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# RUSSIA'S TURN TO THE EAST: ENERGY EXPORTS TO CHINA AND INDIA

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# EXECUTIVE SUMMARY

- The long-standing effort by Russian officials to increase energy exports to Asia has ramped up since Western sanctions and cuts in Russian pipeline natural gas exports have slashed European imports from Russia. China and India have been Russia's principal target markets; the two nations bought about 90% of Russia's crude oil exports in 2023. Russia and its trade partners as yet lack infrastructure necessary to yield a similar market for natural gas exports.

- While Russia's oil exports to China increased by 24% in 2023, and liquified natural gas (LNG) exports grew by 47%, Russia's revenues have not kept up with the greater volumes, due to a combination of sanctions and China's negotiating leverage. Russia's pipeline gas exports to China have grown as the relatively new Power of Siberia pipeline increases shipments. Power of Siberia is still well below its 38 billion cubic meters (bcm)/year capacity.

- Russia's pipeline gas exports to China are unlikely to match past exports to Europe in the near to medium term. Combining existing export capacity with Russia's proposals for new pipelines would yield just 120 bcm/year by 2030, if all proposed projects were completed by that time. Gazprom's contract base to Europe was 200 bcm/year, of which at least 130 bcm/year was guaranteed in take-or-pay contracts.

- India was able to capitalize on discounted Russian oil prices following Russia's invasion of Ukraine due to an earlier expansion of refining capacity; India had been importing Middle East oil and then selling refined oil products in Asia. In late 2023, almost two-thirds of Russia's former oil exports to Europe were going to India instead. India is thus far from a minor customer for Russian LNG exports.

- India's oil imports from Russia have declined recently as buyers and sellers contend with Western sanctions. While a so-called shadow fleet of tankers carrying oil exports has helped Russia to avoid triggering the G7-EU price cap mechanism, Russian firms have struggled to repatriate rupee-denominated profits and are using complex cross-border loans, cryptocurrency trading, and other means to do so.

- The Northern Sea Route (NSR) along Russia's Arctic coastline and supporting ports and infrastructure are important for Russia's energy exports to Asia. Despite earlier sanctions-related delays, Russian sources are optimistic that Russia will complete major Arctic LNG projects before the United States and Qatar are ready to deliver significant new LNG export volumes. The International Energy Agency assesses that this is unlikely, however.

# 01

## Introduction

Russia has long sought to reorient its economy and especially its energy exports to the east. This effort has generally reflected two mutually reinforcing goals. The first goal has been to diversify away from deep economic engagement with Europe, due to mounting political tension that predates Moscow's 2014 and 2022 interventions in Ukraine. The second has been to expand economic and political ties with China and other nations in Asia, due to their past and expected future growth, a sense that China and Asia will win greater roles at the West's expense, and the unwillingness of many Asian governments to criticize Russia's domestic practices. Russia's 2023 Foreign Policy Concept expresses many of these views,[1] though it is hardly the first such document to do so.[2]

Russian officials have pursued this project more vigorously since 2022 to mitigate the consequences of US and Western sanctions following Russia's invasion of Ukraine and the consequences of Russia's largely unsuccessful effort to use its natural gas supply leverage to discourage European support for Ukraine. Indeed, Russia's energy trade with Asia reached President Vladimir Putin's target—50% of all Russia's energy exports—far ahead of schedule, though the collapse in exports to Europe was the principal driver, not the admittedly rapid growth in oil exports to Asia.

This report describes Russia's energy trade with China and India, with details on exports of oil, gas and liquified natural gas (LNG), and coal; it then looks at the role that energy from Russia's Arctic could play in its energy relationship with the two countries. As the region's two largest markets outside the US alliance system, China and India have been Russia's principal target markets; at the end of 2023, a senior Russian official stated that the two nations bought about 90% of Russia's crude oil exports that year.[3] Russia's natural gas exports tell a different story, however, as Russia and its trade partners lack infrastructure necessary to yield a similar realignment in the near future. Because Russia has considerable oil and gas resources in its Arctic regions, the Northern Sea Route (NSR) along Russia's Arctic coastline and supporting ports and infrastructure are important for Russia's energy exports to Asia.

1 Ministry of Foreign Affairs, "The Concept of the Foreign Policy of the Russian Federation," March 31, 2023, https://mid.ru/en/foreign_policy/fundamental_documents/1860586/.

2 See for example Russian Embassy in China, "Foreign Policy of the Russian Federation," February 12, 2013, https://beijing.mid.ru/en/countries/rossiya/kontseptsiya_vneshney_politiki_rossii/.

