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Geopolitics and Pragmatism: The Power of Siberia 2 Gas Pipeline Stalls on the Home Stretch

Experts explain the main obstacle to the mega-project's implementation and debate why Russia is considering a new transit route to the PRC

Despite previously announced progress in negotiations, the massive Power of Siberia 2 energy project has faced pressure from Beijing, which is demanding gas supplies at Russian domestic prices. The financial newspaper The Wall Street Journal cited this as the reason for the delay in signing the documents. Against this backdrop, Kazakhstan announced its readiness to participate in the initiative and proposed an alternative transit route. Experts have explained why the ambitious Eurasian pipeline is transforming from a symbol of strategic partnership into a subject of intense price bargaining, which inevitably pushes back the timeline for finalizing the deal.

Rumors from the West

The gas pipeline project to the PRC is a complex infrastructure development consisting of two concepts at different stages of implementation. The eastern branch of the "Power of Siberia" is an already operational cross-border gas transportation

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corridor to China, which was commissioned at the end of 2019. The pipeline supplies natural gas from the Irkutsk Region and Yakutia to both the domestic market of the Far Eastern Federal District and for export to the PRC. Its length is 4.5 thousand kilometers. It passes through the territory of three Russian regions – the Irkutsk and Amur regions, as well as Yakutia – and then exits into the Chinese province of Heilongjiang. The design capacity of the eastern route is 38 billion cubic meters annually.

The western branch, "Power of Siberia 2," is the next designed trunk gas pipeline, which is currently at the stage of discussion and feasibility study. This route is intended to connect fields in Western Siberia and Yamal with China through the territory of Mongolia. However, statements have recently emerged from the "powers that be" suggesting that either a part of the project or a separate branch of it could also pass through the territory of Kazakhstan. This pipeline will be integrated into the structure of the Eastern Gas Supply System (VGS). Its length is projected to be 6.7 thousand kilometers, of which just over a third of the route (2.7 thousand kilometers) will be laid on Russian soil. The throughput capacity of "Power of Siberia 2" could reach up to 50 billion cubic meters of gas per year. The planned launch date for the facility is set for 2033. Analysts expect the finalization of agreements between Russia and China on "Power of Siberia 2" to take place at the Eastern Economic Forum (EEF) in September. However, the Western press indicates that the signing of all necessary documents could have taken place earlier, but a serious dispute over the supply price is ongoing between Moscow and Beijing.

More specifically, American The Wall Street Journal reported, that during President Vladimir Putin's May visit to China the parties hit an unexpected obstacle. Beijing put forward a strict condition to Gazprom: the price of gas via the Power of Siberia 2 must be significantly lower than global rates – around $50 per thousand cubic meters. “Chinese officials made it clear to the head of Gazprom that they would only sign an agreement to build the pipeline if Russia sells them gas at the same price Moscow charges on its domestic market. Essentially, Beijing was asking the Kremlin to subsidize the project”, the publication emphasized. The publication noted that low domestic Russian prices have historically been supported by export margins. The Chinese official position is clear: if Moscow does not align with these rules, the construction process will stall, which is currently observed in the situation, as per the article.

Energy Bargaining

Domestic experts do not deny that there are challenges in finalizing the terms of gas supplies between Moscow and Beijing.

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According to Sergey Kaufman, an analyst at Finam Investment Group, the Power of Siberia 2 project has been stuck in the discussion stage for several years. China is negotiating largely from a position of strength: given the development of renewable energy sources (RES) and the high share of coal in its energy mix, Power of Siberia 2 is not a vital project for the Celestial Empire. "China will likely agree to the construction only if the price is attractive to them, which complicates the final agreements," the expert noted. "Fundamentally, we still expect Russia and China to reach an agreement in the coming years".

For China, pipeline gas from our country remains the cheapest option, while Gazprom lacks other alternative markets of such a large scale. At the same time, discussions over the details will certainly be difficult, as reflected in the media coverage. For instance, Reuters recently reported that the negotiations had been suspended, although there has been no official confirmation of this.

For Russia, the primary risks in implementing the initiative are the long-term demand for gas in China, as well as the final agreements on price. For Gazprom, Power of Siberia 2 is a massive project. As a reminder, around 140 billion cubic meters of pipeline gas were exported to the EU in 2021. Once Power of Siberia 2 and the Far Eastern route reach full capacity, exports to China could top 100 billion cubic meters per year – making them comparable to pre-conflict supply volumes to the EU, albeit at a significantly lower sales price. Russia will benefit from increased gas exports primarily through the mineral extraction tax (MET) and export duties. Moreover, Power of Siberia 2 could enable the gasification of several remote regions, and the construction itself could boost GDP, create new jobs, and increase demand for a range of related goods, such as pipes, Kaufman emphasized.

