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GEOPOLITICS

Russia Sets New Course at St. Petersburg Forum

The world is facing tectonic shifts in all spheres and things will never be the same: That was the unanimous view that dominated discussions at the St. Petersburg International Economic Forum last week.

What the new world would look like is still to be determined. But for Russia the key priorities outlined by President Vladimir Putin include economic, financial, professional and technological independence, as well as political sovereignty and national identity.

Russia would adhere to principles of openness, private initiative and entrepreneurial freedom, Putin said in his speech at the forum. It would move toward its targets together with friends who are ready for equal partnership, he said.

Who those friends were was obvious. The presidents of China and Egypt, Xi Jinping and Abdel Fattah el-Sisi, addressed the forum via video link. Kazakhstan's President Kassym-Zhomart Tokayev was with Putin on the stage. Egypt was this year's special guest at the forum. The status will be passed next year to the United Arab Emirates.

In a repeat of last year, Saudi Arabia's Energy Minister Prince Abdulaziz bin Salman came again to the forum just for talks with Russian Deputy Prime Minister Alexander Novak, which lasted for a little more than one hour. The visit underlined Riyadh's intention to maintain good relations with Moscow.

"To help companies from other countries develop logistical and cooperation ties, we are working to improve transport corridors, increase the capacity of railways, transshipment capacity at ports in the Arctic and in the eastern, southern and other parts of the country, including in the Azov-Black Sea and Caspian Basins," Putin said in describing Russia's strategy to diversify its partners away from the West. "They will become the most important section of the North-South Corridor, which will provide stable connectivity with the Middle East and Southern Asia," he said.

Crisis Roots and Consequences

Moscow denies accusations by the West that it is responsible for global inflation and the hike in energy prices. The outlook started to deteriorate a long time ago, some of the speakers said. They said the roots of inflation were nourished by what they described as the irresponsible economic policies of Western countries, uncontrolled emissions and the accumulation of unsecured debt.

Speakers including Putin, Novak and the heads of Gazprom and Rosneft said the growth in energy prices began a long time before Russia started what it calls its special military operation in Ukraine. They blamed the high prices in part on the destruction of demand during the Covid-19 pandemic, a refusal to agree long-term gas contracts and an over-reliance on renewables.

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)

	Jun 21	Jun 14	Chg.
Dated Brent f.o.b. (38 API)	118.51	127.02	-8.51
Russian Urals c.i.f. NWE (31 API)*	83.73	95.85	-12.12
Russian Urals c.i.f. Med (31 API)†	89.63	101.75	-12.12
Azeri Light (35 API)	124.23	136.35	-12.12
CPC Blend c.i.f. Med (45 API)†	110.63	122.75	-12.12
ESPO (35 API)	87.91	94.81	-6.90
Dubai (30 API)	111.75	118.99	-7.24

PRODUCT PRICES

($/ton, c.i.f. basis)	Jun 21	Jun 14	Chg.
ICE LSGO Futures (front month)	1,320.25	1,297.75	22.50
ICE LSGO Futures (second month)	1,277.25	1,258.00	19.25
0.1% Gasoil NWE*	1,349.00	1,345.75	3.25
0.1% Gasoil Med*	1,322.00	1,318.75	3.25
10 ppm Diesel NWE*	1,347.50	1,298.50	49.00
10 ppm Diesel Med*	1,382.25	1,378.75	3.50
HSFO NWE*	563.00	616.00	-53.00

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

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ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM DEALS, 2022

