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GEOPOLITICS

Russia Admits EU Oil Embargo Will Hurt

The EU's embargo on Russian oil imports agreed this week looks set in the near term to deal only a mild blow to Russia as it will not kick in until next year and will hand temporary exemptions to pipeline deliveries to Hungary, Slovakia and the Czech Republic as well as to seaborne imports to Bulgaria.

As the sanctions start to bite, however, the longer-term impact could be savage.

Consequences could include a dramatic decline in Russia's production, lower income in the state budget, the loss of Russian companies' assets in Europe and a growing dependence on China.

The prospect of such setbacks weakens Russia's position in the Opec-plus alliance. Some Opec members are considering the idea of suspending Russia in the producer alliance because of its inability under sanctions to extract more oil, the *Wall Street Journal* reported this week.

Moscow admits it would be hurt by the oil embargo but points to the serious consequences for the international market as well. "These sanctions will definitely have a negative impact on the continent as a whole, including the Europeans, us and the global energy market in general," Kremlin spokesman Dmitry Peskov said on Jun. 1.

What's at Stake?

EU officials said that the embargo targets 90% of Russian crude oil imports. Indeed, Russia exported some 2.3 million barrels per day of crude to the EU in 2021, or roughly half of its total non-former Soviet Union exports of 4.3 million b/d. Seaborne supplies of some 1.6 million b/d accounted for the lion's share of supplies to the EU with only 720,000 b/d being shipped via the Druzhba pipeline last year.

Germany and Poland together accounted for roughly 65% of all Druzhba supplies. Both countries aim to stop Russian oil imports completely already by the end of this year. Shipments to Hungary, Slovakia and the Czech Republic of 240,000 b/d together accounted for the remainder.

As a result, Russia will have to find a home for some 2 million b/d of crude starting from 2023. The effort might be further complicated by a planned ban that the EU and UK have agreed to introduce on insurance for ships carrying Russian oil.

The embargo, in its main traditional export market Europe, will be a significant blow to Russia's budget. Russian customs data show that the country's exports of crude oil to the EU were worth around $50 billion in 2021, or almost half of Moscow's total oil export revenues of $110 billion. Of the total, shipments to Bulgaria, Hungary, Slovakia and the Czech Republic last year were worth just $6.54 billion compared to $14.67 billion for exports to Germany and Poland or $17 billion alone for the Netherlands, one of the largest consumers of Russian seaborne barrels alongside Italy and Finland.

>> continued on page 2

SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	May 31	May 24	Chg.
Dated Brent f.o.b. (38 API)	125.53	115.77	9.76
Russian Urals c.i.f. NWE (31 API)*	92.13	80.94	11.19
Russian Urals c.i.f. Med (31 API)†	98.03	86.84	11.19
Azeri Light (35 API)	133.23	123.79	9.44
CPC Blend c.i.f. Med (45 API)†	121.98	110.79	11.19
ESPO (35 API)	97.25	88.28	8.97
Dubai (30 API)	116.25	108.00	8.25

PRODUCT PRICES

($/ton, c.i.f. basis)	May 31	May 24	Chg.
ICE LSGO Futures (front month)	1,244.25	1,093.25	151.00
ICE LSGO Futures (second month)	1,199.00	1,063.75	135.25
0.1% Gasoil NWE*	1,241.50	1,108.00	133.50
0.1% Gasoil Med*	1,234.50	1,103.25	131.25
10 ppm Diesel NWE*	1,305.00	1,138.75	166.25
10 ppm Diesel Med*	1,248.25	1,114.75	133.50
HSFO NWE*	628.00	623.00	5.00

LSGO – low sulfur gas oil. *Basis Rotterdam. †Basis Augusta. *Source: Energy Intelligence*

On the corporate level, Lukoil could suffer most as it has refineries in Italy, Bulgaria and Romania that receive Russian crude transported by sea. Lukoil refines about 400,000 b/d of crude at its European plants which it will have to find a new home for. At the same time, Lukoil will have to find alternative non-Russian volumes for its European refineries, otherwise it would have to part with its ownership.

