

NEWS AND ANALYSIS

## China's Gas Game

Russia wants a bigger slice of the Chinese gas market, but Beijing's desire for supplier diversity stands in the way.

BY ISABELLA BORSHOFF — MARCH 13, 2022



Construction workers work on a section of the Power of Siberia gas pipeline in China's Hebei province, April 2020.

Credit: Imaginechina via [AP Images](#)

On February 28, just four days after Russia invaded Ukraine, its state-owned energy giant Gazprom [agreed](#) with Mongolia to proceed with plans for one of the world's largest gas pipelines, aiming to link Russian fields which currently supply Europe to energy-hungry China.

There's just one hitch: Beijing isn't yet fully on board.

Gazprom has long been agitating for a deal to supply gas to China via the so-called Power of Siberia 2 pipeline (also known as Soyuz Vostok). Once completed, the new pipeline could funnel up to 50 billion cubic meters (bcm) of gas per year, making Russia by far China's largest single gas supplier.


Any such deal would also help the increasingly isolated Kremlin diversify away from Europe, currently the major consumer of Russian gas. European anger over the invasion of Ukraine has already led Germany to halt [certification](#) for a major new gas pipeline from Russia.

But two can play at the diversification game. Even though Presidents Putin and Xi Jinping agreed there would be "no limits" to their partnership after a pre-Olympics summit on February 4, Beijing appears wary of compromising its long-term strategy of not relying too heavily on any single gas supplier.


And while energy deals signed at the summit did commit China to purchase an extra [10 bcm of gas](#) per year — through a smaller pipeline in far eastern Russia — the Power of Siberia 2 pipeline wasn't even mentioned in the [announcement](#).

"For China in general, when it comes to oil and gas security, diversity has always been the name of the game — diversity in suppliers, diversity in import routes," says [Erica Downs](#), an expert on Chinese energy markets and geopolitics at Columbia's Center on Global Energy

Policy. “My sense is that the Chinese companies will probably be fairly cautious [about signing a bigger Russian supply deal] right now.”

Gas is on the rise in China’s coal-heavy energy mix, amid government concerns about air pollution and the country’s high carbon emissions. While coal’s share in China’s [primary energy consumption](#)  has dropped from 72 percent in 2009 to 57 percent in 2020, less-polluting gas’s share is up to 8 percent from 3 percent over the same period, and could reach 12 percent by 2030, state-owned China National Petroleum Corporation [expects](#).

Given China is the world’s largest energy consumer, that translates into a lot of gas. Last year, China consumed [an estimated 370 bcm](#), a figure that could hit 475 bcm by 2025, according to energy analysts Wood Mackenzie. Just under half of it will likely be imported — a similar share to today — either via pipelines or in the form of liquefied natural gas (LNG), which can be transported by sea.

China has developed a strategy to reduce its import vulnerability: Buy from as many places as possible. Chinese companies sourced gas from at least 22 countries in 2020, according to [BP’s 2021 Statistical Review of World Energy](#) . And while the bulk of imports still come from two countries — Australia for LNG and Turkmenistan for pipeline gas — it’s an impressive spread given that in 2006, Australia was China’s only foreign supplier.

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“China’s strategy to meet its growing gas needs is one of diversifying sources of supply,” [Meghan O’Sullivan](#), who directs the Geopolitics of Energy Project at the Harvard Kennedy School, said in an email. China may prefer gas delivered by pipeline from Russia or Central Asia to seaborne LNG, she explains, as it’s cheaper and doesn’t need to pass through waterways patrolled by the U.S. and its allies; but it “does not want to be overly dependent on any one source.”

The growth of the global LNG market — which, unlike pipeline gas trade, offers flexibility between suppliers — has allowed China to source gas widely.

“If you’re having issues with [one LNG] supplier, or if a supplier somewhere in the world is having production issues, it can come from somewhere else,” says [Samantha Gross](#), director of the Energy Security and Climate Initiative at the Brookings Institution. Gas imported through pipelines is generally cheaper. But, says Gross, the long-term agreements required with other countries are “like a marriage.”

China already has one such ‘marriage’-like deal with Russia. Last year, it received over 10 bcm of gas via the original Power of Siberia pipeline, which will carry up to 38 bcm annually by around 2025. China inked the deal to take gas flows through this link in 2014, against the backdrop of Russia’s annexation of Crimea, and is currently in negotiations that would see the pipeline’s capacity rise to 44 bcm.

In the context of the current Ukraine conflict, China should have the upper hand in any further gas deal talks, analysts say. The primary reason: As Europe tries to accelerate its

transition away from Russian gas, Russia will need the Chinese market more than ever.

The war will “add an important dynamic to the Russian-Chinese relationship, making Russia much more dependent on China, rather than enhancing a relationship between equals,” says Harvard’s O’Sullivan.

The danger of over-reliance on Russia, already China’s third-largest gas supplier, could also lead to Chinese caution. It has plenty of other options: Despite trade tensions between Beijing and Canberra, gas has continued to flow from Australia largely without interruption. The U.S. ramped up gas exports to China last year, while U.S. sellers and Chinese buyers signed a flurry of long-term contracts in the last quarter of 2021. Daniela Li, a China gas analyst at BNEF’s Beijing office, says there’s no reason China won’t import more from the U.S. in future if the “prices are competitive.”

Such factors mean China may well decide not to pursue the Power of Siberia 2 pipeline, and its massive potential extra supply, despite the apparent closeness between the two countries’ leaders.

“Xi Jinping has no reason to waste this final card,” says [Keun Wook Paik](#), an independent expert in Russia-China energy trade.

“I don’t think they [China] are going to rush blindly into additional deals with Russia. Which is not to say they’re not going to do anything. But they’re going to be careful,” says Columbia’s Downs.



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## COVER STORY



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BY EYCK FREYMAN

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