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CORPORATE

Foreign Executives Abandon Russia, Rosneft Weakened

Following the exodus of international energy companies, a wave of foreign directors and managers is departing Russia, leaving the country's corporations on their own to deal with unprecedented challenges.

Three directors and top-level foreign managers have quit Russia's largest producer, Rosneft, in what is considered a painful development for the oil major.

Foreign directors have already resigned from Lukoil, Sibur, Zarubezhneft and other corporations, including Sberbank and Russian Railways, in response to Moscow's military campaign in Ukraine.

Clarity about who might replace the foreigners should emerge next month when new directors are voted in during annual shareholders meetings.

Sources claim there could be candidates from "friendly" countries, at least for Rosneft. The state-controlled major is also in the process of appointing new executives from existing staff mainly. Regardless, Rosneft, acting in line with a recent trend to restrict corporate disclosure, is not in a hurry to announce changes.

German Determination

Rosneft has announced that three directors — former Austrian Foreign Minister Karin Kneissl, ex-German Chancellor Gerhard Schroeder and former East German Intelligence Officer Matthias Warnig — filed resignation letters and ended their employment with the producer as of May 20.

Schroeder, who was Rosneft's board of directors chairman since 2017, resigned after intense pressure at home to distance himself from Russia. He was even stripped of his parliamentary office and staff last week.

EU sanctions against Rosneft, which came into force on May 15, also bar EU companies and citizens from doing business with the company — another reason for the departure of foreign executives holding the European passports.

Germany has demanded that Schroeder abandon all his positions in Russia, including at the Nord Stream 2 AG operating company where he chairs a shareholders committee. The former chancellor was also nominated to the board of Gazprom, with a vote slated at the end of June, but he confirmed on LinkedIn this week that he would not join the board.

Warnig, a friend of President Vladimir Putin from the latter's days as a KGB officer in East Germany in the 1980s, was Rosneft's director since 2011. He also had a seat on the board of national oil pipeline monopoly Transneft and is CEO of the Nord Stream 2 AG project company

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	May 24	May 17	Chg.
Dated Brent f.o.b. (38 API)	115.77	112.89	2.88
Russian Urals c.i.f. NWE (31 API)*	80.94	80.85	0.09
Russian Urals c.i.f. Med (31 API)†	86.84	86.75	0.09
Azeri Light (35 API)	123.79	120.05	3.74
CPC Blend c.i.f. Med (45 API)†	110.79	108.70	2.09
ESPO (35 API)	89.25	91.03	-1.78
Dubai (30 API)	107.90	106.65	1.25

PRODUCT PRICES

($/ton, c.i.f. basis)	May 24	May 17	Chg.
ICE LSGO Futures (front month)	1,093.25	1,090.50	2.75
ICE LSGO Futures (second month)	1,063.75	1,066.00	-2.25
0.1% Gasoil NWE*	1,111.25	1,092.00	19.25
0.1% Gasoil Med*	1,103.25	1,087.25	16.00
10 ppm Diesel NWE*	1,135.50	1,123.75	11.75
10 ppm Diesel Med*	1,111.50	1,113.25	-1.75
HSFO NWE*	623.00	636.00	-13.00

LSGO – low sulfur gas oil. *Basis Rotterdam. †Basis Augusta. *Source: Energy Intelligence* also sanctioned by the US. Sources say he has already stepped down from Transneft although a formal announcement is still to be made.

Kneissl was elected to Rosneft's board only last year. She hit the headlines when Putin attended her wedding in August 2018.

Rosneft did not comment on the fate of another director, Barclays Capital Bank Chairman Hans-Georg Rudloff.

Previously, BP CEO Bernard Looney and former CEO Bob Dudley resigned as Rosneft directors after BP announced plans to exit Russia, including the divestment of its 19.75% in Rosneft that has been a cash cow for the UK-based producer.

Meanwhile, Faisal Alsuwaidi and Hamad Rashid al-Mohannad, who represent Qatar Investment Authority, which holds a 18.46% stake in Rosneft, will stay. Qatar said it is not expanding its business in Russia nor is it planning to divest Russian owns in the country.

