

NEFTE COMPASS[®]

COPYRIGHT © 2022 ENERGY INTELLIGENCE GROUP. ALL RIGHTS RESERVED. UNAUTHORIZED ACCESS OR ELECTRONIC FORWARDING, EVEN FOR INTERNAL USE, IS PROHIBITED.

CONTENTS

- 2** GAZPROM POINTS DAGGER AT NOVOTEK
- 3** KAZAKH OIL PROJECTS AT CROSSROADS
- 4** KREMLIN WANTS TO OUTFRONT WEST
- 5** DIESEL UNDER PRESSURE IN EUROPE
- 6** RUSSIA STICKS TO CARBON TRADE
- 8** NEFTE COMPASS DATA

GAS

Canada's Nord Stream Waiver Grants Russia Rare Victory

Moscow's reaction to Canada's decision to release a turbine for the Nord Stream natural gas pipeline system was muted, but the ruling is widely deemed a political win in the intensifying sanctions war with the West.

More importantly, there is no clarity whether this development will alleviate Europe's mounting energy problems. In theory, the turbine's return should lead to a minimal increase in Nord Stream gas flows to Germany in a couple of weeks, but monopoly exporter Gazprom may stick to its policy of limiting supplies.

The 55 billion cubic meter per year Nord Stream stopped pumping gas on Jul. 11 for the usual 10-day annual maintenance in summer, and as widely expected Gazprom did not boost flows via the key alternative route, via Ukraine, as it has in the past. This ratcheted up the pressure on a tight European market and complicated the EU's plans to refill gas storage ahead of the winter.

Canada said on Jul. 10 it granted a "time-limited and revocable permit" to return the SGT-65 turbine to Germany, which was stuck after an overhaul due to Ottawa's sanctions against Moscow. The turbine, produced by Germany's Siemens Energy and used at Nord Stream's Portovaya compressor station in Russia, can only be repaired at Siemens Energy's facility in Montreal.

Siemens Energy will reportedly be able to repair five other SGT-65 turbines of Nord Stream within two years unless Canada revokes the waiver.

The waiver amounts to a victory for Russia, which has sought to sow division on sanctions in the West. The episode unquestionably demonstrated to Moscow that Europe remains very reliant on Russian gas imports and is reluctant to add them to the litany of sanctions, the latest of which involves a possible a price cap for Russian oil and gas.

Since Russia's Feb. 24 invasion of Ukraine, Russian gas supplies have been immune from EU sanctions, although the bloc intends to phase out purchases of this all-important commodity by 2027.

Despite waiving sanctions at Germany's request, Canada insisted it was adhering to its policy of supporting Ukraine and even added new measures against Russia last week. Kyiv, which had lobbied hard against the waiver, expressed "deep disappointment" with Canada's decision.

Supply Uncertainty

The Kremlin last week reiterated that the return of the turbine can help increase gas flows via Nord Stream, which had been at some 68 thousand cubic meters per day, or 40% of the pipe's technical capacity, since mid-June.

>> continued on page 2

SPOT CRUDE OIL PRICES

(\$/barrel f.o.b. terminal, or c.i.f. destination)	Jul 12	Jul 5	Chg.
Dated Brent f.o.b. (38 API)	106.98	110.49	-3.51
Russian Urals c.i.f. NWE (31 API)*	75.67	77.93	-2.26
Russian Urals c.i.f. Med (31 API)†	79.22	81.48	-2.26
Azeri Light (35 API)	116.72	118.98	-2.26
CPC Blend c.i.f. Med (45 API)†	100.22	102.48	-2.26
ESPO (35 API)	86.92	97.42	-10.50
Dubai (30 API)	102.10	106.25	-4.15

PRODUCT PRICES

(\$/ton, c.i.f. basis)	Jul 12	Jul 5	Chg.
ICE LSGO Futures (front month)	1,074.00	1,153.75	-79.75
ICE LSGO Futures (second month)	1,046.00	1,097.00	-51.00
0.1% Gasoil NWE*	1,122.50	1,180.25	-57.75
0.1% Gasoil Med*	1,101.50	1,153.25	-51.75
10 ppm Diesel NWE*	1,172.75	1,175.75	-3.00
10 ppm Diesel Med*	1,138.25	1,217.25	-79.00
HSFO NWE*	425.00	442.00	-17.00

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

Gazprom on Jul. 13 said that it has not seen any document that would allow Siemens Energy to ship the turbine from Canada and it is impossible to say how the situation will develop.

