Energy Intelligence

VOL. 31, NO. 29
JULY 27, 2022
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TRADE

Russia to Shun Dollar, Adopt Other Currencies in Oil Trade

Russia will strive to end payments in US dollars for oil exports and instead use Chinese and Emirati currencies as soon as possible, Energy Intelligence has learned. Oil industry sources claim exporters have been urged to accelerate the transition and begin as early as next month.

The game-changing switch, which has been ongoing for years in a bid to mitigate growing sanctions risks, has acquired additional urgency as of late. The issue was discussed at a strategic Jul. 26 session of the government on energy industry chaired by Prime Minister Mikhail Mishustin, sources say.

Importantly, Moscow doesn't need as many dollars for imports, many of which are banned under Western restrictions, and this will help facilitate the transition to new currencies.

The government is also devising a new budget rule envisaging the use of currencies of friendly countries by the Central Bank for the latter's currency interventions. This would help prevent further gains by the ruble.

Changing Patterns

Moscow has some experience in currency-swapping. In 2019, Russia moved to euros for oil supplies to China National Petroleum Corp. (CNPC) under long-term contracts via the East Siberia-Pacific Ocean pipeline, according to industry insiders familiar with the matter.

Now, however, given that euros make little sense for Russian external trade balances, oil exports to CNPC will be fully paid in Chinese yuan this year.

Reuters reported last week that trading firms used by state-controlled major Rosneft for supplies to Indian refiners started asking for the dollar equivalent in dirhams this month.

Russia was mulling the use of Indian rupees in oil sales settlements, but government officials decided the country didn't need such large sums of the Indian currency for external trade, sources say. They claim that Moscow wanted to use yuan in deals with the Indian customers as well, but this didn't pass well with the latter.

But Western buyers of Russian oil say payment settlements continue as usual, mainly in euros. They doubt that the switch to yuan would work with these Western stalwarts. Technically, it is possible, but nobody wants the additional headache of cross-currencies rates, sources say.

Ruble Taming

Russia's Central Bank is expected to start buying currencies of friendly countries to influence the exchange rate of the dollar and euro and thus soften the hyper-strong ruble. In expectation

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SPOT CRUDE OIL PRICES

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

	Jul 26	Jul 19	Chg.
Dated Brent f.o.b. (38 API)	107.32	114.96	-7.64
Russian Urals c.i.f. NWE (31 API)*	75.87	80.78	-4.91
Russian Urals c.i.f. Med (31 API)†	79.42	84.33	-4.91
Azeri Light (35 API)	115.27	121.83	-6.56
CPC Blend c.i.f. Med (45 API)†	106.37	105.33	1.04
ESPO (35 API)	92.28	91.14	1.14
Dubai (30 API)	104.90	98.30	6.60

PRODUCT PRICES

($/ton, c.i.f. basis)	Jul 26	Jul 19	Chg.
ICE LSGO Futures (front month)	1,069.50	1,068.25	1.25
ICE LSGO Futures (second month)	1,047.50	1,049.25	-1.75
0.1% Gasoil NWE*	1,099.00	1,129.00	-30.00
0.1% Gasoil Med*	1,096.00	1,114.00	-18.00
10 ppm Diesel NWE*	1,093.00	1,135.25	-42.25
10 ppm Diesel Med*	1,118.75	1,162.50	-43.75
HSFO NWE*	470.00	453.00	17.00

LSGO – low sulfur gas oil. *Basis Rotterdam. †Basis Augusta. *Source: Energy Intelligence* of such a policy, demand for yuan on the Russian market has grown to historic levels.

The chief of the Central Bank, Elvira Nabiullina, said last week that Russia would stop supplying oil to countries that introduce the price cap for its volumes, echoing the statements by other officials. "Our crude and oil products will re-orient to those countries that are ready to cooperate with us," Nabiullina said at a briefing on Jul. 22.

Redirecting energy exports to Asia-Pacific but keeping trade ties with friendly countries on traditional markets was also discussed at the energy session chaired by Prime Minister Mikhail Mishustin.

Another core objective will be stimulating internal demand through the development of petchems, gas grid expansion and using gas as motor fuel, the prime minister said.

