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Russia's Foray into Asia's Energy Market

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‘Sanctions are counterproductive and senseless, especially against such country as Russia.’¹ President Putin used these words immediately after the Trump–Putin Helsinki summit in August 2018. By then Russia had already launched its pioneering Yamal liquefied natural gas (LNG) project, representing Putin’s defiant stance against Western sanctions. Yamal signalled that Russian LNG activities aimed at the Asian market had not been constrained by Western sanctions since 2014.

Russia’s move into the Asian energy market was no easy feat and many of Russia’s initial forays had failed. By mid-2014, the effect of geopolitical pressure on Russia was magnified by a collapse in global oil prices. This dual condition inflicted hardship on the Russian economy, with some fearing Moscow could be headed for a recession. While sanctions were consequential, the Russian economy struggled more from the swift decline in global oil prices. The devastating effect of the collapse in oil prices, and the low oil prices since, have overall dwarfed the shock of the sanctions for the Russian economy.

1 Clark Mindock, ‘Putin Says New US Sanctions on Russia are “Senseless”’, *Independent*, 22 August 2018, www.independent.co.uk/news/world/americas/us-politics/us-russia-sanctions-latest-putin-trump-washington-moscow-a8503371.html.

America's Challenge

The fall in the price of oil was largely a consequence of oversupply—a result of new technology and capital investments in the US; weakening demand, particularly from China;² and the increasingly self-sufficient US energy market.³ By injecting new oil and gas supplies into a well-fed market, America's 'unconventional' boom was shaking up the energy world and posing an existential threat to traditional oil and gas producers. The challenge in oil affected the so-called OPEC (Organization of the Petroleum Exporting Countries) grouping, too, and was not confined to Russia. But the challenge in gas was more targeted; it had the potential of weakening Russia's dominance over its holy of holies—the European gas market.

European gas markets had never been as lucrative as the budget-sustaining revenue that Russia made with the black stuff, but gas trade with Europe has always been about much more than profits. Since Soviet times, these pipelines—whose life cycle spans over 25 years or more—enabled Russia to project political influence and, occasionally, helped Moscow to drive wedges between 'old' and 'new' EU member states. This ability to play pipeline politics in Europe and transit countries in-between had great repercussions in the policy world as it helped Putin's efforts to demand geopolitical deference and transmit the impression that Russia stood tall in world affairs.

Between 1999 and 2008, oil rents were a bonanza for Putin's exuberant economic growth. The Russian Government used the budget surplus to close the state debt, increase social spending and finance an ever-expanding military apparatus. Today, just as then, energy revenue is critical for the country's federal budget, with oil revenue accounting for about 40 per cent of the Russian budget, and gas revenue for far less, about 10 per cent, while still playing a large role in Russia's efforts at restoring its 'rightful' place on the world stage.⁴

2 China had seen GDP growth drop from 10.3 per cent in 2010 to 6.9 per cent in 2015.

3 Several analysts anticipated the subsequent decline by evaluating investment patterns in oilfields over the past decade. See, Leonardo Maugeri, 'Oil: The Next Revolution', Discussion Paper, 2012, Belfer Center for Science and International Affairs, Harvard Kennedy School.

4 'The Ministry of Finance Disclosed the Size of Future Windfall Oil Profits', *Vedomosti*, 9 July 2018, www.vedomosti.ru/economics/news/2018/07/09/774948-minfin-raskril-razmer-buduschihsverhdohodov-ot-nefti. The total oil and gas revenues of the federal treasury in 2018 will amount to ¥7.23 trillion (42.4 per cent of total income); in 2019, ¥8.32 trillion (41.9 per cent); in 2020, ¥7.9 trillion (39.5 per cent); in 2021, ¥7.77 trillion (37.8 per cent). See, Ministerstvo finansov Rossijskoj Federacii, 'Osnovnye Napravlenija Bjudzhetnoj, Nalogovoj i Tamozhenno-Tarifnoj Politiki na 2019 God i na Planovyj Period 2020 i 2021 Godov', [Main directions of the budgetary, tax, customs and tariff policies for 2019, and for the planned period of 2020 and 2021], 2018, accessed 1 September 2020, [www.komitet-bn.km.duma.gov.ru/upload/site7/ONBNiITP\(2\).pdf](http://www.komitet-bn.km.duma.gov.ru/upload/site7/ONBNiITP(2).pdf).

Given this strong dependence on energy revenue, when the US shale boom hit global markets, some authors argued that this transformative change posed a major geopolitical quandary for conventional oil and gas producers, primarily OPEC and Russia.⁵ Some energy analysts, along with the International Energy Agency, were quick to emphasise that Russia was likely to emerge as the industry's top loser.⁶ Opposite this, some argued that, for all the challenge, Russia would maintain its dominant role in supplying gas to Europe. They also contended that, to the extent that Russia was forced to modify its modus operandi in Europe, it was more due to the EU's regulatory efforts than to any impending competition by US LNG.⁷

While nearly everyone agreed that the unconventional revolution was a negative development for Russia, analysts debated the extent to which this was likely to be consequential. For many it seemed likely to make Russia less economically robust, more vulnerable to external actor influence and with fewer tools to shape the international arena.⁸ Given the large role that energy revenue played in determining Russia's political trajectory, some predicted greater impetus for political reform, others more foreign policy adventurism to compensate for imminent domestic instability and yet others speculated about the need to find new markets for hydrocarbon export-oriented growth. One thing, however, was clear: the emergence of US shale upended global energy markets and created a dual challenge for Russia. In oil, it suppressed long-term prices with

5 For example, see Andrei V. Belyi and Andreas Goldthau, 'Between a Rock and a Hard Place: International Market Dynamics, Domestic Politics and Gazprom's Strategy', EUI Working Paper RSCAS 2015/22; James Henderson and Arild Moe, 'Gazprom's LNG Offensive: A Demonstration of Monopoly Strength or Impetus for Russian Gas Sector Reform?', *Post-Communist Economies* 28, no. 3 (2016): 281–99, doi.org/10.1080/14631377.2016.1203206.

6 Andrew Critchlow, 'Russia Will Be Biggest Loser from Oil Price Fall, Warns IEA', *Telegraph*, 10 February 2015. See also Clifford Krauss, 'Boom in American Liquefied Natural Gas Is Shaking Up the Energy World', *New York Times*, 16 October 2017, www.nytimes.com/2017/10/16/business/energy-environment/liquefied-natural-gas-world-markets.html.

7 Tim Boersma, Tatiana Mitrova, Geert Greving and Anna Galkina, *Business As Usual. European Gas Market Functioning in Times of Turmoil and Increasing Import Dependence* (Washington, DC: Brookings, Policy Brief, 2014); Tatiana Mitrova and Tim Boersma, 'The Impact of US LNG on Russian Natural Gas Export Policy', Columbia's Center on Global Energy Policy, December 2018, energypolicy.columbia.edu/sites/default/files/pictures/Gazprom%20vs%20US%20LNG_CGEP_Report_121418_2.pdf; Morena Skalamera and Andreas Goldthau, 'Russia: Playing Hardball or Bidding Farewell to Europe?', Discussion Paper, Belfer Center for Science and International Affairs, Harvard Kennedy School, June 2016, www.belfercenter.org/sites/default/files/files/publication/Russia%20Hardball%20-%20Web%20Final.pdf.

