

COOPERATION OF RUSSIAN AND CHINESE OIL AND GAS COMPANIES UNDER SANCTIONS

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Abstract

The article is devoted to the peculiarities of cooperation between Russian and Chinese oil and gas companies under sanctions. It is noted that Russia's ongoing turn to the East increases its dependence on China. The dynamics and structure of trade turnover of the analyzed countries are provided as confirmation. It is shown that the main areas of cooperation between Russian and Chinese oil and gas companies are export, projects for field development, and production of liquefied natural gas (LNG). The article looks into the largest investment projects of Chinese companies in the oil and gas sector of Russia. At the same time, the problems and prospects for oil and gas cooperation between Russian and Chinese companies under sanctions are identified.

Keywords

Oil and gas companies, sanctions, Russia and China, Russian-Chinese cooperation, investment oil and gas projects, turn to the East.

INTRODUCTION

Amid bigger sanctions pressure from Western partners, we witness a turn to the East. In particular, there is higher dependence of Russia on China: it already accounts for 20% of Russian exports and 28% of imports to the Russian Federation. The total trade turnover between the countries in 2022 amounted to \$190 billion (Figure 1).

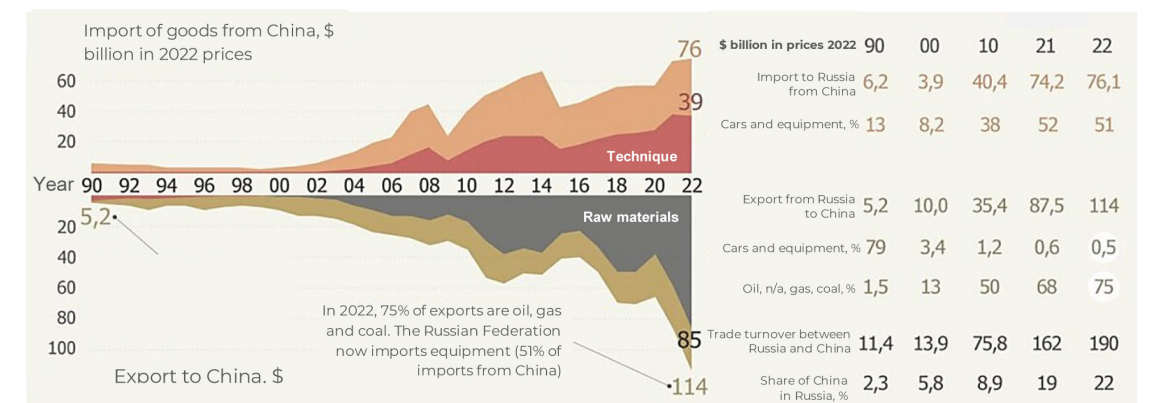


Fig. 1. Dynamics and structure of trade turnover between Russia and China.

Sources:

Data provided by the General Administration of Customs of China. URL: <http://english.customs.gov.cn/> (accessed 03 November 2023).

Data provided by the Federal State Statistics Service of the Russian Federation. URL: <https://rosstat.gov.ru/> (accessed 03 November 2023).

More than 51% of China's exports to Russia are machinery, equipment, electronics, and transport. Over 75% of Russia's exports to China are generated by the supplies of oil, petroleum products, gas, and coal. This enables us to talk about close cooperation between Russian and Chinese oil and gas companies.

Apart from export, cooperation between Russian and Chinese oil and gas companies also includes projects for field development and LNG production (Table 1).

Table 1

The largest investment projects of Chinese companies in the oil and gas sector of Russia¹

Year	Investment	Project	Chinese party	Subsector
2014 - 2015	\$20 billion	Yamal LNG	CNPC and the Silk Road Fund	Gas
2020	\$10 billion	Sibur	Sinopec and the Silk Road Fund	Petrochemistry
2017 - 2021	\$25 billion	Arctic LNG-2	CNOOC and CNODC	Gas
2006	\$5.5 billion	OJSC "Udmurtneft"	Sinopec	Oil and gas
2017	\$1.1 billion	JSC "Verkhnechonskneftegaz"	Beijing Gas Group Company Limited	Oil and gas

¹CNPC – China National Petroleum Corporation – Chinese National Petroleum Corporation; CNOOC – China National Offshore Oil Corporation – Chinese National Offshore Oil Corporation; CNODC – China National Oil and Gas Exploration and Development Corporation – China National Oil and Gas Exploration and Development Company; SAFE – The State Administration of Foreign Exchange; CIC – China Investment Corporation – China's sovereign wealth fund.

