

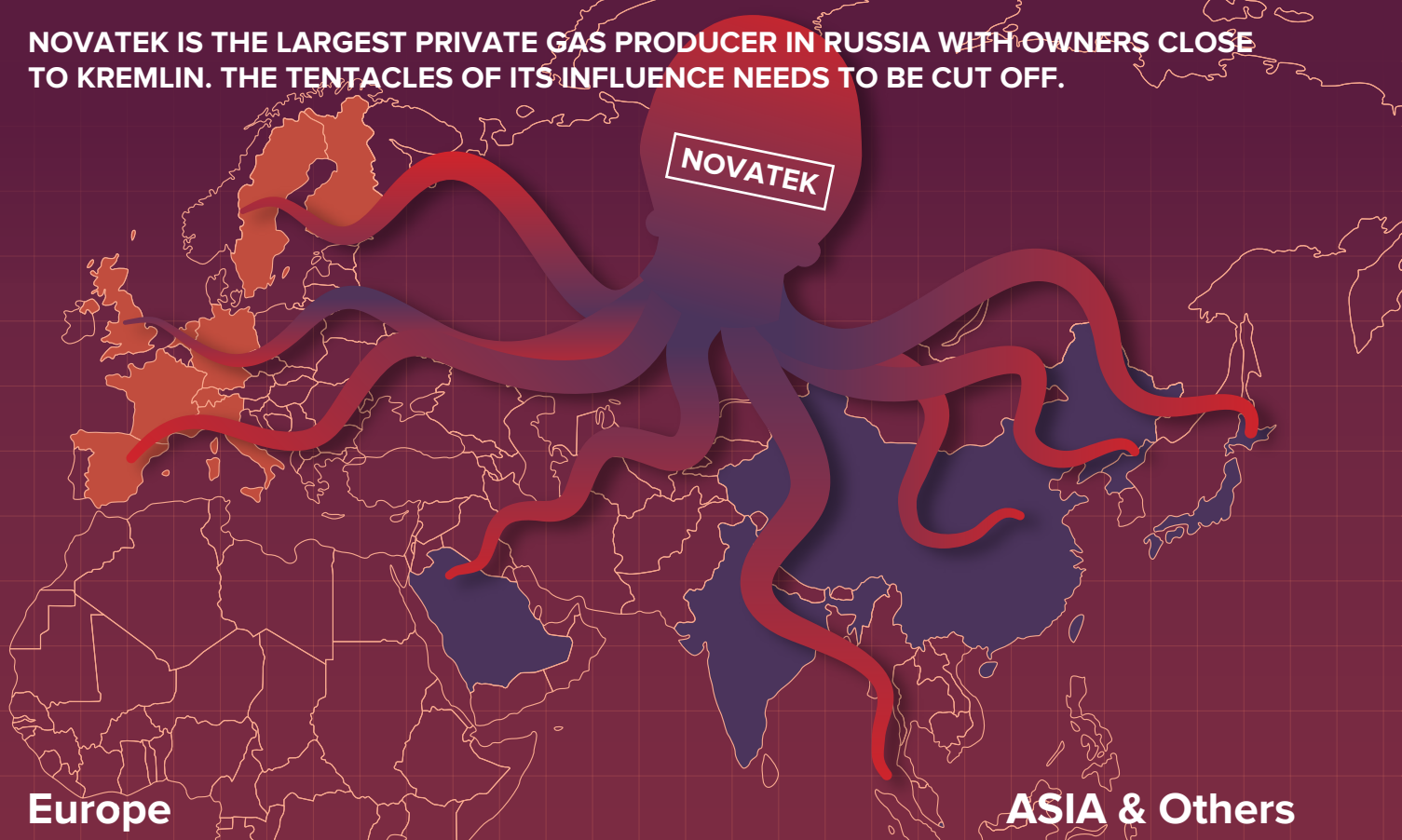
CUTTING THE TENTACLES OF RUSSIAN ENERGY 'OCTOPUS'

DiXi Group starts a new series of materials aimed at exploring the foreign ties of key Russian energy companies for elaboration of proposals for expanding sanctions limiting the international influence of Russian energy sector.

NOVATEK



NOVATEK'S TENTACLES SORTED OUT

NOVATEK IS THE LARGEST PRIVATE GAS PRODUCER IN RUSSIA WITH OWNERS CLOSE TO KREMLIN. THE TENTACLES OF ITS INFLUENCE NEEDS TO BE CUT OFF.





