REAL INSTITUTO elcano ROYAL INSTITUTE

Elcano Policy Paper

The future of Russian gas in the EU

Ignacio Urbasos – March 2024

The future of Russian gas in the EU

Ignacio Urbasos – Real Instituto Elcano – March 2024

Real Instituto Elcano – Madrid – España
www.realinstitutoelcano.org

C/ Príncipe de Vergara, 51
28006 Madrid
www.realinstitutoelcano.org

ISSN: 2255–5293
Depósito Legal: M–8692–2013

Elcano Policy Paper

The future of Russian gas in the EU

Contents

Executive summary[1]

This Policy Paper analyses the changes in the gas relationship between the EU and Russia since the invasion of Ukraine in February 2022. The analysis starts by setting out how pipeline imports have fallen by 80% due to the requirement to pay for gas in roubles, the suspension of many existing contracts and the sabotage of the Nord Stream pipelines. The reduction has had a significant impact on Gazprom's influence over the EU, as the Russian state-owned company, which has a monopoly over pipeline exports, has lost its principal and most lucrative market and has been the object of numerous international arbitration proceedings.

In contrast, and despite the sanctions, the Russian private company Novatek has successfully developed the liquefied natural gas (LNG) sector, gaining market share in the EU and maintaining deliveries since the invasion. However, there are doubts as to Novatek's capacity to sustain its projects in a context of increased international pressure and the loss of important western commercial and technological partners, which means it is unlikely to be able to replace Gazprom in terms of volume and income, and thus does not constitute a geopolitical risk for the EU.

The main conclusions of this paper are that, while the EU has experienced a profound energy crisis, Russia has not achieved the prime objective of its gas blockade: to break the EU's support for Ukraine. The EU has discovered that it can ensure its energy supply without depending on Moscow, and it now has to define a strategy that will establish the role of Russian natural gas in the European energy mix in the future.

The EU's political architecture means that the impossibility of achieving unanimity among Member States will hamper its development of a joint policy and its ability to achieve the objective established in REPowerEU of ending of Russian hydrocarbon imports by 2027. Faced with stalemate in the Council of the EU, Member States must design and implement their own policies of energy diversification and uncoupling from Russia, and this will incentivise fragmentation, and, in practice, prevent a clean break in the gas relationship. It is likely that Russian gas will continue to be delivered either via pipeline or in the form of LNG to many EU Member States who decide not to impose strict measures, even after 2027. However, the volumes will be far lower than Russian exports to the EU prior to the invasion, as Russia will be competing with other suppliers (primarily North American and Qatari LNG) in a context of decarbonisation and the likely fall in demand in Europe

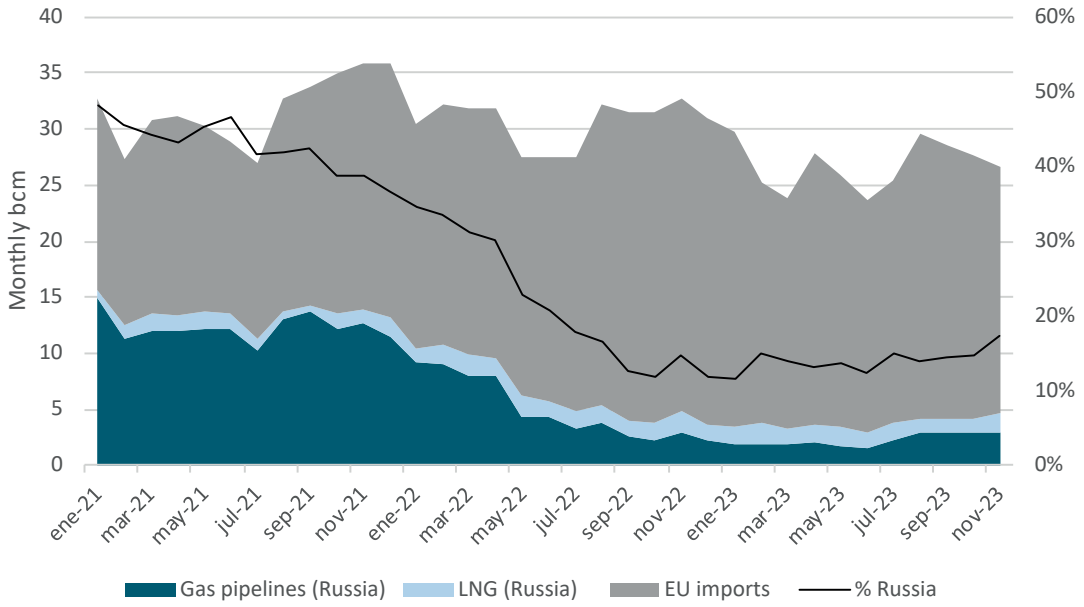
1 The author would like to acknowledge the contributions of Gonzalo Escribano and Luís María González Sánchez.

Introduction

When Russia invaded Ukraine in February 2022, one of the main concerns in European capitals was the impact of the interruption of Russian natural gas exports to the EU, whether due to the deterioration of physical infrastructure or because of Moscow cutting supplies as a form of blackmail.

Two years on, the situation has changed radically. Since the publication of REPowerEU, the EU has substantially increased imports from other suppliers, primarily in the form of liquefied natural gas (LNG), and new terminals and interconnections have been constructed which are key to reducing the dependency on Russian gas in the most exposed regions (Escribano *et al.*, 2023). High prices led to a 13% reduction in the demand for natural gas in the EU, and demand continued to fall in 2023 both as a result of energy efficiency measures and the substitution of energy sources (including renewables) and also due to the painful destruction of industrial and household demand (Honoré, 2023). The EU has undertaken to eliminate the importation of all fossil fuels from Russia by 2027 and, although sanctions have not been imposed on gas as they have been on oil and coal, the EU's dependency on Russia has already been significantly reduced. By 2023 deliveries of Russian pipeline gas to the EU had fallen by 80%, although this was counter-acted to a degree by the temporary increase of LNG imports from Yamal. The overall result has been a reduction in the share of European imports accounted for by Russian gas, from more than 40% in the years prior to the invasion to 14% in 2023 (Figure 1).

Figure 1. Monthly imports of natural gas by the EU, by origin: January 2021 to August 2023 (monthly bcm and % of total)



Source: Bruegel, European natural gas imports dataset.

In this scenario, it is important to analyse the implications of disconnecting the EU from Gazprom's network of gas pipelines. Gazprom is a state-owned company that is a geopolitical arm of the Kremlin and holds a monopoly on Russian pipeline exports, with a dominant commercial position thanks to its capacity to offer very competitive prices, a vast infrastructure network on European soil and huge political influence, largely as a historical legacy of the Cold War.[2] Russia's decision to use gas as a geopolitical tool triggered a profound energy crisis. However, Moscow did not achieve the main objective of its gas blockade: to break the EU's support for Ukraine (Eyl-Mazzega, 2023).

Gazprom's decision to cut supplies coincided with another important event in energy geopolitics: the successful development of LNG projects by the private company Novatek. In particular, the Yamal LNG megaproject, completed in 2017, has continued to send natural gas to the EU since the invasion of Ukraine, in the absence of specific sanctions on gas and in compliance with existing contracts. At the same time, US and EU sanctions on Novatek's ongoing construction projects appear to be having a direct impact on their implementation, restricting the company's access to the technology and funding it needs.

This analysis begins with the reduction in imports of Russian natural gas via pipelines using the four major existing routes (Yamal, Nord Stream, Ukraine and TurkStream), evaluating the technical and contractual situation. The document then sets out the implications of this commercial uncoupling for Gazprom and Russia. Next, it presents the situation as regards European imports of Russian LNG, analysing the geopolitical implications and the rise of Novatek as a new global energy player. Finally, it explains how the difficulty in reaching a unanimous agreement in Brussels has led to a scenario of 'soft rules' developed and designed by the Member States of the EU. The paper concludes that the EU has been relatively successful in its response to the energy war pursued by the Kremlin, and that in the future it will be individual Member States who determine the future of Russian gas in Europe, reducing the possibilities of a complete break in the gas relationship.

2 During the Cold War, the Soviet Union provided cheap energy to the countries of Eastern Europe. In the case of natural gas, from the 1960s onwards a major network of gas pipelines was constructed, connecting the gas reserves of Siberia with COMECOM countries. A decade later, the pipelines would be extended to Austria, Italy and West Germany. Despite the disintegration of the Soviet Union, the infrastructure remained operational, and Russia continued to be the main supplier of energy to Europe. For further information see S. Schattenberg (2022), 'Pipeline Construction as "soft power" in foreign policy. Why the Soviet Union started to sell gas to West Germany, 1966-1970', *Journal of Modern European History*, vol. 20, nr 4, p. 554-573.

1 The war redefines the role of the Russian gas pipelines

The gas pipelines connecting Russia to Europe have been the clearest symbol of Russia's status as a fossil-fuel superpower and of its importance to the EU (Bros *et al.*, 2017). Geopolitical management of these gas pipelines has historically been complex for the countries of the EU, given their diverging interests and outlooks. Thanks to effective commercial diplomacy, Gazprom was able to create new infrastructure (TurkStream and Nord Stream), which avoided transit countries identified as less friendly, principally Ukraine and Poland. In 2021 Russian gas pipelines supplied 38.5% of the EU's total gas imports, with a dominant position in many captive markets (Henderson & Chyong, 2023).