8 Meghan O'Sullivan, *Windfall: How the New Energy Abundance Upends Global Politics and Strengthens America's Power* (New York: Simon & Schuster, 2017).

potentially devastating consequences for the country's budget. In natural gas, it created a new rival in the increasingly globalising markets for LNG, both in Europe and in Asia. Russia needed to react to maintain key social provisions, or worse, contain potential instability at home.

Europe's Long Game

In Europe, as the market for LNG was becoming, well, more liquid,⁹ this development was married with the EU's regulatory efforts to deliver a competitive and transparent gas market, and to force longstanding external suppliers, like Gazprom, to compete. In 2015, a newly self-contained American gas market had weakened Russia's hold on the European market (even before the US had yet exported a single molecule of gas), by creating a gas bubble in a well-supplied market. The effects of the US natural gas boom were propelled by a parallel rapid expansion of other LNG, such as plentiful Qatari alternatives, which were now hitting the lower-priced European LNG hubs, forcing competition with its dominant pipeline gas supplier, Gazprom. With the spectre of true competition looming over Gazprom, an emboldened EU pushed for effective liberalisation of the gas market through the so-called 'Third Energy Package', and made supply systems more resilient via new interconnectors between countries dependent on Russian gas imports.

Gazprom did eventually adapt—with some notable concessions such as a partial erosion of oil-indexed pricing and more flexible pricing—as it sought to preserve market share in its most prized market.¹⁰ And Gazprom certainly is able to compete; the company's main advantage is price. Its upstream production costs are one of the industry's lowest at around US\$20 per 1,000 cubic metres.¹¹ Rouble devaluation supports the attractiveness of Russian gas (as the majority of the cost is indexed in roubles) and piped gas is generally a cheaper transportation method than

9 Given that new LNG deliveries were increasingly freed from the so-called destination clauses—an old regime of rigid contracts with fixed destinations.

10 By shifting parts of its contract to 'spot' pricing, which itself is formed through the daily interactions of thousands of buyers and dozens of sellers.

11 'UPDATE 1—Gazprom Sees No Need for Europe Price War, No US LNG Threat', *Reuters*, 31 May 2016, www.reuters.com/article/russia-gazprom/update-1-gazprom-sees-no-need-for-europe-price-war-no-u-s-lng-threat-idUSL8N18S230.

LNG. Hence, while demand for Russian gas in Europe has risen in recent years, prices—and thus Gazprom's revenue per cubic metre—have fallen amid pressure from competitors.

In 2018, Gazprom doubled net profit to a record high as it exported more gas than ever to Europe and Turkey for a third year in a row, pushing its market share to 37 per cent.¹² In 2020, Russia had planned to start gas flows via two geopolitically critical export pipelines. The first, TurkStream, connecting Russian gas to Turkey and onto South-East Europe, came online in early 2020. However, the second pipeline, a second line of Nord Stream (Nord Stream II) linking Russian gas to Germany and Northern Europe, remains incomplete. Again, Gazprom's advantages are low production and transportation costs. Russia's gas deliveries to Europe have been consistently competitive in the last couple of years (and by US\$1–1.5 per mmbtu cheaper than those of its LNG competitors) and so, the gas behemoth is likely to continue servicing about one-third of EU needs in the next decade or so.¹³

Longer term, however, Europe presents very few growth opportunities. A key factor here is Europe's gas demand. Given sluggish economic growth, most analysts bet on flat demand in the near term, but imports will grow due to falling domestic production in countries such as the United Kingdom or the Netherlands.¹⁴ In such a situation, Russian gas remains the most competitive source.¹⁵ However, crucial parts of Western Europe are now committed to an ambitious zero-carbon emissions target by 2050. This new age of renewables means that there is limited room for natural gas in Europe's future energy mix, with obvious challenges for traditional gas players in the region and especially for Europe's gas

12 'Russia's State-Owned Gazprom Doubles Profit on Higher Gas Sales', *Financial Times*, 29 April 2019.

13 For a detailed analysis see Tatiana Mitrova, 'Russian Natural Gas Supplies to Europe Competition with the US LNG', Presentation, Hague Centre for Strategic Studies, 8 September 2016, 7. See also James Henderson, 'Russian Gas in Europe: How Competitive and How Secure', Oxford Institute for Energy Studies, June 2016, slideplayer.com/slide/10879936/.

14 For a more detailed discussion, see for instance, IEA, *Gas 2019* (Paris: IEA, 2019), www.iea.org/reports/gas-2019; BP, *BP Energy Outlook 2035*, January 2014, www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/energy-outlook/bp-energy-outlook-2014.pdf.

15 European gas demand is expected to reach 564 bcm in 2020 and 618 bcm in 2030, according to the Oxford Institute for Energy Studies. From the production cost perspective, Russian gas is the EU's cheapest option. This, in turn, means that despite the EU's strong move towards renewables, Russian gas deliveries to the continent will likely stay stable at about one-third of EU's gas imports. See, Anouk Honoré, *The Outlook of Natural Gas Demand in Europe* (Oxford: Oxford Institute for Energy Studies, NG 87, 2014), doi.org/10.26889/9781784670030.

overlord—Gazprom. For all of the EU Competition Commission's mettle in taking on Gazprom, and America's relentless efforts 'to wean Europe of Moscow's energy grip over the continent', ironically, it may well be Europe's ambitious 'greening' agenda that presents the strongest challenge to Russia maintaining strength in its preferred gas market.¹⁶

Anticipating a steady decline in Europe's demand, Russia has long advocated the need to turn to Asia, the world's epicentre of economic growth. Yet, easy money in Europe had, over the years, made Gazprom fat and slow to change course. The EU had been a lucrative market and more attractive culturally speaking. China represented a bet on uncharted territory, and Beijing refused to pay the high European prices for piped gas. As long as Russia could sell to Europe all the gas required to keep the Russian economy growing, it did not have to budge over price or share its energy wealth with Chinese investors.¹⁷ Ongoing plans included two gas pipelines from Siberia to China that were discussed over the 2000s but never finalised as the two sides bickered over prices.

In 2014, all this had changed. Western sanctions mixed with the tangible results of the US unconventional revolution (by 2014, the US already had three operational LNG production trains¹⁸ and the first US LNG cargo set sail two years later, in 2016¹⁹) upended this picture in fundamental ways. Given the extent of the challenge, it was decided at the time that Gazprom would keep its monopoly of piped gas to Europe and concentrate on maintaining European market share; that Rosneft would become the national champion in oil; and that Novatek, a more agile company, would take on the task of directing a swift commercial and diplomatic focus to the growing Asian LNG markets. China was a crucial part of this plan to lessen the impact of Western sanctions by finding alternative markets and sources of capital, but the strategy, allegedly, was to 'pivot' Russia's economy towards Asia, and not just to China.

16 'Energy Diversity and Security Remarks By Secretary Rick Perry', US Department of Energy, 14 November 2018, www.energy.gov/articles/energy-diversity-and-security-remarks-secretary-rick-perry.

17 China was hoping to gain equity stakes in Russia's unrivalled gas fields as a quid pro quo in return for the pipeline deal. Due to resource nationalism and low trust, Russia was not excited to share the domestic pie. This had, at times, involved retrospective legislation concerning major projects and, in turn, threatened the country's reputation as a reliable investment partner.

18 With a total capacity of 13.5 mt/y (18.6 bcm/y). For more information, see International Gas Union, *IGU 2018 World LNG Report*, www.igu.org/resources/2018-world-lng-report-27th-world-gas-conference-edition/.

