The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russia Refuses State Funding for New Arctic Gas Projects

As gas prices plummet, Russia rejects industry calls to fund new projects.

By The Barents Observer

November 28, 2019



No state funding was awarded for natural gas company Novatek's preferred projects in the 2020 draft budget. **minenergo.gov.ru**

The Russian Finance Ministry has not included any of natural gas company Novatek's desired projects in its 2020 draft budget.

The firm has been pushing hard for the allocation of around 124 billion rubles ($1.9 billion) to build the Utrenneye liquified natural gas (LNG) terminal in Gydan in Russia's Arctic north, as well as reloading terminals in northern port city Murmansk and Kamchatka in the Russian Far East.

But Novatek appears to have been snubbed by the government, with none of the projects set to

be granted funding in the 2020 state budget, newspaper Kommersant reported.

Pressure on Putin

The developments pushed Novatek CEO Leonid Mikhelson to step up his lobbying in the Kremlin. In November, he again contacted President Vladimir Putin to warn that the lack of state funding could ultimately lead to delays in Russia's flagship Arctic LNG 2 project, the country's largest ever LNG project.

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Arctic LNG 2 is to be built on the peninsula of Gydan and will produce as much as 19.8 million tonnes of LNG per year. It is considered a crucially important project for President Putin, who is aiming to boost traffic on the Northern Sea Route to 80 million tonnes by 2025. Arctic LNG 2 is projected to start production in 2024.

Novatek also argues that the state must support the building of LNG reloading terminals in Murmansk and Kamchatka, with funds totalling 21 billion rubles ($330 million). The terminals will be key infrastructure for LNG exports, the company argues. Foreign partners Total, China National Petroleum Company, China National Offshore Oil Corporation and Mitsui are on board with the plans.

Novatek appears to have support from Putin, as well as nuclear power company and Northern Sea Route developer Rosatom. But the Finance Ministry is reluctant.

Low gas prices

The decision not to include LNG projects in the state budget comes as the price of LNG has dropped to its lowest level in several years.

Gas sold on Asian markets in October was traded at 40% lower than in the same period last year. Figures from the Japanese Energy Ministry show that the spot price of LNG was $5.50 per million metric British thermal units (BTU) that month, the lowest October price in more than a decade.

Moreover, there might be bleak prospects in store for LNG prices as several more projects are coming into production in the U.S., Australia and Russia, consequently flooding the market with additional gas.

That could ultimately create major challenges for Novatek, which intends to produce up to 70 million tons of liquified natural gas a year by 2030 in just two sites — the Yamal and Gydan peninsulas.

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