Staff Reports

GAS

Gazprom Raises Stakes by Slashing Nord Stream Supplies

Moscow has reduced natural gas exports to Europe, upping the ante in the energy standoff with the West.

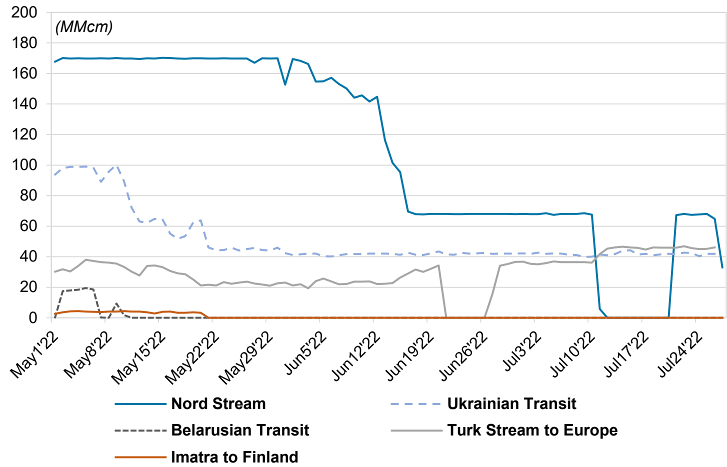
The Jul. 27 cut in flows to 33 million cubic meters per day, or 20% of Nord Stream capacity, down from 40% previously, sent European spot prices to the highest levels since March and forced the EU to accelerate the adoption of a plan to reduce gas consumption by 15% from Aug. 1 through Mar. 31.

The latest in a series of cuts since mid-June has convinced Gazprom's critics in Europe more than ever that Moscow's true motive is to place intense political pressure on Europe by jeopardizing efforts to inject sufficient gas into storage ahead of the winter.

These accusations grew last month after Gazprom CEO Alexei Miller made it abundantly clear that by controlling supply the Russian giant can dictate its own rules to Europe and doesn't feel obliged to supply "hostile" markets.

Moscow appears to be betting on an aggravated gas crunch this winter that, coupled with possible grain and migration crises, could force Europe to ease sanctions against Russia and cease military support for Ukraine, where the war is now in its fifth month.

RUSSIAN GAS FLOWS TO EUROPE



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

Europe doesn't buy into Gazprom's explanations that the Nord Stream flow cuts are solely the result of repairs on a Siemens turbines from the Portovaya compressor station. EU Energy Commissioner Kadri Simson said on Jul. 26 there was "no technical reason" for Gazprom to slash exports to Europe. She called the cut in Nord Stream flows a "politically motivated step" that showed EU countries need to be prepared for a complete halt in supplies.

By reducing Nord Stream supplies, Gazprom "has destroyed the trust in Russia as a reliable supplier of energy for Europe," Mario Mehren, CEO of Germany's Wintershall Dea, a long-term partner of Gazprom, said on the same day. Wintershall Dea is a 15.5% shareholder of Nord Stream, but Mehren said the company had "no additional information" about the problems with the turbine repairs.

Foreign Minister Sergei Lavrov reiterated this week that Gazprom cannot use the turbines that are in need of repairs; otherwise, it would violate Russia's safeguards and put people at risk.

Flows Could Remain Low

A complete halt by Gazprom still looks unlikely as minimal flows should comprise more effective political leverage than a complete stoppage, while the "technical" reasons would allow Moscow to increase flows if it wins concessions from Europe.

Flows might return to 68 MMcm/d, or 40% of Nord Stream capacity, once the repaired turbine returns to Russia after having been stranded in Canada because of Ottawa's sanctions against Moscow. But Moscow is now signaling that this might not be the case — or at least until it gets guarantees from the West that Nord Stream and all its other turbines are safe from sanctions. The turbine is now in Germany waiting for customs documents and might arrive in Russia in several days.

Gazprom said on Jul. 25 that Canada's sanctions waiver, lobbied by Germany under pressure from low Nord Stream supplies, was not enough to bring the turbine back in operation. The Canadian documents provided by Siemens Energy to Gazprom "do not remove the previously stated risks and raise additional questions," Gazprom said.