Many in Europe doubt the sharp cut in gas flows was fully justified by the problems with the Siemens turbine. Canada's waiver should now remove this dubious technical argument and show whether Gazprom is truly prepared to restore the flows. But Russia still has wiggle room since Gazprom switched off some more turbines that require an overhaul. This could allow the gas giant to restrict flows until all units are repaired by Siemens in Canada.

Supplies might rise later this year if Gazprom wants to fulfill its minimal contractual obligations in Europe. Despite a sharp drop in exports so far this year, Gazprom insists that exports are in line with buyers' nominations and contractual obligations. But this is mainly because the supply volumes can be rescheduled. Unless the volumes increase at some point Gazprom risks violating the annual contractual obligations, sources say.

Germany's Uniper last week said the reduced Nord Stream flows are a clear breach of contract by Gazprom.

Flow Decline

Gazprom is certainly keeping the European market tight during the 10-day shutdown of Nord Stream. The shutdown was planned and announced beforehand so that it was largely priced in by traders, while Canada's turbine waiver prevented spot prices from growing significantly this week.

Despite the obvious need, Gazprom did not increase transit gas flows via Ukraine, which remained at around 41 MMcm/d this week. Supplies increased via the Turk Stream pipeline to Europe to 42 MMcm on Jul. 11 and 45 MMcm/d on Jul. 12 from an average 36

RUSSIAN GAS FLOWS TO EUROPE



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

MMcm/d last week, although the route doesn't reach most markets supplied by Nord Stream.

Gazprom is no longer delivering gas via the Yamal-Europe pipeline to Poland and Germany due to Russian sanctions against the owner of that pipeline's Polish section imposed in May.

Staff Reports

STRATEGY

Gazprom Angles for Advantages in New Energy Strategy

Embracing the decades-old role as the Kremlin's "milk cow," state controlled Gazprom wants the government to give it a greater role in the long-term energy industry development and protect the giant gas producer from ambitious rivals, most notably Novatek.

Gazprom's systematic attempts to bring Novatek to heel are not new, but discussions involving the 2050 energy strategy that the Kremlin wants to draft by September have revived the rivalry with Novatek, with the juggernauts locking horns for lucrative export markets and upstream resources in the Arctic.

Proposals for the strategy, which will replace the current 2035 plan and address the challenges of the new, post-Ukraine reality, were discussed at a state Duma energy committee round table last week. The final recommendations drawn up afterward, including a tax stability plan for the oil industry, were dominated by Gazprom's wish list.

Undercutting Competitors

The document admits flat out that Russia's energy sector has essentially switched to crisis management mode due to intensifying international sanctions, while the global energy industry has shifted focus from decarbonization to security of supply.

For its part, Gazprom is keen to incorporate amendments over fiscal and tariff mechanisms to create equal conditions for gas producers on the domestic market and mitigate risks of export markets changes. Gazprom also wants to eliminate competition between its pipeline gas and other companies' LNG on its export markets, arguing that more than half of LNG from Novatek's Yamal plant has been shipped to Europe since the project's launch in 2017.

Competition has only increased over the past couple months because of the new two-step payment rule for pipeline gas exports

to “unfriendly” countries, which doesn’t apply to LNG exports, Kirill Polous, deputy director of Gazprom’s strategy department, said at the Duma committee meeting. The new rule compelled several clients to cease purchases from Gazprom and turn to other suppliers, including LNG from Yamal. Polous suggested that Moscow should impose an export duty on LNG — something that Gazprom pays for pipeline gas exports — and incentivize higher LNG exports to Asia rather than the West. Finance Minister Anton Siluanov said in an interview with Russia’s *Vedomosti* business newspaper published on Jul. 12 that he supported an idea to shift LNG exports to the two-step payment system involving conversion of dollars and euros to rubles.

Higher-margin exports to Europe have historically compensated Gazprom’s socially oriented obligation to supply gas at relatively low regulated tariffs at home. But with exports falling sharply, Russia might not be able to subsidize domestic tariffs through higher export prices in Europe, the committee document says, adding that liberalization of domestic prices for industrial consumers is needed. Delayed for many years, price liberalization would benefit Gazprom, whose tariffs are now regulated while other producers are free to offer flexible terms.

