

# Fresh Western sanctions aim to put Russia's LNG ambitions in jeopardy – will they work?

- Stricter sanctions imposed to prevent companies doing business in Russia's LNG sector
- Novatek's Arctic LNG 2 and Murmansk LNG expected to suffer setbacks
- US, EU and UK sanctions broadly aligned but with some differences

Europe and the US are stepping up efforts to hurt Russia's economy by imposing more sanctions on its LNG sector.

This week the EU adopted a 14th package of sanctions against Russia including a ban on transshipments of Russian LNG in EU ports as well as on the provision of goods, technology and services for Russian LNG projects under construction, such as Novatek's Arctic LNG 2 and Murmansk LNG. The sanctions also target oil tankers part of Vladimir Putin's 'dark fleet' which circumvent price caps. Moreover, the package also introduces a ban on Russian LNG imports to small-scale, off-grid terminals.

## **READ EU targets Arctic LNG 2 in 14th package of sanctions against Russia [1]**

The bloc's latest clampdown came days after the UK announced new sanctions to hit Russian LNG companies and oil tankers. The US also started a similar effort on 12 June with the US Treasury rolling out restrictive measures on more than 100 companies with businesses in the LNG, manufacturing, technology, transportation, defence and financial services sectors, in a bid to "limit Russia's future energy revenues and impeded Russia's development of future energy projects".

The sanctions introduced by the US, UK and EU so far seem broadly aligned, although there are differences.

All three are targeting Novatek's Murmansk LNG, a large liquefaction project in the Arctic that has been aiming for commissioning by the end of the decade. They are also targeting Novatek's 19.8 mtpa Arctic LNG 2 project which is under construction. Other projects hit by the US include the Obssky LNG, Arctic LNG 1, and Arctic LNG 3 projects, which the US noted as projects that "Russia hopes to bring online in the future.

## **READ UK sanctions hit Russian LNG companies in clampdown on 'shadow fleet' [2]**

"The overall goals are aligned, but there are differences in the specifics and implementation of these sanctions," Agnieszka Paulina Regiec a Brussels-based international trade lawyer at Fieldfisher told Gas Matters Today.

"The UK, for example, banned the import of Russian LNG from 1 January 2023, while the United States has had an import ban in place since 22 April 2022, meaning, EU has been the last one to

implement sanctions due to the bloc's dependence on Russian energy imports."

Justin Dargin, CEO of energy consultancy firm Resolve36, told Gas Matters today that the sanctions imposed by the US, UK, and EU on Russia demonstrate a united front in response to the ongoing conflict.

"While occasional differences have arisen, such as the past disagreement between Germany and the US regarding the Nord Stream pipeline, there is overall alignment in continental policy between the EU and the US, as well as the UK. However, this does not imply that there is significant unity within the EU amongst the member states," he says.

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Dargin notes that the US leverages its economic power to disrupt Russia's economy and impede its ability to finance the war.

"Through the Treasury Department, the US also exerts financial pressure on countries engaging with Russia, both economically and geopolitically. Europe's focus is on reducing its energy dependence on Russia, thereby impacting the Russian state budget. And, the EU also attempts to "chip" away at Russia's energy exports, taking a phased approach that will minimize the economic impact on European countries."

### **Sanctions' impacts**

It remains to be seen to what extent the sanctions will be effective. As for the ban on transshipments, for which there is a nine-month phase-in period, media reports suggest reloads at EU ports to Asia, notably in France and Belgium, only represent about 10% of Russian LNG exports.

However, as from July 26, 2024, and then on a monthly basis, reports will have to be submitted to national regulators on all unloading transactions and imports into the EU of LNG originating in or exported from Russia, including information on volumes, legal experts at Mayor Brown law firm noted in a research note.

There are some signs which suggest the energy sanctions on Russia are beginning to bite.

Chinese engineering company Wison New Energies surprised the gas industry when it announced plans last week to discontinue all Russian projects that it has been involved in with immediate effect. Further, Wison also said it would "indefinitely stop" taking on any new Russian business.

