

Novatek Chief Sees Russia Matching Qatar in LNG

By [The Moscow Times](#)

January 28, 2014



A Novatek facility. The independent gas producer is expanding at breakneck speed, and is investing in LNG.

DAVOS, Switzerland — Russia could match the world's top liquefied natural gas producer Qatar within 10 years as state and private projects accelerate, which could also help divert some gas away from Europe, the head of a leading Russian gas company said.

Leonid Mikhelson, chief executive and co-owner of Novatek, said the company's gas output was set to grow by 7 to 8 percent this year and output of liquids would rise by 40 to 50 percent as it launches new fields.

"In Russia, we have LNG projects being developed by us, Gazprom and Rosneft. It would be a mistake to think that all these projects will be competing with each other," Mikhelson said in an interview in Davos, Switzerland, in quotes cleared for publication this week.

"Given the expansion of LNG markets, Russia could have twice as many projects as it has today and those volumes would still find their customers. On a 10-year horizon, Russia simply must build up to 80 million tons of LNG capacity," he said.

Novatek has seen spectacular growth over the past decade — turning from a mid-sized producer into Russia's second-largest gas firm behind Gazprom.

Its market capitalization has reached \$40 billion and its gas output of more than 60 billion cubic meters is enough to meet annual demand in a country the size of Italy.

Novatek has Russian pipeline gas monopoly Gazprom, France's Total and co-owner of trading company Gunvor, Gennady Timchenko, among its shareholders.

//Arctic Yamal LNG

Novatek is developing a major Arctic LNG project, Yamal LNG, together with partners Total and China's CNPC.

It could sell 10 percent out of its 60 percent stake in the project to a new partner from countries such as Japan, South Korea, China or France before the new year, Mikhelson said.

Despite being the world's largest gas reserves holder and pipeline gas producer and exporter, Russia has only one functioning LNG project, belonging to a consortium of Gazprom and Royal Dutch Shell off the Pacific island of Sakhalin.

Apart from Yamal LNG, other potential projects include LNG plants both on the Pacific and the Arctic.

Mikhelson's predictions of a steep rise in Russian LNG exports come as Australia, the U.S. and East Africa are all expected to flood the market with super-cooled gas in the next decade, possibly leading to a LNG price collapse.

Mikhelson said he was not concerned about an LNG glut as demand was set to outpace supplies.

"There is big competition between various types of fuel. In recent years, gas was losing this competition, but I think the share of gas will be rising in the future in global energy balances," he said.

//No Fear of Competition

He also said he had no fears about competing with U.S. gas as Novatek's operational costs at 54 to 57 cents per barrel of oil equivalent were "possibly the best in the world."

"Analysts forecast that shale gas will cost \$5 to \$6 per BTU [at U.S. Henry Hub]. You top it up with liquefaction and transportation costs and U.S. LNG stops being terribly attractive. We are ready to compete with those prices."

Russia has liberalized LNG trading to support projects by Novatek and state oil major Rosneft

while Gazprom still retains the monopoly on pipeline exports.

Mikhelson said he welcomed Gazprom's move to diversify its exports away from Europe. Gazprom wants to sign a major China gas export deal in May and may offer a lower price in return for billions of dollars in upfront payments.

"There is a certain discomfort [in Russia] arising from European Union energy policies," Mikhelson said.

"A steep rise in coal power generation in Europe in recent times shows that the EU lacks a strategy to develop its energy markets."

"The fact that Gazprom will divert volumes and investments [to Asia] will mean that Europe will probably lose a lot. De facto it has already happened with oil," said Mikhelson referring to Russia partially diverting oil flows from Europe to Asia in recent years.

Original url:

<https://www.themoscowtimes.com/2014/01/28/novatek-chief-sees-russia-matching-qatar-in-lng-a3151>

2