2015	\$1.21 billion	NOVATEK	SAFE	Gas
2017	\$0.1 billion	Eurasia Drilling	CIC	Oil

Source: Zakharov A.N. Trade and economic cooperation between Russia and China in the oil and gas sector amid new geopolitical situation / Zakharov A.N., Karpova A.A. // Business magazine Neftegaz.RU. 2022. No 11. Vol. 131. P. 94-99.

Therefore, it can be noted that even before the sanctions Russian and Chinese oil and gas companies enjoyed active cooperation and after they were imposed it, intensified even more.

RESEARCH RESULTS

The Russian PJSC Rosneft Oil Company is interacting with the Chinese company CNPC through joint mining projects in Eastern and Western Siberia. PJSC Rosneft Oil Company and Sinopec Corp. have a joint venture in Udmurtia, Beijing Gas owns 20% of JSC Verkhnechonskneftegaz, the East Siberian subsidiary of Rosneft. Moreover, PJSC Rosneft Oil Company signed an agreement with several companies to design a wind energy center with a capacity of about 200 MW as part of the Vostok Oil project.

The Yamal LNG project is being implemented by the Russian company PJSC NovaTek together with the Chinese company CNPC, which has 20% in the project, and the Silk Road Fund, whose share makes up 9.9%. Also, in late 2023 - early 2024, it is planned to commission the first line of the Arctic LNG-2 project, where Chinese companies CNPC and CNOOC each own 10%.

In March 2023, three of China's largest oil and gas companies, CNPC, CNOOC, and Sinopec received a recommendation from the Chinese Ministry of Foreign Affairs to review their relations with Russian oil and gas companies and postpone investments in Russian assets due to the risk of American secondary sanctions. However, the heads of Chinese companies expressed their intention to continue and strengthen cooperation with Russia in oil and gas field, which was greatly facilitated by the visit of Russian Prime Minister Mikhail Mishustin in May 2023.

Recent promising cooperation between Russian and Chinese oil and gas companies includes projects to develop modern infrastructure, underground gas storage related projects, personnel training, science and technology, and even low-carbon development.

The Russian company PJSC Gazprom cooperates with Chinese oil and gas companies on three gas storage projects: the Sheng Shen 2-1 gas reservoir in Heilongjiang province, the Baiju aquifers in Jiangsu province, and the Chu Zhou salt caverns. To comply with the state requirements established by the 14th Five-Year Socio-Economic Development Plan 2021-2025, China has pledged to build gas storage capacities of no less than 16% of its annual consumption. Russia, thanks to underground gas storage facilities in China, will be able to operate the export pipeline system in an optimal mode.

In February 2022, PJSC Rosneft Oil Company and CNPC signed a Memorandum of Cooperation in low-carbon development. Its implementation involves working out the interaction of companies in key areas of low-carbon development, which should ultimately reduce greenhouse gas emissions, primarily methane, and increase energy efficiency, allow CO₂ to be captured and stored.

In June 2023, the Russian Union of Industrialists and Entrepreneurs (RSPP) hosted a Russian-Chinese business meeting "Cooperation in the field of scientific and technical exchange" where the parties exchanged views on the development of cooperation and interaction.

Also, in June 2023, a Chinese-Russian international summer camp

organized by the China Petroleum University and PJSC Gazprom Neft started in Beijing with practical classes by Chinese oil and gas companies, where the participants were able to witness the operation of modern equipment and technologies, as well as get to know Chinese and Russian culture to better understand colleagues. This will help strengthen international ties, interaction between countries in education, and deepen energy cooperation.

Construction is planned to begin in 2024, and the commissioning of the Power of Siberia-2 gas pipeline for the export of Russian gas to China is projected for 2027-2028. The gas pipeline will connect the gas fields of Siberia and the Xinjiang Uyghur Autonomous Region, located in western China. Russia, China, and Mongolia will become parties to the project.

