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NEFTE COMPASS®

CONTENTS

EXODUS

Putin Sets Rules for Foreign Investors

President Vladimir Putin has made it clear that Moscow will not expropriate assets held by foreign investors from "unfriendly" countries in response to their planned exodus and the freeze of Russian assets abroad. At the same time, Russia would protect its national interests by preventing any transactions with strategic companies and projects.

Last week, Putin signed a decree "on the implementation of special economic measures in the financial and fuel and energy sectors in connection to unfriendly actions of some foreign states and international organizations." The decree prohibits companies from "unfriendly countries" — or countries that imposed sanctions against Russia following the invasion of Ukraine — from divesting their assets at least until the end of 2022, or unless they get special permission from the Russian president. Russian analysts say that Moscow's stance contrasts sharply with the appropriation of Russian assets abroad and leaves the door open for foreign companies to stay, if they follow certain rules. On the other hand, the decree clearly prioritizes national interests and points at the strategic assets that Moscow will protect.

What's on the List?

Putin's decree starts with companies referred to as strategic under Russia's legislation. State-controlled oil champion Rosneft, gas giant Gazprom, state-run explorer Zarubezhneft and oil pipeline monopoly Transneft are all deemed strategic. BP, which has a 19.75% stake in Rosneft and which reported an after-tax charge of $24 billion, is clearly in the spotlight as it has still failed to find a way to exit Russia.

The decree also bans any transactions with stakes in the Sakhalin-1 and Kharyaga production sharing agreements (PSAs). Exxon Mobil, which holds a 30% stake in Sakhalin-1 alongside Japanese consortium Sodeco (30%) and India's ONGC Videsh (20%), said recently that is continuing efforts to divest its stake, but provided no further details. Moscow blames Exxon for running production down at Sakhalin-1 and seems to be losing patience with the US supermajor. In Kharyaga, TotalEnergies and Equinor earlier said they transferred their stakes of 20% and 30%, respectively, to operator Zarubezhneft.

Moscow has offered a way out for PSA participants. The current decree doesn't include the Sakhalin-2 PSA, for which a new operator called Sakhalin Energy LLC was recently established. This could be a signal to the Sakhalin-1 and Kharyaga foreign stakeholders on how things will play out — a Russian-registered company might be established and foreign partners will have to apply formally for stakes. Japanese companies already said they want to retain their stakes in both the Sakhalin-1 and Sakhalin-2 projects, while Shell, which has a 27.5% interest in Sakhalin-2, is unlikely to apply for a stake.

Strategic Asset Ban

Putin also banned the sale of stakes in Russian upstream developments holding over 20 million metric tons (146.4 million bbl) of crude oil or 20 billion cubic meters of natural gas in recoverable reserves. BP, Shell, Total and Equinor all had stakes in Russian upstream assets

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SPOT CRUDE OIL PRICES

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

	Aug 9	Aug 2	Chg.
Dated Brent f.o.b. (38 API)	103.81	106.51	-2.70
Russian Urals c.i.f. NWE (31 API)*	72.25	73.85	-1.60
Russian Urals c.i.f. Med (31 API)†	75.80	77.40	-1.60
Azeri Light (35 API)	106.50	108.10	-1.60
CPC Blend c.i.f. Med (45 API)†	102.75	104.35	-1.60
ESPO (35 API)	92.69	86.31	6.38
Dubai (30 API)	94.25	98.15	-3.90

PRODUCT PRICES

($/ton, c.i.f. basis)	Aug 9	Aug 2	Chg.
ICE LSGO Futures (front month)	997.75	1,014.50	-16.75
ICE LSGO Futures (second month)	985.75	999.00	-13.25
0.1% Gasoil NWE*	1,014.00	1,046.75	-32.75
0.1% Gasoil Med*	1,022.00	1,048.75	-26.75
10 ppm Diesel NWE*	1,012.25	1,047.25	-35.00
10 ppm Diesel Med*	1,048.00	1,074.75	-26.75
HSFO NWE*	470.00	470.75	-0.75

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

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falling under this category and the move should protect those assets as well, at least until appropriate companies would be found to replace the Western majors. Until then, the licenses for those fields would be transferred to Russia-registered companies.