19 Daniel J. Graeber, 'First US LNG Cargo Sets Sail', *UPI*, 26 February 2016, www.upi.com/Energy-News/2016/02/25/First-US-LNG-cargo-sets-sail/9231456403122/.

Russia's Reaction to America's Shale Boom

Some believed that the effects of America's reshaping of the world markets for natural gas would force the Russian Government to spur reform in its gas sector. The government did not rise to the occasion; instead, these developments were accompanied by protectionism, the bolstering of massive state-owned energy enterprises and an ever-assertive Russian posture on the international stage. The failure to reform, in turn, meant that new markets for Russia's prime export commodities—oil and gas—would become crucial to economic and political stability. The government's line continued to be that Gazprom's hold on its export monopoly raised the competitiveness of Russian gas in export markets. Domestically, through price controls, the government kept control over the regions, provided a safety net for the poor and kept potentially explosive areas (such as Chechnya and Dagestan) in check. Rather than competing with each other in the face of economic challenges, Russian companies were encouraged to find a way to split the market pie at home. One expert, close to the Russian Government, said at the time, 'there is a hybrid situation—an oligopoly with regional monopolies—Rosneft, Gazprom, and Novatek divide the market among themselves and try not to interfere in each other's business'.²⁰

Such division of labour also applied to export markets; the recognition of Gazprom's role as the sole exporter of piped gas meant that, in return, everyone concerned would accept Novatek's role as the prime exporter of Russian LNG while Rosneft would receive the government's backing for a further expansion in the oil sector. The billionaire chief executives of all three companies—Aleksei Miller (Gazprom), Gennady Timchenko (Novatek) and Igor Sechin (Rosneft)—are long-term associates of Russia's commander in chief, and, given President Putin's role as distributor of patronage, arbiter of opportunities and disputes, and protector of a balance in the various groups' influence, it is no surprise that Novatek, a so-called 'independent' producer, succeeded in sidelining Gazprom in the rush to

20 Aleksei Grivach, interview by Morena Skalamera, Moscow, Russia, 2 June 2015.

Asian LNG.²¹ The rise of Novatek, however, does not suggest that the Kremlin ‘set out to create competition’ in gas. It is the result of liberalising LNG exports and betting on a very capable company (Novatek) that has been attentive to delivering its projects on time and on budget, as well as being considered capable enough to take on the challenge of delivering Russia’s response to America’s unconventional revolution.²²

Russia’s Foray to Asia Picks up Steam

The initial pivot to gas markets in the Asia-Pacific had a rough start, amid cooling relations with Japan over the disputed Kuril Islands and Tokyo’s endorsement of sanctions against Russia. With South Korea, it was the US—not Russia—that was managing to score most market share in the country’s burgeoning LNG market. Meanwhile, Russia was edging closer to entering into a potentially smothering embrace with China.

In LNG, there is Sakhalin-2, Gazprom’s LNG terminal that, before the opening of Yamal LNG, was Russia’s only LNG terminal. Two other proposed projects that meant to target Asia, Vladivostok LNG (Gazprom) and Sakhalin-1 (Rosneft and Exxon Mobil), have both stalled. As for piped exports, we will only see concrete numbers once the Power of Siberia is launched. Then, in December 2017, with much fanfare, President Putin personally sent off Yamal LNG’s first tanker to China, having been able to secure the project’s financing from the French company Total (20 per cent), China’s state-owned energy company China National Petroleum Corporation (20 per cent) and Beijing’s state-owned Silk Road investment fund (9.9 per cent), a special financial mechanism to support China’s ambitious aims with the Belt and Road Initiative (BRI).²³ China’s state-owned companies, which already retain nearly a third of Novatek’s first liquefaction plant, have in 2019 signed agreements to buy

21 In a recent study, Lamberova and Sonin estimate the relationship between Putin’s inner circle’s wealth and the closeness of their relationship to the chief executive, and find that the strength of the correlation is enormous in high oil and gas price years. See, N. Lamberova K. and Sonin, ‘Economic Transition and the Rise of Alternative Institutions: Political Connections in Putin’s Russia’, *Economics of Transition* 26, no. 4 (2018): 615–48, doi.org/10.1111/ecot.12167.

22 The answer has been developing the Arctic’s resources for exports to Asia.

23 The Silk Road Fund that took a stake in Yamal is a US\$40 billion special purpose vehicle to back Chinese President Xi Jinping’s BRI—a US\$1 trillion plan to build infrastructure across Eurasia.

a combined 20 per cent stake in Novatek's new Yamal LNG 2, which will produce a projected 19.8 mt of Arctic LNG per year and is expected to go online by 2023.

Novatek boasts that further expansion will transform Russia into one of the biggest LNG exporters within a decade. The gas producer has aggressive plans to command a tenth of the global market by 2030, its CFO Mark Gyetvay says, and position Russia as one of the world's largest exporters alongside the US, Qatar and Australia.²⁴ Novatek admits its plans are ambitious but insists they are realistic, well-calculated and concrete.

In 2018, according to Russia's Federal Customs Service, Gazprom's Sakhalin Energy and Novatek's Yamal LNG revenue spiked by 49.8 per cent, reaching US\$1.95 billion.²⁵ According to reports, Yamal LNG alone contributed a 40 per cent increase in net profits.²⁶ In the first six months of its operation, Yamal LNG produced around 2 mmt of LNG.²⁷ Such extraordinary spikes in production, rising gas sales and recent acquisitions by prominent investors increased Novatek's net profit nearly six-fold between January and June 2019.²⁸

In 2017, at the launch of Yamal LNG, Putin stated 'the development of Arctic reserves is the engine of Russia's economic development in the 21st century'.²⁹ Such words testify the degree of political and financial support that the goal of 'carving out the niche that Russia deserves in this field' enjoys.³⁰ Yamal LNG 1 and 2 aim to help Russia double the country's share of the global LNG market by 2020 from about 4 per cent in 2018 (in comparison, the US global market share for the same year was higher, at about 4.5 per cent, and Australia's was about six times higher).³¹

24 'Russia Eyes Greater Energy Dominance with Arctic LNG Push', *Moscow Times*, 8 April 2019, www.themoscowtimes.com/2019/04/08/russia-eyes-greater-energy-dominance-with-arctic-lng-push-a65140.

25 'Russia Increased Profits from Oil and LNG Exports', *News*, 13 May 2019, news.ru/en/economics/russia-increased-profits-from-oil-and-lng-exports/.

26 Nastassia Astrasheuskaya, 'Russia's Novatek to Sell Stake in Arctic Gas Project to Chinese Partners', *Financial Times*, 25 April 2019.

27 Oksana Kobzeva and Olesya Astakhova, 'Russia to Boost Presence on Global LNG Market, Helped by Lower Costs', *Reuters*, 1 June 2018, www.reuters.com/article/us-russia-lng/russia-to-boost-presence-on-global-lng-market-helped-by-lower-costs-idUSKCN1IX4FI.

28 'Profits at Russia's Novatek Soar on LNG Sale', *Financial Times*, 24 July 2019.

29 'Ceremony of First Tanker Loading Under the Yamal LNG Project', President of Russia, 8 December 2017, en.kremlin.ru/events/president/news/56338.

30 'Putin Says Russia to Boost LNG Output for Greater Market Role', *Reuters*, 24 April 2019, af.reuters.com/article/energyoilnews/idafr4n22004k.