Rosneft faces similar problems with its Schwedt refinery in Germany.

Silver Lining

Russia's financial losses might not be that high, experts say. With the price of Brent moving above $120 per barrel again this week, Russia will continue to make good money from its oil and gas exports — even if it has to sell crude at huge discounts.

Russia insists that although it will take time, it will be able to find alternative markets. Analysis of imports for May shows that the EU was already last month receiving about one-third of its prewar crude imports from Russia's European ports. At the same time, however, Russian exports remained relatively stable in May, which means that the country's oil producers were able to re-home over 1 million b/d that were rejected by European buyers. China and India have stepped in as major consumers of unwanted Russian barrels, largely attracted by huge discounts.

Lukoil's vice president and one of its major shareholders, Leonid Fedun, has argued against the discounts for its crude that Russia agrees to. He believes that Russia should cut its production by about 30% down to 7 million-8 million b/d and sell less volumes at a higher price instead.

Fedun believes that Russia should start increasing production again following the development of infrastructure to supply new markets and the onset of demand growth in the Asia-Pacific.

Opec-Plus Uncertainty

Russia's crude oil and gas condensate production stood at 10.174 million b/d in the first 30 days of May, up from 10.06 million b/d in April when output was 947,000 b/d down from the previous month.

Russia produces more than 900,000 b/d of condensate, so its crude output of not much more than 9.2 million b/d was much lower than its 10.549 million b/d quota for May under the Opec-plus pact.

Energy Intelligence understands that nothing is expected to happen at the Opec-plus meeting on Jun. 2 in terms of suspending Russia's quota. But there could be no guarantees this would not happen in future.

The White House is reportedly considering a meeting between US President Joe Biden and Saudi Crown Prince Mohammed bin Salman, which could help thaw strained relations between the two countries but could require some concessions from the kingdom in terms of oil production.

Meanwhile, Russia's Foreign Minister Sergei Lavrov was in Riyadh this week to meet his Saudi counterpart Prince Faisal bin Farhan al-Saud. Both officials praised the work of the Opec-plus alliance.

Staff Reports

GAS

Gazprom Loses Six EU Customers Over Ruble Rule

Moscow's imposed shift to a new two-step payment system for gas supplies has resulted in Gazprom losing six buyers, or at least 13% of its total contract portfolio in Europe. It could have been worse. The relatively limited impact reflects Europe's continued unwillingness to face a complete cutoff of Russian pipeline gas supplies.

While the EU agreed to ban seaborne imports of Russian oil this week, gas imports have been kept safe from sanctions since Russia's Feb. 24 invasion of Ukraine. Brussels now appears to have dropped its ambitious target, announced in early March, to slash Russian gas imports by two-thirds, or 100 billion cubic meters, already this year.

Cutoff Buyers

As the deadline to pay for April deliveries expired on May 31, three more European buyers rejected Moscow's new scheme this week, even though the European Commission and most of the 50-plus Gazprom buyers in Europe did not see the required conversion of euros and dollars to rubles as breaching the sanctions against Russia.

Due to nonpayment, Gazprom stopped supplies to Dutch importer Gasterra on May 31 and Shell Energy Europe (for the German market) and Denmark's Orsted on Jun. 1. Earlier, it halted exports to Finland's Gasum, Poland's PGNIG and Bulgaria's Bulgargaz (see table).

