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I place high value on positive changes while appreciating continuity. In some ways, they are two sides of the same coin. Continuity is basically the product of jointly accumulated experience. During the past decade we have achieved impressive results and have overcome many obstacles. Today, Gazprom Export must meet the formidable tasks ahead.

In spite of the demanding market environment, we will continue to meet our contractual commitments in Europe and will do so resolutely yet flexibly. We will also pursue our business interests in the Asia Pacific region, especially in the wake of the long-term agreement signed with China and in view of the expansion of our LNG global portfolio. The tasks are many, challenging, but manageable.

Loyalty to our mission — the formation and implementation of the Gazprom Group’s export contracts portfolio is of paramount importance. We shall open up new markets and seek new opportunities, conduct and finalize negotiations with partners and clients, even with those who are the most obstinate.

We shall provide our customers with a wide assortment of products and services, monitor the fluctuations and trends on the global markets, and pursue a no-nonsense marketing, trading and communications strategy to keep improving our corporate image and reputation.

This is feasible. We can do it. Under the leadership of Alexander Medvedev we have scored highly, and I am confident we will not retreat from the status of the largest exporter of “blue fuel” in the world.

We shall preserve and optimize an effective approach and mode of operation to meet external challenges. For us it is “business as usual”, and we shall maintain top gear and dedication to our mission.

Sincerely yours,
Elena Burmistrova
For over 40 years, Gazprom has been a major supplier of natural gas to Europe. This year we took another step towards consolidating our trading partnership with Asia, signing a landmark agreement with China. Thanks to Russia’s geographical location and Gazprom’s pro-active engagement in developing new gas markets alongside its solid commitment to existing markets, Gazprom has become a true “energy bridge” between Europe and Asia.

I feel it is now my turn to build a bridge between Russia and the rest of the world and I am honoured to be the Russian candidate for the 2018–2021 Presidency of the International Gas Union (IGU). And what more exciting and challenging role than to advocate the development of natural gas on the global stage!

Russia has been a loyal member of the IGU since 1957, supporting the organisation in its mission to promote natural gas worldwide. Gazprom officials have always been active participants in IGU activities, offering insights on issues like gas transportation, gas utilisation, and gas storage. Although Russia has the world’s largest reserves and Gazprom is the world’s top gas producer, with a presence in over 50 countries, it has been more than four decades since Russia last provided an IGU President. I believe that the time is right for Russia to be given the opportunity to help steer the IGU into our industry’s promising but challenging future.

I joined Gazprom twelve years ago and have been a de facto ambassador for natural gas ever since. At the helm of Gazprom Export, I travelled to Europe, America and Asia, representing the company in all parts of the world. I have witnessed first-hand how Gazprom in the past decade transformed itself into a global energy company, diversifying its activities along the entire gas value chain and adapting to the constantly changing needs of a geographically and commercially diverse customer base.
Russia Nominates Alexander Medvedev as Candidate for 2018–2021 IGU Presidency

In the past years, I have dedicated much of my time to promoting a wider use of the "blue fuel" in transport and shipping, while defending the role of natural gas in times when distorted markets and state support are encouraging coal and renewable energy. Holding the IGU Presidency, I would draw on this experience to promote natural gas globally as a safer, cleaner and affordable alternative to other energy sources. In particular, in the current economic context, the IGU has a role to play in furthering the cause of gas as indispensable for sustainable economic growth and a secure energy future – a future, thanks to natural gas, that can be both environmentally friendly and economically competitive.

St. Petersburg would be a fitting choice to host the World Gas Conference in 2021. Founded by Peter the Great in 1703 as the "window to Europe", the city in the 21st century has become the gas window to Europe thanks to Nord Stream. Gazprom recently took the strategic decision to move its offices to St. Petersburg, attracted by the city’s modern and open environment for business. Importantly, the city has excellent facilities – from top-notch accommodation to accessible transport options – and has the capacity to host large numbers of visitors, who will certainly enjoy its summer White Nights.

With my extensive experience in the gas industry, I am determined to strengthen the role of the IGU as a leading actor promoting natural gas globally, through an enhanced exchange of knowledge between its members, leveraging synergies with international institutions and driving innovation. As we frequently say in Gazprom, the 20th century was the century of oil; let’s make the 21st century the century of natural gas!

Sincerely yours,
Alexander Medvedev

“Blue Corridor 2014” NGV Rally to Hit the Road in October

The “Blue Corridor” rally of natural gas-fuelled vehicles (NGVs) will embark on its next journey on 7 October, drawing to a close on 23 October 2014.

The “Blue Corridor 2014” rally will cover a total distance of 3400 km. This year the start of the rally coincides with the opening ceremony of the St. Petersburg International Gas Forum that will take place at the Expoforum Convention and Exhibition Center. The end of the 17-day rally will be celebrated at another remarkable event - the Third Eurasian Innovations and International Integration Forum in Verona, Italy.

As in previous years, the “Blue Corridor 2014” rally is organized by Gazprom Export and E.On Global Commodities.

Starting in St. Petersburg, Russia, the participants of “Blue Corridor 2014” will drive along the motorways of Estonia, Latvia, Lithuania, Poland, the Czech Republic, Germany, Austria, and Italy. This particular route has been chosen as many of those

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countries have already seen significant demand for natural gas as motor fuel, while others are expected to experience a similar surge in demand for NGVs in the future. Moreover, many of these countries have been experiencing the benefits of using natural gas as bunkering fuel for marine vessels.

The “Blue Corridor 2014” rally will feature a series of round table discussions in Tartu, Riga, Vilnius, Warsaw, Plzen, Nuremberg, Milan and Verona. Representatives of the natural gas and automotive industries will join politicians, ecologists and motor fans to share their views on the prospering NGV market in Europe and what challenges remain to ensure more people can enjoy the benefits of the blue fuel.

