Russian Gas Strategy In A Global Perspective*

Q: What are the main priorities of Russia's natural gas strategy?

As a resource-owning state, in line with UN Resolution 1803 of 14.12.1962 "Permanent Sovereignty over Natural Resources" that "the right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned" (paragraph 1), Russia aims to maximize economic wealth for its people from natural gas development and to receive the highest possible resource rent from extraction of its non-renewable gas resources. Thus state-controlled company Gazprom, the sole exporter by law of Russian gas, sees its mission in maximum efficient and balanced gas supply of the customers of Russia, in fulfilment with high degree of reliability its export obligations.

Gasification of Russian regions is of top domestic priority for Gazprom. Since 2001 Gazprom has been developing its programs of gasification of Russian regions (latest one was approved in December 2009). Gasification of Russian regions has been implemented jointly by Gazprom and region's authorities. The company has been financing and developing pipelines that will bring the gas to the town-gate, and regional authorities are responsible for developing internal town distribution lines and for preparation of the customers to gas use. Average level of gasification for Russia as a whole has exceeded 63% in 2009, while in the cities and towns it reached 68% and in rural areas 46%.

Since adoption in 2006 of the Federal Law "On Gas Export" Gazprom has received the monopoly rights on export gas. Single export channel and system of long-term gas export contracts (LTGEC) are the core elements of export strategy

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of the state and its state-owned company. Gazprom exports its gas to Europe on the basis of LTGEC with duration of up to 25 years, which are concluded usually on the basis of inter-governmental agreements.

Export provides for about one third of total gas marketing and almost 60% of Gazprom's revenues. Key export gas market for Russia is Europe where it covers about 25-30% of gas imports. Current Gazprom export volumes to Europe are around 150 BCM. During the recent economic crisis Russia's share at the EU gas market has diminished (from 28% to 26%) since LTGEC oil-indexation price formulas held gas prices above spot gas quotations and adaptation of LTGEC pricing mechanisms to the state of the market took usually rather long time.

LTGEC is not so much a trade instrument, but is a financial tool (instrument of project financing, the latter is a key traditional mechanism of raising capital for upstream gas project development) needed to develop long-term and highly capital-intensive production and transportation gas projects. Bearing in mind that almost all Russian gas resources/reserves are located in its remote Northern and Eastern areas far distant from both domestic and key export markets, this additionally increases capital cost for single production and transportation projects. So it is the banking and financial community that requested LTGEC to be concluded in order to guarantee pay back of the debt financing. Among key characteristic features of Russian LTGEC the following two should be mentioned: (a) pricing formula which links gas price to price fluctuations of key petroleum products (diesel/gasoil and residual fuel oil) with 6-9-months time-lag; (b) minimum "take-and/or-pay" (TOP) obligations (was on average 85% before the 2009-2010 financial crisis, but has since been downgraded in some contracts to 60%), which means that the customer should pay for the annual volumes that he has not off-taken this year, but that he could off-take them later with corresponding additional payment after delivery of minimum annual contractual volumes for that year.

LTGEC are de facto service contracts which provide to the customer daily flexibility, variation of supplies within a year and commitment of the seller to supply to the customer in the future gas volumes that the latter has earlier paid for under TOP conditions of LTGEC.

As of today, cumulative portfolio of signed Russian LTGEC totals 3.1 BCM of guaranteed future supplies (at their minimum contractual level) for the whole duration of these contracts through 2011-2035. Major customers of Russian LTGEC are Germany, Turkey, Italy, France. Gazprom is also increasingly active as spot gas trader in Europe through its affiliate Gazprom Marketing and Trading Ltd., which trades gas at hubs in the UK, Belgium, Netherlands, France selling on spot both some volumes of Russian gas as well as the gas which it purchases in Europe.

In the FSU area, including the Baltic states, Gazprom has been continuously moving towards contractual framework and pricing mechanisms similar to that in its gas supplies to the EU. At American and Asia-Pacific markets, Gazprom aims at steady increase of its LNG supplies first of all from its 50%+1 share portion of Sakhalin-2 project.