Despite this, since the invasion Russian gas pipeline deliveries to the EU have fallen by more than 80% (Figure 2), with deliveries through Nord Stream, the Polish branch of the Yamal pipeline, and connections with the Baltic states and Finland reduced to zero. Supplies of gas through the Ukrainian corridor are at historic lows and, with a contract that expires in December 2024, their future is uncertain. Only the TurkStream pipeline, which crosses the Black Sea from Russia to Turkey, is still supplying natural gas to south-eastern Europe as per normal.

This reduction primarily reflects three factors: a gradual reduction in Gazprom deliveries to the EU from 2021; the Russian demand for payment for natural gas in roubles in March 2022; and the sabotage of the Nord Stream gas pipelines in September of that year.

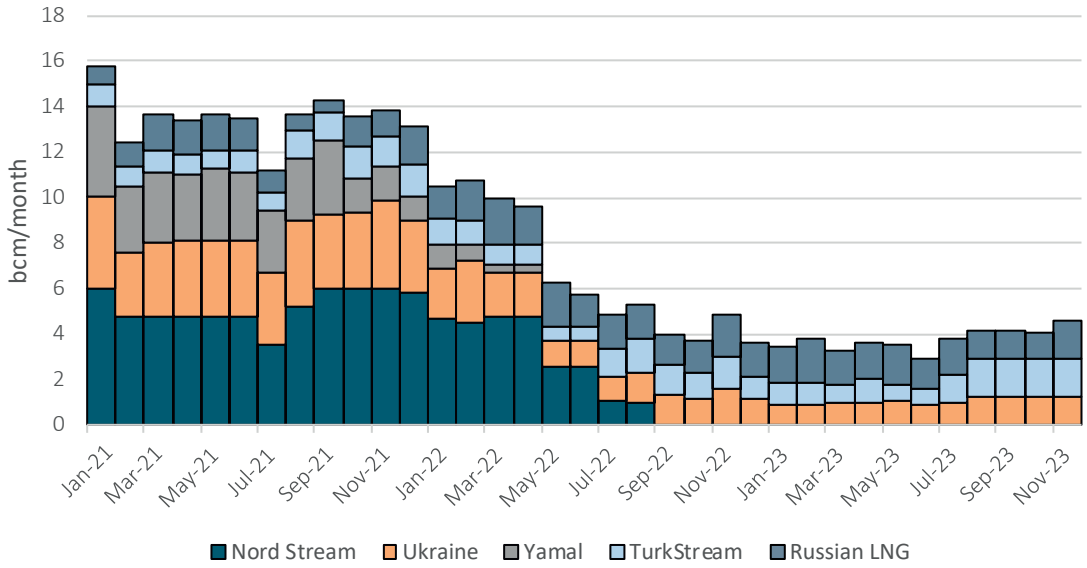
- Despite the recovery of gas prices and demand in the EU following the economic contraction caused by the COVID-19 pandemic, Gazprom's deliveries of natural gas remained at minimum levels throughout 2021. The long-term contracts signed by Gazprom are usually governed by a take-or-pay clause, which obliges the buyer to take the gas or to pay for it even if it is not taken, but offers both buyers and the supplier a degree of discretion in the volumes traded. Although some analysts argued that this reduction in deliveries reflected technical or commercial issues (Yermakov, 2021a), the systematic emptying of gas storage facilities controlled by Gazprom in Europe appears to confirm the hypothesis that it was part of a strategy of geoeconomic coercion in preparation for the invasion of Ukraine. By exporting the minimum quantity of gas permitted by long-term contracts and suspending sales on the spot market, Russia placed the European market under stress, raising prices to record levels in August 2021.
- In March 2022, a few weeks after the invasion of Ukraine, the Kremlin announced that 'hostile countries' would have to pay for gas in roubles in a two-phase payment system (euros and roubles) using Gazprombank as a means of evading the sanctions the European Commission had imposed on the Russian financial system.[3] The Commission opted for flexibility, allowing European companies to choose between

3 This process involved opening two accounts at Gazprombank, one in foreign currency and the other in roubles. The contractual sums were to be paid in foreign currency, with Gazprombank then instructed to convert them into roubles and transfer them to the rouble account. The balance in roubles would be used to pay for gas imports, with gas transactions only deemed to have been paid upon receipt of the resulting rouble balance.

continuing with their long-term contracts using this new mechanism or to rescind them (Yafimava, 2022). As a result, many European utilities decided to suspend their contracts, provoking a fall in flows of gas from Russia and leading to the closure of the Yamal gas pipeline (Figure 2).

- On 26 September 2022 two underwater explosions damaged three of the four pipelines that constituted the Nord Stream and inactive Nord Stream 2 gas pipelines. The sabotage, whose perpetrators have not yet been identified, left the infrastructure inoperable, closing the main gas supply line between Russia and the EU.

Figure 2. Monthly EU pipeline gas imports from Russia: January 2021 to August 2023 (monthly bcm)



Source: Bruegel, European natural gas imports dataset.

1.1. Complete disconnection: Poland, Finland and the Baltic states

Poland, Finland and the Baltic states provide the clearest example of decoupling from Russia. With energy systems designed during the Cold War and profoundly dependent on Moscow, these countries had embarked on plans to diversify their energy supply more than a decade ago.

Even before the invasion of Ukraine, in 2019, Poland had taken the decision to end its dependency on Russian gas by 2022. Warsaw developed a diversification plan that included the construction of a new regasification terminal and the signing of long-term agreements to import LNG from the US and Qatar. In November 2022 Poland completed this strategy with the finalisation of the Baltic Pipe, giving it access to natural gas reserves in Norway

operated by the semi-public Polish company Orlen (Orlen, 2023). Supplies through the Yamal pipeline were definitively suspended on 27 April 2022, when the Polish company PGNiG refused to pay for gas in roubles. At the end of 2022, Poland nationalised Gazprom's share of the Yamal pipeline, and transferred ownership to Orlen.

In 2022 Finland brought its first LNG plant into operation at Hamina (Cassey, 2022) and in early 2023 it brought a second floating LNG regasification terminal on stream (Tanner, 2022). Thanks to the Balticconnector undersea connection with Estonia, these have enabled both countries to reduce their dependency on Russian supplies. Finland ended Russian gas pipeline imports in 2022 when it refused to make payments in roubles, and is preparing legislation to prohibit the purchase of Russian LNG from 2025 (Thorp, 2023). Gasum, the operator of Finland's gas network, announced in May 2023 its definitive cancellation of the contract for gas pipeline imports with Gazprom as it was not able to resolve the dispute within the timeframe established by an international court of arbitration.

Lithuania and Latvia, who had already substantially reduced their pipeline imports from Russia with the construction in 2015 of the floating regasification plant Independence (Duxbury, 2022), were physically connected to the European network in 2022, gaining access to Norwegian natural gas via Poland (EC Commission, 2022). At present, Lithuania only operates as a transit country for Gazprom to supply the Russian enclave of Kaliningrad. This contractual agreement will expire in 2025 and, with the future uncertain, exemplifies the transformation of energy relations between Moscow and the Baltic states, which a decade ago were still in thrall to Russian energy (En, 2015).

On 10 October 2023 the Balticconnector gas pipeline, constructed in 2019 to connect Finland and Estonia, was damaged by the anchor of the Chinese container ship Newnew Polar Bear. Although the causes of the accident have not yet been clarified and there has been speculation of a possible Russian operation in the grey zone,[4] the pipeline is expected to be restored to operation by April 2024 (Braw, 2023).

1.2. Nord Stream: interruption and sabotage

Since its inauguration in 2012, Nord Stream 1 has become the main artery for delivering Russian gas to the EU. Although construction of Nord Stream 2 was completed in September 2021, international sanctions and diplomatic pressure on Germany delayed its inauguration, and the project was cancelled a few days after the invasion of Ukraine.

Since February 2022 Russia has used Nord Stream 1 as part of its geoeconomic war against the EU, unpredictably reducing deliveries and citing technical and maintenance problems related to sanctions as a case of force majeure (Figure 2). Intermittent deliveries during the summer were followed by a sabotage operation on 26 September 2022 that rendered three of the four pipelines that constitute the infrastructure inoperative, with only one of Nord Stream 2's 25 bcm[5] lines escaping irreparable damage. None of the members of the

4 The grey zone describes the intermediate space between peace and war in which state and non-state actors compete.
5 All gas supply data is expressed in billions of cubic metres or bcm.