### **READ China's Wison New Energies pulls out of Russian projects with immediate effect [4]**

The Shanghai-headquartered company said is also selling its equity interest in Zhoushan Wison Offshore & Marine Limited, the subsidiary that has been involved in working on Novatek Arctic LNG 2 since 2019 at the Zhoushan yard in China.

“Wison’s decision to discontinue its Russian projects represents another spanner in the works for the Arctic LNG 2 project, which was placed under US sanctions last year,” Ana Maria Jaller-Makarewicz, lead analyst at the Institute for Energy Economics and Financial Analysis (IEEFA), told Gas Matters Today.

“Wison has been a key technological partner for Novatek and has participated in other projects in Russia,” she added. “Other companies might feel the pressure to stop work in Russia too, due to risks to their work.”

Meanwhile, Dargin said the fear of being targeted by the EU and US for involvement in the Russian energy sector has deterred foreign firms, as seen with the withdrawal of Wison and setbacks faced by Arctic LNG 2 – a key pillar of Russia’s LNG export expansion strategy.

“This demonstrates that sanctions have real consequences for Russia’s energy ambitions,” he said.

“Even in state-to-state relations, sanctions have altered the power dynamic. China, while still willing to engage with Russia, leverages its weakened position to demand substantially lower prices on energy imports. This illustrates that while Russia retains some customers, it’s lack of options empowers buyers to negotiate from a position of strength.”

### **Off-grid LNG terminals**

The EU’s 14th sanctions package also imposes restrictions on Russian LNG imports through EU terminals not connected to the natural gas system. These are small-scale, off-grid terminals that typically use trucks to transport the gas. Most of these off-grid terminals are located in the Nordic region.

To this end, Finnish company Gasum said it will not purchase or import Russian LNG as of 26 July despite having a long-term contract with Gazprom in place.

This applies to the Lysekil and Nynäshamn LNG terminals in Sweden and the Pori and Tornio Manga terminals in Finland.

A Gasum spokesperson said most of the LNG Gasum has sourced to these terminals has been coming from other sources than Russia.

As for the long-term LNG contract with Gazprom, Gasum has not disclosed information about volume and duration but the spokesperson said the contract is “still valid for several years”. She also said Gasum has not delivered any Russian LNG to the 4.8 mtpa Inkoo floating storage regasification unit (FSRU) offshore southern Finland, which is chartered by Gasum, and that it will not do that in the future either.

### **Russia’s ‘dark fleet’**

The EU has already banned the import of Russian oil and oil products as well as coal imports. The G7 nations, as well as the EU and Australia, have also set a price cap of USD 60 on Russian oil which allows operators to transport Russian oil to third countries, provided its price remains below the cap. However, there are concerns that Russia is using a 'dark fleet' of vessels to circumvent the price cap by using diverse methods of obfuscating their origins including temporarily sailing under different flags and tampering with location tracking.

To this end, the EU, in the 14th package, put 27 vessels on the sanctions list, "for their contribution to the Russian warfare in various sectors such as the transport of military equipment for Russia and the transport of stolen Ukrainian grain, participation in the dark fleet transporting Russian oil while conducting deceptive shipping practices, and support in the development of Russia's energy sector, for instance through the transport of LNG infrastructure components or LNG transshipments," in the words of a Q&A document published by the European Commission.

Dargin said targeting Russia's "ghost fleet" will present significant challenges.

"For example, if we take the example of Iran, even during the peak of sanctions against its energy sector, its ghost fleet is suspected to have expanded from an estimated 70 vessels in 2020 to nearly 400 two years later, employing various tactics to evade restrictions. This shows how difficult it is to effectively curb such activities."

However, the impact of sanctions on Russia is undeniable, evident in the steep discounts it offers on hydrocarbon exports, particularly oil, he said.

"While Russia continues to find buyers, this comes at the cost of substantial financial losses. However, it is important to acknowledge that sanctions often lead to a rise in evasion attempts. In the case of the EU's restrictions on Russian LNG transshipment through Europe, a significant reduction is expected, but not a complete halt." -AW

***Got a question or comment about this story or other energy matters? Drop our editor, Penny Sukhraj, a line: [p.sukhraj@gasstrategies.com](mailto:p.sukhraj@gasstrategies.com) [5]***