Energy Intelligence

VOL. 31, NO. 28
JULY 20, 2022
WWW.ENERGYINTEL.COM

NEFTE COMPASS®

CONTENTS

SPOT CRUDE OIL PRICES

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

	Jul 19	Jul 12	Chg.
Dated Brent f.o.b. (38 API)	114.96	106.98	7.98
Russian Urals c.i.f. NWE (31 API)*	80.78	75.67	5.11
Russian Urals c.i.f. Med (31 API)†	84.33	79.22	5.11
Azeri Light (35 API)	121.83	116.72	5.11
CPC Blend c.i.f. Med (45 API)†	105.33	100.22	5.11
ESPO (35 API)	89.95	89.21	0.74
Dubai (30 API)	104.80	104.05	0.75

PRODUCT PRICES

($/ton, c.i.f. basis)	Jul 19	Jul 12	Chg.
ICE LSGO Futures (front month)	1,068.25	1,192.50	-124.25
ICE LSGO Futures (second month)	1,049.25	1,074.00	-24.75
0.1% Gasoil NWE*	1,129.00	1,123.50	5.50
0.1% Gasoil Med*	1,114.00	1,101.50	12.50
10 ppm Diesel NWE*	1,135.25	1,172.00	-36.75
10 ppm Diesel Med*	1,162.50	1,137.50	25.00
HSFO NWE*	453.00	425.00	28.00

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

GEOPOLITICS

Russia Tightens Ties With Iran During Putin Visit

Russian President Vladimir Putin's trip to Tehran this week for talks with his Iranian and Turkish counterparts on Syria and to discuss bilateral relations shows how important the region is for Moscow both politically and economically.

Moscow aims to keep its influence in the region and to expand economic ties in the face of Western sanctions.

Just days before the talks in Tehran, US President Joe Biden visited Iran's regional foes Israel and Saudi Arabia and vowed that the US would "not walk away [from the Mideast] and leave a vacuum to be filled by China, Russia or Iran."

The participants of the talks in Tehran think differently. Despite disagreement about the situation in northern Syria, "we all have some common ground here: All of us believe that US troops should leave this area," Putin told journalists after the negotiations.

"This is the first point. And they should stop looting the Syrian state, the Syrian people, taking their oil illegally," he said.

However, the leaders of the three states failed to agree on the military operation that Turkey wanted to conduct against Kurds supported by the US in the north of Syria.

On the bilateral level, Putin won the backing of Iran's Supreme Leader Ayatollah Ali Khamenei who said at the meeting with the Russian leader that "Nato would know no bounds if the way was open to it, and if it was not stopped in Ukraine, it would start the same war using Crimea as an excuse."

Teaming up in efforts to withstand sanctions, Russia and Iran are working on a comprehensive agreement on strategic cooperation aimed at elevating relations between the two countries to a new level. The document is to be signed in the near future, according to Kremlin spokesman Dmitry Peskov.

Grand Energy Plans

Putin said that during his meeting with Iran's President Ebrahim Raisi, special attention was paid "to the strengthening of cooperation in energy, industry and transport." He added that the two men had agreed "to implement large joint projects and to make more active use of our national currencies in direct settlements between our countries."

Just hours before Putin's arrival in Tehran, National Iranian Oil Co. (NIOC) and Gazprom signed a memorandum of understanding (MoU) — potentially worth up to $40 billion — for the development of the Kish and North Pars gas fields, raising reservoir pressure at the giant South Pars gas field and developing six oil fields, according to Iran's Shana oil news service.

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Gazprom only said the MoU covered cooperation to develop Iranian oil and gas fields, natural gas and petroleum products swaps, LNG projects, construction of natural gas export pipelines and the exchange of technology.

Gazprom had prepared proposals in 2018 to develop four Iranian gas fields — Farzad A, Farzad B, North Pars and Kish — saying at the time that the fields could feed export pipelines to India and Oman, as well as an LNG plant.

Gazprom's oil affiliate Gazprom Neft was saying it would also be interested in returning to Iran if US sanctions are lifted, having signed an MoU with NIOC in 2016 to look into developing two onshore fields: Cheshmeh-Khosh and Changuleh. Gazprom Neft was also earlier eyeing the Azar oil field.

Infrastructure Development

Russia views Iran as an important part of the proposed North-South transport corridor — a 7,200 kilometer network of ship, rail and road routes — that would allow freight to be moved from St. Petersburg to India. Russia is pursuing the project as a way to diversify markets for its energy resources away from the West, and test shipments have already started, Putin said.

As part of this corridor, Moscow and Tehran are discussing construction of a 146 km railway across Iran by the Russian Railways corporation, according to Putin. The line would also allow cargoes to move between Iran and Azerbaijan.

