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CONTENTS

GEOPOLITICS

Russia Reinforces Caspian Sphere of Influence

The Caspian summit in Ashkhabad this week was key for Russia's efforts to strengthen regional cooperation as an alternative to broken ties with the West and sanctions against Moscow.

The main target of the meeting was to confirm that the littoral states — Azerbaijan, Russia, Kazakhstan, Turkmenistan and Iran — stay committed to the Caspian Sea Convention they signed in 2018. The document defines the legal status of the sea and the principles for cooperation by the five states in its waters.

More importantly, Article 3 of the convention calls for the "non-presence in the Caspian Sea of armed forces not belonging to the parties" — a clause that supports Russia's dominance in the region. The final document signed by the leaders in Ashkhabad says that the countries would use the Caspian Sea exclusively "in peaceful purposes."

President Vladimir Putin's assistant Yuri Ushakov said that Russia attaches paramount importance to the convention, which it wants to be brought into force as soon as possible. The document has been ratified by all countries except Iran. Tehran is unhappy that it has been allocated 13% of the sea's waters under the convention, rather than the 20% it claims. Ushakov said Moscow is working with Tehran on the issue.

In preparation for the summit, Russian Foreign Minister Sergei Lavrov visited Tehran and Baku and held consultations with his Turkmen counterpart Rashid Meredov. The summit was also discussed during talks between Putin and new Turkmen President Serdar Berdimuhammedov during the latter's recent visit to Moscow. It was decided then to hold the summit on Jun. 29, the 65th birthday of Berdimuhammedov's father Gurbanguly, who stepped down as president in March.

Oil, Gas Potential

The Caspian Sea — home to proved and probable oil and gas reserves estimated at 48 billion barrels and 8.2 trillion cubic meters of gas in 2012 — has a number of disputed oil and gas deposits and was also seen as an important route for Turkmen gas to Europe via Azerbaijan bypassing Russia.

The 2018 convention made it possible for Azerbaijan and Turkmenistan to sign a memorandum of understanding on the joint exploration and development of the Dostluk field, known also as Serdar/Kyapaz, that the two sides have been disputing for years. Russian major Lukoil is negotiating terms to operate the 500 million bbl-plus oil field.

Insiders tell Energy Intelligence that before signing the contract for Dostluk, an intergovernmental agreement should be inked. The contract would be the first to be based not on the division of the seabed but on the financial results, sources say. Addressing the summit, Putin said that the littoral countries "have big opportunities in energy cooperation" and "to rationally and efficiently use the riches of the Caspian Sea taking into consideration the interests of all sides."

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SPOT CRUDE OIL PRICES

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

	Jun 28	Jun 21	Chg.
Dated Brent f.o.b. (38 API)	122.21	118.51	3.70
Russian Urals c.i.f. NWE (31 API)*	88.79	83.73	5.06
Russian Urals c.i.f. Med (31 API)†	92.34	89.63	2.71
Azeri Light (35 API)	129.84	124.23	5.61
CPC Blend c.i.f. Med (45 API)†	113.34	110.63	2.71
ESPO (35 API)	101.57	88.63	12.94
Dubai (30 API)	113.16	116.30	-3.14

PRODUCT PRICES

($/ton, c.i.f. basis)	Jun 28	Jun 21	Chg.
ICE LSGO Futures (front month)	1,218.75	1,320.25	-101.50
ICE LSGO Futures (second month)	1,186.75	1,277.25	-90.50
0.1% Gasoil NWE*	1,289.00	1,345.75	-56.75
0.1% Gasoil Med*	1,262.00	1,322.00	-60.00
10 ppm Diesel NWE*	1,268.50	1,350.75	-82.25
10 ppm Diesel Med*	1,326.00	1,385.50	-59.50
HSFO NWE*	556.00	563.00	-7.00

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

Caspian Routes

Moscow has resisted construction of oil and gas export pipelines via the Caspian Sea as they could supply Europe bypassing Russia. Moscow's argument has always been that any such scheme must meet stringent environmental approvals by all parties, allowing Russia and Iran to continue to hamper the finalization of a trans-Caspian gas pipeline connecting Turkmenistan, holder of the world's fourth-largest gas reserves, to Europe via Azerbaijan.

Instead, the Caspian Sea is viewed by Moscow as a key transportation route to new markets bypassing "unfriendly" Europe. Russian Deputy Prime Minister Alexander Novak during his recent visit to Tehran discussed the revival of the Caspian swap scheme which envisages Russia delivering oil to refineries in the north of Iran in exchange for picking up equivalent volumes from Iranian ports in the south.