The first ever “Blue Corridor” rally was arranged by the Gazprom Group in 2008. Since 2010 the rally has become an event of international scale when it was joined by a number of players from the European gas market.

For further information on participating and supporting the “Blue Corridor 2014” rally please contact:

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Gazprom Group and Rostock Port Sign MoU to Strengthen Cooperation

In July 2014, the Gazprom Group and the operator of the Baltic Sea Port of Rostock, Hafen-Entwicklungsgesellschaft Rostock mbH, have signed a Memorandum of Understanding (MoU) on strengthening cooperation in the liquefied natural gas (LNG) market.

The cooperation will focus on the development, marketing, and usage of LNG in road transport and shipping in the German federal state of Mecklenburg-Western Pomerania. The companies share the long-term goal of providing the infrastructure required to bunker LNG, thereby creating an additional sales channel for Gazprom’s LNG.

Establishing such infrastructure at Germany’s largest multi-purpose Baltic Sea port will allow LNG to be delivered to Rostock – and thereby into Germany. The Gazprom Group is exploring opportunities to transport the LNG from intermediate storage to independent gas utilities by truck and supplying it for use in natural gas vehicles. The LNG will be shipped from Gazprom’s planned liquefaction plant on the Gulf of Finland.

“We look forward to working with Gazprom. LNG has the best environment and safety balance of all the fuels used to power ships, allowing shippers to meet the high environmental protection requirements,” says Ulrich Bauermeister, Managing Director of Hafen-Entwicklungsgesellschaft Rostock.

Stricter environmental standards will apply to shipping in the North Sea and Baltic Sea from 2015. Under the new standards, shipping fuel will be allowed to contain no more than 0.1 % sulphur compared to the 1.0 % currently permitted.
**“Full speed ahead for LNG” expert panel discussion**

The MoU was announced as some 40 high-level representatives of government, business, and media met in Rostock for Gazprom Germania’s expert panel discussion on the potential of LNG for road transport and shipping and how to better harness its benefits.

The planned LNG terminal will create a huge competitive advantage for the future: “More and more shipping companies will convert their ships to run on eco-friendly LNG,” said Lutz Birke, Head of Strategy at Hamburg Port Authority. Birke has spent many years looking at LNG as a fuel for shipping and has long since come to the conclusion that natural gas will help improve air quality in port cities. LNG-fuelled ships emit almost no fine dust, significantly fewer nitrogen oxides, and almost no sulphur. Birke congratulated Rostock on its decision to join Hamburg’s port in offering this forward-looking fuel.

“We want to start small,” said Ulrich Bauermeister, Managing Director of Hafen-Entwicklungs gesellschaft Rostock, at the expert discussion. “Just a few LNG tanks, and then step back and see how the market develops.” But Bauermeister remains convinced that if the price for LNG offers shipping companies a significant financial advantage, then LNG will become more widespread.

“More and more ships are being converted to run on LNG, and more and more new ships are being built to run on LNG from the outset. Rostock Port has found a strong partner in the Gazprom Group,” said Bauermeister. It is important that Rostock keeps up with the industry if a “network of LNG providers” is located around the Baltic Sea, he said.

Claus Ruhe Madsen, President of the Rostock Chamber of Commerce and Industry, expressed his satisfaction with the Gazprom Group’s commitment to the region and stressed the importance of infrastructure projects to Mecklenburg-Western Pomerania. Dr Timm Kehler (Chairman, Erdgas mobil), Timo Vehrs (Director of Business Development, Gazprom Germania), Lutz Birke (Head of Strategy, Hamburg Port Authority), Claus Hirsch (Technical Inspector, AG EMS), Max Kommorowski (Director LNG Hybrid, Becker Marine Systems), and Dr Monika Griefahn (Chief Sustainability Officer, AIDA Cruises) all provided insight into current and future projects aimed at establishing and developing natural gas as a fuel for shipping.

Alternative motor fuel technologies are also increasingly being sought at national level in Germany: In mid-2013, the German Federal Cabinet approved the ‘Mobility and Fuels Strategy’ prepared by the Federal Ministry of Transport and Digital Infrastructure with the aim of boosting efficiency and reducing CO2 emissions from transport.

Further, in their 2013 coalition agreement, the two governing parties gave assurance that they would accelerate the introduction of LNG for shipping and assist the industry in meeting the new, stricter emissions standards. Policymakers thereby strengthened their commitment to the market potential of alternative fuels such as LNG.
Russia Hosts Gazprom-sponsored Scirocco R-Cup

The Volkswagen Scirocco R-Cup made its first appearance in Russia on 11 and 12 July 2014 as part of the DTM racing weekend at the Moscow Raceway. The premiere was possible thanks to Volkswagen’s partnership with Gazprom, the Scirocco R-Cup’s exclusive fuel supplier since the 2013 season.

The Moscow race entertained Russian fans with a spectacular show, as 15 drivers took up the invitation to come to the race track near the Russian capital. It was Italian DTM legend Nicola Larini who crossed the finish line first followed by ex-Formula One driver Jan Lammers from the Netherlands and the Russian favourite, WTCC driver Mikhail Kozlovskiy. “It was a nice race, with a lot of action at the head of the field,” said Larini.

As the exclusive fuel supplier, Gazprom sponsors the Scirocco R-Cup to promote natural gas in transport. The Volkswagen Scirocco used in the racing series has a 2-liter turbo engine rated at 235 hp and a Push-to-Pass system which allows an instant increase of power up to 285 hp. A gas cylinder used as a fuel tank can carry 22 kg of compressed natural gas (CNG), equivalent to 35 liters of normal petrol. At the Moscow race, media representatives were also shown the fueling truck that delivered the Russian natural gas to power the racing vehicles.

The Scirocco R-Cup racing series has been held since 2010. Volkswagen and Gazprom Group cooperate on the Scirocco R-Cup racing events for the second consecutive year. In 2013 more than 200,000 motorsport fans visited the races.