The gas company said it still has unresolved questions regarding EU and UK sanctions, which are important for the return of the gas turbine to Russia and for the repair of other turbines from Portovaya. To be sure, European sanctions have not targeted gas exports given the continent's dependence on Russian gas imports and inability to find an adequate alternative.

"The situation is critically complicated by the sanctions that have been imposed on our country," Kremlin spokesman Dmitry Peskov said on Jul. 26. Without the sanctions, the repair and maintenance of turbines would have been done in a normal mode "without leading to such situations that we see now," he said.

Peskov has denied that Moscow links Nord Stream flows with the lifting of sanctions. "Gazprom supplies as much as is needed and is possible," he said on Jul. 27, adding that the sanctions have diminished available transportation capacity and Gazprom cannot supply more if the imported equipment is not repaired.

Nord Stream gradually reduced flows to some 1.4 million cubic meters per hour, or 33 MMcm/d, on Jul. 27. Since mid-June it had shipped some 68 MMcm/d. It halted flows completely for annual maintenance on Jul. 11-21.

Flows are now lower than the Ukrainian transit route, which shipped just above 40 MMcm/d, or 55% of the currently available capacity, since mid-May.

Due to Nord Stream and Ukrainian transit cuts and a complete halt of the Yamal-Europe pipeline across Poland due, Turk Stream has become Gazprom's core export route to Europe. Its Europe-bound spur, dubbed Balkan Stream and reaching mainly southern European markets, now ships around 45 MMcm/d (graph).

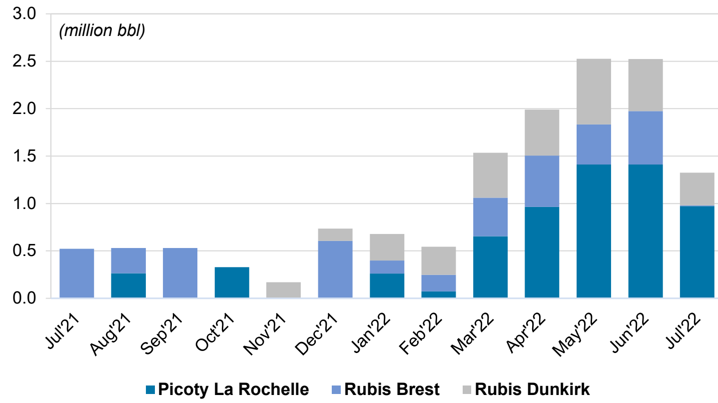
Staff Reports

OIL MARKETS

EU Restrictions Make Supply Laundering Risks Real

In a late revision of its latest sanction package, the EU has lifted a restriction on the purchase of Russian oil and products by European companies that intend to resell the volumes to third countries. Prior to the decision, independent commodity traders and oil majors alike had pledged to stop trading Russian oil, including to third-party countries that do not take part in the sanctions. Multiple impediments to shipping insurance — tanker loans to shipping companies and payment clearing — were designed to prevent traders from indulging Russian barrels.

RUSSIAN DIESEL EXPORTS TO RUBIS AND PICOTY IN FRANCE



Source: Kpler

Now, however, weighing the "potential negative consequences for food and energy security around the world," the EU has finally decided to allow payments and shipping of Russian oil to third countries.

Traders estimate that Greece, which owns about 20% of the world's shipping tonnage, including more than half of EU shipping, was ensuring almost 50% of Russian crude deliveries. Greek shipowners have capitalized massively on the higher shipping costs and Ukraine war risk premium.

"I think the recent EU decision to allow third-country shipments is primarily driven by Greek lobbying," a source told Energy Intelligence.

The risk now is that some large third-party buyers of Russian oil — Turkey, India, China — may become a backdoor of Russian oil to Europe once the crude is converted to refined products and sold to Europe. Refineries near Sikka, India, where Reliance operates, could become a hub for "laundering" Russian oil, which will be re-exported as diesel to the EU and potentially to the US.

Greek-flagged crude tanker *Minerva Lisa* was recently seen transiting through the Bosporus Strait to the Mediterranean Sea with a parcel of Russian crude destined for Sikka.

Diesel Dependency

Europe is struggling to kick its Russian ultra-low sulfur diesel (ULSD) habit, with almost 500,000 barrels per day (2 million metric tons per month) of Russian fuel still flowing into the region just five months before the EU's embargo comes into force.