The ban on divestments in the energy sector also extends to producers of equipment for the oil and gas industry and companies that maintain and service such equipment. The ban also affects refineries. Many of the Western oil and gas companies that have announced plans to exit Russia have reported big charges against their earnings to reflect the estimated loss in the value of their assets in the country.

The Western majors haven't made much comment on the decree signed by Putin. Energy Intelligence suggests the document is being studied by foreign companies. So far, reports suggest that the decree has paused a deal under which Russian oil producer Lukoil in partnership with Gazprombank-Frezia was supposed to purchase Italian utility Enel's assets in Russia as well as blocking the sale of Finnish company Fortum's interests.

Siemens Energy said this week that it aims to complete the restructuring of its business activities in Russia by October. The restructuring process placed a charge on the financial results of Siemens Energy's Gas and Power division of €200 million ($204 million) in the third quarter of fiscal year 2022 that ended Jun. 30, the company said.

Foreign shareholders are not withdrawing from Gazprom's Nord Stream gas export pipeline to Europe but are revising the value of their stakes. Germany's E.On on Aug. 10 said it cut the value of its 15.5% stake by around €700 million, or 58%, from €1.2 billion, citing "heightened uncertainty" amid the war in Ukraine. Gasunie of the Netherlands in late July said it cut the value of its 9% stake by 53% to €240 million.

Staff Reports

EXPORTS

Druzhba Oil Flows Disrupted by Payment Troubles

Russian oil flows to Europe fell under the spotlight this week after national pipeline monopoly Transneft said that supplies via the southern leg of the 1 million barrel per day Druzhba pipeline were suspended because of payment troubles. The European nations affected reacted swiftly, with Hungary resolving to fix the problem.

DRUZHBA PIPELINE

Source: EIA

Russian oil pipeline supplies to Europe have been relatively stable over the past six months since Russia invaded Ukraine on Feb. 24, but the latest disruptions could signal that further troubles lie ahead as Moscow looks to protect its interests as the sanctions pressure on it intensifies.

Transneft said on Aug. 9 that supplies via the southern leg of the Druzhba pipeline — running via Ukraine to refineries in Hungary, Slovakia and the Czech Republic — had been suspended since Aug. 4 because of a payments problem. Transneft explained that it has a long-term transit agreement with its Ukrainian counterpart, Ukrtransafta, which requires monthly payments in advance. But a payment Transneft made to Ukrtransafta on Jul. 22 for August transit fees was returned to it on Jul. 28. Having not received the money, Ukraine halted transit.

Druzhba's southern leg shipped around 240,000 b/d of Russian crude in 2021, while the northern leg to Poland and Germany shipped around 480,000 b/d. Supplies via the northern leg are running smoothly, Transneft assured.

Who's to Blame?

Transneft itself and consumers in Hungary, Slovakia and the Czech Republic have all confirmed technical troubles with payments. Transneft explained that a recent amendment of EU sanctions against Russia requires prior authorization of cross-border payments by "national competent authorities." The situation is complicated because "European regulators have not yet formed a unified position" on how this should work in practice "and have not developed a procedure for issuing these permits," the pipeline monopoly said.

Hungary's Mol and Slovakia's refinery Slovnaft, which is also controlled by Mol, have agreed to make the payments for the transit and expect shipments to resume. Transneft confirmed it plans to restart flows on Aug. 10. The Czech Republic appears not to have made the payments, and industry sources say it may find that the cut-off continues.

What's Next?

While the issue has mainly been caused by technicalities, it has sparked speculation on whether the problems signal there could be further challenges ahead. The disruption of the Druzhba volumes followed recent news of hitches that have curtailed flows of Kazakh oil via the CPC pipeline and its marine terminal on Russia's Black Sea coast. More generally, the Druzhba and CPC disruptions have occurred against a backdrop of concerns about tight global oil supplies.