The final Scirocco R-Cup race of the season will take place at Germany’s Hockenheimring on 19 October 2014.

Gazprom Germania Organizes Charity Match between FC Hansa Rostock and FC Schalke 04

Gazprom Germania organized a charity football match between FC Hansa Rostock and FC Schalke 04 on the shores of the Baltic Sea. All proceeds were donated to social projects.

It was the match of the summer for fans of FC Hansa Rostock: German Bundesliga team FC Schalke 04 visited the city of Rostock on Germany’s Baltic Sea coast for a charity match against FC Hansa Rostock on Saturday, 19 July 2014. The match was hosted by Gazprom Germania and broadcast on German television channel Sport1.

The German state of Mecklenburg-Western Pomerania is a key region for Gazprom Group. The city of Rostock, which boasts Germany’s second-largest Baltic Sea port, is a potential site for increasing Gazprom’s position as a supplier of LNG for the shipping industry. The landing station for the North Stream pipeline is also located in nearby Lubmin.
Gazprom Germania Organizes Charity Match between FC Hansa Rostock and FC Schalke 04

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With the proceeds from the match, Gazprom will support the “Hansa Rostock and Me” project launched by FC Hansa Rostock in collaboration with the city of Rostock in 2011. Alongside its work with fans of the club, the project works with schools, youth and educational facilities in the Mecklenburg-Western Pomerania region combining the passion and fascination with football to provide conflict solution and skills development.

“That’s why we wholeheartedly support the expansion of the ‘Hansa Rostock and Me’ project to the entire state of Mecklenburg-Western Pomerania. I’m fully behind this initiative and thank everybody involved – especially FC Schalke 04 and its main sponsor, Gazprom.”

FC Schalke 04 – which also plays in the Champions League – took all the team’s new additions to Rostock. “FC Hansa Rostock was always a challenging team for FC Schalke 04 when both clubs were in the Bundesliga,” said Schalke manager Horst Heldt. At 0:3 Schalke’s score was lower than had been expected, with third-league team FC Hansa Rostock putting on a brave show for the 12,500-strong crowd in sweltering temperatures to be defeated by Schalke. The match was Schalke’s third victory in three pre-season warm-up matches, with new addition Sidney Sam scoring in the 69th minute, Jan Kirchhoff in the 72nd minute, and Dren Hodja in the 74th minute.

“We thank FC Schalke 04 and Gazprom for their great support. The support of a globally operating company and a leading Bundesliga club is not something we take for granted, and we are thrilled to have them on board. With the proceeds from this match, we will be able to bolster our efforts to work with fans to help prevent violence in football and expand those efforts beyond Rostock’s borders,” said Michael Dahlmann, Chief Executive Officer of FC Hansa Rostock.

Lorenz Caffier, Mecklenburg-Western Pomerania’s Minister of Interior and Sports and patron of the charity match, welcomed the initiative. “Violence has no place in football, and any violent tendencies need to be rectified early on with specific educational and preventative measures. Violence at the stadium hurts not only football’s and football clubs’ image, but also costs the public money.

“From the very beginning of our partnership, we have worked with FC Schalke 04 against exclusion and for respect and fair-play in football,” said Burkhard Woelki, Director of Corporate Communications at Gazprom Germania. “We have already held charity matches in Dresden, Magdeburg, Aachen, Berlin, and Braunschweig and were able to help establish sustainable structures for working with fans. Our collaboration with Hansa Rostock is a continuation of those efforts.”
Gazprom Marketing & Trading Signs Service Agreement with Sakhalin Energy

Gazprom Marketing & Trading (GM&T) and Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) have signed a Service Agreement to provide shipping and marine advisory services to supervise the construction of one icebreaking Platform Supply Vessel (PSV) and three multifunctional icebreaking standby vessels (SBVs), ordered by Sovcomflot for servicing the Sakhalin-2 project.

During the three-year contract, GM&T’s Shipping unit will support Sakhalin Energy by providing technical expertise and supervising the full cycle of the shipbuilding process in cooperation with the shipowner (Sovcomflot), including the vessels’ detailed design, construction, commissioning and delivery. Additionally, it will provide advice on the selection of technology, with specific emphasis on winterisation and icebreaking solutions to comply with the most advanced industry practices.

The vessels were ordered under a time-charter agreement between Sovcomflot and Sakhalin Energy, for the long-term operation of vessels in the Sakhalin-2 project. The vessels are to be constructed jointly by Russian and Finnish shipbuilders. They will be deployed to provide safe and reliable services for Sakhalin Energy’s platforms in the Sea of Okhotsk, including accommodation of offshore facilities personnel, emergency evacuation of personnel and oil spill response.

The PSV brings together the very latest innovations in Arctic shipbuilding science and technology. The vessel measures 100 m in length and 21 m in breadth. The six main diesel generator sets have total power of about 20,000 kW and propulsion power of 13,000 kW. The main duty of this vessel will be to run between land bases and the offshore drilling and production sites. The vessel will be able to safely transfer cargo on deck and bulk cargo underdeck in all seasons. The vessel can also act as a diving support vessel and includes a moon pool feature.

The SBVs are a further development of the Vitus Bering series, developed and owned by Sovcomflot, Russia’s leading shipping company with a unique track record of operations in harsh climates and the Arctic. They are going to be equipped with dynamic positioning systems to maintain a stable position alongside offshore platforms and will feature specially designed hulls for stern-first navigation in heavy ice conditions.