Largely hidden from the spot market, heavy Russian flows are still having a major impact on pricing, undermining Europe's already difficult search for alternatives and squeezing local refinery profits.

Premiums for guaranteed non-Russian ULSD cargoes in Amsterdam-Rotterdam-Antwerp (ARA) have dropped from almost $90 per ton over front-month ICE low-sulfur gasoil (LSGO) futures at the start of the month to just $42.50/ton on Jul. 27 as buying interest has evaporated.

Discounts for Russian ULSD have headed in the opposite direction. So-called “open-origin” diesel is now pegged at a $75.25/ton discount to proven non-Russian volumes, in from the eye-watering $123.75/ton discount seen last month after the very large crude carrier *C Earnest* arrived offshore the UK carrying ULSD from the United Arab Emirates.

Only the UK has so far managed to wean itself off Russian ULSD. What used to go to the UK — as much as 1 million tons in some months — is now heading to ARA, with Germany, France and Poland also purchasing more than before the invasion of Ukraine.

In France, fuel storage and retail company Rubis and fuel distributor Picoty are becoming the largest buyers of Russian diesel, Kpler data show. The market speculates about their role as possible intermediaries for bigger oil majors.

Alternative East of Suez ULSD flows are rising but not by enough. July volumes were capped at 1.2 million tons, with August expected to be only slightly higher. The major rerouting of global diesel trade is still not happening. This month saw just one Russian ULSD cargo leave Primorsk for Ghana in West Africa, with the rest staying in Europe.

Plans for Russian ULSD to go to Brazil, and potentially free up US bbl to come to Europe, have still not materialized.

Julien Mathonniere and Kerry Preston, London

DOWNSTREAM

Summer Ushers in Surge of Russian Refining Activity

Refining throughput in Russia was just shy of 5.6 million barrels per day in the first 20 days of July and poised for the third consecutive monthly gain after having touched a 14-year nadir of 4.85 million b/d in April.

July activity so far is 250,000 b/d more than June and 40,000 b/d more than the same month last year. Gasoline production, a closely watched bellwether for the industry, is at a record level.

Oil companies have been running their facilities hard to meet summer demand for transportation fuels and replenish diesel and gasoline stocks that had undergone significant declines in the first months after the war in Ukraine.

The current refining level remains about 250,000 b/d short of average pre-war activity, when trends had signaled that Russia could conceivably post a new annual record in 2022. But during March-April runs tanked by 1 million b/d as the country’s products were shunned in many parts of Europe and even banned in the US, a key offtaker of fuel oil in recent years.

In terms of cracks, middle distillates are the only part of the slate saving a refiner’s margin. Sky-high prices in Europe translate into lucrative compensatory payments for refiners for all domestic diesel deliveries, while airlines receive a subsidy for lofty jet fuel prices — enabling refiners to sell at market rates domestically.

According to Jul. 1-20 data seen by Energy Intelligence, Russia’s refining sector was producing 1.82 million b/d of diesel, up 4.6% on June, 1.01 million b/d of gasoline (+1.3%) — a record-high level — 260,000 b/d of jet fuel (+11.5%), and 705,000 b/d of heavy fuel oil (+6.5%).

There is basis to believe that refining activity has peaked and will start declining in August. Maintenance season is just around the corner, and peak summer consumption will end in September. Finally, the EU-wide ban on Russian product imports in Europe is scheduled to go into effect in early 2023, and for now it appears that Russia has not found alternative markets.

Exports Robust

Europe is still importing large volumes of Russian diesel, the key product that will make or break refining margins. Shipping data show many cargoes arriving in European ports, though a complete picture is difficult to attain given that some vessels loaded with ultra-low sulfur diesel from Baltic or Black sea ports do not have a destination. Official data for Jul. 1-20 indicate that Russia exported 605,000 b/d of diesel, or one-third of total output.

Oil companies, working together with Moscow, are working hard to find new buyers, and Brazil’s leadership has said that the country was prepared to buy large volumes of Russian diesel.

Russia supplied 55% of Europe’s lifeblood ULSD imports last year, accounting for at least one in every 10 gallons of fuel used in the region. Meanwhile, exports of other light products have dwindled to a trickle.