Painful Separation

Sources say that among the top Rosneft managers who stepped down are Didier Casimiro, first vice president responsible for sales, economics and finance; Zeljko Runje, first vice president for oil, gas and offshore business development; Eric Liron, vice president for in-house oil-field services; Avril Conroy, vice president for retail business and domestic market development; and Otabek Karimov, vice president for commerce and logistics.

Given that many of these individuals have been with Rosneft for nearly a decade, their departure at a time when the company needs smart solutions to buoy output and sell shunned barrels efficiently could be detrimental to the company.

Casimiro will be particularly missed. The Belgian national was part of Rosneft's senior management team since 2012 and headed sales, commerce and logistics. He was crucial in developing Rosneft's export patterns and headed the Swiss-based Rosneft Trading subsidiary that was blacklisted in 2020, together with Casimiro himself, for lifting Venezuelan oil.

Liron and Runje were crucial in helping Rosneft navigate sanctions introduced in 2014, including bans on Russian tight oil, deepwater and Arctic offshore developments. Effective well management during the massive production cuts under the Opec-plus deal is also credited to Liron, who has background with Schlumberger.

Analysts have claimed that the executives' departure could postpone some Rosneft projects as all foreigners working in various departments, including on carbon footprint reduction, could step down.

The state-controlled major is not commenting on the resignations. Unlike Rosneft, domestic rival Lukoil lured foreign managers mainly for its overseas operations. But following the resignation of CEO Vagit Alekperov, who was sanctioned by the UK and Australia, the company will elect a new chieftain on May 31. Acting CEO Vadim Vorobyov is expected to get the post. Hailing from Nizhny Novgorod, he is believed to be close to the first deputy head of the Kremlin administration, Sergei Kiriyenko.

Staff Reports

OIL

Russia Considers New Export Routes

Even though a proposed EU ban on oil imports has not yet materialized, officials in Moscow are already developing new export routes given the growing belief that Europe will sooner or later stop buying Russian crude. Sources say some of the options might take years to launch, while doubts still remain about whether they could ever be utilized.

Russian crude oil exports via the 1 million barrel per day Druzhba pipeline are the most vulnerable as the EU proceeds with efforts to stop buying Russian crude, market experts note. A formal ban is currently opposed by Hungary, but other countries, including landlocked Slovakia and Czechia, are supporting the ban even though it might take longer for those three countries to replace Russian barrels.

The US has nuanced the picture by proposing a cap on prices — a move that, if supported, would also impact the outlook for supplies.

Sources say that exports from Russian ports will suffer less as such shipments are easier to reroute. By comparison, Druzhba shipments to Europe might cease as early as 2023 if customers do not ink new supply agreements. Some customers like Poland and Germany have already announced they would no longer buy Russian crude when existing contracts expire.

Shipments via the Druzhba pipeline, which runs through Belarus to Germany, Poland and through Ukraine to Slovakia, Hungary and the Czech Republic, totaled 720,000 b/d last year, down from 908,000 b/d in 2020. They were supposed to rise to 912,000 b/d this year, according to preliminary requests from Russian oil firms made prior to Russia's invasion of Ukraine.

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That said, Russia will have to reroute almost 1 million b/d of crude to other destinations, and although seaborne outlets might allocate some of the volumes, new routes are also being considered. A detailed plan for new infrastructure development has to be prepared by Jun. 1. According to Deputy Energy Minister Pavel Sorokin, new routes can include the development of the port of Murmansk for transshipments of crude.

Murmansk Option

Sources say that pipeline monopoly Transneft has made preliminary calculations on building a 1,500 kilometer pipeline to Murmansk. A plan envisages building a new line from one of the oil pumping stations along the Druzhba line, which runs from the Samara region in some 4,000 km across Russia. There are three potential starting points, sources say.