Company	Partner	Deal	Description
Rosneft	Republic of Bashkortostan	Cooperation agreement	Cooperation for the development of industrial, financial and social programs in Bashkortostan.
Rosneft	St. Petersburg State Forest Engineering University	Agreement on forestry and climate project	Joint development of a set of forestry activities with a total absorption potential of 10 million tons of CO2 equivalent.
Rosneft	Rostekhnadzor	Cooperation agreement	Cooperation to improve industrial safety legislation. Cooperation to provide scientific and technical support for Rosneft projects.
Rosneft	Federal Forestry Agency	Cooperation agreement	Joint actions for conserving and reproducing forests; studying opportunities for increasing the absorptive capacity of forests through the introduction of innovative technologies.
Rosneft	Rospatent	Cooperation agreement	Cooperation for legal protection of the results of intellectual activity.
Rosneft	Energy Ministry	Cooperation agreement	Cooperation to strengthen the stability of the fuel and energy market, develop trade and economic relations, attract investments and implement projects in the fuel and energy complex.
Lukoil	Kazmunaigas	Supplementary agreement to the Agreement on Principles for the Kalamkas Sea and Khazar Project.	Joint selection of the field development concept and commercial conditions.
Gazprom Neft	Neftekhimproject	Cooperation agreement	Development of solutions for the deep refining complex at Moscow refinery.
Gazprom Neft	Yamal Region	Cooperation agreement	Agreement on future project in the region, including development of infrastructure, development of hard-to-recover reserves.
Gazprom Neft	Tomsk Region, Tomsk Polytechnical Institute	Cooperation agreement	Jointly develop geothermal energy technologies.
Gazprom Neft	Yaroslav Region	Cooperation agreement	Gasoline and diesel supplies to the agricultural ventures of the region.
Gazprom Neft	Rosprirodnadzor		Environmental consulting for investment projects.
Gazprom Neft	Natural Resources Ministry	Memorandum	Joint work to develop national environmental monitoring system.
Gazprom Neft	Sirius University	Cooperation agreement	Training of young specialists in IT, automatization and telecom.
Gazprom Neft	St. Petersburg	Cooperation agreement	Jointly develop technologies to get chemicals for pharmaceutical industry.
Gazprom Neft	Republic of Tatarstan	Cooperation agreement	Development of innovative solutions for the oil and gas industry.
Gazprom Neft	Innopolis	Cooperation agreement	Support for innovation solutions for the oil and gas industry.
Gazprom Neft	St.Petersburg State Technology Institute	Cooperation agreement	Development of downstream technologies.
Gazprom Neft	Rosrybolovstvo	Cooperation agreement	Joint work for conservation and restoration of aquatic biological resources.
Tatneft	Gazprom Neft	Agreement of intent	Creation of an industrial competence center for robotics for the oil and gas industry.
Tatneft	Kazmunaigas	Agreement of intent	Joint implementation of the Karaton- Sarkamys exploration project in the Atyrau region of Kazakhstan.
Novatek	Moscow and Samara Regions	Bilateral cooperation agreements	Development of small-scale LNG production and infrastructure.
Novatek	Gazprom	Cooperation agreement	Cooperation in sustainable development of the Russian Arctic.
Gazprom	QazaqGaz	Memorandum of understanding	Outlines intention to increase, in the long run, the processing of Kazakhstan-produced gas at the Orenburg gas processing plant to 11 Bcm/yr.
Gazprom Pererabotka	KazRosGas	Gas Processing Contract for 2022-23	Processing of extra 570 MMcm of gas from Kazakhstan's Karachaganak field in 2022 and 1.23 Bcm in 2023, on top of the initially planned volume of 8.1 Bcm/yr.
Gazprom	CNPC	Technical agreement	Outlines technical parameters for the 10 Bcm/yr far eastern route gas supply contract signed in February 2022.
Gazprom	Almaz-Antey	Cooperation agreement	Localization of services for repair and maintenance of imported pipeline valves.
Gazprom	United Metalurgical Co., Severstal	Updated scientific and technical cooperation programs	Expand list of innovative products to be developed by pipe makers for Gazprom.
Gazprom	Rosatom	Memorandum of cooperation	The use of Rosatom's bench complex for testing technologies and equipment for medium-sized and large-scale LNG production.
Gazprom	Volgograd Region	Memorandum of intent	Implementation of small-scale LNG project to stimulate NGV market.
Gazprom	Astrakhan and Yamal Regions, Republic of Dagestan	Bilateral agreements	The use of natural gas as a vehicle fuel.
Gazprom	Irkutsk, Novgorod, Novosibirsk, Oryol, Perm, Rostov, Tambov and Vladimir Regions	Update and annexes to 2021-25 gas grid expansion programs	Updated gas supply and infrastructure expansion program with Irkutsk region and annexes to 2021-25 programs with seven other regions.

Source: Energy Intelligence

Sanctions against Russia only exacerbated the negative factors, they said. Together with the rejection of Russian hydrocarbons, the outcome would have damaging consequences, the Russian officials warned.

Addressing European gas consumers, Gazprom CEO Alexei Miller said, "The game is over." He added that now that the Western financial system has lost control over the flows of oil and gas resources, the law of the energy markets would be determined by the "taiga" — a reference to the subarctic region of Siberia — rather than the Atlantic.

Rosneft head Igor Sechin said Russia with its resources and first-class assets could become a Noah's ark for the global economy. He invited partners to build the ark together before the flood started.

Green Agenda Fades

Sanctions against Russia have put an end to the "green transition," Sechin said. He believes the energy transition has been used as a political tool and an instrument to manipulate markets, as it does not make economic sense because of the absence at this stage of the required technology for reaching the ambitious targets set by the West.