Gasoline exports in Jul. 1-20 were 50,000 b/d, according to official data, about half of the annual average in previous years, while exports of liquid petroleum gases were approximately 40,000 b/d, down from an average 96,000 b/d in January-April. Jet fuel deliveries abroad have also dropped dramatically after a ban by the UK.

Upgrades Ahead

Moscow has emphasized it will stick to the strategy of modernizing Russia’s refining fleet, the world’s third-largest, despite a western ban on key technological processes.

Based on agreements signed with oil companies last year, the sector is aiming to either build or reconstruct some 30 conversion or secondary units by the end of the decade. A lofty goal even in good times, this target is highly problematic given the sector's nearly complete reliance on imported technology such as hydrocrackers and fluid catalytic cracking units.

Yet First Deputy Energy Minister Pavel Sorokin was quoted saying earlier this month that solutions have been found "for almost all problematic issues."

The state will compensate refiners for the investments, which will ultimately squeeze more value from the bottom of the barrel and boost the clean product yield.

In June, the clean product yield was 64.7%, according to official data seen by Energy Intelligence. By comparison, the number is around 80% in Europe and 90% in the US.

If the modernization takes place in full, diesel output could soar to over 2 million b/d and gasoline to 1.15 million b/d. Given the limits on domestic growth, Russia will have to find foreign markets for these additional volumes.

Gary Peach, New York

UPSTREAM

Russian Majors Plow Forward With Strategic Plays

Russia's top oil producers, Rosneft and Lukoil, have indicated they are plowing ahead with strategic projects despite western sanctions aimed at stultifying the country's upstream development.

Rosneft announced this week it has started drilling at one of the core fields of the Vostok Oil mega-onshore project in Russia's Arctic with a view to make the play operational in 2024.

Rosneft says 98% of the equipment and materials for Vostok Oil are domestically manufactured and plans are on schedule despite the departure of international partners Trafigura and Vitol.

Lukoil, meanwhile, last week towed the upper structures of an ice-resistant stationary producing platform to the Grayfer field in Russia's sector of the Caspian Sea. It plans to launch production using the platform next year.

Lukoil has been developing its northern Caspian reserves on its own but is nevertheless 90% dependent on the equipment, which creates huge risks in the current sanctions environment. Rosneft started drilling at the Irkinskiy licensed area of the Payakha field to the depth of 3,500 meters using a rig with a unique design for severe northern conditions. It is produced by the Uralo-Siberian industrial company. Such rigs can drill to a depth of up to 6,000 meters, according to Rosneft, which plans to use 100 such rigs on the project. By the end of this year, 80 wells should be drilled.

Production from Payakha, which holds more than 7 billion barrels of reserves, is to start in 2024. Rosneft also plans to bring on stream the Ichemminskoye field in 2024. The two fields will at that time produce a combined 300,000 barrels per day.

More than 300,000 b/d are already coming from the operational Vankor group of fields.

Vostok Oil output will be shipped via the 770 km pipeline to an Arctic port at the Sever Bay, now under construction, from where it will be shipped to global markets via the Northern Sea Route. According to Vostok Oil general director Vladimir Chernov, plans to reach output of 600,000 b/d in 2024, and eventually up to 2 million b/d in 2030, are on track.

Vostok Oil has a resource base of 45 billion bbl of liquid hydrocarbons and exploratory drilling still continues.

Rosneft holds 85% in Vostok Oil via its subsidiary RN-Trade. Traders Vitol and Mercantile & Maritime own 5%. Vitol plans to withdraw, following Trafigura, which just sold its 10% in Vostok Oil to unknown Hong Kong trader Nord Axis. The two companies' withdrawal from the $85 billion venture will not impact the project's financing as tax breaks granted by Moscow will fully cover Vostok Oil's massive infrastructure costs accounting for 50% of capital outlays.

Import Replacement

Rosneft CEO Igor Sechin assured at last month's St. Petersburg International Economic Forum that there are no technological hurdles and Rosneft possesses all the necessary competence, knowledge and equipment for Vostok Oil.

Even in software, where the Russian oil industry's foreign dependence was over 90% in 2018, Rosneft has made significant progress. The company developed 24 programs, including for seismic data interpretation, geological and hydrodynamic modeling, geo-information systems and others.