Q: How serious is Russia's LNG strategy and what percentage of Russian exports would be in the form of LNG by 2015 or 2020?

Russia's LNG plans were rather serious both for the US and for the EU markets until the global economic crisis of 2009-2010 and the "silent US shale gas revolution" radically altered them. Since 2004 Gazprom has been implementing a gradual strategy of increasing presence at the LNG market. Within the first stage of this strategy (development of spot deals and swap operations "LNG vs. pipeline gas") LNG supplies were organised to the US, UK, South Korea, Japan, Mexico, and India.

In October 2009, Gazprom's CEO A. Miller stated that Russia will produce in 2020 about 80-90 mn tons of LNG (for comparison, at that year Gazprom supplied to the US and the Asia-Pacific only 1.35 mn tons of LNG). Gazprom's Deputy CEO A. Medvedev has also mentioned that his company's aim is to supply up to 20% of US LNG imports.

It was apparent by late-2009, that Mr. Miller's estimate was too optimistic . In 2020 Gazprom plans to produce 17 mn tons of LNG through two projects under its control: Sakhalin-2 and Shtokman. This means 7.5 mn tons from the 1st phase of Shtokman field development; final investment decision on Shtokman project is to be held at end-2011 but the LNG plant there will not come on stream before 2016) and full LNG plant capacity of Sakhalin-2 project (9.6mn

tons , reached in 2010, in which project Gazprom holds 50%+1 stock. Another half of LNG volumes from Sakhalin-2 belongs to foreign participants of the Sakhalin Energy Investment Company . This means that Gazprom's LNG volume from two the projects in 2020 will be about 7.5+4.8=12.3 mn tons of LNG. Another 15 mn tons of Russian LNG might come from the Yamal LNG project of "Novatek" (a major independent Russian gas company).

But the "Yamal LNG" project will not add LNG volumes to Gazprom. According to "agent agreement" signed by Novatek and Gazprom, Gazprom export (for the commission of less than 1%, according to L. Mikhelson) will pass the gas from "Yamal LNG" (future operator of LNG plant on Yamal in which Novatek holds 51%) "through the Russian border", but the owner and the seller of the gas will be the operator of the project.

Gazprom's earlier proposed Baltic LNG project (5mn tons) is no more on the agenda. Gazprom's long-term aim is also to enter into foreign gas production projects which can be later used for liquefaction and LNG export. The company is examining today possibilities for participating in economically attractive liquefaction projects outside Russia. This means that in 2015 Russian LNG export volumes will be equal to 4.8mn tons (Gazprom's share in Sakhalin-2 project) and in 2020 to no more than 27.3mn tons at maximum, if (in both cases) Gazprom will not purchase any export LNG assets worldwide. So the LNG share in overall Russian gas exports in 2020 might be about 10-12% at maximum.

Q: Is there room for private investments in Russia's natural gas sector or will it continue to be dominated by Gazprom? How do you evaluate the role of Novatek and the recent decision of Gazprom to open its gas pipeline network to independent gas producers?

I would expect that Russia's natural gas sector will continue to be dominated by Gazprom. It already dominates there and the currently existing independent gas producers – independent gas companies (Novatek) and vertically integrated oil companies (Lukoil, Rosneft, TNK-BP) – can increase their presence in the market only through accelerated growth of their production which is not of much interest to them now, due to a relatively low domestic gas prices.

Residential prices are state-regulated, while prices for industrial consumers have been slowly increasing with the aim to reach around 2015-2016 the same net-back level with export prices (as a result of the economic crisis this date can be further postponed). Today Gazprom can compensate its low or sometime negative profitability of its domestic operations by export gas sales, but independents do not have legally access to export markets.