As part of the plan to switch to national currencies in bilateral trade, Tehran's currency exchange had recently launched direct trading of Russian rubles for Iranian rials. The two countries also plan to link their electronic payments systems: Mir (Russia) and Shetab (Iran). According to Putin, Moscow is playing a big role in relaunching interaction between Iran and the International Atomic Energy Agency as part of the efforts to revive the 2015 Joint Comprehensive Plan of Action on Iran's nuclear program that the US stepped away from in 2018.

Russia-Turkey Negotiations

During the meeting with Turkey's President Recep Tayyip Erdogan, the focus was on Ukrainian grain exports. Putin insists it should be a "package" decision, meaning Moscow "would facilitate the Ukrainian grain exports provided all the restrictions on the potential exports of Russian grain are lifted."

The sides also discussed a switch to national currencies and linking their respective payment systems.

Staff Reports

FINANCE

Strong Ruble Creates Problems for Moscow

The strengthening of Russia's national currency is creating a growing risk of lower income for the state budget even though Moscow continues to generate billions of dollars from oil and gas exports.

Having reached nearly 104 rubles per US dollar in March, the Russian currency strengthened to about 57 rubles/dollar in June thanks to a number of restrictive measures taken by Russia's Central Bank, a big inflow of hard currency from oil and gas sales, and reduced imports.

In addition, the sanctioned Russian finance ministry stopped buying dollars and euros from the market under the so-called budget rule, which it suspended as well.

The stronger ruble, together with the discounted price for Russian crude oil and oil products, was part of the reason behind Russia's oil and gas revenues declining in June to 718 billion rubles from 886 billion rubles in May and 1.798 trillion rubles in April.

Growing Stronger

Multiple sanctions imposed by the West after Moscow invaded Ukraine on Feb. 24, including restrictions on the Central Bank, have frozen Russian financial assets nominated in currencies of "unfriendly countries" worth some $300 billion. That forced Moscow to impose restrictions on the sale of foreign currency and its withdrawal abroad and to oblige exporters to sell up to 80% of their hard currency revenues. The move helped to stop the free fall of the ruble, which reached record lows in March.

Moscow also suspended the budget rule envisaging that additional income from oil prices above a certain threshold — set at $44.20/bbl for 2022 — should not be spent, but go into Russia's rainy day National Welfare Fund (NWF). To fall into line with that budget rule, the finance ministry used to buy hard currency on the market — or sell it if the ruble needed support — thus impacting the exchange rate.

Sanctions restricted imports and as a result foreign currency started accumulating in Russia, which allowed the ruble to strengthen significantly in recent months despite the removal of the Central Bank's major limitations, including the obligatory sale of currency by exporters.

The dollar was worth 55 rubles this week, but Russian officials keep saying the "optimal" rate should be between 70-80 rubles.

Russia's 2022 budget is based on a 72.10 ruble/dollar exchange rate and a Urals crude price of $62.20/bbl. Although Russia was receiving more in ruble terms in the first half of the year, the state's income could drop further if the ruble continues to get stronger, exports fall, discounts for Russian oil grow bigger and imports from unfriendly countries don't resume.

New Budget Rule

The government is looking for ways to find a solution to the problem of the ruble's strength. The finance ministry has proposed lowering to 9.5 million barrels per day the benchmark for oil production used for budget calculations, from 10.5 million b/d now, and increasing the oil-price threshold to $60/bbl, according to the Moscow business daily *Vedomosti.* Additional income from prices above that level would be used to buy foreign currency. But as dollars and euros cannot be bought either by the finance ministry or the Central Bank, the alternative would be to purchase currencies of so-called friendly countries.

Russia is looking at new currencies, with reports appearing this week that Russian oil companies have asked their Indian customers to pay for crude in United Arab Emirates dirhams.

Currency interventions, even with friendly currencies, however, are viewed with caution by Russia's ministry of economic development. The minister, Maxim Reshetnikov, recently warned that they would result in lower budget expenses and could have a negative impact on the country's economy, which needs support from the state.

Lost Values

Experts agree that revenues in dollars and euros have a limited value for Russia now as under sanctions it cannot exchange them for something it needs.

Under such circumstances, Moscow could respond to the price cap mooted by the West by increasing the stakes setting up a floor for the price of its oil, according to Gazprom Neft's former head of strategy, Sergei Vakulenko. Such a move would lower supply, push prices up and then Moscow would just have to wait until willing customers start coming to it ready to accept its terms, he wrote.

This is happening with Russian gas sales. Higher prices and shortages in global markets mean there have been no reductions in revenues in the state budget from gas exports so far despite lower exports to Europe.

Russia's President Vladimir Putin warned this week: "We hear all sorts of crazy ideas about capping the volume of Russian oil imports or the price of Russian oil. This is going to lead to the same situation as with gas. The result will be the same — rising prices. Oil prices will spiral."

