

Russia: LNG exports up in 2022

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Russian Deputy Prime Minister Aleksandr Novak has announced that Russia's production and exports of liquefied natural gas (LNG) rose by almost 9% to around 33 million tonnes (c. 46 bcm) in 2022. Most of the Russian LNG was produced at the Yamal LNG project (c. 20 million tonnes), whose main shareholders include Russia's Novatek (50.1%), France's TotalEnergies (20%) and China's CNPC (20%) and the Silk Road Fund (9.9%). Nearly 15 million tonnes from this project went to Europe (up 14% y-o-y), and around 5 million tonnes were shipped to China.

In addition, more than 10 million tonnes were produced in the Gazprom-controlled Sakhalin-2 project in the Russian Far East, an increase of 2% year-on-year. The main customers for this gas were Japan (the Japanese companies Mitsui and Mitsubishi are shareholders in the project) and China. According to Chinese customs data, a total of 6.5 million tonnes of LNG were shipped to the PRC from Russia in 2022, up from 5.7 million tonnes a year earlier.

LNG is also being produced in two small-scale projects in the Leningrad region in the Baltic Sea. The Novatek-owned Vysotsk terminal produced around 700,000 tonnes and the Gazprom-owned Portovaya LNG produced around 350,000 tonnes. Gas from both projects was supplied to the European market.

The deputy prime minister also asserted that Russia intends to deliver on its ambitious plans to double its LNG production in the next few years, and increase its LNG exports to 100 million tonnes in 2030 as a result. This would be achieved mainly through the development of Arctic LNG projects, including the Novatek-owned Arctic LNG 2. This expansion has been promised even though Russian production may decline in 2023 due to planned maintenance work on two (out of four) Yamal LNG production lines.

Commentary

- LNG was the only Russian fuel whose supplies to Europe increased in 2022. Consequently, the importance of LNG has increased both with regard to Russia's exports (LNG accounted for 25% of all Russian gas supplied to the EU) and the EU's imports (less 20% of the EU's total LNG imports).
- It will be very difficult, if possible at all, to realise Russia's ambitious plans for a robust increase in LNG production in the years to come. Forecasts from the Russian Ministry of Energy published in May 2022 showed that LNG production will be much lower than previously assumed. Under the current baseline scenario, LNG exports are projected to reach almost 31 million tonnes in 2023 and 35.7 million tonnes in 2024, compared to the

previous target of over 50 million tonnes.

- As a result of sanctions following the Russian invasion of Ukraine, Russia's LNG sector has been cut off from the Western technology and equipment which played a key role in the development of this sector. Many foreign companies (German, French, Spanish and others) have withdrawn from cooperation with Russia in this area; for example, one of the shareholders in Arctic LNG 2, France's TotalEnergies (10%), has stopped investing in the project and started the process of completely withdrawing from the venture, which should be finalised in the first half of 2023. Nonetheless, the Russian authorities are insisting that they will manage to complete the construction of the first Arctic LNG 2 production line by December 2023 (about 90% of the work had already been done when the sanctions were introduced), and that the next two lines will also be put into operation according to the original schedule, that is, in 2024 and 2026. Leonid Mikhelson, the CEO of Novatek, has affirmed that the corporation has managed to purchase the necessary equipment by cooperating with companies from countries such as Turkey and the United Arab Emirates. Russian companies are also working on developing their own gas liquefaction technologies. At present, these are inefficient (the production lines are capable of producing a maximum of 1 million tonnes per year) and often fail. It is unlikely that Russia will be able to fully replace Western technologies and equipment by circumventing the sanctions or developing its own solutions. Indeed, the effectiveness of such efforts has so far proven to be limited.