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A Challenging Negotiation Partner

"The “Power of Siberia 2” project is currently in the stage of approvals and discussions; there are no specific details yet, even regarding when the official pipeline construction agreement will be signed," continues Natalia Milchakova, lead analyst at Freedom Global. "The cost of the project has not yet been precisely determined, with estimates ranging from $10 billion to $14 billion, and some Western media outlets have even floated a figure of $16 billion to $20 billion. All of this indicates that the project is still undergoing initial discussions, and things have not even reached the point of determining a specific cost estimate. There is also no consensus on the final route of the pipeline, as the Russian and Chinese sides are discussing two options – through Mongolia and through Kazakhstan".

At the same time, the Chinese state energy corporation CNPC estimated the construction timeline of the pipeline at 8 to 10 years, while a number of Chinese experts estimated the payback period to be no earlier than 2035, assuming that construction begins no later than the start of 2027.

"It appears that the main obstacle is not geopolitics or sanctions at all, but rather difficulties in agreeing on the price," Milchakova suggested. "For instance, the Chinese side would like to purchase gas via “Power of Siberia 2” based on a price of $150 to $200 per thousand cubic meters, which, although higher, is still not much above the gas price for industrial consumers in Russia." In turn, Gazprom would like to sell gas at a price as close as possible to Asian spot exchange prices in order to pay off potential loans for this construction and recoup its massive investments faster.

In Asia, based on the JKM (Japan-Korea Marker) index, the price per thousand cubic meters of gas is approximately $585, while in Europe it has already reached nearly $600. Understandably, selling gas at such a cheap price, as Beijing desires, would not be highly profitable for Gazprom in the short term. Accordingly, it is no surprise that the negotiations between Russia and China regarding the pipeline construction are taking so long and proving so difficult.

At the same time, the launch of “Power of Siberia 2” is generally beneficial for our country. It would allow Russia to generate additional oil and gas revenues for the state budget, diversify its gas supplies and customer base, direct additional investment into the Far East regions, build the necessary infrastructure, and develop new gas fields in the same area. Furthermore, the construction of “Power of Siberia 2” could have a multiplier effect on the development of related sectors—such as the pipe manufacturing and metallurgical industries – helping to lift them out of crisis, Milchakova noted.

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Technical Variations in Implementation

Against the backdrop of rumors concerning disagreements over the implementation of the western branch of the gas pipeline, discussions about the technical integration of "Power of Siberia" and "Power of Siberia 2" via a connector pipeline in the Irkutsk Region have begun to look like theoretical exercises, despite initially being considered as a potential evolution of the project.

No final decision on this step has been made yet, although it is technically feasible. This was confirmed in the Federation Council by Artem Verkhov, Director of the Gas Industry Department at the Ministry of Energy of the Russian Federation. He believes that the two systems will be interconnected sooner or later, but pointed out a fundamental difference in their resource bases.

The active eastern branch of the "Power of Siberia" transports "wet" gas from the Kovyktinsky and Chayandinsky fields, which is characterized by a high content of various valuable components. The Amur Gas Processing Plant (GPP) and the Amur Gas Chemical Complex (GCC) were constructed specifically to process this feedstock. In contrast, the western branch of "Power of Siberia 2," which according to the original plan is supposed to pass through Mongolia to Xinjiang and Shanghai, is designed for "dry" Yamal gas. As a result, although a technical capability to link the two branches of the gas pipeline exists, the question of implementing this step remains open until an official decision is handed down "from the highest offices".

The Kazakhstan Factor and New Routes

While Moscow and Beijing haggle, Astana is attempting to seize its chance to take the initiative. In June, Kazakhstan's Deputy Minister of Energy, Kayyrkhan Tutkyshbaev, confirmed at a press conference the republic's readiness to join the project if the route is adjusted. "If there is news that the pipeline will pass through us, we will connect," he noted. "Everything necessary will be done on our part, but it is too early to draw conclusions. Negotiations between Kazakhstan and China on the project are ongoing." For Kazakhstan, the potential shift in the geography of "Power of Siberia 2" signifies not only transit revenues but also a pathway to gasifying its northern and eastern regions.

The fact that Kazakhstan and Russia are working out the launch of a gas route to China through the republic's territory became known back in late May from statements by the Minister of Energy of the Republic of Kazakhstan Yerlan Akkenzhenov.

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"We have begun discussing the so-called 'Power of Siberia 2' – though its working name is different – carrying up to 38 billion cubic meters of gas through the territory of Kazakhstan to the territory of the PRC," he told journalists during the V Eurasian Economic Forum in Astana. He added that the authorities want the transit to pass through the Central Asian republic and are ready to "provide all conditions and guarantees, plus additional consumption along Kazakhstan's territory." In parallel, Astana plans to scale up domestic consumption to strengthen the energy security of its northern and eastern regions.

Questions Regarding the Gas Deal

Experts hold differing views on the prospects of this initiative. According to Sergey Suverov, an investment strategist at Arikapital Management Company, the proposal to transit Russian gas through Kazakhstan alongside Mongolia has been under discussion for a long time; however, he stresses that this is not a replacement for "Power of Siberia" but rather an additional logistical route. The core project agreed upon with Beijing is set to pass through Mongolia, while the Kazakh route is being considered as a parallel initiative that is still in the preliminary stages. Its launch is likely only after agreements on "Power of Siberia 2" are finalized.