31 International Gas Union, *IGU 2018 World LNG Report*, 9.

Both Russia's and the US's deliveries are growing fast and present a real challenge for Australia in the traditionally attractive Asian LNG markets.³² By 2019, and in defiance of US-led sanctions, Novatek had already successfully attracted other, non-Chinese suitors for its Yamal LNG 2 plant, such as France's Total (with a 10 per cent stake) and Japan's Mitsui & Co. and JOGMEC (10 per cent),³³ with Saudi Aramco, the kingdom's state oil producer, keen to follow suit. These deep-pocketed investors bring Novatek closer to its goal of ramping up Russian LNG production to as much as 120 mmt by 2035 and taking market share from Australia and the US.³⁴ China's involvement with Russian LNG extends far beyond the role of financier and is linked to the potential of the so-called Northern Sea Route (NSR), or, as China sees it, the Polar Silk Road.

China's Silk Route on Ice

In 2018, China published an Arctic policy paper that explicitly linked the NSR to its ambitious BRI strategy, dubbing it the 'Polar Silk Road'—a useful alternative to the Strait of Malacca—a maritime chokepoint whose vulnerability to blockade by the US military has for years haunted Chinese leaders.³⁵ For Novatek, the route is attractive because it provides much more direct access to the world's largest LNG consumers in Asia. It is these large-volume customers that Russia covets; the Asia-Pacific region (APR) would receive about 70 per cent of production, with shipments planned via the NSR.³⁶ For other shipping companies—most

32 Asia and Europe are the two distinct LNG-importing regions, and, typically, though not without exceptions, robust demand from China, South Korea and Japan have kept the Japan–Korea Marker, the Asian benchmark, higher than the European equivalent.

33 'Japan Teams Up with Russia in Big Arctic LNG', *Moscow Times*, 2 July 2019, www.themoscowtimes.com/2019/07/02/japan-teams-up-with-russia-in-big-arctic-ing-a66248.

34 Kobzeva and Astakhova, 'Russia to Boost Presence on Global LNG Market'.

35 The State Council, The People's Republic of China, 'China's Arctic Policy', last modified 26 January 2018, english.gov.cn/archive/white_paper/2018/01/26/content_281476026660336.htm. The paper mainly focuses on climate research and environmental protection, as well as identifying China as a 'near-Arctic state'. The paper is notably silent on China's interest in accessing the colossal oil and gas resources locked under the region's permafrost.

36 The potential of the Northern Sea Route was brought up in the Kremlin's 2008 Arctic Concept. See, 'Osnovy gosudarstvennoj politiki Rossijskoj Federatsii v Arktike na period do 2020 goda i dal'nejshiuu perspektivu' [The foundations of the Russian Federation's policy for the arctic zone to 2020 and beyond], Russian Government, 18 September 2008. The same is reiterated in 'Foreign Policy Concept of the Russian Federation', The Ministry of Foreign Affairs of the Russian Federation, 1 December 2016, www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptlCk6BZ29/content/id/2542248.

notably the China Ocean Shipping Company (COSCO) but also the Danish company Maersk—the route has the potential to cut the costs and time between European and Asian markets.

Despite misgivings by some in Moscow that the Chinese BRI already encroaches on Russian interests in Central Asia, and that the rhetoric of benign environmental protection along the ‘Polar Silk Road’ belies an interest in Russia’s vast Arctic hydrocarbon resources, there are big advantages for both sides. China has been eager to invest in shipping through this route and has set aside money for the development of the Arctic. Russia, for all the talk about not selling on the cheap, needs China if it wants to tap the Arctic’s full commercial potential and set itself as the dominant Arctic shipping state. It is in this context that we should interpret Putin’s statement at the 2019 BRI forum in Beijing: ‘Russia has emphasized on numerous occasions that PRC [People’s Republic of China] President’s Belt and Road initiative rimes with Russia’s idea to establish a Greater Eurasian Partnership.’³⁷

For all Russia’s excitement about cutting the journey time between Asia and Europe by one to two weeks, the NSR still requires nuclear icebreakers to accompany vessels, is more costly than other routes and is only usable for six months a year at most. It is well-suited, however, as a shipping route for transporting oil and gas produced in the Arctic, which is where Russia’s competitive advantage lies.³⁸ In an attempt to make the route commercial, Russia plans to hand control of shipping to Rosatom, the state-run nuclear group, to pilot freighters along the route and allow year-round navigation.³⁹ Russia hopes that a fleet of nuclear icebreakers will encourage investment across the NSR, increase commercial shipping through this emerging trade artery, and give more opportunities to Russian companies to supply LNG to East Asia (especially to China—already the world’s second-largest market), and by doing so it hopes to undercut rivals including the US and Australia. In July 2019, Novatek shipped its first ever LNG cargo through the NSR and, while traffic is light today, it is reasonable to expect that it will grow as the polar ice recedes.

37 ‘Belt and Road Forum for International Cooperation’, President of Russia, 26 April 2019, en.kremlin.ru/events/president/transcripts/statements/60378.

38 Richard Milne and Henry Foy, ‘Maersk Launches Container Ship on Arctic Route’, *Financial Times*, 21 August 2018, www.ft.com/content/fb38b6ac-a484-11e8-8ecf-a7ae1beff35b.

39 Natassia Astrasheuskaya, ‘Russia Gives Nuclear Group Control of Arctic Sea Route’, *Financial Times*, 13 December 2018, www.ft.com/content/b5dc9c38-fd56-11e8-aebf-99e208d3e521.

For China, investing in the ‘Polar Silk Road’ is a golden opportunity to potentially gain greater access at favourable prices to Russia’s natural resources that would otherwise remain stranded, to secure access to big infrastructure contracts that might have gone to Western competitors and to provide financing for projects that will benefit Chinese firms. This underlines that, for as long as Western sanctions persist, Russia is going to need China more than the other way around, and China’s bilateral cooperation with Russia—in the Arctic and elsewhere—is seen as part of President Xi Jinping’s extensive Belt and Road diplomacy to realise China’s broader aspirations in Eurasia.

China–Russia Edging Closer and Closer ...

There is substance beyond the pomp of the China–Russia relationship. Bilateral trade rose 27.1 per cent in 2018, to a record high of US\$107 billion, trade increased to US\$110 billion in 2019.⁴⁰ At the same time, the EU’s share (of trade with Russia) fell from 49.6 per cent to 43.8 per cent. Europe is still Russia’s biggest trading partner but EU–Russia trade has continuously decreased since 2012, dropping by 44 per cent between 2012 and 2016.⁴¹

Beyond (energy) economics, Russia and China increasingly share a view of how the world ought to be reordered. They resent America’s ‘hegemony’ and share a desire for a more multipolar world order. Putin and Xi also have a personal bond forged by their common fear of ‘colour revolutions’ (popular uprisings), which they see as having been America’s doing. The fact remains, however, that their economic power is impressively dissimilar (Russia’s economy is about one-tenth the size of China’s) and while their strategic partnership is growing—for instance, in 2019 Russia’s biggest military drills since the Cold War included units from China—ultimately, the common question of whether a true Sino-Russian strategic alliance has materialised is nonsensical. What is clear from years of research into the Sino-Russian partnership is that to concentrate persistently on this

40 ‘Russia’s Trade with China Surges to More than \$107 Billion’, *RT*, 14 January 2019, www.rt.com/business/448783-russia-china-trade-turnover/; ‘Russia–China Bilateral Trade Hit US\$110 Billion in 2019—What Is China Buying?’, *Russia Briefing*, 14 January 2020, www.russia-briefing.com/news/russia-china-bilateral-trade-hit-us-110-billion-2019-china-buying.html/.