The scheme could be risky while Tehran remains under US sanctions, as a recent seizure of an Iranian tanker in Greek waters has demonstrated. Novak said that a working group was set up to work on the Caspian swap scheme.

North-South Corridor

Russia's broken ties with Europe and its need to nurture new markets has increased Moscow's interest in the North-South corridor plan, a multimode network of ship, rail and road routes for moving freight between India, Iran, Afghanistan, Azerbaijan, Russia, Central Asia and Europe.

A new railway from Kazakhstan to Iran via Turkmenistan was opened in 2013 but has never functioned fully because the Turkmens have demanded exorbitant fees, one source said, adding that it is cheaper to ship freight from Kazakhstan through the Caspian Sea to Iran than use the direct rail route.

Putin said that to develop the 7,200 kilometer route from the port of St. Petersburg to Iran and India, Russia has adopted a 2030 national strategy for the development of Caspian ports and of railways and roads linking to them.

Test shipments of cargoes have already started from St. Petersburg and the Russian Caspian port of Astrakhan by water and land via Iran to India. For other players, including China, this could be an attractive and faster route to Europe than the one via the Suez Canal.

It would also compete with a route via Turkey bypassing Russia, which was on the agenda this week at a meeting in Baku of the transport ministers of Turkey, Azerbaijan and Kazakhstan.

Staff Reports

GAS

Gazprom's Exports to Europe Drop to Record Low

Gazprom's pipeline gas exports to Europe fell to record-low monthly levels in June due to sharp supply cuts via the Nord Stream pipeline.

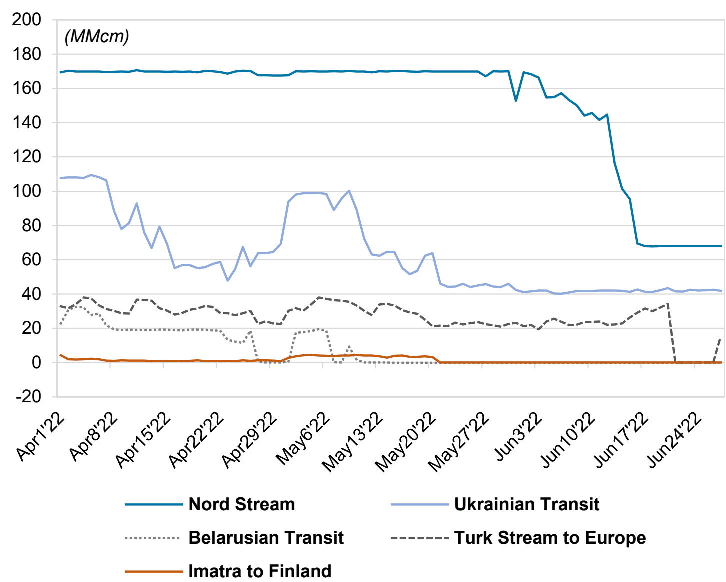
Europe is not convinced by the Kremlin's explanation that the cuts were caused by purely technical reasons stemming from the sanctions against Russia, as Moscow benefits both politically and commercially from the price rally because of the supply cuts.

In the meantime, Moscow has been keeping an eye on the G7 discussions of a price cap for Russian oil and gas, which is aimed at limiting its crucial windfall revenue amid the war in Ukraine but looks difficult to implement.

Export Drop

Gazprom's exports to Europe, excluding Turkey, will likely total around 5 billion cubic meters, or some 170 million cubic meters per day, in June, Energy Intelligence estimates based on gas transmission data. That is lower than the 270 MMcm/d in May, 295 MMcm/d in April or 360 MMcm/d in March, and unprecedentedly low for the historically key European export market for Russia, which is now seeking to gradually phase out Russian imports by 2027, following the Kremlin's invasion of Ukraine.

RUSSIAN GAS FLOWS TO EUROPE



Source: Gazprom, GTSOU, Nord Stream AG, Entsog, Energy Intelligence

The June drop appears to be a result of Gazprom's own actions, rather than those of Europe, which still fears that any immediate cutoff would cause severe damage to its own economy.

The sharp drop in Gazprom's exports in previous months could be well explained by market factors, including the eroded demand for Gazprom's pricey hub-linked contract deliveries and competition with higher LNG imports. But in June, pipeline capacity restrictions were the main driver.