All six refuseniks are understood to be better prepared and/or more motivated politically than most others to immediately phase out Russian gas — something that the EU on the whole plans to

EUROPEAN GAS BUYERS REJECTING RUSSIA'S 'RUBLE' PAYMENT SCHEME

Supply Cutoff Date	Country	Company	Contract Size (Bcm/yr)	Contract Expiry Date
Apr 27	Poland	PGNIG	10.2	Nov 1'22
Apr 27	Bulgaria	Bulgargaz	2.9	Dec 31'22
May 21	Finland	Gasum	6.0	Dec 31'31
May 31	Netherlands	GasTerra	4.0	Oct 1'22
Jun 1	Denmark	Orsted	2.0	Dec 31'30
Jun 1	Germany	Shell Energy Europe	1.2	Dec 31'30

Source: Energy Intelligence, Gazprom

do by 2027. Except for Poland, they all have relatively small contracts with Gazprom, making it easier for them to find alternatives. The contracts of PGNIG, Bulgargas and Gasterra expire later this year anyway, and they do not intend or find it problematic to negotiate new ones with Gazprom amid the continuing war in Ukraine. For Gasum, Orsted and Shell Energy Europe, the halted supplies might also be an opportunity to unravel their long-term supply deals with Gazprom that expire only at the end of decade.

Impact on Gazprom

The six companies have long-term contracts for a combined 26.3 billion cubic meter per year equivalent to some 13% of Gazprom's total contract portfolio in Europe, including Turkey, which was estimated at around 200 Bcm/yr a couple of years ago. Last year, it sold well below this level — 175 Bcm — which many suspect was at least partly a result of Gazprom's apparent tactic to restrict its own supply. This year, exports have fallen sharply due to lower demand for the pricey hub-linked contract gas.

Gazprom will hardly feel any short-term impact from the loss of six buyers because the decline in export volumes is cushioned by higher prices on the ever-tightening market. Moreover, the cutoff buyers will have to buy more gas on spot, which could be, at least partly, Russian molecules resold by traders.

Gazprom has actually lost more buyers, however. Three Baltic states — Lithuania, Latvia and Estonia — did not formally reject the new payment scheme but they stopped imports from Russia in April, although Latvia and Estonia bought small volumes in May, with payment understood to be pending in June. Supplies were also halted earlier in May to the subsidiaries of Gazprom Germania, which has been blacklisted by Russia in response to the company being taken over by Germany. The Germania subsidiaries have more than 25 Bcm/yr in contracts with Gazprom, although it is not clear how much they were offtaking this year.

The halted supplies do not solve the problem of the nonpayment for the gas already supplied in April and May, although Gazprom might not regard this a serious problem when it keeps generating huge windfall revenue amid unprecedentedly high prices. Gazprom did not comment on whether or how it plans to enforce payment if the buyers do not finally accept the new scheme. Its arbitration position will likely be weak. Moreover, the buyers might well contest Moscow's unilaterally imposed rule and seek compensation, which Gasum has already said it will do.

May Exports Down

Gazprom's exports to Europe (including Turkey) and China dropped 31% on the year and 6% on the month to 10.9 Bcm in May, Energy Intelligence calculates based on data released by the company on Jun. 1. Excluding China, where supplies are growing in line with the Power of Siberia contract ramp-up, exports to Europe could be roughly estimated at 9.6 Bcm, down more than 35% on the year.

The drop partly reflects the halted supplies to Poland, Bulgaria and the blacklisted units of Gazprom Germania but is generally in line with this year's dynamics caused mainly by low demand for the pricey hub-linked gas in Gazprom's contracts.

In the first five months of 2022, Gazprom exported 61 Bcm to Europe and China, down 27% on the year, the company said. Excluding China, exports to Europe and Turkey probably account for around 54.5 Bcm, down 32% on the year.

Staff Reports

CORPORATE

IOCs Face Limited Choice Over Russian Assets

Asian companies have been touted as the main candidates to replace international majors which are abandoning Russian assets in response to Moscow's invasion of Ukraine.

However, potential buyers argue that because of the uncertainty about the outcome of the war, now may not be the right time to go shopping in Russia.

At the same time, they claim they haven't seen much urgency from the Western companies that declared plans to withdraw from Russia either.