Contradicting those targets, Europe is now searching for any possible sources of hydrocarbons to replace those from Russia, the Rosneft boss said, pointing to the "coal renaissance" in Europe.

Novak pointed to the disappearance of "green" hype at this year's forum as opposed to the previous one, where it dominated the discussions. However, the long-term targets of reaching carbon neutrality by 2060 remain and Russia aims to achieve them also through growing absorption capacities of forests and by greater energy efficiency. A number of deals signed at the forum target those goals (table, p2).

Deal Making

According to forum organizers, deals worth 5.6 trillion rubles ($102 billion) were concluded in St. Petersburg, up from 3.8 trillion rubles of contracts signed last year.

They were mainly focused on domestic development, including import replacement, infrastructure, regional cooperation and others.

Gazprom Neft, for example, concluded deals with various scientific, technology and innovation institutions that will be able to develop solutions for the oil and gas industry at a time when Western technologies and services are unavailable because of sanctions.

Among foreign deals, Gazprom inked a technical agreement with China National Petroleum Corp. that outlines parameters for the 10 billion cubic meter per year "Far Eastern route" gas supply contract the two sides signed in February.

Staff Reports

CASPIAN

Kazakh Energy Bosses Upbeat on Oil, Gas Future

Kazakhstan remains committed to its long-term plan to increase oil and condensate production to 100 million metric tons per year (2.1 million barrels per day), a 10% increase from current levels, and has sufficient reserves to produce much more than that, Energy Minister Bolat Akchulakov told Energy Intelligence at the St. Petersburg International Economic Forum. "We have not yet passed even one-third of our potential," he said. "The question is whether it is necessary to produce, who should produce that much and who is ready to invest."

Akchulakov, who was promoted to minister in January following the wave of protests in the country, said Kazakhstan would increase output by 12 million tons/yr (260,000 b/d) by 2025, once the $45 billion expansion of the Chevron-operated Tengiz project is completed. He said production this year is earmarked at 87 million tons/yr, a slight increase from last year.

The head of state oil company Kazmunaigas (KMG), Magzum Mirzagaliyev, shed some more light on future production increases. He was also part of the Kazakh delegation to the St. Petersburg forum led by the republic's president, Kassym-Zhomart Tokayev, who was the highest-ranking foreign dignitary in attendance.

Mirzagaliyev told Energy Intelligence that output at the giant offshore Kashagan field would increase in three mini-stages — 1a, 2a and 2b — each of which would involve the construction of a new onshore gas-processing plant. The first, with a 1 billion cubic meter per year capacity, is under construction and would lift oil output by 25,000 b/d within two years, while the second, for 2 Bcm, would add another 50,000 b/d, he said. Kashagan is now producing around 400,000 b/d of crude, having reached its Phase 1 plateau over three years ago.

Lukoil Takes a Look

There are other fields in Kazakhstan's sector of the Caspian Sea that are due to come into production in the coming years, Mirzagaliyev said. These include the Kalamkas More and Khazar fields that were relinquished several years by the Kashagan consortium on the grounds of being too costly to develop, and are now being looked at by KMG and Russia's Lukoil. According to the two partners' development plan, the two fields could produce 3 million-4 million tons/yr (60,000-80,000 b/d) of crude, Mirzagaliyev said, but he stressed these were "basic calculations" that needed to be firmed up. Production could start up as early as 2028, he said.

As it seeks to grow production, Kazakhstan is looking at new ways to export its oil, after flows via the Caspian Pipeline Consortium (CPC) pipeline were disrupted in March and April due to a storm that damaged two of the three single point moorings at the

Russian Black Sea terminal of Yuzhnaya Ozereyevka near Novorossiysk. When the accident happened, "we started looking at all the options," Akchulakov said, and calculated that there were 16 million-17 million tons/yr of "immediate" capacity available. These included transit across Russia, taking oil by pipeline to China and using the Aktau seaport. He said Aktau has the capacity to ship an extra 2 million tons/yr of crude on top of the 10 million tons/yr it already handles.

He did stress, however, that CPC, which has a capacity of 1.4 million b/d, will remain the principal outlet for Kazakh producers. "CPC is very important to us, no matter what happens."

Gas Demand Grows

Maximizing gas output is another priority for Kazakhstan, especially as domestic gas demand continues to creep up. Mirzagaliyev said gas exports, which amounted to 8 Bcm-9 Bcm/yr, mostly under a long-term sales contract with PetroChina, are declining because the country needs more gas for itself.

With that in mind, Kazakhstan's gas transmission company, Qazaqkaz, signed a deal at the St. Petersburg forum with Russian giant Gazprom to increase the amount of gas it processes at the Orenburg plant in southern Russia from 8.1 Bcm/yr to 11 Bcm/yr. Most of the extra gas will go to Kazakh industrial and household consumers.

