The New Pipeline Agreement Between Russia and China

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Introduction

Russia's Gazprom said on 2 September 2025 that four documents had been signed with China National Petroleum Corporation (CNPC), including the Agreement on Strategic Cooperation, apparently pointing to a "legally binding memorandum (юридически обязывающий меморандум) on the construction of the Power of Siberia 2 ("Сила Сибири 2") gas pipeline to China and the Soyuz-Vostok ("Союз - Восток" indicating "Union East") transit gas pipeline through Mongolia".

Gazprom has said that in May 2025 the total volume of gas supplies to China via the "Eastern" route exceeded 100 bcm. In 2025, supplies are 28.3% higher than 2024, according to the company. In February 2022, Gazprom and CNPC signed a long-term SPA (Sale and Purchase Agreement) for natural gas via the "Far Eastern" route (по проекту «дальневосточному» маршрут) for 10 bcm per year with deliveries to begin in 2027. This time commercial agreements were signed between Gazprom and CNPC on increasing gas supplies to China via the Power of Siberia gas pipeline from 38 bcm to 44 bcm per year and on increasing gas supplies via the Far Eastern Route project from 10 bcm to 12 bcm.

The agreements represent a strategic realignment with the two sides consolidating their energy partnership and shifting market dynamics. However, the economic viability, technical execution, and geopolitical stability of these projects remain uncertain, and their full impact will depend on how these unresolved issues are addressed in the coming years.

1 The significance of the agreements this time

The latest agreements between the two sides, including the "legally binding memorandum" for the Power of Siberia 2 pipeline, are politically and strategically significant. They signal a deepening energy partnership and a limitless alignment between the two sides.

1.1 **Russia's Pivot to the East:** For Russia, these deals are a crucial step in offsetting the loss of its European gas market. The Power of Siberia 2 pipeline, with a planned capacity of 50 billion cubic meters (bcm) per year, would open up a new major export route for gas from its Western Siberian fields, which were previously tied to the European market.

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1.2 **China's Energy Security:** For China, the agreements enhance its energy security by diversifying its gas supply. The new pipeline and increased capacity on existing routes reduce China's reliance on seaborne liquefied natural gas (LNG) imports, which are more vulnerable to geopolitical tensions and global price fluctuations.

1.3 **Strategic Expansion:** The signing of four documents, including a legally binding memorandum on the construction of the Power of Siberia 2 and Soyuz-Vostok pipelines, signals a deepening of strategic energy ties between Russia and China.

1.4 **Massive Scale:** The Power of Siberia 2 pipeline is projected to deliver 50 bcm per year of gas to China via Mongolia, making it one of the largest and most capital-intensive gas projects globally.

1.5 **Diversification of Routes:** These agreements expand the existing Power of Siberia pipeline (from 38 bcm to 44 bcm per year) and the Far Eastern route (from 10 bcm to 12 bcm per year), enhancing supply flexibility and security.

1.6 **Political Symbolism:** For Russia, this is a flagship of its "pivot to Asia" strategy, compensating for lost European markets post-Ukraine invasion. For China, it reinforces its energy security and geopolitical alignment with Russia.

2 Challenges faced with the relevant parties to the agreements

What challenges are faced with the relevant parties to the agreements, as details of the deals - commercial terms especially terms and conditions of gas sales and technical aspects of the proposed pipeline (Power of Siberia 2) - are yet sketchy and seem to be unresolved at this moment? Despite the political backing, challenges remain, preventing the agreements from being finalized into a full contract.

2.1 **Pricing:** This is the primary sticking point. CNPC is reportedly pushing for heavily discounted gas prices, closer to Russia's subsidized domestic rates. Gazprom apparently wants a price formula similar to its existing Power of Siberia 1 contract, which is linked to the Asian oil-product basket and is higher than what China is seeking. The potentially lower gas prices could undermine the economic viability of the pipeline.

2.2 **Take-or-Pay Terms**: Lower minimum offtake commitments that CNPC may seek would increase the risk of underutilization of the pipeline.

2.3 **Mongolia's Role:** The pipeline must transit Mongolia. This adds another layer of complexity.

2.4 **Technical Feasibility:** Construction across vast terrains and harsh climates naturally poses logistical and engineering challenges.

2.5 **Financing:** The cost of the project is a major hurdle. Gazprom has traditionally financed such projects alone, but discussions are apparently ongoing about potential Chinese financing, which could come with strings attached. Allocation of the construction costs will be a major question.

2.6 **Finalization:** While a memorandum has been signed as a binding one, it is yet different from a binding supply contract, which can only be concluded after a mutual agreement on the key commercial terms and conditions of gas sales.

3 Expected impacts from the agreements and ensuing gas trades on the regional Northeast Asian and the global gas and LNG markets

The agreements and the potential for a massive new gas pipeline have significant implications for both the regional Northeast Asian and the global gas and LNG markets.

3.1 **Shift in Market Dynamics:** The new pipeline would create a structural "East-West divide" in global energy markets, notably in the Eurasian continent, with Russia's gas increasingly flowing east. Specifically, increased pipeline gas reduces China's reliance on the LNG market and maritime routes like the Strait of Hormuz. The Soyuz-Vostok transit line could elevate Mongolia's geopolitical importance, though it entails risks of regional tensions.