Some analysts suggested that the current crude supply disruptions mirror those on the Russian gas side. Russia has often been blamed for using its oil and gas as a weapon, but those accusations have intensified over the last half a year after Moscow used various excuses to restrict or completely halt gas supplies to European customers, including their refusal to agree to new payment schemes and problems with gas turbines.

Moscow rejects accusations that it uses its energy as a weapon and says that the sanctions against Russia complicate matters for those who impose the restrictions. Indeed, other customers along the Druzhba pipeline and Western consumers buying seaborne crude from Russian ports earlier told Energy Intelligence that there have been some troubles with payments made through Western banks. The payments were often delayed or denied, making the payment process much longer and less convenient. Such things continue to happen occasionally, sources say.

Moscow might use payment troubles as an excuse to curb flows in the future, some Western sources said. But analysts in Moscow suggest that the payment glitches on the European side were aimed at punishing Hungary, which is among the few, if not the only EU state strongly supporting Moscow and opposing severe sanctions against Russian oil and gas.

Slovakia, Hungary and the Czech Republic, which are all served by the southern leg of the Druzhba, are heavily dependent on deliveries of Russian oil via the pipeline. Because of this dependency, pipeline volumes were exempted from the EU's ban on imports of Russian crude, which is set to take effect on Dec. 5. The two customers along the northern leg of the line — Germany and Poland — can also be supplied via Baltic Sea ports. Both countries are striving to reduce their imports of Russian oil.

Staff Reports

FINANCE

Russia's De-Dollarization Efforts Gain Speed

Russia's efforts to move away from what it calls "toxic currencies," including the US dollar and euro, gained traction last week when President Vladimir Putin and his Turkish counterpart, Recep Tayyip Erdogan, agreed on partial ruble payments for Russian gas supplies.

In a further sign that Moscow's intentions are serious, Russia's Central Bank offered for public discussion a document on new tasks for the stability of the country's financial sector, including de-dollarization as an "inevitable" process that requires efforts from all industries, including oil and gas.

Market insiders admit that oil and gas de-dollarization will come at a cost, will take time and will depend on the policies of both "friendly" and "unfriendly" countries, but add that Moscow is serious about moving forward whatever the challenges.

Gas for Rubles

Speaking after the meeting between Putin and Erdogan in Sochi on Aug. 5, Russian Deputy Prime Minister Alexander Novak said "the presidents agreed that we would start partial payments for gas supplies in rubles."

No other details were provided in a sign that the mechanics still need to be worked out. Turkey is one of the largest importers of Russian gas with supplies standing at some 26 billion cubic meters in 2021. Russia has so far introduced a two-tier payment scheme involving rubles for so-called "unfriendly countries," but Turkey has never been on the list.

The day before the ruble payments for gas were discussed by the two presidents, Russia's Central Bank invited regulators and market participants to discuss key areas for the development of the country's financial sector hit by sanctions. The bank admits that sanctions could last for a long time and points at structural changes that are necessary to ensure the stability of the financial sector, including de-dollarization as an "inevitable process."

The bank explains that "the most significant contribution" to de-dollarization can be made by "the displacement of 'toxic' currencies from settlements in Russian foreign trade." The bank added that a "full-fledged transition to national currencies in international settlements is possible only if businesses a re ready to transfer contracts from US dollars and euros to national currencies."

The Central Bank suggests that in order to discourage companies from using "toxic" currencies, the government might oblige state-controlled companies to "transfer the accumulated foreign exchange funds in the currencies of unfriendly countries into other currencies." The government might also recommend "to refrain from using the currencies of unfriendly countries in new contracts" and if it is impossible in a short-term perspective, to include a condition allowing the fulfilment of claims in rubles or currencies of friendly countries.

Counting the Cost

Energy Intelligence has learned recently that oil exporters have been urged to accelerate the transition to non-dollar payments in August. A sources at one of Russian oil companies confirmed that contracts are being switched from dollars and euros to other currencies, including rubles, yuans and dirhams. That comes at a cost, a source says, as exporters use various schemes, including the two-phase payment system similar to the one used for gas payments when actual payments are made in dollars or euros to a special account from where those are transferred into other currencies, including rubles. One market source says that conversion losses stand at $8-$10 per metric ton.