41 From €339 billion in 2012 to €191 billion in 2016. See, ‘Countries and Regions: Russia’, European Commission, last modified 20 May 2020, ec.europa.eu/trade/policy/countries-and-regions/countries/russia/.

question is to do irreparable damage to the nuances of the Sino-Russian partnership. In a world of uncertainty, these two powers rely on the depth of their relationship, on trust, habits of thought, on the alleged personal chemistry between Xi and Putin, and on innovative practices to reshape the institutional contexts within which they manage. At the same time, their hands are free to adapt to the unpredictability of world politics, make adjustments as they go and tackle their still many divergent interests. As seen from Beijing, its objectively much needier neighbour can help develop pathways for Sino-centric trade and influence across Eurasia while at the same time delegitimising America's liberal agenda and supporting China's push for a multilateral trading system that better serves its interests.

In energy, big milestones on this journey have been the signing in May 2014 of a 30-year deal worth US\$400 billion to deliver Siberian gas to China through the 4,000 km long Power of Siberia, which is set to start pumping in December 2019, joining an already-operating oil supply pipeline link. In 2015, Chinese oil group Sinopec bought 10 per cent of SIBUR for US\$1.3 billion, in 2016 Gazprom borrowed €2 billion from the Bank of China in its largest ever bilateral loan and in July 2017 an US\$11 billion financing agreement by China's Development Bank underlined the extent to which the Kremlin had turned its economic focus to China.⁴²

These mega-deals are critical for both sides. In 2016, Russia surpassed Saudi Arabia as China's largest crude supplier and, over the years, has strengthened its position.⁴³ The colossal Power of Siberia pipeline, which is devoid of in-between transit countries, will arguably service China with cheaper and reliable piped gas for decades to come. Crucially, from Moscow's perspective, the benefits of such an expanded Chinese presence are not just financial. The burgeoning partnership also sends a message to those who thought such mega-deals would be impossible under the sanctions regime. China's tens of billions of dollars worth of cash have

42 'Gazprom Secures €2bn Loan from Bank of China', *Financial Times*, 3 March 2016.

43 'Russia Leads as Top Crude Supplier to China Overtakes Saudi', *Reuters*, 25 June 2019, www.reuters.com/article/us-china-economy-trade-crude/russia-leads-as-top-crude-supplier-to-china-overtakes-saudi-idUSKCNITQ1MS.

helped offset the effect of ever-tougher rounds of Western sanctions by ‘insulating’ Russian companies, and have supported Moscow in defying the image of an industry that struggles or feels abandoned.⁴⁴

When asked recently whether Russia was putting too many eggs in the Chinese basket, Putin replied: ‘We have sufficient eggs but there are not too many baskets to put those eggs in’.⁴⁵ The Kremlin has been acutely aware of the need not to be overly dependent on the Xi–Putin alignment, especially in pursuit of Russia’s goals in Asia. Moscow needed to move fast to grab larger parts of the Asia-Pacific LNG market. Taken together, the Novatek deals are a notable breakthrough in this endeavour.

The Asia-Pacific ‘Basket’

In the aftermath of the Ukraine crisis, the energy partnership with China served to show the world that Moscow always had a plan B. Yet, Moscow’s ‘China-first’ policy in Asia also had a constraining effect on its engagement with other Asian players, especially with countries that have difficult relations with Beijing, as is the case with India and Japan.⁴⁶ This has now changed. Increasingly, there is action in addition to diversity talk in Russia’s pivot to Asia, thereby somewhat moderating the notion of Russia’s difficulty in pursuing a fully independent foreign policy in Asia given its near-total reliance on China. In a matter of only a few years, Russia has been able to forge deeper military and energy links with countries such as India and Japan, both of which are rivals of China. Despite the still deep mistrust and the unresolved Kuril Island issue, Moscow has also been able to capitalise on stronger energy ties with a key country that is concerned about China’s growing regional hegemony—Japan.

44 For instance, on 26 June 2015, the EU foreign ministers decided to extend sanctions against Russia until January 2016, following breaches of the Minsk ceasefire plan and a general impasse in negotiations on resolving the conflict in eastern Ukraine. See, ‘EU–Russia: Moment of Truth Extended by Another 6 Months’, *RBTH*, 26 June 2015.

45 Quoted in Lionel Barber and Henry Foy, ‘Vladimir Putin: Liberalism Has “Outlived Its Purpose”’, *Financial Times*, 17 September 2019, www.ft.com/content/2880c762-98c2-11e9-8cfb-30c211dcd229.

46 Bobo Lo, ‘New Order for Old Triangles? The Russia-China-India Matrix’, *Russie.Nei.Visions*, no. 100 (April 2017): 18; Shoichi Itoh and Andrew Kuchins, ‘The Energy Factor in Russia’s “Asia Pivot”’, in *Energy Security in Asia and Eurasia*, ed. Mike M. Mochizuki and Deepa M. Ollapally (New York: Routledge, 2017), Ch. 7.

Prior to the launching of Yamal LNG, Japan imported approximately 10 per cent of LNG from Russia,⁴⁷ and Moscow was fourth in the list of Japan's LNG suppliers, behind Qatar, Malaysia and Australia.⁴⁸ Since 2016, however, the US has jumped into the LNG market in a big way. In 2017, US LNG exports quadrupled, with most of the fuel going to Asia, as the result of the continuing expansion of US LNG export capacity.⁴⁹ In 2018, American producers shipped around 15 bcm of LNG to Japan, China and other Asian countries,⁵⁰ closing in on Russia's exports of 18.6 bcm to the APR, according to the Russian news agency TASS.⁵¹ The US Energy Information Administration (EIA) projects that US LNG export capacity will reach 8.9 bcf/d by the end of 2019, making it the third largest in the world behind Australia and Qatar.⁵² This extraordinary expansion in the US energy sector upped Russia's sense of urgency to capture a larger market share in Asia.

Despite Gazprom's early moves with an LNG terminal on the Sakhalin island, Gazprom has been slow to secure a stronger position in the Asian LNG market due to its longstanding focus on pipeline deliveries to Europe.⁵³ Now Novatek—not Gazprom—is eager to take up Russia's 'deserved niche'. Closer cooperation with Japan, the world's largest LNG buyer, is crucial to this goal. Most recently, on the sidelines of the G20 summit, two Japanese energy companies acquired a 10 per cent share

47 'Japan, Russia Need to Enhance Trust before Gas Pipeline Plans: Minister', *Reuters*, 7 August 2017, www.reuters.com/article/us-japan-russia-gas-idUSKBN1AN000.

48 'Japan: Liquefied Natural Gas (LNG)', International Trade Administration, last modified 13 October 2019, www.trade.gov/knowledge-product/japan-liquefied-natural-gas-lng.

49 'US Liquefied Natural Gas Exports Quadrupled in 2017', US Energy Information Administration (EIA), 27 March 2018, www.eia.gov/todayinenergy/detail.php?id=35512. See also International Gas Union, *IGU 2018 World LNG Report*, 21.

50 According to the EIA, total exports amounted to about 30 bcm, with about 47 per cent being delivered to the Asia-Pacific region. See, 'US Natural Gas Exports and Re-exports by Country', EIA, 31 July 2020, www.eia.gov/dnav/ng/ng_move_expc_s1_a.htm. See also 'US LNG to Asia in Question as Prices Fall, Shipping Costs Rise', *Hellenic Shipping News*, 29 October 2018, www.hellenicshippingnews.com/us-lng-to-asia-in-question-as-prices-fall-shipping-costs-rise/.