Underused Pipes

Nord Stream flows dropped to around 68 MMcm/d in the second half of June from their normal levels of almost 170 MMcm/d due to the sanctions-driven problems with maintenance of Siemens gas turbines used at Nord Stream's Portovaya compressor station.

Gas was not rerouted to Ukrainian transit pipes, where Gazprom kept flows at just above 40 MMcm/d in June, below the available 77 MMcm/d and the booked 110 MMcm/d capacity.

Europe-bound flows via the Turk Stream pipeline also remained some 40% below nameplate capacity of 43 MMcm/d, following the cutoff of Bulgaria in late April, and stopped for a planned maintenance turnaround from Jun. 21-27.

Turbine Conundrum

The Kremlin insisted last week the Nord Stream gas flow cuts had nothing to do with politics, but Europe is not convinced, as there are doubts that the sharp cuts can be fully justified by technical reasons.

Gazprom said on Jun. 14 it could only use three gas compressor units at Nord Stream's Portovaya compressor station and pipe up to 110 MMcm/d, because one Siemens turbine was stuck in Canada after maintenance due to that country's sanctions against Russia. The next day it said it had to switch off one more turbine, which resulted to a further drop in capacity to 67 MMcm/d. CEO Alexei Miller hinted that more turbines could be switched off as they approach their maintenance deadlines, but it is not clear how many and how that could affect the flows.

A complete stop is understood to be avoidable from the technical point of view, because not all Portovaya turbines are overhauled in Canada. Portovaya has six 52 megawatt compressor units using nine Siemens SGT-A65 turbines which are produced in Canada and two 27 MW units using three SGT-A35 turbines produced and overhauled by Siemens' facility in Aberdeen where there should be no sanctions-driven problems at this stage.

Russia's ambassador to Canada Oleg Stepanov was quoted as saying that Moscow is not in talks with Ottawa over the Siemens turbine situation, because the Kremlin believes this is something that must be settled between Canada and Germany, the country which hosts Nord Stream's end point and where Siemens is headquartered.

Price Cap

Concerns of further supply cuts remain high in Europe, as reflected in the elevated spot prices, while the planned complete shutdown of Nord Stream for annual maintenance from Jul. 11-21 should increase pressure on the tight market.

The high prices have resulted in Gazprom's record windfall revenues even despite a sharp drop in export volumes. At this stage, Moscow doesn't seem to be too concerned with discussions of a proposed price cap for Russian gas in Europe.

The G7 leaders on Jun. 28 agreed to explore price caps for Russian oil and gas to curb Moscow's ability to fund its war in Ukraine. However, it might prove very difficult to convince big Russian oil buyers like China and India to join the initiative.

No detail of a possible mechanism for a gas price cap was provided. Kremlin spokesman Dmitry Peskov was quoted as saying that if Europe wants to revise gas supply contracts and change the purchase price, it is a matter of negotiation with Gazprom.

Staff Reports

CENTRAL ASIA

New Players Emerge in Uzbek Gas Shakeout

New companies are starting to emerge in Uzbekistan as it restructures its all-important gas sector in preparation for the end of its long-standing role as one of Central Asia's key exporters. Gas shipments abroad are set to cease in the next three-four years, with flows being redirected into a growing natural gas processing industry backed by Tashkent to monetize high-value added products and diversify the economy.

Uzbekistan currently exports roughly 10% of its annual natural gas production of 50 billion cubic meters to 55 Bcm, but that is expected to end by 2025-26 as "all the gas produced in Uzbekistan will be consumed in Uzbekistan," Bekhzot Narmatov, board chairman of Uztransgas, the gas transportation arm of state oil and gas giant Uzbekneftegas, told Energy Intelligence in Tashkent.

He said Uzbekistan is actively moving ahead with a liberalization program to establish a competitive market with transparent rules and pricing mechanisms, making it attractive for investors. As part of the process, Uztransgas will be split into two companies as of Jul. 1.

The first new company, Uzgastrade, will be responsible for marketing the gas, signing contracts and ensuring the export/import balance. All existing contracts will be transferred to that company until August.

Uztransgas, as the second company, will keep its role as the gas pipeline operator responsible for shipments that will generate its profits through tariffs, Narmatov said.

Russian Assets

Some exports might remain as Uzbekistan still has an obligation to ship gas produced from certain assets, including the production-sharing agreement with Russia's Lukoil that includes the Gissar and Kandym fields. Gas from the projects is shipped to China where prices are higher than those for domestic supplies. Narmatov said it was necessary to maintain "the targeted IRR [internal rate of return]" of those projects, but the planned liberalization of the country's gas market should help bring domestic prices close to export alternatives. Gas supplies to China are also seen as an integral part of cooperation, and Tashkent will likely offer Beijing something in return for lower flows.

