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Legal Alert

Amendments to the Federal Law
No. 117-FZ from 18 July 2006 “On
exporting gas” (Law “On exporting gas”)

On 02 November 2023, the President of the RF signed Federal Laws No. 514-FZ and No. 515-FZ which provide for expanding the list of exporters of liquefied natural gas (LNG)

The Federal Law adopted in 2006 “On exporting gas” solidified PJSC Gazprom’s monopoly on the export of gas (with the aim to fulfill the RF’s international obligations, prevent the exhaustion of non-renewable natural resources, and ensure the optimal protection of the state’s fiscal interests as well as the country’s energy security). Initially, the monopoly extended to all types of such exports. However, exceptions related to liquefied natural gas (LNG) already began to appear as early as 2013.

In April 2020, new strides were made in relation to the liberalization of LNG exports with the introduction of amendments to the Federal Law of 24 April 2020 “On exporting gas”. These amendments granted the right to export LNG to companies:

- (i) with a license to use subsoil plots of federal significance which, on 01 January 2013, provided for the construction of an LNG production plant or the transfer to such a plant of gas extracted for liquefaction
- (ii) mentioned in item (i) above, with a license to use subsoil of federal significance which was issued after 01 January 2013
- (iii) producing LNG whose participatory interest (direct or indirect) is more than 50% controlled by the state with a license to develop offshore fields (including within the framework of implementing PSAs), as well as to the subsidiaries owned by more than 50% by such companies
- (iv) who are subsoil users of subsoil plots of federal significance that have received their license after 01 January 2013 and have the production capacity to liquefy natural gas under the condition that such subsoil users are controlled (directly or indirectly) by persons who are themselves controlled (also directly or indirectly) by persons mention in (i) and (ii) above

However, taking into account the present circumstances of the significant reduction of LNG exports to the EU as well as the resulting availability of industrial capacity for the production of gas and its transport, the legislator adopted a resolution to supplement the abovementioned list with a new category of exporters.

Thus, Law No. 515-FZ grants companies the right to export LNG provided said potential exporter **simultaneously** meets the following criteria:

- (i) the company is carrying out an investment project that is included in the industrial strategic planning documents of the Russian Federation in the energy sector
- (ii) said investment project provides for the creation (construction) and operation of LNG production facilities that each produce more than 20 tons of LNG per hour
- (iii) the participatory interest in the company consists of more than 50% (directly or indirectly) of persons who are users of subsoil plots of federal significance whose licenses issued on 01 January 2013 provided for the construction of a plant for the production of LNG or for the transfer of extracted gas for liquefaction to such a plant, as well as those producing LNG from natural gas in a gaseous state extracted from subsoil areas of federal significance whose relevant licenses for such use were issued after 01 January 2013

Law No. 514-FZ, in turn, broadens the range of companies with state participation that have the right to export LNG. Now, companies that have more than 50% of their participatory interest controlled (directly or indirectly) by the state, as well as their subsidiaries owned by more than 50%, have the right to export LNG if such companies have a license to develop not only offshore fields, but also **onshore fields** wholly or partially located north of 67 degrees north latitude.

Furthermore, the abovementioned companies with state participation can produce LNG from both natural gas as well as **petroleum (associated) gas**.

It is also worth mentioning that the export of LNG as **supplies** connected with the use of watercraft is no longer regulated by the Law “On exporting gas”.

These amendments expand the list of companies/subsoil users that have the right to export LNG to a certain extent and simplify the implementation of LNG products since they allow exporters to decouple gas liquefaction and LNG export projects from the gas produced at a specific field located within a certain subsoil area.

Such changes will potentially minimize situations where exporters are forced to enter into commission agreements with Gazprom for the purpose of LNG exports.

In actuality, the number of companies engaging in the export of LNG will not significantly increase since the provisions of Law 515-FZ are, first and foremost, geared towards companies that are within the same group of companies as an organization that already has the right to export gas in accordance with the previously existing requirements of the Law “On exporting gas”.

Nevertheless, these resolutions adopted by the legislator may cumulatively stimulate the further development of LNG production in Russia, particularly in the northern regions.

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