With Lukoil's North Caspian projects, things are more complicated. The company says that 20% of the foreign counteragents dealing with supplies of cables, pipes, shutoff and control valves, gas turbine equipment and services have left Russia, while 10% of manufacturers refused to confirm further cooperation.

By the middle of June, Lukoil had identified 56 risks, including projects design for the new fields development and for support of its technological equipment.

Looking for replacements at home, Lukoil has discovered that Russian manufacturers have no experience in producing equipment for offshore developments and have limited capacities because of the increased orders following sanctions. Further, they are not interested in producing single unique units.

Lukoil also pointed to problems with software, including automation systems for managing technological processes.

To find solutions, Lukoil and Rosatom agreed this week to cooperate in oil and gas machinery procurement, rolling out complex solutions for industrial automation and power supply, and the joint development of IT products.

Lukoil discovered 11 fields in the Russian sector of the Caspian Sea with initial recoverable reserves of 1.8 billion metric tons of hydrocarbons (13.2 billion boe). The Grayfer field, which is intended to have a plateau production of 22,000 boe/d, is the third field in Northern Caspian that Lukoil plans to launch after the Filanovskogo and Korchagina. The latter two produced a combined 147,000 b/d of crude and gas condensate in 2021.

Lukoil plans to launch Kuvykina field in 2027, which will produce 4 billion cubic meters per year of gas.

Staff Reports

STRATEGY

For Russia, It's Benchmark or Bust

Russia will knuckle down on creating a sovereign oil benchmark that should end the country's reliance on global price indexes and avert the detrimental effects of potential price caps for Russian barrels, Energy Intelligence has learned.

Discussions about the necessity of a national benchmark have picked up as quotations of leading pricing agencies Platts and Argus for Russia's Urals blend showed an unexplained gap. Argus, for instance, reported this week that discounts for Urals to dated Brent dropped to $15 per barrel compared to $35-$40/bbl reported by Platts. Argus pricing is used to calculate Russia's key taxes — a usual bone of contention between the state and oil firms.

The need for accurate quotations used for calculating taxes has lent new credence to talks on a national benchmark and pricing. Previous attempts to fashion such a benchmark failed to bear fruit, and given what little is known of the current embryonic plan, assessing the chances of success are difficult.

Sources confirmed to Energy Intelligence that high-level instructions were given to various state agencies, including the Central Bank and energy ministry, to intensify work on a benchmark. The idea gained traction after the Feb. 24 start of the war in Ukraine, after which Russian barrels become toxic and restrictions led to discounts on exports of up to $40/bbl compared to Brent, the world's leading benchmark.

Central Bank chief Elvira Nabiullina confirmed last week that Moscow is working on creating a set of national price indicators, including for oil. Media reports indicate that a new benchmark could be traded on a national platform as early as October 2023. But sources said that this is the time frame for the requisite legislation and technology rather than the benchmark itself.

Numerous Hurdles

Details remain scarce. First, there is no clarity as to which crude grade would be used. The Urals export blend is the obvious candidate, with East Siberia-Pacific Ocean (Espo) in second place. Market players say both grades are under consideration.

Russia used to send over 2 million barrels per day of Urals and 1.6 million b/d of Espo crude to world markets before the war, with Urals mainly soaked up in Europe and Espo delivered to the Asia-Pacific market.

There is no clarity where the benchmark would trade. The St. Petersburg International Mercantile Exchange (Spimex) seems the obvious solution, but the exchange has declined to comment. Spimex chief Alexei Rybnikov told journalists recently that the exchange is still ready to provide its price indicators for calculating Russia's taxes.

In 2016, Spimex launched a deliverable futures contract for Urals that was supposed to gain enough liquidity and promote Urals as a benchmark. But the contract never took off; there was little interest among both Russian oil firms and Urals customers, including international traders.

Several years later, Spimex launched another mechanism — online auctions for crude exports, also conceived to create a national price index — but the auctions were only used by state-controlled Zarubezhneft.

Global traders and Western majors pledged to stop buying Russian barrels by year's end, but market players say Moscow will rely heavily on Indian, Chinese and other non-Western buyers for liquidity of the planned benchmark. Sources also say clients would benefit if prices for Urals were not dependent on global pricing. Currently Urals is priced against dated Brent using quotations from agencies like Platts or Argus. But these mechanisms have grown dubious in the new environment, which is less transparent.

