

Gazprom's Grip on Russian Gas Exports Weakens as Novatek Gets Export License

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An LNG tanker off Sakhalin Island in Russia's Far East.

Novatek, Russia's largest independent gas producer, has been granted a license to export liquefied natural gas, or LNG, marking the next step on Russia's gradual liberalization of a market dominated by state-owned giant Gazprom.

Deputy Energy Minister Kirill Molodtsov told the TASS news agency on Saturday that the export license for Novatek had been signed on the previous day.

The Energy Ministry had only been granted the right to issue LNG export licenses in August, following a 2013 law that allowed access to export markets to gas producers besides Gazprom, the giant company spun out of the Soviet Gas Ministry after the fall of communism.

However, the law, which was lobbied by Igor Sechin, a former government heavyweight

and now chief of state-owned oil producer Rosneft, limited the list of gas producers able to access overseas markets to Rosneft itself and Novatek's Yamal LNG project in western Siberia.

Rosneft has its own LNG project on Sakhalin island in Russia's east — a joint project with U.S. oil giant ExxonMobil. The company plans to build an LNG plant fueled by gas from the Sakhalin shelf and Rosneft's other reserves. The facility is slated to produce 5.5 million tons of LNG per year starting from 2018–2019 with an option to further increase output. The amount of investment in the project is estimated at \$15 billion.

Earlier this year Rosneft signed contracts to supply LNG from the future plant with Japan's Marubeni and Sodeco, as well as with commodities trader Vitol.

Novatek's project, valued at \$27 billion, aims to extract and liquefy gas coming from the gigantic Yuzhno-Tambeyskoye gas field on the Yamal peninsula in the Arctic circle. Novatek holds a 60 percent stake in the venture. France's Total and China's CNPC own 20 percent each.

Yamal LNG is slated to start production in 2017 with an initial output of 5.5 million tons of liquified gas per year, rising to 16.5 million tons by 2020.

In May, CNPC signed a deal to buy 3 million tons of LNG per year from the Yamal project, as did Russia's Gazprom. Novatek CEO Leonid Mikhelson at the time said that future output of the Yamal LNG plant had been fully contracted.

Currently, the only working LNG plant in Russia is Gazprom's Sakhalin-2, which has an annual capacity of about 10 million tons.

According to the Energy Ministry, Russia aims to more than triple its share in the world LNG market from the current 3.9 percent to more than 14 percent in 2020 and to 19 percent by 2025.

Giving access to export markets to other independent producers could have further boosted LNG production in a country rich in natural gas resources. But that would require further changes to legislation: an Energy Ministry proposal had sought to allow all companies with a license to build an LNG plant to export it to foreign markets. But after a series of heated discussions the law was adopted in its current form, with only two other companies besides Gazprom gaining access to foreign markets.

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