Staff Reports

GAS

Gazprom Slashes Production to Half Capacity

Gazprom was producing natural gas at half capacity in the first 15 days of July — a result of a sharp drop in exports which it cannot immediately replace with supplies to other markets, including the domestic market.

The drop in exports was largely due to a sharp drop in supplies via the Nord Stream pipeline in mid-June to 40% of technical capacity and a subsequent shutdown for annual maintenance on Jul. 11. The pipe is set to restart on Jul. 21, but most definitely at restricted capacity, with President Vladimir Putin on Jul. 19 warning of further cuts if sanctions-driven problems with equipment continue.

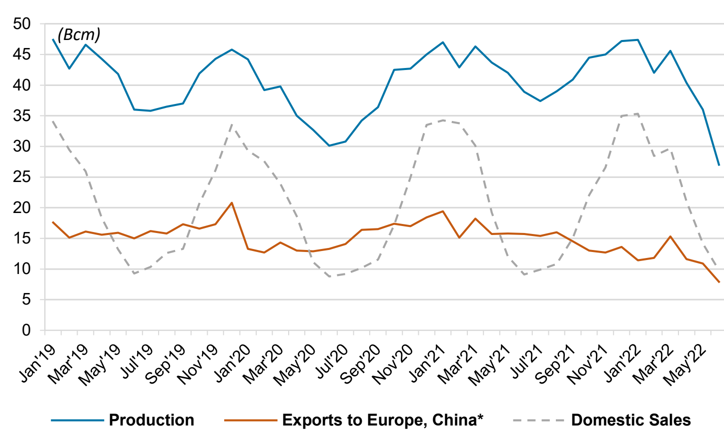
The state-run natural gas giant produced 11.3 billion cubic meters in the first half of July, down 37% from the same period of last year, Energy Intelligence calculates based on Gazprom's mid-month report released last week. That translates into an average daily production of around 750 million cubic meters per day, or 50% of its overall production capacity of 1.5 billion cubic meters per day. Gazprom exported only 3 Bcm, or 200 MMcm/d, to Europe and China in this period, down 61% on the year.

In the first 6½ months of 2022, Gazprom produced 249.7 Bcm, down 10.4% on the year. Production remained close to capacity in the first four months, when Gazprom kept the taps open despite a decline in exports to Europe. Exports to Europe and China dropped 33% on the year to 71.9 Bcm in the first 6½ months.

Domestic Focus

As pipeline gas exports to Europe, which normally account for around 40% of Gazprom's production, may drain in the next several years, and supplies to China may take a decade to ramp up to comparable volumes, Moscow is hoping to boost domestic consumption.

GAZPROM'S GAS PRODUCTION, EXPORTS AND DOMESTIC SALES



*Exports to China started in December 2019. *Source: Energy Intelligence*

One of the key tasks of the Russian energy industry now is the accelerated expansion of the gas grid, Deputy Prime Minister Alexander Novak wrote last week in a magazine published by the energy ministry. With the spending of 800 billion rubles ($14 billion) on the Gazprom-operated expansion program in 2021-25, Russia is seeking to increase the gas grid penetration rate to 75% by 2026, rising to 83% by 2030, from 72% as of end-2021, Novak said.

Gazprom last year estimated that the gas grid expansion program will add 18.6 billion cubic meters per year to Russia's consumption by 2025, but that is clearly not enough in the new reality. Russia's eastern regions, which historically have a low gas penetration, have the potential to consume 30 Bcm/yr, Novak said. In northwestern Russia, the off-grid Murmansk region can consume some 8 Bcm/yr if it switches from fuel oil to gas. Moscow will also redirect the feeder pipeline capacity of the idle Nord Stream 2 export link to spur domestic consumption.

No Summer Peaks

In the short term, domestic demand hardly offsets the drop in exports. In the first 6½ months of 2022, Gazprom's domestic sales decreased 1.9% on the year to around 140 Bcm.

Buoyed by the post-pandemic recovery, Gazprom said last year it expected new demand peaks in the summer to be a new normal, in addition to traditional winter peaks. Last year, it produced an average 1.25 Bcm/d in June-August, or 84% of capacity, largely because of active injections into depleted domestic storage. Now storage appears almost full already.

Short-term prospects are dimmed by an expected economic slowdown amid Western sanctions. Power generation, a large gas consumer and a good indicator of economic activity, will likely decrease at least 5% this year, experts say. Power demand from industries started to decrease in June, as limited export and import opportunities started to hit metals, automotive and other industries.

Eyes on Nord Stream

Exports to Europe dropped largely on eroded demand for Gazprom's pricey hub-linked gas in the first months of 2022. But Moscow's apparent tactic of restricted supply came to the forefront as the war in Ukraine dragged on, with the Kremlin understood to be putting pressure on Kyiv's European allies through gas shortages and high prices.

Moscow denies accusations of weaponizing gas supplies, but many in Europe doubt that technical factors could justify the sharp drop in Nord Stream flows, and they do not rule out a complete halt at some point.