3 Vladimir Soldatkin and Olesya Astakhova, "Russia Exports Almost All Its Oil to China and India—Novak," *Reuters*, December 27, 2023, https://www.reuters.com/business/energy/half-russias-2023-oil-petroleum-exports-went-china-russias-novak-2023-12-27/.

# 02

## Russia's energy trade with China and India

Despite sweeping US and Western sanctions targeting Russia and its energy sector, including efforts to enforce an oil price cap, China and India have expanded their energy trade with Russia and become crucial buyers of Russia's oil.[4] Revenue from Asia's two most populous states has become a lifeline for Russia's oil industry and its federal government.

### China

China's imports of Russian oil rose by 24% in 2023 to a total of 107 million metric tons (Mmt)—an average of about 2.2 million barrels/day (bpd)—with a total value of $60.6 billion.[5] Despite this, the total value of oil exports from Russia to China fell by 5.8% year-on-year to $32.1 billion in the same period.[6] China's imports of Russian LNG during the first nine months of 2023 grew 47% to 6.2 Mmt, equivalent to about 8.5 bcm.[7] Yet even as LNG export volumes swelled, prices eroded: the value of China's LNG imports shrank 6% to $4 billion. This decline shows a sharp reduction in prewar prices.

In the first nine months of 2023, Russia's pipeline gas earnings from China rose 60% to nearly $5 billion.[8] Exports had already shown a steep increase in 2022, when Russia's pipeline gas exports to China rose to 15.5 bcm, well above 2021 levels. This growth occurred as Russia's Power of Siberia pipeline continued to move toward its full capacity. In 2023, Russia's was pipeline gas supplies to China rose by another 50%, to 22.7 bcm.[9] The increase in Russia's gas exports through the Power of Siberia pipeline is preplanned, in the sense that Russia and China began building the pipeline long before Russia's invasion of Ukraine, completed it more recently, and have been expanding deliveries. Power of Siberia's export capacity is 38 bcm/year.

Russia's OPEC+ oil export reduction commitments will likely constrain its exports to China. However, China will still be able to use Russian imports to build reserves and hedge against potential oil shortages.

4 Михаил Калмацкий, «Россия закрепила за собой статус главного поставщика нефти в Китай и Индию,» RGRU, September 1, 2023, https://rg-ru.turbopages.org/rg.ru/s/2023/09/01/syre-uhodit-na-vostok.html.

5 Laura He, "China's Largest Oil Supplier in 2023 Was Russia," CNN, January 22, 2024, https://www.cnn.com/2024/01/22/business/china-top-oil-supplier-2023-russia-intl-hnk/index.html.

6 ТАСС, «Китай в январе - июле увеличил импорт нефти, СПГ и трубопроводного газа из РФ,» August 19, 2023, https://tass.ru/ekonomika/18545535.

7 Oilcapital.ru, «Китай покупает у России все больше нефти и СПГ,» October 20, 2023, https://oilcapital.ru/news/2023-10-20/kitay-pokupaet-u-rossii-vse-bolshe-nefti-i-spg-3075403. The calculation is based on deriving 1 Mmt of LNG from 1.379 bcm of natural gas.

8 Ibid.

9 Filipp Lebedev and Mark Trevelyan, "Russia's Gazprom breaks daily record for gas supply to China," Reuters, January 3, 2024, https://www.reuters.com/business/energy/russias-gazprom-breaks-daily-record-gas-supply-china-2024-01-03/#:~:text=Gazprom%20did%20not%20provide%20a,15.4%20bcm%20shipped%20in%202022.

Chinese firms could also reexport some of the Russian-origin oil that they buy. In mid-2023, discounts for Russia's ESPO Blend crude arriving in China in September were at their narrowest in eight months on firm demand from Chinese independent refiners.[10] The Russian government has approved a draft protocol extending crude oil supplies to refineries in western China for another 10 years.[11]

Looking ahead, Gazprom hopes to start delivering an additional 10 bcm/year in pipeline gas supplies to China via its so-called Far Eastern Route before 2027 under an existing contract for a new pipeline.[12] In addition, the company has ambitious plans for a Power of Siberia 2 pipeline with a capacity of 55 bcm/year, similar to the Nord Stream 1 pipeline to Germany (damaged by underwater explosions in September 2022). Nevertheless, contrary to expectations, Russian and Chinese officials did not finalize a supply contract for Power of Siberia 2 during President Putin's visit to Beijing in October 2023. Their main achievement was signing a contract for additional 2023 supplies of Russian gas through the existing Power of Siberia pipeline.[13]

While Gazprom CEO Alexei Miller has suggested that pipeline gas supplies to China could soon reach the levels of prewar exports to Western Europe,[14] this seems improbable. Before Russia's invasion of Ukraine, Gazprom's contract base in Europe was about 200 bcm/year, of which at least 130 bcm/year was guaranteed by take-or-pay obligations.[15] Today, Power of Siberia has not yet reached its full design capacity of 38 bcm/year, to which the as-yet unbuilt Power of Siberia 2 might add 50 bcm/year, for a total of 88 bcm/year. The Far Eastern Route might add up to 12 bcm/year to this; transit of Russian gas through Central Asia could add another 20 bcm/year if Russia can negotiate deals not only with China but also with transit countries, some of which might also want to sell additional gas to China.

