries is traditionally high, and averages 50%, and in some countries even exceeds 70%

The structure of primary energy consumption in the CIS, 2010

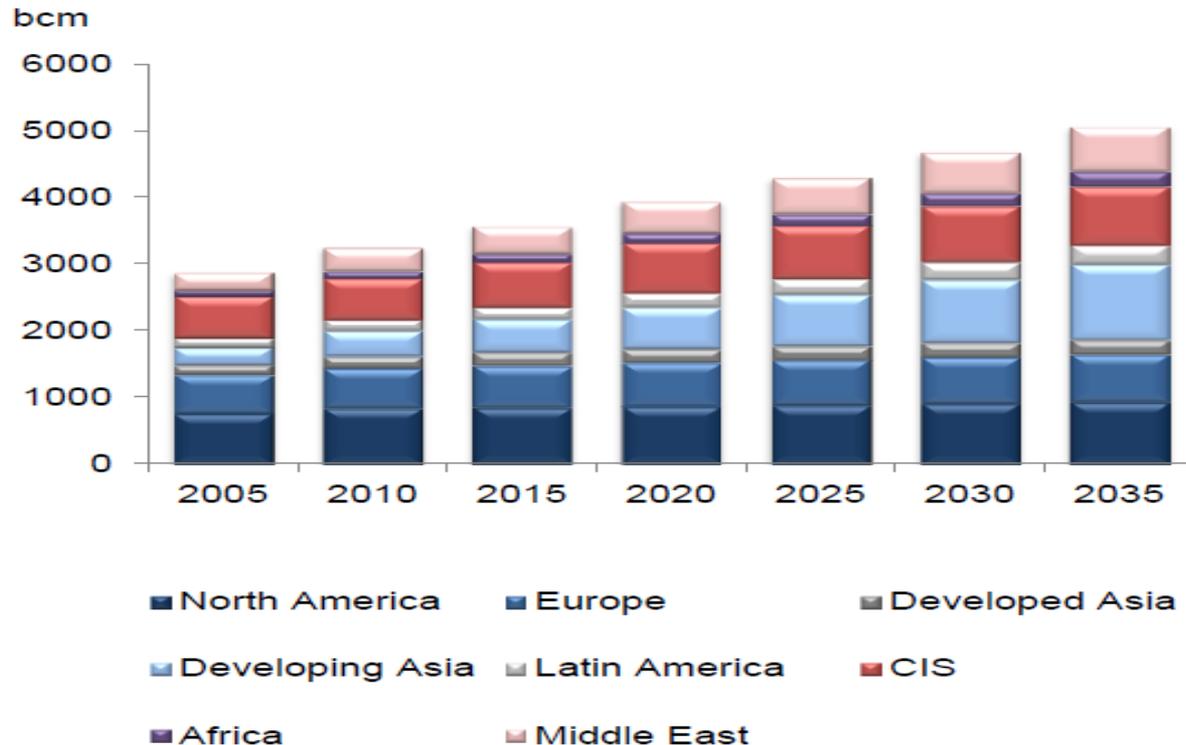


Source: ERI RAS

The role of the CIS as a consumer of natural gas will remain substantial

- The CIS countries consume about 20% of natural gas in the world, this is one of the largest regional gas markets in the world

