



By: Tomorrow's Affairs Staff

# The Russian-Chinese gas pipeline does not have a bright future despite the signature in Beijing



Other than trying to show (to the West) mutual solidarity, the most recent meeting of leaders close to China in Beijing accomplished no concrete results.

Xi Jinping has succeeded in rallying those he believes he can count on in his rivalry with the West, particularly the USA.

The Shanghai Cooperation Organization **summit** and the parade to mark the 80th anniversary of the victory over Japan in the Second World War were performances designed to show that China is the rallying point for those willing to change the global order.

But as on many previous occasions, there was no substance to make Beijing's ambitions credible.

At first glance, one important exception was the Russian-Chinese signing of a document on the construction of the Power of Siberia 2 gas pipeline. The long-heralded project, which had been stagnant for years, unexpectedly regained momentum. Or, this is what the signatories of the document wanted, still leaving the entire story without any real progress.

Moscow took full advantage of the signing of the agreement, and the head of the state energy company Gazprom, Alexei Miller, **declared** that the document was "legally binding".

However, Beijing has maintained a conspicuous silence since the signing of the agreement, thus caution should be exercised when interpreting Russian enthusiasm.

Moreover, the fate of the project to transport Russian gas to Chinese consumers is uncertain due to a number of other constraints that have repeatedly stalled the realisation of Power of Siberia 2 in recent years.

## Good but false news for Moscow

Moscow's satisfaction with the signed document is understandable. The Power of Siberia has been seen in Russia for years as a **solution** to the insoluble problem of closing the European market for Russian gas.

Due to Russia's aggression against Ukraine, Europe has been gradually stopping the import of gas from Russia, which covered 45% of its needs until 2022. It will **reduce** this import to zero by January 1, 2028.

This means that Russia has permanently lost its largest market, where it exported a gigantic 180 billion cubic metres of gas per year until the invasion of Ukraine.

## The plans and expectations of China are quite different and give Moscow little cause for optimism

In this context, Power of Siberia 2 will serve as a crucial lifeline for the Russian energy industry and, most importantly, for the state budget, which has been severely impacted during the prolonged three and a half years of war in Ukraine.

However, the plans and expectations of China, which has a say in the launch of this gigantic project, are quite different and give Moscow little cause for optimism. This remains true even after the agreement was signed in Beijing.

## China does not want to invest

Even after the signing, one of the biggest obstacles has not disappeared, namely the financing of the megaproject. China has never been particularly willing to contribute financially to the construction of the gas pipeline, although Russia has always insisted on it.

Even if the project materialises, it will represent a huge investment for the Russian economy. Construction estimates for a gas pipeline in Russia generally range from USD 25 billion to USD 34 billion.

On the other hand, China does not have nearly as great an internal need to enter this business as Russia does. Since the pipeline might not be operational before 2030 under optimal conditions, the big question is whether Chinese consumers will really be interested in larger volumes of gas at that time.

**The new gas pipeline is in direct conflict with the Chinese strategy to rely more on renewable energy sources**

The new gas pipeline is in direct conflict with the Chinese **strategy** to rely more on renewable energy sources, especially heat pumps, to meet the needs of the economy.

This means that by the time the Power of Siberia would be operating at full capacity, it would already be outdated, Chinese consumers would be heavily orientated towards renewables, and therefore demand for gas would be questionable.

An equally significant obstacle for the Power of Siberia is the new geopolitical circumstances in which China has obtained extremely favourable prices for the purchase of Russian energy products, which will be difficult to give up.

"It's entirely possible that Beijing is still only ready to commit to part of the pipeline, and at heavily discounted rates, which has in fact been the problem for a number of years. So Russia is, in effect, still subsidising Chinese gas consumption," **said** Annette Bohr, an associate fellow in the Russia and Eurasia programme at Chatham House.

## The market is against the project

Given the slim chances of Russia emerging from the regime of Western sanctions in the foreseeable future, its negotiation space with China on energy products will remain as narrow as it is today.

Beijing certainly has this in mind, and therefore it costs almost nothing to sign the Power of Siberia 2 document to give Moscow new hope and an opportunity to ease its own position at home with some good news.



*In the initial reaction to the news from China, Gazprom lost around USD 1.2 billion in value on the stock exchange – Alexei Miller*

However, a true picture of the prospects for the realisation of Power of Siberia 2 was provided by the Moscow Stock Exchange, where Gazprom shares **plummeted** just one day after the agreement was signed in Beijing.

In the initial reaction to the news from China, Gazprom lost around USD 1.2 billion in value on the stock exchange.

This was investors' reaction to the fact that it was neither a binding document nor a real step towards implementing the project.

This situation is also seen as a new financial burden for the state-owned energy company, which has been experiencing significant losses that are 6% higher in the first half of this year compared to the same period in 2024.