Arctic Dictator

Gazprom suggested it should be appointed as coordinator of upstream development in the Arctic to ensure that priority is given to pipeline gas supplies to the domestic market rather than LNG, whose prospects look doubtful because of EU sanctions on key liquefaction equipment exports to Russia. Gazprom is proposing more stimuli for gas processing and petrochemicals — one of its strategic gas monetization options, including for Arctic gas reserves — while LNG targets should be revised, Polous told the Duma meeting.

Novatek, which plans to produce up to 70 million metric tons per year of LNG in the Arctic by 2030, up from 19.6 million tons in 2021, believes Russia can reach its overall LNG expansion target of up to 140 million tons/yr by 2035 despite an acute need for yet-to-be-developed domestic technology for large liquefaction trains.

According to the Duma’s document, anti-Russia sanctions led to bigger logistics costs, capital and operational expenditures. To support the industry, members of parliament proposed to exclude further growth of tax and administrative burden for several years. Participants of the round table supported an accelerated move of the oil sector to an excess profit tax (EPT), now being tested. The new tax levies profits rather than revenues.

Wider application of EPT would help oil production to adapt “to new external conditions” and keep investments focused on developing hard-to-recover reserves, including tight and high viscosity oil. Tatneft CEO Ravil Maganov was quoted as saying this week the company could immediately increase production by 200,000 barrels per day if it gets tax conditions similar with domestic peers.

CASPIAN

Kazakh Mega-Projects Face Legal, Logistical Hurdles

In mid-June, Kazakh President Kassym Zhomart Tokayev told a Russian news channel that alterations needed to be made to the big oil contracts that were signed in the 1990s.

“To change the rules of the game at this stage would be counter-productive, even absurd, from the point of view of our country’s interests,” he admitted. “But there should be an adjustment, for sure, and that is something we are working hard on.”

A decade ago, these comments would have caused tremors among western majors such as Chevron, Shell, Eni, Total and Exxon Mobil that have long-term contracts to develop Kazakhstan’s three giant oil and gas fields: Tengiz, Karachaganak and Kashagan.

But now that these projects are in the second half of their lives and the contracts set to expire in 10–20 years, there is little scope for wholesale changes, industry sources say. “The days of resource nationalism in Kazakhstan are long gone, and the government knows that,” a veteran European oil executive says, “They can do a bit of tinkering here and there, but they need us as much as we need them.”

Of the big contracts, the one that will expire soonest is the largest: the Chevron-led Tengizchevroil (TCO) joint venture in which the US major owns a 50% interest alongside Exxon Mobil with 25%, Kazmunaigas 20% and Lukoil 5%. Signed in April, 1993, TCO’s contract runs until 2033, and the likelihood is that it will be extended due to its importance both to the partners and Nur-Sultan.

“TCO has been a great success story, and I’m sure Kazakhstan will want to keep the partnership going well beyond 2033,” another Caspian veteran says. So far TCO has generated direct payments to the budget of more than \$164 billion, and it remains the highest performer in Chevron’s non-US upstream portfolio. The Tengiz field produced 627,000 b/d last month.

Tengiz Expansion

TCO’s focus is now on completing its \$45 billion expansion that by 2024 will increase Tengiz’s oil production by around 250,000 b/d. At current oil prices, the costs of the project would be recovered long before the contract’s expiry, but a prolonged price dip would make the economics much more challenging.

“In the late 1990s, TCO had to sell its oil for under \$10 a barrel, so they are very good at crisis management,” a source who worked on the project for several years said.

The biggest concern for TCO, triggered by recent machinations in Russia, is that they will not long be able to rely on the CPC pipeline

that has transported most of its oil for the past 20 years from the Russian Black Sea. The day after a Russian regional court recently ordered CPC's closure for one month, due to alleged "violations," President Tokayev ordered state oil company Kazmunaigas to accelerate plans to develop new export routes – including a new trans-Caspian transportation system that would involve building a new port at Kuryk in the western Mangistau region. He called on KMG to look for potential investors in the project, including the partners in the Tengiz project – hardly music to Chevron's ears.