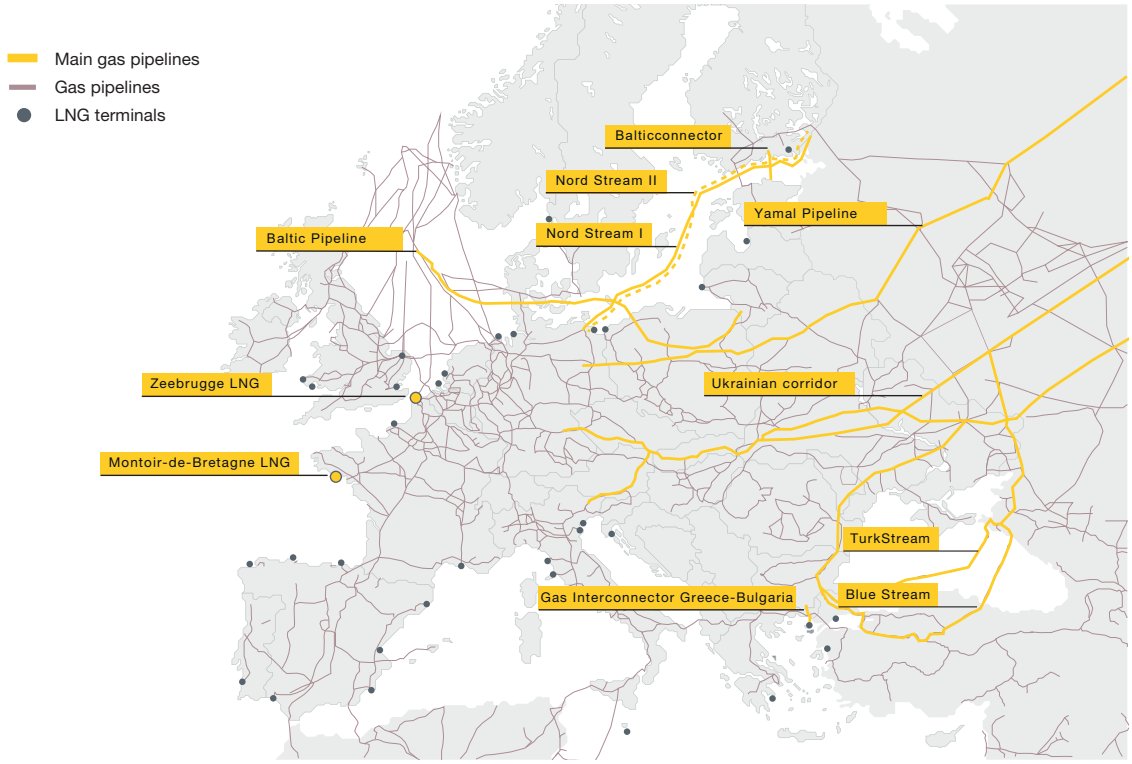
consortium (Gazprom, Wintershall, E.ON, Gasunie and Engie) have expressed any interest in reactivating it, and they have written off the value of a piece of infrastructure that will go down in history as a case study in the mismanagement of geopolitical risk.

In 2021 Germany imported 55% of its demand for gas from Russia and, with the almost simultaneous closure of Yamal and Nord Stream in 2022, it was the country at greatest risk of having to introduce energy rationing. However, a mild winter, a significant reduction in domestic consumption, the construction of new LNG supply terminals in record time, and additional imports from the Netherlands, Belgium and Norway prevented this outcome. The restructuring of the German gas sector, with nationalisation of Gazprom Germania[6] and Uniper, enabled the German state to take control of the country's main gas infrastructure, with gas purchase and storage levels managed on a semi-planned basis (Sevillano, 2022).

Although Nord Stream was initially designed as a piece of infrastructure to bilateralise the energy relationship between Berlin and Moscow, it soon made Germany a significant re-exporter of natural gas to the Czech Republic, Denmark, Switzerland, Belgium and France (Tsafos, 2019), whose deliveries were also interrupted in September 2022. The Czech Republic, which imported almost all the gas it consumed via Nord Stream, also succeeded in reducing its dependency on Russia, from 97% in 2021 to less than 4% in 12 months (Zachová, 2023). France, Denmark, Belgium and Switzerland have followed a similar path, increasing their purchases from Norway and, above all, importing LNG to replace the Russian gas they previously imported through Germany. As a result of the sabotage, the French firm Engie, Denmark's Oersted, the German companies Uniper and RWE, and the Czech Republic's CEZ turned to international courts of arbitration to demand compensation for the reduced flows sent in the months prior to the explosions.

6 Following nationalisation by the German state, Gazprom Germania was renamed SEFE.

Figure 3. Gas pipelines and liquefied natural gas (LNG) terminals in Europe



Source: the author.

1.3. TurkStream: Gazprom's last gas route

According to Energy Intelligence (2023), Russian gas continues to be supplied via the TurkStream pipeline, in compliance with long-term contracts signed with Gazprom by Greece, Hungary (which diverted its imports from the Ukrainian route), Romania and Croatia, in addition to North Macedonia, Serbia and Bosnia and Herzegovina. This route is currently delivering 12.5 bcm of natural gas per year via Turkey, below its maximum capacity of 15.75 bcm, demonstrating Gazprom's difficulty in finding customers beyond its long-term contracts. Gazprom, which had consolidated its presence in the Balkans and south-eastern Europe in the previous decade, is now in clear retreat in the face of the advance of renewable energies and the diversification strategies deployed in the region following the invasion of Ukraine (Bechev, 2023). The Vertical Corridor is the best example of these new regional dynamics. This initiative, presented in January 2024, will make it possible to transport natural gas from Greece and Bulgaria to Hungary, Slovakia and Romania. It is expected that the pipeline will be extended to Moldova and underground storage facilities in Ukraine, increasing the options to import natural gas and thus reduce regional dependency on Gazprom.

The recent construction of a LNG terminal in Croatia, and the increased number of tankers docking at the Greek terminal of Revythousa have significantly reduced the Balkans' dependence on TurkStream. Greece could further increase its alternative supplies in 2024, when construction of the regasification plant at Alexandroupoli is completed. Romania, which imports almost 20% of its demand via TurkStream, hopes to achieve self-sufficiency in gas with the arrival of Azeri gas in 2024 and when the Neptun Deep project in the Black Sea comes on stream in 2027 (Heather & Bowden, 2023). Neptun Deep is the largest natural gas project in the Black Sea, with an investment of €4 billion. It is expected to make Romania the largest producer of gas in the EU by the end of the decade.

The case of Bulgaria, where Gazprom had a market share of 80% in 2021 and great political influence, is paradigmatic. With the construction of a new interconnection with Greece in 2022, Bulgaria has been able to sign a long-term supply agreement with Azerbaijan and has booked capacity in Turkish regasification terminals. Bulgaria is preparing an arbitration claim against Gazprom for suspending the supply of gas in April 2022 after the country refused to accept the Kremlin's demands to pay for gas transactions in roubles (Euronews, 2022).

Hungary is the only country in the EU that is not planning to reduce imports from Russia in the short term. In September 2021 the Hungarian company MVM and Gazprom signed a gas supply contract for 15 years for a volume of 4.5 bcm per year, of which 3.5 bcm will be supplied via TurkStream and 1 bcm via Austria (Henderson, 2023). Even after the invasion, in August 2022 Hungary agreed the additional supply of 0.7 bcm per year, according to Russian press agency TASS, at a significant discount on international prices for natural gas. Budapest has presented diversification plans that are not very credible, such as its intention to increase the domestic production of natural gas, very long timescales, and plans to increase imports by drawing on surplus production from Neptun Deep in Romania or the second phase of Shah Deniz in Azerbaijan. The openly pro-Russian position of Viktor Orbán's government has distanced Hungary from the Visegrad Group, aggravating its isolation within the EU (Durakçay, 2023).

1.4. Ukrainian gas pipelines: the expiry date approaches

Despite the war, Russian gas continues to flow through Ukraine's gas pipelines to Slovakia, Hungary and Austria, although at levels that are at historic lows. The agreement reached in 2019 for the annual transit of 40 bcm of Russian gas through Ukraine expires on 31 December 2024. Resumption of negotiations between Ukraine and Russia on extending the transit contract seems unlikely, both due to the war (and the possible deterioration of infrastructure) and because of the arbitration claim submitted by the Ukrainian network, Naftogaz, against Gazprom for non-payment for transit of the full volume contracted since May 2022. Ukraine has reiterated its intention not to negotiate with Gazprom while the war is in progress, despite speculation that it could authorise smaller occasional flows, as proposed by Austria's OMV. Gazprom had already used this type of contract to supply gas to Germany via the Yamal-Europe gas pipeline, months before the invasion of Ukraine.

From 2025 onwards, without the Ukrainian network and given the unavailability of the Nord Stream and Yamal routes, Gazprom will only have the TurkStream pipeline for its exports to the EU. This scenario would leave Russia with a capacity to export 15.75 bcm annually from 2025, insufficient to fulfil the long-term contracts that will remain in place. In this context, Italy has presented a plan to end Russian pipeline gas imports in 2025, consisting in the construction of new LNG regasification plants and importing greater volumes from Azerbaijan and North Africa through the two existing gas pipelines: the Enrico-Mattei with Algeria and the Greenstream with Libya. Meanwhile, companies with long-term contracts with Gazprom (ENI is estimated to have contracts for more than 20 bcm, annually) are preparing an offensive in the international courts of arbitration with the aim of obtaining compensation for the interruption of supplies (Concha, 2023).

