

# The Prospects of Russian LNG and the Geopolitical Impact

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## Abstract:

The Yamal Liquefied Natural Gas (LNG) project, ~~which is the 2<sup>nd</sup>-second~~ LNG project for Russia, started production in December 2017 in the Arctic region. ~~Russia has planned more LNG projects~~ ~~More LNG projects are planned in Russia~~; if they materialize, Russia will become a significant LNG exporter. LNG production will complement ~~the exports by~~ gas pipelines ~~exports~~ and lead to a diversification of ~~the destinations for~~ Russian gas ~~destinations~~—a pivot to Asia from the traditional European gas market, ~~which that~~ will strengthen the geopolitical influence of energy. ~~With the US financial sanctions taking place, in~~ the case of the Yamal LNG plant, Russia was successful in circumventing ~~the-US~~ sanctions by cooperating with China, Europe and Japan to finance and construct the project. To further enhance the LNG industry, cooperation and marketing activities in Asia—the dominant and growing LNG market—will be ~~a~~ key factors. Incentives to invest in new Russian projects will also accelerate development.

## Background:

Russia took its first step to ~~toward become-becoming~~ a key player in the LNG industry. With the cooperation of ~~the~~ Chinese, European, and Japanese companies, ~~Novatek launched the Yamal LNG plant; a \$27 billion project, and~~ Novatek, ~~which~~ owns 50.1% of the shares, ~~launched the Yamal LNG plant, a \$27 billion project.~~ The Chinese state-owned CNPC invested 20%, and the Silk Road Fund invested 9.9% in the project. When the Yamal LNG project ~~is on~~reaches full scale production in 2019, Russia's production capacity, ~~including the Sakhalin 2 plant,~~ will ~~become close to~~approach 30 million tons per year (MMTPA) ~~including the Sakhalin 2 plant.~~ ~~The capacity will become close to,~~ ~~nearly~~ that of Indonesia, ~~making and enough to make~~ Russia an "LNG middle power."

Russia is also trying ~~make a "pivot to Asia" from Europe~~to pivot from Europe to Asia, while the Asian gas market, especially ~~the Chinese one~~that of China, is rapidly increasing. Bloomberg forecasts that after 2021, China, South and ~~South-East-Southeast~~ Asia will become the main ~~centers of~~ growth ~~center~~ for the LNG market. World LNG demand will increase 59% by 2030, ~~and with~~ most of the growth ~~will come~~coming from Asia. Although there is a glut in the market now, new contract signing activities will revive in 2021.<sup>i</sup> ~~Not only by LNG, but also by pipeline gas,~~ Russia is looking to export eastwards ~~not only by LNG, but also by pipeline gas, having already signed a \$400 billion deal in May of 2014~~

~~In May 2014, Russia signed a \$400 billion deal~~ to supply China with 38 billion cubic meters of gas by the mid-2020s for 30 years.<sup>ii</sup>

~~Following the Ukrainian Crisis, a~~ series of US sanctions hit Russia ~~since 2014 following the Ukrainian Crisis of 2014~~. The oil ~~sector rather than gas sector~~ was the main target; ~~the gas sector was not the target, since, as~~ the EU relied heavily on Russian gas and the ~~prospected-prospective~~ impacts would ~~be-have been so~~ ~~toohuge-great~~ that the US ~~could not include the gas sector in the sanctions~~. ~~On the contrary, finance~~ Finance, ~~in contrast~~, was a target, and the US government restricted dollar-based fundraising of Russian projects; however, the Russians managed to secure Euro-based finance ~~funding by Euros~~. Furthermore, the Yamal project depended ~~finance~~ on Chinese financial institutions to dilute the impact.<sup>iii</sup>

