

**Speech of Deputy Chairman of the Management Committee of Gazprom,
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at Baker Hughes Annual Meeting**

The Role of Natural Gas in the Climate Agenda and Decarbonization

February 1, 2021

Good afternoon everyone,

I am grateful for the opportunity to speak at this event and among such a professional audience to touch upon the potential contribution of the gas industry to the process of decarbonization.

It is not easy to name such a significant problem which has had to be solved in recent years by so many industries. The principles of the Paris Agreement on climate change signed in 2015 have turned into a whole range of national and supranational goals. For instance, the European Union has developed an example of the most ambitious agenda to fully decarbonize its economy and to reach net zero emissions by 2050. It would be no exaggeration to say that the issue of emissions and reduction has become widely accepted and urgent in every part of the world. Today, the climate and decarbonization agenda is not merely a mainstream strategy but a vital factor for economic decisions.

Undoubtedly, this results in fundamentally new demands on the energy industry. This is also why today, when the economic recovery requires bold major decisions, some actors are calling for a qualitative leap. Sometimes, they even propose a ‘double dash’ by creating a new economy based on decarbonization principles. This is in fact another sort of technological and economic revolution.

It would surely be most preferable for everyone if the reduction of emissions were achieved not just in a revolutionary manner, but also in the most efficient and reasonable way. As the saying goes, “faster, better, cheaper – pick two”... But, natural gas provides us with the possibility to pick all three.

So, how can natural gas help in creating a new decarbonized economy?

To begin with, gas meets all the reasonable **ecological requirements**. It can substitute coal in power generation - quickly, efficiently and with cost-savings. Moreover, we see the same process in Europe amid the development of emission allowance trading: it is the work of market forces, so it is the most efficient way.

Another intrinsic advantage of natural gas are its **mature market mechanisms**. During the 2020 crisis, we saw that the gas market has powerful self-balancing capabilities. It once again proved to be a reliable commodity. In comparison to other energy-carriers, gas has robustly overcome the crisis. And the

predictability of this market is a significant advantage for existing and potential investors in energy-intensive businesses. For instance, the clear predictability of prices is a unique quality of our long-term supply contracts.

What's more, natural gas is an existing solution with the **lowest CO₂ emission rates** among traditional fuels; it will soon become the source of low-carbon and zero-carbon fuels, which can be produced with known, tested and efficient technologies. Hydrogen, biogas and synthetic gases can synergistically develop with natural gas, as their tandem allows us to enjoy the benefits of existing infrastructure and to use it for transportation and storage. Gas pipelines are the cheapest way to transport energy. We already have developed a flexible infrastructure, and it would be completely rational to use it.

We have also seen that natural gas is **extremely reliable**. Due to a wide spectrum of its applications, this advantage can be successfully transferred to other segments of the economy. There is a recent example of this. A couple of weeks ago, European media reported that amid a cold snap and a surge in energy consumption, Austria, which almost fully relies on renewable generation, was facing a black-out. Nevertheless, it could be prevented with the help of traditional generation – gas, coal and nuclear. National energy companies warned that a continuous rise in renewable generation throughout the years inevitably increases the volatility of the energy system. Thus, new gas-fired plants are necessary to avoid a black-out in the future. It is worth noting that despite the rapid development of green technologies and the reduction of their cost, the challenge to ensure the stability of the energy system is still there. It is impossible to provide this stability only with renewable sources and without natural gas.

Finally, natural gas is a **versatile and modern fuel**. Together with innovations, it is ideal for the creation of a new energy system. For instance, gas can already be used for the production of clean hydrogen – the most popular solution of recent years. We, at Gazprom, are optimistic about the rising interest towards hydrogen, since its production from natural gas is one of the most promising, cost-saving and logical technologies. Furthermore, the developing technology of methane pyrolysis allows the production of hydrogen and carbon black without any CO₂ emissions. The demand for such technology is undoubted.

Is natural gas ready to become the energy of the future and meet all the relevant requirements? I am convinced that it is. This solution is technological, efficient, ecological and reliable – so what is the problem? We believe that sometimes, overly ambitious and complicated emission reduction goals foster excessive regulation. Hence, it ends up prioritizing a limited number of expensive and immature solutions, sometimes hardly efficient. At the same time, technologies with guaranteed, cheap and sustainable results may be excluded.

Something of this kind is happening now in the EU, which is debating over sustainable investment criteria. There has been a proposal to limit plant emissions at the level of 100 gram CO₂/kWh. This would mean that even modern gas plants would not be considered “sustainable” for investments, even for a transition period. But even from outside the gas industry, let us just ask ourselves – what would be the practical implications of these limits, and what are the consequences for the economy? Will they ensure reliable energy supply, cover the rising demand, or drive energy prices down? Mysteriously, there is no answer to that; but I imagine these questions should be the first to be addressed.

This is why I would like to point out that an important condition of rebuilding the economy is technological openness, in its broadest sense. It is necessary for diversification requirements and in terms of the very philosophy of free economic competition. It is somewhat strange to hear calls in Europe to artificially reduce the spectrum of supported hydrogen technologies to a sole electrolysis. A forced choice of a single technology would simply not be the most economically efficient solution. Green hydrogen is too expensive and energy-intensive, and its ramping-up would require an exorbitant stretch of Europe’s resources. Is it wise to take on such costs while struggling with the consequences of the crisis? At the same time, it is hardly possible to increase renewable capacities to cover the whole future demand for energy and hydrogen. Moreover, green hydrogen may exacerbate the problem of clean water accessibility. Is it worth creating hurdles that distance us from the most beneficial alternatives?

Colleagues, the most important lesson of the crisis of 2020 is that we should be rational and conscious while making the most sudden, revolutionary and bold decisions. We know that it is crucial to be reasonable and sober, and not yield to ideological differences, attempts to manipulate public sentiment and terms for the sake of short-term benefits for companies in certain industries. A fully sustainable future requires rationally solving the problems of today. And I believe that together, via dialogue, we can find such a solution.

Thank you!