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Gazprom's new Chinese contract

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On 4 February, during Vladimir Putin's visit to Beijing, Gazprom signed a new contract with the Chinese company CNPC to supply gas to the PRC. The contract states that the company will provide its Chinese partners with 10 bcm of gas annually via the so-called Far Eastern route. Gazprom announced that this would be a long-term agreement, and that once the peak level of supplies via the Power of Siberia gas pipeline has been reached, the annual (pipeline) export of Russian gas to China will be raised by an additional 10 bcm to a total of 48 bcm. No other details of the agreement have been disclosed. Negotiations on a contract to supply gas via the so-called Far Eastern route have been underway since 2015; on 3 September that year, Gazprom and CNPC signed a memorandum to supply gas from the Russian Far East to China. Then, in December 2017, the two companies signed an agreement on the basic conditions of the upcoming contract.

The first contract to supply Russian gas to China via pipeline was signed on 21 May 2014 in Beijing. The 30-year agreement provides for the export of up to 38 bcm of gas annually via the Power of Siberia gas pipeline, which was launched in December 2019. Using this pipeline, Gazprom supplied the PRC with 0.3 bcm of gas in 2019, 4.1 bcm in 2020, and around 10 bcm in 2021. According to the schedule it has adopted, the peak level of deliveries should be reached in 2025.

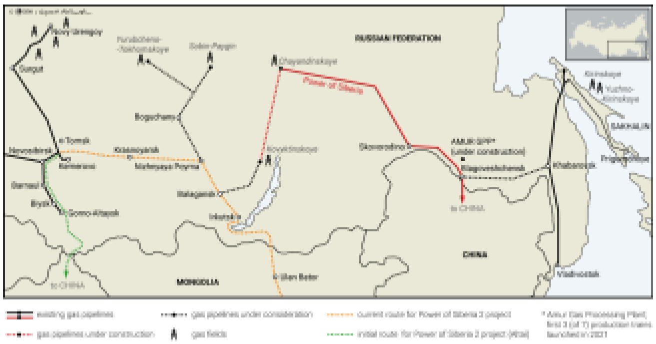
Commentary

- Although the new agreement between Gazprom and CNPC is legally binding, there are still a number of unknowns as to the agreed arrangements. Firstly, the Russian company has not specified what it means by saying that the contracted volumes will be sent along the so-called Far Eastern route, although there are many indications that this means the gas will be exported from the Sakhalin oblast via the Sakhalin-Khabarovsk-Vladivostok gas pipeline built in 2009–11. Secondly, in the official announcement, Gazprom does not give an exact date for when it will launch the deliveries. The wording used may suggest that the newly contracted volumes will be sent no earlier than 2025. Thirdly, not even the approximate price of the gas supplies is clear. While pricing issues are essentially a trade secret, when the contract for gas supplies via the Force of Siberia pipeline was concluded, the company did report its total value (US$400 billion). Fourthly, Gazprom has not disclosed the duration of the new contract, although the Kremlin's spokesman Dmitri Peskov has suggested that it would be for 25 years.
- Although the Russian side has been interested in reaching a new gas agreement with China, the document signed on Friday cannot be considered a significant success. For

Moscow, the real priority is to get a contract for supplies via the so-called western route, for gas exports from the West Siberian fields via the planned Power of Siberia 2 gas pipeline (from Russia via Mongolia to China). Implementing this plan would enable Gazprom to use the same gas deposits which it currently uses for exports to Europe to supply the Chinese market; such a move would significantly strengthen its negotiating position in its dealings with its European customers. Although the negotiations on gas supplies to the PRC via the so-called western route have been going on for many years, Gazprom has not yet been able to reach any binding agreements on either the gas sales or the construction of new infrastructure. The recent agreement confirms that it is Beijing's attitude and interests which will decide the dynamics of the gas cooperation between the two countries.

- To start the transport of gas via the so-called Far Eastern route, Gazprom will have to take several important preparatory steps. First, it will need to expand its infrastructure on the Russian side. Assuming that the additional deliveries are carried out via the Sakhalin-Khabarovsk-Vladivostok gas pipeline, the company will have to bear the cost of increasing the pipeline's capacity (currently it amounts to 5.5 bcm, and is used by consumers in the Russian Far East), and of building a connector pipeline with China. Secondly, Gazprom does not currently have any spare production capacity in its available gas fields on Sakhalin. Although it does plan future supplies using gas from the Yuzhno-Kirinskoye field, at present it is only being prepared for use, and according to the latest statements, extraction will begin no earlier than 2023 or 2024. The exploitation of this field was delayed because it was covered by US sanctions in 2015, which forced Gazprom to continue work there using its own technological resources instead of foreign equipment.
- Neither the new nor the existing gas agreements Gazprom has concluded with its Chinese partners have – or will have – any tangible effects on its cooperation with its European partners. Its supply contracts with the former (both via the Power of Siberia gas pipeline and via the so-called Far Eastern route) involve a different resource base than the one used to supply the Europeans. Also, the gas network it has built in Eastern Siberia and the Far East is not connected with the pipelines in European Russia. Moreover, the volumes sent do not constitute as significant a share of Russian exports as the gas supplied to European recipients, and nor will they for at least the next decade. Implementing the Power of Siberia 2 project could change the situation, but Moscow's prospects for reaching binding agreements with Beijing on this matter in the near future are unclear. However, it should be expected that Russia will regardless try to take advantage of its strengthening gas cooperation with China for political purposes. The new contract is part of Moscow's efforts (which it has been making for many years) to diversify its gas exports through the pipeline system. The conclusion of another gas agreement with Beijing is also intended to be a signal in the moment that, in conditions of growing tensions with the West, Moscow does have alternatives for energy expansion onto external markets.

Map. Existing and planned routes for Russian gas exports via pipelines to China



Source: ‘*«Газпром» удваивает «Силу Сибири»*’, Коммерсантъ, 18 May 2020, kommersant.ru; gazprom.ru.