The uncertainty around CPC could have implications for the other two Kazakh mega-projects. Like Tengiz, almost all the oil that is produced from the Kashagan and Karachaganak fields is sent via the CPC pipeline, which is by far the most cost-effective route. In recent months, some Kashagan crude has been pumped East to China, while Karachaganak condensate has gone to Russia via the Atyrau-Samara pipeline, but volumes are tiny compared to CPC flows.

A Russian contractor who has worked on the CPC project since its inception says Kazakhstan and its western partners may pay a heavy price for failing to develop alternative oil export capacity. "They staked everything on CPC, and that could be a big mistake," he said, adding that there was plenty of scope 10-15 years ago to invest in new port infrastructure and expand existing pipelines other than CPC.

The Karachaganak production-sharing contract was signed in 1997 and expires in 2037. The field produces around 250,000 b/d of oil and condensate and 18 billion cubic meters per year of gas. For the next several years, liquids output will remain stable as more gas is re-injected into the reservoir.

The Kashagan PSA runs up until 2041, giving ample time for the partners to recover more than \$60 billion in capital expenditure and the project turn to profit. Kashagan was shut in June for maintenance and is currently ramping up output.

Paul Sampson, London

SANCTIONS

Putin Urges Russia to Outpace Western Technology

Unprecedented sanctions introduced by the EU, the US and other states against the Russian oil and gas industry over the past four months will both accelerate and profoundly change the industry's import-replacement strategy first announced in 2014.

Substitution of the most critical components will be fast-tracked, including using analogs from friendly countries to help handle short-term supply shortages and bottlenecks. In the longer term,

the strategy will adjust so that Russia will actually outrun and outgun Western technology, creating facilities specifically for the industry's future needs, according to participants of the St. Petersburg International Economic Forum that took place last month.

"Import substitution is not a panacea, not a cardinal solution," President Vladimir Putin said in his address to the forum. "If we only repeat others, try to replace, even with the highest quality copies, other people's goods, then we have the risk of being in the position of constantly catching up. But we need to be one step ahead, create our own competitive technologies, products and services that can become new world standards."

The focus on getting ahead of imported technologies by creating new, competitive systems, rather than simply substituting all Western technologies and services, was at the center of discussions in St. Petersburg.

According to Deputy Energy Minister Pavel Sorokin, the key focus should now be on forming the industry's collective demand for technologies and solutions that will be critical for industries in the future. The next step is to form intersectoral demand, which would require orders from other sectors of the economy.

The oil industry's needs would require cooperation between companies rather than the development of single solutions within one company, Sorokin said. Intersectoral demand would require more systematic support measures from the state and a certain division of the areas of responsibility among industries.

One example of such intersectoral cooperation will be for the creation of Russian-made software. The oil industry in particular is heavily dependent in imports of software. Industry players admit that there was some progress made in this sphere over the past eight years, but new challenges require more radical solutions from all industries. "Unofficially, IT experts say that some 95% of software can be produced in Russia, but there is still no demand as most industries still believe that Western software will stay one way or another," the digital ministry people say.

Critical Issues

As for the actual import-replacement strategy, Gazprom Neft CEO Alexander Dyukov said at the forum that all the technologies, services and other things banned by sanctions need to be substituted. The focus should be on "critical" issues for the industry, which were identified back in 2014. For the oil industry, those include complex technological solutions for hydraulic fracturing; equipment and materials for drilling and cementing wells; equipment for directional and horizontal drilling (mainly rotary-controlled systems) for the upstream segment; and catalysts for the refining industry.

Some progress has been achieved since 2014 in many areas. The share of import equipment declined overall from 60% to 40% as

of April 2022, according to the industry and trade ministry. Some of the Russian-made technologies, including the hydraulic fracturing fleet, are already being tested and will be commercialized in the near future. Of the total 110 hydraulic fracturing fleets used in Russia, the goal is to substitute some 80% with Russian-made fleets. Short-term solutions include importing the necessary fleets from Asia, say industry players, adding that some 90% of the equipment banned for the upstream oil industry can be substituted with mainly Chinese analogs.

Another priority is catalysts for the refining industry. Gazprom Neft's catalysts plant will produce 4,000 metric tons per year of catalysts for hydrotreating, 2,000 tons/yr of catalysts for hydrocracking and 15,000 tons/yr of catalysts for catalytic cracking. Coupled with Rosneft's catalysts plant, the facilities should be able to cover domestic demand, industry sources say.