The cases of Slovakia and Austria, landlocked countries that currently receive Russian gas via Ukraine, are more complicated due to Moscow's traditional political influence. In the Slovakian case, following the successive supply crises between Russia and Ukraine, the country developed a Project of Common Interest to increase connections with its neighbours and to provide reverse flow pumping capacity to existing gas pipelines with the Czech Republic, Austria and Ukraine. For now, diversification efforts focus on gaining access to capacity at the new regasification plants in Italy and Poland to reduce Russian imports over the medium term. However, Robert Fico's victory in the general election of October 2023 could see Slovakia move closer to Hungary's position of prioritising national interests and securing supplies over the EU's commitment to Ukraine.

Austria is in a similar position, with OMV signing a long-term contract with Gazprom in 2018 for 7 bcm per year until 2040, accounting for almost 70% of the country's demand (Henderson & Kyong, 2023). The situation is complicated because there is a take-or-pay clause committing the company to pay Gazprom for the natural gas, even if this is not ultimately consumed in the country. While Vienna hopes to end imports of Russian natural gas by 2027, in line with the EU, any effort at diversification before expiry of the Ukraine transit contract in December 2024 could entail the payment of massive amounts of compensation to Gazprom. Both the Slovakian and the Austrian companies with long-term contracts with Gazprom have agreed to pay for the gas in roubles via Gazprombank, following Commission guidelines in order to avoid violating the sanctions imposed by the EU (Hernandez, 2022).

Figure 4. Situation of gas pipelines between Russia and the EU

Gas pipeline	Annual capacity	Situation
Yamal (Poland)	33 bcm	Operations shut down due to end of contract in 2022 and dispute over payment currency
Finland	5 bcm	Operations shut down due to dispute over payment currency
Belarus-Lithuania-Kaliningrad	2.5 bcm	Only supplies Kaliningrad via Lithuania since 2022. Expires in 2025
Russia-Latvia	2 bcm	Operations shut down due to dispute over payment currency
Russia-Estonia	1 bcm	Operations shut down due to dispute over payment currency
Nord Stream 1	55 bcm	Out of operation due to sabotage
Nord Stream 2	55 bcm (construction not completed)	Out of operation due to sabotage
Ukrainian network	146 bcm	'Ship-or-pay' transit contract for 40 bcm/year in 2021-2024.[7] End of transit contract in December 2024
TurkStream	15.75 bcm	Operational

Source: the author.

7 The use of 'ship-or-pay' clauses is common in transport contracts and capacity reservation agreements in the energy sector. These oblige the contracting party to pay for reserving capacity in the infrastructure, regardless of whether they use it or not.

2 The commercial and geopolitical future of Gazprom

Unlike crude petroleum or coal, gas is a raw material for which it is difficult to open up new markets due to the need for dedicated infrastructure: gas pipelines, LNG terminals and, in the case of the Arctic, ice-breaking LNG tankers for the winter. As a result, the loss of the European market for pipeline gas has had a major impact on Gazprom's results: although the company has not published its financial reports since the invasion, it announced a 43% year-on-year fall in quarterly net profit (2Q23: Nadig, 2023).

This situation reflects lower natural gas prices, both as indexed to the TTF (reference price) in Europe and to oil prices, but principally the loss of the European pipeline gas market and the technical difficulties in redirecting this to other destinations. Gazprom, which has a monopoly on Russian pipeline exports, has reduced its output by almost 103 bcm since February 2022, accounting for 20% of total output, the largest fall in its history and a volume similar to its loss of European market share (Yermakov, 2023). Moreover, sanctions have affected domestic demand for gas in Russia, primarily linked to industry. Without storage to absorb surplus production, the Russian megafields could lack the flexibility to adapt to lower demand and Gazprom could be forced to close some of its older, less productive wells, reducing output over the medium term (*ibid.*).

Gazprom lacks the necessary capacity to export the gas produced in Western Siberia (traditionally exported to Europe) as LNG and does not have pipelines to transport it to other markets. In the Baltic Sea, Gazprom only has two small export terminals in Vysotsk and Portovaya,[8] while the large LNG projects designed a decade ago –Shtokman, Vladivostok and Baltic– have been subject to redesign and delays on various occasions. The lack of trust from international partners, and western sanctions preventing financial and technological support, have further hindered development of these projects. In 2012, in response to Gazprom's failures, the Kremlin authorised the liberalisation of the LNG sector (Henderson & Mitrova, 2015).

Gazprom has also lost its commercial subsidiaries in the EU since Germany nationalised and took control of the assets of Gazprom Germania and Gazprom Marketing & Trading and its related companies in April 2022 (Ecker, 2022). These subsidiaries managed a dense network of underground gas storage facilities, distribution networks and trading companies, and in 2020 its assets were valued at €8.4 billion (Jucca, 2022). In particular, Gazprom Germania had the largest gas storage capacity in the EU, with infrastructure in Germany, Austria, the Czech Republic and the Netherlands. This gave Russia a high degree of control over the European natural gas market, dictating the volumes supplied during winter demand peaks and short-term sales via its Electronic Sales Platform (ESP) (Henderson & Kyong, 2023).

8 Each of these terminals has an annual export capacity of 3 bcm and they were initially designed to supply LNG to the Kaliningrad enclave and for the transport of cryogenic liquid gas in small vessels on the Baltic Sea.

2.1. The threat of international arbitration proceedings

International arbitration proceedings also represent a threat to Gazprom. Prior to February 2022, Gazprom had almost 40 long-term gas supply contracts with European buyers, the majority of which are currently suspended or cancelled, and many of which have given rise to proceedings in the international courts of arbitration (Interfax, 2023a). It is likely that Gazprom will be able to invoke force majeure clauses in those contracts associated with the supply via Nord Stream due to sabotage, avoiding the need to pay compensation for the interruption to supplies following September 2022 (Chyong *et al.*, 2023).

However, the presidential decree issued by Vladimir Putin in March 2022 –by virtue of which all Russian gas sold to 'hostile' countries (the EU and the UK) had to be paid for in roubles– will be more problematic for Gazprom. Long-term natural gas supply contracts specify the currency of payment (normally euros or US dollars) and the payment obligation is deemed to have been satisfied once the corresponding payment has been made to the bank account specified in the contract. The decree would thus have unilaterally modified the provisions of many of these contracts and the interruption of supplies by Gazprom could give rise to the right to demand compensation by European customers who refused to comply with it. The outcome of these arbitration proceedings is uncertain, although the ruling on the dispute between the Finnish company Gasum and Gazprom favoured the Russian company, recognising the validity of the presidential decree under the provisions of force majeure, requiring Gasum to pay €300 million (Kardas, 2022). However, it is possible that other arbitration proceedings might rule in the opposite direction, requiring Gazprom to pay the excess costs of purchasing natural gas on the spot market for European companies (PGNiG, GasTerra, Shell, Ørsted and Bulgargaz, Uniper, ENI, Engie and RWE, among others). Given the breakdown of relations between Russia and the West, Gazprom might simply opt to ignore[9] any verdict reached by the arbitration proceedings, but this would entail the company making a more or less irreversible exit from the European market.

2.2. Lack of alternative markets in the short term

Russia's natural gas export infrastructure, designed during the Cold War, was primarily aimed at the European market, which until 2021 absorbed approximately 80% of Russian pipeline exports. Europe's disconnection from these pipelines puts Gazprom in a delicate position from a technical, political and financial perspective as there are few markets to which it can redirect its natural gas.

China has positioned itself as the principal alternative for Gazprom. The Russian company began to send natural gas to China when the Power of Siberia pipeline came on stream in 2019, more than 15 years after the start of negotiations to construct it. This complex infrastructure, which connects fields in Eastern Siberia –different deposits to those that have traditionally supplied Europe– currently has a capacity of 22 bcm of gas and is expected to reach a capacity of close to 38 bcm by the end of the decade (Interfax, 2022). For Gazprom, the Chinese market would be significantly less lucrative than the European one. According

9 Gazprom, with the support of the Russian government, could ignore any rulings against it. However, some of the compensation might be recovered by seizing the assets of the company and its subsidiaries in the EU.

to Energy Intelligence (2023a), the marginal cost of the fields destined for the Chinese market is 40% higher than those connected to the European one.

In the current context, Power of Siberia does not offer much relief to Gazprom as it does not enable output previously destined for Europe to be diverted to Asia. With the worsening of the Ukraine crisis in 2014, Gazprom announced its intention to construct the Altai or Power of Siberia 2 pipeline, a project that would indeed connect the fields of Western Siberia with the Chinese market, facilitating price arbitration with the European market (Henderson, 2014). Almost a decade later, the project lacks a precise route, definitive construction date or funding model, given the scant interest shown by Beijing. Although the project's reactivation cannot be ruled out, the recent activity in the LNG market of the main Chinese oil firms, which have signed multiple long-term contracts with US companies, the rapid development of storage and the development of trading units all reduce the incentives for its construction. For China, although Russian gas offers prices that are significantly lower than those expected on the LNG market, it would also require a major investment in the gas transport network inside the country to prevent the creation of a bottleneck at the points of entry for gas from Turkmenistan, Uzbekistan and Kazakhstan for transit to the coastal regions where it is primarily consumed.