Russian oil companies tested non-dollar payments over the past years, but preferred to stick to their usual practices until recently. "Now costs are not that important, a move away from the dollar should be made at any cost given the strong political will," one source says. The Central Bank agrees that "settlements in national currencies are associated with additional costs, often very significant," but "these costs will decrease over time." It added that "as a wider circle of participants begins to connect to settlements in national currencies, demand and supply will be fully formed, liquidity will increase, relevant instruments and segments of the financial market will develop, and risks will decrease."

Apart from exchange rate losses, the other problem cited by Russian oil exporters is that trading in non-dollar currencies means that you have to do something with this currency. "What can we do with yuans?" one market player asks. Payments in Emirati dirhams or Indian rupees face the same questions.

The Central Bank address this issue in its note as well saying that "the possibility of using national currencies in settlements depends on the availability of liquid foreign exchange and money markets." The bank says it is "ready to consider mechanisms for its participation in the initial stages when launching segments of national currency trading on the foreign exchange market to support liquidity." In a move to create liquidity, the Central Bank was expected to start buying currencies of friendly countries.

Staff Reports

GAS

Gazprom's Export Revenues Sink to 12-Month Low

The restricted supply of Russian natural gas via the Nord Stream pipeline resulted in a sharp drop in Gazprom's export revenue in Europe to a 12-month low in July, according to Energy Intelligence's estimates.

Revenues could rebound in the following months, however, when Gazprom's export prices will reflect the current spot price rally caused by the Nord Stream conundrum. The pace of recovery will depend on whether Gazprom is ready to increase gas flows to Europe or prefers to stick to the tactic of restricting supply.

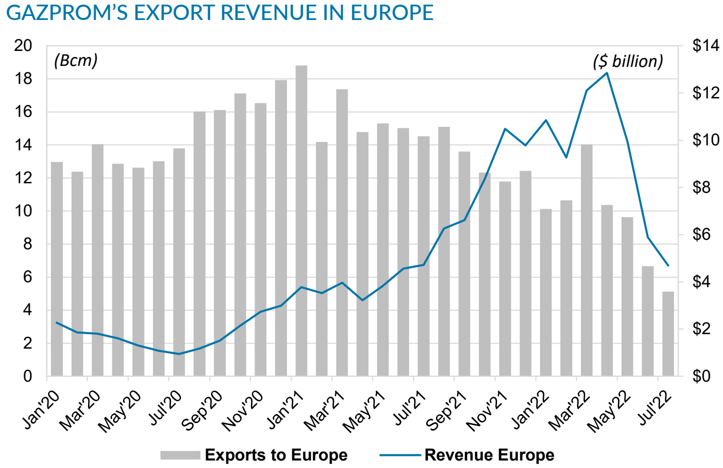
This tactic — which Gazprom denies using — has helped Russia's sole pipeline gas exporter and Moscow's "cash cow" generate huge export earnings from record-high prices on the tight European market, an important source of revenue for the sanctions-hit Russian economy amid the war in Ukraine.

But in July, Gazprom's average export prices, still relatively high, could not offset the sharp drop in exports. Gazprom's price fell in June-July to around $900 per thousand cubic meters from over $1,000/Mcm in the previous two months, reflecting the spot price dynamics with a one-to-several-months' lag.

Pre-Crisis Levels

Gazprom might have generated some $4.7 billion from exports to Europe, including Turkey, last month, down 20% from June and 63% from the peak level in April, Energy Intelligence understands, based on its own European border price estimates and Gazprom's monthly export data (see graph). Gazprom's own average export price estimates are usually more conservative, meaning the revenue might be lower, but the dynamics should be roughly the same.

GAZPROM'S EXPORT REVENUE IN EUROPE



Source: Energy Intelligence

Gazprom's revenue fell in July to the lowest levels not only since the war in Ukraine started in late February but also since the gas price crisis hit Europe in the second half of last year. The July revenue is still high, compared with the Covid-19 year 2020 when prices were at record lows and Gazprom faced increased competition from spot LNG in Europe or with the first half of 2021 when Gazprom only started to restrict its supply to Europe, accelerating the prices' post-pandemic recovery.