Staff Reports

MARKETS

Diesel in Doldrums on Peaking Demand Concerns

Demand destruction is taking a toll on European ultra-low-sulfur diesel (ULSD) values, even as the market struggles to arrange the replacement of Russian term volumes ahead of the sanctions roll-out later this year.

Early figures from France suggest a 5% slump in domestic diesel consumption in June compared to last year. Other countries have already seen their Covid-19 recoveries go into reverse, prompting the International Energy Agency to shave 50,000 barrels per day from its estimates of European oil demand this year and next. Regional demand fell by 250,000 b/d in April compared to March with gasoil-buying down 180,000 b/d.

The energy watchdog warned on Jul. 13 that further downward revisions were likely, but also highlighted the potential for fuel switching in Europe from natural gas to heating oil this winter. German consumers are already stockpiling relatively cheaper gasoil out of season, while both the Swiss and German governments have advised big industrial users to diversify from gas amid threats that Russia will terminate or minimize supplies.

ULSD was pegged at a \$48 per barrel premium to Brent crude in Northwest Europe on Jul. 13, down from \$56/bbl a week ago, but still high by historic standards. Non-Russian cargoes were pegged at a steamy \$86.75 per ton premium to new front-month August ICE low-sulfur gasoil futures versus a near \$20/ton discount for Russian ULSD.

Spot trade in Russian ULSD has evaporated since Moscow's invasion of Ukraine, but term barrels are still flowing. Around 2 million tons per month (500,000 b/d) are still heading to major term buyers in France, Germany and Poland. Only the UK has managed to wean itself off Russian fuel so far.

All Russian diesel will need to be replaced by January 2023. The expected surge in Mideast and Asian flows has already begun, with India in particular lapping up more Russian crude and exporting record ULSD volumes to Europe. China could do the same, while Latin America has long been expected to buy Russian ULSD directly and free up US barrels for Europe.

That may be about to happen with Brazilian President Jair Bolsonaro this week pledging to buy cheap Russian diesel. Brazil imports over 300,000 b/d of ULSD, more than half of it from the US, followed by Saudi Arabia, India and the United Arab Emirates.

Capping Urals

On crude markets, talk is focused on capping the price of Russia's exported barrels. Traders say that at best, such a move would be very tricky.

Too high a price would fail to reduce oil revenues that Moscow receives — and hence its ability to finance the war in Ukraine. Too low a price would boost refiners' demand and incentivize some buyers to cheat and covertly bid up the price via parallel channels. In the latter scenario, Moscow would receive more money than at the current, deep, Urals discounts.

This conundrum is complicated by the EU oil ban. Once the embargo comes in full force on Dec. 5, about 2.2 million b/d of Russian crude will have to find a new home in the few markets still open.

So far, China, India and non-EU Turkey have bought more distressed Russian volumes, but they can only absorb so much — and certainly not 2.2 million b/d. Both China and India have long-term contracts with Middle East producers for term allocations. They will not renege on them for fear of upsetting their suppliers.

In short, given global balances, the EU cannot enact an embargo and a price cap simultaneously. A price cap needs Europe's buyers to absorb the surplus or else it is of no use. China and India are already purchasing massive volumes at significant discounts.

But if Europe joins, there is a risk of free-riding, covert bidding and higher prices for Russia, not to mention the necessity to unwind the embargo.

Kerry Preston and Julien Mathonniere, London

ENERGY TRANSITION

Spimex Preps Platform for Carbon Trading

The St. Petersburg International Mercantile Exchange (Spimex) is preparing the groundwork for a national carbon trading market that will start operating once the necessary legislation and regulations are in place.

There were expectations that Russia might have frozen its carbon-related plans as leaders were forced to shift attention to shielding the economy from unprecedented sanctions. But Moscow believes that it needs to establish its own carbon market as the country hopes to stick to its target of becoming carbon neutral by 2060.

“On our side, in April we developed trading and clearing rules, other documentation that we sent for preliminary consideration to the administration of the Sakhalin region, to the Bank of Russia, to the Ministry of Economic Development,” Dmitry Chernyshev, Spimex vice president, told journalists.