Moscow's international isolation appears to have prompted Russia's reorientation towards Central Asia. Putin's proposal of a tripartite gas union between Russia, Kazakhstan and Uzbekistan, presented in November 2022, is starting to take shape and would enable Gazprom to export additional volumes (Umarov, 2023). The aim of this alliance would be to enable Russian gas to access Central Asia so that both Uzbekistan and Kazakhstan could meet their long-term gas supply commitments to China (Popławski & Rudnik, 2023). Both countries have struggled to supply the volumes agreed with China in recent years in the face of growing domestic demand and declining gas production. However, this would not be a particularly lucrative market for Gazprom as it would have to offer lower prices than those established in the contracts between Uzbekistan and Kazakhstan and China if these countries were to consider the possibility of increasing imports from Russia.

Turkey, to which Gazprom exports natural gas via two pipelines, TurkStream (for the international market) and Bluestream (for the Turkish market), has positioned itself to serve as an intermediary platform for Russian gas (Yermakov, 2023). The idea of Turkey as a gas hub for the Mediterranean is based on the existing pipelines with Azerbaijan and Iran, its LNG terminals, predicted domestic output in the Black Sea and potential access to gas from the Eastern Mediterranean. Via a possible gas hub in Turkey, Gazprom could seek to access the European market by integrating its output with other strategic flows for the EU, principally gas from Azerbaijan. This proposal, which Brussels would find hard to accept, would require the acquiescence of both Turkey and Azerbaijan, entailing geopolitical, technical and commercial complexities that would be difficult to solve in the medium term.

Finally, the markets Gazprom retains in Europe have a far less lucrative profile, in terms both of volume and price, than those it has recently lost. Belarus, Serbia and Hungary pay below the market price, while Turkey obtained certain concessions in the pricing formula, primarily by postponing payments (Afanasiev, 2023). The Moldova and Bosnia-Herzegovina markets

are small and represent political challenges for Moscow over the long term, while North Macedonia, a firm candidate for EU membership, has requested access to LNG terminals in Greece to enable it to diversify its supply away from Gazprom (Trkanjec, 2022).

In the short term, one of the strategies of the Russian government is to increase domestic demand for natural gas, extending a transport and distribution network that only serves 73% of the population (Bloomberg News, 2023a). Other options, such as the domestic development of industries that are intensive in their use of natural gas, are complicated by the loss of the European market and difficulties in accessing foreign technology due to international sanctions. Some Russian gas-intensive products, such as pig iron, direct reduced iron (DRI), methanol, cement and fertilisers, have been included in European sanctions on Russia, while petroleum-derived products are subject to the maximum G7 price. The exclusion of many Russian banks from the Swift payments system and sanctions on major Russian oligarchs represent an obstacle for exports and access to western technology (Perez, 2022). The impact of the war on critical infrastructure, such as some Black Sea ports and the Togliatti-Odessa ammonia pipeline, also limits access to international markets, particularly Europe. In this context, Gazprom's share of total gas production in Russia fell from 68% in 2021 to 55% during the first eight months of 2023 in the face of pressure from other competitors, principally Novatek (IEA, 2023).

3 Russian LNG and the rise of Novatek

Since 2009 Russia has exported LNG from Sakhalin-2 in the Far East. The project, now controlled by Gazprom, was developed at the start of the century with technology and know-how from an international consortium led by Shell and subsequently acquired (under political pressure) by Gazprom in 2007,[10] and has never been considered fully Russian. Despite Gazprom's efforts to expand its activities in the LNG sector, its many failures and delays led Russia to decide to liberalise this sector in 2012, allowing the entry of Novatek and Rosneft (Mitrova, 2013).

Since then, the expansion of Russian LNG has primarily been driven by Novatek, the only Russian operator to have completed the construction of a large-scale gas liquefaction plant, Yamal LNG, in 2017 built by a consortium formed by Novatek (50.1%), TotalEnergies (20%), CNPC (20%) and Silk Road Fund (9.9%). The financial, administrative and political support of both the Russian and Chinese governments, with numerous tax exemptions, made it possible to launch this project despite the application of US sanctions in 2014 (Farchy & Mazneva, 2017). Novatek is currently constructing the Arctic LNG mega-project and is planning to construct another major facility in Murmansk that, if completed successfully, would make it one of the leading players in the LNG market by the end of the decade, bringing Russia close to its objective of a 20% share of the global market for LNG by 2035.

The other authorised Russian operators, Gazprom and Rosneft, have made very slow progress in developing their own projects. Gazprom has only constructed a small-scale plant on the Baltic Sea (Portovaya LNG), falling out of political favour with the Russian government, which has loosened regulation of the gas sector to support other independent companies, primarily Novatek.[11] In the case of Rosneft, its main LNG project on Sakhalin Island has been frozen since the invasion of Ukraine prompted the exit of ExxonMobil, which was an operator with a 30% share. This came on top of other cancelled projects, such as Pechora in 2018.

Novatek's success has been accompanied by the development of strategic capacities that have strengthened its position with respect to possible international sanctions, and have given the company political legitimacy. To resolve logistical challenges during the winter and to end reliance on costly nuclear ice-breakers (Yermakov, 2021b), Novatek has acquired its own fleet of ice-breaking LNG tankers, and has placed orders for a further 15 vessels. Ten of the new units destined for Arctic LNG will be supplied by the Russian shipbuilders Zvezda and will be managed directly by Novatek, in partnership with the Russian firm Sovcomflot,

10 Although the Sakhalin-2 project was initially developed during the 1990s by an international consortium without the participation of Russian companies, the paralysis of the project due to administrative obstacles to the approval of environmental licences forced the entrance of Gazprom as a majority shareholder of the consortium in 2006. Following the Russian invasion of Ukraine in February 2022, Shell decided to give up its remaining 20% share in the project.

11 For example, in October 2023 the Duma authorised Novatek to construct a pipeline to supply the Murmansk LNG project, breaking Gazprom's historic monopoly over such an infrastructure.

while the five remaining vessels are to be provided by the Korean shipbuilder Daewoo. The navigability of the Northern Arctic route is a priority for Novatek as it would significantly reduce the cost of sending LNG to the Asian market via the Suez Canal, avoiding the Red Sea. For Russia, the existence of companies that actively exploit this route is an incentive to continue its policy of securing the Arctic, a new flank with NATO following its admission of Sweden and Finland (Arteaga, 2023).

From the technological perspective, Novatek has designed and patented its own liquefaction technology in the most recent expansion of Yamal LNG 4. Novatek's technology is far from cutting edge, with multiple technical failures in its components delaying start-up, but it is a first step towards the acquisition of strategic capacities for Russia. The development of its own liquefaction technology will enable Novatek to participate in projects with third parties such as Iran, whose plans to export LNG have been blocked by US sanctions and problems in accessing technology.

Figure 5. LNG projects in Russia by status, developer and capacity

Project	Status	Developer	Capacity
Sakhalin-2	In operation	Gazprom (60%), Mitsui, Mitsubishi, Shell[12]	16 bcm
Yamal LNG	In operation	Novatek (51%), TotalEnergies, CNPC, Silk Road Fund	23 bcm
Cryogas Vysotsk	In operation	Novatek (60%), Gazprom	0.9 bcm
Portovaya LNG	In operation	Gazprom	2.1 bcm
Arctic LNG2	Under construction	Novatek (60%), CNOOC, CNPC, TotalEnergies, JOGMEC and Mitsui	27.7 bcm
Obskiy LNG	Planned	Novatek	7 bcm
Arctic LNG1	Planned	Novatek	NA
Murmansk LNG	Planned	Novatek	29 bcm
Pechora LNG	Cancelled	Rosneft	13 bcm
Sakhalin-1	Cancelled	ExxonMobil (30%), ONGC, Rosneft, Sodeco	NA
Vladivostok LNG	Cancelled	Gazprom	NA

Source: the author.

A distinctive feature of Novatek is its ownership structure. It is a public company listed on the Moscow Stock Exchange (until 2022 it was also listed in London) whose principal shareholders are the oligarch and CEO Leonid Michelson (with 28% of the shares), Volga Group (23%), the French company TotalEnergies (16%) and Gazprom (9.4%).

12 Shell is in the process of exiting the project.

3.1. European purchases of Russian LNG

Almost all European imports of LNG come from the Novatek Yamal LNG project, which has an annual capacity of 23 bcm. According to the 2023 annual report of GIIGNL, the holders of long-term purchase contracts with Yamal LNG are: TotalEnergies (5.6 bcm), Naturgy (3.5 bcm), Shell (1.26 bcm), Gazprom Germania (now owned by the German state:[13] 4.2 bcm), Novatek, which subsequently resells it (3.5 bcm) and CNPC (4.2 bcm). These contracts, amounting to an annual total of around 22 bcm, came into force in 2018 and will end between 2032 and 2045. They cover almost 96% of Yamal's export capacity, leaving a mere 4% for the spot market (Figure 6).