Initial capacity of the Murmansk line might be 20 million metric tons per year (400,000 b/d) potentially rising to 50 million tons/yr (1 million b/d). Construction of a new line with initial smaller capacity might take three years, although some experts say this is too optimistic. Oil companies also have yet to confirm planned shipments via Murmansk, and financing sources have also yet to be defined.

Transneft used to construct new pipelines using either loans or special tariffs under ship-or-pay contracts with producers. But sources say financing options are limited now because of financial sanctions, and interest rates are now high. Firms are also reluctant to guarantee volumes because of uncertainties over demand for Russian oil.

Another option Moscow is mulling is an expansion of the Pacific port of Kozmino at the end of the 1.6 million b/d East Siberia-Pacific Ocean pipeline. Sources say the port, which handled 702,000 b/d of crude in 2021, can increase exports easily as it can load more 140,000 ton cargoes than the usual 100,000 ton cargoes. But there should be demand from the consumers' side, market players say.

New export routes would require state support. Last week President Vladimir Putin promised this support to the oil industry, but the finance ministry opposes any steps incurring lower budget income, sources say. For now, it was decided to make a list of requests from oil companies. It remains unclear whether Transneft would apply for state-supported loans for the construction of new export pipelines. Plans could also be complicated by worsening relations between Transneft and Russia's biggest oil producer, Rosneft. The oil major has just filed a lawsuit against the operator demanding compensation for the damages caused by the contamination of crude in the Druzhba pipeline in 2019. Rosneft was dissatisfied with the compensation of $15 per barrel offered by Transneft and is demanding some $130 million, a significant sum in the current environment.

Staff Reports

STRATEGY

Russia Acknowledges Short-Term Fall in Output, Exports

Moscow has admitted that oil and gas production and exports in the medium term will decline as demand for Russia's hydrocarbons contracts.

Based on scenarios issued by the economic development ministry released last week, output of crude oil, gas condensate and natural gas, as well as their sales on foreign markets, will not return to last year's level until 2025 now that Western customers are determined to end their dependence on Russian energy. Redirecting volumes to other markets will take time, and as a result some oil and gas developments could be postponed, Moscow has suggested.

INITIAL CONDITIONS FOR FORMATION OF ECONOMIC DEVELOPMENT OPTIONS

External and Associated Conditions	Option	2021 Factual	2022 Estimated	2023 Forecast	2024 Forecast	2025 Forecast
World crude oil prices Urals *($/bbl)*	Basic	69.1	80.1	71.4	66.0	61.2
	Conservative	69.1	78.6	65.8	61.6	57.3
Crude oil production (including gas condensate) *(million tons)*	Basic	524.0	475.3	472.8	476.1	480.5
	Conservative	524.0	433.8	405.3	416.4	421.3
Gas production (including associated gas) *(Bcm)*	Base	763.5	720.9	720.0	730.0	735.0
	Conservative	763.5	702.4	669.0	665.8	665.1
Gas prices (avg. contract prices, including FSU countries) *($/Mcm)*	Base	274.3	453.0	374.1	334.4	295.0
	Conservative	274.3	435.2	319.5	292.3	263.4
Gas prices (Far Abroad) *($/Mcm)*	Base	304.6	523.3	431.1	381.0	336.7
	Conservative	304.6	513.1	385.6	346.3	311.5
Crude oil exports *(million tons)*	Base	231.0	228.3	224.8	228.1	229.5
	Conservative	231.0	213.3	187.3	194.4	199.8
Natural gas exports (pipeline) *(Bcm)*	Base	205.6	185.0	175.0	165.0	155.3
	Conservative	205.6	165.0	135.0	130.0	125.0
LNG exports *(million tons)*	Base	29.1	30.7	30.7	35.7	37.3
	Conservative	29.1	30.7	30.7	30.7	30.7
Oil products exports *(million tons)*	Base	144.1	115.3	121.9	122.9	122.9
		144.1	85.4	89.2	96.2	96.2
Internal Conditions	**Option**	**2021 Factual**	**2022 Estimated**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**
Avg. annual inftation *(%)*	Base	6.7	16.5	9.0	4.6	4.0
	Conservative	6.7	16.1	7.8	4.2	3.9
USD exchange rate (annual avg.) *(ruble/$)*	Base	73.6	76.7	77.0	78.7	81.0
	Conservative	73.6	78.0	81.2	83.3	85.3

Source: Ministry of Economic Development

President Vladimir Putin acknowledged this week that "things are not that easy" and "special effort" by the government is needed to withstand the impact of sanctions even though the Russian economy has performed decently so far.