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10 Muyu Xu and Chen Aizhu, "Russia's ESPO Blend Crude Prices to China Soar on Robust Demand," *Reuters*, July 28, 2023, https://www.reuters.com/business/energy/russias-espo-blend-crude-prices-china-soar-robust-demand-2023-07-28/.

11 Александр Кислов, «Правительство России продлит поставки нефти на НПЗ Китая,» Коммерсантъ, October 19, 2023, https://www.kommersant.ru/doc/6283235.

12 Александр Кислов, ««Газпром» начнет поставки в Китай по «дальневосточному маршруту» не позднее 2027 года,» Коммерсантъ, October 23, 2023, https://www.kommersant.ru/doc/6295921.

13 Газпром, «В Пекине состоялась рабочая встреча Алексея Миллера и Председателя Совета директоров CNPC (Китай) Дай Хоуляна,» October 19, 2023, https://t.me/gazprom/1359.

14 Ведомости, «Миллер: поставки газа в Китай скоро выйдут на уровень экспорта в Западную Европу,» October 18, 2023, https://www.vedomosti.ru/business/news/2023/10/18/1001191-miller-postavki-gaza-v-kitai-skoro-viidut-na-uroven-eksporta.

15 Юрий Барсуков, «Отгазники,» Коммерсантъ, April 14, 2023,https://www.kommersant.ru/doc/5928636?fbclid=IwAR3M3QVrFE.

The soonest these real and hypothetical supplies might reach 120 bcm/year is 2030.[16]

Moreover, prices for Russian pipeline gas exports to China appear likely to continue declining in next few years, producing much lower revenue than Russia's former exports to Europe. The pipeline gas price for Turkey and Gazprom's remaining European customers appears likely to fall from $501.60 per thousand cubic meters in 2023 to $481.70 in 2024. China's comparative prices are $297.30 per thousand cubic meters in 2023 and $271.60 in 2024.[17] Even with comparable export volumes—which seem impossible in the near term—Russia would earn much less for its pipeline gas.

Russian-Chinese LNG projects may be building greater momentum than new pipelines. The Arctic LNG 2 project continues to receive financing from all partners and produced its first batch of LNG in 2023.[18] Novatek co-owner and CEO Leonid Mikhelson had earlier said the company faced significant product, service, and logistics difficulties with its Arctic LNG projects due to US and Western sanctions.[19] However, Russian sources say that the first production line at the Utrenny terminal in Gydan is complete, and they point to "assurances from Chinese business representatives" as "a strong signal that the project is proceeding according to plan."[20] The timeline for the project is essential, in that Arctic LNG 2 is "the only new Russian LNG project that could fall within a narrow 'window of opportunity' during 2025–26, when global LNG demand will exceed supply."[21] Delays would allow other suppliers, especially the United States and Qatar, to fill this demand before Russia. The International Energy Agency has assessed that Russia's projects will miss this window.[22]

China sharply increased its coal imports from Russia after Russia's invasion of Ukraine. As Western countries shunned trade with Moscow, Russian coal prices fell, and Russia sought non-Western buyers. By the end of March 2023, 82% of total Russian coal exports (by sea and through land border crossings) went to developing countries, primarily China, India,

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16 Георгий Смирнов, Виктория Громов, «Европейский стимул в китайской трубеГлава «Газпрома» сообщил о существенном росте поставок газа в КНР, РБС,» October 18, 2023, https://www.rbc.ru/newspaper/2023/10/19/652f85a59a7947f3248a1a1d.

17 "Russia Gas Price Seen Much Lower for China Than for Europe," *Reuters*, September 8, 2023, https://www.reuters.com/business/energy/russia-gas-price-seen-much-lower-china-than-europe-document-2023-09-08/.

18 "Russia's Arctic-2 LNG Set to Start Production During 2023, CNOOC Says," *Reuters*, August 18, 2023, https://www.reuters.com/business/energy/russias-arctic-2-lng-set-start-production-during-2023-cnooc-says-2023-08-18/.