World gas consumption



Source: ERI RAS

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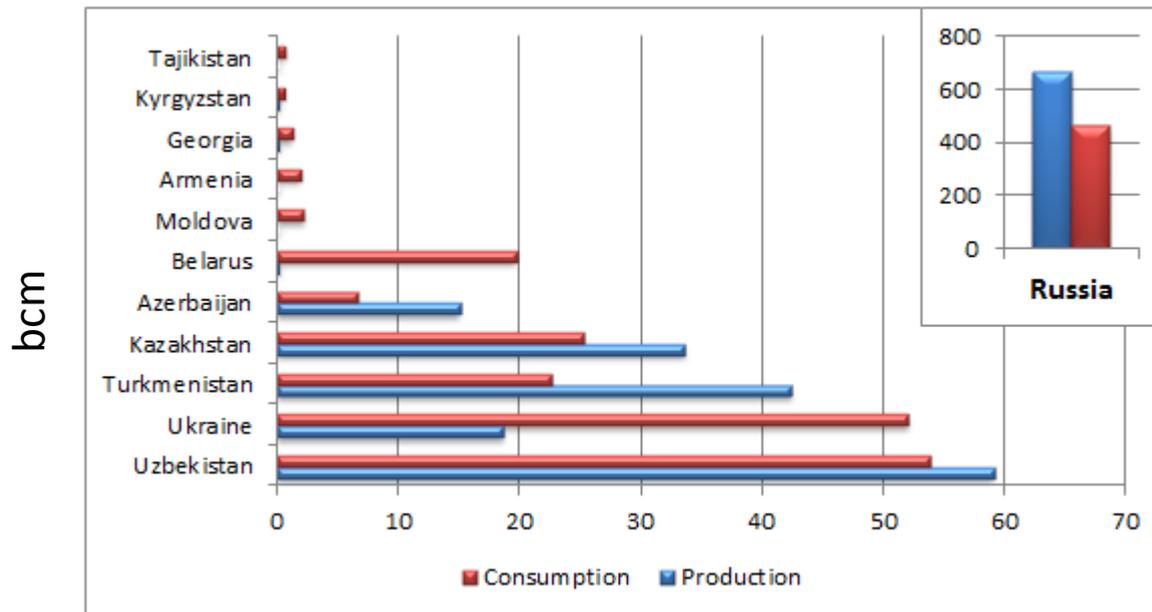
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The gas markets of the CIS countries are closely integrated

- Infrastructure of the CIS regional gas market was established during the Soviet time as a single system
- In the region there are countries which produce and export natural gas and importing countries with no or low levels of gas production

Consumption and production of natural gas in the CIS, 2010



Source: ERI RAS

Market mechanisms are under development in the CIS, but domestic markets are still largely controlled

- In the period after the collapse of the Soviet Union a system of subsidized domestic gas prices was developed in the region in order to support national economies, which were not able to pay market price. Today there is a gradual adjustment of prices to the level of the European market
- It becomes clear that gas sector restructuring in the CIS countries will not proceed along the lines of the UK or continental European systems
- Instead, the special political and economic role of the gas industry in these countries will lead to a specific, post-Soviet reform trajectory, the results of which is still not clear

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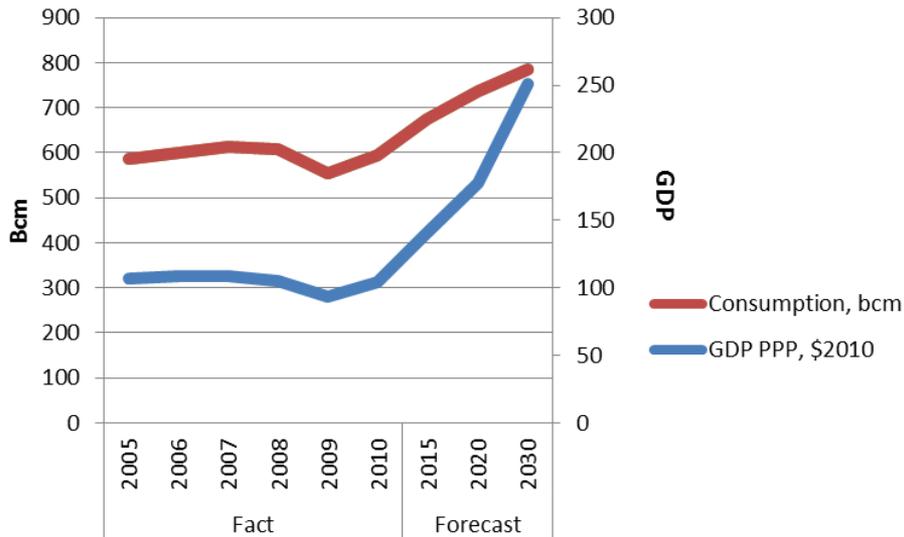
Major drivers of the regional gas demand