Independents also assert that they have been facing difficulties with access to the gas transportation system (Gazprom is the sole owner of it by law) and a discriminative treatment compared to Gazprom's affiliated companies. The same Federal Law "On Gas Supply" allows Gazprom as an owner of the gas transportation system to provide to its affiliated companies – the shippers of the gas through his system – discounted transportation tariffs. The Federal Anti-Monopoly service has been campaigning strongly for more fair treatment for the independents.

The role of independent gas companies in the domestic market will continue to increase, though rather slowly. Meanwhile, Gazprom's gas export monopoly imply that we should not expect the independents to receive export rights, at least during the next Presidential period, which will not cause problems if domestic gas prices are raised (as intended) to the net-back European level.

Q: What is the impact of Europe's liberalizing gas market on the security of Russian gas exports to the Continent?

Today, security of Russian gas exports to the EU is under pressure. Firstly, the future competitive niche for Russian gas supplies to Europe has been either narrowing or at least became more uncertain. Secondly, within this narrowing (or more uncertain) competitive niche for Russian gas, business risks, including for external suppliers, have been increasing.

The competitive niche for Russian gas has been influenced both by demand and supply factors. On the demand side, the economic crisis of 2009-2010 has temporarily downgraded gas demand worldwide, including in the EU. Moreover, the Russia-Ukraine gas crises of winters 2006 and 2009 have changed EU perceptions of reliability of Russian gas supplies (22 days, namely, 3 days of supply interruptions in January 2006 and 19 days in January 2009, have registered negatively in the minds of many EU politicians and the public opinion, compared to the previous 40 years of secure and reliable Soviet/Russian gas supplies to Europe).

This, together with the policy of decarbonisation of the EU energy future, has led to increasing uncertainties in future gas demand in Europe, including some of the forecasts leading to the downgrading of its volumes in absolute terms (like in the EU Commission-sponsored PRIMES model according to which the 2010 scenario prospective EU demand for gas import until 2030 will be lower even from its already contracted volumes). The EU premise that gas is a "transition" fuel, from my view, may reflect, in sum total, a new EU reality – mostly politically motivated intentions of some politicians to move away not so much from gas in general, but from Russian gas in particular.

On the supply side the situation is different. Increase in external supplies to Europe has continued even during the financial crisis. Firstly, due to the putting on stream of EU-dedicated gas-export projects (both pipeline and LNG) which were started before the crisis, in early/mid-2000-ies, when both oil and gas prices were heading upward. Shale gas developments in the US have not only almost fully closed this market for the imported gas, but have put on the agenda the US liquefaction plants projects so that US might become an LNG-exporting country.

Meanwhile, export LNG volumes, initially aimed at the US market, were re-oriented to Europe within the arbitrage deals in the Atlantic basin (since the UK NBP prices stayed higher compared to US Henry Hub). Even today there is a strong competition on the EU market between pipeline gas and LNG, and between LNG suppliers. So the competitive niche for Russian gas at the EU market is not growing because of the increase of competitive supplies to Europe.

And it was at that moment of gas oversupply in Europe that the 3rd EU Energy Package came into force on 3 September 2009. This package provides a number of potential challenges for external suppliers, but at the same time creates a number of today's uncertainties and risks due to a lot of unclear provisions in its documents that already entered into force (those regarding gas are: Directive 2009/73/EC and Regulations (EC) 713-2009 and 715-2009). And the further regulatory documents that need to clarify technical details of the the 3rd package and it's unclear provisions (non-binding Gas Target Model and 12 Framework Guidelines, as well as 12 legally binding Network Codes) are just in the process of being drafted and simultaneously being debated on principal issues of EU internal gas market architecture between the stakeholders.

As of today, Russia-EU cross-border gas value chain consists of three consecutive groups of long-term contracts (LTC): (a) LTC/LTGEC between Russia's sole exporter Gazprom and wholesale traders-importers of Russian gas (E.ON Ruhrgas, ENI, GDF; (b) wholesale LTC between the latter and large end-users (power plants, energy-intensive industry plants) and/or retail traders, and (c) between the latter and small end-users (households, commercial users).