### **Geopolitical Implications (Why is this important?):**

While the International Energy Agency (IEA) doubts the possibility of Russia ~~to become~~ becoming a major LNG power, Russia is determined to ~~be one~~ attain this status. The IEA projects that the expansion of Russian LNG capacity will be gradual because the gas fields are located in remote areas.<sup>iv</sup> However, given the abundance of natural resources in the Arctic, Novatek's goal is to produce 55 to 60 MMTPA by 2030.<sup>v</sup> Novatek is owned by Putin's close friend Gennadiy Timochenko, and the company is increasing gas production rapidly, rivaling Gazprom.<sup>vi</sup> Novatek also claims that the "asset base combined with Gazprom's assets and non-allocated license areas on the Yamal and Gydan peninsulas allows for the production of approximately 130 million tons to 140 million tons of LNG,"<sup>vii</sup> overcoming that of Qatar and Australia, currently globally ranking 1<sup>st</sup> and 2<sup>nd</sup>.

~~With LNG, provides~~ Russia ~~can have~~ with alternative ways to reach ~~the~~ customers; moreover, Novatek is on the way to ~~become becoming~~ Putin's the new ~~tool/instrument?/arm? of~~ geopolitical energy ~~tool of Putin~~. ~~Due to~~ With Russian-US diplomatic relations ~~are facing~~ that their worst ~~times~~ since the end of the ~~Ce~~old Wwar, it is crucial for Russia to enhance the LNG industry and strengthen relationships with countries in Asia and the Middle East through sources of energy. Moreover, Russia ~~is aiming~~ intends to obtain technology to produce LNG in Yamal. ~~A, planning a 4<sup>th</sup>-fourth~~ train in Yamal ~~is planned, there~~ with a capacity of 0.9 MMTPA. Novatek explicitly states that one of the objectives of this ~~4<sup>th</sup>-fourth~~ train is "to develop a technological base of LNG in Russia",<sup>viii</sup> aiming for a 'Russification' of LNG technology--less reliance on foreign technology. By obtaining technology, Russia will be able to build LNG plants ~~by itself even if~~ regardless of whether LNG technology is included in US sanctions in the future.

On the other hand, the US is experiencing ~~the a~~ shale revolution, and ~~trying working~~ to reduce the influence of Gazprom in Europe, by exporting US LNG. Gazprom ~~was the held a~~ monopoly in Europe, and the European Union has relied on Russian pipeline gas for decades; however, Eastern European countries such as Poland and Lithuania are implementing LNG receiving terminals and beginning to import US LNG to enhance energy security. Historically, Russia has used Gazprom as a tool to influence other countries. After the Ukrainian crisis, the EU has been accelerating efforts to lessen ~~the its~~ dependence on Russia.