3.2 **Impact on LNG Markets:** The potential for a massive influx of pipeline gas from Russia could dramatically alter China's future LNG demand. This could give Chinese companies leverage in negotiating new LNG contracts with global suppliers as existing agreements expire. If Power of Siberia 2 ramps up in the 2030s, it could have impacts on the LNG market balance and prices.

4 Risks involved in the developments

The strategic alignment between Russia and China through these energy deals, while beneficial for both countries, is laden with significant geopolitical risks and consequences.

4.1 **Russia's Single Buyer Dependence:** With Europe phasing out Russian gas imports, China becomes Russia's primary customer. This gives China leverage over pricing and contract term. By pivoting from Europe to China, Russia risks becoming a subordinate partner to China. China is apparently pushing for low prices and flexible take-or-pay terms, which could make the pipeline economically unviable for Gazprom. This dependence could leave the Russian side with little room to maneuver in future disputes or negotiations.

4.2 **China's Supply Concentration:** While the new pipelines diversify China's gas sources away from LNG, they also create a new form of reliance on a single, long-distance pipeline supplier. This could become a geopolitical vulnerability reminiscent of Europe's past dependence on Russian gas. China's leaders are known for their focus on diversification, and an over-reliance on Russian gas goes against the long-standing policy of diversification. China is cautious about over-reliance on Russian gas. Even with pipeline expansion, it seeks flexibility in volumes and pricing and is expected to continue investing in renewables and LNG diversification.

4.3 **Challenge to Western Influence:** The agreements are a clear signal of Russia and China's united front. By signing a "legally binding memorandum" for a new pipeline, they are demonstrating their ability to forge a new energy and political bloc. This could also provoke further sanctions, which could in turn hinder the project's financing and access to crucial technology.

4.4 **The Pricing:** China's push for a heavy discount reflects its strong negotiating position and Russia's weakened bargaining power. A deal on China's terms would reinforce the perception of Russia as the junior partner in the relationship, while a failure to reach an agreement would undermine Russia's strategic pivot.

4.5 **Mongolia Transit Uncertainty:** The Power of Siberia 2 pipeline must pass through Mongolia. Mongolia's geopolitical balancing adds complexity.

5 A "legally binding memorandum" (юридически обязывающий меморандум)

During the announcement of the deal, "legally binding" was placed in front of "memorandum", although a memorandum usually only states key principles of an agreement and does not include specific conditions to be legally observed. The suspected intention behind the phrase "legally binding memorandum" seems to be a strategic and political one, aimed at demonstrating a concrete commitment without finalizing the critical commercial details. By labeling it "legally binding", the parties may be signaling to stakeholders (governments, investors, and markets) that the project is firmly committed, even if specific commercial terms are still under negotiation.

5.1 **The Political and Strategic Message:** The most significant purpose of using the wording is to send a strong political signal. By calling the memorandum "legally binding," the parties are signalling to the world that their strategic energy partnership is moving forward. This phrase elevates the document from a mere statement of intent to a more serious commitment.

5.2 **Acknowledging a New Level of Commitment:** A traditional memorandum of understanding (MoU) is often a non-binding framework that states a shared intention. By adding "legally binding," the parties suggest that they have advanced beyond the preliminary stages of negotiation. While the final and most critical terms are not yet agreed upon, the memorandum is intended to legally obligate the parties to continue the negotiation process in good faith, and to refrain from seeking alternative partners.

5.3 **Acknowledging Progress on the Route:** For years, a major point of contention was not just the price, but the route of the pipeline. The memorandum's specificity about the "Soyuz-Vostok transit gas pipeline through Mongolia" indicates that a final agreement on the route has been reached. This is a significant milestone, and the "legally binding" language likely applies to the commitment to the route.

5.4 **Managing Internal and Public Expectations:** For Russia, the phrase is a crucial domestic and international propaganda tool. Facing the loss of its European gas market, Gazprom has been under pressure to secure a viable replacement. Announcing a "legally binding" deal, even without the commercial terms, creates an image of success, resilience, and effective redirection of its energy strategy.

5.5 In summary, while the memorandum does not function as a final gas sales contract with all the necessary details, the deliberate use of the phrase "legally binding" could be a powerful tool.

A timeline of key developments between Gazprom and CNPC

Year	Event
1990s	Negotiations for a gas pipeline from Russia to China begin
2004	A strategic cooperation agreement
2006	A protocol for export of gas
2009	A framework agreement, setting the basic terms for gas supplies
2014	A 30-year SPA for the Power of Siberia 1 pipeline
2019	Power of Siberia 1 begins gas deliveries to China
2020-2024	Annual deliveries exceed contractual volumes; Daily supply hits max level in December 2024
Feb 2022	An SPA for the Far Eastern route (10 bcm per year), starting in 2027
Sep 2022	An agreement to begin a feasibility study for the Power of Siberia 2
Jun 2025	Agreements to construct and operate the cross-border section of the Far Eastern pipeline
Sep 2025	A legally binding memorandum for Power of Siberia 2 (50 bcm per year) and expand existing routes (PoS1: from 38 bcm to 44 bcm per year; Far East: from 10 bcm to 12 bcm per year)

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