Figure 6. LNG contracts for Yamal LNG

Seller	Buyer	Volumes	Start	End	Contract[14]	Notes
Yamal LNG	CNPC	4.2 bcm	2018	2038	DES	Destination China
	Gazprom Germania	4.2 bcm	2018	2038	FOB	Inherited by SEFE, delivery at Zeebrugge for trans-shipment
	Naturgy	3.5 bcm	2018	2038	DES	Destination Spain
	TotalEnergies	5.6 bcm	2018	2032	FOB	
Novatek Portfolio	TotalEnergies	1.4 bcm	2018	2041	DES	Delivery at Montoir for trans-shipment, destination France
	Gunvor	0.7 bcm	2018	2038	FOB	
	Shell	1.26	2018	2041	FOB	Delivery at Montoir for trans-shipment

Source: GIIGNL Annual Report 2023.

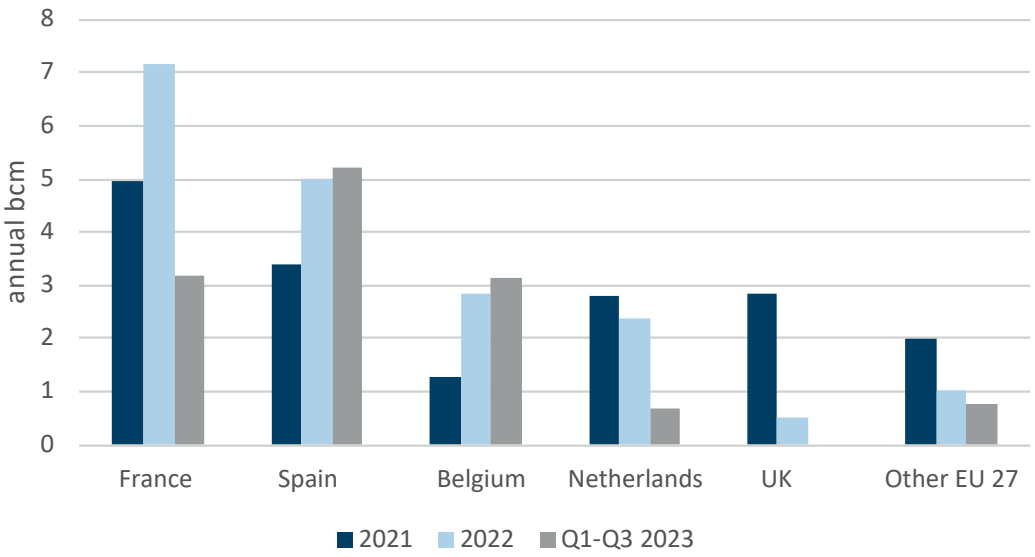
Most international contracts state the final destination of Russian LNG exports to Europe over the past three years, with a degree of variation which reflects the volumes of companies without final destination clauses and small volumes sold on the spot market (Figure 7). Existing contracts cannot easily be altered without significant penalties and this suggests that, in the absence of causes of force majeure, the most reasonable approach is for importing companies to comply with their obligations. Perhaps the big exception is Spain,

13 When it nationalised Gazprom Germania, the German government inherited Gazprom's contractual obligations with Indian firm GAIL to supply 4.2 bcm of natural gas per year. The German government has fulfilled these commitments, acting paradoxically as intermediary for Russian LNG from Novatek. According to Bloomberg, breaching this contract, which lasts until 2038, could give rise to the obligation on the part of SEFE, formerly Gazprom Germania, to pay Novatek €10 billion.

14 FOB = Free on Board, no final destination clause; DES = Delivery ex Ship, final destination established.

which imported more than 3.5 bcm per year in 2022 and 2023, corresponding to contracts signed by Naturgy, absorbing a large part of the vessels diverted from other European ports and sold on the spot market by trading companies.[15]

Figure 7. Imports of LNG from Russia in 2021, 2022 and 1Q-3Q 2023 (annual bcm)



Source: Institute for Energy Economics and Financial Analysis, 2023.

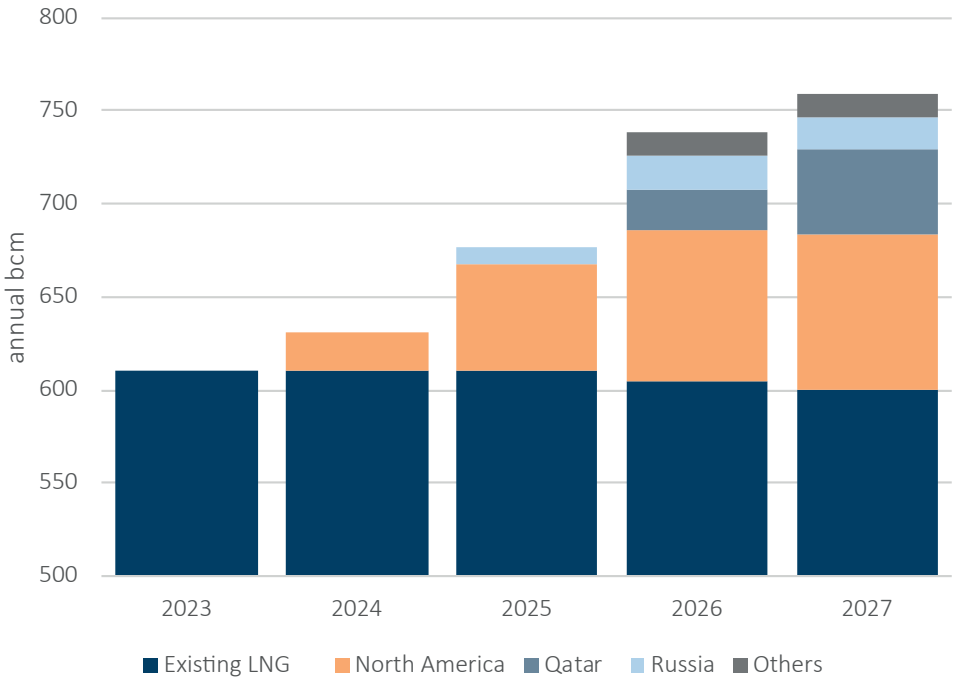
While it is true that Russia increased taxes on the profits of Yamal LNG from 20% to 34% on 1 January 2023 for a period of three years (Interfax, 2023b), the tax facilities offered by Russia to ensure the development of Yamal in the past would substantially reduce income derived from these exports as these would be temporarily exempt from other taxes such as those on mineral extraction and exports (Lunden & Fjaertoft, 2014). These exports would therefore be less lucrative for the budget of the Russian Federation than those of Gazprom, subject to a 30% export royalty, a tax on the extraction of minerals, a tax on income and distribution of dividends to the Russian state, its main shareholder (Corbeau, 2023). Moreover, as McWilliams *et al.* (2023) explain, if the EU ended imports of Russian LNG, shipments could be sold on the spot market to other countries, primarily in Asia. Novatek's contractual terms are not known but the prices on the spot market could well be higher than those established in the long-term supply contracts with European companies, benefitting the finances of the company and of the Russian state.

Purchases of Russian LNG should not be a cause for concern for the security of EU supplies. The LNG market is expected to ease during the course of 2025 and 2026 when the North

15 Energy Intelligence identified the Swiss firm Gunvor as one of the trading companies that was most active in sending gas carriers to Spain during 2023. It has been speculated that TotalEnergies and Shell, with no final destination clauses in their contracts, may also have sold LNG to Spain, either directly or indirectly, through their trading divisions.

Field South in Qatar (22.5 bcm) comes on stream, along with the Golden Pass (25 bcm), phase 1 of Plaquemines (18.2 bcm) and the expansion of Corpus Christi (16 bcm) in the US (Figure 8). Part of the LNG from these projects is already committed to European companies with long-term contracts, and in the case of the US the flexible final destination clauses will provide greater liquidity to the market and to the Atlantic basin (IEA, 2023). In this scenario, Russia's capacity to use Novatek's supplies of LNG to coerce the EU appears very limited.

Figure 8. Projected new LNG capacity on the global market, by geographic source 2023-27 (annual bcm)



Source: the author, based on publicly available information about declared projects with Final Investment Decision.

In addition to the direct purchase of LNG, European terminals are offering trans-shipment services to Russian gas tankers. From November to June, during the Arctic winter season, Novatek LNG needs ice-breaking vessels to access international markets. To optimise the routes of these specialist vessels, the natural gas they transport is transferred to conventional LNG vessels, principally at the terminals of Zeebrugge in Belgium and Montoir-de-Bretagne in France, for subsequent export to non-European markets. In the case of Zeebrugge, a third storage tank was constructed in 2019 exclusively to service a 20-year trans-shipment contract with Yamal LNG (Jaller-Makarewicz & Flora, 2022).

The 11th round of European sanctions on Russia included trans-shipments of petroleum and derivatives that did not comply with the maximum price stipulated by the G7, but deliberately omitted trans-shipment of GNL, although its inclusion in the future cannot

be ruled out. Some countries, such as the UK and Netherlands, have already prohibited trans-shipment services at their ports in parallel with a substantial reduction in imports of LNG (Figure 8). And the most recent US sanctions on the Murmansk project include the joint-venture Arctic Transshipment,[16] responsible for constructing two floating terminals dedicated to trans-shipment from ice-breakers to conventional tankers in the Barents Sea.