The 3rd Energy package has radically changed the wholesale gas market structure in Europe (the second element in the above-mentioned three-step Russia-EU gas value chain). Proposed new architecture of the internal EU wholesale gas market is to be based on "entry-exit" market zones with a virtual liquid hub in each zone. This will have a major influence on Russia since it can change delivery mechanism of its LTGEC. Plus "ownership unbundling" provisions of the 3rd Directive (sovereign decision of the EU Member States) means that in the future Gazprom can be present at the EU market only as a shipper (and not simultaneously as owner/operator of gas transportation systems in the EU). EU member States were to transpose the 3rd Directive into their domestic legislation in March 2011.

Meanwhile, the Anglo-Saxon model of organising open competitive liquid markets which has been established in the global oil market and in the US and UK gas markets, is not expected to effectively work in Continental Europe, since the bulk of its gas supplies originate from foreign sovereign states and from mostly mega-fields which need long-term upfront security of future revenues to pay-back huge CAPEX to develop such mega projects.

This is why business risks for Russian gas will increase within the narrowing (more uncertain) competitive niche for it at the EU gas market. Public consultations (a very effective tool of legislative work in the EU) have demonstrated a lot of disagreements between the stakeholders on principal issues. Such heatedly debated issues like long-term access to long-distant transportation capacity, "contractual mismatch" problems, correlation between contractual and physical flows of gas, inadequate liquidity of European hubs to provide fair long-term pricing signals for investors into upstream gas projects, impossibility and impracticality of switching all gas trade in Europe to spot/futures trading, – all these issues are very sensitive for Russia and other non-EU suppliers.

This is why Russia/Gazprom Group experts have been holding since January 2010 continuous informal consultations with Energy Regulators of EU Member States with participation of the EU Commission on the problematic issues of implementation of the 3rd EU Energy Package aimed at finding mutually acceptable draft solutions on the issues of justified concern of Russia.

Q: Do you see the Gas Exporting Countries Forum (GECF) developing as a gas OPEC? What is its real value for Russia?

No, I do not see GECF to be developed as a Gas OPEC, neither technically (economically), nor politically. A Key mechanism of OPEC influence on the market is its quota system and available spare production capacity. Difference in physics of two energy resources predetermines difference in their economics. Most of the gas is sold by the GECF members on long-term basis of up to 25 years with strict contractual obligations, while major OPEC members market the bulk of their oil through a revolving-type annual contracts. LTGEC provide flexibility through their TOP provisions (above their minimum TOP contractual levels), but this does not take away physical gas from the market. It just moves non-purchased volumes above minimum TOP level from contractual to spot segment of the market or delayed their purchase to later periods. Unilateral violation of contractual rules under LTGEC rules is penalised so the quota system is impossible in gas.

Also, since gas is much more capital expensive than oil, especially if long-distance transportation is taken into consideration, "freezing" of huge CAPEX by implementing a quota system similar to OPEC is economically impossible in gas.

From my view, what justified Russia's interest in creating GECF is to convert current and future competition between the GECF members at the key gas markets (firstly in Europe) into cooperative efforts with the aim to maximise their resource rent from their huge gas deposits (UN Resolution 1803 of 14.12.1962 "Permanent Sovereignty over Natural Resources"). Whether it is possible to move away from competition at the spot markets where key producers are currently discounting their prices in order to hold their customers and thus protect their sales volumes and market shares to cooperation within longer-term contractual arrangements where competition between producers would be substituted by competition between gas and other energy sources which might enable gas exporters to maximise their resource rent?

Perhaps, a two-segment structure of the gas market with continued dominance (but not monopoly) of long-term contracts and a broader presence of spot transactions (in the physical supplies) as additional contractual instrument to balance demand and supply in physical gas in "business as usual" (non-crisis) state of the market will enable more intensive cooperation between gas producers? Under this model flat/stable long term physical demand from energy intensive consumers (mostly from industry and power generation) should be covered by modified long-term contracts – with generally shorter durations and modified indexation formulas, not necessarily linked only to petroleum products in Europe and crude oil in Asia.

