Liquefied Natural Gas in Russia

Commissioned by the Netherlands Enterprise Agency

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### Developments in Russian LNG

The Russian Federation has gradually increased its ambitions on the worldwide LNG (Liquefied Natural Gas) market over the past years. In its Energy Strategy 2020, the Russian government formulated the aim to increase LNG production from 30 mtpa (million tons per annum) in 2020 to 140 million in 2035. If achieved, Russia would cover 25 percent of global demand. Although it is expected that worldwide demand for LNG will increase in the coming decade, especially in light of the energy transition, demand for LNG is expected to stabilize at 550 mtpa in 2030. Merely 70 mtpa of this volume has not yet been assigned to a producing country. Against the backdrop of the Russian ambition of 140 mtpa, the government has set a high target.

To support the LNG-ambition the government is investing significant resources in the development of LNG projects. For example via tax breaks and subsidies for infrastructural investments and by further liberalizing the market. So far, LNG facilities have been built in the far East by Dutch company Shell and its partners (Sakhalin-II); in the Arctic region by Novatek (Yamal LNG); and in the Baltic region by Gazprom (Ust-Luga). Novatek, Gazprom and Rosneft have announced additional large-scale investments (see below).

### Developments in the Arctic region

Intertwined with these plans is the development of the Northern Sea Route (NSR), which in Russia’s definition lies entirely within its Exclusive Economic Zone (EEZ) in Arctic waters. The NSR is currently used mostly by Russian companies, including Gazprom, Rosneft and Novatek. In 2020, a total of almost 33 million tons of cargo was transported through the NSR, including 18 mtpa of LNG. In 2024, the Russian government aims for yearly shipments totaling 80 million tons of cargo. To this end, it has calculated that 735 billion rubles (circa 8.08 billion euro) should be invested until 2024 in infrastructural development and oil and gas projects. One third of this will come from the government and two thirds from private investors.
The Russian LNG market until 2030

The global LNG market consists of large (>2 mtpa), medium (1-2 mtpa) and small-scale (<1 mtpa) LNG projects. Despite liberalization plans of the government, large-scale LNG projects are expected to remain dominant and account for over 90% of the planned LNG capacity until 2030. Novatek plans to produce 60 million tons in 2030, Gazprom formulated plans to produce up to 30 million tons and Rosneft more than 90 million tons. It is important to note that not all plans are in the same phase of implementation (see table and map below).

Significant parts of the (liquefaction) technology and supply chain are imported from European countries. Russian partners look for European companies for (liquefaction) technology, construction and infrastructure for LNG projects. Localization demands, driven by Russian policy, may lead to more Russian designed- and produced technology.

Gas as a motor fuel: LNG and CNG

Although the vast majority of Russian cars, buses and trucks still run on petrol or diesel, Russian companies are actively developing a market for the use of gas as a fuel for vehicles.

LNG is used for larger and heavy-duty vehicles and compressed Natural Gas (CNG) is used for passenger cars and buses. LNG bunkering technologies are also slowly developed in Russia. The biggest ports St Petersburg and Novorossiysk continue to be host of diesel-run vessels only however. Therefore, the share of LNG bunkering ring as a fuel for vessels is expected to remain low in

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<th>Rosneft (and partners) mpta</th>
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<tbody>
<tr>
<td>ACTIVE PHASE</td>
<td>Yamal LNG (17.4)</td>
<td>Sakhalin-2 (11.4)</td>
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<td>PLANNING PHASE</td>
<td>Arctic LNG-1</td>
<td>Baltic LNG (13.0)</td>
<td>Far East LNG (15.0)</td>
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<td>Arctic LNG-2 (19.8)</td>
<td>Sakhalin-2 expansion (5.0)</td>
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<td>Obskiy LNG (5.0)</td>
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<td>Bechevinskaya Bay (13.0)</td>
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<td>EXPLORATORY PHASE</td>
<td>Arctic LNG-3</td>
<td>Golf of Ob (30.0)</td>
<td>Taymyr (35.0-50.0)</td>
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Table 1: overview projects Russia by Novatek, Gazprom, Rosneft (open sources)

Active and planned (until 2030) LNG projects in Russia with a capacity of >2 mpta
Russia in the near future.

Russian companies are expanding their network of gas fueling stations. In 2019, around 500 CNG filling stations were present throughout the country (more than double the number of 2013). Russia plans to have 1,500 CNG stations by 2025 and 2,300 CNG stations by 2030. In addition, by 2030 there should be 200 combined LNG/CNG stations along key federal highways, enabling heavy-duty vehicles fueled by LNG to travel between major Russian cities.

Relevant conferences and fairs in Russia

- **Russian International Energy Forum (RIEF),** 21-23 April 2021, St. Petersburg
- **NEFTEGAZ 2021** (International Exhibition for Equipment and Technologies for Oil and Gas Industries), 26-29 April 2021, Moscow
- 8th annual International Forum and Exhibition *Yamal Oil and Gas,* 29-30 June 2021, Tyumen
- 5th Anniversary Annual International *East Russia Oil and Gas Forum,* 7-8 July 2021, Vladivostok
- **Eastern Economic Forum “The Far East – Development Horizons”,** 2-4 September 2021, Vladivostok *(although not an energy forum, in recent years new energy projects in the Far East were announced at this forum)*
- The 10th St. Petersburg International Gas Forum (SPIGF 2021), 5-8 October 2021, St. Petersburg
- **Russian Energy Week (REW),** 13–16 October 2021, Moscow
- **Sakhalin Oil & Gas,** October 2021, Yuzhno-Sakhalinsk *(an exact date has not yet been announced)*
- **LNG congress,** March 2022, Moscow *(an exact date has not yet been announced)*
- 25th **World Energy Congress,** 24-27 October 2022, St. Petersburg

What can the Embassy do for you?

The Netherlands Embassy in the Russian Federation can facilitate your company in a number of ways:

- Provide more detailed market information based on
- on your specific questions and needs, including a company check on a prospective partner on the Russian market;
- Answer first-line questions regarding doing business in Russia;
- Facilitate contacts with regional or federal authorities.

Sanctions

There are sanctions from the EU and other countries imposed on the Russian Federation. These sanctions can particularly affect companies seeking to do business in the energy sphere and/or to cooperate with certain state enterprises. EU measures include restrictions on:

- Doing business with specific Russian entities like energy companies (often financial restrictions);
- Export of goods, technologies or services for deep sea, Arctic and shale oil exploration and production;
- The export on dual-use goods.

Please note that such restrictions are applied on certain goods, technologies and services regardless of their end use. Goods, technologies and services that are intended for use in non-restricted oil and gas projects may also require an export license. Companies are advised to contact the Dutch **Central Import and Export Office** (CDIU) if they have any questions regarding the potential need for an export license.

Companies are responsible to ensure that their activities comply with the sanction regulations. For more information about sanctions, you can contact the Netherlands Enterprise Agency’s **sanctions desk** (in Dutch) and consult the handbook on dealing with sanctions on their website.

More Information

For further information, you can contact the Economic department of the Netherlands Embassy in Moscow via mos-ea@minbuza.nl. You can find general information about doing business in Russia, available subsidies and financing for entrepreneurs on the Embassy’s **website** and on the **website** of the Netherlands Enterprise Agency (in Dutch). You can follow us via our **LinkedIn** and **Facebook** pages.