This could mean that Russian companies would be the main beneficiaries of the exodus of Western players, as in the case of Equinor, which transferred its interest in joint ventures in Russia to Rosneft and Zarubezhneft. The Russian firms could find new partners for the assets at a later date.

Indian Wisdom

India's oil ministry is encouraging its state-controlled companies to look at acquisition opportunities created by the departure of Western oil majors from Russia. However, this proposal is being treated with caution. Indian firms point to a number of obstacles, including tightening sanctions, Russia's ban on dollar repatriation and the need to raise billions for such acquisitions in the first place.

But what is most striking is the position of the foreign companies. "The majors have said that they have exited Russia, but when we contacted them to initiate talks, they said they are not willing to sell as of now," said a senior executive at one Indian state company, who spoke on condition of anonymity.

India's Oil and Natural Gas Corp. which gets over half of its production from Russian assets, said none of the Western majors have approached it about taking over the positions they are vacating.

There have been reports that Shell is holding negotiations with Indian companies on selling them its stake in the Sakhalin-2 project on the Russian Pacific shelf. Shell has 27.5% in the LNG venture, but its efforts to monetize the stake could also be blocked by Moscow.

Vyacheslav Volodin, chairman of the State Duma — the lower house of Russia's parliament — called last week for the government to take ownership of the stakes held by companies from "unfriendly" countries in Sakhalin-2. This means that Gazprom, which owns 50% plus one share in the venture, could end up with Shell's stake as well.

Shell has already sold its downstream business in Russia to Lukoil and exited an upstream joint venture with Gazprom Neft in the Gydan Peninsula, but is still to quit a 50% stake in the Salym venture also with Gazprom Neft.

Equinor Opportunities

Other Russian companies have also inherited the stakes of departing Western firms. Equinor transferred to Rosneft 49% in 36,700 barrel per day producer Angara Neft, 33% in 13,000 b/d SevKomNeftegas, and 49% in the Domanik exploration venture.

Equinor said it had signed an agreement to exit the Kharyaga production-sharing agreement but didn't reveal who would get its 30% holding in the 31,000 b/d venture. Sources say this would be transferred to operator Zarubezhneft, which now holds 40%.

Zarubezhneft may also soon acquire the 20% held by TotalEnergies if the French major decides to withdraw from Kharyaga as well.

There haven't been any moves on BP's 19.75% stake in Rosneft. But the international major is unlikely to get the final dividend payment that Rosneft's board has recommended for approval by the company's annual general meeting on Jun. 30.

Rosneft's board recommended paying 23.63 rubles per share as final dividends for the second half of 2021. Coupled with payments for the first six months of 2021, total payments would stand at a record 41.66 rubles/share — or a total of 441.5 billion rubles ($6.6 billion). Rosneft said shareholders entitled to receive dividends would be determined on Jul. 11. Russia's new legislation also requires payments to companies from "unfriendly" countries only in rubles and using a special bank account to be opened by a resident with a Russian financial institution in the foreign company's name. This scheme could be unacceptable for BP which has already written off the entire value of its interest in Rosneft and its joint ventures, resulting in a total non-cash hit to earnings of some $24 billion.

Smart Options

International oil-field service giants which announced either a complete withdrawal from Russia or an intention to stop new investments, are looking for their own paths to comply with sanctions.

Baker Hughes has reportedly canceled all contracts with companies under sanctions, including Rosneft and Gazprom Neft. Halliburton has allegedly transferred all its assets and obligations to a new entity registered in Russia.

Schlumberger, which has the largest exposure to Russia among the major Western service firms, is searching for a Russian-registered entity that might purchase its assets, some reports suggest. It might sell them to the management or to local service companies, but none of those schemes have been confirmed so far.

Staff Reports

TRADING

Russia Shifts Oil Sales to Asia as Sanctions Bite

Russia is stepping up crude oil exports to India and China, as the prospect of an EU oil embargo that will kick in on Jan. 1, 2023, forces it to increase its exposure to Asian markets.