Europe

FRANCE

 Total, Technip FMC
 assets, tech & service

ITALY

 ENI, Saipem, SACE
 assets, trade, tech & service, finance



NETHERLAND

 Vitol
 trade



GREAT BRITAIN

 Shell
 trade


FINLAND

 Fortum
 tech & service



GERMANY

 RWE, Siemens AG, Uniper
 trade, technology



SWITZERLAND

 Glencore
 trade



BELGIUM

 Fluxys
 trade, logistics

SPAIN

 Gas Natural Fenosa, Repsol
 trade

SWEDEN



 Linde AG
 tech & service

ASIA & Others


JAPAN

 JOGMEC, MITSUI & Co, Mitsui O.L.C. Ltd., Marubeni Corporation, JBIC
 assets, trade, finance, logistics

SOUTHERN KOREA

 Korea Gas Corporation, Samsung Heavy Industry
 plans, logistics



SAUDI ARABIA

 Saudi Aramco
 plans



CHINA

 CNPC, CNOOC, Zhejiang Energy, China Cosco Shipping Corporation, China Silk Road Fund
 assets, trade, logistics

SINGAPORE

 ENN Natural Gas
 trade

INDIA

 H-Energies Global Ltd., Petronet LNG
 plans

 Companies

 Spheres of Cooperation

Plans – memoranda, no formal agreements

Assets – joint shareholdings in Russia or abroad (extractives, transportation, generation)

Trade – commercial supplies or already signed agreement for future supplies

Logistics – building infrastructure or transportation for deliveries or providing respective services

Tech & Service – technological upgrading, decarbonization, supporting technical services

Finance – programs of financial support

HOW TO CUT NOVATEK'S TENTACLES

1



Impose personal sanctions against Leonid Mikhelson, Novatek's main shareholder, as UK and Canada did.

2



Expand the scope of EU sanctions on technological transfer to Russia to cover the cases of hydrogen and carbon capture and storage.

3



Ensure the Western companies leave all current assets of Novatek (foremost TotalEnergies).

4



Broaden sanctions on the existing joint ventures of EU-registered entities with the Russian companies outside the territory of Russia.

5

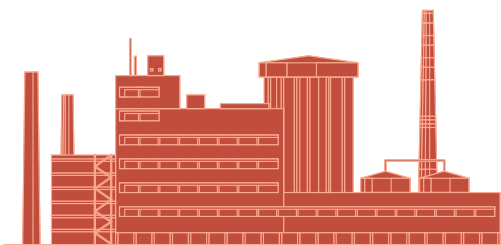


Introduce immediate ban (embargo) on Russian LNG (only 8% in global supply).

6



Engage with Japan and South Korea to expand further their sanction and limit Russian energy influence in the region of Eastern Asia.



Novatek is the largest Russian private gas trader.

Having started as a gas producing company in 1994, in the last years Novatek became an essential player in the global LNG market after the lifting of Gazprom's monopoly on LNG exports from Russia in 2013. The company began its foreign LNG trading supplies in 2016 and, in 2017, launched the operation of its massive Yamal LNG project. The company was looking to expand its LNG export capacity by commissioning three lines of the Arctic LNG 2 project in 2023, 2024 and 2026.

Novatek's export LNG capacity is based on the company's portfolio of gas fields, most of which are located in the Yamal and Gydan peninsula. In 2020, the company [sold](#) 75,62 bcm of natural gas, including 8,9 bcm (6.4 million tons) of LNG.

Additionally, in 2021, Novatek has tried to expand its sustainability-oriented activities, looking for technological opportunities for **hydrogen supplies** and reducing carbon footprint, especially by using **carbon capture and storage (CCS)**.

Novatek's main shareholders include Leonid Mikhelson (24,8%), Gennadiy Timchenko (23,5%), Total Energies (19.4 %), and Gazprom (10%). Gennadiy Timchenko is [portrayed](#) in the respected media as a person belonging to the closest Putin circle. The U.S. imposed personal sanctions against him (travel ban and assets freeze) in 2014, the EU – in [2022](#). He [has left](#) Novatek's Board of Directors this March, yet remains the second-largest shareholder.

Novatek's owners have also shared business assets with representatives of Putin's family. Mikhelson and Timchenko also have other jointly owned assets in Russian petrochemicals giant [Sibur](#) and engineering company [Nipigas](#), where they partner with Kirill Shamalov, [the former husband](#) of Putin's daughter Ekaterina Tikhonova.