Russia's Tatneft and KMG signed an agreement of intent during the forum to implement the Karaton-Sarkamys exploration project in the Atyrau region of Kazakhstan. The block is close to the Tengiz field, the Korolevskoye oil fields and a group of fields owned by local oil producer Embamunaigas.

The agreement reaffirms last year's pact between Tatneft and KMG on joint projects in Kazakhstan, including exploration, as part of the Russian firm's drive to expand business outside its home region of Tatarstan.

Paul Sampson, London, Staff Reports

GEOPOLITICS

Russian Oil Confident of Standing Up to Sanctions

Russian oil executives believe the country's energy industry will stand firm in the face of sanctions and Europe's moves to sever oil and gas ties. Speaking at the St. Petersburg International Economic Forum last week, they said that the redirection of Russian oil exports to Asia-Pacific and other markets would support production. Any decline in output would result solely from moves to refine less volumes at home.

The reorientation of export volumes would come at a cost but the price that Europe is going to pay for rejecting Russian hydrocarbons could be much higher.

Stable Production

Deputy Prime Minister Alexander Novak said that the country could maintain its levels of oil production and exports, and could even send more to global markets at the expense of domestic refining.

"We could lower the loading of processing plants. This is related to the configuration of our refineries from the point of view of their optimal production of gasoline and diesel," Novak told reporters on the sidelines of the forum.

Russia processed 280 million metric tons of crude oil and condensate last year, or 5.6 million barrels per day. According to Novak, refining volumes could decline by 10% this year, down to 250 million-260 million tons.

Russia doesn't need all the fuel oil it was producing as a significant part of it was exported to the US, which introduced a ban on Russian oil imports earlier this year. The EU has embargoed Russian oil product imports starting from Feb. 5, 2023.

As opposed to crude, the reorientation of oil products to other markets is a more complicated process and could take longer.

Russia is already sending more than 50% of its crude oil export volumes to Asia-Pacific markets, according to Gazprom Neft General Director Alexander Dyukov. He added that at the beginning of the year, three-quarters of Russian crude exports were destined for Europe. Russian crude exports in the first five months of the year went up by 12% from the same period of 2021, Novak said adding that the figure now is still higher than a year ago.

Higher exports allowed Russia to return to production growth. In May and in the first two weeks of June, Russia managed to recover more than 600,000 barrels per day out of the 950,000 b/d it had to cut in April. Output of crude oil and gas condensate in the first 13 days of June reached 10.69 million b/d. Novak said that production is to grow further in July and could return to the levels seen at the beginning of the year. Russia was producing 11.061 million b/d of crude and gas condensate in February.

Market Division

Russian oil exports to Asia-Pacific markets via the East Siberia-Pacific Ocean pipeline could increase by 140,000 b/d this year to 842,000 b/d thanks to the use of additives, Novak said.

If Russia were to ask, Kazakhstan could nearly double the transit of Russian volumes to China from the current 200,000 b/d, Kazakh Energy Minister Bolat Akchulakov said. Russia is selling its volumes to China and India at huge discounts of more than $30 per barrel but Novak is sure that discounts would shrink with the development of new logistic schemes and the accompanying infrastructure, including moves on insurance costs, the expansion of the tanker fleet and methods of payments, among others.

Rosneft CEO Igor Sechin sees this differently. He said Russia sells its crude at a fair market price for consumers from friendly countries. The unfriendly countries will have to pay for Russia's additional costs that emerge as a result of sanctions and what he said were violations of the rules by the West.

Russian crude imports by China and India have hit record levels. Russia became the No. 1 supplier to China in May with shipments of 1.99 million b/d, ousting Saudi Arabia into second place.

Asked about a possible conflict of interests between Russia and Saudi Arabia in the kingdom's traditional markets like China, Novak said that there will be a natural redirection of flows globally as Russia is forced to reroute shipments to the east because of Europe's oil embargo. Middle East producers would send more crude to Europe to replace Russian barrels.

Broken Bonds

Europe could do without Russian oil, Gazprom Neft's Dyukov admitted. "It's just a matter of price," he said.

Efficient energy supply chains were built between Russia and Europe to support their strategic relations. Now, Europe will have to invest in new infrastructure to bring in oil from other regions, and in modifications of refineries to be able to process non-Russian crude, the Gazprom Neft head said. This would drive up the prices that European consumers pay for fuel.

According to Sechin, Europe is committing "energy suicide." As a result of Europe's decision to reject Russian oil and gas, it is fast becoming the region with the highest cost of energy, he said. Sechin added that according to investment bank JPMorgan, for this year alone the eurozone could pay an additional $550 billion, or 4.5% of GDP due to the higher prices.