To the point, GDP is expected to grow by 3.2% and 2.6% in 2024 and 2025, respectively, after a drop of 7.8% this year and 0.7% in 2023, according to the economic development ministry's base-case scenario. Under the conservative scenario, growth in 2024-25 is expected by a lower rate of 2.6% and 2.1%, respectively (see table).

Oil Prospects

Russia's combined output of crude oil and condensate is expected to fall by around 1 million barrels per day this year to 9.53 million b/d, and no meaningful recovery should occur in the next three years. The ministry's base-case scenario shows a further fall to 9.48 million b/d in 2023 and only a modest recovery to 9.64 million b/d in 2025.

The ministry also forecasts that Russia's crude exports will retreat by only 1.2% this year to 4.58 million b/d, but that exports of oil products could fall by 20% to 115.3 million metric tons, or approximately 2.37 million b/d.

The declines could grow under a conservative scenario that anticipates tougher sanctions. Europe is still discussing an embargo on Russian oil. One of the options under consideration involves either tariffs or price caps as a way to limit Moscow's revenues from energy exports.

Lukoil's former CEO, Vagit Alekperov, said that if Europe's oil embargo comes to light "Russia will have to reduce production, freeze wells, as we did at the beginning of the pandemic in 2020, because it is impossible to redirect all European volumes to other markets overnight."

But he also cautioned that for the EU "it is impossible to replace such a major energy exporter as Russia, even in the medium term."

Irrespective of lower output, Russia is still regarded as an integral partner of the Opec-plus alliance, which wants to reach a new accord when the current deal expires in September. The new pact should include Russia, Saudi Energy Minister Prince Abdulaziz bin Salman said in an interview with the *Financial Times* published this week.

Mixed Gas Signals

The economy ministry's forecast shows gas production could decline by 5.6% to 720.9 billion cubic meters this year and then recover to 730 Bcm in 2024 and 735 Bcm in 2025. It also shows exports of pipeline gas falling 10% this year to 185 Bcm, with a further decline to 155.3 Bcm in 2025.

Germany's government, for example, recently disclosed that the Russian share of total gas imports had fallen to 35% from 55% before the war in Ukraine.

On the upside, Russian LNG exports could grow 5% this year, but the size of the increase has been downgraded.

Moscow planned to export up to 140 million metric tons of LNG per year by 2035 and become a top-four player on the global market alongside Australia, the US and Qatar. But these plans may have been ruined by the technological and financial sanctions against Russia, as well as the exodus of foreign investors, lenders and technology partners.

Russia now expects LNG production to increase moderately to 35.7 million tons in 2024 and 37.3 million tons in 2025.

Last year's forecast for 2022-24 stipulated that Russia's LNG exports would grow to 50.7 million tons in 2024 under the base scenario and 49.4 million tons under the conservative scenario.

Staff Reports

GAS

Limited Gas Cutoffs Assuage Markets

Finland might not be the only country to have its imports of Russian pipeline gas supplies severed given that many European buyers of Gazprom had yet to open the required accounts in Gazprombank as of the end of last week.

For now, the market looks relatively calm as the next potential targets for a cutoff will likely be smaller buyers who have short-term diversification options. They are also likely to have political impetus to reject Moscow's unilaterally imposed rules despite the fact that many larger importers in the EU have acquiesced with the Gazprombank accounts.

Although it may have accepted Russia's demands for the sake of stable, short-term supplies, the EU is still eager to wean itself off Russian gas and other fossil fuels by 2027, according to a €220 billion ($232 billion) REPowerEU plan presented by the European Commission last week.