The removal of Gazprom's export monopoly in LNG exports, for which Novatek became the almost sole beneficiary, clearly shows the political backing. Novatek's LNG projects are supported by [facilitating](#) the import of foreign equipment, which was earlier actively [advocated](#) by the company. Also, Russian Federation has lifted export tax obligations, despite [concerns](#) of some of the Russian policymakers that it competes with the Russian pipeline gas and by partially substituting its market share in the EU creates losses for the Russian state budget. Additionally, Novatek enjoys financial support from the state-run [Russian National Wealth Fund](#).

Novatek was [included](#) in the U.S. sanctions list in 2014. However, it did not prevent establishing many new business connections in Asia and Europe. Tracing them is critically important in realizing the future opportunities for expanding sanction regime and putting higher pressure on the Russian energy sector as one of the primary resources of the Kremlin's war machine. Novatek belongs to the list of largest Russian taxpayers: in 2021, the company [transferred](#) 44.7 million RUR for profit tax and 88.5 billion RUR for other taxes (nearly 1.5 billion USD in general). Even though a [new round of sanctions](#) against Russian Federation should have profound indirect [impact](#) on Novatek activities, *it is essential to look at all the tentacles of this Russian energy 'octopus' to see where they can be cut off.*



Vladimir Putin and Leonid Mikhelson
Photo: Alexei Nikolsky/TASS



Production and infrastructure

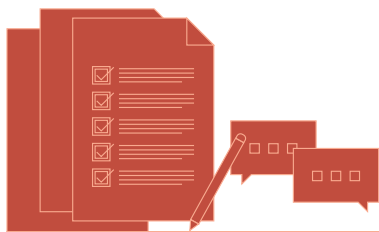
Company/Institution	Connection	Year
Total	shareholding in Novatek (16%), with 20% in Yamal LNG, 10% in Arctic LNG 2 projects	2011
ENI	joint shareholdings in Montenegro - 4 offshore blocks, 50% each, ENI is the operator	2016
China Silk Road Fund	10% in Yamal LNG project	2016
Total, Siemens AG	memoranda of technological cooperation on the development of LNG markets in Vietnam, including the construction of integrated project with LNG regasification and gas-fired power generation	2017 and 2019
Total, ENI	stakes in joint gas development projects in Lebanon (Total – 40%, operator, Novatek – 20%, ENI – 40%)	2018
Korea Gas Corporation	memorandum of understanding on the cooperation in LNG business development – opportunities for South Koreans to obtain share in Novatek's projects	2018
CNOOC	10% in the Arctic LNG 2 project	2019
Mitsui & Co, JOGMEC	10% in the Arctic LNG 2 project (as consortium Japan Arctic LNG)	2019
CNPC	20% in the Yamal LNG project, 10% the Arctic LNG 2 project	2019
Mitsui O.S.K. Lines, Ltd., JBIC	agreement on strategic cooperation in the construction of LNG transshipping facilities in the Kamchatka Peninsula and the Murmansk region	2019
Sinopec	joint venture with Novatek and Gazprombank for marketing LNG to Chinese end-users	2019
Novatek Green Energy	network of gas filling stations in Germany and Poland	2020
Total	10% in Arctic Transshipping	2021