According to industry sources with access to port data, Russian state-backed giant Rosneft has increased crude shipments to India in recent weeks, with more cargoes moving south from Primorsk and Novorossiysk. They say Rosneft is now selling at least two Urals crude per month directly to Indian Oil Corp., India's largest refiner with a capacity of some 1.6 million barrels per day, on top of the volumes it already takes to the 400,000 b/d Nayara Energy (formerly Essar) refinery, in which the Russian company itself owns a 49% stake.

The sources say some of the Rosneft barrels for Nayara are being shipped by Bellatrix, a little-known company that appeared on the Russian trading scene less than two months ago and has no visible profile in Russia, or anywhere else. Rosneft has also started selling seaborne barrels via an equally obscure entity called Sunrise, according to the sources.

Colombo Calling

Russian crude is also going farther south to Sri Lanka, whose sole refiner, Ceylon Petroleum Corp., has just taken delivery of a 90,000 metric ton shipment of Siberian Light supplied by Coral Energy. The country's energy minister, Kanchana Wijesekera, told reporters in Colombo at the end of last week that Coral would deliver another Russian crude shipment in the coming weeks and that he had made a personal request to the Russian ambassador for direct supplies of Russian oil.

Coral, which has an ongoing contract with Sri Lanka to supply gasoil to end-October, has been a regular shipper of Russian oil in recent years, focusing on product exports from the Black Sea. More recently, it has started lifting Russian crude from the Baltics and Black Sea, according to trading sources. As it is domiciled in Singapore and based in Dubai, it is not subject to any EU sanctions.

Chinese Uptick

There has also been an uptick in Russian crude exports to China, with two cargoes supplied by state-controlled Zarubezhneft heading east this month from the Baltic port of Primorsk, industry sources say.

Russian exporters continue to ship over 700,000 b/d of East Siberia-Pacific Ocean (Espo) blend crude to China from the Kozmino terminal in Russia's Far East. This includes Rosneft, which has started selling crude directly to Unipec, the downstream arm of Chinese state giant Sinopec, with at least five cargoes loading in May, shipping sources say. Previously, the company had assigned most of its Espo barrels to traders Vitol and Trafigura, which stopped lifting Rosneft barrels in mid-May because of EU sanctions.

A more recent Espo offtaker is Livna, a Hong Kong-based trader that was established around eight years ago. Livna is now handling cargoes supplied by small Russian producers, traders, and has worked in the past with Geneva-based Paramount Energy. Livna could not be reached for comment. Paramount was one of the largest Espo offtakers over a period of several years, with Chinese state giants Chemchina and Sinochem among its customers.

In general, it is becoming much harder to track where Russian crude shipments are headed, and who is chartering the ships. Port agents and tanker trackers expect the task to become even trickier in the months ahead as ships "go dark" by turning off their transponders and offloading some of the cargo to smaller vessels in ship-to-ship transfers. "It will get a lot murkier than this, we're just at the beginning," a European trader says, predicting a rerun of what happened with Iran and Venezuela, which have spent years camouflaging their oil exports.

Paul Sampson, London

FINANCE

Russia Intensifies Debate Over Tax Breaks

Russia's finance ministry has opposed the idea of introducing key changes to the country's upstream and downstream tax regime. But oil companies are still counting on taxation amendments that should help the industry through a period of unprecedented pressure amid sanctions. The final word should still be with top officials as President Vladimir Putin promised support to the oil industry.

Deputy Finance Minister Alexei Sazanov said last week that no discussions are under way on amending the mineral extraction tax (MET) — the main upstream levy. "We believe that there is no need to make any rush movements now. It is better to maintain a certain stability in order to preserve the rules of the game," he said.

The MET is currently calculated under a formula that implies the average monthly price of Russian Urals export blend on world markets in US dollars and the corresponding ruble exchange rate.