Nord Stream Dilemma

The restricted supply via Nord Stream and other routes to Europe has sent European spot prices to new highs. In early July they doubled from mid-June levels and are now even slightly higher — the front-month (September) Dutch TTF gas futures contract traded above €190 per megawatt hour, or around $2,000/Mcm in the beginning of this week. Gazprom's hub-linked contract prices should follow suit in the following months, and if Nord Stream flows are restored, Gazprom's revenue might return to wartime highs sometime in September.

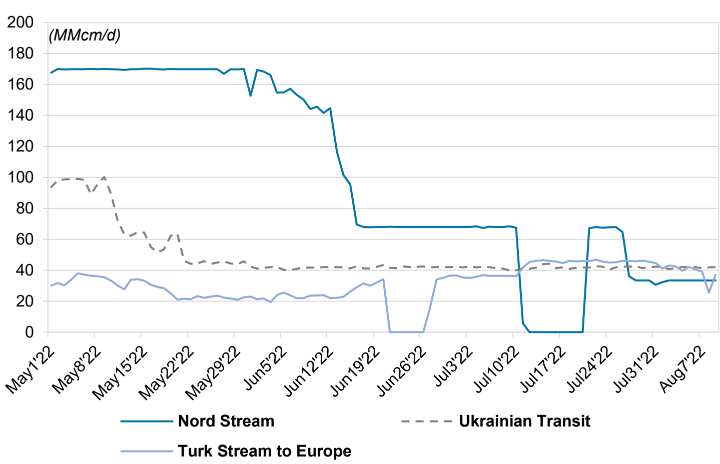
With Nord Stream flows restricted, Gazprom's export revenue will still increase, although at a slower pace. But that would keep spot prices at new highs — something that the Kremlin might want to see to keep Europe under increased political pressure to weaken sanctions and reduce its military support for Ukraine.

At this stage, Gazprom looks reluctant to reopen Nord Stream taps. The company last week reiterated that the current sanctions regime doesn't permit the return of a Siemens turbine, repaired in Canada, to Nord Stream's Portovaya compressor station in Russia, although Canada had given its sanctions waiver and the turbine is now in Germany ready to be sent on to Russia.

Production Drop

The restricted exports have also started affecting Gazprom's production, as the domestic market and the growing exports to China cannot immediately replace supplies to Europe, while domestic storage is understood to be almost full already.

RUSSIAN GAS FLOWS VIA KEY ROUTES TO EUROPE



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

In July, Gazprom produced 24 billion cubic meters, or some 770 million cubic meters per day, which is around half of its total upstream capacity of some 1.5 billion cubic meters per day. The 36% year-on-year drop in Gazprom's production pulled Russia's total gas output down for the fourth consecutive month in July.

Gazprom's exports to Europe and China dropped 58% on the year to some 6.4 Bcm in July, Energy Intelligence calculates based on Gazprom's data. With supplies to China now exceeding contractual volumes, exports to Europe might total up to 5.1 Bcm in July.

Seven-month exports to Europe and China fell 35% to 75.3 Bcm, while production decreased 12% to 262.4 Bcm, Gazprom said last week.

Staff Reports

CASPIAN

Kazakh Crisis Averted as Kashagan Fixes Gas Leak

The giant Kashagan oil field in Kazakhstan's sector of the Caspian Sea is restarting production "step by step," after a suspected gas leak at the onshore Bolashak processing plant forced the North Caspian Operating Co. (NCOC) to shut down operations for over five days.

News of the leak on Aug. 3 had raised fears of a rerun of what happened in 2013, when gas was spotted seeping from two parallel oil pipelines connecting the field to onshore facilities, just after pilot production had started. As a result, the pipelines had to be replaced at great expense, pushing back commercial start-up by three years.