3.2. Novatek and international sanctions

Russia's LNG export ambitions have been hindered by the West's technological embargo on this sector since 2014, which has intensified over the past two years. All Russia's large LNG facilities currently depend on western technological solutions, with the exception of the most recent line at Yamal. Novatek has not yet made its 'Arctic Cascade' liquefaction technology commercially available on the international market, which has raised doubts about its real operational availability, its cost and its scalability. In addition, sanctions have forced Russia to see alternatives for many of its technology providers, such as the gas turbines in the Arctic LNG projects, which will use Chinese turbines, and Murmansk, which has opted for direct electrification of its operations.

The most recent US sanctions on the Arctic project, announced in November 2023, have hit particularly hard. The Novatek LNG plant was ready to commence exports in the second half of 2024, but the consortium partners –TotalEnergies, China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC) and Mitsui– have issued force majeure notices, temporarily suspending their contractual obligations on the project.[17] While these companies seek a modification to the sanctions that would enable the project to be completed, key engineering suppliers such as Linde and Samsung have also announced that they will withdraw their staff. In contrast with sanctions or restrictions on crude oil, in the case of LNG it is not viable to evade sanctions using a 'ghost fleet' or smuggling techniques, and this has forced the Chinese companies to issue a rare request to the US treasury to temporarily authorise them to import Arctic LNG and fulfil their contracts (Bloomberg News, 2023b)

The acquisition of ice-breaking LNG tankers, a strategic priority for Novatek, is also suffering delays due to the impact of sanctions. Korea's Daewoo Shipbuilding has cancelled several Novatek orders, while the Russian shipbuilder Zvezda has had to change the designs of its ice-breakers, shifting from LNG propulsion to fuel oil/diesel in response to the departure of various European technological partners (Mandra, 2024).

16 Since 2019 Arctic has been a joint venture between Novatek (90%) and TotalEnergies (10%).

17 For its part, Novatek has issued force majeure notices to companies with long-term LNG purchase contracts such as Vitol, Shenergy Group and Zheijang Energy.

4 The EU and Russian gas in a scenario of soft rules

The absence of European sanctions on Russian natural gas, delivered either by pipeline or in the form of LNG, reveals the challenge of reconciling energy security with the aim of exerting pressure on Russia and the divergent economic interests within the EU. The imposition of sanctions is a decision that must be taken unanimously by Member States in the Council of the EU. However, given Hungary's veto on a ban on imports of Russian gas from 2027, any restrictions will have to depend on the decisions of individual countries.

The European Parliament and the Council are developing a mechanism that would allow national governments to temporarily block Russian and Belarussian exporters from reserving the infrastructure capacity necessary for gas deliveries, whether by pipeline or as LNG (Krukowska, 2023). This mechanism, which would be implemented voluntarily at the state level, would be designed to allow European companies to cancel their contracts, invoking force majeure clauses to protect themselves against possible arbitration proceedings. Force majeure, in the broad sense, refers to unexpected external circumstances that make it impossible to fulfil a contract, and in gas supply contracts this usually includes restrictions imposed by public authorities such as embargos, sanctions, laws, regulations and other government acts that directly affect the party's capacity to comply with its contractual obligations (Ason, 2022). Even if they can successfully invoke these clauses, European companies with long-term contracts with Gazprom or Novatek will still have to replace the natural gas not supplied by buying on the spot market or by signing new long-term contracts, possibly at higher prices, given the current state of the natural gas market.

The difficulty of achieving unanimity within the EU has extended to other key dossiers such as the Ukraine aid package, and this seems likely to be an ongoing trend. Evidence of this lack of consensus has been the non-binding call by the European Energy Commissioner, Kadri Simson, for an end to the purchase of Russian LNG, or the call by the Spanish Minister for Ecological Transition, Teresa Ribera, for there to be no new contracts with Russian suppliers of LNG and for the elimination of purchases on the spot market. To date, measures against Russian gas have been taken by Member States on a voluntary basis, while the European authorities, in the absence of consensus, have limited themselves to issuing recommendations.

In this scenario of 'soft rules' it is likely that Gazprom and Novatek will seek to exploit potential European divisions, offering beneficial conditions to those buyers who decline to go along with the Commission's calls, in practice limiting the possibility of completely ending the gas relationship by 2027. The silence of many European governments with respect to whether they will impose sanctions on Russian gas in the short term demonstrates the preference in European capitals for maintaining a passive position that avoids taking drastic measures, primarily the cancellation of existing contracts that would negatively affect their national interests and those of their companies.

Conclusions

The EU has achieved an 80% reduction in deliveries of Russian natural gas by pipeline without having recourse to energy rationing or renouncing its political, economic and military support for Ukraine. While Russia accounted for 42% of European imports of natural gas in 2021, this percentage had fallen to 14% by 2023 (5.3% LNG and 8.7% pipeline gas). Thanks to the development of new capacities to import LNG and the construction of interconnections, the EU has entered a new phase in its decoupling from Russian gas, allaying fears of fuel shortages. The objective now is to develop a strategy to determine the future of Russian natural gas until 2027, the date established in REPowerEU for the end of the purchase of hydrocarbons from Russia.

In the case of pipeline imports, the operational return of Nord Stream can be ruled out, while for political reasons a resumption of flows via Poland (the Yamal pipeline) seems unlikely. The Ukraine transit contract will expire on 31 December 2024 and Kyiv has announced its intention not to negotiate a renewal agreement with Gazprom. Although in recent months, as part of its conversations with Hungary and Slovakia, Ukraine has opened the door to occasional deliveries of Russian gas continuing after 2024, it seems clear that these flows will be smaller than at present and would be of a provisional nature. This situation would mean that only TurkStream would be operational for deliveries of natural gas to Gazprom's few remaining clients in the EU. TurkStream is expected to be able to absorb a marginal element of the volumes diverted from Ukraine from 2025 onwards, principally to supply Slovakia and Hungary, provoking the suspension of the remaining long-term contracts not served by Gazprom, such as those with Austria and Italy. While European countries are implementing diversification plans and remain aligned with the 2027 objective, Hungary has demonstrated its intention to continue importing Russian gas by signing new long-term contracts after the invasion. Although the position of Viktor Orbán's government with respect to Moscow remains the exception in the EU, it sets a precedent that could undermine the will of those Member States that have the option of continuing to receive Russian gas via TurkStream.

In the case of LNG from Yamal, EU countries continue to comply with their long-term contracts while sanctions are technologically strangling Novatek's new projects (Arctic and Murmansk) and preventing it from acquiring logistical and technological capacities. If the purchase of ice-breakers and trans-shipment services in European ports is restricted, a large part of Yamal's production destined for Asia will face logistical difficulties during the winter, while restricting access to western technology would delay or even paralyse new projects in the Arctic. Given the growing liquidity and flexibility of the global LNG market, EU gas importers should not have any problem finding alternative suppliers to Russia, and will now be able to benefit from the new joint gas purchasing platform to negotiate these additional volumes on an aggregate basis. It will be harder to reconcile the EU's commercial interests in Novatek projects (such as the participation of TotalEnergies, engineering and services suppliers, or utility providers with long-term contracts) with the elimination of Russian gas imports and the implementation of sanctions on LNG and the associated value chain.

Any decision to impose sanctions requires the unanimity of Member States in the Council of the EU. The capacity to achieve such consensus in Brussels with respect to sanctions on Russia has clearly weakened in recent months, due to the Hungarian veto in particular but also because of the stagnation of the conflict. This blockage has given rise to a new phase in European energy policy towards Russia, in which binding decisions will depend on the willingness of each individual Member State. In this scenario of 'soft rules' it is likely that Gazprom and Novatek will seek to exploit potential European divisions, offering beneficial conditions to those buyers who decline to go along with the Commission's calls, in practice limiting the possibility of completely ending the gas relationship by 2027.

Despite this fragmentation at the EU policy level, Russian gas will play an increasingly marginal role in Europe, competing with other suppliers (primarily LNG from the US and Qatar) in a context of decarbonisation and with demand forecast to fall. In conclusion, then, Russia's gas blockade has failed, sacrificing the country's most lucrative energy market without breaking European support for Ukraine.

References

Afanasiev, V. (2023), 'Russia makes huge gas concession to Turkey', Upstream Online, 17/V/2023.

Arteaga, F. (2023), 'La OTAN en el Ártico: el flanco sobrevenido', *ARI*, nr 42/2023, Real Instituto Elcano.

Ason, A. (2022), 'International gas contracts', Study, The Oxford Institute for Energy Studies.

Bechev, D. (2023), 'Russia's energy clout in the Balkans is on borrowed time', Carnegie Endowment for International Peace.

Bloomberg News (2023a), 'Where did all that Russian gas go?', 29/VI/2023.

Bloomberg News (2023b), 'China to seek exemptions to US sanctions on Russian LNG', 22/XII/2023.

