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POWER OF SIBERIA 2: The Russia-China pipeline that could redefine global energy markets

An FT Live report

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1 Introduction

Russia's invasion of Ukraine has caused a profound shift in the country's economic strategy. Cut off from its traditional partners in the US and Europe, Moscow has turned eastward, deepening economic ties with Beijing. The partnership has since been strengthened, driven by strategic necessity and bolstered by a shared desire to counterbalance US influence.

The growing alignment between Moscow and Beijing reflects their shared ambition to present an alternative to the Western-led global order. In February 2022, just days before Russia launched its full-scale invasion of Ukraine, Vladimir Putin and Xi Jinping declared that the partnership between their two nations had "no limits." Since then, Putin has emphasised his frequent communication with Xi as evidence of the "strategic nature" of their relationship.

> Western countries have been saying for centuries that they bring freedom and democracy to other nations . . . Nothing could be further from the truth.
>
> Vladimir Putin, *President of Russia*

Economic cooperation between Russia and China has intensified as Moscow seeks to offset the collapse in revenue caused by Western sanctions. Since the invasion of Ukraine, Russian energy exports to Europe have plummeted. Pipeline gas and oil flows to the continent have fallen by more than 80 per cent, while coal exports have dropped by almost 100 per cent, according to the European Union Institute for Security Studies. In contrast, trade with China has surged — Chinese exports to Russia rose by more than 70 per cent between 2021 and 2024.

A key development in this relationship is a preliminary agreement to build the Power of Siberia 2 pipeline, which would carry natural gas from Russia to Northern China via Mongolia. The project serves both countries' strategic interests: Russia is seeking to replace revenue lost after its invasion of Ukraine, while China's growing energy demand has made supply diversification a priority.

Yet the implications extend well beyond the two nations. If completed, the pipeline could reshape the balance of global gas trade, with lasting consequences for LNG producers, buyers and traders worldwide.

2 Growing economic ties

The departure of Western firms from the Russian market created widespread supply gaps. Chinese manufacturers were quick to step in, capitalising on the opportunity to expand their footprint across multiple sectors. As a result, bilateral trade has almost doubled from $147bn in 2021 to $245bn in 2024.

Russian trade with China rose after the invasion of Ukraine

Trade in goods, total over previous 12 months ($bn)

Source: IMF DOTS

Their trading relationship, however, is profoundly uneven. Despite being one of few countries that runs a bilateral trade surplus with China, Russia remains substantially dependent on it for access to its sales market. China now accounts for around 30 per cent of Russian exports, a share that has held steady over the two years to 2024, making it Russia's largest trading partner, according to the Centre for European Policy Analysis.

Russia’s reliance on China extends beyond exports. Its consumer market has grown increasingly dependent on Chinese imports, which rose from 23 per cent of total Russian imports in 2022 to 57 per cent by 2024, according to the same research. By contrast, while China has become essential to Russian supply chains, Russia remains a far less significant supplier to China. Its share of Chinese imports has barely shifted since 2021 and is concentrated largely in energy commodities.

China has therefore cemented its position as Russia’s most important trading partner. As Moscow’s economic isolation deepens, it has grown increasingly reliant on Chinese demand and imports to keep key sectors afloat.

The balance of power in the relationship, however, favours Beijing. China retains the ability to reduce economic cooperation if the political or financial risks become too high. Russia, with few alternative partners, does not enjoy the same flexibility. This dynamic has given China significant leverage over its increasingly dependent neighbour, meaning that the economic stakes for Russia are far higher and would face significantly greater losses if their relationship was to fracture.

> “
> The economic relationship between China and Russia is already very high, in part because of the war in Ukraine, and there may not be a lot of additional potential.
>
> Li Mingjiang, professor, *Nanyang Technological University*

3 Path to Power of Siberia 2

Although Russia is one of the few countries to maintain a bilateral trade surplus with China, this surplus is concentrated in a single category: fossil fuels. Oil accounts for the majority of Russia's exports, while natural gas makes up a minority share, mainly due to a lack of suitable infrastructure necessary to ship LNG from Russia to China.