Mr. Nikolai Grigoriev, Managing Director, Shipping, GM&T said, “We are honoured to have been awarded this contract by Sakhalin Energy which signifies another major milestone in the relationship between our two companies. “Over the years GM&T has developed strong technical expertise in ice class shipbuilding and operations and we really appreciate having the opportunity to share this experience with Sakhalin Energy. We are looking forward to working together with Sakhalin Energy, Sovcomflot, the shipyards in Russia and Finland and our sub-contractors for the construction of these technologically advanced vessels that will contribute to the safe and reliable operations in the harsh climatic conditions offshore Sakhalin.”

He added, “We are also proud to contribute to the development of offshore expertise in the Gazprom Group, the leading oil and gas producer and operator on the Russian continental shelf.”
Quo Vadis? Where is the German Gas Market Heading?

In an interview with Blue Fuel Prof. Dr. Klaus-Dieter Barbknecht, VNG Board Member, Sales and Trading, discusses his views of the German gas market, its competitive challenges and how the so-called ‘Energiewende’ will impact natural gas as a transportation fuel. He also provides insights on how major natural gas buyers such as VNG are addressing these challenges.

Prof. Dr. Klaus-Dieter Barbknecht has been a member of the Executive Board of VNG since 2007. He is responsible for gas trading, including purchasing and sales, as well as portfolio management. Prof. Barbknecht joined VNG in 1992 and has held a number of management positions over the years in the fields of legal affairs, gas purchasing, gas transmission and gas storage. As Deputy Chairman of the Supervisory Board of ERDGAS e.V., Prof. Barbknecht is also involved in energy policy discussions at a national level.

1. Germany is seen as the most competitive gas market in Europe. What effect does this have?

More than ever before, the German energy market is characterised by flexibility and diversity and is in fact one of the most intensively competitive markets in Europe. There are several reasons why this is the case. Firstly, the market is liberalised. In all German towns and cities, consumers can now choose between at least 70 gas suppliers. Even in the commercial customer sector, there are a large number of suppliers, including natural gas producers. This exacerbates the competitive situation and affects both products and pricing.

Secondly, there is high liquidity. A large volume of natural gas is available on the German market because demand has fallen as a result of the ‘Energiewende’ and a sluggish economy. At the same time, the quantities of LNG available in Europe are increasing. Thirdly, the market is increasingly affected by the changed procurement behaviour of utilities and industrial customers. Also as a result of the oversupply situation, most utilities and industrial customers are carrying out their purchasing activities nearer to the market. Normally, ‘flat gas’ contracts are concluded with several suppliers and other quantities are purchased on wholesale markets.

2. What does this competition mean for the companies concerned?

Business has become more complex and more intricate and now is more short-term in nature. Five years ago, we prepared about 500 sales proposals per year; last year, the figure already rose to almost 6,000. The terms of contracts with customers have become considerably shorter and now on average cover only about one to two years. On the other hand, product diversity and time-consuming trading processes have grown in importance.

All in all, we face severe competition in all customer segments, with considerable pressure on prices and margins. This has become the normal situation for all gas suppliers. At any rate, we have got used to the fact that we will need to amplify our profile as a natural gas marketing company and further expand our aggregation function over the next few years.

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3. What has VNG already done to adjust to this competitive environment?

We have adapted our business model to the changed market conditions and now have a broad base for the marketing of natural gas in Europe. We have attempted a fresh start and have transformed ourselves from a classic importer into a natural gas trading company and energy service provider. We now cover the entire natural gas value chain from the wellhead to the consumer.

In sales, we focused on customer service right from the start. Our customers receive an all-in package with tailor-made solutions and comprehensive services. We are a competent and reliable energy procurement partner for the customer at all times. With our 10 regional offices, we are represented in all parts of Germany, have strong local presence and emphasise proximity to the customer. In other European countries we are also active in the industrial customer and consumer markets, e.g. in Poland, the Czech Republic, Slovakia, Italy, France and Austria. Since last year, we have also been successfully growing our business supplying consumers in Germany through our subsidiary goldgas and are benefitting from the new sales potential offered by private household.

4. What future challenges do you see in Germany?

The creation of attractive products and prices will be an essential prerequisite for success. This applies particularly in a market like Germany which is characterised by oversupply and where the pricing system has been completely transformed. Customers have now moved away from full supply contracts with oil price indexation which used to be normal practice and are now demanding products with hub-price indexing and considerable flexibility. The market no longer rewards products offering security of supply, for example through the provision of storage facilities, to the extent which was previously the case. VNG has adapted to these changed market conditions both on the gas procurement side and on the sales side. As an intermediary and interface between gas users and producers, we exchange information on market developments continually with our suppliers, especially with WIEH and Gazprom Export. In a process of dialogue, we develop concepts that will allow us to market gas economically in the long term.

5. The so-called ‘Energiewende’ is a second key topic in Germany. What does it mean for natural gas?

The ‘Energiewende’ is the central project in the transformation of the German energy sector; and you could say that it is very similar to open heart surgery. Greenhouse gas emissions are to fall by 80 percent and primary energy demand by 60 percent by 2050. Power generation is to be based on renewable energy sources to a very large extent by 2050 and nuclear energy is to be entirely decommissioned by 2022. This is a political goal. Together with the gas industry associations, we have clarified our position towards politicians and indicated that natural gas will and indeed must play a key role in the ‘Energiewende.’ Natural gas represents the lowest-cost solution for reducing carbon dioxide emissions and can compensate for the high volatility of wind and solar energy as a partner to renewable energy sources. In the meantime, consensus has been reached in Germany that natural gas has the potential to forge ahead with the sustainable transformation of the heating and power market in the context of the ‘Energiewende’. However, the basic conditions are still not appropriate. For example, the environment for gas-fired power stations is challenging. Even highly efficient and flexible plants can currently not achieve satisfactory margins. As a result of the low price of imported coal and

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the priority given to renewable energy sources, which have expanded considerably more rapidly than expected over the past few years, the capacity deployment of gas-fired power stations has continually deteriorated. Paradoxically, this has led to a situation in which carbon dioxide emissions in Germany rose in 2013 for the second year in succession.