Undoubtedly, as noted above, oil and gas cooperation between Russian and Chinese companies is associated with a number of problems.

Firstly, the full-scale development of the Russian market by Chinese oil and gas companies amid sanctions pressure on Russia from unfriendly countries exposes Chinese companies to secondary sanctions.

Secondly, after the events of 2022, the Russian government began to further limit the footprint of foreign companies in strategically important sectors of the economy, in particular, to prevent them from exploring and producing oil and gas in federally significant locations. This prevents Chinese companies from achieving their goal of integration into the entire production and technological chain of the Russian oil and gas business.

Thirdly, realizing the potential of Russian-Chinese cooperation in the field of renewable energy sources (RES) is becoming more complicated. Russia is rich in fuel and energy resources, and therefore there is virtually no demand for renewable energy products and technologies, so the pace of alternative energy development is quite slow, although Russia has adopted the Low-Carbon Development Strategy until 2050.

Fourthly, the large number of administrative barriers in Russia worsen the business climate, which makes it quite difficult for Chinese oil and gas companies to do business on the Russian market.

However, cooperation between Russian and Chinese oil and gas companies possesses a number of prospects.

Under a long-term contract signed on 4 February 2022, PJSC Rosneft Oil Company is to supply oil to China within 10 years, and PJSC Gazprom within 25 years.

On 17 June 2023, PJSC Rosneft Oil Company and the Chinese company CNPC switched to settlements for raw materials in national currencies.

Also, in June 2023, PJSC NovaTek approached the Russian government with a proposal to abolish the 10% tax on dividends paid to foreign investors who are willing to reinvest these funds in LNG projects. First of all, this benefit should be provided to the Chinese company CNPC and the Silk Road Fund implementing the Yamal LNG project.

On 24 September 2023, Russian President Vladimir Putin and Chinese Foreign Minister Wang Yi² had a conversation, noting that even regardless of changes in the international situation, to implement the agreements previously reached with Chinese President Xi Jinping China is ready to strengthen mutual trust and business cooperation with Russia, coordinate actions carried out on international markets, develop more rational areas and jointly protect common interests.

On 17-18 October 2023, China hosted the third International Belt and Road Forum. One of the main topics was increasing China's trade turnover with Russia. The presidents of the two countries held talks on the development

²Member of the Politburo of the Central Committee of the Communist Party of the People's Republic of China, head of the Office of the CPC Central Committee Foreign Affairs Commission. Member of the Politburo of the Central Committee of the Communist Party of the People's Republic of China, head of the Office of the CPC Central Committee Foreign Affairs Commission.

of trade and investment, scientific and technical cooperation, as well as the implementation of the green agenda goals and the transition to a low-carbon economy. On 19 October, China hosted the V Russian-Chinese Energy Business Forum, where representatives of the largest Chinese and Russian oil and gas companies confirmed their intention to strengthen and deepen cooperation.

CONCLUSION

Faced with sanctions, Russia increasingly began to turn to the East, and oil and gas cooperation with China intensified. Russia's exports to China, primarily oil and gas, have risen. The largest Russian and Chinese oil and gas companies have started to more intensively implement the investment projects related to the exploration and development of oil and gas fields and petrochemical production. Companies have also started to discuss promising projects for underground gas storage facilities, transport infrastructure and low-carbon development.

The risk of secondary sanctions against Chinese oil and gas companies, as well as restrictions on the participation of foreign investors in strategically important sectors of the Russian economy introduced by the Russian government, which, in particular, include exploration and production of oil and gas in federally significant locations, create certain problems for cooperation between Russian and Chinese oil and gas companies.

However, the willingness of Russia and China to comply with previously reached agreements in the oil and gas sector, the switch to payments and settlements in national currencies, as well as tax incentives and customs benefits to certain Chinese companies, enable us to talk about positive prospects for cooperation between Russian and Chinese oil and gas companies.

Therefore, we can conclude that no matter what, cooperation between Russian and Chinese oil and gas companies amid sanctions is still the case and will only deepen and develop in the future.

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