Uzbekistan also used to send gas to Russia under accords with state-run Gazprom, in a move that was also partially driven by the strategic partnership between the two countries. Narmatov said, however, Gazprom is no longer buying Uzbek gas, because of economics and because of the growing demand in Uzbekistan itself.

Petchems Boom

The petrochemicals business is booming in Uzbekistan, with projects worth some $5 billion already in play and new investors appearing on the scene.

The country recently launched its $3.4 billion Uzbekistan Gas-to-Liquids (UzGTL) plant, which receives 3.6 Bcm of gas per year from the nearby Shurtan Gas Chemical Complex. The plant produced the country's first-ever synthetic oil on Jun. 15 and is ready to start producing its first synthetic diesel and naphtha, followed by synthetic kerosene. Naphtha from UzGTL will be sent back to Shurtan once the complex completes a $1.8 billion expansion to add 280,000 metric tons per year of polyethylene capacity, 100,000 tons/yr of polypropylene and 50,000 tons/yr of pyrolysis distillate.

Uzbekneftegas is also considering six smaller projects at UzGTL with a total cost of $620 million. Of the six, the one at its most advanced stage is the linear alkylbenzene facility, which is being eyed by Turkish companies. Sources say Turkey is ready to take care of the investments and construction, but wants to offtake all the products, which Tashkent is not happy about.

A second project at a relatively advanced stage is for synthetic oils, which is under discussion with Exxon Mobil. Another project on hexene-1 and butene-1 is being discussed with Russia's Tatneft, sources say. Alisher Bakhadirov, the head of downstream at Uzbekneftegas also told journalists on the sidelines of the first Energy Forum in Tashkent last week that some projects are also being considered with Russia's petchems giant Sibur.

Sources say that Uzbekneftegas might finance some of its own projects using the funds it receives through a planned initial public offering, which is still under consideration as part of a massive privatization move announced two years ago.

The country is also looking for partnerships for small-scale petchem projects. According to Jurabek Mirzamahmudov, who chairs Uzbek state Khimprom, talks are under way with companies from the United Arab Emirates, Saudi Arabia, Russia, Turkey, Germany and Austria.

Private Investments

Private gas chemical projects are also in the pipeline. The most advanced is the $2.5 billion methanol-to-olefin gas chemical complex being implemented by privately controlled Sanoat Energetika Guruhi (SEG), formerly Jizzakh Petroleum, in the Karakul district of Bukhara region.

The project will receive 1.3 Bcm/yr of gas from nearby SEG fields and produce 730,000 tons/yr of high-class polymers. The project should be completed in 2024. 70% of the products will be sold on Uzbekistan's domestic market, while 30% are designated for export. SEG is currently financing the project on its own, but talks continue with potential partners and are expected to be finalized by the end of the year.

Staff Reports

CASPIAN

Kazmunaigas Gears Up for Local IPO

After years of delays, shares in Kazakhstan's national energy champion Kazmunaigas (KMG) will be offered to local investors in an initial public offering (IPO) due to take place later this year.

News of the IPO, which was revealed this week at a conference in the capital Nur-Sultan, by Almasadam Satkaliyev, the head of sovereign wealth fund Samruk-Kazyna, KMG's majority shareholder, comes at a nervy time for Kazakhstan. Having suffered a wave of violent protests at the beginning of the year, the country is experiencing the fallout from Russia's war with Ukraine, which has disrupted its oil exports across Russian territory.

Details about the IPO remain sketchy, and analysts say Samruk may struggle to get the ball rolling before the end of the year. Satkaliyev said the first placement of KMG's shares would be made on the Astana International Exchange and the Kazakhstan Stock Exchange in Almaty, and that shares would be available to all Kazakh citizens, as well as to retail and institutional investors. Kazakhstan's leading banks would be involved in the process, he said.

London Calling

It is not clear what percentage of KMG's shares will go on offer, and whether non-Kazakhs will be allowed to participate in the offering. The most likely scenario is that there will be a second IPO, to be held possibly next year in London, that will target international investors. Potential investors say more time may be needed, given the fraught situation in the wider region. "This is not a great time for an IPO, everyone's worried about the impact from the war in Ukraine," a veteran Western financier in Almaty says. "There are a lot of nervous investors out there."