- Change of pace and structure of economic growth
- The changing dynamics of the population
- Natural gas prices and methods of their regulation
- Governmental measures to improve energy efficiency
- The structure of gas consumption by sector, the competitiveness of gas in each of the sectors in comparison with alternative fuels and the possibility of gas substitution

Projected economic growth stimulates natural gas demand

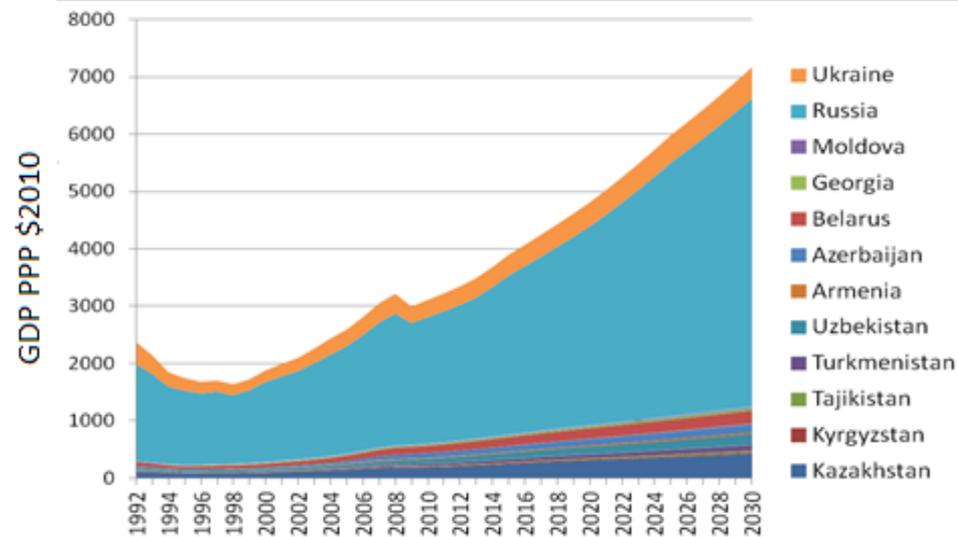
- In the future, CIS is expected to remain positive dynamics of GDP growth up to 2030
- All CIS countries are expected to change the economic structure in the direction of non-energy-intensive industries, particularly the service sector and financial sector