19 Матвей Катков, ««Новатэк» завершает строительство первой линии «Арктик СПГ–2,»» Ведомости, May 20, 2022, https://www.vedomosti.ru/business/articles/2022/05/19/922808-novatek-stroitelstvo-arktik-spg.

20 Сергей Капитонов, «Об энергетики нескучно,» Telegram, August 22, 2023, https://t.me/EFun7.

21 Ibid.

22 International Energy Agency, "Executive Summary," in *World Energy Outlook 2023* (Paris: IEA), 2023, https://www.iea.org/reports/world-energy-outlook-2023/executive-summary.

and Turkey. Considering the continuing increases in coal consumption in developing countries, this new geographical structure for Russian coal exports might have room for growth. Nevertheless, Russia's infrastructure constraints (primarily rail transport capacity) have limited coal exports to China since October 2022.[23] The volume of goods requiring transportation to China and India is growing faster than the capacity of Russian infrastructure.

### India

India imported Russian crude oil only sporadically before Russia's invasion of Ukraine in February 2022. Since then, however, Indian oil imports from Russia have soared. As Russia's earnings have helped to stabilize its economy, its relatively cheap oil has become a key tool in Prime Minister Narendra Modi's bid to fight inflation.

India's consumption of Russian crude oil reached a peak 2.15 million bpd in May 2023, as Indian refiners vied for heavily discounted shipments.[24] Even before Russia's 2022 invasion of Ukraine, India was expanding its role in the oil value chain by building large refineries to refine Middle Eastern oil for sale in Asian markets.[25] When Russia urgently needed new buyers for its oil and Russian firms were willing to offer discounts, India began to buy Russian oil on a massive scale. By late 2023, almost two-thirds of Russia's former exports to Europe went to India instead.[26] Nevertheless, by early 2024, India's imports had fallen to 1.3 million bpd, primarily due to Western sanctions.[27]

Prior to Russia's invasion of Ukraine, a Gazprom subsidiary was shipping LNG to India, with a contract to deliver 2.85 Mmt (almost 4 bcm) per year, though Western sanctions disrupted this.[28] The Russian firm restarted deliveries in mid-2023.[29] India remains a

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23 Muyu Xu, "China's Jan-Feb Coal Imports from Russia Rise, Australia Supply Resumes," *Reuters*, March 20, 2023, https://www.reuters.com/markets/commodities/chinas-jan-feb-coal-imports-russia-rise-australia-supply-resumes-2023-03-20/.

24 Rakesh Sharma, "India's Oil Imports from Russia Plunge to Lowest in Seven Months," *Bloomberg*, August 31, 2023, https://www.bloomberg.com/news/articles/2023-08-31/india-s-oil-imports-from-russia-plunge-to-lowest-in-seven-months.

25 Михаил Калмацкий, «Россия закрепила за собой статус главного поставщика нефти в Китай и Индию,» Российская Газета, https://rg.ru/2023/09/01/syre-uhodit-na-vostok.html.

26 Михаил Калмацкий, «Россия закрепила за собой статус главного поставщика нефти в Китай и Индию,» September 1, 2023, Российская Газета, https://rg.ru/2023/09/01/syre-uhodit-na-vostok.html.

27 Nidhi Verma and Mohi Narayan, "India's Oil Imports from Russia Hit 12-Month Low in Jan as Sanctions Bite," *Reuters*, February 1, 2024, https://www.reuters.com/markets/commodities/indias-oil-imports-russia-hit-12-month-low-jan-sanctions-bite-2024-02-01/.

28 "Russia Defaults on Supply of LNG to India," *Economic Times*, July 19, 2022, https://economictimes.indiatimes.com/industry/energy/oil-gas/russia-defaults-on-lng-supplies-to-india/articleshow/92974767.cms?from=mdr.

29 "Former Russian Unit Resumes Regular LNG Supplies to India," *Economic Times*, May 18, 2023, https://energy.economictimes.indiatimes.com/news/oil-and-gas/former-russian-unit-resumes-regular-lng-supplies-to-india/100330348.

very small importer of Russian LNG, however.[30] Russia and India do not have a natural gas pipeline route connecting them.

India has stronger ties with Russia's coal sector. In 2022, Russian coal exports to India grew to $4 billion, from $1.1 billion in 2021.[31] According to Russian estimates, over 60% of Russia's metallurgical coal exports and 42% of its thermal coal exports will go to India by 2030.[32] The International North-South Transport Corridor could allow Russia to export an additional 33 Mmt to India by 2030.[33]

Oil has been at the core of the evolving Russia-India energy relationship, despite narrowing discounts. Pricing data from Argus Media Ltd. put Urals crude delivered to the west coast of India close to $83/barrel in August 2023, compared with about $70/barrel just one month earlier.[34] The price was over $84/barrel in October 2023.[35] Though Indian government officials have repeatedly promised to reduce dependence on Russian oil, Indian buyers—the key consumers of cheap Urals crude since the invasion of Ukraine—have remained committed.