The energy ministry earlier came up with a proposal to calculate MET using actual sales prices rather than global benchmarks, in a move that would help take into account the highest ever discounts for Urals, reaching as much as $40 per barrel to international benchmark Brent. The St. Petersburg International Mercantile Exchange proposed using its Urals quotations rather than those of pricing agencies like Argus or Platts.

Buffer Rebuffs Changes

Sazanov also said that no changes are under way for the so-called buffer mechanism, which aims to compensate refiners for part of the gap between profits on exports of gasoline and diesel and profits on domestic sales of those products.

In fact, Russian oil companies are estimated to receive a record 1.2 trillion rubles ($19 billion at the official exchange rate) from January-May in compensation under the buffer mechanisms, twice as much as for the whole of 2021.

Under the buffer mechanism, refiners currently receive compensation that covers 68% of that gap for gasoline and 65% for diesel. The plan was to raise the compensation rate to 83% for both gasoline and diesel, but the finance ministry believes that refiners are already getting enough.

The changes were also aimed at ensuring domestic price stability and guarding against increases. But since oil companies now face difficulties with petroleum products exports, the domestic market is oversupplied and product prices are decreasing, making further changes unnecessary.

The buffer mechanism should stay and will not be abolished, Sazanov said.

Putin Pledges Support

The oil industry, meanwhile, should have prepared a list of support measures aimed at helping it withstand the current turmoil. Tax changes were supposed to be high on the list after a meeting that Putin chaired several weeks ago.

According to Leonid Fedun, vice president of Russia's top independent oil producer Lukoil, the current tax system does not take into consideration the higher costs that the industry is paying to become more flexible and to be able to shut in wells and freeze development projects and then relaunch them as they adapt to the changing geopolitical environment. Fedun pointed to the excess profit tax that levies income rather than revenues as a solution. It has so far been introduced in a pilot mode covering only about 10% of Russia's production.

Industry experts say that the government might be providing individual tax breaks depending on each company's needs. Lukoil recently received long-awaited export duty tax breaks for its Y. Korchagina field on the Caspian Sea.

Lukoil and Tatneft are also waiting for tax breaks for high-viscosity crude, which they were deprived of in 2020 as a result of tax changes aimed at bringing more money to the budget. Gazprom Neft is waiting for tax stimulus to develop the Achimov formations. Industry players say that Rosneft, Russia's largest producer, also had some offers on the stimulus it needed, but few details were available. Russian media recently reported only that Rosneft asked for state regulation on metals pricing, but found little support.

Staff Reports

OIL MARKETS

Urals Exports Fate Hangs on Asia

The international embargo on Russian oil, which now includes the EU, has sent the market scouring for replacement barrels, while more Urals is now flowing from Europe to Asia.

As more buyers shun Russian oil in compliance with the expanded ban, Urals discounts have widened slightly.

On May 30, price reporting agency S&P Global Commodity Insights assessed the Urals-Med differential at a discount of $34.90 per barrel to dated Brent, a substantial dip from the negative $30/bbl deal levels reported before the EU ban.

The partial EU ban will sanction about two-thirds of Russian oil exports to the bloc, potentially displacing nearly 3 million barrels per day of crude oil and oil products, Energy Intelligence estimates.

The big question after the new raft of sanctions is how much Russian crude can now find a buyer East of Suez, namely in India and China.

Asia's intake of Urals in 2021 was about 100,000 b/d on average. It went up to 800,000 b/d in the first three months of the war, and 80% of that volume went to India.

But the market remains divided about India's capacity to absorb more Urals volumes, and likewise China.

"What I can see from the historical highs suggests India could absorb another 100,000 b/d. And China another 500,000 b/d," Andreas Economou, senior fellow at the Oxford Institute of Energy Studies, told Energy Intelligence.

Urals contains small quantities of vanadium, a metal that deactivates refinery catalysts. Some Indian refiners with lower complexity levels may struggle to handle that issue.

