

Russia: liberalisation of LNG exports

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On 2 November, President Vladimir Putin signed an amended version of the law on gas exports, which introduces two significant amendments regarding the export of liquefied natural gas (LNG). Firstly, LNG may be exported as long as the gas which is liquefied at the specific facilities has been extracted from gas fields located in the Russian Arctic above the 67th parallel. The amendments have also introduced an ownership criterion, according to which only companies whose majority stakeholders are state-owned entities are authorised to export gas. Secondly, a legal basis has been established for exporting gas from installations which are not linked with a specific raw material base, which means that the gas supplied to them comes from the Russian gas transmission system. In such a case, the company which manages the specific installation is required to obtain a state licence for exporting LNG; companies which hold such a licence include subsidiaries of Novatek, Russia's largest LNG producer, which is privately owned.

The amendments equate to a partial liberalisation of the Russian LNG sector. Previously, LNG exports were only permitted if the exporter held a licence for each of the gas fields from which the gas used for liquefaction and sale originated, irrespective of their location. In the previous system, the legal framework did not allow for the export of LNG originating from the transmission system. According to the authors of the recent amendments, the modifications will accelerate investment in upstream projects carried out in gas fields located in the Russian Arctic, where liquefaction is performed on the spot due to the physical distance from the nationwide gas transmission system. According to Russia's deputy energy minister Anastasia Bondarenko, the amendment is intended to create favourable conditions for Russia to increase its production capacity to 100 mn tonnes of LNG annually by 2030. In June 2023, deputy prime minister Aleksandr Novak announced that this was Russia's goal. At present, Russia has liquefaction plants at its disposal with a nominal capacity of around 30 mn tonnes annually.

Commentary

- The facilitations introduced by this amendment mainly target two companies which have declared their intention to expand on the global LNG market, the state-owned Rosneft and the privately-owned Novatek. The former plans to set up two liquefaction plants in the Russian Arctic, each with a nominal capacity of 22.5 mn tonnes annually (Taimyr LNG and Kara LNG). The recent amendments have also created the legal basis for the establishment of Murmansk LNG, an investment by Novatek, which envisages the construction of a facility near Murmansk with a production capacity of 20.4 mn tonnes annually. The project is viewed as Russia's first large-scale facility to which gas will be

supplied from the domestic transmission network as a whole rather than from a specific gas field. On 4 December, Novatek incorporated a Murmansk LNG company which will carry out this project.

- Gazprom has protested against the new legal provisions. As part of its arguments against the decision to enable companies which have no formal links with a specific gas field to export LNG, the state-owned monopolist cited the threat posed by the increase in LNG exports. According to the company's representatives, this increase will affect domestic supply and may contribute to shortages on the domestic market. Gazprom has warned that a situation similar to the one which occurred earlier this year on the fuel market could re-emerge. This is because an increase in export capability may lead to producers sending most of their output to more profitable foreign markets, which in turn may reduce their ability to supply a sufficient volume of gas for domestic distribution. Despite the criticism from Gazprom, however, the amendments came into effect as soon as the president had signed them, which suggests that the Russian government has altered its previous priorities. The development of the LNG sector is now viewed as a necessity, even if it undermines the position and interests of the state-owned monopolist.
- The legislative amendments represent a fundamental change to the previous formula according to which Russian producers sold their gas abroad. This interference undermines Gazprom's monopoly position and competence, which is the reason for the company's protest. The decision to allow companies which have no links with a specific gas field to export LNG means that gas will be sent to liquefaction plants from the national gas transmission system, which also includes gas from Gazprom. This amended provision also suggests that the Russian state is prioritising Novatek's investment at the expense of Gazprom, especially in the context of the Murmansk LNG project, which seems to have a particularly strong backing from the Russian leadership. It should be noted that as part of this investment the privately-owned company (which nevertheless has strong links with the Russian government) has declared its readiness to finance the construction of a gas pipeline running from Volkhov to Murmansk which could supply gas to the facility. Should Novatek actually build this pipeline, this will be an unprecedented situation in Russia, because it will have involved a private company expanding the nationwide gas transmission system; that, in turn, will undermine Gazprom's previously exclusive competences.
- The government has shifted the emphasis to LNG exports, which is evident in its preferential treatment of Novatek at the expense of Gazprom. This is an element of its strategy for developing this sector, which highlights the importance of developing Russia's domestic liquefaction capacity and increasing its LNG exports. This suggests that Moscow intends to avoid the infrastructural constraints which frequently accompany gas supplies via pipelines. The political decision to curb the transmission of gas to the West, combined with the European Union's plan to gradually abandon Russian gas, has significantly reduced Russia's potential for export via onshore gas pipelines. According to the Russian leadership, this additionally boosts the importance of the LNG sector's expansion. In this context, the increase in LNG exports is expected to partially compensate for the drop in Gazprom's gas exports carried out via pipelines.

- The process of boosting Russia's liquefaction capacity has encountered major obstacles resulting from the Western technological embargo imposed on this sector (for more see '[Unfulfilled ambitions: Russia's LNG sector in the grip of sanctions](#)'). According to this year's announcements by deputy energy minister Pavel Sorokin, Russia intends to increase its share in the global LNG market to 20% by 2035; at present it accounts for around 7% of this market. However, to attain this goal it will need to radically increase the capacity of its domestic liquefaction facilities. At present, all of Russia's major LNG facilities rely on Western technological solutions, with the exception of one line, Yamal LNG, which has a capacity of 950,000 tonnes annually. Russia's has not yet been commercialised its patented equivalent technology solutions with higher production capacity, which has cast doubt on their actual operational readiness. In addition, the sanctions have forced Russia to seek new infrastructure solutions for the planned facilities. Due to problems with accessing Western-made gas turbines, the Murmansk LNG project mentioned above will be Russia's first LNG exporting facility powered by electricity sent directly from a power plant. The sanctions have also affected several projects whose implementation had been launched before the restrictions were introduced. Some of these projects have been abandoned, and the inauguration of the entire Arctic LNG 2 scheduled for 2025 is now uncertain. The legal amendments which the Russian government has pushed through have failed to eliminate the key obstacle faced by the Russian LNG sector, namely the lack of access to certain components and commercialised technologies. Developing them will take time: and time is now of key importance to Russia because in the next few years other global LNG exporters (such as Qatar and the US) will gradually bring their new gas liquefaction facilities onstream. This in turn will significantly reduce Russia's prospects of maintaining its position as a major player on the LNG market.