Russia's oil trade with India has faced significant challenges, especially related to shipping and payments. It has been difficult to secure sufficient transport capacity in the face of the US and Western price cap mechanism, which targets shipping-related services like insurance, and to repatriate earnings to Russia, since India's rupees are not fully convertible.

A so-called shadow fleet of tankers with varied but murky ownership has emerged to address the transportation problem. Tankers in the shadow fleet operate outside the G7-EU price cap mechanism by avoiding Western insurance or other services. They have been essential to Russia's continued oil exports and specifically for exports to India, which is more distant than Russia's former European markets and thus requires more shipping capacity.[36] Gatik Ship Management, a company operating from a shopping mall on the outskirts of Mumbai, has been central to

30 Isaac Levi, "December 2023—Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," Centre for Research on Energy and Clean Air, January 23, 2024, https://energyandcleanair.org/december-2023-monthly-analysis-on-russian-fossil-fuel-exports-and-sanctions/.

31 ТАСС, «Эксперты допустили, что РФ к 2030 году станет основным поставщикам угля в Индию,» September 7, 2023, https://tass.ru/ekonomika/18681445.

32 Ibid.

33 Ibid.

34 Muyu Xu and Chen Aizhu, "Russia's ESPO Blend Crude Prices to China Soar on Robust Demand," *Reuters*, July 28, 2023, https://www.reuters.com/business/energy/russias-espo-blend-crude-prices-china-soar-robust-demand-2023-07-28/.

35 Neftegaz.ru, «Индия покупала российскую нефть в октябре 2023 г. По цене 84,2 долл. США/барр.,» December 13, 2023, https://neftegaz.ru/news/Trading/807059-indiya-pokupala-rossiyskuyu-neft-v-oktyabre-2023-g-po-tsene-84-2-doll-ssha-barr/.

36 The problem is travel time: longer individual round trips require more ships to move a similar volume of oil. Note that current disruption of shipping routes from Russia's Black Sea ports through the Red Sea, due to Houthi attacks on shipping, adds to this challenge.

providing the shadow tankers.[37] According to multiple trading sources with access to port data, Gatik tankers have been chartered by obscure trading firms in Dubai and Hong Kong to handle as much as half of Russia's overall oil exports.[38]

Russia has faced bigger challenges with payments. In the first quarter of 2023, Russia shipped $14.9 billion worth of goods to India. This is almost half of Russia's total trade balance in that quarter—$29 billion.[39] India pays for a portion of its imports in rupees, but with imports from India stagnating, Russia is amassing an excess of rupees. Russian companies have trouble repatriating rupee-denominated profits to Russia because of India's currency restrictions. According to a former Russian finance minister, Russia supplied $30 billion worth of oil and petroleum products to India in the first half of 2023 but imports just $6-7 billion in goods from India per year.[40] This illustrates the scale of the problem for Indian importers and Russian exporters.

Indian oil companies ONGC Videsh Limited, Oil India Limited, Indian Oil Corporation, and Bharat PetroResources are reportedly considering using about $600 million in dividends from investments in projects in Russia to buy oil there, avoiding the need to use rupees.[41] Another option under review apparently involves using Russian banks to make ruble-denominated loans to Indian oil buyers, who then repay the loans in rupees in India. Russian press reports state that some transactions are flowing through cryptocurrency transactions in the United Arab Emirates, albeit with higher commissions for Russian parties.[42] In this case, rupees in India purchase cryptocurrencies, which can be exchanged for rubles in Russia.

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37 Paran Balakrishnan, "Gatik Shipping, Mystery Owner of Dark Fleet of Tankers, Issues Press Release, Only to Sink into Oblivion Again," The Telegraph (India), August 23, 2023, https://www.telegraphindia.com/india/gatik-shipping-mystery-owner-of-dark-fleet-of-tankers-issues-press-release-only-to-sink-into-oblivion-again/cid/1961572.

38 Paul Sampson, "Diverse Group of Shippers Transports Russian Oil: Part 1," Energy Intelligence, September 12, 2023, https://www.energyintel.com/0000018a-8a05-dd77-a39b-eabff7480003.

39 РБК, «В Индии заявили об обсуждении механизма взаиморасчетов в рублях,» August 16, 2023, https://www.rbc.ru/business/16/08/2023/64dc71979a7947c4f86cc32a.