The other question is how much available space — or ullage — China's strategic petroleum reserve has to accommodate more Russian oil volumes.

Reports suggest that the country's Covid-19-zero strategy has increased the pace of stock withdrawals during the recent lockdowns, leaving room to refill the strategic stockpiles.

"Reports that China is in talks to take more Russian oil for strategic reserves is telling," said Shin Kim, head of supply and production analysis at S&P Global Commodity Insights.

EU Ban Propels ULSD to Fresh Highs

European ultra-low-sulfur diesel (ULSD) prices leapt again after the EU finally agreed a ban on Russian seaborne oil flows by the end of this year.

Crude may have been the stumbling block in the months-long negotiations but refined fuels could prove much harder to replace. Russia supplies more than half of Europe's lifeblood ULSD imports with import dependency set to rise as local refiners are forced to swap out distillate-rich Urals crude.

Certainly it had a bigger price impact. Gains in benchmark ICE low-sulfur gasoil (LSGO) futures outpaced Brent crude by three-to-one on the news with higher ULSD cargo premiums pushing fuel prices even higher. London's two-day market closure for the Queen's Platinum Jubilee and pricing agency S&P Platts' decision to exclude Russian fuel from its ULSD and 0.1% gasoil cargo assessments from Jun. 1 only added to market anxiety.

Russian ULSD is still flowing but volumes are down and set to move increasingly outside of Europe. North Africa has already emerged as a key destination for unsaleable Russian barrels with brokers expecting more traffic to South America this summer.

Swiss trader Trafigura is due to load Russian ULSD onto the 115,405 metric ton *Amfitriti* in Primorsk on Jun. 10. No destination has been set but the vessel's size means it is unlikely to stay in Europe. Local ULSD trade from Primorsk is typically on 45,000 ton MRs, while LR2s are used to carry fuel long distances: for example jet fuel to Europe from the Mideast or Asia and naphtha in the opposite direction.

The week saw just one public ULSD cargo trade. Trafigura bought 30,000 tons of Russian ULSD from Glencore for the UK's Immingham at a heavily discounted $14 per ton premium to June ICE LSGO futures on May 26. The UK has already agreed to ban Russian ULSD imports by the end of the year. Volumes are allowed in the meantime although self-sanctioning by many oil companies and problems with financing has already squeezed volumes.

Non-Russian ULSD was last bid at a $35/ton premium to Russian fuel on May 30 before interest in non-Russian completely evaporated ahead of the Platts' benchmark switch. Platts will still produce an assessment for Russian ULSD after Jun. 1 but it will be secondary with Russian fuel excluded from the region's main fuel pricing benchmark.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Lukoil Gets New CEO

Vadim Vorobyov has been elected as Lukoil's new CEO, following the decision by Vagit Alekperov to step down from the helm of Russia's second-biggest oil producer.

Vorobyov was the only candidate at the extraordinary shareholders meeting held on May 30.

Alekperov decided to retire to protect the company he founded from any actions following personal sanctions against him introduced by the UK and Australia.

Vorobyov has been with Lukoil since 1998, and has been a member of the management board since 2010. His main area of responsibilities was downstream operations.

Hailing from Nizhny Novgorod, he is believed to be close to the first deputy head of the Kremlin administration, Sergei Kiriyenko.

The company plans to vote at its annual shareholders meeting at the end of this month for changes in its charter allowing the board of directors to suspend the CEO's power.

Lukoil's board will be reduced to nine members from 11. It will include only Russian directors following the departure of foreigners.

Rosneft Names New Managers

Rosneft has appointed new top managers to replace foreign executives who were forced to step down by EU sanctions.

According to sources, Khasan Tatriev, former head of Rosneft subsidiary Bashneft and a member of Rosneft's management board, has replaced Eric Liron, who was vice president for in-house oil-field services.

Before Bashneft, Tatriev was general director of Rosneft production arms Yuganskneftegas and Samotlorneftegas. He is said to be highly valued by Rosneft's CEO Igor Sechin.