This clearly illustrates Russia's growing dependence on access to the Chinese market. Since 2021, Russia's share of China's fuel imports has risen by only six percentage points, whereas China's share in Russia's energy exports has surged from 25 to 38 per cent.

This relationship is set to intensify, as the two countries have signed an agreement to build the Power of Siberia 2 pipeline in September 2025. The deal is a 30-year agreement to supply gas via a new pipeline from the Russian Arctic to northern China through Mongolia. Once finalised, the Power of Siberia 2 pipeline would allow China to import Russian gas at significantly higher volumes for the first time. The project would deliver up to 50 billion cubic metres (bcm) of gas annually, which is roughly equivalent to the volumes Russia once sent to Europe.

The potential flows from the pipeline are comparable to the UK's annual gas consumption and would meet a substantial portion of China's projected demand growth of 150 bcm over the same period, according to estimates by Bernstein analysts. If fully operational by 2030, the pipeline could supply up to 40 per cent of China's pipeline gas imports.

For Russia, the project represents a critical financial lifeline. In addition to helping compensate for lost revenues post-February 20222, the $14bn infrastructure investment has the potential to reshape how Russian pipelines are funded. Unlike previous projects, China could offer loans or direct capital investment, altering the pipeline's economic structure and potentially setting a precedent for future cross-border ventures.

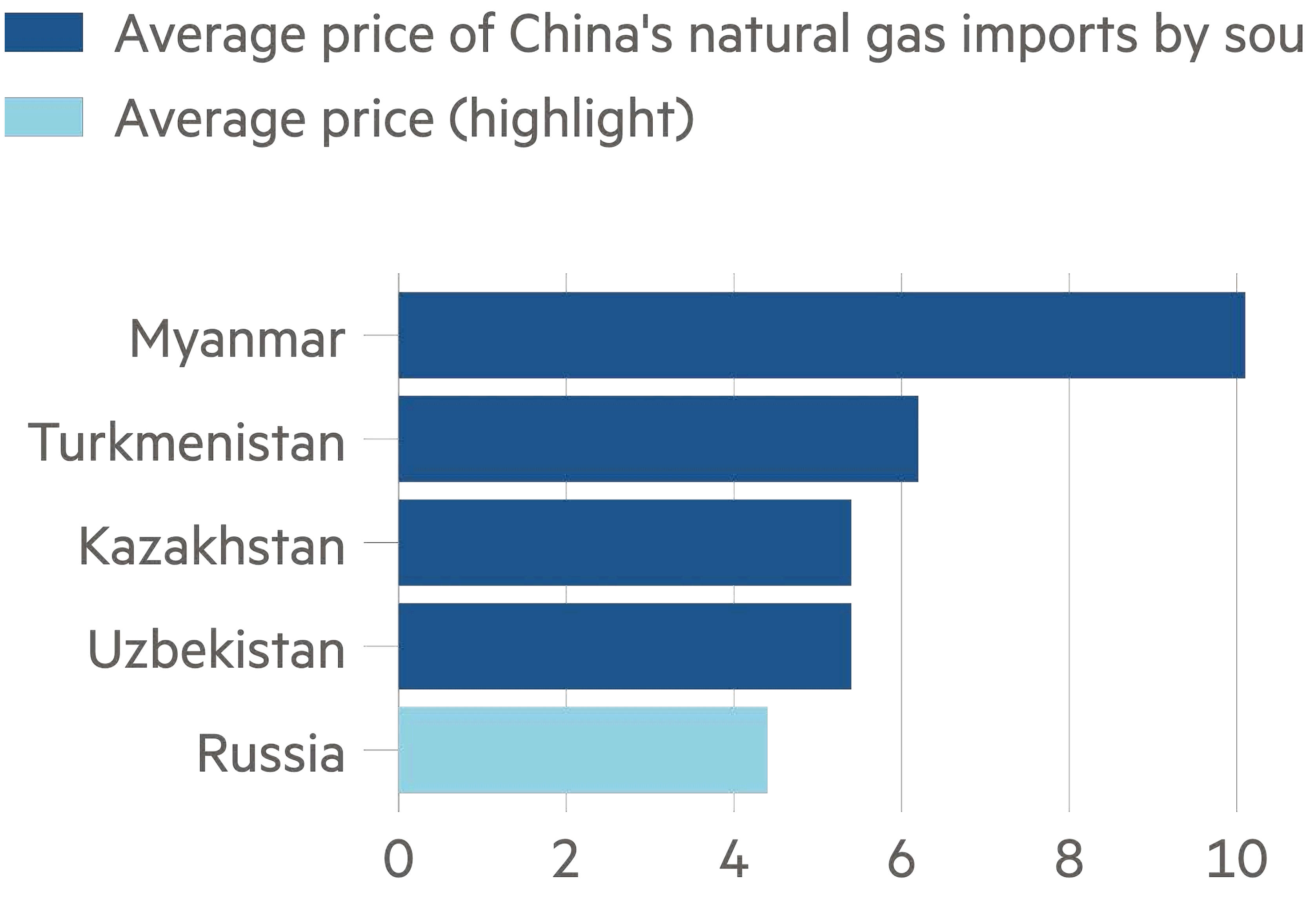
Such a move would also mark a turning point in the Sino-Russian economic relationship. Since 2022, Chinese firms have largely refrained from investing in Russia's energy sector. A financial stake in Power of Siberia 2 would signal a re-engagement and a deeper strategic commitment from Beijing.