6. What are you doing to position natural gas as part of the ‘Energiewende’?

We are communicating continually via all available channels, promoting specific projects and engaging in intensive dialogue with political decision-makers. We are already supporting the development of new natural gas-fired cogeneration plants, gas-fuelled heat pumps and fuel cells as well as power-to-gas technology. In addition, we are a co-initiator of the nationwide natural gas campaign in Germany and the association Zukunft Erdgas e.V., which is promoting the benefits of natural gas and the combination possibilities with renewable energy. In Berlin and Brussels, we also carry out lobbying work and talk to politicians about topics such as environmental compatibility, security of supplies and cost-effectiveness. We do not see ourselves purely as a vendor of natural gas, but also as a company that ensures that natural gas is anchored more firmly as an energy source for the heating and power market as well as the transport sector in Germany.

7. What role will natural gas play in the German energy mix of the future?

Natural gas – the “blue fuel” – is and will remain a pillar of future energy supplies even if the most optimistic assumptions concerning the role of renewables in shaping the power and heating market in Germany prove to be correct. The ‘Energiewende’ will not be possible without natural gas and indeed it represents an opportunity for our fuel. However, this assumes that natural gas can remain competitive and can also adapt to the current market situation. In this context, we have a key advantage. Natural gas is already the number one source of heat energy in Germany. This will also remain true in the medium term as consumers know exactly how reliable, cost-effective and clean natural gas is. Of course, we are concerned that political controversies and discussions on security of supply could harm the image of natural gas.

8. VNG is a key customer of natural gas from Russia. What challenges do you see in connection with marketing this gas?

We currently purchase about 6.3 billion cubic meters of natural gas per year from Russia and have sold more than 250 billion cubic meters of Russian natural gas over the past 40 years.

As a sales specialist, we have set ourselves the target of adjusting long-term natural gas supply contracts together with our suppliers, especially Gazprom Export, in such a way that they continue to bring us economic benefits over the long term. At the same time, especially against the backdrop of the German ‘Energiewende’, we will need to ensure that natural gas, including Russian natural gas, does justice to its key role as a partner to renewables and continues to be the reliable, innovative, flexible and environmentally compatible fuel that it is now. The debate concerning the implementation of the ‘Energiewende’
represents the best opportunity to position natural gas as a sustainable, climate-friendly, competitive source of energy.

9. One final question: how do you assess the current political discussions concerning gas supplies for Europe?
We are not in a position to give political advice or assess past or future political measures. We have full confidence in diplomacy. Towards our customers and politicians, we always emphasize that reliable natural gas supplies are ensured. This is also confirmed by the experience of the past few years.

VNG – A Natural Gas Partner with a Long Tradition
VNG – Verbundnetz Gas Aktiengesellschaft (VNG) is a natural gas trading company and energy service provider with headquarters in Leipzig. The company has a long tradition. VNG built up the integrated natural gas grid in eastern Germany, purchased the first natural gas from Russia in 1973 and developed large gas storage facilities. Today, VNG is one of the last pure natural gas companies in Germany. It is active throughout the value chain of the German and European natural gas industry and focuses on the four key business areas of exploration & production, trading & services, transport, and storage.
VNG has purchased natural gas from Russia for more than 40 years and also cooperates with Gazprom in areas going beyond gas deliveries. For example, the two companies work together on questions of storage technology, are jointly developing the Katharina underground storage facility near Bernburg and have initiated cooperation between universities as well as the German-Russian commodities forum.

www.vng.de
Gazprom and Wintershall: Successful Economic Cooperation

The political crisis in Ukraine is casting its shadow on European-Russian economic relations. However, there is one example of successful corporate cooperation that shows how it can be done: by thinking in partnership terms. For over twenty years this has been the guiding principle of the cooperation between Germany’s Wintershall and Gazprom.

Russian-German relations go back hundreds of years. The two countries can look back on a political and economic partnership that has grown constantly and which has brought prosperity to the people – in both the East and the West. They share a common and often difficult past. That is currently the case too: the political situation in Ukraine has prompted the EU to scrutinize the cooperation with Russia. Furthermore, the European Commission is diversifying its gas supply. Yet both countries depend on each other – not just economically. The current conflicts and urgent political questions can only be solved with a common dialogue.

Dialogue as the basis of joint success

The economic cooperation of Russian and German companies is a good example of the power of dialogue. Germany’s largest oil and gas producer favors an objective approach to the crisis beyond the political stage. By participating in the World Petroleum Congress (WPC) in Moscow, the largest industry gathering in the world, Wintershall CEO Rainer Seele sent a clear signal about building bridges instead of going down the path of confrontation. In this context Seele criticized the sanctions: “We cannot allow the good economic relations with Russia that have developed over decades to be jeopardized carelessly.” The conflict must not be carried out at the expense of the companies that are active in Germany and Russia, Seele insisted.

Wintershall has been active in Russia for decades and has always been committed to partnership and economic cooperation. Together with Gazprom, Wintershall runs the joint ventures Achimgaz and Severneftegazprom in Western Siberia. “The cooperation with our long-term partner Gazprom is proof that partnerships can be successful over decades,” Seele said.

For the Wintershall manager the cornerstone of the joint success and the long-term business relations between the two companies is the continuous and open dialogue, on the basis of which a partnership of trust had evolved. “Talking to each other, really listening and respecting your partner is essential,” the Wintershall boss said explaining the culture of cooperation.

