

**Eden District Council**  
**Overview & Scrutiny Committee**  
**7 July 2022**  
**Finance Scrutiny Committee**  
**12 July 2022**  
**Gazprom Update**

<b>Report from:</b>	Interim Director of Resources
<b>Wards:</b>	All Wards
<b>Open Public Item</b>	

**1 Purpose**

- 1.1 To update the Committee on the position regarding the Council’s contract with Gazprom and present the latest on the changes in ownership and control within the company.

**2 Recommendation**

It is recommended that Committee note the report.

**3 Background**

- 3.1 The Committee will be aware that the Council has contracts with GM & T (UK) who are a wholly owned subsidiary of Gazprom Germania that were entered in to prior to the war in Ukraine. The contract is for the supply of gas to five municipal buildings, totalling £27k p.a and the contract expires on 31 March 2023.
- 3.2 The concerns around funding from Russian State companies being used to support the Russian Army led the Council to consider its position regarding the contract. The Council, through Beond, the framework provider used to secure the contract, sought to establish the costs/consequences of terminating the contract early.
- 3.3 Beond approached Gazprom, but also provided information on the changes that the Gazprom Germania, the parent of GM & T (UK) had made to distance itself from Russian control and funding.
- 3.4 Gazprom refused to consent to an early termination of the contract meaning the Council would have been in breach of contract if it had ended the contract early.
- 3.5 Work was undertaken to establish the costs of new supply, although the sanctions for breaching the contract couldn’t be accurately estimated. The best prices at the time would have resulted in a 563% increase in costs i.e. £157k p.a. excluding any costs for breaching the contract.

- 3.6 The information provided by Beond on Gazprom Germania showed that the group had sought to distance itself from Russian control. The table below was the group structure provided back in April.



- 3.7 The change in ownership set out above meant the UK arm of Gazprom fell under the control of the German Government, as they had taken control of Gazprom Germania and its trading arm Gazprom Marketing & Trading (GM&T), which owns GM & T (UK).
- 3.8 The change in ownership meant that the Council's contract was with the German Government and not with Russia. The Council therefore had no direct contract with Russia for its gas supply.
- 3.9 Given the change in ownership and the huge increase in costs that would arise from breaking the existing contract the decision was taken to not seek to break the existing contract. The situation was though, to be kept under review and the Council will take appropriate action should circumstances change.
- 3.10 The main reason for keeping this under review was that the change in ownership by the German Government was undertaken on a temporary basis due to the legislation used to enact it. The end date was the end of September.

## 4 Report Details

- 4.1 The German Government on 14 June announced that its trusteeship of Gazprom Germania will be extended beyond September 2022.
- 4.2 In addition, KfW, Germany's state-owned investment and development bank, will provide Gazprom Germania and its subsidiaries with a loan to protect it from financial difficulties caused by sanctions implemented by the Russian Federation against Gazprom Germania and its subsidiaries. The loan will be used to secure operations and stabilise the energy supply landscape in Europe and will not flow to Russia (so called ring-fencing).
- 4.3 Gazprom Germania GmbH will be renamed and operate under the name "SEFE Securing Energy for Europe GmbH" (SEFE). The subsidiaries of

Gazprom Germania that currently use Gazprom trademarks will also be renamed in the near future.

4.4 The actions taken have been done so to give customers and stakeholders full reassurance in terms of the financial security and future reliability of the companies and that the any ownership, control or cashflows with Russia have been ended.

4.5 The fact that the changes are now indefinite gives us confidence that they will be in place past the point of the end of the Councils contract with SEFE. The reassurance reinforces the information the Council had at the point the decision was made to continue with the existing contract.

## 5 Policy Framework

5.1 The Council has four corporate priorities which are:

- Sustainable;
- Healthy, safe and secure;
- Connected; and
- Creative

5.2 This report meets the sustainable and healthy, safe and secure corporate priorities.

## 6 Consultation

6.1 The Cabinet have been consulted on the decision as to whether to break the contract or not although no formal decision is required unless the decision is taken to break.

## 7 Implications

### 7.1 Financial and Resources

7.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2019-2023 as agreed at Council on 7 November 2019.

7.1.2 There are no financial or resources implications arising from this report.

### 7.2 Legal

7.2.1 There are no legal implications arising from this report.

### 7.3 Human Resources

7.3.1 There are no Human Resource implications arising from this report.

### 7.4 Statutory Considerations

<b>Consideration:</b>	<b>Details of any implications and proposed measures to address:</b>
Equality and Diversity	None arising from this report.
Health, Social Environmental and Economic Impact	None arising from this report.
Crime and Disorder	None arising from this report.

<b>Consideration:</b>	<b>Details of any implications and proposed measures to address:</b>
Children and Safeguarding	None arising from this report.

## 7.5 Risk Management

<b>Risk</b>	<b>Consequence</b>	<b>Controls Required</b>
Members of the Committee do not know what reports will be presented.	Could affect the effectiveness of the Committee	Maintained work programme to each Committee.

## 8 Other Options Considered

8.1 No other options were considered.

## 9 Reasons for the Decision/Recommendation

9.1 To update the Committee on the Council's contract with Gazprom.

**Background Papers:** None

**Appendices:** None

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