And, demand fluctuations above its flat volumes should be covered with spot deliveries with futures pricing. This need to be based on common understanding by GECF member-states of the evolution of gas markets, their contractual structures and pricing mechanisms, etc. So, intensive exchange of information on these issues is to be an important element of GECF activities.

In order to exclude excessive price volatility at spot markets and to make contractual structures and contract prices more transparent to the public (and thus to additionally diminish negative perceptions created in the global public opinion against GECF even before it was created), to make demand-supply forecasts more justifiable and to be based on more valid economic assessments, it should be practical that GECF will not only join so-called "JODI-Gas" initiative initiated by IEA, IEF and OPEC under the broader JODI project (it has already done so recently), but maybe even to take a lead in it by providing data on economic assessment of long-run marginal costs (LRMC) of gas of its member-states with the aim to develop a worldwide LRMC curve (supply curve). So, in my view, the major practical interest of Russia in GECF which might lead to positive practical results is analytical and information activity, firstly, on pricing issues, contractual structures and LRMC assessment.

Q: How important is China to Russia's diversification strategy and what are the main obstacles in the way of bringing 30-60 BCM/year of Russian gas to China from Siberia and Sakhalin?

For each exporting country diversification of its export markets is a key element in its export strategy thus stimulating competition between importers for non-renewable resources and helping to maximize exporter's resource rent. Historically Europe was the only export market for USSR/Russia. Only recently, with fast industrialization of China this country began to be a target export market for Russian gas, especially from Eastern Russian regions. In October 2004 Russia and China signed an Agreement on strategic cooperation. On its basis Gazprom and China National Petroleum Corporation (CNPC) in the face of their subsidiary Gazprom Export and PetroChina International signed in December 2009 the basic main conditions of natural gas supplies from Russia to China. On the basis of this agreement both parties continue their negotiations on specific details of Russian gas supplies to China.

An export project assumes two routes: Western (through gas system "Altay") – 30 BCM (to link with the third prospective line of China's East-West pipeline) and Eastern – 38 BCM. It is supposed that the gas price for China would be linked to the Asian oil basket. It was expected that the parties will sign their agreement on pricing and prices this June during the St. Petersburg Economic Forum, but this did not happen. One of the major difficulties for the parties to agree on price level is the following.

Gazprom has stated that its export strategy is to provide equal "profitability" (I read it as equal net-back price) for different export destinations and for domestic market. This means that it would endeavour to receive export price for China equal to its export European price (on net-back/on- border basis). On the other hand, LTGEC pricing formula in its original historical economic substance links gas price to its competing fuels at the end-user market so that gas will be competitive there in the final use. This means that the basket of gas-competing fuels in the pricing formulas of Russian gas destined for Europe and China should be different if the "net-back replacement value" gas-pricing principle is to be in place for China as it has been historically in place for Europe.

Russian LTGEC to Europe has been historically indexed to prices of petroleum products as it was initially settled in the original Netherland's Groningen-type LTGEC as far back as in the early 1960's and has been further continued afterwards in Soviet/Russian LTGEC to Europe. But in case of China the major competing fuel for gas today is coal. This means that gas price indexed to gas competing fuels for China (mostly to coal) would be lower than the Russian price for Europe indexed to petroleum products.

Q: How important is Central Asia to Russia's gas export strategy and in particular its fledgling relationship with Turkmenistan after the recent (November 2010) decision of the Russian government to freeze the Pre-Caspiysky pipeline project?

In my view, Central Asian gas is very important for Russia, especially for Russian gas export to the FSU area. Russian export gas supplies to the Ukraine historically consist of two flows: its major portion presented gas originated from Central Asia, its minor portion – originated from Russia. Central Asia has been always selling its gas at its border which was then transported through Russia to Ukraine. Until 2006 all gas export volumes to Ukraine were priced equally (on a "cost-plus" basis) based on low virtual price level linked to Russian domestic gas prices. Since 2006 Russia has linked its export price to Ukraine to EU prices (moving from "cost-plus" to "net-back replacement value" pricing), but Central Asian gas export stayed at "cost-plus" pricing mechanism.