“Given that the documentation was developed in parallel [with other legislation], we will now slightly correct it, taking into account the adopted legislative framework,” he added.

Spimex aims “to form a trading section in the near future where carbon quotas and credits will be circulated,” Chernyshev said, adding that the exchange has set up an informal working group with Kontur — a company recently selected by the state as a national carbon register operator.

“We are discussing an interaction agreement, where all our rules for information exchange and interaction on the registration of carbon credits and transactions with them will be included,” he added.

Spimex is eyeing a leading role as a platform for trading carbon units that has yet to be created in Russia. For now there is still nothing to trade. At the first stage, voluntary climate projects and carbon credits that are generated by these projects, or certified emission reduction units, should appear, Spimex head Alexei Rybnikov explained. He believes that such projects and units could materialize by the end of this year as the state progresses with the necessary legislation.

National System

More broadly, the idea is to create a national carbon units trading system similar to the EU’s Emissions Trading System. The latter is based on the “cap and trade” principle that sets a maximum (cap) on the total amount of greenhouse gases, which enables the trading of allowances for emissions.

Russia’s national carbon trading system, by contrast, will take a different approach. According to Chernyshev, it will include trading of allowances for emissions and emission reduction units generated from climate projects, offsets and other units generated as a result of carbon capture, utilization and storage projects.

The first steps toward establishing such a system are undergoing on Sakhalin Island within the so-called Sakhalin Experiment. Under the law on Sakhalin Experiment, the first carbon units are only believed to appear in 2025. By that year, Spimex will prepare the necessary trading mechanisms, test them, define the rules with all the parties involved, including oil companies that will be interested, and prepare the necessary legislation framework with state bodies.

“We understand how the carbon trading market can work and we are preparing,” Rybnikov said.

Staff Reports

IN BRIEF

Lukoil on Acquisition Spree

Russia's top independent oil producer Lukoil has increased acquisition spending recently, a policy that could help explain a delay on deciding a final 2021 dividend payment. Lukoil spent 11 billion rubles (\$187 million) for a 49% stake in the Layavozhneftegaz joint venture with Gazprom. As a result, Lukoil increased its share in the venture to 50%, according to Gazprom.

Lukoil also paid 52 billion rubles for 50% of Meretoyakhaneftegaz, a subsidiary of Gazprom Neft that groups several assets in the Russian Arctic onshore. Additionally, the major has acquired Shell's fuel retail network and a lubricant plant in Russia in what it described as a "market deal." The producer is also in the process of finalizing a purchase of Enel's power generation assets in Russia for €137 million (\$137 million).

Lukoil could also face payments under an amicable agreement in the works involving the \$1.45 billion sale of its diamond business to a subsidiary of a local bank Otkrytie. The bank later had liquidity problems and was taken under control by Russia's central bank.

Russian Export Auctions Dip

Online auction for crude oil and petroleum product exports at the St. Petersburg International Mercantile Exchange (Spimex) have virtually fallen to nil since the start of the Ukrainian conflict. The auctions were a critical part of Russia's efforts to establish its own benchmark and create fair pricing for its barrels.

According to Spimex operational results, just 6,000 metric tons of oil products and petrochemicals were sold through online auctions in January–June. Crude sales online were not even mentioned in the report. To compare, 2.74 million tons of oil products and petrochemicals and another 2.9 million tons of crude were sold through Spimex's online export auctions in 2021. Spimex launched such auctions to establish a fair price index for Russian crude and promote Urals as a benchmark after plans for a deliverable futures contracts failed to

bear fruit. Prior to the start of the war, only state-controlled Zarubezhneft and Tatneft participated in the auctions. However, since Feb. 24, Zarubezhneft has been unable to sell its barrels through the online auctions.

Taimyr Licenses Sold

Russia's Gazprom Neft said it received new exploration licenses for areas in the Taimyr Peninsula located in the northern part of the Krasnoyarsk region where it aims to create a new production cluster. The oil arm of state-controlled Gazprom said it was awarded 14 new licenses in addition to the 12 Zapadno-Taimyrsky areas already awarded.