51 'Russia Increases LNG Exports to Asia-Pacific Countries by 29.2%', *Tass*, 2 December 2018, tass.ru/ekonomika/5861682.

52 'US Liquefied Natural Gas Export Capacity to More than Double by the End of 2019', EIA, 10 December 2018, www.eia.gov/todayinenergy/detail.php?id=37732.

53 Until recently, the country had just one liquefaction project in operation, the Gazprom-led Sakhalin 2 project in its far-east region near Japan, with an annual capacity of about 10 mt.

in Novatek's Arctic LNG 2. The deal also stipulates that Novatek will supply Japan with around 2 mt of LNG annually—about one-tenth of the facility's capacity.⁵⁴

Budding relations with Vietnam⁵⁵ have reinforced a sense of depth to Russia's foray into Asia, while occasional deals with India hold out the prospect of a more systematic relationship with Asia as a whole. While such relationships are not based solely on energy matters, Russian supplies do figure prominently in each. For instance, in October 2016, Indian state companies signed energy deals worth billions of dollars with Rosneft to buy into the Vankor oilfield, some of Russia's most promising assets in Siberia. In 2017, Rosneft bought a 49 per cent share of India's Essar Oil Ltd, while in March 2018, Novatek started supplying India with Arctic LNG.⁵⁶

In the case of South Korea, new momentum has been seized following the election in 2017 of President Moon Jae. Prior to the power transition in Seoul, Russia–South Korea commodity turnover had been US\$15 billion,⁵⁷ but Moon's administration wants to double that by 2020.⁵⁸ However, it is the US that has been able to seize a substantial share of South Korea's LNG market, exporting 392.6 bcf between February 2016 and December 2018, or about 20 per cent of US total LNG exports.⁵⁹

Yet, unlike the US or Australia, Russia also hopes to reach two of its major Asia-Pacific LNG buyers, Japan and South Korea, via pipeline. There are two pipeline projects, with both Koreas and Japan, which

54 'Russia Looks for Asia LNG Buyers to Blunt Western Sanctions' Bite', *Nikkei Asian Review*, 14 July 2019, asia.nikkei.com/Business/Energy/Russia-looks-for-Asia-LNG-buyers-to-blunt-Western-sanctions-bite2.

55 For instance, in the first seven months of 2017, trade turnover between Vietnam and Russia reached nearly US\$2 billion, up 27 per cent year-on-year. See, 'Vietnam, Russia Determined to Raise Trade to \$10 Bln by 2020', VietnamNet, 27 October 2017, english.vietnamnet.vn/fms/business/189085/vietnam--russia-determined-to-raise-trade-to--10-bln-by-2020.html.

56 'Russia's Rosneft Closes Deal to Buy 49 Pct Stake in India's Essar Oil', *CNBC*, 21 August 2017, www.cnn.com/2017/08/21/russian-oil-major-rosneft-seals-biggest-foreign-purchase-ever-in-india-with-49-percent-stake-in-essar-oil.html.

57 'Here Is Why South Korea May Be Turning to Russia', *National Interest*, 6 February 2018, nationalinterest.org/blog/the-buzz/here-why-south-korea-may-be-turning-russia-24370.

58 Ria Novosti, 'Yuzhnaya Koreya khochet v 2020 godu uvelichit' tovarooborot s Rossiyei do \$30 Mlrd' [South Korea wants to increase trade with Russia to \$ 30 billion in 2020], accessed 28 August 2020, ria.ru/20171130/1509937590.html; Timothy Stanley, 'The Growing Russia–South Korea Partnership', *Diplomat*, 24 May 2018.

59 US Department of Energy, Office of Oil and Natural Gas, 'LNG Monthly', 2018, www.energy.gov/sites/prod/files/2019/03/f61/LNG%20Annual%20Report%20-%202018_1.pdf.

continue to be discussed periodically, but both, for different reasons, are unlikely to be built. One is the long-desired Trans-Korean natural gas pipeline—a 1,200 km (740 mile) long pipeline to bring Russian gas through North Korea to the South's industrial hubs. Beyond obvious political risks, the biggest obstacles are sanctions, which block joint ventures with North Korean firms, prohibit financial transactions with North Korea, and forbid sales and purchases of commodities. Hence, the pipeline's chances might be reconsidered only if international sanctions are lifted.⁶⁰

The second one is a 1,500 km gas pipeline that is proposed to run from Russia's Sakhalin to the vicinity of Tokyo at an estimated cost of US\$6 billion. In theory, this pipeline would provide Japan with a source of cheap and reliable gas while also lessening the country's over-reliance on LNG. Meanwhile, Russia would further its goal of rebalancing energy exports and becoming an influential energy player in Asia. However, in the current environment of booming global LNG supplies, Japan might simply not need to be tied to Moscow via pipes, as the glut means that prices can only fall further. Japan is well aware that restoration of five of its nuclear power reactors in 2018, compounded to additional volumes of LNG from the US, Australia or, for that matter, Russia, will fuel yet more competition.⁶¹

Beyond the geo-economics of the Trans-Korean pipeline, Russia has long looked for a way to insert itself into negotiations over Pyongyang's nuclear program, seeking to cultivate ties that date to the Soviet era. Most recently, Moscow hoped to use the highly choreographed and largely symbolic April 2019 visit of Kim Jong Un to Vladivostok to cast itself as a regional powerbroker and geopolitical heavyweight.⁶² Both China and Russia have voiced support for Kim's gradual approach to disarmament and sanctions relief and the Vladivostok summit seemed intended to highlight that the Kremlin's support for a step by step de-escalation provides Kim with another tangible partner, beyond Beijing.⁶³ China

60 Jane Chung, 'Trans-Korea Gas Pipeline Project Reappears, but Challenges Remain', *Reuters*, 29 June 2018, www.reuters.com/article/us-northkorea-southkorea-gas-russia-expl/trans-korea-gas-pipeline-project-reappears-but-challenges-remain-idUSKBN1JP0UN.

61 'Japan Has Restarted Five Nuclear Power Reactors in 2018', EIA, 28 November 2018, www.eia.gov/todayinenergy/detail.php?id=37633.

62 'Kim Jong-un Meets Putin in Russia with US Talks Faltering', *New York Times*, 24 April 2019.