This time, however, the problem appears to have been nipped in the bud and the situation is returning to normal. On Aug. 9, NCOC said had it begun "limited" flaring of gas both off- and onshore, as it prepares to restart production. The consortium, which comprises Kazakh state company KMG Kashagan with 16.88%, alongside TotalEnergies, Exxon Mobil, Shell and Eni with 16.8% each, and China National Petroleum Co. and Japan's Inpex with 8.33% and 7.56%, respectively, provided no more details on the nature of the gas leak and what may have caused it.

Deadly Gas

NCOC has to treat any gas seepages, however minor, with the maximum care and attention due to the presence of hydrogen sulfide (H_2S). If released into the atmosphere, the deadly gas could wreak havoc and put the lives of hundreds of workers at risk.

This was the second shutdown of the field this year: From Jun. 1 through Jul. 5, all operations were halted for scheduled maintenance. As a result, production from the field during the first half of the year dropped around 2% year on year to 284,000 barrels per day, according figures provided by state oil company Kazmunaigas (KMG). KMG, which holds an 8.44% stake in NCOC via its 50% interest in KMG Kashagan, said output of associated gas from the field fell 0.5% over the six-month period to 4.4 billion cubic meters.

Kashagan is one of three world-class fields in Kazakhstan that make up the bedrock of its current oil and condensate production of around 1.9 million b/d. Tengiz, the largest, which is operated by Chevron, saw oil production rise 6% in the first half to around 630,000 b/d, which KMG attributed to the easing of the Opec-plus restrictions that date back to April 2020, when oil prices had crashed. Chevron is now focusing its efforts on completing its $45 billion expansion which is due in 2024 and will push up output by some 260,000 b/d. The Karachaganak gas condensate project, co-led by Eni and Shell, increased liquids production in the first half by some 2% to 240,000 b/d, while gas output climbed 5% to more than 10 Bcm. Karachaganak is Kazakhstan's largest gas producer, and all the sour gas it does not reinject it has to run through the Orenburg processing plant across the border in Russia.

CPC Doubts Simmer

All the top three producers share one major problem: Their reliance on the 1,500 km, 1.4 million b/d Caspian Pipeline Consortium (CPC) pipeline as a primary export route. In recent months, a series of disruptions at the CPC terminal near the Russian Black Sea port of Novorossiysk have cast serious doubt on the route's reliability, and forced producers to scout around for alternatives.

Chevron, which over the past several years has been sending all its production via CPC, faces the prospect of having to invest in new export infrastructure in alliance with KMG and other foreign partners. "If the Kazakhs want them to do it, they will probably have to," a veteran Western oil executive says. "Otherwise, they can kiss goodbye to having their contract extended," he says, referring to the Tengiz joint venture agreement, which was signed in April 1993, and expires in 2033. The US major has a 50% stake in Tengizchevroil, alongside Exxon (25%), KMG (20%) and Russia's Lukoil (5%).

KASHAGAN FIELD

Source: Energy Intelligence

Paul Sampson, London

OIL MARKETS

Looming EU Crude Ban May Spark Winter Price Shock

The restrictions so far on Russian exports have not yet prompted a significant surge in global sour crude oil prices, but this may change once the formal EU oil ban kicks in on Dec. 5.

The reshuffling of Urals crude volumes to India and China has displaced Middle East barrels, which have found a new home in Europe thanks to increasing discounts to the selling price of Iraqi and Saudi barrels.

Meanwhile, Russian crude has continued to flow to Europe, especially to Italy, where Lukoil still supplies its ISAB refinery in Syracuse with Russian oil.

"The sales to Europe have not changed significantly from prior to the war. Some countries like Italy have actually purchased more crude than before," confirmed Dario Scaffardi, CEO of Italian refiner Saras, during his company's quarterly earnings call.

Traders expect the worst of the supply shock to be ahead, when the EU bans become effective — on Dec. 5 for crude oil and on Feb. 5, 2023, for refined products. "I wish to stress that up to now, this impact has not materialized because imports from Russia have been the same as before," Scaffardi said.

The recent hike to Saudi September crude selling prices already points to a potential mismatch between the demand strength and the available supply heading into the winter.