Gazprom Neft said it aims to start exploration in 2023. The licenses are part of the company's planned production cluster in the Arctic region as it expands its resource base at home rather than expanding abroad. Gazprom Neft earlier planned to source over 50% of its estimated future production of 3 million boe/d from Arctic areas. The company believes that it will be able to explore and develop complex resources using its own technologies and expertise.

Nord Stream 2 Victory

The EU Court of Justice has declared a Nord Stream 2 AG appeal against amended EU antimonopoly rules as partially admissible. The court has thus set aside a previous order of the General Court in 2020 that rejected the Nord Stream 2 AG appeal as inadmissible.

The Switzerland-based Nord Stream 2 AG, fully owned by Russia's Gazprom, is the operator of the Nord Stream 2 gas pipeline project, which has been indefinitely delayed due to Russia's aggression in Ukraine. The operator contested the 2019 amendments to the EU Gas Directive that expanded European antitrust rules to import pipelines running from non-EU states, a change seen by many to specifically target the Nord Stream 2 pipeline from Russia to Germany. The amendments mean that Nord Stream 2 faces a capacity utilization cap unless it meets certain conditions, if and when the 55 Bcm/yr line is approved to start operations — at this stage an unfathomable turn of events.

Gas Exchange Trade Falls

Russia's gas exchange trade on the St. Petersburg International Mercantile Exchange (Spimex) fell 49% on the year to 1.75 Bcm in the first half of 2022, Spimex said on Jul. 12.

The gas exchange trade continues to stagnate and will likely hit a record low this year as key producers remain reluctant to boost activity on Spimex. The exchange is not content with the present volumes, although technical and operational development of the gas trade continues, Spimex President Alexei Rybnikov told a briefing.

SPIMEX GAS EXCHANGE TRADE



Source: Spimex, Energy Intelligence

Russia Needs Own Benchmarks

The St. Petersburg International Mercantile Exchange (Spimex) believes that it is essential for Russia to create its own price indicators that can be used in calculating taxes.

"We need to develop our own national system of price indicators. Over the past 10 years, Spimex has created an efficient system for registering over-the-counter transactions, including for export goods," Spimex head Alexei Rybnikov told journalists. "We repeatedly sent our proposals ... to switch to the use of our price indicators for calculating duties on oil and oil products, calculating the mineral extraction tax, excess profit tax," he said, adding that such benchmarks are already used for grain exports. Rybnikov said the oil industry complains that "actual sales prices do not match the indicators now published by foreign agencies." Spimex's, by contrast, are based on real deals and thus more credible.

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 REFINERY ACTIVITY, JUNE 2022

('000 metric tons or '000 b/d)	Year-To-Date		Processing				Chg. (b/d)	Chg. (tons)
	(b/d)	(tons)	June (b/d)	June (tons)	May (b/d)	May (tons)		
Pavlodar	119.1	2,839.2	120.4	476.0	122.4	500.1	-2.0	-24.0
PetroKazakhstan Oil Products	127.3	3,035.4	134.3	530.9	132.8	542.3	1.5	-11.4
Atyrau	112.4	2,680.5	111.8	442.0	114.9	469.2	-3.1	-27.2
Caspi Bitum	17.7	421.3	25.3	100.1	22.0	90.0	3.3	10.1
Condensate	2.6	61.9	3.4	13.4	1.2	5.0	2.2	8.4
Total	379.0	9,038.3	395.3	1,562.4	393.4	1,606.6	1.9	-44.3

('000 metric tons or '000 b/d)	June Output							
	Mazut		Gasoil		Gasoline		Jet Fuel	
	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Pavlodar	8.1	36.5	33.9	136.1	37.5	132.2	3.9	14.6
PetroKazakhstan Oil Products	19.5	88.3	44.4	178.5	50.1	176.5	7.8	29.1
Atyrau	19.9	89.7	36.2	145.8	35.4	124.6	3.6	13.5
Condensate	0.0	0.0	1.2	4.7	0.7	2.4	0.0	0.0
Total	47.5	214.5	115.7	465.2	123.6	435.7	15.2	57.2

Notes: Table is based on the following factors for conversion to barrels: Crude oil and gas condensate - 7.59; Mazut - 6.64; Gasoil - 7.46; Gasoline - 8.51; Jet Fuel - 8.00. Data for the previous month were revised. Download full dataset [here](#). Source: Kazakh Information and Analytical Center of Oil and Gas.