The ratio of GDP growth and the volume of gas consumption in the CIS



Source: ERI RAS

GDP growth in the CIS

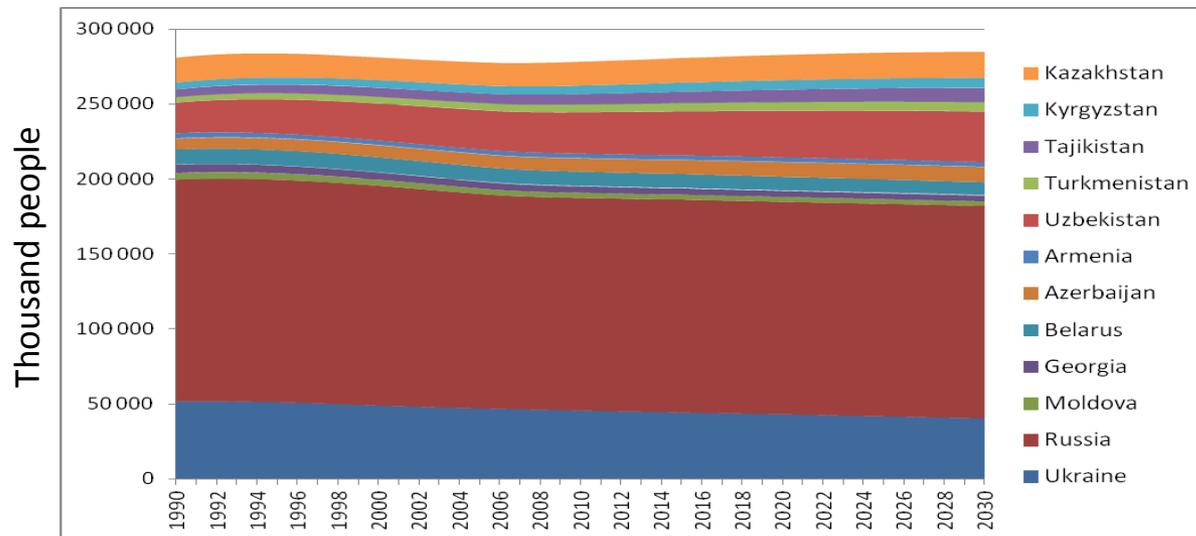


Source: ERI RAS

The dynamics of population growth in the CIS countries is heterogeneous

- Population growth is a key driver of future energy trends as the level of population has a direct effect on the size and composition of energy demand and an indirect effect by influencing economic growth and development
- In the gas sector dynamics of the population has direct influence on the whole national economy
- In the CIS as a whole negative population growth in the Western CIS countries and positive in the Central Asia results in stabilized population in 2011-2030

Population growth in the CIS up to 2030

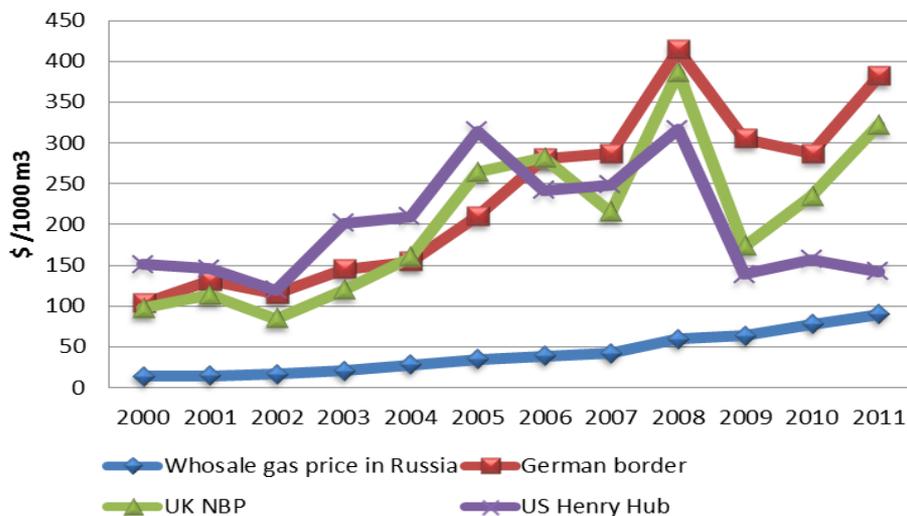


Sources: ERI RAS.

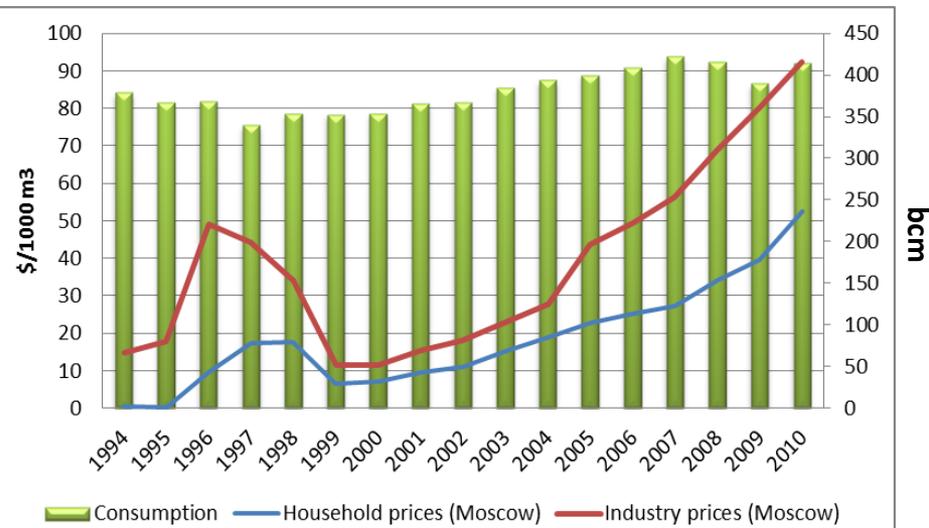
Transition to equal profit ability with the European market

