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Russia: worse forecasts for LNG exports

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In May, the Russian Ministry of Economic Development published a new, updated forecast for the production and export of Russian energy resources. It shows that LNG supplies to third countries will be much lower than previously assumed over the next three years. In the baseline scenario, LNG exports are expected to reach 30.7 million tonnes in 2022 and 2023, 35.7m tonnes in 2024 and 37.3 million tonnes in 2025. The so-called conservative scenario is even more pessimistic and predicts that by 2026 LNG exports will be below 30.7 million tonnes per year. The ministry's September 2021 forecast assumed it would rise to 38 million tonnes in 2023 and 50.7 million tonnes in 2024. In 2021, Russian LNG deliveries to third countries totalled 29.1 million tonnes.

Commentary

- The pessimistic estimates for LNG exports from Russia according to the conservative scenario show de facto no growth over the next five years compared to last year and are linked to expected delays in the implementation of new Russian so-called 'large-scale projects'. This applies in particular to the Arctic LNG 2 project, implemented by Novatek together with foreign partners from France, China and Japan. The project, which originally envisaged the construction of three production lines with an annual capacity of 6.6 million tonnes each, was to be completed by 2025 (the first line in 2023, followed by a second and third in 2024 and 2025 respectively). According to the latest forecasts, the commissioning of the first line (according to Novatek, it is 85% ready) is not expected to take place before 2024, and the next line will be commissioned in 2025 at the earliest. It also seems unlikely that Gazprom will implement its plans regarding LNG production in the coming years. This applies both to the concept of building a third line as part of the Sakhalin 2 project, and to the construction of a large gas processing complex in the Leningrad region, which was to include two LNG production lines.

- The expected delays in the implementation of the so-called large-scale LNG projects are directly caused by the sanctions imposed on Russia by the US, the EU and Western countries. Apart from the financial sphere, the restrictions also include the export of technology and equipment used in energy investments carried out in the country. On the one hand, after the invasion of Ukraine, the majority of Western companies working with Russian partners announced that they would withdraw from new projects in Russia (but did emphasise their intention to fulfil contracts concluded before the introduction of restrictions). On the other hand, the new sanctions generate legal uncertainty and may also affect the pace and scope of contracts signed before the invasion. Russian energy companies implementing their own so-called large-scale LNG projects were entirely

dependent on imported technology. For Arctic LNG 2, it is supplied by the German company Linde, which was also to be one of Gazprom's partners in building a gas processing complex in the Leningrad region. France's TechnipFMC – the main contractor for construction work on the Arctic LNG 2 project – has said it will honour previously concluded contracts, but hinted that sanctions could affect the final investment schedule. The German company Siemens was one of Novatek's major partners; it was responsible (among other things) for the supply of compressors for Arctic LNG 2, which in May announced its complete withdrawal from all projects in Russia. The French company TotalEnergies, on the other hand, while not abandoning any of its Russian LNG projects, decided to abandon further financing of Arctic LNG 2. The sanctions are also causing companies from countries friendly to Russia to limit their cooperation. An example of this is the suspension by Chinese shipyards of orders for the Arctic LNG 2 project in May this year.