Analyses OSW

CENTRE FOR EASTERN STUDIES 6.04.2023 www.osw.waw.pl

The Power of Siberia-2 gas pipeline remains in the design stage

Filip Rudnik

On 21 March, during the Russian-Chinese bilateral talks, Vladimir Putin announced that "practically all the parameters" concerning the planned Power of Siberia-2 gas pipeline had been agreed with the Chinese side. Russian media reported the news after a meeting between the Russian President and President of the People's Republic of China, Xi Jinping. The talks were held as part of a three-day visit to Moscow by the Chinese delegation. The Chinese side has not officially commented on Putin's statement.

According to Putin, the new gas link, which will run from Russia to China via Mongolia, is expected to have a capacity of 50 bcm per year. As Russian Deputy Prime Minister Aleksandr Novak said after the Russian-Chinese negotiations, binding agreements for the project should be signed later this year. The Russian government had previously announced that work on the route would start in 2024, with operations to begin before 2030.

During the meeting, Putin also mentioned plans to boost gas exports to China to a total of 98 bcm per year by 2030, partly thanks to Power of Siberia-2. The gas would be transmitted via three transport routes: the Power of Siberia-2 link that is under discussion, the existing Power of Siberia-1, and the planned so-called Far Eastern Route (also called Power of Siberia-3). In addition, China would also receive up to 100 million tonnes of LNG, according to Russian estimates.

Currently, pipeline gas exports from Russia to China are only possible via Power of Siberia-1. This year, Russia plans to send 22 bcm of gas to China through this pipeline (up from 15.5 bcm last year). According to the Kremlin, the pipeline is expected to reach full capacity by 2025, which will allow for exports of up to 38 bcm per year via this route. In addition, in February 2022, China signed a contract with Russia to supply another 10 bcm of gas per year, which will most probably be transported along the so-called Far Eastern route from the Sakhalin region via the Sakhalin-Khabarovsk-Vladivostok gas pipeline (for more details, see '*Gazprom's new Chinese contract*'). So far, however, there have been no announcements as to when these supplies could start, as cross-border transmission is not yet possible due to infrastructural constraints. In August 2022, Gazprom's head Alexei Miller announced that design work had begun on an extension of that pipeline with a view to exporting gas to China. The company is currently carrying out work to increase the capacity of that connection on the Russian side; it is also performing preparatory work on production deposits.

Commentary

- Putin's statement that the parameters of the planned Power of Siberia-2 gas pipeline had been agreed with the Chinese side actually changes little in terms of the project's progress. Apart from the agreement on the declared capacity for the planned route, Russia has so far failed to reach any binding agreements with China on the construction of the relevant infrastructure or the conditions for imports via this pipeline. Furthermore, there have been no declarations on what China's actual demand for additional Russian gas may be in the coming years.
- China's silence is telling, and suggests that the implementation of this pipeline will not happen anytime soon. It also hints that Beijing will exploit Russia's difficulties in exporting gas to the West to secure the best possible price. The same was true of the protracted talks over the existing Power of Siberia-1 pipeline. However, the Russian negotiating position is much weaker now. Moreover, there are doubts in Beijing as to whether the Chinese economy will actually need all the volumes of gas that Russia is offering (98 bcm per year) in the 2030s. On the one hand, China wants to develop renewable energy sources and increase their share in the energy mix, while on the other it seeks to keep its gas supply routes diverse and avoid overreliance on Russian imports. This is important for national security reasons, but also in light of its supply commitments from other countries (such as Turkmenistan) and imports via the existing LNG terminals whose construction costs need to be amortised. In addition, China's energy regulator confirmed in March that one of the goals of the plan for developing the energy sector in 2023–5 is to ensure a "steady increase in oil and gas supplies" from domestic fields. This means that Beijing will seek to increase China's self-sufficiency by generating more electricity from both renewable sources and natural gas. All of this calls into question China's actual demand for the additional 50 bcm that could come from Russia via the new pipeline.
- Putin's statement illustrates Russia's determination to pursue the Power of Siberia-2 project. This is primarily due to Russia's growing economic isolation following its aggression against Ukraine in February 2022, which has been exacerbated by the political instrumentalisation of gas supplies to the EU countries and a significant reduction in exports to Europe. The development of connections with and exports to China is particularly important for Gazprom, in light of the significant reduction in its supplies to the EU market (in this respect, the state-owned giant differs from Novatek, which has far more options for exporting LNG to the West). New opportunities to supply alternative markets to Europe would also make it possible to slow down the decline in export revenues and reduce the scale of the necessary production cuts in Russia.
- The Russian government intends to supply Power of Siberia-2 from its West Siberian resource base, which has so far been used for exports to the European market. At present, however, there are no prospects for a quick start to construction and actual completion of the new gas pipeline project. Even if it could be built and Russian gas exports to China could reach Putin's declared 98 bcm per year by 2030, this would not fully replace the European market that Russia has lost. For comparison, in 2021 the EU bought 155 bcm of Russian gas from the West Siberian fields.