- It is important to note that natural gas prices in many CIS countries are significantly below world prices as they are regulated. This promotes consumption of great volumes of gas, since it is cheaper than alternative fuels
- In 2006 the Russian government made a decision to increase domestic prices to the level of “equal profitability” with export prices, with the aim to stop inefficient consumption growing

Russian wholesale gas price in comparison with European and US



Dynamics of Russian gas consumption and gas prices



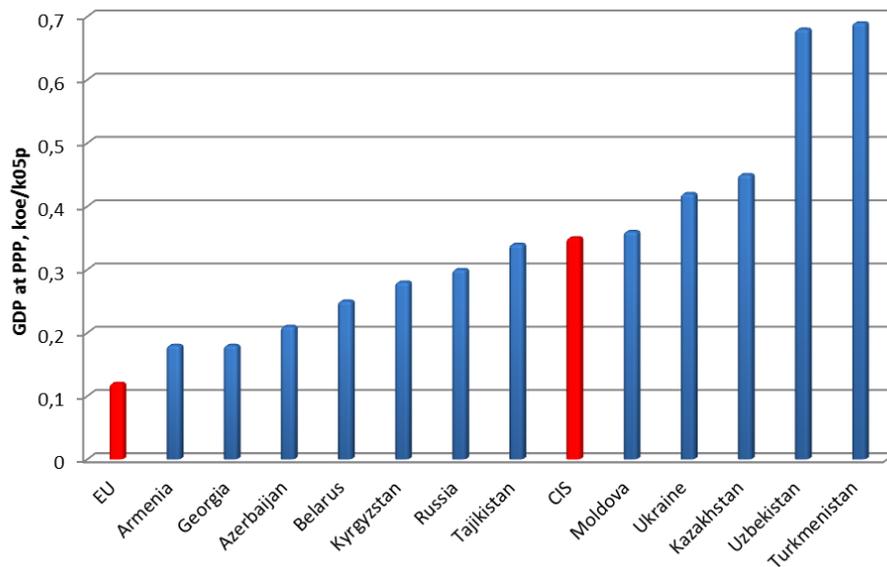
Sources: The International Monetary Fund, the FTS of Russia, BP 2011.

Sources: ERI RAS, BP 2011

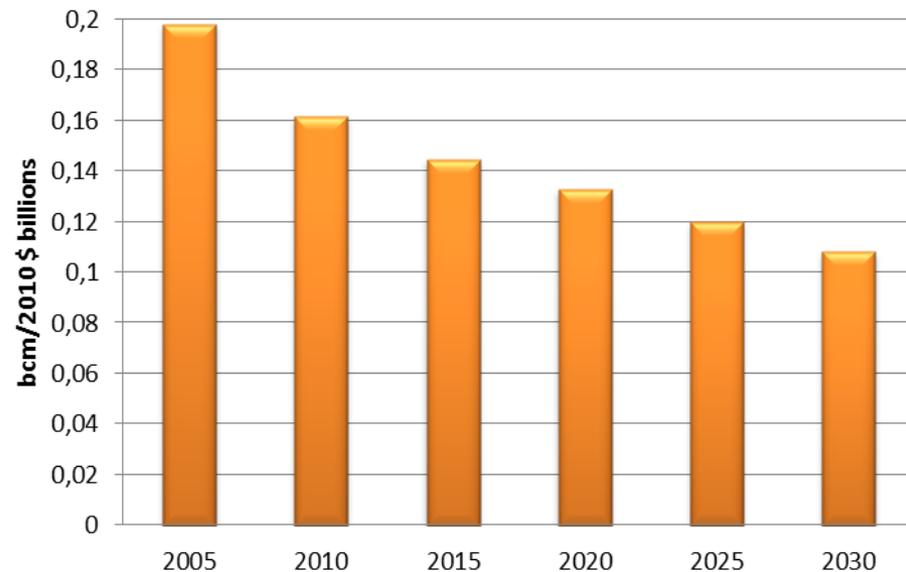
CIS still has very high energy and gas intensity