Large Buyers In

Nearly half of Gazprom's 54 foreign customers have opened accounts at Gazprombank as required by Moscow's new scheme, which involves converting euro or dollar payments for gas into rubles, Deputy Prime Minister Alexander Novak said on May 19.

This group includes buyers from Russia's largest export markets such as Germany, Italy, France and Austria, which are largely vulnerable to immediate cutoffs due to a lack of adequate short-term replacement. Greek state importer Depa has already paid for April supplies under the new rules, the local Athens-Macedonian News Agency reported on May 23, while two other Greek importers, Mytilineos and Prometheus Gas, have also reportedly accepted Moscow's demands.

Defiant Group

Although May is almost over and most deadlines for April offtake payments have likely expired, there have been no cutoff announcements over the past week with the exception of Finland's Gasum, which declined to pay under the two-step scheme and has filed a suit in arbitration court.

Poland and Bulgaria rejected Moscow's conditions and were cut off from supplies in late April, while several subsidiaries of Gazprom Germania, formerly owned by Gazprom but taken over by Berlin in April, stopped receiving gas from Gazprom earlier this month due to Russia's reciprocal sanctions. The three Baltic states — Lithuania, Latvia and Estonia — might join those rejecting Moscow's payment rule given their opposition to Russia and access to LNG imports. They did not buy Russian gas in April, which means they might not be obliged to make any payments this month.

But Latvia and Estonia did buy marginal volumes in May, which must be paid for in June, it is believed. Latvia bought 1 million cubic meters per day from May 4-6 and 5 MMcm/d from May 16-22, then some 2 MMcm on May 23. It's unclear whether this indicates acceptance of the new rules or desperate preparation for a cutoff. Estonia only took less than 1,000 cubic meters on May 13. Gazprom did not respond to Energy Intelligence when asked when it expects the next payments from the Baltic states.

Three-Month Low Price

The benchmark front-month Dutch TTF gas futures contract closed at around $930/Mcm (€84.50 per megawatt hour) on May 24, down 10% from a week ago. On May 23, it hit the lowest closure level — €83.29/MWh — since Feb. 22, almost right before Russia's invasion of Ukraine started in the early morning of Feb. 24. The canceled supplies of some 3 MMcm/d to Finland on May 21, which might result in a net impact on northwestern Europe's balances of 5 MMcm/d this winter, has been offset by better-than-expected UK production and weaker-than-expected demand largely due to mild weather, Goldman Sachs wrote in a research note.

Still, the investment bank maintains its disruption-probability-weighted price targets of €108/MWh for June and €85/MWh for the third quarter of 2022, as other countries such as Denmark might be affected by cut flows later on.

Staff Reports

CASPIAN

EU Hopes Baku Can Pipe More Gas

Exports of Azeri national gas along the "Southern Corridor" to Europe are on course to reach 10 billion cubic meters this year now that the Trans Adriatic Pipeline (TAP) crossing Greece and Albania to southern Italy has reached full capacity.

And now that the EU is striving to wean itself off Russian gas, there is greater urgency in calls for expanding TAP's capacity and exploring options to inject green hydrogen into the pipeline corridor.

The 878 kilometer TAP, which came into operation at the end of 2020 and pumped 8.1 Bcm during its first full year of operations, is now running at full tilt. Azerbaijani Energy Minister Parviz Shahbazov told an industry conference in Bulgaria earlier this month that gas exports to Europe totaled 3.5 Bcm in January-April, of which 3.1 Bcm went to Italy, 300 million cubic meters to Greece and 100 MMcm to Bulgaria. At the current rate, exports will exceed the 10 Bcm mark by the end of the year, he said.

Azerbaijan's overall gas exports rose 17.4% year on year during the first four months of the year to 7.6 Bcm, according to Azeri energy ministry statistics. This included 2.9 Bcm to Turkey and 1.2 Bcm to Georgia, which gets part of its gas as payment for transmission tariffs along its stretch of the South Caucasus pipeline.