Staff Reports

GAS

Gazprom Claims Paradigm Shift in Trade With Europe

Russia's Gazprom used the St. Petersburg International Economic Forum last week as a platform to announce a "paradigm shift" in its gas trade with "unfriendly" Europe. Gazprom made it clear it doesn't feel obliged to supply gas to countries that it believes are hostile to Russia, as it now sees itself as "a supplier of energy stability to the friends of Russia."

In the eyes of the West this only confirms the old concerns that Moscow uses energy as weapon — something that Gazprom and the Kremlin previously denied.

Game Over?

Not joined this year by his former friends and long-term partners from Shell, OMV, Wintershall Dea and other European majors, Gazprom CEO Alexei Miller told the forum on Jun. 16 that the Russian state-run pipeline gas exporter will now play by its own rules with Europe.

"The game is over," he said, claiming the West's control of demand on energy markets through monetary regulations and interest rates doesn't mean a thing if it doesn't control the supply.

"Our commodity — our rules. We don't play the games where the rules are not set by us," Miller said.

Gazprom is now in a good position to be claiming new rules of play, as Europe cannot immediately end Russian gas imports due to the lack of an adequate replacement.

The tight market and record-high prices make Gazprom an obvious winner in the short to medium term, with a huge windfall revenue offsetting any drop in export volumes. But if the EU manages to phase out Russian gas by 2027 or later — an ambitious task — Gazprom's rules won't work, and it will have to play according to Beijing's terms if it wants to redirect pipeline gas flows to China.

Supply Cut Tactic

Like President Vladimir Putin, Miller blamed the Western economic system, regulatory policies and overreliance on renewables and spot gas for the gas price crisis in Europe, not Russia's Feb. 24 invasion of Ukraine which has made Russian energy supplies toxic in Europe.

Indeed, the gas prices rally already started last year, but many believe Gazprom had contributed substantially by deliberately restricting its own supply. Gazprom repeatedly denied the tactic, but now Miller's speech in fact declares it as an integral part of its export strategy.

The recent cutoff of six European buyers which rejected Moscow's unilaterally imposed two-step payment system fits into this tactic, as does last week's reduction in gas flows via the Nord Stream offshore gas pipeline to Germany, which has prompted Berlin to switch to coal and prepare for emergency measures.

Miller insisted the supply cuts resulted from Canadian sanctions that hindered maintenance of Siemens gas turbines used at the Portovaya compressor station of Nord Stream. But European politicians and experts believe Gazprom used the turbine situation to provoke further division in the West on sanctions and put pressure on Europe in talks over Ukraine, let alone spur gas prices, which almost fell to prewar levels in early June, making Gazprom's long-term contract gas less attractive for buyers.

LNG Steps In

While Gazprom's pipeline gas export volumes drop in Europe, Russian LNG doesn't look as toxic. Europe's imports from Novatek's Yamal LNG plant in the Arctic have increased, mainly thanks to a growth in spot sales which go to those markets with higher demand and margins, Novatek CEO Leonid Mikhelson told a briefing on the sidelines of the St. Petersburg forum.

The Russian budget doesn't win, however, as LNG exports are not subject to export duty, while Gazprom pays 30%.

Still, a drop in pipeline gas and the EU's plans to phase out Russian imports by 2027, is a signal to Russia that it needs to build more LNG plants even though access to Western technology is closed by EU sanctions, Mikhelson insisted. He said Russia can reach its target to expand LNG production up to 140 million metric tons per year by 2035, up from 30 million tons in 2021, despite the need to shift to domestic technology.

"We must produce at least as much LNG as we lose in pipeline gas [exports]," he said. "We must hurry to make final investment decisions."

Staff Reports

GEOPOLITICS

War Forces Pace in Black Sea Projects

War in Ukraine has galvanized nearby Black Sea states into action to break their dependency on Russian gas.

Projects that have been simmering on the back burner for years have found a new lease of life. "Lots of things that were going to happen, never happened," said one observer. "And then suddenly, it's all happening. It's because of Russia."

From Turkey to Bulgaria, planners are pulling out the stops to press ahead with projects to tap new sources of energy. Only Romania seems to be dragging its feet in getting its offshore Neptun field into gear.

Turkey Leads Race

Turkey is leading the race to develop its own resources, although to be fair, solid progress was being made on the Sakarya field before Russia sent shock waves through the region by invading Ukraine.