Circumventing proposed price caps on Russian barrels is another major incentive for a home-grown benchmark. If Russian barrels are priced independently and traded on a national platform where customers can buy and sell, there will be less flexibility to set a price for Russian crude outside the country, some market players suggest.

Staff Reports

IN BRIEF

Gunvor to Sell Terminal

Swiss energy trading firm Gunvor is considering options to sell its 26% stake in the Ust Luga oil export terminal near St. Petersburg. The move comes as the trader, once among the most prolific shippers of Russian crude and products, is ending transactions with most Russian counterparties in line with the EU and Swiss sanctions. Gunvor said it is considering the sale but added that a divestment has not been "practical or feasible" so far.

The Baltic Sea outlet began operations in 2011 and has a capacity of some 30 million metric tons/yr. It mostly handles fuel oil transshipments. Gunvor sold its 74% stake in the facility in 2015 to a company controlled by Russian tycoon, Andrei Bokarev, shortly after sanctions were imposed against its co-founder, Gennady Timchenko, who was forced to sell his stake in the trading giant.

Foreigners Quit Kharyaga

Russia's state-controlled Zarubezhneft is prepared to be in full control of the Kharyaga production-sharing agreement as Western companies follow through on promises to dump their Russian oil and gas assets. Moscow has ordered that Zarubezhneft should acquire a 20% stake in Kharyaga owned by France's TotalEnergies and another 30% owned by Norway's Equinor.

The move follows an announcement by Equinor that it has exited all upstream assets in Russia and another by TotalEnergies that it was transferring its stake to Zarubezhneft. Once the transactions are completed, the state-run producer will accumulate a 90% stake in Kharyaga. The remaining 10% will be held by local Nenets Oil Co.

The Kharyaga field produces over 30,000 b/d of oil in the Nenets Autonomous District.

Gazprom Neft Tests Drill Fluids

Gazprom Neft is conducting tests with domestically produced chemicals in the hope of significantly increasing crude recovery rates. Russia is currently dependent on foreign surfactants and other chemical compounds used for enhanced recovery, but since sanctions prohibit supplies, homemade variants will be crucial in the years ahead.

Gazprom Neft said it tested Russian-made surfactants at one of the wells in the Kholmogorskoye field in West Siberia and as a result was able to raise the extraction rate by 18%.

Large-scale use will increase the field's reserves by 45% and bring an additional 5 million metric tons (36.6 million bbl), the company said. Full-scale implementation of innovative methods for enhanced recovery can add an additional 225 million tons to company output, Gazprom Neft said.

Orsk Agrees Credit Line

The 120,000 b/d Orsk refinery, operated by ForteInvest, an independent holding, agreed on a $595 million credit nonrenewable credit line with state-controlled Sberbank.

The line, which will remain open until Dec. 20, 2029, will be used to finance investments "in design, acquisition of equipment and material, as well as commissioning and construction and installation works," the refinery said.

The plant is undergoing a second stage of modernization that includes both building new units and upgrading older ones. As a result, the light products yield will grow to 84% in 2024, up from 72% in 2020.

Investments in the second modernization phase are penciled in at 60 billion rubles ($996,000). Sberbank provided loans for the first phase of Orsk's modernization, which saw $1.2 billion in spending. Additional investments of $503 million were planned for the 2019-23 period, including in a delayed coker.

PKN/Lotos Merger Approved

Shareholders of Polish downstream companies PKN Orlen and Lotos have green-lighted their planned merger by a large majority of votes. The move comes after the European Commission gave a final approval for the deal, lobbied intensely by Warsaw, in June.

The merged company will have a total refining capacity of around 920,000 b/d, with four plants in Poland, two in Czechia and one in Lithuania. Orlen said the creation of the new company should help Poland increase its energy independence, a goal of "great importance in the context of the ongoing war in Ukraine." The commission had sought the disposal of some assets as a condition for its approval, and in January deals were announced to sell a 30% stake in the Lotos refinery in Gdansk to Saudi Aramco and offload more than 400 service stations to Hungary's Mol.