### Policy Recommendations:

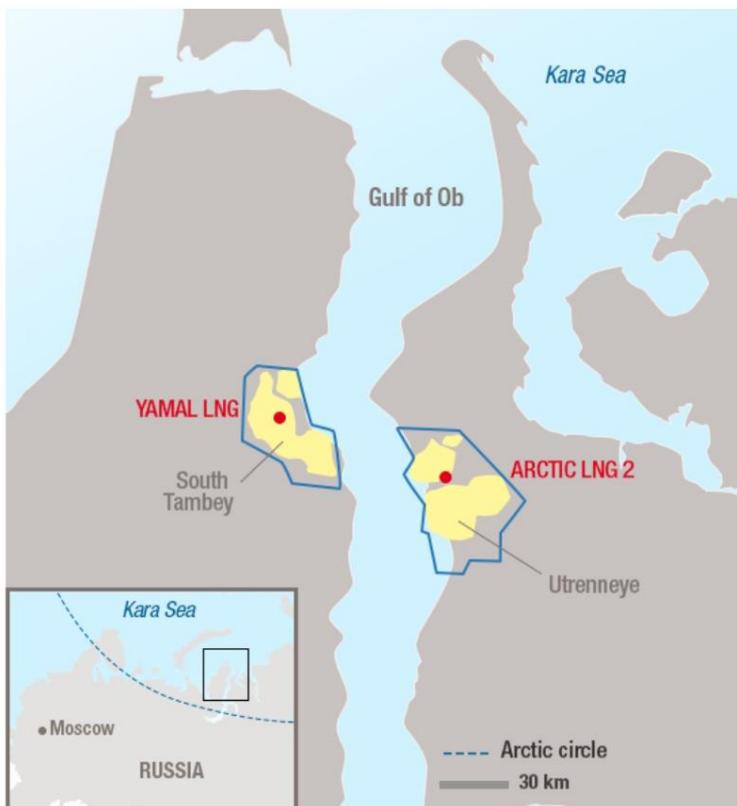
1. As Russia was successful in starting up the Yamal project by cooperating with China, the Russian government, Novatek and Gazprom should seek ~~a partnering partnership~~ with China ~~in on~~ future LNG projects. Since China has imposed 10% tariffs on US LNG, the competitiveness of Russian LNG compared to US LNG in China has ~~relatively correspondingly~~ increased. A strong Russian-Chinese energy cooperation could ~~be a significantly~~ counteract ~~ion against~~ the Trump administration's ~~pursuit of aiming for~~ "energy dominance." Russia should invite Chinese companies to invest in equities in the Arctic 2 LNG project. Currently, Novatek's interest is 90% and Total's is 10%. The participation of Chinese companies in this project ~~we~~ could increase the probability to ~~reaching~~ a final investment decision. Furthermore, countries such as Saudi Arabia and India should be included to diversify the investors and offtakers.
2. The Russian government should introduce similar incentives like ~~the ones those~~ introduced in the Yamal LNG plant for the Arctic 2 LNG and other future LNG projects. The Russian government supported the Yamal project by introducing zero-mineral-tax rates ~~to for~~ natural gas and condensates. Furthermore, ~~Russia implemented~~ tax incentives ~~in Yamal~~, such as zero-rate export duties for LNG and gas condensate, VAT exemption for imported equipment ~~that, which~~ has no equivalent manufactured in Russia, and preferential tax treatment for property and corporate taxes ~~es were implemented in Yamal~~. Similar measures should be considered to enhance the economic feasibility of the new LNG projects and support Novatek and Gazprom ~~to reach an in reaching a~~ final investment decision for the coming projects.

3. From the viewpoint of China, cooperating with Russia in the LNG sector would provide a significant means of fulfilling ~~can be a significant source to fulfill~~ its growing demand for natural gas. New Supply and Purchase Agreements (SPA) with Russia might have a positive effect towards on the US-China trade negotiations, since China imposed a 10% tariff on US LNG. By purchasing Russian LNG instead of US LNG, China may push US industry and local constituencies where states produce shale gas or LNG ~~can stir up conversations in US local constituencies where states produce shale gas or LNG, possibly making the US industry and constituencies raise voices~~ to call for an end to the trade war.