63 'News conference following Russian-North Korean talks, President of Russia, 25 April 2019, en.kremlin.ru/events/president/news/60370. Both countries, moreover welcome a revival of multilateral talks on North Korea, known as the six-party negotiations, which the Trump administration opposes.

is the North's biggest business partner by far, accounting for more than 90 per cent of Pyongyang's trade according to estimates. Still, in 2018, the North imported US\$21.6 million worth of mineral fuels and oil from Russia, out of US\$32.1 million of total fuel imports.⁶⁴

Game On: The Price Issue

Having only recently ramped up LNG production, the Kremlin is perfectly aware that Russia is a long way from fending off established rivals in the Asia-Pacific LNG battleground. Be that as it may, in its rapid and determined push, the Russian energy sector's main competitive advantage is low production and transportation costs. The gas in the Yamal Peninsula is low cost; according to the Moscow-based Skolkovo think tank, average production and transportation costs at Yamal LNG for exports to Shanghai are seen at just above US\$8 per million British thermal units by 2025. That is roughly the same as the cost for LNG projects in Western Australia and less than the approximately US\$9 for LNG exports from the south-eastern US.⁶⁵ The same figure for Sakhalin-2, a brownfield, stands at below US\$4, the lowest among current global projects. Recently, Novatek CFO Mark Gyetvay noted that 'not only does Novatek manage in the harsh environment but it sees the Arctic's location as a competitive advantage, because the lower temperatures actually make production costs cheaper, given that less energy is needed to chill the gas'.⁶⁶

That might well be true, but, as the above Skolkovo report notes, the harsh geography of Arctic projects inevitably affects transportation and construction costs.⁶⁷ Moreover, as the same report notes, a great part of the first Yamal LNG's profits are reinjected into foreign markets due to payments for equipment that Russia imports from South Korea. The lack

64 Kim Jong Un Woos Vladimir Putin as North Korean Laborers Toil in Russia, *Japan Times*, 17 July 2019.

65 Tatiana Mitrova, Alexander Sobko and Zlata Sergeeva, 'Global LNG Market Transformation: To Miss the Windows of Opportunities for Russia', Energy Centre, Moscow School of Management SKOLKOVO, June 2018, 22, energy.skolkovo.ru/downloads/documents/SEneC/News/Russia-on-global-spg-market-Eng.pdf.

66 He further added that: 'The cost of producing Yamal gas is only around \$0.1 per million British thermal units, whereas US producers typically buy their gas on a market such as the Henry Hub, where prices are currently about \$2.60'. 'Russia Eyes Greater Energy Dominance with Arctic LNG Push', *Moscow Times*, 8 April 2019, www.themoscowtimes.com/2019/04/08/russia-eyes-greater-energy-dominance-with-arctic-lng-push-a65140.

67 'Russia Eyes Greater Energy Dominance with Arctic LNG Push'.

of homegrown technologies for large-scale liquefaction and transportation will continue to erode parts of the profits—and Moscow's ability to compete—unless Russia develops its own LNG technology soon.⁶⁸

These setbacks notwithstanding, since the US and EU sanctions against Russia (implemented after Moscow's invasion and annexation of Crimea in 2014) restricted foreign capital and technology, high-profile partners have continued to pour finance into Russia's energy sector, from China's loans to large equity stakes (such as Indian companies' 49 per cent in the Vankor oilfields) to share purchases (such as Japanese firms' 10 per cent stake in Novatek's Arctic LNG 2 or French Total's 10 per cent in both Yamal LNG 1 and 2). These are just some examples of the many joint venture agreements across Russia's energy sector since March 2014, which have notably also included new-found friendships and energy deals with countries in the Middle East. Russia's go-to partners and financiers for major energy projects emphasise that business relationships built over decades are not easily curtailed. Five European companies are partnering with Gazprom in constructing the Nord Stream 2 pipeline: Germany's Uniper and Wintershall, Engie of France, Anglo-Dutch Shell and Austria's OMV. These five EU energy companies have done business with Gazprom for decades and most recently have agreed to finance half of the North Stream II €9.5 billion cost.

The companies behind Russia's Arctic Yamal projects are similarly undeterred; abundant gas will be coming to Europe or Asia whatever the political impediments thrown up by Brussels or Washington.⁶⁹ The UK is one of the most hawkish towards Moscow, but British energy group BP is one of Russia's biggest foreign investors through its 19.75 per cent stake in Rosneft. Bob Dudley, BP's chief executive, has recently summarised this attitude by saying: 'It is very difficult to remain in business for a long time by taking sides ... we try to build bridges.'⁷⁰ The message is simple and clear: Russia's underdeveloped energy fields are too large and lucrative to be ignored or to let politics get in the way. Western and Eastern companies alike have found ways around the restrictions considering how profitable Russia's unrivalled energy resources still are. Acquisitions and international expansion projects have followed.

68 Mitrova, Sobko and Sergeeva, 'Global LNG Market Transformation', 23.

69 Natassia Astrasheuskaya, 'Russia Defies Pipeline Threats over Gas for Europe', *Financial Times*, 18 June 2019, www.ft.com/content/1f6ac3d6-861f-11e9-97ea-05ac2431f453.

70 Henry Foy, 'Russian Sanctions: Why "Isolation Is Impossible"', *Financial Times*, 12 November 2018, www.ft.com/content/c51ecf88-e125-11e8-a6e5-792428919cee.

In light of the above, it is important that scholarship on hydrocarbon markets recognises the pervasive influence of creative action by the executives who run the world's energy firms.⁷¹ It is no surprise that Western sanctions had been largely ineffective in persuading non-US companies to stop doing business in Russia. As Rawi Abdelal notes, firms have relationships with one another—relationships of great political consequence and considerable variability and even as they seek profits, uncertainty pervades these firms' decision-making. In such circumstances, their strategies build on their pasts—on business partnerships that have lasted for decades—and, by doing so, they actually make and remake energy geopolitics. This is evinced by Dudley's statement that: 'More and more there is a great importance that business plays in bringing the world closer. There are a lot of forces trying to push us apart'.⁷² Occasionally, in energy trade and in politics, governmental priorities override the interests of firms, but on a day-to-day basis, the commercial logic of firms prevails. Meanwhile, all the recent activity of European companies makes it clear that even targeted asymmetric sanctions come at a cost to the countries imposing them, which is why parts of Europe, for all the anti-Kremlin rhetoric, have been reluctant to sever energy trade and investment with Russia. That said, future energy sector growth comes at a cost as sanctions will curb Russia's companies' ability to deploy advanced international technologies, and therefore restrain its drive to grow in new Arctic locations.⁷³ They might, however, also spur the development of in-house technological advances.

Russia's Interests in Global Energy Markets

Since the early 2000s, the Kremlin has talked about the need to diversify its energy and economies to the East. While these efforts had been initially slow, after 2014 Moscow has made sharp strides in its economic focus there. Overall, at home, Moscow's interests lie in attracting more non-

71 Rawi Abdelal, 'Firms in Firmament: Hydrocarbons and the Circulation of Power', in *Protean Power: Exploring the Uncertain and Unexpected in World Politics*, ed. Peter J. Katzenstein and Lucia A. Seybert (Cambridge: Cambridge University Press, 2018), 147–65, doi.org/10.1017/9781108597456.008.

72 Quoted in Foy, 'Russian Sanctions'.

73 These measures limit Russia's access to new technology needed to keep its traditional oil and gas fields productive. Russia's energy companies still lag behind the technological might of their Western rivals. Many knowledge-sharing agreements and joint ventures terminated by the sanctions.

Western investments to the Arctic and in Russia's Far East, thus helping to regenerate the economy of this region. Internationally, however, it aims to keep world affairs at a low, not steaming, boil.

In oil, geopolitical turmoil in the Middle East and in other crude-producing regions only serves Russia's economic interests. Of course, geopolitical turmoil and the price of oil is closely correlated. Unsurprisingly, Russia backs Venezuela's President Nicolás Maduro; disruptions of crude supplies—such as oil from Iran and Venezuela—keep the market tight and raise prices, even as the transformative effects of the US's unconventional revolution stabilise the market (crude prices now sit between US\$60 and US\$70).⁷⁴

In LNG, where the US's unconventional boom, too, has reshaped markets for decades to come, Russia has similar interests. An unsettled US–China trade war will alleviate US competition in Asia. The trade spat has already given exporters such as Qatar, Australia and Russia an edge in securing deals with the world's second-largest economy even as US companies seek to build new export terminals. Bloomberg New Energy Finance estimates that Australia, China's largest LNG supplier, stands to gain most from the escalation of US–China trade tensions.⁷⁵ Any imminent resolution of the trade spat would likely see more oil and LNG flow from the US to Asia, in turn triggering even more rivalry in the Pacific.