Thinking in partnership

This partnership approach characterizes the business relations between Wintershall and Gazprom. The recently approved asset swap, on the basis of which Wintershall will take over 25 percent plus one share in two additional blocks in the Achimov formation of the Urengoy field this year, underlines the trust inherent in the companies’ cooperation. In return Gazprom will take over Wintershall’s shares in the previously jointly run gas trading and storage business in Germany, and is also

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The Sino-Russian Natural Gas Deal: A Record in a Century

On May 21st, under the auspices of China’s President Xi Jinping and Russia’s President Vladimir Putin, Russia and China signed a $400 billion natural gas cooperation agreement. The agreement entails that Russia will begin to supply gas to China through the eastern gas pipeline from 2018, and the gas transmission volume will increase year by year, and will finally reach 38 billion cubic meters per year, for a total of 30 years. The agreement was a fruitful result after 10 years’ negotiation between China and Russia. This is not only a win-win achievement for China and Russia’s mutual benefit and an important milestone for the future development of Sino-Russian relations, but also a far-reaching impact on the international energy market.

1. Sino-Russian natural gas pipeline agreement will help protect China’s energy supply and energy security

With the rapid development of the Chinese economy, the...
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demand for energy is rising day by day. As a high-quality energy source, natural gas is becoming increasingly popular. However, despite the rich prospective reserves of natural gas in China, its recoverable reserves are yet to be determined. If relying solely on domestic natural gas supply, a shortage of supply will gradually intensify. On the other hand, gas extraction costs in China are relatively high. So the high gas prices raise downstream industry costs, which restrict the competitiveness of China’s manufacturing industry. Therefore, in just a few years, China has become the third-largest natural gas-importing consumer country second only to Japan and South Korea. Last year, national gas production reached 117.8 billion cubic meters, while imported gas volume amounted to 52.9 billion cubic meters, almost half of the domestic production. China’s natural gas consumption is increasingly growing, and as part of this the dependence on imported natural gas is on a rapid upward trajectory. Under such circumstances, the scale of the gas input from Russia will have positive effects on China’s growing gas demand.

First, it provides an important source for China’s growing demand for natural gas. According to the plan published by China’s National Development and Reform Commission, China’s natural gas supply capacity will reach 400 billion cubic meters in 2020. Under the new contract, Russia will supply China with 38 billion cubic meters of natural gas per year, which will account for nearly 10% of the planned volume, and if the western route program will be further implemented, imports from Russia will reach more than 60 billion cubic meters, accounting for about 16% of the planned volume. Meanwhile, Russia’s Novatek has signed a 20-year contract with CNPC, to which Novatek will supply 3 million tons of LNG gas from the Yamal. The eastern gas pipeline agreement will certainly promote the implementation of the “Vladivostok project”, whose export volume will be even greater.

Second, it will promote rational natural gas distribution in China and accelerate the natural gas pricing mechanism reform process. In his speech on May 23rd this year, President Putin mentioned that the next step for Sino-Russian gas cooperation will be to develop the Hexi Corridor West gas supply route, which is, in fact, the middle part of the No. 3 West-East natural gas transmission project. According to the design, the No. 3 West-East natural gas transmission will transport 25 billion cubic meters of natural gas from Central Asia and 5 billion cubic meters of natural gas from coal from Ili in Xinjiang annually. The injection of West Siberian gas will enhance the value of this route, and the No. 3 West-East natural gas transmission project will also be appropriately speeded up. Meanwhile, it will contribute to China’s reform of the natural gas price mechanism that was formed over a long period of time and which saw the gas price in the domestic market drop away from imported gas prices, thus helping China to develop a more rational gas supply and consumption pattern.

Third, the agreement with Gazprom will boost diversification of China’s energy imports. Due to historical reasons, China has relied on energy imports from the Middle East for a long time and China still imports most of its energy through the troubled Malacca Strait. In recent years, the Middle East has been in turmoil, sea transport challenges have been increasing and the potential risk of China’s energy security increases too. In order to change the simplified direction of energy import, in recent years, China has already opened a gas pipeline towards Central Asia and

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Myanmar. With Russian gas supplies through the eastern and western route to China, China’s energy imports have formed a diversified pattern.

Fourth, the scale of the Russian gas input will to some extent optimize China’s energy consumption structure. For a long time, China’s economic growth mainly depended on the consumption of coal, whose share is still up to 65%. The use of this high-polluting coal to meet China’s energy needs has led to a decline in air quality, which poses severe environmental protection challenges. The increased input of clean energy from Russia - natural gas – has a positive impact on China’s environmental protection efforts. It will reduce pollution and change the consumption balance of primary energy.

2. The Sino-Russian gas cooperation agreement will consolidate Russia’s position in the international energy market and promote the economic and social development of Russia

Prime Minister Medvedev told Russian state television in an interview that the Asia-Pacific market is the fastest developing market, and it may become the largest market for Russia. Russia always attaches importance to the cooperation with the European natural gas consumers, and the European market is also very important for Russia. However, Russia is continuously developing, and its rich natural resources allow Russia to seek for other markets. The gas cooperation agreement signed between China and Russia helps Russia access the world’s largest export market, which is in favor of diversifying Russia’s gas exports. This will make Russia less dependent on the European market, changing the history of Russia’s natural gas one-way exports to Europe. It can be said that Russian’s gas exports to Asian countries, including China, will undoubtedly be conducive to consolidate its position in the world energy market (even when facing Western sanctions). For Russia, the expansion and full upgrade of Sino-Russian energy cooperation will not only open up a stable export market, bring in funds needed for domestic economic development, and expand the scale and level of modernization of the oil and gas industry, it will also stimulate the development of the Russian Far East, promoting the growth of the Eastern regions, and gradually change the imbalanced situation of Russia’s East and West, therefore, laying a good foundation for Russia to achieve sustainable economic and social development.