- It is expected that gas intensity in the CIS countries in 2030 will decline by more than 40% compared to 2005 level.

Energy intensity of GDP at PPP, year 2009



Gas intensity of GDP at PPP, year 2009



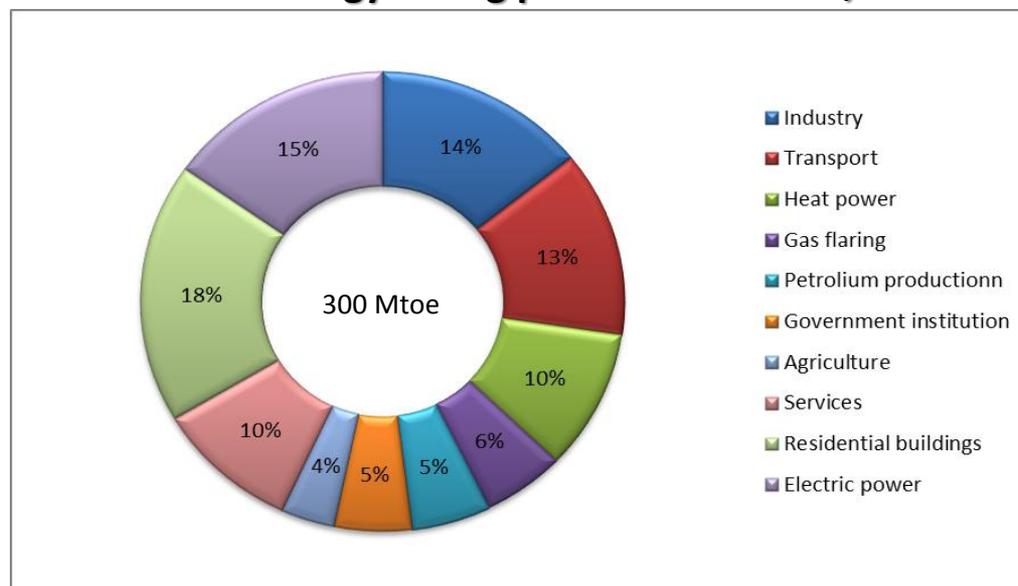
Source: "World Energy Intensity Data". Enerdata Statistical Energy Review 2010. Enerdata.

Source: ERI RAS

Energy saving potential is huge

- Russia is going to reduce energy intensity by 40% by 2020 , the total energy saving potential of Russia is estimated at 300 Mtoe
- Total energy saving potential of CIS countries amounts 420 Mtoe a year
- Development of energy saving technologies could significantly reduce the amount of gas consumed

