



## Novatek Issues FM Notices to Arctic LNG 2 Buyers

Russia's Novatek has issued force majeure (FM) notices to long-term customers that are contracted to lift Arctic LNG 2 supply, according to sources. The notices follow two rounds of US sanctions targeting 19.8-MMt/y Arctic LNG 2 since October, which look set to jeopardize the international partners' participation in the project. Novatek received a FM notice from the three-train Arctic LNG 2 project in late November, which said the facility was unable to fulfill its production and delivery obligations due to two factors.

Firstly, because of the latest US sanctions on the project entirely and directly, and secondly because of the lack of LNG vessels for loadings (a subsequent result of US sanctions). Novatek has a 60% operating stake in Arctic LNG 2, which will give it access to 11.88 MMt/y of supply across three trains, or close to 4 MMt/y from the first train.

Novatek then passed on the FM to term buyers whose contracts specified offtake from Arctic LNG 2, sources said. The Russian firm has sale and purchase agreements with Shell, Vitol, Gunvor, China's ENN, Zhejiang Energy and Shenergy, and Spain's Repsol. It also has a strip deal with Japan's JERA Global Markets for around six Arctic LNG 2 cargoes, with deliveries to start in 2024. Novatek also operates and offtakes from the 17.4-MMt/y Yamal LNG plant, which sends cargoes mainly to Europe, where spot prices have been elevated since Russia's invasion of Ukraine in February 2022. The US has not imposed sanctions against Yamal LNG.

Besides Novatek's 60% stake in Arctic LNG 2, other stakeholders (each with a 10% stake) include TotalEnergies, China's CNOOC and PetroChina, and a Japanese joint venture comprised of Mitsui and Jorgmec. TotalEnergies is expected by some to be ready to exit its Russian LNG businesses. The Chinese and Japanese stakeholders, meanwhile, were heard to have commenced the long process of applying for sanctions waivers from the US Office of Foreign Assets Control.

All the minority stakeholders are likely to be cautious when loading Arctic LNG 2 cargoes, assuming the plant starts up at the end of this year as planned. There are sanctions-related issues with financing – although some of the risks of breaking sanctions can be circumvented with Chinese yuan payment for cargoes, shipping and other associated services in the loading and delivery chain.

Novatek is determined to start up the Arctic LNG 2 project. The firm may be looking at setting up a separate cargo-loading entity to circumvent the sanctions, like fellow Russian producer Sakhalin Energy. Novatek is likely to find a way to deliver its cargoes and may have sent out the FM notice to protect itself, said one source. It plans to start up Train 1 at the end of this year and reach design capacity in 1Q 2024, start Train 2 by the end of 2024 and Train 3 by the end of 2026. Train 1 is understood to have produced a small amount of LNG this month.

A direct blacklist of the entire Arctic LNG 2 project is the latest in a string of US sanctions targeting the facility. The US had earlier sanctioned two floating storage units (FSUs) that were to be deployed at

Kamchatka and Murmansk to facilitate and optimize Arctic LNG 2 deliveries. The operator of the two FSUs, Arctic Transshipment, and a host of other companies providing engineering, technology and/or construction services to the project were also sanctioned.

Yamal LNG does not need to use the FSUs at present because it has sufficient shipping capacity to deliver production. It started ship to ship transfers (STS) in the Kildin Strait east of Murmansk this month. It did STS in the same location earlier this year, in 2021 and 2022. The STS optimize use of the Arc7 ice breaking LNG vessels chartered to the plant.