40 Сергей Мингазов, «Финансист Задорнов назвал зависшие в Индии рупии ‹неочевидной› причиной падения рубля,» *Forbes*, August 29, 2023, https://www.forbes.ru/finansy/495418-finansist-zadornov-nazval-zavissie-v-indii-rupii-neocevidnoj-pricinoj-padenia-rubla.

41 Интерфакс, «Индийские компании рассматривают использование застрявших в РФ $600 млн для покупки российской нефти,» September 14, 2023, https://www.interfax.ru/world/920814.

42 Дмитрий Мигунов, «Тайные закрома: что делать с российскими рупиями,» Известия, September 18, 2023, https://iz.ru/1573356/dmitrii-migunov/tainye-zakroma-chto-delat-s-rossiiskimi-rupiiami.

# 03

## The Arctic and the Northern Sea Route

Russia's need to develop new trading relationships has encouraged closer interaction with both China and India and, at the same time, has increased the focus on new energy projects in the Arctic and new shipping routes, especially the NSR.

President Putin approved an updated version of Russia's Arctic policy shortly before President Xi Jinping's visit in March 2023.[43] The amended document broadened Russia's diplomatic focus beyond its relations with Arctic states bilaterally and within the Arctic Council to "the development of relations with foreign states on a bilateral basis, within the framework of relevant multilateral structures and mechanisms."[44] The Arctic Council's seven Western members (Canada, Denmark, Finland, Iceland, Norway, Sweden, and the United States) had suspended their participation in Arctic Council meetings immediately following Russia's invasion of Ukraine;[45] the body did not meet until May 2023, when Russia transferred the chair to Norway.[46] Russia has since stopped making annual contributions to the secretariat's budget, though it has not formally left the council.[47]

As Russia is chairing the BRICS group in 2024, and both China and India are members, some expert discussions are already underway in this multilateral format.[48] Russia is emphasizing its bilateral relations with Beijing and New Delhi relative to work within the BRICS and other multilateral groups.

### China

Increasing natural gas exports is likely Russia's highest priority in its energy relationship with China. Russian oil companies have largely reoriented exports that once went to Europe to new buyers in China, India, and elsewhere. Russia's government and firms face a more difficult challenge in finding new customers for natural gas exports: developing necessary infrastructure will take money and time and may be hard to justify given uncertainty about long-term demand.

To the extent that China seeks additional natural gas imports from Russia (rather than from other potential

43 President of Russia website, "Changes to Basic Principles of State Policy in the Arctic until 2035," February 21, 2023, http://www.en.kremlin.ru/catalog/keywords/39/events/70570.

44 Людмила Филиппова, «Новая роль Китая в Арктике: по следам визита Си Цзиньпина в Россию,» Валдай, May 31, 2023, https://ru.valdaiclub.com/a/highlights/novaya-rol-kitaya-v-arktike/.

45 US Department of State, "Joint Statement on Arctic Council Cooperation Following Russia's Invasion of Ukraine," March 3, 2022, https://www.state.gov/joint-statement-on-arctic-council-cooperation-following-russias-invasion-of-ukraine/.

46 Arctic Council, "Arctic States and Indigenous Permanent Participants Convened for the 13th Arctic Council Meeting and Issued Statement," May 11, 2023, https://arctic-council.org/news/13th-arctic-council-meeting-salekhard/.

47 "Russia Suspends Annual Payments to Arctic Council, RIA Agency Reports," Reuters, February 13, 2024, https://www.reuters.com/world/russia-suspends-annual-payments-arctic-council-ria-agency-reports-2024-02-14/.

48 Наталья Вяхирева, «Арктика с акцентом на Азию,» Независимая, June 27, 2023, https://www.ng.ru/kartblansh/2023-06-27/3_8758_kb.html.

suppliers), Chinese officials can choose to develop additional pipeline capacity, additional LNG import capacity, or both. In the past, analysts have seen pipeline gas from Russia as financially competitive with China's LNG imports.[49] But Russia's invasion of Ukraine has simultaneously disrupted LNG markets and raised questions about Russia's reliability as a pipeline gas supplier. (Notably, Europe has sharply increased its imports of Russia's LNG.) If Chinese officials are reluctant to develop pipelines that could one day shut off, Russia's LNG may prove more attractive.