Nord Stream looks set to reopen on Jul. 21, but at restricted pre-shutdown levels, as Moscow cites the need to repair several gas turbines at once. Putin warned that one more turbine will be switched off on Jul. 26, resulting in further cuts to 30 MMcm/d, or nearly 20% of capacity, unless the repaired Siemens turbine, reportedly sent back from Canada on Jul. 17, is installed without delays. Gazprom on Jul. 20 said it still did not see any documents from Siemens Energy clearing the return of the turbine amid the Canadian sanctions. Putin said Gazprom also needs to see in what technical condition the turbine is returned, which potentially gives Moscow an excuse to cut the flows.

Staff Reports, null

CASPIAN

Azerbaijan Aims to Double Gas Exports to Europe

The EU has agreed to double imports of gas from Azerbaijan to 20 billion cubic meters per year by 2027, according to a memorandum of understanding (MOU) signed in Baku this week by the head of the European Commission, Ursula von der Leyen, and Azeri President Ilham Aliyev. But doubts linger over Azerbaijan's ability to supply all the extra gas within a period of just five years, as negotiations on new developments in the Caspian Sea inch forward.

Von der Leyen, hailing the opening of a "new chapter" in EU-Azeri relations, said the pledge to increase Azeri gas imports would help Europe diversify away from Russia and turn to "more reliable, trustworthy suppliers." She said gas flows via the Southern Corridor pipeline system that runs across Turkey to southeast Europe would increase to 12 Bcm/yr in 2023, compared to around 8 Bcm last year.

The Trans-Adriatic Pipeline (TAP) that ends up at Melendugno in southern Italy, and came into operation in late 2020, has a working capacity of just 10 Bcm/yr, but can be pushed slightly higher in its current state. It was built with an expansion in mind to double capacity to 20 Bcm/yr when demand warranted it. In an interview with Italian media, TAP's general director, Luca Schieppati, said the expansion would be done in two stages and would involve installing two new compressor stations: one on the Greek-Turkish border and the other in Albania.

One industry source said the new compressor stations could take years to build and would cost at least $500 million, raising the question as to where the money would come from, especially given that most international financial institutions are precluded from lending to fossil fuel projects.

Light on Detail

The MOU was light on detail, and made no mention of where the additional Azeri gas supplies would come from. Gulmira Rzayeva, head of London-based consultancy Eurasia Analytics, said she expects most of the gas to come from a proposed Phase 3 expansion of the giant BP-operated Shah Deniz project, which provides all the throughput via the Southern Corridor, including 6 Bcm/yr going to Turkey.

Shah Deniz 3, which would involve drilling the deeper layers of the reservoir, remains a concept for now and formal negotiations between state energy company Socar and BP on the project have not started, as further appraisals are carried out. Rzayaeva said a Phase 3 could contribute 7 Bcm-8 Bcm/yr of gas and be done under the existing production-sharing contract which dates back to 1996 and runs until 2036 after being extended several years ago. Socar officials had intimated in the past that a final investment decision (FID) on the project was unlikely to be made before 2025.

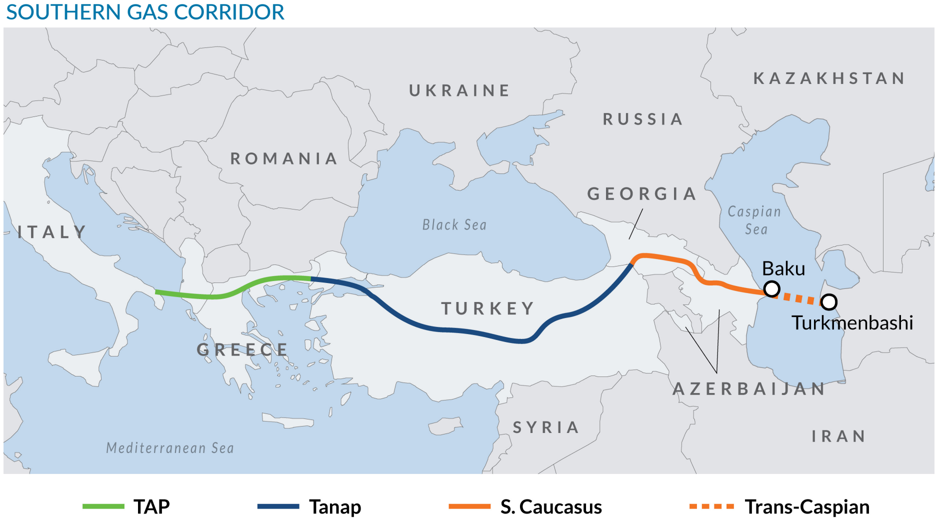
Another Caspian development that could add around 5 Bcm/yr of gas is the planned Phase 2 of the Absheron field, operated by TotalEnergies in a 50-50 joint venture with Socar. Rzayeva said an FID could come by the end of the year, though the first phase of the project that would involve production of 1.5 Bcm/yr, has yet to kick off. A third possible source of future gas, the Socar-led development of the Umid field, has made very slow progress so far, she said.