Braw, E. (2023), 'Baltic Sea sabotage: a defender's dilemma', *Politico*, 15/XI/2023.

Bros, A., T. Mitrova & K. Westphal (2017), 'German-Russian gas relations, a special relationship in troubled waters', *SWP-Research Paper*, nr 13.

Cassey, J. (2022), 'Hamina LNG Oy starts commercial operations', LNG Industry, 12/X/2022.

Chi Kong, C., J. Ira & T. Mitrova (2023), 'Future options for Russian gas exports', *Columbia SIPA*, nr 19, Center on Global Energy Policy.

Concha, J. (2023), 'Gazprom puts Europe on guard: who might be next?', *Energy Intelligence*, 3/V/2023.

Durakçay, F.A. (2023), 'Hungary's position on the Russia-Ukraine war and its implications for cooperation in the Visegrad Group', *Eurasian Research Journal*, vol. 5, nr 4, p. 7-26.

Duxbury, C. (2022), 'How Lithuania cut its ties to "toxic" Russian gas', *Politico*, 18/IV/2022.

Eckert, V. (2022), 'German regulator takes over Gazprom Germania to ensure energy supply', Reuters, 4/IV/2022.

En, E. (2015), 'Russian gas to Kaliningrad will flow through Lithuania for 10 more years', *The Lithuania Tribune*, 28/XII/2015.

Energy Intelligence (2023a), 'Russia's pipeline gas exports to Europe pick up', 17/VIII/2023.

Energy Intelligence (2023b), 'China pays significantly more for Gazprom's gas', 26/VII/2023.

Escribano, G., C. González-Enríquez, L. Lázaro-Touza & J. Paredes-Gázquez (2023), 'An energy union without interconnections? Public acceptance of cross-border interconnectors in four European countries', *Energy*, nr 266, 126385.

Euronews (2022), 'State-owned Gazprom is insisting that all payments are made in Russian rubles', 26/IV/2022.

European Commission (2022), 'Inauguration of gas interconnection between Poland and Lithuania', Directorate-General for Energy.

Eyl-Mazzega, M.A. (2023), 'The Ukraine war and European energy dependence and reconfiguration of energy relations', *IEMed: Mediterranean yearbook*, 2023, p. 138-143.

Farchy, J., & E. Mazneva, E. (2017), 'Russia wins in Arctic after US fails to kill giant gas project', Bloomberg, 14/VII/2017.

GIIGNL (2023), 'GIIGNL Annual Report'.

Heather, P., & J. Bowden (2023), 'Romania's Neptune Deep FID: can it be a regional gamechanger?', *Energy Insights*, nr 133, The Oxford Institute for Energy Studies.

Henderson, J. (2014), 'The commercial and political logic for the Altai pipeline', *Oxford Energy Comment*, nr 89, The Oxford Institute for Energy Studies.

Henderson, J., & K. Chyong (2023), 'State-owned Gazprom is insisting that all payments are made in Russian rubles', *Energy Insights*, nr 131, *The Oxford Institute for Energy Studies*.

Henderson, J., & T. Mitrova (2015), 'The political and commercial dynamics of Russia's gas export strategy', *Energy Insights*, nr 06, The Oxford Institute for Energy Studies.

Hernandez, A. (2022), 'Rubles for gas: who's paid so far?', *Politico*, 25/V/2022.

Honoré, A. (2023), 'European gas demand fundamentals: H1 2023 review and short-term outlook', *Energy Insights*, nr 134, The Oxford Institute for Energy Studies.

IEA (2023), 'Medium-Term Gas Report 2023'.

Interfax (2022), 'Gas supplies via Power of Siberia pipeline to China planned at 22 bcm in 2023', Report, 13/IV/2023.

Interfax (2023a), 'Gazprom in arbitration proceedings with ENI, Engie, RWE, PGNIG, Gasum, Naftogaz', Report, 16/III/2023.

Interfax (2023b), 'Russian Duma passes law exempting Gazprom and subsidiaries from elevated 34% profit tax for LNG exporters', 18/II/2023.

Jaller-Makarewicz, A., & A. Flora (2022), 'Belgian LNG Terminal Zeebrugge supporting year-round Russian LNG supplies to non-European markets', Institute for Energy Economics and Financial Analysis.

Jucca, L. (2022), 'Gazprom sale fumble triggers canny German pounce', Reuters, 5/IV/2022.

Kardas, S. (2023), 'Result of arbitration between Gazprom and Gasum: contradictory statements from the companies', *Analyses*, nr 24, Center for Eastern Studies.

Krukowska, E. (2023), 'EU reaches deal to enable nations to ban Russian LNG imports', Bloomberg, 8/XII/2023.

Lunden, L., & D. Fjaertoft (2014), 'Government support to upstream oil and gas in Russia: how subsidies influence the Yamal LNG and Prirazlomnoe projects', International Institute for Sustainable Development.

Mandra, O. (2024), 'SHI suspends construction of blocks for Zvezda's Arctic LNG carriers', Offshore Energy, 2/I/2024.

McWilliams, B., G. Sgaravatti, S. Tagliapietra & G. Zachmann (2023), 'The EU can manage without Russian liquified natural gas', *Bruegel Policy Brief*, nr 16.

Mitrova, T. (2013), 'Russian LNG: the long road to export', IFRI-Russia/NIS Center.

Nadig, S. (2023), 'Russia's Gazprom Neft announces Q2 results, net profits fall by 43%', Offshore Technology, 24/VIII/2023.

Orlen (2023), 'ORLEN Group ramps up its production potential in Norway', Press Release, 2/VII/2023.

Perez, C. (2023), 'What does Russia's removal from SWIFT mean for the future of Global Commerce?', *Foreign Policy*, nr 157, p. 74-81.

Popławski, M., & F. Rudnik (2023), 'Russian gas in Central Asia: a plan to deepen dependence', *Analyses*, nr 36, Center for Eastern Studies.

Sevillano, E. (2022), 'Alemania rescata la filial de Gazprom con un préstamo milmillonario para asegurar el suministro de gas', *El País*, 14/VI/2022.

Tanner, J. (2023), 'Finland gets floating LNG terminal to replace Russian gas', APNews, 28/XII/2022.

Thorp, E. (2023), 'China Pays Significantly More for Gazprom's Gas', Energy Intelligence, 8/XI/2023.

Trkanjec, Z. (2022), 'North Macedonia to reserve capacities at Alexandroupolis LNG terminal', Euractiv, 17/II/2022.

Tsafos, N. (2019), 'How Nord Stream 1 rewired German gas', *CSIS Blog Post*, 30/VII/2019.

Umarov, T. (2023), 'Is Putin about to get his gas union with Kazakhstan and Uzbekistan?', *Carnegie Endowment for International Peace Blog Post*, 13/III/2023.

Yafimava, K. (2022), 'The EC guidance on the Russian "gas for rubles" decree: all things to all people', *OIES Energy Comment*, Oxford Institute for Energy Studies, May.

Yermakov, V. (2021a), 'Big bounce: Russian gas amid market tightness', *OIES Energy Comment*, Oxford Institute for Energy Studies, September.

Yermakov, V. (2021b), 'The Northern Sea Route: a state priority in Russia's strategy of delivering Arctic hydrocarbons to global markets', *OIES Energy Insight*, nr 105, The Oxford Institute for Energy Studies.

Yermakov, V. (2023), '"Catch 2022" for Russian gas: plenty of capacity amid disappearing market', *OIES Energy Comment*, The Oxford Institute for Energy Studies, January.

Zachová, A. (2023), 'Czechia decreases Russian gas dependence over eight months', Euractiv, 1/II/2023.

Board of Trustees

GOBIERNO DE ESPAÑA — MINISTERIO DE ASUNTOS EXTERIORES UNIÓN EUROPEA Y COOPERACIÓN

GOBIERNO DE ESPAÑA — MINISTERIO DE DEFENSA

GOBIERNO DE ESPAÑA — MINISTERIO DE ASUNTOS ECONÓMICOS Y TRANSFORMACIÓN DIGITAL

GOBIERNO DE ESPAÑA — MINISTERIO DE CULTURA

ACERINOX · AIRBUS · MADRID · BANCO DE ESPAÑA Eurosistema

BBVA · CaixaBank · Cámara de Comercio de España · CEPSA

EM&E Escribano Mechanical & Engineering · enagas · endesa · HR Hijos de Rivera

IBERDROLA · IBM · INDITEX · INSUD PHARMA

MUTUAMADRILEÑA · Naturgy · oesia grupo · PROSEGUR

renfe · REPSOL · Santander · Solaria

tecnalia Member of Basque Research & Technology Alliance · Telefónica

Business Advisory Council

acciona · amazon · CAF Banco de Desarrollo de América Latina

El Corte Inglés · Google · Sabadell

Collaborating Entities

Accuracy · aena · aws · cesce Seguros de tu éxito · Deloitte.

IBERIA · MAPFRE · Microsoft · sidenor

REAL INSTITUTO elcano ROYAL INSTITUTE

Príncipe de Vergara, 51
28006 Madrid (Spain)
www.realinstitutoelcano.org