Nevertheless, Russia's government continues to view increasing pipeline gas exports as a high priority. Exports through the Power of Siberia pipeline could increase to 30 bcm in 2024 as the route moves closer to its full capacity.[50] Russian officials express confidence that Moscow and Beijing are close to finalizing a deal on Power of Siberia 2, but Russian press reports acknowledge that Chinese officials are tough negotiators.[51] Moreover, other suppliers are competing for China's gas market; China may have assigned higher priority to a new Turkmenistan-China pipeline branch.[52]

Under the circumstances, China's officials are likely in no hurry. Russia has few other options to monetize gas that formerly went to Europe. The longer China holds out, the more favorable terms it can achieve. Indeed, even if Russia and China eventually agree on a new gas pipeline, China might not use it at full capacity all the time; a new pipeline might serve as a seasonal swing for the Chinese market, turning Russia's gas fields into a massive de facto storage tank. So long as Russia's supplies were reliable, this would provide energy security to China—but it would likely be extremely disadvantageous for Russia.[53]

Russian Arctic LNG supplies are the principal alternative to pipeline gas exports. However, China's past characterization of Russia's Northern Sea Route as the "Polar Silk Road," and its framing of the route as a component of Beijing's wider Belt and Road Initiative, illustrate an imbalance between Russian and Chinese priorities. For Russia, the NSR is a major national objective; for China, it is one among many international

49 Ilya Razlomalin, Ilya Sushin, and Otto Waterlander, "The Road to China: An Opportunity for Russian Gas to Play Out," McKinsey & Company, November 2018, https://www.mckinsey.com/~/media/McKinsey/Industries/Oil%20and%20Gas/Our%20Insights/The%20road%20to%20China%20An%20opportunity%20for%20Russian%20gas%20to%20play%20out/The-road-to-China-An-opportunity-for-Russian-gas-to-play-out-vF.pdf.

50 Прайм, «Минэнерго спрогнозировал рост поставок газа по ‹Силе Сибири,» September 10, 2023, https://1prime.ru/gas/20230910/841705268.html.

51 Нефт Капитал, «Маршрут газовой ‹Сили Сибири 2› близок к финализации,» September 6, 2023, https://oilcapital.ru/news/2023-09-06/marshrut-gazovoy-sily-sibiri-2-blizok-k-finalizatsii-3033238.

52 Ibid.

53 Tatiana Mitrova, "Beijing Holds All Cards in Russia's Eastern Energy Pivot," *Pipeline & Gas Journal* 250, no. 5 (June 2023), https://pgjonline.com/magazine/2023/june-2023-vol-250-no-6/guest-perspective/beijing-holds-all-cards-in-russia-s-eastern-energy-pivot.

connectivity projects. Some see China's interest in the NSR as waning relative to Beijing's other priorities.[54] Others describe the situation more starkly, as an "exploitative relationship" in which China's government uses the leverage of Russia's post-2022 isolation to secure significant Russian concessions.[55]

Indeed, even some Russian analysts note that China is seeking "access to the cheapest natural resources from Russia" as well as the ability to use the NSR for other goods in addition to energy (and for access to European as well as Russian markets).[56] China is a major investor in Yamal LNG; CNPC holds a 20% share, and the Silk Road Fund owns another 10%.[57] In 2023, Novatek, the Russian firm managing Yamal LNG, reportedly asked the Russian government to waive taxes on the Chinese firms' dividends so that the two Chinese companies could invest the money (estimated at Rub 10 billion, or about $105 million at that time) in other projects.[58]

China's future investment in Russian LNG projects will also depend on its demand for natural gas, which remains unknown. According to the Russian press, Chinese firms have signed new long-term contracts for about 50 Mmt of LNG per year (about 69 bcm/year), though the deliveries begin "several years" from now and thus remain somewhat uncertain.[59]

Increased use of gas in the electricity sector will be a key factor in China's future use of natural gas (including LNG) in its power sector. In 2022, about one-eighth of the world's gas power plants under construction or in preconstruction were in China, representing 77 GW in new capacity.[60] That said, the International Energy Agency projects that China could

54 Erdem Lamazhapov, Iselin Stensdal, and Gørild Heggelund, "China's Polar Silk Road: Long Game or Failed Strategy?," Arctic Institute, November 14, 2023, https://www.thearcticinstitute.org/china-polar-silk-road-long-game-failed-strategy/.

55 Adam Lajeunesse et al., "Friction Points in the Sino-Russian Arctic Partnership," *Joint Force Quarterly*, October 30, 2023, https://ndupress.ndu.edu/Media/News/News-Article-View/Article/3571034/friction-points-in-the-sino-russian-arctic-partnership/.

56 Екатерина Новикова, «Зачем Китай инвестирует в Россию,» Ведомости, September 7, 2023, https://www.vedomosti.ru/investments/columns/2023/09/07/993803-zachem-kitai-investiruet-v-rossiyu.

57 Ibid.

58 Татьяана Дятел and Дмитрий Козлов, «Полярно противоналожные позиции,» Коммерсантъ, June 7, 2023, https://www.kommersant.ru/doc/6029001. The ruble-dollar exchange rate is illustrative, in that a significant portion of the funds would presumably be spent in rubles within Russia.