The MOU also calls for closer cooperation in renewable energy. It lines up Azerbaijan as a potential supplier to Europe of wind and solar power as well as green hydrogen. “Gradually, Azerbaijan will evolve from being a fossil fuel supplier to becoming a very reliable and prominent energy partner for the EU,” Von der Leyen said. She added that Azerbaijan had made a commitment to reduce methane emissions across the “entire gas chain.”

Azerbaijan’s bid to become a renewables hub is still in its infancy, however, and in terms of development the country lags behind Kazakhstan and Uzbekistan. So far, the government has signed deals with the United Arab Emirates’ Masdar and Saudi Arabia’s Acwa to build wind and power plants, but Western companies are reluctant to invest, largely due to the country’s low electricity prices. Azerbaijan has made a commitment to achieve net zero emissions by 2050, while Socar plans to achieve carbon neutrality next year at its oil production facilities.

Paul Sampson, London

SOUTHERN GAS CORRIDOR



Source: Energy Intelligence

CENTRAL ASIA

Uzbekistan Seeks to Hike Crude Production

Uzbekistan aims to more than double its crude oil production by 2030. But with state-run Uzbekneftegas being mostly focused on gas and renewables, the task of boosting oil output was largely entrusted to Sanoat Energetika Guruhi (SEG), a private oil and gas company established five years ago.

In an interview with Energy Intelligence in Tashkent, Azizbek Nazarov, SEG deputy executive director for field development, explained that back in 2019, SEG received licenses from Uzbekneftegas for the development of 103 oil fields in the landlocked Central Asian country. Of the total, 66 licenses were for the already-producing fields and 37 for fields under exploration. Over the past three years, SEG also received licenses for 29 investment blocks for exploration.

Having been handed most of the country’s oil assets, SEG — which before November 2021 was known as Jizzakh Petroleum — was tasked with implementing Uzbekistan’s 10-year program to increase oil production to 1.6 million metric tons per year (32,090 barrels per day) by 2029 from roughly 700,000 tons in 2019. The assets received by SEG were producing slightly more than 425,000 tons/yr in 2019, Nazarov adds.

Faced with the need to increase oil output, SEG initially adopted a three-year production growth plan, which resulted in a rise to 508,000 tons in 2020. Output in the first half of this year has already exceeded 300,000 tons and the aim is to get it up to 610,000-620,000 for the whole of 2022.

Overhaul Payback

Over the past three years, growth has come mainly from the overhaul of existing wells. In 2019, the number of wells at the assets amounted to just 3,200, of which only 500 were in production, while the remaining wells were either mothballed or idle. SEG focused on the overhaul and maintenance of the existing wells and managed to bring the total number of producing wells to 900.

Starting from 2022, SEG started implementing its 10-year production growth program, which envisages workovers at more than 400 wells, drilling of some 550 new production wells and exploration at new investment blocks, Nazarov said. Investments into the 10-year program have been penciled in at $2.3 billion, he added.

SEG welcomes foreign oil-field service companies that can help it achieve its ambitious growth targets, Nazarov said. The company is already working with Schlumberger, Baker Hughes, Halliburton and local players such as Eriell and Enter Engineering.

"In general, we are very open to knowledge, to new methods and new approaches, and we attract a huge number of service companies to Uzbekistan that are able to work on a complicated well stock," Nazarov said, adding that Uzbekistan has 768 million tons of crude reserves and it aims "to make the most of the available potential, including with the help of partners." The company is also looking at an option to attract a strategic partner, but that move is still under consideration.

Staff Reports

OIL MARKETS

Urals Keeps Flowing to Europe Despite Restrictions

Against the odds, Urals crude oil keeps flowing steadily to Europe. Despite the political maneuvers, the buyers' strike and the promise of tougher sanctions on Russian oil, some Russian barrels linked to term contracts are still being delivered and cheap barrels stashed into storage.

Italy has been on a buying splurge since March, at an average 250,000 barrels per day, rising to 316,000 b/d in July, according to Kpler data.

Beyond the volumes lifted by Lukoil for its ISAB refinery in Syracuse, Italy, some volumes have also been lifted by the Sonatrach refinery in Augusta, and some have been delivered in Trieste from where they can ship to Austria and Germany via the Trans-Alpine Pipeline.

Non-EU Turkey has also kept buying Urals at an average pace of 235,000 b/d in the past four months, with both Socar and Tupras picking up heavily discounted Urals.

