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Russian gas exports may disrupt our LNG dream

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By 2020, Australia is set to be the world's largest LNG net exporter. But this will not last as long as Canberra once thought, with Russian firm Novatek set to disrupt Australia's LNG export dreams.

Australians are lulled into a false sense of security by policymakers who consistently push the global LNG export power narrative. We all know it — the Lucky Country, rich in resources hook.

Sure, we have vast LNG reserves and are situated in the world's future economic powerhouse: the Asia-Pacific. Basic supply-demand dynamics would have us believe that Australia is well placed to profit from the windfalls of increasing LNG demand in our regional market — demand driven primarily by China, South Korea and Japan.

Russia's Novatek is set to challenge Australia's LNG export strategy by outpacing exports and undercutting Australia's high LNG prices.

Now this is not a traditional tale of Russian foreign energy strategy, of Putin employing energy as a foreign policy weapon to punish unruly neighbours or hold overdependent customers hostage to exorbitant prices.

Novatek is not a state-owned and operated firm, the Kremlin does not call all the shots. State-owned firm Gazprom does hold just shy of a 10 per cent share in Novatek. Novatek is the first non-state-owned firm to be granted resource exploration licences in the offshore Russian Arctic, for a project dubbed Yamal LNG.

The Yamal plant is a jointly venture owned by Novatek, China's CNPC and The Silk

Road Fund, along with France's Total.

Is there a sense of legitimacy to Russian LNG coming from the Yamal field, given Kremlin control over the exports is limited? Perhaps.

More likely, customers in the region concern themselves more with the economic logic rather than the political when it comes

to their energy security.

Novatek has not masked its export agenda — it is widely known in the commercial sector that its business model is to become the world's cheapest LNG supplier.

Novatek recently unveiled that its Arctic LNG 2 project was set to reduce production costs of Russian LNG by 30 per cent. This is a significant security threat for Australia.

Geographically, Novatek's LNG plant sits within the "polar silk road", otherwise known as the Arctic's Northern Sea Route.

As a result of climate change the region is seeing reduced ice thickness, making much of the NSR navigable for LNG tankers season-round, and in summer without the need for icebreaker support.

The Yamal plant is also well placed to avoid the increasing security challenges of the Suez and Malacca LNG transit corridors — which both are vulnerable to threats of piracy and slower delivery times due to shipping congestion.

From a commercial standpoint, this makes Yamal highly desirable to the LNG importers in the Asia-Pacific. Novatek is offering a product that is cheaper, can be delivered quicker and has the potential to provide supply security well into the future.

Russian LNG exports to the Asia-Pacific is set to be a brutal challenge to Australian LNG strategy.

Australia well and truly underestimated the progress of Russian Arctic LNG and now must ask the question: can Canberra mitigate this Russian challenge to our prematurely assumed LNG footprint in the Asia-Pacific?

Perhaps our policymakers start with a refresher course on Energy Security 101 — specifically the concept of demand security.

Meanwhile, Russia's Novatek will plough ahead in increasing its Asia-Pacific LNG customer base, diluting more and more of Australia's market share.

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