All the gas that goes through TAP comes from Phase 2 of the giant BP-led Shah Deniz project and is sold to a group of European buyers, including Shell, Hera Trading, Bulgaria's Bulgargaz and Greece's Depa under long-term "take or pay" contracts. They buy the gas from Azerbaijan Gas Supply Co. (AGSC), a marketing alliance representing Shah Deniz shareholders. The latter includes Socar, Lukoil, Turkish Petroleum, Iran's Nico and two Azeri government vehicles, AzSD and SGC.

Marketing Dynamo

AGSC, established in 2002, is now a major exporter of Azeri gas, with volumes rising steadily to 18 billion cubic meters per year. The group sells all the 6 Bcm/yr of Shah Deniz 2 gas that goes to Turkey under a long-term contract with Botas and additional volumes of 2 Bcm-3 Bcm/yr left over from Shah Deniz Phase 1 that Botas also takes.

All eyes are now on Azerbaijan's potential for increasing gas sales to Europe, a topic of growing interest to Brussels since Russia invaded Ukraine. In a detailed blueprint published last week that addresses ways to reduce dependence on Russian gas, the EU included the doubling of TAP's capacity to 20 Bcm/yr as a viable medium-/long-term alternative.

The TAP consortium — comprising BP, Socar and Snam each with 20%, alongside Fluxys (19%), Enagas (16%) and Axpo (5%) — has sounded out interest among potential shippers in booking extra capacity for the line, but the response has so far been lukewarm.

What will determine the timing of TAP's expansion, Caspian industry sources say, is the availability of future gas production in Azerbaijan. They say it could take at least another five years to bring on new gas fields in the Caspian Sea that would produce enough gas that could be piped to Europe.

"You have fields like Absheron, Umid and Kyapaz that could make a difference, but it will be a slow process," said an industry source close to Azerbaijan's state oil company Socar. "Most of these projects are being delayed, and the development costs are quite high." For example, completion of the next stage of the Socar-led Umid gas development earmarked in late 2000 has been pushed back to the end of this year — at the earliest.

Socar and the energy minister are actively discussing plans to include green hydrogen as feedstock for the Southern Corridor pipeline, but this, too, will take years to develop, industry sources say.

Paul Sampson, London

OIL MARKETS

More Russian Oil at Anchor Without Destination

The slow burn of international sanctions against Russia may have finally started to hit the Russian oil trade. Oil exports out of the former Soviet Union fell by nearly 400,000 barrels per day in the first half of May to about 5 million b/d. But more importantly, the volumes of Urals on water have more than quadrupled, and some are without a destination.

Prior to Feb. 20, the average volume of Urals on water was 13.5 million barrels. It is now 55.7 million bbl after volumes peaked at nearly 62 million bbl last week, according to Kpler data. Analysts reckon the number of cargoes at sea with no destination could represent 15% of Russian crude exports.

Meanwhile, on May 15, the EU banned transactions with Russia's state-owned company Rosneft, third-largest producer Gazprom Neft and oil pipeline operator Transneft, forcing large traders still buying from Russia to give up their offtakes completely.

The move has elicited two distinct reactions. One is that Rosneft is now poised to circumvent this last raft of sanctions by selling more of its crude directly to Chinese and Indian refiners without any intermediation from trading houses.

A second is that smaller, perhaps less scrupulous trading and shipping entities have started to fill the vacuum left by larger traders to pick up distressed Russian crude cargoes on behalf of new buyers, and possibly old ones as well.

Most of the spot sales are now carried out through private agreements whose terms — buyers, destinations — are kept undisclosed to avoid scrutiny. Those charterers can use the full gamut of usual tricks to cover their steps and ply their trade, like turning off transponders or confounding flow trackers by conducting ship-to-ship transfers.

Diesel Spread Bounces

The price spread between Russian and non-Russian ultra-low-sulfur diesel (ULSD) hit a record $60.75 per metric ton in Europe on May 20 as traders adjusted to life without mainstay Russian fuel imports.