Nearly 200,000 b/d have also gone into storage in the Amsterdam-Rotterdam-Antwerp hub in Europe, possibly to refill storage at deep discounts ahead of the formal EU ban on Dec. 5. Energy Intelligence estimates that Russian crude exports have now fallen by more than 500,000 b/d from their 5.39 million b/d April peak, to 4.87 million b/d. About 1.5 million b/d have gone to India and China. But June exports to these two destinations were down by 38% in June, Kpler data show, and they look poised for another dip in July.

Previous estimates that India may buy an additional 100,000 b/d and China 500,000 b/d more could be challenged, especially if China maintains its export ban on refined products. Once its strategic reserve refilled, China may have less incentive to pick up distressed Russian cargoes if domestic refining runs do not increase with a view to supply export markets.

Diesel Under Pressure

Diesel is under pressure in Europe where fears of an economic recession outweigh supply worries as the region scrambles to replace Russian ultra-low sulfur diesel (ULSD) imports.

Front-month ICE low sulfur gasoil (LSGO) futures were trading at only an $18 per metric ton premium to the second month in early trade Jul. 20. That is down from a peak of $60.25/ton on Apr. 29 and the lowest since before Russia's Feb. 24 invasion of Ukraine.

ICE LSGO backwardation has narrowed as prompt supply fears have eased, first with the EU's decision to delay an outright ban on Russian fuel imports until the start of next year and now the threat of demand destruction. ICE LSGO futures are seen as a barometer of economic performance due to diesel's heavy use in freight, transport and industry.

Russia is still filling much of Europe's diesel deficit as the region struggles to source alternatives. Total ULSD imports are set to fall from 5.3 million tons in June to just 4.08 million tons this month, according to tanker tracker Refinitiv. Around 2 million tons/month Russian ULSD is still flowing under term contracts even though there are few onward spot sales.

Far less ULSD is coming to Europe from India this month after the government in Delhi imposed a new fuel export tax in a bid to help guarantee local supplies. Export duties were lifted on gasoline Jul. 20 when the tax on overseas diesel sales was reduced but only by Rs 2 to Rs 11 per liter (53¢/gallon).

US Gulf flows could still come to Europe's rescue with a deal by Brazil's President Jair Bolsonaro to buy cheap Russian fuel ahead of his October re-election campaign said to be close. That would free up US ULSD currently sold into Brazil to come to Europe instead.

Trade inside Europe is meanwhile being disrupted by low river levels that are hampering barge flows of diesel and heating oil from Amsterdam-Rotterdam-Antwerp to inland markets in Germany and Switzerland. The river Rhine gauge height at Kaub near Frankfurt fell to just 71 centimeters on Jul. 20, forcing barges to carry less than half their normal loads. Consumers in both markets have been advised to stock up on gasoil for this winter in case Russia suspends natural gas shipments.

Julien Mathonniere and Kerry Preston, London

INTERVIEW

Uzbek Newcomer Leads Oil Production Campaign

Sanoat Energetika Guruhi (SEG), established five years ago to increase oil production and refining in Uzbekistan, today accounts for about 80% of the country's crude output. Azizbek Nazarov, SEG deputy executive director for field development, told Energy Intelligence in an interview in Tashkent what challenges the company faces and what ambitious tasks lie ahead.

Q: What assets are owned by the company today?

A: In 2019, in accordance with the resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to further increase oil production from fields with hard-to-recover reserves and hydrocarbons processing," a number of oil and gas fields were transferred to the company. Today, the company has licenses for the development of 103 oil fields — 66 producing fields and 37 fields under exploration. SEG, which until November 2021 was known as Jizzakh Petroleum, became the executor of a 10-year program to increase oil production in Uzbekistan to a target of 1.6 million metric tons per year (32,090 barrels per day) by 2030.

Q: You have a very ambitious task ahead. Does the company have a long-term asset development strategy?

A: In 2019, we approved a three-year strategy for the development of our assets. As I said, out of 103 fields, 37 are under exploration. The development of these assets requires huge investment costs: 2-D seismic, 3-D seismic, exploration drilling and parametric drilling. Over the three-year period we have planned to drill more than 80 production wells in fields that are already in development. In addition, we focused on the workover of wells. Why? When we took over the assets from Uzbekneftegas, the total wells number was 3,200 wells, but the producing wells numbered only 500. Approximately 2,700 wells were mothballed, abandoned or idle. That is why we focused on the overhaul and over the past three years we have repaired more than 550 wells. To date, the producing wells number almost 900. From 2022, we will start implementing a long-term strategy adopted for 10 years. It involves investments in production of $2.3 billion. We have planned workovers at more than 400 wells, and we plan to drill about 550 new production wells throughout the country. In addition, in order to increase the resource base, it is planned to carry out geological exploration work on 29 investment blocks transferred to the company for study.

Q: What production figures do you plan to achieve?