Andrei Bogatenkov, who has headed Rosneft's Singapore office since 2019, is the new vice president for commerce and logistics, replacing Otabek Karimov.

Rosneft is in the process of appointing other managers, sources say.

Foreign directors have left Rosneft as well. In a fresh move, Russia's Prime Minister Mikhail Mishustin said this week that sanctioned Russian companies are temporarily allowed not to elect new boards of directors. However, the approved agenda for Rosneft's AGM scheduled for Jun. 30, has the issue on the list.

Gazprom Sets Record Payouts

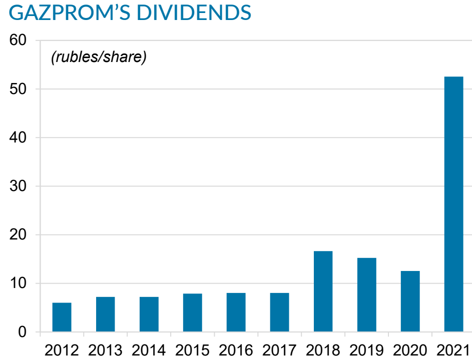
Gazprom's board of directors on May 26 recommended paying 1.24 trillion rubles ($19.75 billion) in 2021 dividends, which would represent a record for the state-run gas giant and the Russian stock exchange in general.

The company plans to pay 52.53 rubles/share, four times as much as the 2020 dividend payout (see graph), as Gazprom's earnings skyrocketed last year on a sharp growth in gas export prices.

The payout represents 50% of adjusted net profit, in line with Gazprom's dividend policy. As an exporter, Gazprom looks safe financially to share its profits with the Russian government, which controls 50.23%, amid the international sanctions and war in Ukraine. State banks, on the other hand, are not allowed to pay dividends for 2021, as they are under greater pressure from sanctions.

Dividends to nonresidents, who might account for 33%-38% of Gazprom's shares, according to estimates from the BCS brokerage, will be transferred to special restricted accounts.

GAZPROM'S DIVIDENDS



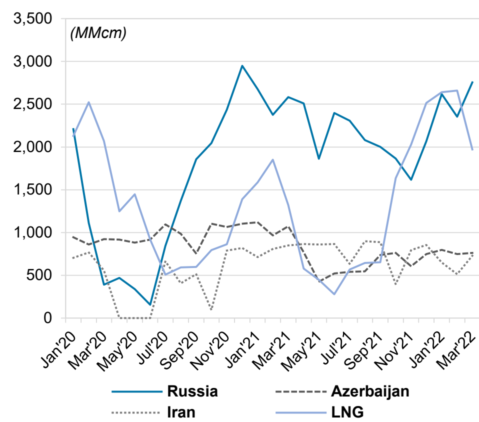
Source: Gazprom, Energy Intelligence

Gazprom Ups Sales to Turkey

Russia's pipeline gas exports to Turkey increased 1.2% on the year to 7.73 Bcm in the first quarter of 2022, according to data from the Turkish energy regulator EPDK released this week.

However, its share in Turkey's total gas imports decreased to 40% from 43% a year ago, as Ankara significantly increased purchases of LNG — by 53% on the year to 7.27 Bcm in the first quarter (see graph). Pipeline gas supplies from Azerbaijan and Iran fell 27% and 20% to 2.31 Bcm and 1.89 Bcm, respectively.

TURKEY'S PIPELINE GAS, LNG IMPORTS



Source: EPDK, Energy Intelligence

In March, Russian pipeline gas exports to Turkey, handled solely by Gazprom, rose 7% on the year and 17% on the month to 2.75 Bcm. Gazprom's oil-linked prices in Turkey were even more attractive amid a spot price rally pushed by Russia's war in Ukraine that started on Feb. 24. In comparison, Turkey's LNG imports fell 26% on the month to 1.97 Bcm in March, but were still up 49% on the year.