In the run-up to this week's announcement, the Samruk boss had discussed the IPO with two senior executives from Citibank. It was Citi that helped organize the IPO in 2019 of uranium producer Kazatomprom, which sold 15% of its shares simultaneously on the London and Astana exchanges but was not as successful as the organizers had hoped.

One advantage is that KMG has had prior exposure to global capital markets. In 2006, its subsidiary KMG Exploration Production raised some $2 billion in its own London IPO, before it was delisted in 2018 and brought back under its parent's control. The reason for the switch was to allow KMG to list its own shares, and raise its global profile.

KMG is also widely considered to be the highest performer in Samruk's asset portfolio when it comes to corporate governance. The company has several Western representatives on its board of directors, which is chaired by Australian business veteran Chris Walton and also includes the former head of the Chevron-led Tengizchevroil joint venture, Tim Miller, and ex-Shell executive Phil Holland as nonexecutive directors.

Management Purge

The company also underwent a management purge in the wake of the January riots that allowed President Kassym-Zhomart Tokayev to tighten his control and dismantle the networks that existed under his predecessor, Nursultan Nazarbayev.

In April, the company got a new chief executive, Magzum Mirzagaliyev, who had previously served as Tokayev's adviser. The president also appointed new heads of refining, oil transportation and exploration, while sacking two of Nazarbayev's sons-in-law as managing directors of KMG's oil pipeline subsidiary Kaztransoil and state gas marketing firm Qazaqgaz (formerly Kaztransgas).

KMG's finances are also in better shape, due to the surge in oil prices and belt-tightening measures that were introduced in 2020 after Covid-19 caused a crash in oil prices.

During the first quarter of this year, KMG's earnings before interest, taxes, depreciation and amortization rose 40% year on year to $971 million, while net profit remained stable at $628 million. KMG has reduced its net debt to just $4.7 billion, and has made early repayment of prefinancing loans worth over $5 billion provided by Swiss trading giant Vitol. KMG's oil production during the three-month period increased 3.2% on the year to 5.84 million metric tons (475,000 barrels per day).

Paul Sampson, London

TRADING

Caspian-Black Sea Route Offers Export Lifeline

The tightening EU embargo on Russian oil has created strangleholds and diverted refined product flows to the Caspian and Southern Caucasus, where they can bypass southern Russian ports. But if that so-called "Middle corridor" is to become a viable transit alternative, more cooperation and funding will be needed.

When sanctions hit the Russian ports of Novorossiysk and Tuapse, ships to and from Central Asia that had not used the Southern Caucasus corridor before started to accumulate around the port of Batumi in Georgia.

"Presently a lot of vessels are stuck on anchorage, waiting their turn, while railway and ports can't handle cargo efficiently, which has negative impact on economics," said Jaba Tarimanashvili, director of Trans Logistic, a Batumi-based ship and cargo services company.

Kazakh Flows

Unlike Azerbaijan, which has good access to Western markets through the Baku-Tbilisi-Ceyhan oil pipeline, other countries like Kazakhstan and Turkmenistan still rely chiefly on existing Russian infrastructure to ship their oil and gas.

Kazakh crude is primarily exported through the Caspian Pipeline Consortium pipeline that is partly owned by Russian companies like Transneft and Rosneft, and therefore potentially subject to the EU ban.

To circumvent EU sanctions, Kazakhstan has rebranded its oil as Kazakh Export Blend Crude Oil (Kebco) to make sure it is unambiguously segregated from Russian oil.

COST AND TIME ESTIMATES FOR MAIN EU-CHINA CORRIDORS

Corridor from Chengdu, China	Cost Range (per 40 foot container)	Overall Avg. Time (days)
Northern	$2,800-$3,200	14-18
Trans-Caucasus	$3,500-$4,500	16-20
Maritime	$1,500-$2,000	28-40

Source: World Bank

Kazakhstan has also exported refined products, especially fuel oil, from Russia's southern ports. Most Kazakh products have shipped out of the port of Taman on the Black Sea, which is under the same export ban. Kazakhstan has as a result been rerouting its refined product flows to the port of Batumi in Georgia despite higher shipping costs.

Georgia Rises

Refined product traffic through the Georgian ports has been rising since early 2020, from about 6,500 barrels per day in January 2020 to 27,600 b/d in May 2022, Kpler data show. In Batumi, the oil cargo turnover in the first quarter of 2022 was already at the same level as full-year 2019, at 850,000 metric tons.

Local stakeholders say there is little room for expansion and railway modernization is badly needed to smooth out transit through the Azerbaijan-Georgia corridor. "The main Georgian ports are congested," said Zurab Surmanidze, managing director of Tero, a shipping and freight agency in Batumi.