Pricing agency S&P Platts is set to drop Russian-origin fuel from its benchmark ULSD and gasoil assessments on Jun. 1, forcing a major market readjustment. More than half of Europe's price-setting ULSD imports came from Russia before the country's Feb. 24 invasion of Ukraine triggered a wave of official and unofficial sanctions.

All the open-origin fuel offered in Europe's end-of-day pricing window is now assumed to be Russian, whereas nearly all public bids are specifically for non-Russian fuel. Only Swiss trader Trafigura appeared willing to be seen handling Russian ULSD this week, looking for cheap fuel into Amsterdam and the UK's Immingham and Thames import terminals.

By May 24 the discount for Russian ULSD has since narrowed to just $35/ton, although brokers blamed a lack of liquidity rather than any major change in market fundamentals for the retracement. Europe has a shorter trading week for Ascension Day, while the UK will celebrate its Queen's Platinum Jubilee next week, forcing the market to close.

Higher prices are needed to pull more ULSD from the Middle East and Asia amid signs Europe's own refiners are also ramping up fuels production. The latest Euroilstock data show refiners in the EU's 14 oldest members, plus the UK and Norway, boosting middle distillate production by 5% in April compared to May when output was 14% higher than a year ago.

Those figures come with a warning since they also include jet fuel, the European demand for which is also soaring as airlines roar back from the pandemic. In early April jet profits overtook diesel for the first time in more than two years. Refiners servicing Europe are now capable of making around $10 per barrel more from aviation fuel than ULSD.

Kerry Preston and Julien Mathonniere, London

IN BRIEF

Shell Quits Upstream JV

Shell made a further step in its pledge to wrap up its business in Russia by withdrawing from an exploration venture with Gazprom Neft. The joint venture (JV) had been established to explore and develop the Leskinsky and Pukhutsyayakhsky areas on Gydan Peninsula. Shell used to own 50% in the JV. The major has decided to withdraw from Russia in response to the latter's invasion of Ukraine. So far Shell agreed to sell its retail and lubricants businesses in Russia to Lukoil. Shell has yet to divest its 27.5% stake in the Sakhalin-2 LNG project and a 50% stake in the Salym Petroleum Development JV with Gazprom Neft. Separately, Repsol has sold its stakes in the Eurotek-Yugra and ASB Geo joint ventures to partner Gazprom Neft, a move that was approved before the invasion as part of the Spanish firm's assets optimization efforts.

Associated Gas Flaring

Russian producers have expressed concern over an anticipated increase in associated gas flaring, which could lead to large fines. Oil majors believe the level of flaring might rise significantly this year because of EU imposed-sanctions that have complicated exports of liquefied petroleum gases (LPG). In Russia, associated gas is mainly used for LPG production, but a fall in LPG exports and insufficient domestic demand might force firms to boost flaring. Legislation stipulates fines for associated gas flaring of more that 5% of all gas produced. The Russian Union of Industrialists and Entrepreneurs has reportedly asked the natural resources ministry to consider an increase of the limit to 30%, at least until end-2022. Russia produced some 101 Bcm of associated gas in 2021, of which roughly 22 Bcm was flared. Producers have been working to decrease flaring, with Lukoil and Surgutneftegas the most successful so far.

Poland Cancels Gas Accord

Poland has terminated a 1993 intergovernmental agreement with Russia over natural gas supplies, Climate Minister Anna Moskwa said on May 23. The decision came after Russia's Gazprom ceased supplies to Poland in late April after the state-controlled importer, PGNIG, had rejected Moscow's two-step payment scheme. PGNIG's gas supply contract, signed in 1996, expires this year, and PGNIG has long said it would not renew it. Poland is a vociferous opponent of Gazprom and Russian energy imports in general.

Separately, PGNIG on Mar. 31 sent a call for arbitration to Gazprom concerning its claim for interest on amounts overpaid for gas supplied in the period from November 2014-February 2020, the company said in a financial report last week. After PGNIG won the price revision dispute in 2020, Gazprom paid the bulk of the $1.5 billion compensation but still wound up contesting it. Last month PGNIG said the case was finally closed after Gazprom had failed to file an appeal in due time.