Yet, some market observers were surprised by this transit shift. "Such statements come as quite a surprise – while a route through Kazakhstan had been considered in the past, recent statements from Russian officials implied that the Mongolian route would be the main one," Kaufman noted. For the Russian supplier, choosing a route through Kazakhstan would be moderately negative: the primary "Power of Siberia 2" project entails a supply volume of 50 billion cubic meters, whereas discussions regarding the Kazakh route mention only 35 billion cubic meters per year. Furthermore, the route through the Central Asian republic appears to be more logistically complex, the expert explained.

However, there are alternative assessments on this matter as well. "The proposal to run the pipeline to China through Kazakhstan has a solid logistical and economic foundation," argues Maksim Maksimov, Associate Professor at the Department of Innovation and Industrial Policy Management at Plekhanov Russian University of Economics. "From a purely geographical standpoint, the Kazakh route could turn out to be shorter than the path through Mongolia, which reduces upfront capital expenditure on construction." Nevertheless, the key motivation for Astana is the opportunity to resolve the chronic gas shortages and fuel deficits in its own northern and eastern regions. According to publicly available statistics, domestic consumption growth in Kazakhstan has averaged about 7% annually over recent years; during the winter period, the republic

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is even forced to suspend its own gas exports to China, drawing dissatisfaction from Beijing. The proposed framework suggested that out of 45 billion cubic meters of throughput (according to earlier versions), 10 billion would remain in Kazakhstan's domestic market, while the remaining 35 billion would go to China – simultaneously solving the neighboring republic's energy deficit while securing transit for Moscow.

The Natural Gas of Contradictions

For Russia, this project is part of a complex set of negotiations with Beijing aimed at diversifying gas supplies. On one hand, Moscow is striving to maximize the replacement of lost European export volumes with Asian contracts, which requires routing flexibility. The proposal of the Kazakh option serves as a sort of "backup plan" in the event that negotiations drag on regarding the Mongolian route, which, despite the signed memorandum, is technically and contractually not yet finalized, the scholar argues.

However, experts remain divided on this matter as well. "In our view, the statements from the Kazakh official should not be taken as an unequivocal shift away from Mongolia in favor of Kazakhstan," Kaufman cautions. "In our forecasts, we fundamentally continue to assume that “Power of Siberia 2” will pass through Mongolia, with a capacity of 50 billion cubic meters per year".

Nevertheless, as Ivan Efanov, an analyst at Cifra Broker, points out, negotiations with Beijing over pricing and terms have already dragged on significantly, and this situation has given rise to an alternative – the route through Kazakhstan. A potential increase in transit would bring additional stable revenues. The main advantage of pipeline supplies is that they are entirely insulated from Western sanctions, price caps, vessel insurance costs, and the expensive freight rates of the "shadow fleet," the expert emphasized. "The more long-term export contracts Russia secures, the more stable the foreign currency revenues and budget inflows become: gas remains a critical component of Russian energy exports alongside oil and petroleum products," noted Ivan Petrov, Professor at the Faculty of Economics and Business of the Financial University under the Government of the Russian Federation.

According to estimates by the International Energy Agency, Russia already holds a leading position in the volume of pipeline gas supplied to China, and exports via the “Power of Siberia” have reached their target metrics, securing a daily throughput of over 100 million cubic meters. Even if implemented as a secondary tier, the new route, according to Maksimov, will allow

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Gazprom to lock in its market share in the growing Chinese market – which, in the long term, is far more vital for the company's financial health than short-term price fluctuations.

Supporting the State Treasury

For Russia's domestic energy market, the emergence of this narrative carries primarily signaling weight. It confirms the definitive shift in logistical priorities: while the country's entire gas transportation system was geared toward the Western direction during the Soviet era, today – as noted in industry commentaries – the new network of oil and gas pipelines is actively expanding East and South, shifting balances across the entire Eurasian space. This shift could stimulate the development of gas processing and petrochemical infrastructure in Russia's eastern regions, though the project will likely remain unnoticeable to the average Russian consumer, the scholar believes.

In one form or another, "Power of Siberia 2" remains the anchor project for the gradual reorientation of Russian gas to the East. "It certainly will not fully compensate for the lost European market, partly due to lower realized sales prices, but it will partially offset the losses," Kaufman emphasized. As a reminder, the Russian Federation supplied roughly 140 billion cubic meters of gas to the EU in 2021, compared to about ten times less now. Even if the capacity of "Power of Siberia 2" turns out to be only 35 billion cubic meters, total supplies to China – factoring in the Far Eastern route – will climb from the current 39 billion cubic meters to 91 billion cubic meters per year, the expert explained. This will generate a far more substantial positive impact on the Russian economy. Ultimately, the benefit could be even higher, as everything hinges on the final implementation details, which remain under discussion.

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