Despite the project's promise, the two parties have not yet established the commercial terms of the Power of Siberia 2 pipeline project. Pricing remains the central sticking point. China holds significant leverage in the negotiations and is likely to ask for higher prices than those aligned with European or market-based Asian benchmarks. In initial discussions, Chinese negotiators reportedly pushed for prices close to Russia's heavily subsidised domestic rates. Beijing is seeking to secure cheap, long-term supply that would offer limited margins for Gazprom, while strengthening China's energy and industrial security.

Finalising the commercial terms of Power of Siberia 2 is critical for Russia as energy revenues continue to decline and Gazprom faces mounting financial pressure. In September 2025, the Russian government reported a 26 per cent year-on-year drop in oil and gas revenues, reflecting the combined impact of sanctions, Ukrainian drone attacks and persistent geopolitical instability. Gazprom, once a pillar of Russia's economy, has been particularly hard hit. In 2023, it posted a first net loss since 1999 of $6.8bn following a collapse in gas revenues. Power of Siberia 2 is likely to become even more important for Russia as the EU bans Russian LNG imports for long-term contracts from 2027.

Russia continues to leverage its cheap gas

Average price of China's natural gas imports by source ($/mn British thermal units)



Source: The Center on Global Energy Policy, Columbia University

While the Kremlin is keen to fast-track the Power of Siberia 2 project, China has so far held back from making a firm commitment. This hesitation appears to be a calculated move. By delaying a final agreement, Beijing strengthens its negotiating position fostering uncertainty over whether it might walk away from the deal entirely. This ambiguity puts pressure on exporters to offer more favourable terms and reinforces China's bargaining power in a tight global market. The project also serves a strategic purpose for Beijing: a lever it can activate should relations with the United States continue to deteriorate.

Even if Power of Siberia 2 is completed as planned, Russia's total pipeline gas exports to China (projected at around 106 bcm a year) would still amount to only half the volume it once supplied to Europe, which approached 200 bcm annually before the full-scale invasion of Ukraine. Moreover, Russia is likely to earn less from selling similar volumes to China. In addition to Chinese leverage, expected lower prices are also in part because the gas fields are closer to the Chinese border and transport costs are reduced. As a result, it remains uncertain whether the pipeline will be enough to compensate for the revenue Moscow has lost from diminished European energy sales.

Some analysts argue that commercial returns may be a secondary concern to Russia. According to Tatiana Mitrova, a fellow at Columbia University's Center on Global Energy Policy, the Kremlin appears more focused on demonstrating that it can successfully redirect energy flows eastward after being cut off from its most lucrative European markets.