This enabled Ukraine to receive relatively low import prices for its gas despite the growth of export prices for gas originated from Russia. The mechanism of this mitigation was based on the presence of intermediary company, Russia-Ukraine joint venture RosUkrEnergo, which was the sole exporter of both Russian and Central Asian gas to Ukraine, mixing their cocktail at its balance sheets and thus providing relatively low average import price for gas to Ukraine. So since January 2006 till January 2009 it was Central Asian gas that smoothed the transition for Ukraine from low virtual pre-2006 import prices on Russian gas to post-2009 prices on Russian gas based on European price-levels.

Since 2009 export prices for both Russian and Central Asian gas are defined equally on net-back European price levels. After Russia has provided Ukraine with 20% discount to this price level since 2010, and since 2011 – for 30% discount (in exchange for prolongation of the lease of the Black Sea Navy base in Sevastopol), purchasing Central Asian gas and reselling it to Ukraine became loss-making to Russia. Moreover, Russia has downgraded below contractual volumes and without penalties off-take 2011 volumes for Ukraine further to requests of the latter. To resell expensive Central Asian gas at Russian domestic market, where industrial prices will reach net-back European levels at least in 2016 or even later, is to make a loss as well. So Russia today is looking for new (hopefully, mutually acceptable) solution of the Central Asian gas issue in which circumstances Pre-Caspiysky pipeline project need to be (at least temporary) frozen.

Q: How important is North African gas for Russia?

Firstly, North African gas is one of the major competitors (together with Norway and LNG) for Russian gas in Europe. So it is important for Russia/Gazprom to know as much as practical about the competitive position of North African gas (volumes, costs, pricing).

Secondly, Gazprom has been expanding its direct presence in the North African upstream sector through its subsidiary Gazprom EP International, which has been participating in E&P projects in Algeria and Libya (recently all Gazprom personnel were evacuated from Libya).

General Assembly resolution 1803 (XVII) of 14 December 1962, "Permanent sovereignty over natural resources"

The General Assembly,

Recalling its resolutions 523 (VI) of 12 January 1952 and 626 (VII) of 21 December 1952,

Bearing in mind its resolution 1314 (XIII) of 12 December 1958, by which it established the Commission on Permanent Sovereignty over Natural Resources and instructed it to conduct a full survey of the status of permanent sovereignty over natural wealth and resources as a basic constituent of the right to self-determination, with recommendations, where necessary, for its strengthening, and decided further that, in the conduct of the full survey of the status of the permanent sovereignty of peoples and nations over their natural wealth and resources, due regard should be paid to the rights and duties of States under international law and to the importance of encouraging international co-operation in the economic development of developing countries,

Bearing in mind its resolution 1515 (XV) of 15 December 1960, in which it recommended that the sovereign right of every State to dispose of its wealth and its natural resources should be respected,

Considering that any measure in this respect must be based on the recognition of the inalienable right of all States freely to dispose of their natural wealth and resources in accordance with their national interests, and on respect for the economic independence of States,

Considering that nothing in paragraph 4 below in any way prejudices the position of any Member State on any aspect of the question of the rights and obligations of successor States and Governments in respect of property acquired before the accession to complete sovereignty of countries formerly under colonial rule,

Noting that the subject of succession of States and Governments is being examined as a matter of priority by the International Law Commission,

Considering that it is desirable to promote international co-operation for the economic development of developing countries, and that economic and financial agreements between the developed and the developing countries must be based on the principles of equality and of the right of peoples and nations to self-determination,

Considering that the provision of economic and technical assistance, loans and increased foreign investment must not be subject to conditions which conflict with the interests of the recipient State,

Considering the benefits to be derived from exchanges of technical and scientific information likely to promote the development and use of such resources and wealth, and the important part which the United Nations and other international organizations are called upon to play in that connection,