3. The Sino-Russian gas cooperation will enhance bilateral relations and has an important impact on world energy market supply and demand patterns

The Sino-Russian gas agreement is in line with the fundamental interests of both countries and a reasonable step for the strategic cooperative partnership. After completing the 10-year natural gas negotiations, the bilateral pragmatic cooperation between China and Russia has reached a new height. The mutual trust between China and Russia on the political level is more solid and strategic cooperation will also increase. Speaking from the perspective of pragmatic cooperation, it is expected to become a catalyst for increasingly expanded and deepened cooperation between China and Russia. The enormous potential of the two countries’ complementary economic advantages will also enter into a fast-release period. The Sino-Russian gas agreement and the increasingly expanding cooperation of the two countries will elevate the status of Asia in the world energy market structure and will make it a pillar of energy security across the Asia-Pacific region. Russian energy supplies entering into the Asian market will boost economic development in the region and speed up the eastward trend of global energy demand as well, which will influence the evolution of energy supply and demand relationships and the patterns overall.
South Stream Is Becoming Inevitable
By Simeon Nikolov, Director of the Centre for Strategic Studies of Security and International Relations, Bulgaria

The temporary problems and perspectives of South Stream are largely related to and contingent upon global geopolitical changes. The current crisis in Ukraine can at least partly be explained by certain efforts to slow down the transition to a multi-polar world order. As one consequence, it risks delaying the future fusion of the technological advantages of Europe and the abundance of resources of Russia. A buffer zone taking shape and a protracted neglected conflict in Ukraine only reinforce the argument that the idea to diversify the routes of gas supply is a sound one.

Global geopolitical changes impact individual states’ national security. Most countries in Europe view the energy sector as one of the pillars of national security strategies. Nord Stream’s construction enhanced the energy security of key countries in Western Europe, just as South Stream will enhance it for another six countries of South-Eastern and Central Europe. Reaching Baumgarten in Austria will have in fact even wider importance.

As an outpost for the project in the EU, Bulgaria is interested in its completion for multiple reasons – from the country’s 95% dependence on gas supplies to improved opportunities in maintaining the national and regional energy balance. Price stability, energy efficiency and strengthening the geostrategic importance of the gas transport network are among the desired effects of South Stream for the country. Cancelling the project would mean a loss of 3 billion euros in investments and of about 5,000 jobs.

The needless politicizing of an economic project promising exceptional benefits for Europe started with a statement made by Günther Oettinger, EU Commissioner for Energy, on 1 June 2014. He linked the recognition of the government in Kiev by Moscow to the progress of negotiations on South Stream. The EU also took into account the ultimatum made by the Prime Minister of Ukraine demanding the termination of the project. Commissioner Oettinger’s statements that sanctions would be imposed on countries participating in the project could be interpreted as a violation of the principle of solidarity. Nevertheless, countries like Italy and Bulgaria agreed to make the necessary adjustments.

Despite external political pressure presented in questionable legal terms, the countries participating in the project signed agreements and confirmed their preparedness to implement it. This indicates that South Stream will inevitably materialize, despite any temporary obstacles which may occur. This was also the message from Mr. Oettinger’s statement on 16 June – that the problems surrounding South Stream could be overcome and the EU would accept the project. Clearly, European politicians under pressure from business started to realize that they were acting against their countries’ interests and looked for ways to ease American pressure.

Uniting efforts toward more understanding and solidarity on the basis of economic (and not political) logic in the new European Commission would be the most logical strategy for the countries participating in the project. That is why the findings of the paper entitled “Russia and Germany in 2035” prepared by the strategic research institutions of both countries came as no surprise. A freeze or a reversal of

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economic relations is not viewed as a possibility in any of the alternative scenarios projected. The German Institute of Economic Studies’ proposals envisage various measures for safeguarding Western European countries in case of a reduction or complete cut of Russian gas supplies. Nowhere, however, has a solution been suggested for countries with a near 100% dependence. This demonstrates a way of thinking that lacks a sense of solidarity, regardless of Article 54 of the often-cited Directive 2009/73/EU (part of the Third Energy Package) recommending precisely a spirit of solidarity and refraining from imposing excessive burdens on partners.

South Stream could also be implemented within the framework of the Directive, although the latter seems to have been worded mostly in the interests of the wholesale markets. An approach similar to that used in the construction of offshore pipelines from North Africa to Europe is fully acceptable and would not violate the liberalization of the gas market in the EU. Moreover, Bulgaria was the first to include in its Intergovernmental Agreement (IGA) the right of third parties to use pipeline’s capacity and by doing so fulfilled one of the requirements of the EU legislation.

Both the EU and Russia are seeking changes, which provide a favorable outlook for South Stream as well. The assertions regarding the prospects of shale gas and overcoming Europe’s dependence on Russian gas are gradually giving way to realistic assessments: deliveries of liquefied natural gas from the U.S. would not be feasible in the next three years; the deposits in the U.S. were greatly overestimated; for many European countries the topic of shale gas exploration remains a political hot potato following public opposition; and Europe’s dependence on imported gas supplies is expected to grow to 80% by 2035.

The possible undermining of the efficiency of South Stream by the Trans-Adriatic gas pipeline (carrying Azeri gas) after 2019 and the emergence of Iran as a competitor of Russia are unlikely. The developments in Ukraine and the status of EU-Russia-US relations will clearly have an impact and pose difficulties, particularly in the wake of the incident involving flight MH17. But they would not change South Stream’s potential to contribute to the normalization of those relations and set them on a pragmatic economic foundation.
The International Summer Academy of Arts ‘Energy for Life’ has been held in Austria. The event, which took place from 28 June to 10 July 2014, was part of the international children’s social project ‘Open World’. The Academy gathered over 100 children from Austria, Russia, Poland, France, Belarus, Slovakia, Latvia, Czech Republic, Turkey, Ukraine, Greece and Switzerland. Children from different countries came together to take part in master classes organized by experienced teachers from Europe who ran sessions in three areas – music, sports and journalism. The music session featured the fourth session of the International Children’s Chamber Orchestra conducted by Yuri Bashmet.