The problem is that "the port of Batumi has no space for any kind of expansion, with quite restricted open storage area and spur tracks to handle rail wagons maneuvering, shunting," Surmanidze said. And so is the Batumi railway station, with congested empty and loaded wagons all over the place.

Rail Coordination

An additional complication is that railways, which are crucial to products shipments between Baku on the Caspian and Batumi, Kulevi or Poti in Georgia, lack critical coordination, affecting timing for the port cargo handling at either end.

There is no smooth and efficient intermodal transport from Central Asia to the Black Sea. A product cargo that ships from Kazakhstan typically faces multiple bottlenecks and delays — when using Caspian sea ferries, changing railway gauge between countries, or going through lengthy cross-border procedures and redundant paperwork checks.

The existence of two different railway legal regimes causes substantial delays in the movement of trains across borders. The adoption of a common consignment note helped improve transit times, but more work is needed to make the East and West railway zones more interoperable.

Common Platform

There is underutilized capacity at the Kazakh seaports of Aktau and Kuryk on the Caspian Sea to channel cargo via the Georgian Black Sea ports to Western Europe. The route is safer but remains long and expensive. Expanding it would require a common platform and more regional customs harmonization. "The problem is that each country thinks of self-optimization. Everybody wants to control logistics, and based on that, further control trade," Tarimanashvili said.

The international Transport Corridor Europe-Caucasus-Asia program between EU, Eastern European, Caucasus and Central Asian countries had paved the way for Euro-Asian connectivity. But the interest dwindled over the years.

An ideal solution "would be to involve China as well, along with the USA, UK and EU in the development of the transport route, to make it accessible, safe, transparent and most of all digital," said Tarimanashvili.

Julien Mathonniere, London

OIL MARKETS

Traders Lose Track of Russian Discounts

Russia continues to sell its crude oil to Europe despite an EU oil embargo that aims to choke off seaborne supplies fully by the end of the year, but market sources suggest that discounts could actually be different from those reported by price agencies and vary wildly by region.

Russian trader data seen by Energy Intelligence show that for the first half of June, spot cargoes of Urals crude have been selling at an average $88.10 per barrel in Northwest Europe and $88.40/bbl in the Mediterranean.

Based on an average Brent price of $127/bbl over this period, it gives an average discount of about $39/bbl. But the actual discounts that buyers in Asia have received may in fact be lower, trading sources said, while those that landlocked refiners in Central Europe are enjoying are larger.

Flows through the Druzhba pipeline are usually delivered under long-term contracts and linked to S&P Global Platts pricing, which has failed to catch any trends in Urals pricing since the Ukraine war started.

"That's why even notoriously anti-Russian countries like Poland are running wild on Druzhba imports. They've doubled their intake versus last year's average," one source said.

Russian seaborne crude exports to China and India, however, are negotiated on an ad hoc basis for each deal, implying that effective Urals discounts are closer to $20-$25/bbl than the $32-$34/bbl reported by Platts.

Countries like Hungary, Slovakia, the Czech Republic or Poland can hence enjoy a $5-$10/bbl discount which, pending a more accurate assessment, would probably not be available. Platts is opening a consultation on its spot assessment of Russian crude from the Baltic and Black Sea.

Diesel Cracks Slump on G7 Plan

Diesel has lost more than a quarter of its premium over crude in Europe in the last week after the G7 hatched a plan to keep Russian fuel flowing at the same time as limiting how much money Moscow can extract from oil sales.

Ultra-low-sulfur diesel (ULSD) crack spreads collapsed from a recent high of $66/bbl a week ago to just $47/bbl on Jun. 28 with cargo premiums to underlying ICE low-sulfur gasoil futures also crumbling.

The G7 scheme is likely to push more Russian ULSD out of Europe while freeing up East of Suez fuel to come in its place. Market commentators suggested the main alternative — tougher Western sanctions on shipping insurance to halt exports — would have left European motorists paying the price for President Vladimir Putin's war in Ukraine.

East of Suez ULSD imports are already rising despite sky-high freight rates and steep market backwardation both working to erode arbitrage profits. Mideast Gulf and Asian arrivals are nudging 1.9 million metric tons this month, according to tanker trackers, up from 1.3 million tons in May.

Total ULSD imports into Europe from all origins are now pegged at 5.3 million tons (1.3 million barrels per day) in June, up from 4.1 million tons in May. That includes 2.8 million tons from Russia including transit volumes through EU-member Latvia, which does not have a refinery but consistently exports fuel.

