

Arbitration factsheet

Long term contracts – secure yet flexible

Gazprom Export currently holds a number of long-term supply contracts in Europe. Some of these contracts are signed for periods for as long as 25 years and sometimes longer, thereby creating a system that provides energy security for all players involved: upstream producers like Gazprom are assured of their returns on investment for gas fields and energy infrastructure, while gas buyers - like utility companies and European consumers - enjoy a guarantee of long-term energy supplies.

In order to ensure that long-term contracts remain aligned with changing market conditions over time, they allow for **regular reviews of the pricing conditions** contained therein, which usually take place **once every 3 years**. As a general rule, a **revision of the gas pricing formula can only be triggered by a significant, objective change in the relevant energy market**. The revision thus aims to ensure the continued competitiveness of natural gas as an energy source.

The pricing reviews follow an agreed procedure for adjustments. It is standard practice for supply contracts to stipulate that in cases where the parties cannot conclude the review process in a mutually acceptable way, the matter may become subject to an arbitration procedure.

Arbitration : a common practice in international commerce

Arbitration procedures are a standard mechanism for dealing with commercial disagreements. There are a number of arbitration courts in Europe that are widely used by companies, e.g. the International Chamber of Commerce in Paris or the London Court of International Arbitration

Arbitration is a form of alternative dispute settlement and as such is distinctively different from law suits. In commercial arbitration the case is referred to independent arbitrator(s), nominated by the parties who review the case as "champions of objectivity" and then impose a decision that is legally binding for both sides.



However, the **decision of an arbitrator only refers to a particular proceeding and does not set precedents** for other proceedings - even if the same parties are involved. This is due to the uniqueness of every long term contract, the nature of each complaint, and the changing conditions of the gas market over time and across countries.

Every **new arbitration request yields a new investigation and will produce a new ruling** - unless the parties find an agreement before the conclusion of the arbitration procedure.

Arbitration procedures do not prevent negotiations

Notably, **arbitration procedures do not prevent the continuation of negotiations between the parties** towards finding mutually acceptable solutions. In most cases, arbitration procedures are terminated due to the **settlement reached between the parties before arbitration takes place**.

Although pricing is a common reason to refer the matter to arbitration in the gas sector, arbitration is also used to settle disagreements in other matters, such as varying interpretations of contractual obligations, or the consequences of changes in national legislation.

IMPORTANT FACTS

- 📍 Paris International Chamber of Commerce : 793 cases in 2010
- 📍 London Court of International Arbitration : 246 cases in 2010
- 📍 Arbitration Institute of the Stockholm Chamber of Commerce: 197 cases in 2010

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