59 Ibid.

60 Jenny Martos and Julie Joly, "Boom and Bust Gas 2022: Tracking the Global Gas Power Expansion," Global Energy Monitor, March 2022, 9, https://globalenergymonitor.org/wp-content/uploads/2022/03/GEM_BoomBustGas2022_FINAL.pdf.

add 2,062 GW in renewable electricity capacity during 2023–2028.[61]

### India

India's geography, economy, and energy system impose somewhat different requirements than China's. The shortest routes to India from Russia's principal oil terminals—in the Black Sea and the Baltic Sea—run through the Mediterranean and Red Seas. Using the NSR for oil would require a considerably longer journey. Some tankers carrying Russian oil products are continuing to transit the Red Sea despite recent Houthi attacks on shipping, while others are rerouting around Africa.[62] According to US officials, a Houthi missile struck a tanker carrying Russian oil to India in February 2024.[63] Where LNG is concerned, Russia's Arctic LNG terminals make the NSR a more plausible shipping route. India is also pursuing longer-term plans for a land transport route from Russia.[64]

In 2022, India released its formal Arctic strategy, which focuses on cooperation in energy and shipping, on research, and on protection of the environment and combating climate change, among other areas.[65] Despite Western governments' suspension of their Arctic Council activities, Indian officials have continued to interact with Russia in that and other contexts; like China, India is an observer in the group.[66] Importantly, Indian firms have expressed interest in participating in Russia's Vostok Oil development, a major project that could produce up to 100 Mmt of oil per year, or around 2 million bpd.[67] Vostok Oil is in Russia's north and would rely on the NSR for exports.

Novatek, an established Arctic LNG producer, considers the Indian market a priority for the company, as India will soon lead the world in the growth of gas

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61 International Energy Agency, "Executive Summary," in Renewables 2023 (Paris: IEA, 2023), https://www.iea.org/reports/renewables-2023/executive-summary.

62 "Traders Divert Russian Oil Products around Africa to Avoid Red Sea—Sources, LSEG," *Reuters*, January 31, 2023, https://www.reuters.com/world/middle-east/traders-divert-russian-oil-products-around-africa-avoid-red-sea-sources-lseg-2024-01-31/.

63 "Houthi Missile Hits India-bound Ship Carrying Crude Oil from Russia," *Hindustan Times*, February 17, 2024, https://www.youtube.com/watch?v=3jVQdbY2O9E.

64 Peter B. Danilov, "India Has Entered the High North to Ascertain Global Reach, Says Expert on Polar Geopolitics," *High North News*, December 16, 2021, https://www.highnorthnews.com/en/india-has-entered-high-north-ascertain-global-reach-says-expert-polar-geopolitics.

65 Government of India, "India's Arctic Policy: Building a Partnership for Sustainable Development," 2022, https://www.moes.gov.in/sites/default/files/2022-05/India_Arctic_Policy_2022.pdf.

66 Луиза Бродт, «Активизация азиатских стран в Арктике и российско-индийское сотрудничество в регионе,» РСМД, March 27, 2023, https://russiancouncil.ru/analytics-and-comments/columns/arcticpolicy/aktivizatsiya-aziatskikh-stran-v-arktike-i-rossiysko-indiyskoe-sotrudnichestvo-v-regione/.

67 Интерфакс, «Индия решила присоединиться к проекту ‹Восток ойл,» February 5, 2020, https://www.interfax.ru/business/694111.

consumption.[68] In addition to oil and gas projects, India has also discussed importing high-quality coal (hard coal and coking coal) from Russia's Arctic regions.

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## Conclusions

Russia started looking east for energy buyers a decade ago; the need for these buyers has only grown more acute as Russia has faced an avalanche of Western sanctions and the loss of Western markets following its 2022 invasion of Ukraine. Though Russia has succeeded in reorienting its oil exports, finding new markets for past pipeline gas shipments to Europe has been much harder. As a result, Russia's economic dependence on China has grown—as has Beijing's leverage in dictating prices and conditions.[69] Russia also risks becoming heavily reliant on Chinese technologies, including in some of its Arctic energy projects. The consequences remain to be seen.

## About the Author

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68 ТАСС, «В ‹Новатэке› заявили, что индийский рынок может стать приоритетным,» September 12, 2023, https://tass.ru/ekonomika/18729399.

69 Christina Lu, "Russia Has the Hydrocarbons, But China Has the Cash," *Foreign Policy*, March 23, 2023 https://foreignpolicy.com/2023/03/23/xi-putin-russia-china-energy-gas-pipeline-economy/.