Russian ULSD flows are up from 2.2 million tons in May with more fuel heading to France, Germany and Poland this month under term deals that don't need to be wound down under EU sanctions until the end of the year.

In contrast, the UK has managed to dramatically reduce the amount of Russian ULSD it takes, this month at least, after the newbuild very large crude carrier *C Earnest* arrived from the United Arab Emirates. Brokers say all of the 220,000 tons of ULSD on board is now headed to UK ports after being transferred onto four smaller tankers.

At least one of the vessels involved, the *STI Camden*, has already been booked to return to service shuttling Russian ULSD from Primorsk to the UK next month.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Fedun Steps Down as Lukoil VP

Leonid Fedun, one of the major shareholders of Lukoil, has stepped down as the producer's vice president. The Russian company said his decision was prompted by "family reasons" and his retirement age. Fedun, who has been Lukoil's vice president for nearly 28 years, turned 66 in April. The retirement age for men in Russia is 65.

Fedun remains a member of the new board of directors that was elected by Lukoil's shareholders last week. He controls 9.32% of Lukoil's shareholder capital.

Fedun hasn't been sanctioned by the West as opposed to Vagit Alekperov, who was blacklisted by the UK and Australia and subsequently had to step down as Lukoil CEO and as a member of the company's board of directors.

Lukoil Buys Enel Assets

Lukoil is expanding its power generation business by buying Enel's assets in Russia in partnership with Gazprombank-Frezia, a closed combined mutual investment fund.

The Italian company said it is selling the entire stake of 56.43% it held in Enel Russia for "an overall consideration of about €137 million ($144 million)." The deal is expected to be closed in the third quarter.

Analysts calculate that Enel is selling its stake for about 30% less than the current market price. Enel's assets include approximately 5.6 GW of conventional power generation capacity and around 300 MW of wind capacity at different stages of development.

Lukoil last year transferred its its power-generation business to a newly established company called VDK-Energo, which controls more than 3.5 GW of capacity in the south of Russia. The oil major has just bought Shell's fueling stations and a lubricant plant in Russia.

Russia Upbeat on Oil Exports

Russian crude oil exports are expected to rise in the next three months until October as oil companies work intensively to reroute their shipments amid sanctions. European countries are still purchasing Russian barrels ahead of the Dec. 5 deadline when the oil embargo for Russian seaborne crude takes effect.

According to industry sources, total Russian oil exports are seen rising by over 267,000 b/d in July-September compared to the second-quarter plans. Shipments from key ports, including Primorsk and Ust-Luga on the Baltic Sea, Novorossiysk on the Black Sea and Kozmino on the Pacific, are all expected to rise by a hefty 400,000 b/d from 2.67 million planned for the second quarter. Exports via the Druzhba pipeline to Europe are expected to fall as Germany and Poland keep cutting Russian volumes voluntarily.

Gazprom Boosts China Exports

Gazprom increased pipeline gas exports to China by 67.5% on the year in January-May, CEO Alexei Miller said. He did not provide absolute figures, but exports might total some 6.3 Bcm in the first five months of 2022, Energy Intelligence calculates. That is quite in line with the full-year plan of 15 Bcm, or 41 MMcm/d, up from 10.39 Bcm supplied in 2021.

Gazprom's average oil-linked export price in China was some $212/Mcm, up from $124/Mcm a year ago, due to the growth in oil prices.

High spot prices make Beijing reduce LNG imports, but not from Russia where Yamal LNG's long-term contracts are also priced off oil. The Sakhalin-2 plant sells LNG to China solely on spot.

Russia's LNG exports to China increased 22% on the year to some 1.8 million metric tons in January-May, while their average price was $737/Mcm, up from $320/Mcm a year ago.

Russia Tweaks Buffer Rules

Russia's finance ministry is temporarily amending the rules of the so-called buffer mechanism for gasoline to lower payments to oil companies from the budget.

Deputy Finance Minister Alexei Sazanov said that starting from Sep. 1 and until the end of the year the formula for calculating the gasoline buffer component would be tweaked to bring the budget an additional 100 billion rubles ($1.95 billion at the official rate). The buffer mechanism 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.

Russian companies increased supplies to the domestic market recently as sanctions forced them to cut exports, while export prices rose significantly over the period and domestic prices remained relatively low. Corrections to the formula will include discounts for the price of Urals crude oil to dated Brent. There are no plans to amend the diesel formula.

Oil companies received record payments of over 1 trillion rubles under the buffer mechanism over the first five months of 2022 compared to just 80 billion rubles in the same period last year.