Trading Transactions

Company/Institution	Connection	Year
Total	20-years contract on delivering 2 million tons of LNG annually	2019
Gas Natural Fenosa	25-years contract on delivering 2.5 million tons of LNG annually from the Yamal LNG project, since 2018	2013
CNPC	15-years contract on deliveries of 3 million tons of LNG annually from the Yamal LNG project	2013 , 2019
Engie	23-years contract on deliveries of 1 million tons of LNG annually from the Yamal LNG project to the western shore of France	2015
Shell	20-years contract on deliveries of 0.9 million tons of LNG annually (via subsidiary Shell International Trading Middle East)	2015
Flyxus	20-year contract on transshipment of LNG	2015
Marubeni Corporation	memorandum of understanding on LNG deliveries, maritime deliveries, supply of liquid hydrocarbons, Arctic LNG 2 project	2016
Marybeni Corporation, Mitsui O.S.K. Lines Ltd.	memorandum of understanding on building transshipping and marketing facility in the Kamchatka Peninsula	2017
JOGMEC	memorandum of understanding on marketing LNG, cooperation in LNG projects, developing transport connections	2018
CNOOC	20-years contract on delivering 2 million tons of LNG annually	2019
Vitol	15-years framework contract on future supplies of 1 million tons of LNG annually from the Arctic LNG 2 project	2019
Petronet LNG	memorandum of understanding on deliveries of LNG, investments in Novatek's activities, creating a network of gas filling stations in India	2019
H-Energy Global Ltd.	memorandum of understanding on deliveries of LNG and joint investments in LNG projects	2019
Repsol	the basic framework for LNG deliveries from planned Arctic LNG-2 project providing for annual transportation of 1 million ton of LNG during 15 years	2019
Glencore	framework long-term contract on future supplies of 0.5 million tons of LNG annually for Glencore's clients in China	2021
Zhejiang Energy	15-years framework contract on future supplies of 1 million tons of LNG annually from the Arctic LNG 2 project	2021
RWE	memorandum of understanding on deliveries of low-carbon ammonia and hydrogen produced on the planned Obssky Gas Chemical Complex	2021
Uniper	basic framework agreement on ammonia deliveries from the planned Obssky Gas Chemical Complex – annual supplies of 1.2 million tons of low-carbon ammonia with the application of CCS technologies and further transportation to the planned Uniper's ammonia import terminal in Wilhelmshaven	2021
ENN Natural Gas	11-years contract on delivery of 0.6 million tons of LNG annual to Singapore's company terminal in China	2022
Fortum	contract on purchasing electricity produced on Fortum's wind farms in Russia for the needs of Novatek's Cryogas-Vysotsk LNG project to decrease carbon footprint	2022

Technological transfer

Company/Institution	Connection	Year
SACE	financing of the Yamal LNG project	after 2013
Linde AG	agreement on strategic partnership and cooperation on the localization in Russia of the production of equipment and elaboration of technological decisions for LNG projects	2016
JBIC	memorandum of understanding on strategic partnerships for investing in LNG	2016
Saipem	agreement on strategic partnership on the technological development and localization in Russia of advanced technologies	2016
Flyxus	memorandum of understanding on the development of small-scale LNG market in cooperation with European transport logistics	2017
Technip FMC, Linde AG	participation in a joint venture providing technical services on the deployment of concrete gravity-based structures in the Arctic LNG 2 project	2017
Linde AG	selling license on Linde's technology of natural gas liquefaction for the Arctic LNG 2 project	2017
SACE	memorandum on strategic cooperation on the Arctic LNG 2 and other future LNG projects; provision of guarantees for loans of the Italian state-owned bank Cassa Depositi e Prestiti and the Russian division of Intesa Sanpaolo	2018
Saudi Aramco	memorandum of understanding on the technological cooperation and developing LNG projects	2018
China Cosco Shipping Corporation Limited	cooperation on the Arctic LNG 2 project and on logistics of deliveries in the Arctic region	2018
Technip FMC	contract on deliveries of equipment for the Arctic LNG 2 project facilities construction	2019
Total	memorandum of understanding on limiting carbon emissions, development of CCS technology, use of electricity from RES on LNG markets, further development of the LNG industry and marketing of carbon-neutral energy resources	2021
Uniper	memorandum on hydrogen cooperation – development of production and transportation chain of blue hydrogen deliveries for Uniper's power generation facilities in Russia and in Western Europe with the use of carbon capture and storage (CCS) technology	2021
Samsung Heavy Industries	on building gas transporting ships – Novatek as possible undisclosed contractor	2021



RECOMMENDATIONS

We can define four main proposals on how these tentacles could be effectively cut off by expanding the existing sanctions regime against Russia.



Vladimir Putin and Leonid Mikhelson
Photo: Associated Press

SANCTIONS

1. Impose personal sanctions against Leonid Mikhelson, Novatek's main shareholder.

The personal sanction against Novatek's owner will harm the company's image and its attractiveness to foreign investors. Mikhelson is regularly present in the list of the wealthiest people in Russia published by [Forbes](#). However, he was only mentioned in the general list of Russian oligarchs presented in the special [report](#) made for the Congress by the Department of Treasury for the Congress to implement provisions of Countering America Adversaries Through Sanctions Act ([CAASA](#)). However, that legislative act provides only: the need of making a preliminary analysis of the Russian business elite; the tightness of their contacts with the Kremlin; their possible corruptive activities; the list of their assets abroad (Section 241).