Russian Gas Cheap in China

The average export price of Russian pipeline gas in China remained at a relatively low $200/Mcm in the first four months of 2022, Energy Intelligence estimates. Beijing spent $1.04 billion on Russian pipeline imports in January-April, the Chinese customs authority revealed last week without disclosing import volumes.

Russia's monopoly pipeline exporter, Gazprom, has said that four-month supplies to China increased almost 60% on the year, indicating they could total 5.2 Bcm. This would put the average export price at $202/Mcm, up from around $120/Mcm a year ago and just below $200/Mcm in late 2021. Gazprom's oil-linked export price should increase later this year to reflect the recent oil price spike.

With spot prices in the stratosphere — or $22/MMBtu ($785/Mcm) last week — China is reducing LNG imports and increasing pipeline offtakes under long-term contracts. Russia's LNG exports to China, also sold mainly under long-term contracts, grew 15% on the year to some 1.45 million metric tons in the first four months of 2022, with the average price at around $700/Mcm.

Majors Charter Tankers to Asia

Rosneft and Gazprom Neft are chartering more tankers from shipping giant Sovcomflot to ship barrels to Asia — a market that is happily offtaking discounted Russian crude at a time when the EU is reducing imports and even mulling an embargo.

Rosneft, Gazprom Neft and Sovcomflot are under sanctions as a result of the invasion in Ukraine, which has caused tectonic changes in Russian oil shipping patterns. Producers are encountering severe disturbances and difficulties trying to deliver oil given that shippers, facing increased insurance and liability risks, are trying to avoid toxic cargoes. However, trading sources say that new shippers "never seen before" have emerged and are filling the gap. Rosneft and Gazprom Neft are chartering tankers from Sovcomflot to ship their crude to Asia, while shipments to India, which is soaking up Russian volumes like never before, on Sovcomflot tankers is also rising, trading sources say.

Russian Firms Lift Dividends

Russia's third-, fourth- and fifth-largest oil producers have decided to pay dividends for 2021 — a year when operations and financial performance improved significantly after the Covid-19 pandemic and Opec-plus-related limitations.

Russia's No. 3 oil producer, Gazprom Neft, has proposed a dividend increase for 2021 to 56 rubles (90¢)/share from 37.96 rubles/share for 2020. The board of Surgutneftegas recommended payments of 0.80 rubles per one ordinary and 4.73 rubles per one preferred share for 2021, which compares to 0.70 rubles and 6.72 rubles for 2020, respectively. The board of Tatneft agreed on final dividend payments for 2021 of 42.64 rubles/share, almost doubling 22.24 rubles/share paid in 2020. Russian oil companies reported strong profits for 2021, reflecting higher oil prices and production volumes.

So far only Lukoil has postponed a decision on dividends due to the current instability. Top producer Rosneft has kept silent about its dividend plans for 2021.

NEFTE COMPASS DATA

DATA: Comprehensive Nefte Compass datasets are available for download in the Nefte Compass Data Service, including FSU crude production, exports, refinery activity, prices, natural gas production and other fundamentals. Click here to access.

KAZAKH GAS PRODUCTION, APRIL 2022

(MMcm)	Year-To-Date	April	Change From Previous Month
Top 5 Producers	17,595.34	3,889.52	-781.79
Karachaganak Petroleum Operating Co.	7,025.03	1,522.61	-364.18
Tengizchevroil	5,207.07	1,159.39	-200.94
North Caspian Operating Co.	3,631.90	784.19	-195.27
CNPC-Aktobemunaigas	1,446.25	355.27	-16.12
Kazakhoil-Aktobe	285.09	68.07	-5.29
Other Producers	1,596.41	383.40	-20.54
TOTAL	19,191.75	4,272.92	-802.32

Download full dataset here. *Source: Kazakh Information and Analytical Center of Oil and Gas.*