Gazprom Neft Hikes Resources

Russia's Gazprom Neft received eight new exploration licenses to develop the Taimyr group of fields in the northern part of Krasnoyarsk region.

The move is in line with the company's efforts to expand its resource base and establish new production clusters in remote Arctic onshore areas. Gazprom Neft earlier received 18 exploration licenses for other areas in the region.

Gazprom Neft, the oil arm of state gas giant Gazprom, aims to source over 50% of its planned future production of 3 million boe/d from Arctic areas. However, its plans could be overshadowed by unprecedented sanctions imposed on Russian state-controlled companies, which among other things has led to the withdrawal of major oil-field service companies.

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.

RUSSIAN GAS CONDENSATE PRODUCTION, MAY 2022

	Year-To-Date		May		Change	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Lukoil	6.3	112.1	5.6	20.3	-0.3	-0.5
Rosneft	97.8	1,737.3	122.1	445.3	35.1	138.2
Gazprom Neft	18.7	331.6	17.4	63.4	-0.4	0.6
Slavneft	1.6	28.6	1.8	6.5	0.2	0.8
Russneft	0.8	13.9	0.8	2.8	0.0	0.2
IPC (Neftegasholding)	2.5	44.3	2.9	10.6	0.5	2.2
Russian Oil Company Total	**127.7**	**2,267.7**	**150.5**	**548.9**	**35.1**	**141.6**
Gazprom	452.1	8,031.7	441.3	1,609.5	30.7	160.2
Novatek	114.9	2,041.0	116.4	424.6	3.3	25.5
Other Producers	238.2	4,231.7	231.4	843.8	-6.2	5.2
PSA Operators	43.7	776.0	36.1	131.6	-6.3	-18.1
Russia Grand Total	**976.5**	**17,348.0**	**975.7**	**3,558.3**	**56.6**	**314.4**

Table is based on the following factors for conversion to barrels: 8.5. Data for the previous month were revised. Download full dataset here.

RUSSIAN CRUDE OIL PRODUCTION/EXPORTS, MAY 2022

	Year to Date		May		Change From Previous Month		May Exports*		% of May Output Exported
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	
Lukoil	1,581.7	33,034.2	1,582.4	6,784.9	-2.5	208.5	600.2	2,541.6	0.4
Rosneft	3,042.0	63,532.7	2,846.3	12,204.1	243.4	1,403.8	2,040.0	8,639.3	0.7
Gazprom Neft	770.0	16,082.0	779.7	3,343.3	14.3	167.3	282.3	1,195.5	0.4
Surgutneftegas	1,198.9	25,040.2	1,156.8	4,960.0	-21.9	69.3	851.4	3,605.7	0.7
Slavneft	230.7	4,819.1	233.7	1,002.1	1.7	39.2	0.0	0.0	0.0
Russneft	135.6	2,832.8	133.9	574.3	-1.5	12.5	31.8	134.5	0.2
Tatneft	567.5	11,853.2	566.6	2,429.4	0.1	78.6	240.7	1,019.5	0.4
Bashneft	320.9	6,703.0	223.1	956.4	-21.9	-59.8	0.0	0.0	0.0
IPC	328.6	6,862.9	330.3	1,416.2	4.0	62.5	0.0	0.0	0.0
Russian Oil Company Total	8,176.1	170,760.2	7,852.9	33,670.6	215.8	1,981.7	4,046.4	17,136.2	0.5
Gazprom	111.8	2,335.4	119.9	514.1	4.9	36.7	7.2	30.4	0.1
Novatek	52.2	1,091.0	50.0	214.3	0.1	7.4	5.9	25.0	0.1
Other Producers	1,124.8	23,491.8	1,120.3	4,803.7	9.2	193.1	572.7	2,425.4	0.5
PSA Operators†	240.8	5,029.8	115.6	495.7	-126.0	-506.6	0.0	0.0	0.0
Russia Grand Total‡	9,705.8	202,708.3	9,258.7	39,698.5	104.0	1,712.3	4,632.1	19,617.0	0.5

*Exports to non-CIS markets via Transneft pipeline system. †Total for exports for PSA Operators excludes Sakhalin Energy and Exxon Neftegas which export crude bypassing Transneft pipeline system. ‡Excluding exports for state needs, rail shipment, transit. Figures may not add due to rounding. Download full dataset here. *Table is based on the following factors for conversion to barrels: crude oil production - 7.23; crude oil and gas condensate exports - 7.32*