In addition to the sessions and master classes, children were able to showcase their skills in several concerts organized as part of the Academy. For example, the Open Day, which was held on 5 July, featured performances by participants of the master classes in choreography and rhythmic gymnastics. Young TV journalists from the media group demonstrated their reports and interviews prepared during the sessions on huge screens. Continuing a tradition of past years, participants of the Academy performed at the School for Children with Disabilities (city of Wiener Neustadt), once again emphasizing the importance of mutual communication between children from different social groups.

The Mariinsky Theatre hosted the Stars of the White Nights international festival from 10 to 11 July, which included a performance by the Russian-German Musical Academy. Outstanding young musicians from the Mariinsky Theatre, the Berlin University of the Arts and the Hanns Eisler School of Music (Berlin) performed on the same stage as a unified German-Russian team. Mutual creative exchange and recourse to musical traditions of the two countries are the main elements of the Russian-German Musical Academy. Only laureates and prize-winners of musical contests and competitions are members of this Academy. This collaboration and the performances at the prestigious stage of the Mariinsky Theater were made possible thanks to a sponsorship from the Gazprom Group.

The idea of creating the Russian-German Musical Academy emerged in 2012-2013 during the Year of Germany in Russia. The project is aimed at expanding cultural exchange between talented young musicians of both countries and ensuring their mutual enrichment by experiencing the other’s culture.

For two evenings, concertgoers were exposed to the rich musical traditions of Germany and Russia. The program featured works by Mozart, Mendelssohn, Glinka, as well as works by members of the Second Viennese School – Arnold Schoenberg, Anton Webern and Alban Berg – and works by early Russian avant-garde composer G. Popov.

International Summer Academy of Arts ‘Energy for Life’
International Summer Academy of Arts ‘Energy for Life’

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The International Summer Academy of Arts culminated in a performance by the International Children’s Chamber Orchestra conducted by Yuri Bashmet at the main concert hall of Vienna – Musikverein. Performing at one of the world’s best stages was a real test for young talents from different countries, which they honorably passed. The Viennese audience, among which were many Austrian political and cultural figures, was delighted with the young artists and greeted their performance with loud and prolonged applause. The audience left many warm words and admiring comments in the guest book after the concert. The concert by the International Children’s Chamber Orchestra in the Musikverein hall, under the patronage of the mayor of Vienna, Michael Häupl, was organized in support of Austria’s Pulmonary Hypertension Association. This public initiative helps people suffering from this rare and incurable disease and supports research on methods of treatment and therapy.

The International Summer Academy of Arts is taking place every year and is supported by the charitable fund ‘Energy for Life’ that is backed by major energy companies in Russia and Austria: Gazprom Export, Gazprom Austria Gashandel GmbH, OMV Gas & Power, Econgas, Gas Connect Austria.

London Treated to the ‘Russian Seasons of the XXI Century’

The famous Coliseum Theatre of London hosted Russian artists performing under the auspices of the ballet project ‘Russian Seasons of the XXI Century’. The ballet festival which took place from 7 to 13 July was organized by the Maris Liepa Charity Foundation with support from Gazprom Group.

Londoners were introduced for the first time to the unique recently restored masterpieces of Russian ballet and opera. Among the works presented to the public were the opera ballet The Golden Cockerel by Nikolai Rimsky-Korsakov, the one-act ballets Petrushka and The Firebird by Igor Stravinsky, the ballets Scheherazade and Les Sylphides, among many others.

The tour culminated with a spectacular concert titled Diaghilev Gala, which featured international ballet stars performing for a large audience, including prominent cultural and art figures, as well as the political and business elite of Russia and the UK.

This performance constituted yet another remarkable cultural event sponsored by Gazprom Group that was held as part of the UK-Russia Year of Culture 2014. On 1 February 2014, a concert by the Moscow Soloists Chamber Orchestra directed by Yuri Bashmet was held in London with great success, becoming one of the inaugural events within the Russian cultural marathon in the UK this year.
And the Silver Anvil Goes to…
Gazprom’s Blue Corridor NGV Rally
Honoured with Prestigious Global
Communications Award

After staging five ground-breaking events since 2008, Gazprom’s Blue Corridor NGV Rally was recently presented with the prestigious Silver Anvil award for excellence in “Global Communications” by the Public Relations Society of America (PRSA). The PRSA’s Silver Anvil is considered the Oscars of PR. Silver Anvils recognize public relations campaigns that incorporate sound research, planning, execution and evaluation – demonstrating the highest standards of performance in the profession. An elite group of experienced public relations professionals are chosen each year to judge the awards which have been a mark of success for more than 60 years. Judging is a rigorous process, where only the very best public relations campaigns emerge as finalists.

As well as the Silver Anvil in the “Global Communications” category, Blue Corridor also received the Award of Excellence in the “Events and Observances More than Seven Days” category.

The award comes off the back of the unprecedented success that Blue Corridor has had in changing opinions on NGVs and influencing the speedy roll out of NGV infrastructure in Europe. When Blue Corridor was instigated, despite NGVs being affordable and better for the environment, very few vehicles were actually on the road due to concerns about insufficient NGV infrastructure. In turn the lack of NGV vehicles discouraged potential NGV manufacturers and discouraged companies from constructing more NGV fuelling stations.

Five years on, the Blue Corridor NGV Rally has seen the steady growth in vital infrastructure and greater NGV use across European markets. Crucially, the number of NGV filling stations has grown by 40% in Europe to more than 4,270 and worldwide by 110%, with more than 21,000 natural gas fueling stations in the world today.

The 2013 rally, from St. Petersburg to St. Petersburg via Russia, Finland, Sweden, Denmark, Germany, Poland, Lithuania, Latvia and Estonia was the most successful in the event’s five-year history. The rally followed a medieval trade route – known as the Hansa Route – around the Baltic Sea, illustrating how transportation modes have vastly changed and included for the first time a ferry ride powered by a natural gas ship.