### Conclusion:

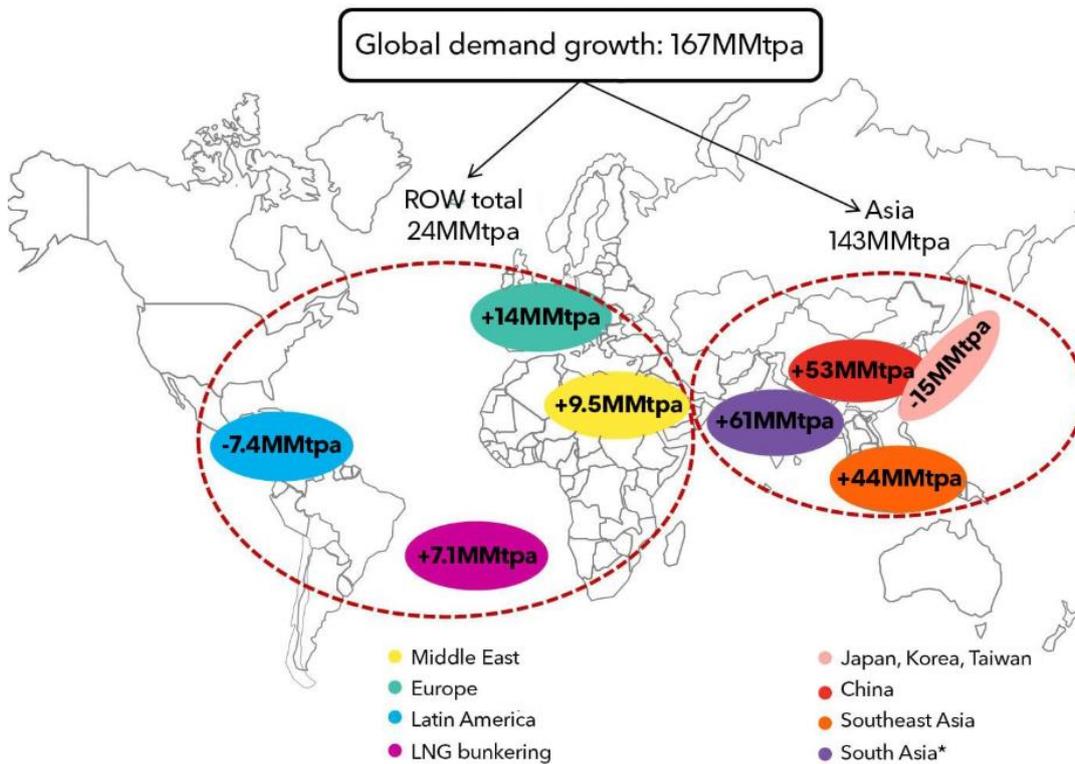
Russia has shown its willingness to carry out the LNG projects and will continue to do so. According to BP, while Europe depends on Russia for 44% of its pipeline gas imports ~~on Russia~~, Russia depends on Europe for 88% of its pipeline gas exports ~~on Europe~~. Therefore, Russia exporting to Asia through LNG would diversify Russia's exports and make it ~~could make Russia diversify its export and~~ less dependent on the European markets as a supplier. The success or failure of the pivot to Asia ~~Whether the pivot to Asia will succeed or not~~ will be critical for the Russian energy sector.

**Appendix:** This section belongs after your bibliography.



Source: Total

## Global LNG demand growth, 2018 - 2030



Source: Bloomberg NEF, Poten & Partners, Customs. Note: Net imports. South Asia includes India, Pakistan, Bangladesh and Sri Lanka. Southeast Asia includes Thailand, Singapore, Malaysia, Indonesia, Philippines, Vietnam and Myanmar.

Source: Bloomberg

### Endnotes:

<sup>i</sup> Bloomberg New Energy Finance (September 12, 2018), *Global LNG Outlook 2018*

<https://about.bnef.com/lng-outlook/>

<sup>ii</sup> P. Rutland (2018) *The Political Economy of Energy in Russia*, P35

<sup>iii</sup> R. Connolly(2018)"Russia's Response to Sanctions" p115

<sup>iv</sup> IEA(2017) *World Energy Outlook 2017*, p350

<sup>v</sup> Novatek CFO, M. Gyetvay, speaking at the Second Quarter 2018 Earnings Conference Call(Jul 26 2018) retrieved from

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[http://www.novatek.ru/common/tool/stat.php?doc=/common/upload/doc/Earnings\\_CC\\_2Q18\[1\].pdf](http://www.novatek.ru/common/tool/stat.php?doc=/common/upload/doc/Earnings_CC_2Q18[1].pdf)

<sup>vi</sup> A. Grigas (2017) “The New Geopolitics of Natural Gas”

<sup>vii</sup> Novatek CFO, M. Gyetvay, speaking at the Second Quarter 2018 Earnings Conference Call(Jul 26 2018)  
retrieved from

[http://www.novatek.ru/common/tool/stat.php?doc=/common/upload/doc/Earnings\\_CC\\_2Q18\[1\].pdf](http://www.novatek.ru/common/tool/stat.php?doc=/common/upload/doc/Earnings_CC_2Q18[1].pdf)

<sup>viii</sup> Novatek(Mar 21 2018) press release

[http://www.novatek.ru/en/press/releases/index.php?id\\_4=2302](http://www.novatek.ru/en/press/releases/index.php?id_4=2302)