



RUSSIA AND GERMANY: A SOLID REGIONAL ENERGY PARTNERSHIP



Background



- Market integration on a global and regional scale will be a priority topic for debate and consideration
 - Theoretical: developing frameworks and fundamental research
 - Practical: learning from lessons elsewhere and applying them to other regions
- German energy relationship with Russia
 - Orenburg pipeline deal was made early mid-1970s
 - Russian up-stream sector was interconnected with the West German down-stream market
 - Remarkable achievement during the Cold War
 - Russian energy supply presently is essential for Europe
 - European energy payments are instrumental for the Russian economy

→ Win-win situation for Russia and Germany (Europe)



Development after cold war



- New phase of cooperation (more integrated) after the end of the Cold War
- New form of interaction between privately owned companies in Germany and a state-controlled National Oil Company in Russia (Gazprom)
- Foundation of this win-win relationship:
 - Upstream players wish to integrate downstream, towards the end-consumer in their search for security of demand
 - Downstream players seek security of supply in the form of access to upstream resources
 - Long-term strategic positions through business-to-business cooperation



Examples of Relationship



Wintershall - Gazprom

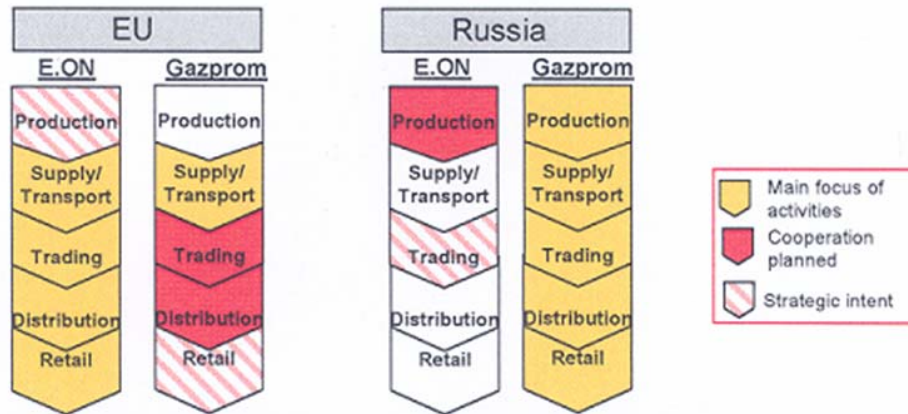
- Upstream
 - Wintershall is minor but important stakeholder on the Siberian Yuzhno Russkoye gas field
 - Aim: Motivating producers to develop smaller fields first, providing an upfront economic value and incentive to its stakeholders
- Downstream
 - Wintershall is the main wholesale seller of Russian natural gas on the German domestic market
 - Wingas was designed to market Russian gas in Europe

E.ON – Gazprom

- Upstream
 - E.ON has also 24 percent share in Yuzhno Russkoye
 - Generating power for Russia with natural gas from Gazprom
- Downstream
 - Gazprom is E.ON's major partner in the Hungarian natural gas sector



Asset swap along the chain value



E.ON, Cooperation between gas producers and importers as a vehicle for enhancing security of supply, presentation held for the 'Energy Dialogue Russia – EU', Berlin, May 26th 2006



Perspectives



- Business-to-business deals can lead to a potentially stable, predictable and above all sustainable commercial environment
- German end-consumer avail oneself of the cooperation between Germany and Russia
- It is in the end-consumer's best interest that not only short-term considerations be taken into account, but long-run ones as well
- In a liberalized environment the end-consumer makes decisions based on the short-run, the necessary security of supply remains a long-run issue!
- German-Russian example presented an exponent of cooperation, a role model for other European consumer countries
 - Mutually beneficial deals are possible
 - Both parties can profit from cross-border partnerships