

Russia: Novatek is creating a 'shadow fleet' of LNG carriers

Filip Rudnik

According to media reports, three LNG carriers called at the Russian Arctic LNG 2 facility in August of this year. Published satellite images reveal that these vessels collected LNG produced at the facility, marking the commencement of exports from the first production line, which has been operational since December last year. Previously, American sanctions imposed on the project, (see [‘Russia: Arctic LNG 2’s capacity is reduced due to sanctions’](#)) along with market participants’ concerns over potential secondary sanctions for cooperating with the Russian facility, had prevented such exports.

The ships that collected cargo from Arctic LNG 2 can be described as part of a shadow fleet, as they are owned by a previously unknown company, Ocean Speedstar Solutions, registered in Mumbai, India. Additionally, their insurance status is ambiguous, and they turned off their transponders during navigation. On 26 August, the media reported that one of these LNG carriers initiated a ship-to-ship transfer near the coast of Egypt, a practice commonly used to obscure the origin of the cargo before it is sold at the destination port. In response to the formation of a Russian ‘shadow fleet’ of LNG carriers, the United States imposed sanctions on 23 August against seven ships, including those that transported LNG from Arctic LNG 2, as well as on the company Ocean Speedstar Solutions.

Commentary

- The arrival of vessels prepared to transport cargo from the Arctic LNG 2 facility, despite the imposition of sanctions, highlights how Novatek – and Russia – are resolute in their efforts to make the facility operational and continue exporting liquefied natural gas. This is also a manifestation of their creative approach to circumventing the existing sanctions regime. The successful deployment of a few LNG carriers capable of accessing Arctic LNG 2 without hindrance represents a significant achievement for the company, enabling the commencement of exports. However, Novatek still faces considerable challenges in securing a fleet large enough to ensure year-round exports. The production line launched last December, with a capacity of 6.6 million tonnes per year, requires approximately seven gas carriers per month to collect cargo. Securing this number of vessels for regular operations under the current sanctions regime is particularly challenging for several reasons. Firstly, the sanctions limit the ability to collect LNG from this facility, effectively barring its unloading in Europe and forcing Novatek to seek buyers in Asia. This, in turn, necessitates more vessels due to longer transport times, as a round trip along European coasts to Asian buyers typically takes about two months. Secondly, outside the navigable season (July–November), ships arriving at or departing from the facility must be either escorted by specialised ice-class vessels or be ice-class vessels

themselves. Sanctions have restricted access to these ice-breaking vessels and Russian shipyards are unable to produce them in sufficient numbers to meet demand. Thirdly, the relatively limited number of LNG carriers worldwide makes them easier to track and subject to sanctions, as demonstrated by the swift response from the US to violations of the sanctions regime and the penalisation of ships involved in exporting goods from Arctic LNG 2.

- The number of LNG carriers needed for the monthly collection of cargo from Arctic LNG 2 could increase to as many as 14–15 vessels with the anticipated start-up of the second production line in early 2025. The installation of the platform containing all liquefaction components, which was transported from the construction site near Murmansk, began at the Gydan Peninsula site in mid-August. However, this development should not be seen as a sign that Novatek is confident in a swift resolution of logistical issues. The construction of the second production line was already in an advanced stage when sanctions were imposed on the facility, making it impossible to halt the work. The sanctions have forced Russia to temper its ambitions, as evidenced by reports concerning the fate of the third production line. According to information obtained by Russian media, the commissioning of this line has been delayed by two years, with the launch postponed from 2026 to 2028. There have even been suggestions that its construction might be abandoned altogether. Moreover, in July of this year, reports emerged of a reduction in the planned production capacity of another Novatek project, Murmansk LNG, from the previously declared 20 million tonnes per year to 13.8 million tonnes per year, with the project currently in the design phase.
- The swift identification and sanctioning of the LNG carriers involved in exporting production from the Arctic LNG 2 facility underscores the priority the US places on disrupting Moscow's plans to further develop its LNG sector. Given the scale of both technological and logistical challenges Russia has encountered, the country is very unlikely to achieve its planned export potential of 100 million tonnes of LNG per year by 2030. Currently, Russia has a nominal production capacity of around 36 million tonnes per year. Even if the second and third production lines of Arctic LNG 2 are commissioned by the end of 2028 (other projects are still in the design phase), this capacity would likely increase to nearly 50 million tonnes per year. However, whether Russia will have built a sufficient fleet of LNG carriers with the necessary ice class to fully utilise these new export capacities by that time remains highly uncertain.