Nevertheless, Mikhelson enjoys both formal and informal relationships with Kremlin and could be involved in defending its geopolitical interests. First, last year TV Channel Russia 24 made public [the video](#) from personal Mikhelson's meeting with Putin, where the businessman reported to the Russian president about Novatek's business plans. Second, some of Mikhelson's public claims demonstrate the

scope of subordination to the Kremlin. In 2019, he [asserted](#) that Novatek's LNG deliveries might help Gazprom perform its contractual obligations in case of Nord Stream 2 would not be commissioned in time and the new transit agreement with Ukraine would not be concluded. Third, the investigation of the Anti-Corruption Foundation (led by Alexei Navalny) [has found proof](#) (Chapter 13) that Mikhelson and his partner Leonid Simanovskiy made donations for Foundation Dar, which was used to finance the building of the real estate property of Dmitry Medvedev. That fact could argue that Mikhelson is involved in corruptive clientelist Kremlin networks.



2. Expand the scope of activities included in the scope of EU sanctions (ban on technological transfer) to cover the cases of hydrogen development and carbon capture and storage.

All sanctions, as of March 15, 2022, are imposed on the Russian "energy sector," which has its definition in respective EU regulations ([Article 1, u](#)). However, their formulation does not cover emerging branches of the energy industry (e.g. hydrogen development – Novatek's MoU with Uniper) and activities that could not be prescribed to one of the categories "exploration, production, distribution, refining and liquefaction" (carbon capture and storage).



3. Ensure the Western companies leave all current assets of Novatek (foremost TotalEnergies).

The EU sanctions (as of March 15, 2022) prohibit acquiring new or increasing existing shareholdings on the Russian territory ([Article 3a](#)). Nevertheless, they do not provide any obligation to exit entirely from existing joint ventures (even considering the longer period needed for implementation of this

measure). French Total still keeps its shareholdings in Novatek, its projects and its maritime transport subsidiary. On the other side, US ExxonMobil has announced its [planned withdrawal](#) from the shareholding in the Sakhalin-1 project, where it is a project operator. This discrepancy between the commitments of energy companies from different countries could serve as a starting point for US consultations with European partners on the need to take proportionate obligations in cutting energy ties with Russia. French state retains a 15,1% share in the company, and respected mass media highlighted [close communication](#) of Totalenergies management with representatives of French state institutions concerning the Russian invasion in Ukraine. Therefore, diplomatic advocacy on the state level might have a considerable impact on the company's future steps.



4. Broaden the restrictive sanctions on the existing joint ventures of EU-registered entities with the Russian companies outside the territory of Russia.

Joint ventures outside the Russian territory could be used as possible loopholes for technological transfer and financial support, as joint exploration activities in Montenegro (with ENI) and in Lebanon (with ENI and Total), or project of integrating gas-fired power plant in Vietnam (with Total and Siemens).



5. To immediately introduce a ban on purchasing Russian LNG.

The EU sanctions list has not banned gas imports from Russia, including LNG. The fifth package of EU sanctions [is envisioned](#) to introduce a ban on Russian and Russian-operated vessels for entering EU ports. However, the sanction package [authorized](#) member states to grant exception for energy supplies “in a limited and strictly interpreted way”, which might allow some deliveries. Additionally, large shares of

LNG from the Yamal LNG project are transported by vessels [owned](#) by Novatek's foreign partners. The EU could implement embargo on Russian LNG supplies in the fastest and easiest way before the more fundamental decisions concerning long-term contracts on delivering Russian gas and oil could be met. The EU and U.S. have already [started cooperation](#) to enable the receiving of additional annual supply (50 bcm of American LNG by 2030). Therefore, the prohibition on purchasing Russian LNG could be included in the following EU sanction packages as a compromise starting point for the actual elimination of Russian gas imports.



6. Engage with Asian Allies, namely Japan and South Korea, to expand further their sanction and limit Russian energy influence in the region.

There are prerequisites for optimism in this regard: [suspension](#) of JBIC loans to Russian counterparts (directly affecting Novatek) and Korean financial sanctions against Russia imposing restrictions on payment transactions (threatening to end [cooperation with Samsung Heavy Industries](#) on construction of 15 vessels for Sovcomflot and VEB. RF which could be used by Novatek).

The primary Novatek ties in Eastern Asia which could be effectively cut in the future include: financial assistance for Novatek's LNG projects (Japanese JBIC), building transshipment infrastructure (Mitsui O.S.K Lines Ltd., Marubeni Corporation), participation in Arctic LNG-2 project (Japan Arctic LNG Consortium – Mitsui & Co and JOGMEC) and plans for obtaining its LNG deliveries on a different level of advancement (apart of Arctic LNG-2 shareholders – Korean Gas Corporation, Marubeni Corporation).