The discovery of Sakarya in 2020 was greeted with skepticism in some quarters in the belief that it could be seen as a publicity stunt for the Turkish leadership. But that has mostly been swept away by claims that it is the biggest field ever found in the Black Sea and could one day meet up to 25% of Turkey's gas needs, easing the country's near-total reliance on imports, mainly from Russia, Azerbaijan, Iran and LNG.

"They've drilled 10 wells since it was discovered," said one regional expert. "Every time they drill, they find some more gas, deeper, further north, in the deepwater."

Rather than partner with an international oil company, state company Turkish Petroleum has at this stage contracted specialist service companies to help it get Sakarya on stream. Aberdeen-based Wood is the integrated project manager, Italy's Saipem is handling the pipelaying, and Schlumberger is taking care of engineering and procurement.

First gas is due to flow in 2023, the centenary of the founding of the Turkish republic and a presidential election year — hence the persistent claims that it is a "political project." Capacity in the first phase, costing around $3.2 billion, is targeted at 3.5 billion cubic meters per year, with an additional 10 Bcm/yr coming on stream in 2027 in a second phase.

Bulgaria in Need

Bulgaria is perhaps the most urgently in need of gas as it has been cut off by Gazprom for not paying its bills in rubles. Last year, Bulgaria imported 3.5 Bcm-3.6 Bcm of gas. It has redoubled efforts to get the Interconnector Greece Bulgaria (IGB) gas pipeline up and running in the second half of 2022. In the first phase, the IGB will be able to handle 3 Bcm/yr. With added compression in a subsequent phase, the capacity could be hoisted to 5 Bcm/yr.

At least 1 Bcm/yr of Bulgaria's intake of gas via the IGB will come from the BP-operated Shah Deniz field in the Caspian Sea off Azerbaijan. A 25-year contract for the gas was signed with Azeri state-owned Socar about eight years ago, although small amounts of Azeri gas already make their way to Bulgaria via an existing pipeline from Greece.

Serbia's energy minister was at the Baku energy forum earlier this month, seeking 1 Bcm/yr of Azeri gas to be delivered via Bulgaria. A new pipeline with a capacity of 1.8 Bcm/yr would first have to be constructed to Serbia, although the chances of this occurring have improved markedly since the outbreak of hostilities in Ukraine. "An interconnector from Bulgaria to Serbia has gone from being a maybe to being a near certainty," one analyst said.

Greece looks likely to press ahead with a new LNG import terminal at Alexandroupolis, which would have a maximum capacity for 5.5 Bcm/yr. It would be the country's second LNG terminal and has "a high probability of happening," the expert said, noting that it was being backed by "a trader and a Bulgarian TSO and comes under an internal political umbrella." Greece's first LNG terminal, with a 7 Bcm/yr capacity, has been operating at Revithoussa since 2000.

Romanian Flip

Romania could be about to accelerate progress on developing its deepwater Neptun discovery. One recent step forward was the approval of the country's long-awaited offshore legislation. Neptun operator OMV Petrom is now analyzing the law before deciding on a final investment decision.

Neptun has not had an easy ride, with Exxon Mobil finally backing out of the consortium earlier this year. But it has the potential to make a significant difference to the Black Sea nation. "It would flip Romania from being a small importer to being a small exporter," the regional expert said.

Michael Ritchie, London

OIL MARKETS

Russian Price Cap Conundrum Warrants Caution

Russian oil prices could have a cap imposed on them, former oil trader and now celebrity fund manager Pierre Andurand said.

One immediate effect of the sanctions is that Russian crude prices are no longer pegged to international prices since they cannot compete freely on the market, Andurand, who traded oil for Goldman Sachs, Bank of America and Vitol before setting up his own hedge fund, said on Twitter.

The EU insurance ban on ships carrying Russian oil will de facto act as a secondary sanction against sellers of Russian oil. Even with a $30 per barrel discount, transporting up to 2 million barrels of uninsured crude on a very large crude carrier will represent a massive risk for offtakers that may still be tempted to lift Russian oil cargoes.

Large trading houses with a previously strong exposure in Russian oil trade, like Lukoil's trading arm Litasco or trader Trafigura, tacitly recognize that the EU ban on insurance will represent a major impediment for the trade.

There is good reason to think that if Russia does not find new markets to offset the commensurate drop in oil exports to Europe, production will have to cave in, regardless of global supply and demand balances.

And by extension, any cap on the volumes of Russian crude that can be freely purchased by foreign countries as a whole could potentially translate as a price cap. Neither China nor India would continue to buy Russian oil without deep discounts. Russia finds itself in a conundrum. Its ability to increase prices is limited but without higher prices, though, its ability to offset the revenue loss from Europe is even more limited.

