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Novatek offers Gazprom more and more competition on the EU market

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According to calculations by Refinitiv Eikon, quoted by Reuters, between 1 January and 15 July 2023 Gazprom's natural gas supplies to Europe amounted to 13.8 bcm of gas. Over the same period, European clients received around 12.3 bcm of Russian liquefied natural gas sold by the private company Novatek. For the first time in the history of gas supplies, the difference between the volumes provided by these two companies has fallen to around 1.5 bcm. Gazprom's exports reach Europe via two routes: the TurkStream gas pipeline, which runs through the Black Sea, and via transit pipelines running through Ukraine. The state-controlled company also sells small volumes of LNG. Novatek for its part dispatches its gas by sea, and its main European clients include France, Spain and Belgium.

The change reported by Reuters is corroborated by figures published by the independent Bruegel think tank based in Brussels. According to these statistics, in H1 2023 the EU received around 9.7 bcm of LNG from Russia (down 3% y/y). In the same period, the volume of Russian gas exports via pipelines was around 12.6 bcm, a decline of as much as 75% compared with the corresponding period in 2022.

The discrepancy between the statistics cited may be due to the difference in the period analysed and in the groups of recipients (Europe as a whole versus the EU alone), and also because the volumes reported by Reuters represent the volume of gas provided by specific exporters, while Bruegel only takes the form of export (gas transported via pipelines versus LNG) into account. Since 2022, Russia has ceased to publish regular statistics regarding its fuel exports, which makes it increasingly difficult to estimate the actual volumes of gas sold, both via pipelines and in the form of LNG.

Table. Russia's natural gas exports to the EU according to the form of supply in H1 of 2021, 2022 and 2023 (in bcm)

	2021	2022	2023
Pipeline gas	81.0	50.0	12.6
LNG	7.9	10.0	9.7

Source: Bruegel.

Commentary

- There are two reasons for the diminishing difference between the volume of Russian natural gas transported to the EU via gas pipelines and that dispatched in the form of

LNG. Firstly, it results from a major reduction in gas supplies to the West carried out via gas pipelines, which is mainly due to the political decision taken by the Kremlin. The intent was to blackmail the EU member states by triggering a supply shock and a price hike, but this failed because Russian supplies were replaced with fuels imported from new sources, which in turn stabilised the prices. Secondly, in 2017–22 the provider of LNG, that is the Russian Novatek company, gradually increased the production capacity of the Yamal LNG facility (most of its production is sent to Europe). In 2022, this installation produced 21 million tonnes of LNG, exceeding its design capacity of 17.4 million tonnes. This type of gas is also exported by two smaller LNG plants located on the Russian Baltic Sea coast (the Cryogas-Vysotsk and Portovaya LNG plants launched in 2021–2).

- The volume of Russian LNG exports to the EU will likely exceed the volume of its pipeline gas exports in the future. LNG imports from Russia are exempt from EU sanctions, and therefore have favourable development prospects. Novatek, the main exporter of LNG, has increased its production capacity, which may help it to boost its presence on the European market. At present, Yamal LNG's production capacity is reduced due to maintenance work. However, in 2024 the company plans to put the first line of the new Arctic LNG 2 plant into operation in its full production capacity. It will produce 6.6 million tonnes of LNG annually (most of the work on this facility had been finished before the Western partners withdrew their cooperation on this project). On the other hand, the supplies of gas via the pipelines from Russia to the EU will most likely continue to decrease, mainly due to the halt in Russian gas transit via Ukraine. The currently valid gas transit contract which Gazprom and the Ukrainian Naftohaz company signed in 2019 will expire at the end of 2024, and the Ukrainian side has said that its prolongation is 'unlikely'. Should Gazprom lose this export route, it will no longer be able to export gas via Ukraine as of 2025. It should be noted that the current volume of Russian gas exports via this route stands at around 12 bcm of gas annually.

- Increased supplies of Russian LNG to the EU pose a potential threat to the EU's energy security. This particularly concerns the potential situation in which Russia decides to abruptly reduce export volumes during a crucially important period (for example, while filling up the storage facilities ahead of the heating season) in order to provoke another supply shock, just as it did regarding its pipeline gas exports. If the EU's LNG imports from Russia continue to rise, this may also deepen the EU's dependence on this source. In Q1 2023, Russian LNG accounted for 7% of the EU's total LNG imports. Should the current level of LNG supplies continue through the second half of this years, this will equate to the EU clients receiving around 20 bcm of gas, which is equivalent to the capacity of one line of the Nord Stream 1 pipeline (the total design capacity of this pipeline as a whole was 55 bcm annually). The only difference, albeit illusory, is that these supplies come from Novatek, a privately-owned company, rather than Gazprom. However, this company is itself linked to the Russian authorities as Gennady Timchenko, its founder and one of its stakeholders, is a close friend of Russia's President Vladimir Putin. Therefore, the sale of LNG via Novatek will continue to provide income for the Russian elite.