A: Since the transfer of the fields to SEG from Uzbekneftegas, the company has managed to significantly increase production. If in 2019 no more than 425,000 tons of oil were produced at all fields in Uzbekistan, then in 2020, the annual crude production amounted to 508,000 tons. Every year we increase production by 15%-20% compared to previous year levels, but at the same time we observe a large rate of decline in production in the fields under development. A fundamentally new approach by the company to all production processes and the introduction of the best international practices should help us in the implementation of our ambitious plans. So, in 2022, we expect production of 610,000-620,000 tons. In the first half of 2022, the company produced 276,000 tons of liquids, which was up by 9% from the same period last year. By 2030, we hope to increase production to 1.6 million tons. This growth will be achieved through the overhaul of the existing wells, drilling, geological exploration and new discoveries.

Q: What oil-field service companies are operating at your fields?

A: We use the best global practices to work on our assets. These include global oil-field service giants — Schlumberger, Baker Hughes, Halliburton — and our local players such as Eriell, Enter Engineering and a number of other companies. In general, we are very open to knowledge, to new methods and new approaches, and we attract a huge number of service companies to Uzbekistan that are able to work on a complicated well stock. We adopt their experience and learn to work ourselves.

Q: Does the company plan to attract a strategic partner to share risks and financial investments?

A: We are considering this possibility. Already today we are attracting international financial institutions. Uzbekistan is a very open country in this regard, largely due to the policy of recent years. Our reserves are estimated at 768 million tons in categories A, B, C1 and C2. We want to make the most of the available potential, including with the help of partners.

Q: How is the problem of utilization of associated petroleum gas being solved in Uzbekistan?

A: About 160,000 cubic meters of associated petroleum gas (APG) is being flared in the country today. This is a big problem for the entire oil industry, both from an economic and environmental point of view, so APG utilization is a priority for us. This year, we plan to install and launch gas piston power stations under the first stage, as well as the installation and commissioning of small-sized compressor stations. A new direction for us is the production of propane-butane mixtures from APG. In half a year, we plan to reach 100% level of APG utilization. In addition, we have a unique Uzbekistan project for the construction of CNG stations — automobile gas-filling compressor stations in order to utilize APG. This business direction is especially relevant since more than 62% of cars in Uzbekistan run on liquefied gas.

Q: Tell us about the economics of gas piston power and compressor stations: where exactly the company plans to install them, in

which fields and what effect the project will have?

A: The installation of those stations under the first phase is planned at the Northern Urtabulak and Eastern Tashly fields. The economic efficiency of the project implementation at the North Urtabulak field means that we aim to receive net profit over a 10-year period of $10.2 million, a payback period of one year and an internal rate of return of 143%. The economic efficiency of the project implementation at the East Tashly field will help us to receive net profit over a 10-year period of $11.6 million, a payback period of two years and an internal rate of return of 69%. The installation of small-sized compressor stations is planned at the Northern Shurtan, Turtsari and a number of other fields. In general, the economic efficiency for each field, will result in net profit over a 10-year period of over $6 million, the payback period is estimated at one-two years, the internal rate of return can reach 132%.

Staff Reports

IN BRIEF

Rosneft Offers Kazakh Crude

Russia's biggest oil producer Rosneft has offered to supply Kazakh crude oil to its Schwedt refinery in Germany in a bid to keep the plant running and possibly head off nationalization plans mooted by Berlin. Rosneft, which owns 54.17% in the refinery, has suggested the crude could be sent to the plant via the Druzhba pipeline.

No response from the German side has so far been reported. Germany earlier said that it aims to phase out Russian oil imports by the end of the year even though pipeline export of Russian barrels are not formally banned by the EU. Lower shipments to Germany and Poland led to a drop in Druzhba exports to 764,000 b/d in June versus 845,000 b/d in May.

If Russian shipments stop altogether, the Schwedt refinery, which supplies Berlin and the surrounding Brandenburg region with 90% of their refined product needs, would have to find alternative sources or close.

Lukoil, Tatneft Cut Emissions

Russian oil producers Lukoil and Tatneft both reported lower greenhouse gas emissions as they move toward their net-zero targets. Lukoil, Russia's second-largest producer, reported that its combined Scope 1 and 2 emissions fell to 41.491 million metric tons of carbon dioxide equivalent in 2021 from 43.651 million tons in 2020. Lukoil is targeting a reduction of 10 million tons or 20% in its combined Scope 1 and Scope 2 emissions by 2030 from 2017 levels. It is already close to achieving that, with a cumulative reduction so far of 9.4 million tons.

Tatneft recently confirmed its net-zero targets by 2050 and reported an emissions reduction of 132,000 tons of CO_2e in 2021.

Putin OKs Gazprom Tax Hike

Russian President Vladimir Putin on Jul. 14 signed a law to increase the mineral extraction tax (MET) exclusively for state-run gas giant Gazprom by 1.2 trillion rubles ($22.1 billion) in September-November this year.