Attaching particular importance to the question of promoting the economic development of developing countries and securing their economic independence,

Noting that the creation and strengthening of the inalienable sovereignty of States over their natural wealth and resources reinforces their economic independence,

Desiring that there should be further consideration by the United Nations of the subject of permanent sovereignty over natural resources in the spirit of international co-operation in the field of economic development, particularly that of the developing countries,

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Declares that:

1. The right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned.

2. The exploration, development and disposition of such resources, as well as the import of the foreign capital required for these purposes, should be in conformity with the rules and conditions which the peoples and nations freely consider to be necessary or desirable with regard to the authorization, restriction or prohibition of such activities.

3. In cases where authorization is granted, the capital imported and the earnings on that capital shall be governed by the terms thereof, by the national legislation in force, and by international law. The profits derived must be shared in the proportions freely agreed upon, in each case, between the investors and the recipient State, due care being taken to ensure that there is no impairment, for any reason, of that State's sovereignty over its natural wealth and resources.

4. Nationalization, expropriation or requisitioning shall be based on grounds or reasons of public utility, security or the national interest which are recognized as overriding purely individual or private interests, both domestic and foreign. In such cases the owner shall be paid appropriate compensation, in accordance with the rules in force in the State taking such measures in the exercise of its sovereignty and in accordance with international law. In any case where the question of compensation gives rise to a controversy, the national jurisdiction of the State taking such measures shall be exhausted. However, upon agreement by sovereign States and other parties concerned, settlement of the dispute should be made through arbitration or international adjudication.

5. The free and beneficial exercise of the sovereignty of peoples and nations over their natural resources must be furthered by the mutual respect of States based on their sovereign equality.

6. International co-operation for the economic development of developing countries, whether in the form of public or private capital investments, exchange of goods and services, technical assistance, or exchange of scientific information, shall be such as to further their independent national development and shall be based upon respect for their sovereignty over their natural wealth and resources.

7. Violation of the rights of peoples and nations to sovereignty over their natural wealth and resources is contrary to the spirit and principles of the Charter of the United Nations and hinders the development of international co-operation and the maintenance of peace.

8. Foreign investment agreements freely entered into by or between sovereign States shall be observed in good faith; States and international organizations shall strictly and conscientiously respect the sovereignty of peoples and nations over their natural wealth and resources in accordance with the Charter and the principles set forth in the present resolution.

Q: Is Gazprom interested to participate in the development of Israel's offshore gas sector where finds – the Tamar and Leviathan fields- of almost 0.75 Trillion Cubic Meters have been confirmed in 2009 and 2010?

Gazprom is a company with global commercial interests. Hence, its development strategy is aimed at the creation of full-fledged gas value chain from production to marketing in new markets based on its production capacities outside Russia. Since there was a discussion for sometime of the prospects of a gas pipeline through Turkey to Israel (prolongation and/or expansion of the Blue Stream pipeline), I would assume that Gazprom would at least like to evaluate commercial prospects of its participation in this project offshore Israel.

Q: Is Russia interested in joining the International Energy Agency (IEA)? and how would you characterize the level of bilateral cooperation between Russia and the IEA?

Russia has been declaring that it is interested in cooperation with the IEA. On the other hand, Russia has been stating that the IEA is an organisation of importing states with interests completely opposite to the interests of producers/exporters. From my view, Russia does not know what in reality it would like to receive from cooperation with IEA. But IEA does know what it would like to receive from Russia: more open and transparent policy in regard to foreign investors, more cooperation and transparency regarding evaluation of Russia's energy resources and reserves, production capacities, investment needs; and, availability of these investments.

But those are definitely not the areas where Russia is ready today to cooperate with the IEA or someone else in the international energy world. Especially if/since Russia will not be sitting at the "driving seat" in such a process of cooperation (this is one of the reasons, from my view, why Russia insisted on the creation of GECF, where it planned to be in a "driver's seat" or has proposed a de facto alternative to the Energy Charter Treaty). This is why cooperation with the IEA is on a rather low level.