Moscow could pre-empt the market and decide to cut production on its own. If that happened, the psychological effect on global prices would reduce Russian crude availability even faster than the EU embargo.

Pressure Builds on Russian Diesel Prices

Russian ultra-low-sulfur diesel (ULSD) values crashed in Northwest Europe following the arrival of a newbuild very large crude carrier (VLCC) bringing more desirable fuel from the Mideast Gulf.

Russian ULSD fell to a $123.75 per metric ton discount to other origins on Jun. 21, dropping $6.50/ton the same day Abu Dhabi National Oil Co.'s (Adnoc) VLCC *C Earnest* arrived in the UK's Southwold Light ship-to-ship area. The supertanker is carrying around 225,000 tons of ULSD loaded from Ruwais and Dubai and left the United Arab Emirates in late May.

At least three handy-sized tankers — the *CB Pacific*, *STI Camden* and *Seasprat* — are already lined up to transfer smaller parcels of ULSD to ports around NWE, including the UK Thames, in the next few days. The *STI Camden* and *Seasprat* were previously used to regularly shuttle Russian ULSD from Primorsk. All have been chartered by Adnoc.

Europe's total ULSD imports are now pegged at 4.6 million tons this month, up from 4.1 million tons in May. That includes around 2.1 million tons still coming from Russia, followed by 1.9 million tons from the Mideast and Asia, including this latest VLCC, and the remainder from the US.

Russian arrivals have fallen steadily from almost 2.6 million tons in March and are now made up mainly of term volumes likely to continue until EU and UK sanctions take effect next January. Spot offers have vanished since S&P Platts excluded Russian ULSD from its benchmark price assessment on Jun. 1.

East of Suez volumes may be slowly rising but US refiners have struggled to boost ULSD exports. Most remain focused on the booming domestic gasoline market where major tax cuts are set to stoke so-called "revenge demand" over the upcoming Independence Day holiday. The term is being used to describe the huge appetite for travel being seen after the pandemic.

Europe's own ULSD demand could be starting to flag with inland barge flows from Rotterdam through Germany now at their lowest level since late 2017, according to Insights Global. Europe has seen only modest cuts in fuel duties which have failed to stop pump prices reaching record highs.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Rosneft Backs Vostok Oil

Rosneft CEO Igor Sechin confirmed that the $100 billion Vostok Oil venture to develop 45 billion bbl of oil resources onshore the Russian Arctic is on track to reach production of up to 2.3 million b/d in 2033.

"The project is developing in the planned regime, the inevitable difficulties are being overcome, but we are fully confident that all tasks would be fulfilled," Sechin said at last week's St. Petersburg International Economic Forum. He said that more than 4,000 people and 2,000 machines are working on construction sites 24 hours a day.

Sechin said Rosneft has all the necessary knowledge and experience to realize the project, adding that 98% of materials and equipment are of Russian origin.

He invited "friends" to take part in the project. Executives from China National Petroleum Corp., India's ONGC Videsh and Hong Kong-based Oil & Petroleum Holding International Resources were among the speakers at the panel.

Trafigura has just revealed plans to withdraw from Vostok Oil in which it holds 10%. Sources say that Vostok Oil General Director Vladimir Chernov is to replace Zeljko Runje as Rosneft first vice president for oil, gas and offshore business development. Runje left the company together with other foreign managers because of sanctions.

Novatek Wins Oil Block

Novatek's upstream joint venture Yargeo last week won an auction for the 93.5 million boe North Yarudeisky Block in West Siberia. Its partner in the JV is Nefte Petroleum, based in Zug, Switzerland.

The new 27-year license should help mitigate the falling production at Yargeo's core Yarudeiskoye oil field, according to Novatek CEO Leonid Mikhelson.

Due to the Yarudeiskoye decline, Novatek expects its total liquids production to slightly decrease this year from 12.3 million metric tons in 2021, even though condensate production will grow, Mikhelson told a briefing last week. Gas production should increase some 2%-3% from last year's 79.89 Bcm, he said.

Mikhelson admitted that Novatek sometimes faces difficulties with oil and oil products sales amid the current geopolitical turmoil but insisted that the company sells everything it produces. Separately, Novatek may consider buying the Russian power generation assets of Finland's Fortum, as Novatek's financial position is strong thanks to high oil and gas prices, Mikhelson said. Fortum and its German subsidiary Uniper plan to divest their Russian assets following the invasion of Ukraine.

Hungary Suspends Druzhba Oil

Hungary has suspended imports of Russian crude oil via the Druzhba pipeline after a fire at its Duna (Danube) refinery in Szazhalombata, sources tell Energy Intelligence.