4 Regional project, global implications

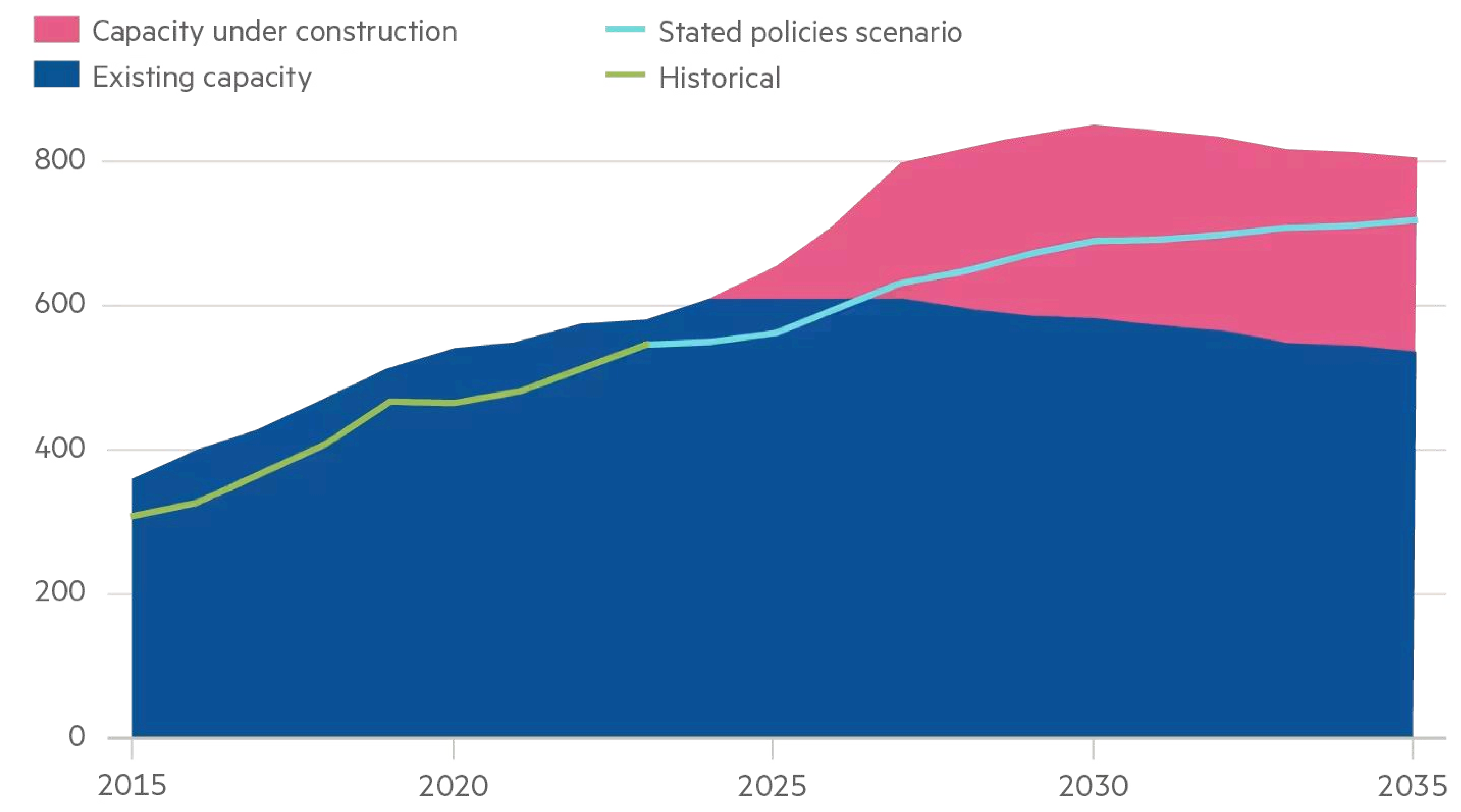
The scale of the Power of Siberia 2 project is such that its potential impact on global energy markets is difficult to overstate. The planned annual capacity of 50 bcm exceeds Russia's total current LNG exports, which stand at 43 bcm, and comes close to Africa's entire LNG output of 56 bcm, according to the Center on Global Energy Policy at Columbia University (CGEP). If finalised, the deal could alter global demand forecasts, influence investment decisions and shift contract strategies across the LNG sector.