The total energy saving potential in Russia, 2008

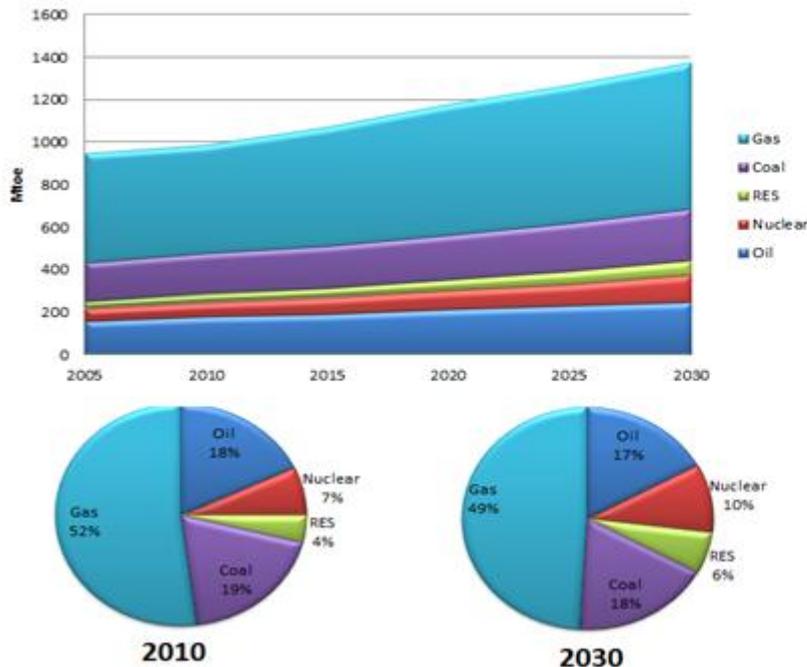


Source: Energy Strategy of Russia until 2030, was approved by the Federal Government in 2009.

In the long-term gas will remain the fuel of choice for CIS

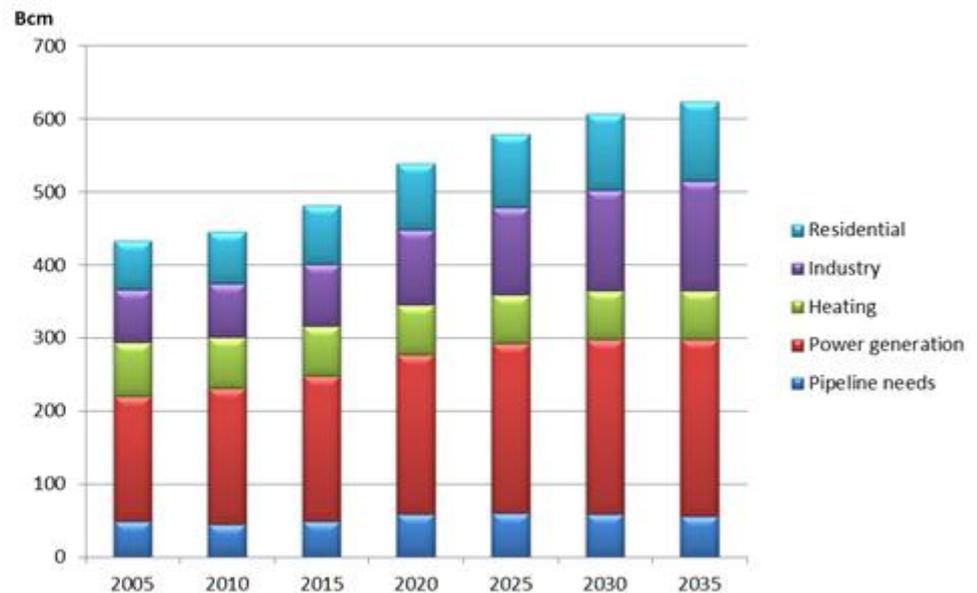
- At present the possibility to change the structure of the energy balance of the CIS countries is very limited, especially in the medium term
- Natural gas has strong competitive advantages in many sectors and in reality the CIS countries often do not have alternatives

