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Russia's Gas Industry Is Dying a Slow But Occasionally Explosive Death

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A fire at the Krasnodarskaya compressor station in July 2026. **Social Media**

Before 2022, Gazprom's gas pipelines were an instrument of political influence over Europe, as well as one of the pillars of the federal budget.

Today, according to available estimates, that model has been dismantled irreversibly, while attempts to build a replacement for it in the east and on the liquefied natural gas market are running up against limits Russia does not control.

Before Russia's full-scale invasion of Ukraine, Gazprom supplied up to 40% of the European Union's pipeline gas imports, and total gas exports reached around 180 billion cubic meters a year. This commercial tie became a lever that strengthened Russian influence over European politics. Existing LNG projects, above all Yamal LNG and Sakhalin-2, complemented the pipeline model, opening access to the global market without a rigid dependence on fixed infrastructure.

By 2025, Russia's total gas exports had fallen to 124.7 billion cubic meters, while Russia's share of the European Union's pipeline gas imports had dropped from 40% in 2021 to 6% in 2025. Importantly, due to damage to pipeline infrastructure and the destruction of relations wth Russia, this market cannot be expected to reopen any time soon.

Attempts to compensate by rerouting gas exports to China have so far failed to generate a comparable level of revenue. Power of Siberia reached its designed capacity of only 38 billion cubic meters a year.

More tellingly, the Power of Siberia 2 project, which Moscow publicly presented as a strategic breakthrough, is not materializing. In September 2025, Gazprom and China's CNPC signed a "legally binding" memorandum for its construction, but according to several analytical centers monitoring the negotiations, no commercial agreement has been reached. According to the Institute of Energy and Finance, which is linked to Russian business circles, negotiations on implementing the project have been "effectively frozen" even though the technical and project documentation has long been ready because Beijing is insisting the gas be sold at a discount comparable ot the Russian domestic market.

Even Putin's visit to China in 2026, which coincided with the blockade of the Strait of Hormuz and a surge in global energy prices, did not break this deadlock. Beijing knows how dependent Moscow is on its market, so it has no incentive to abandon its tough stance.

Unlike pipeline gas, Russian liquefied natural gas long remained relatively free from sanctions restrictions. In 2025 and early 2026, the European Union bought almost 49% of all Russian LNG, accounting for up to 20% of the EU's total LNG imports; the main hubs were ports in France, Spain and Belgium. For Novatek, the leader of Russia's LNG market, and for the industry as a whole, this channel remained, in effect, the last major source of foreign-currency revenue in a premium jurisdiction.

It is this very channel that is now closing — gradually, but irreversibly. The REPowerEU regulation, which turned sanctions measures into permanent European legislation, imposed a ban on imports of Russian LNG under short-term contracts from April 25, 2026, while from Jan. 1, 2027, a ban on long-term contracts and on the transshipment of Russian LNG through European ports comes into force. Comparable deadlines for pipeline gas are mid-2026 and autumn 2027, respectively. According to current forecasts, the main beneficiary of the resulting gap will be the United States, which will be capable of supplying up to 66% of Europe's LNG imports by 2026.

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Russia's LNG sector faces a further problem. The country is dependent on foreign suppliers for the very process of liquefying natural gas. Novatek has been forced to postpone construction of the third train at the Arctic LNG 2 plant and freeze the Murmansk LNG project. Without access to Western turbines, heat exchangers and specialized tankers, the state's goal of raising Russia's share of the global LNG market to 20% by 2030 has become practically unattainable. The industry has entered a phase of stagnation and technological degradation.

This is most visible in logistics. Russian LNG, especially from Arctic projects, depends on

specialized Arc7 ice-class tankers. But sanctions against Arctic LNG 2 forced foreign partners to withdraw from the project, creating an acute shortage of vessels of this class. In response, Moscow resorted to forming a so-called shadow fleet: vessels acquired through intermediary structures on the secondary market and reflagged under flags of convenience. According to maritime analysts, at least six aging and renamed LNG carriers were purchased, renamed and added to the fleet in 2026

Western countries are moving from general sanctions packages to targeted work against this very fleet. In June 2026, the United Kingdom imposed targeted sanctions on four LNG carriers, depriving them of insurance coverage, access to ports and technical maintenance. Similar measures applied to the oil sector show where this leads: forced vessel downtime, the need for ship-to-ship transshipment operations far from ports and a substantial increase in logistics costs.

At the same time, the European Union's proposed 21st sanctions package envisages a direct ban on the sale of new LNG carriers to Moscow, blocking a means for Moscow to maintain this export route.

With the effective loss of the European market, Moscow has been forced to redirect its main LNG supplies to Asia, where China remains the dominant and, in effect, only large buyer. Despite the construction of a terminal in Longkou to receive output from Arctic LNG 2, only a modest 2.6 million tons a year have been exported, compared with the plant's design capacity of 19.8 million tons. China buys Russian gas at a significant discount, deepening Russia's one-sided dependence.

Russia voluntarily dismantled its own pipeline monopoly in Europe as a result of the war and is now steadily losing ground in the LNG segment. Instead of stable inflows in euros and dollars, the industry is increasingly shifting toward settlements in yuan and barter mechanisms — which in itself means a noticeable decline in the quality of foreign-currency revenue, even if its nominal value is partly preserved.

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To make matters worse for Moscow, its natural gas processing and export infrastructure has become a target for Kyiv, who carried out its first drone attack on July 7. The site in question, the Krasnodarskaya compressor station, is part of the infrastructure used to supply gas through the Blue Stream pipeline across the Black Sea to Turkey.

The location of this attack matters a lot. Russian natural gas exports flow through the TurkStream and Blue Stream pipelines. In 2025, 18.1 billion cubic meters were pumped to southern and southeastern Europe via Turkey and 21.2 billion cubic meters were pumped directly to Turkish consumers. Gas pumping along the seabed of the Black Sea is handled by the Beregovaya compressor station for Blue Stream and by the Russkaya compressor station for TurkStream.

As attacks against Russian oil infrastructure have shown, Ukraine is perfectly capable of destroying both compressor stations. If that happens, pipeline gas exports will be stopped

completely, causing $13.5 billion to $14.5 billion in losses — the amount Russia is estimated to have earned in 2025 from selling 39.3 billion cubic meters of gas through the Black Sea pipelines.

Restoring these gas pumping units under international sanctions would be very difficult even with the existing level of localized turbine production.

The only thing that could stop a Ukrainian campaign against these compressor stations could be Turkey's dependence on Russian gas.

But Ukraine has repeatedly shown a hard line in defending its vital interests during the war. One need only recall the diplomatic standoff with Poland over commemorating the controversial nationalist leader Stepan Bandera and the Ukrainian Insurgent Army.

So if Kyiv decides that the benefit of depriving Moscow of its gas revenues outweighs the cost of damaging relations with Ankara, Ukraine will move to zero out Russian gas exports.

Because of the war against Ukraine, Russia's gas industry has suffered damage that is almost impossible to restore within any reasonable time frame. The industry has lost its traditional European market and has failed to effectively compensate for that loss by reorienting toward Asia, above all China. At the same time, it has run into systemic limits in developing its liquefied gas segment.

The shift from the status of an energy superpower that dictated the terms of the global market to the awkward position of a petrostate with dwindling export potential, technological backwardness and substantially reduced foreign-currency inflows will have long-term negative consequences for the Russian economy.

This is one of those cases in which the loss of a market and the loss of status coincide: gas loses its coercive influence precisely when it becomes a commodity that has to be sold on someone else's terms.

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