Western LNG producers may face reduced demand from the world's largest buyer and be forced to offer more competitive terms. The Power of Siberia 2 project may also shift the economics for companies considering further investment in LNG export infrastructure, particularly in the United States, according to Anne-Sophie Corbeau, global research scholar at the CGEP.

This comes as the US continues to expand its LNG export capacity, a trend that accelerated following sanctions on Russian LNG and efforts to replace lost volumes in Europe and elsewhere. A long-term pipeline deal between Russia and China could dampen expectations of Chinese demand for US LNG, potentially reshaping investment priorities across the sector.

LNG capacity and trade

Billion cubic metres



Source: International Energy Agency

According to the Center on Global Energy Policy, around 75 bcm per year of Chinese LNG contracts are set to expire during the 2030s. Access to low-cost Russian pipeline gas would give Chinese importers a strong negotiating position, offering a credible alternative to global suppliers and likely exerting further downward pressure on LNG prices. Major exporters such as Australia, Qatar, and large portfolio players would be particularly exposed, according to the CGEP.

Industry experts have raised concerns that the rapid expansion of US LNG capacity risks oversupplying the global market and driving prices down. The United States, currently the world's second-largest LNG exporter, is on track to more than double its export volumes by the end of Donald Trump's second presidential term.

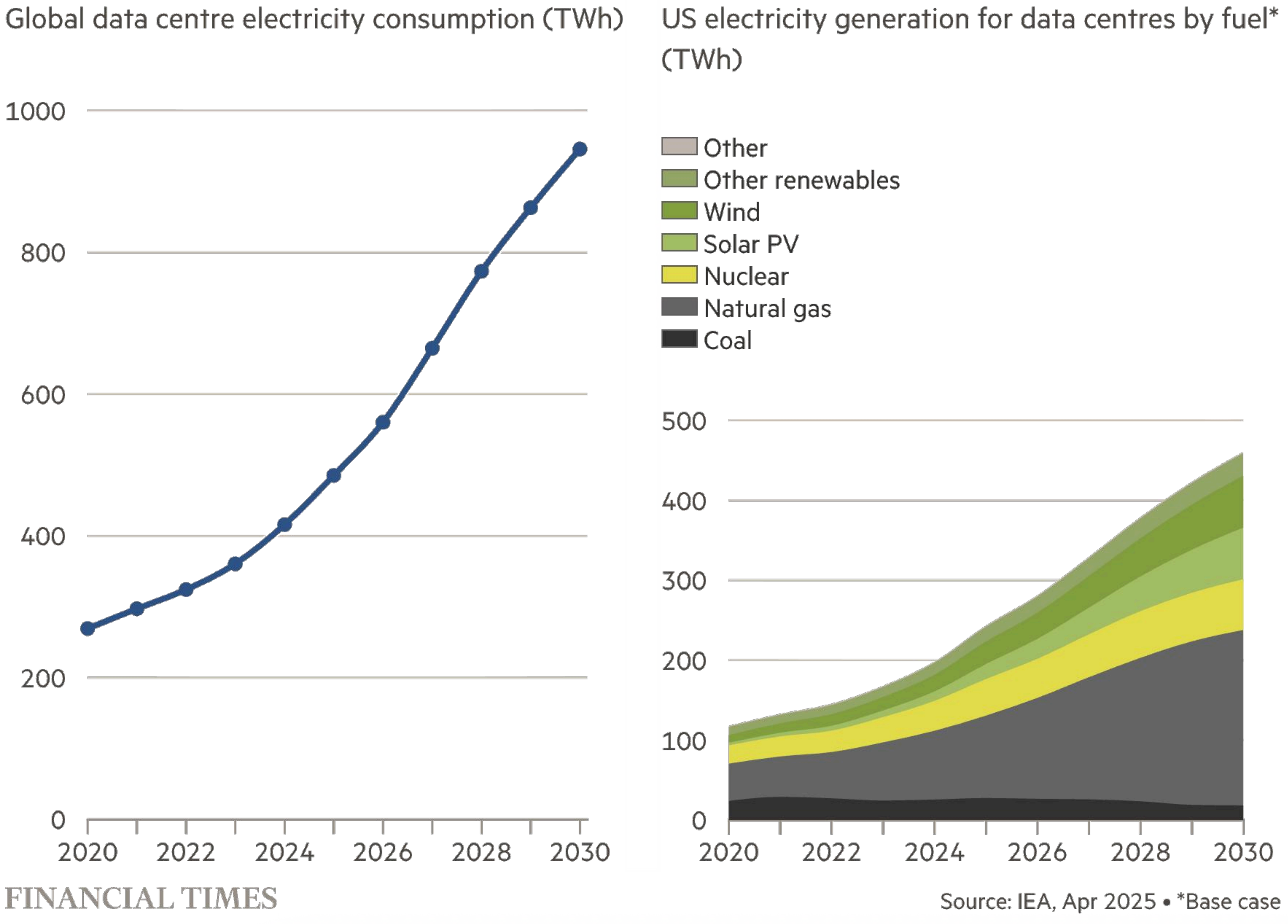
This timeline aligns closely with the expected start of operations for the Power of Siberia 2 pipeline, raising questions about future demand for US gas. With China potentially relying more heavily on piped Russian supply, the market for large volumes of American LNG may prove far more limited than current projections suggest.