Orlen is also pursuing a merger with Poland's state-controlled gas monopoly PGNIG with the aim of creating an integrated oil and gas company.

Novak's Portfolio Grows

Russian Deputy Prime Minister Alexander Novak has taken on a range of new tasks as the state looks to ratchet up development of "critically important" technologies now subject to Western sanctions.

Speaking at a meeting devoted to the subject, Prime Minister Mikhail Mishustin said Novak will be responsible for nuclear and hydrogen technologies, the decarbonization of industry and compressed natural gas for transportation.

All these spheres are part of Russia's broader decarbonization drive, which includes a plan to become carbon-neutral by 2060. Russian officials repeated several times over the past months that those plans are on track despite Moscow's growing isolation amid its military operation in Ukraine. Novak is currently in charge of the country's fuel and energy complex.

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 CRUDE OIL PRODUCTION/EXPORTS, JUNE 2022

	Year to Date		June		Change From Previous Month		Jun Exports		% of Jun Output Exported
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	
Lukoil	1,581.9	39,603.1	1,583.1	6,568.8	0.7	-216.0	414.6	1,699.1	0.3
Rosneft	3,074.3	76,964.7	3,237.1	13,431.9	390.8	1,227.8	2,050.4	8,403.1	0.6
Gazprom Neft	771.7	19,319.9	780.3	3,237.9	0.6	-105.4	331.3	1,357.9	0.4
Surgutneftegas	1,192.6	29,855.5	1,160.5	4,815.3	3.7	-144.7	850.7	3,486.6	0.7
Slavneft	231.3	5,791.7	234.4	972.5	0.7	-29.6	0.0	0.0	0.0
Russneft	135.6	3,393.6	135.1	560.8	1.2	-13.5	52.1	213.4	0.4
Tatneft	567.7	14,211.4	568.3	2,358.2	1.7	-71.2	209.8	860.0	0.4
Bashneft	332.6	8,326.3	391.2	1,623.3	168.2	666.9	0.0	0.0	0.0
IPC	328.9	8,234.0	330.4	1,371.2	0.2	-45.0	0.0	0.0	0.0
Russian Oil Company Total	8,216.6	205,700.0	8,420.5	34,939.8	567.6	1,269.2	3,908.9	16,020.2	0.5
Gazprom	112.8	2,823.1	117.5	487.7	-2.4	-26.4	13.5	55.3	0.1
Novatek	51.9	1,298.8	50.1	207.7	0.1	-6.6	5.5	22.5	0.1
Other Producers	1,125.1	28,166.2	1,126.7	4,674.9	6.4	-128.2	534.8	2,191.8	0.5
PSA Operators	215.3	5,390.8	87.0	361.0	-28.6	-134.7	0.0	0.0	0.0
Russia Grand Total	9,721.7	243,378.9	9,801.8	40,671.2	543.2	973.3	4,462.7	18,289.9	0.4

Table is based on the following factors for conversion to barrels: crude oil production - 7.23; crude oil and gas condensate exports - 7.32. Download full dataset here. *Source: Energy Intelligence*

RUSSIAN GAS CONDENSATE PRODUCTION, JUNE 2022

	Year-To-Date		June		Change	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Lukoil	6.0	128.7	4.7	16.7	-0.8	-3.6
Rosneft	105.6	2,247.8	144.7	510.6	22.6	65.2
Gazprom Neft	18.5	395.0	18.0	63.4	0.6	0.0
Slavneft	1.7	35.2	1.9	6.6	0.1	0.1
Russneft	0.8	16.6	0.8	2.7	0.0	-0.1
IPC (Neftegasholding)	2.6	54.7	3.0	10.4	0.0	-0.2
Russian Oil Company Total	135.2	2,878.0	172.9	610.3	22.4	61.4
Gazprom	444.5	9,464.5	406.0	1,432.8	-35.3	-176.7
Novatek	114.8	2,444.4	114.3	403.4	-2.1	-21.2
Other Producers	233.5	4,971.3	209.6	739.6	-21.8	-104.2
PSA Operators	41.3	879.5	29.3	103.5	-6.7	-28.0
Russia Grand Total	969.2	20,637.6	932.1	3,289.6	-43.6	-268.7

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