The hike reflects the Kremlin's desire to get as much of Gazprom's windfall revenue from record-high export prices as possible. The budget is being hit by international sanctions against Moscow in response to the war in Ukraine, while the unusually strong ruble makes the country's export revenues worth less in the domestic currency.

Because of the planned MET hike, Gazprom won't pay dividends for 2021 despite having initially proposed a record payout of a similar sum of 1.244 trillion rubles, or 50% of adjusted net profit. If dividends were to be paid, the government, which controls 50.23% in the company directly and indirectly, would have received only half of that sum.

Buffer Changes Become Law

Russian President Vladimir Putin has signed into law temporary changes to the so-called buffer mechanism for gasoline that should sharply reduce outflows from the budget.

From Sep. 1 until the end of the year, the law amends the formula for calculating the gasoline buffer component, which should lower payouts to oil companies, saving the state around 100 billion rubles — or roughly $1.73 billion. Corrections to the formula will include discounts for the price of Urals crude oil to dated Brent.

The buffer mechanism compensates refiners for part of the gap between profits on exports of gasoline and diesel and profits on domestic sales of those products. It is designed to prevent domestic shortages. But with the latest upheavals, 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.

Russia to Build Mongolia Pipe

Mongolia believes construction of the Power of Siberia 2 natural gas pipeline from Russia to China via its territory will start in 2024, Prime Minister Oyun-Erdene Luvsannamsrai was quoted by the *Financial Times* as saying this week.

A feasibility study for the Mongolian transit section, dubbed Soyuz Vostok, was completed in January this year.

Although the war in Ukraine has clouded planning for the pipeline, Luvsannamsrai said he expected construction to go ahead.

The 50 Bcm/yr Power of Siberia 2 is important for Russia, as it wants to significantly increase pipeline gas exports to China while its traditional key export market of Europe strives to phase out imports from Russia by 2027.

Gazprom now has two supply contracts with China for a total 48 Bcm/yr. Supplies under the first, 38 Bcm/yr Power of Siberia contract started in late 2019 and are gradually ramping up. On Jul. 17, exports to China hit a daily volume record, Gazprom said, without providing the figure.

Rosgeologiya Boosts Spending

Russia's state exploration holding Rosgeologiya aims to achieve record spending this year, although the outlay will still be slightly lower than initially planned as some of its projects will likely be delayed for 2023.

Rosgeologiya head Sergei Gorkov says capital expenditure will likely total a record 6.5 billion rubles ($115 million) this year, up sharply from 3 billion rubles in 2021, but slightly down from the initially planned 7 billion rubles.

Gorkov also said that the company's expansion plans are on track. Rosgeologiya is expanding works in Kazakhstan, Uzbekistan, Mongolia and still focuses on expansion in Southeast Asia, the Gulf and Africa.

In order to finance its plans, Rosgeologiya might issue ruble bonds worth 5 billion-6 billion rubles, Gorkov said. Last year, the holding placed its debut bonds worth a total of 6 billion rubles.

NEFTE COMPASS DATA

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

KAZAKH GAS PRODUCTION, JUNE 2022

(MMcm)	Year-To-Date	June	Change From Previous Month
Top 5 Producers	**25,490.55**	**3,393.67**	**-1,107.86**
Karachaganak Petroleum Operating Co.	10,505.18	1,647.15	-185.85
Tengizchevroil	7,993.32	1,326.28	-133.68
North Caspian Operating Co.	4,409.33	0.00	-777.43
CNPC-Aktobemunaigas	2,156.06	350.61	-8.59
Kazakhoil-Aktobe	426.67	69.63	-2.31
Other Producers	**2,366.44**	**373.33**	**-23.37**
TOTAL	**27,856.99**	**3,767.00**	**-1,131.23**

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

KAZAKH CRUDE OIL AND GAS CONDENSATE PRODUCTION, JUNE 2022

	Year-To-Date		June		Change From Previous Month	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Top 5 Producers	**1,424.28**	**33,145.91**	**1,096.54**	**4,256.61**	**-389.30**	**-1,661.71**
Tengizchevroil	627.27	14,335.28	626.79	2,374.19	-42.43	-245.21
North Caspian Operating Co.	318.57	7,262.09	0.00	0.00	-333.86	-1,303.48
Karachaganak Petroleum Operating Co.	266.06	6,095.70	254.55	966.66	-14.70	-89.90
Mangistaumunaigas	114.86	2,948.84	118.04	502.30	0.82	-13.12
Uzenmunaigas	97.53	2,503.99	97.16	413.46	0.86	-10.00
Other Producers	**385.11**	**9,887.23**	**386.40**	**1,644.26**	**3.07**	**-41.31**
Total	**1,809.39**	**43,033.14**	**1,482.94**	**5,900.87**	**-386.23**	**-1,703.02**

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.*