Some Asian countries have signed long-term LNG purchase agreements in part to avoid tariffs, but it remains uncertain whether this will be enough to counteract the downward pressure on prices caused by the rapid expansion of US supply. Nevertheless, despite concerns about a potential glut, LNG producers maintain that demand will continue to grow. Their optimism rests on forecasts of sustained economic growth across Asia, which is expected to drive increased LNG consumption as countries in the region transition away from coal and seek cleaner sources of energy by the end of the decade.

> “We see significant elasticity of demand to lower prices, which a lot of market analysis fails to account for
>
> Ben Dell, chair, *Commonwealth LNG*

Industry insiders also point to the rapid buildout of AI data centres as a reason for optimism in the face of potential oversupply. These facilities require substantial and consistent power to support high-intensity computing, much of which is expected to be met by natural gas rather than intermittent renewable sources. As a result, a significant portion of the newly produced US gas is likely to be absorbed domestically, particularly as many of these data centres are being constructed within the United States. This emerging demand may help offset the impact of a global supply glut and provide a buffer against falling export prices.

Data centre electricity demand worldwide is skyrocketing, and the dominant US market is heavily reliant on gas



Source: IEA, Apr 2025 • *Base case

5 Outlook

The Power of Siberia 2 pipeline is central to Moscow's effort to reorient gas exports towards Asia following the collapse of its European market after the invasion of Ukraine. Beyond its commercial role, the project signals Russia's intent to strengthen ties with China as it seeks to counter the impact of Western sanctions and diplomatic isolation.

Ultimately, the Power of Siberia 2 pipeline looks set to strengthen China's position as a central player in the global LNG market. With its growing ability to influence demand patterns, pricing dynamics and investment cycles, China is increasingly shaping the terms of trade.

For LNG exporters worldwide, Power of Siberia 2 introduces greater uncertainty. The prospect of lower Chinese gas demand in combination with the scale of domestic supply alternatives raises the risk of heightened price volatility, slimmer margins, and intensified competition. The pipeline deal, if concluded, would further consolidate China's negotiating power on the global energy stage.

However, it is important to remember that the ultimate impact of the Power of Siberia 2 project will depend heavily on the final terms of the deal. While the proposed addition of 58 bcm in pipeline capacity to China has the potential to influence global demand dynamics, the pipeline may not come online until well into the 2030s. Even then it may not operate at full capacity for some time.

Russia faces fresh challenges with the US imposing further sanctions on Russian oil and reaching a temporary truce in the trade war with China in October 2025. A thaw in US-China relations spells bad news for Moscow, raising the risks and diminishing the incentives for others to engage with it. This changes the calculation for China, who might continue to move slow in project negotiations.

For now, the signed memorandum remains largely symbolic. However, it signals a meaningful shift in the global energy landscape, underscoring how geopolitical realignments are beginning to reshape long-term patterns of trade, investment and strategic influence.