So far, incremental demand in Europe has focused on sweet crude to save on the gas/hydrogen costs required by the desulfurization processes, and to maximize yields of very-low-sulfur fuel oil for shipping.

But European refiners will have to switch to more sour crude supply, especially if they want to achieve winter-specification diesel.

Russian diesel, which has very good cold properties, is essential during the winter to correct the European distillate pool and make it suitable for colder weather. But Russian diesel won't be available anymore after Feb. 5.

"European refiners need to get used to running for winter spec without Russian diesel," an oil trader told Energy Intelligence. The problem is that the market is not focused on this just now. "They just see diesel as a generic product, interchangeable, which isn't the case," the trader said.

Fresh Threat to Europe's Diesel Supply

Low River Rhine levels risk causing fresh havoc in Europe's inland fuel markets. Buyers in Germany, Switzerland and parts of France are on the verge of being cut off from Europe's Amsterdam-Rotterdam-Antwerp trading hub — and the life-blood ultra-low-sulfur diesel (ULSD) imports it handles — as falling Rhine water levels make the river unnavigable for barges. The disruption comes as industrial end-users in Germany are being advised to stockpile gasoil for winter in case Russia halts vital natural gas flows in retaliation for Western sanctions and ahead of an EU import ban on Russian fuel due to start early next year.

The river gauge height at Kaub near Frankfurt was just 49 cm on Aug. 10 — equivalent to an actual river depth of around 139 cm, according to barge owners — with the "pegel" set to fall below 40 cm later this week. Some barges have already stopped sailing for fear of grounding, while others are carrying less than a third of their normal loads in a bid to stay afloat.

Northwest Europe's ULSD cargo market has meanwhile stabilized in the low $20s per metric ton over ICE low-sulfur gasoil (LSGO) futures. Steady ULSD imports and booming local production are proving just about enough to meet regional buying that is beginning to show the strain of high pump prices. Latest figures from Spanish fuel distributor Exolum show diesel demand down 1% year on year in July, the first time buying has fallen since the pandemic.

LSGO backwardation — the premium paid for swift delivery and a good indicator of how desperate the market is for fuel — has fallen to levels last seen before Russia's invasion of Ukraine in late February. The current $12/ton spread between first- and second-month ICE LSGO contracts is the narrowest since January. Sliding futures mean ULSD flat prices are close to a five-month low.

Russia is still Europe's biggest overseas source of ULSD even if cargoes are no longer traded publicly. Baltic flows through Primorsk are expected to reach 1.15 million tons this month, down only slightly from 1.16 million tons in July. Combined loadings from Novorrosiysk and Tuapse in the Black Sea are meanwhile pegged at 576,000 tons in August, down from 587,000 tons.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Gazprom Resumes Latvia Sales

Gazprom on Aug. 5 resumed gas exports to Latvia after cutting off supplies for several days.

The Russian gas giant closed the taps on Jul. 30, saying that the supplies were halted within the July nomination because Latvia violated offtake terms.

Gas flows remained at zero levels in the first four days of August, before resuming at some 3 MMcm/d on Aug. 5, growing to some 4 MMcm/d on Aug. 6-8.

Unlike its Baltic neighbors Lithuania and Estonia, Latvia did not end its imports of gas from Russia after Moscow unilaterally introduced a new two-step payment scheme in late March in response to the Western sanctions over the war in Ukraine.

Latvia did stop buying Russian gas in April, but resumed imports in May, which suggests that Riga has accepted Moscow's new payment scheme, involving conversion of euros and dollar into rubles.

The importer, Latvijas Gaze, was quoted in July as saying that it was buying Russian gas from another provider, and not directly from Gazprom. The two companies did not comment on whether an intermediary is involved.

Transneft Sues Rosneft

Russian national pipeline monopoly Transneft has filed a lawsuit against oil champion Rosneft for 2 billion rubles — or $33.12 million. The two heavyweights have a long history of mutual claims.