CIS fuel mix dynamics



Source: ERI RAS

Russian gas consumption forecast by sector



Source: ERI RAS

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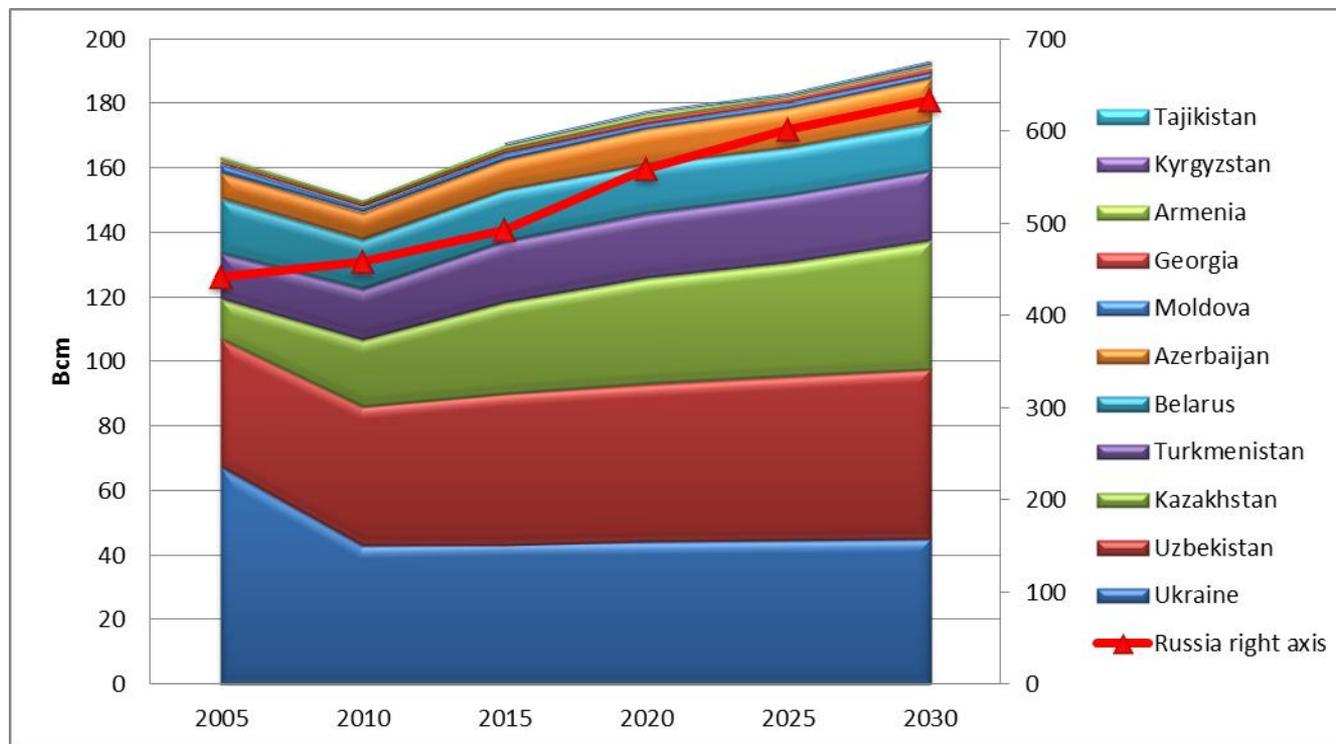
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Gas demand of the region is expected to total 770 bcm by 2030

- According to ERI RAS projection, CIS gas demand will represent about 18% of the global gas demand and will make CIS one of the biggest regional markets

CIS gas demand forecast



Source: ERI RAS

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- In the long term period until 2030 natural gas will remain the dominant energy source in the CIS fuel mix
- Energy saving will significantly reduce the gas intensity of the CIS economy
- But domestic gas demand will be increasing in the whole region despite price escalation and efficiency gains due to the initially very high share of gas, slow rates of industrial and buildings assets turnover and general inertia of the sector
- It seems that despite eventual moves toward more market-based pricing, CIS's gas industry will remain a hybrid of market mechanisms and state control during the forthcoming period
- So gas will remain “the fuel of choice” for this large part of the globe, and with increasing prices CIS gas market has good perspectives to become one of the most attractive regional gas markets in the future