Bloomberg NEF expects that global LNG markets will face about 16 mmt/y of excess supply in 2019, exerting downward pressure on global LNG prices even in Asia, where prices tend to be higher due to huge demand and fewer alternative suppliers.⁷⁶ A BP report concurs, noting that global LNG supplies continued their rapid expansion in 2018, increasing by almost 10 per cent (37 bcm) as a number of new liquefaction plants in Australia, the US and Russia either were started or

74 By broadening supplies, they push oil prices down.

75 China applied a 25 per cent tariff on US goods, including LNG, from 1 June 2019. According to Bloomberg NEF, China has already substantially diversified its LNG supply, and Australia's and Malaysia's LNG share to China totalled 72 per cent in May 2019. Australian LNG comprised 52 per cent of Chinese imports in May, up from 43 per cent last year. Malaysian LNG is also benefiting from the absence of US LNG in China's supply mix, rising to 20 per cent in May from an average of 10 per cent in 2018. Abhishek Rohatgi, 'Trade War: The Impact on LNG', Bloomberg, spotlight. [bloomberg.com/story/trade-war-the-impact-on-lng?src=LNGPortal&utm_medium=mktg_site&utm_campaign=CoreProdAdmin&utm_source=Website&utm_content=LNGPortal&mpam=18961&bbgs=um=DG-WS-PROF-LNGPORTAL](https://www.bloomberg.com/story/trade-war-the-impact-on-lng?src=LNGPortal&utm_medium=mktg_site&utm_campaign=CoreProdAdmin&utm_source=Website&utm_content=LNGPortal&mpam=18961&bbgs=um=DG-WS-PROF-LNGPORTAL).

76 Maggie Kuang, 'Global LNG: The Big Swing', Bloomberg, spotlight. [bloomberg.com/story/global-lng-the-big-swing](https://www.bloomberg.com/story/global-lng-the-big-swing).

ramped up.⁷⁷ Japan remains the world's largest LNG importer, but it is China, India and other emerging Asian markets that will see their share of trade increase substantially, reaching 45 per cent of trade volumes by 2023—more than double the share of 2013.⁷⁸

As the US and other global LNG exporters rewrite the world's markets for natural gas, Russia has an interest in closer cooperation with Japan, China and South Korea, the world's fastest-absorbing LNG buyers. It also quietly welcomes an escalating US–China trade war.

Russia as Australia's LNG Export Competitor

According to BP's 2019 annual report, for all of 2018 LNG imports from Australia were king in Japan, China and South Korea, the three core Asian markets in which Russia aims to secure a stronger grip.⁷⁹ But Asian demand is expected to slow down, a development further intensified by Japan's relaunch of four nuclear facilities and new LNG 'optionality' (from Russian LNG, among others). Conversely, Australia is traditionally a high-cost location.

The prospect of the further rapid increases of low-cost LNG in Russia means that the country represents an increasingly serious competitor in what, for now, is Australia's stronghold.⁸⁰ In the medium term, booming global LNG production will create a glut both in Europe and Asia.⁸¹ In the long run, however, the APR is poised to become the catalyst of

77 *BP Statistical Review of World Energy 2019*, 6, www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2019-full-report.pdf.

78 'Gas 2018: Analysis and Forecasts to 2023', IEA, www.iea.org/gas2018/.

79 *BP Statistical Review of World Energy 2019*, 39.

80 Beyond Russia, the Asia-Pacific battleground is expected to be flooded by plentiful supplies from the US (expected to double export capacity to more than 40 mmt in 2019), Malaysia, Indonesia and Qatar, among others.

81 Anna Shiryaevskaya, 'LNG Ships Are Turning Away from Europe's Gloomy Gas Market', Bloomberg, 5 July 2019, www.bloombergquint.com/business/lng-vessels-turn-away-from-europe-s-gloomy-natural-gas-market; Sabina Zawadzki, 'European Gas Prices Exceed Asian Spot LNG, Shuts Arbitrage', *Reuters*, 15 July 2019, www.reuters.com/article/us-global-lng-europe/european-gas-prices-exceed-asian-spot-lng-shuts-arbitrage-idUSKCN1UA1L6.

global LNG growth. Currently, the region accounts for approximately three-quarters of global LNG trade,⁸² with that amount projected to increase to as much as 86 per cent in the next decade.⁸³

The way Australia positions itself to preserve market share will determine its status in the region over the next decade. The *Financial Times* has recently reported that, in addition to overseas competition, chaotic policymaking is threatening to cut short Australia's tenure as the world's biggest exporter of LNG. Australia now faces intense competition from the likes of the US and Russia—producers that prioritise stable energy policies and clarity over the outlook for costs. Meanwhile, apparent lack of policy coordination and bickering at federal and state levels has become a risk for Australian LNG producers and has already delayed investment decisions in Canberra. Such hurdles are especially difficult when one has to compete with countries such as Russia, where handpicked mega-projects in the energy industry, once declared geopolitically critical, become patriotic national undertakings.

Homegrown Arctic LNG is an absolute priority of the Putin administration. This is somewhat reminiscent of the zeal with which Soviet mega-projects were implemented; there was scope for disagreement on how the economy should be organised until a decision had been reached, at which point the decision had to be implemented in a strictly disciplined manner at all affected levels of society. In Russia, rigid hierarchical subordination still dictates the execution of the most ambitious, costly and geopolitically critical energy projects—such as the two Yamal LNG plants. While deliberating on important issues such as a coherent national emissions policy and the need to balance between LNG exports and energy security at home, Canberra should do so with the awareness that some of its overseas competitors have a clear, top-down notion of what energy market competition means.

Already the world's top exporter of pipeline gas and second-biggest shipper of crude oil, Moscow's push to be a major LNG exporter is real. In the APR, however, Russia will not be able to replicate the unusually strong hold it enjoys over European gas markets or make use of heavy-handed pipeline politics essential to the Kremlin's claim of greatness. This

82 'Perspectives on the Development of the LNG Market Hubs in the Asia-Pacific Region', EIA, 2 March 2017, www.eia.gov/analysis/studies/lng/asia/.

83 'Asia to Dominate Long-term LNG Demand Growth', BloombergNEF, 12 September 2018, about.bnef.com/blog/asia-dominate-long-term-lng-demand-growth/.

has to do with the inherent characteristics of LNG transportation and trade along with well-established competition. In Asia, Russian LNG will be purely business; traded like Russian oil and very much deprived of its strategic foreign policy status.

That said, the many investment partners that Russia has been able to secure in its post-Ukraine phase have succeeded in lessening the country's dependence on Western financing, blunting the concerted efforts by the US to economically isolate Russia. Stakes, joint ventures, foreign direct investment and other types of corporate agreements with energy firms from Europe, Japan, India and the Middle East have supported Russia's foray to Asia and, to some extent, belie the narrative of a Russian Pivot to Asia that stops at China.

New competition by Russia will shape the Asia-Pacific market and may be a hindrance to Australia's business. However, on the question of whether Australia will be able to maintain its crown as the world's largest LNG exporter, Russia is not likely to be a singularly determinative factor.

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