The sources said the plant's owner Mol has informed Russian pipeline monopoly Transneft and Ukrainian pipeline operator Ukrtransnafta that it would stop its offtake of crude from the pipeline for two weeks starting Jun. 15 for repair work at the refinery after a recent fire in the distillation column.

Hungary imported 68,420 b/d of crude from Russia in 2021, but has steadily increased imports since January to reach over 125,000 b/d in May. In the first 13 days of June, Hungary was the only country along the Druzhba pipeline that increased imports of Russian crude — up by 18,000 b/d to 144,000 b/d — while Germany, Poland, Slovakia and the Czech Republic reduced their combined Druzhba offtake by some 190,000 b/d.

Serbia May Cut Russian Oil

Serbian officials have raised concerns that shipments of Russian crude oil to Serbia might stop after Dec. 5 in compliance with the EU's sixth package of sanctions that envisages an embargo on Russian seaborne supplies. Russia supplies crude to the Naftna Industrija Srbije (NIS) refinery in Pancevo via Croatia's deepwater port of Omisalj and onward through Croatia via the Jadranski Naftovod pipeline operator.

Seaborne imports from Russia will be barred after Dec. 5. Previous EU sanctions ban operations with Russian state-controlled companies, including Gazprom Neft, which operates the NIS refinery. To avoid risks of supply disruptions, Gazprom Neft earlier reduced its stake in NIS from over 56% to 50%, which allowed it to continue operations in the country. Gazprom Neft will now have to find ways to work under the sixth package of sanctions.

Russian crude accounts for roughly 30% of NIS' imports, with the rest coming mainly from Iraq and West Africa. Sources say Serbia's 96,400 b/d Pancevo refinery has started looking for ways to replace Russian barrels.

Russia Mulls Gazprom Tax Hike

Russia's finance ministry has proposed an increase in the mineral extraction tax (MET) for state-run gas exporter Gazprom from Sep. 1-Nov. 30, Russian news agency Interfax reported this week.

The hike is designed to make Gazprom share its huge windfall revenue from high gas prices in Europe and will bring an extra 416 billion rubles ($7.4 billion) to Russia's budget, which has been hit by financial sanctions in response to the Kremlin's Feb. 24 invasion of Ukraine. This will not be the first time the Kremlin has used an MET hike to get extra cash from Gazprom. In 2016, Moscow increased gas MET exclusively for Gazprom to tap the windfall revenue received by the gas exporter from the weakening of the ruble.

The higher rate was initially supposed to last until the end of 2019 but was then prolonged until end-2021. In 2017-18, Moscow hiked MET to compensate for lower-than-required dividends paid by Gazprom. As a result, Gazprom paid almost 1 trillion rubles in extra MET in 2016-21.

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 CRUDE OIL AND GAS CONDENSATE PRODUCTION, MAY 2022

	Year-To-Date		May		Change From Previous Month	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Top 5 Producers	**1,489.40**	**28,889.30**	**1,485.84**	**5,918.32**	**147.68**	**750.80**
Tengizchevroil	627.36	11,961.09	669.22	2,619.40	126.26	562.74
North Caspian Operating Co.	381.86	7,262.09	333.86	1,303.48	-8.99	8.08
Karachaganak Petroleum Operating Co.	268.34	5,129.05	269.25	1,056.56	30.15	148.58
Mangistaumunaigas	114.23	2,446.54	117.22	515.42	1.95	24.91
Uzenmunaigas	97.60	2,090.53	96.30	423.46	-1.69	6.48
Other Producers	**384.85**	**8,242.97**	**383.33**	**1,685.57**	**0.23**	**55.34**
Total	**1,874.25**	**37,132.27**	**1,869.18**	**7,603.89**	**147.91**	**806.14**

Official Kazakh figures are in metric tons. Conversions to barrels: 7.05, Karachaganak: 7.9, Tengiz: 7.92, Kashagan: 7.94. Download full dataset here. *Source: Kazakh Information and Analytical Center of Oil and Gas.*

KAZAKH GAS PRODUCTION, MAY 2022

(MMcm)	Year-To-Date	May	Change From Previous Month
Top 5 Producers	**22,096.88**	**4,501.54**	**612.01**
Karachaganak Petroleum Operating Co.	8,858.03	1,833.00	310.40
Tengizchevroil	6,667.03	1,459.96	300.57
North Caspian Operating Co.	4,409.33	777.43	-6.76
CNPC-Aktobemunaigas	1,805.45	359.20	3.93
Kazakhoil-Aktobe	357.04	71.95	3.88
Other Producers	**1,993.11**	**396.70**	**13.30**
TOTAL	**24,089.98**	**4,898.23**	**625.31**

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