In the latest round, Transneft said the lawsuit deals with non-fulfilment by Rosneft of the terms of its crude oil transportation and storage agreement, namely concerning the payments for services provided by the pipeline monopoly.

Earlier in the year, Rosneft filed a lawsuit against Transneft demanding compensation for the contamination of crude carried by the Druzhba pipeline in 2019. Rosneft was asking for some $130 million from Transneft as it was dissatisfied with the pipeline operator's offer of $15/bbl.

Arctic Shipping Plan Agreed

Russian Prime Minister Mikhail Mishustin has approved a development plan for the Northern Sea Route (NSR), the shortest maritime route between the Atlantic and Pacific oceans, which is regarded as a strategic transport route to Asian markets for Russian oil, LNG and other goods. The plan will require total investment of 1.8 trillion rubles through 2035 — about $30 billion at the current exchange rate.

Among other things, the plan calls for the construction of an oil terminal in Sever Bay and an LNG and gas condensate terminal on the Gydan peninsula. The oil terminal will be used to export crude oil from Rosneft's Vostok Oil project, where production is expected to reach 2 million b/d by 2030. The LNG terminal — to be built at the port of Sabetta — will be used to ship LNG produced by Novatek.

The NSR development plan also includes construction by Novatek of two LNG transshipment terminals in Murmansk and Kamchatka.

Turkmens Trumpet Gas Find

Turkmenistan, holder of the world's fourth-largest natural gas reserves, has announced a major new discovery at the Sherepli field. The first appraisal well on the field encountered a "powerful influx" of gas at a depth of 2,330 meters. Geologists from state concern Turkmengas worked on the find for six months and declared it to be commercial, saying the well had a daily flow rate of 695,000 cubic meters.

"Such a primary production volume gives reason to hope for the prospects of this field," said a report on local website Nebit-Gaz, adding that "the main characteristic ... is the absence of hydrogen sulfide."

Sherepli is in the southeastern Mary province, the same region as the Galkynysh field, the world's largest onshore gas deposit. It is planned shortly to start drilling appraisal well No. 02 at Sherepli, while drilling operations continue at "an intensive pace" at new gas fields Kelleli and Yvlan in Mary province.

Socar Holds Sway at Ceyhan

Close to 600,000 b/d of Azeri crude oil is due to be loaded at the Turkish Mediterranean port of Ceyhan in September, according to the latest program. Azeri state oil company Socar is set to handle 19 of the 25 vessels, with the remaining six shared among the shareholders in the BP-led consortium developing the Azeri-Chirag-Guneshli (ACG) fields.

The majority of the barrels piped to Ceyhan via the Baku-Tbilisi-Ceyhan (BTC) pipeline come from ACG, plus around 80,000 b/d of gas condensate from the Shah Deniz field, also operated by BP, and some Turkmen crude shipped across the Caspian to the Sangachal terminal outside Baku.

For the past few years, the BTC pipeline has been operating at around 50% of its 1.2 million b/d capacity. There is also around 80,000 b/d of ACG crude which is pumped via the Western oil pipeline to the Georgian Black Sea port of Supsa, which is owned by the ACG partners.

Tatneft to De-List Overseas

Russia's regional oil producer Tatneft will follow the example of its compatriots and de-list from foreign exchanges despite receiving earlier an exemption to maintain the listing of its depositary receipts.

Lukoil, Gazprom and Gazprom Neft have all announced a de-listing, while Tatneft and gas producer Novatek were granted exemptions.

Tatneft was one of the first Russian companies to launch ADR trading in 1996. Now the company's ADRs are traded on the London Stock Exchange, and the depositary is Citibank N.A.

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, JULY 2022

('000 metric tons or '000 b/d)	Processing: Year-To-Date (b/d)	Year-To-Date (tons)	July (b/d)	July (tons)	June (b/d)	June (tons)	Chg. (b/d)	Chg. (tons)
Pavlodar	107.3	2,998.2	38.9	159.0	120.4	476.0	-81.5	-317.0
PetroKazakhstan Oil Products	128.3	3,583.5	134.2	548.0	134.3	530.9	-0.1	17.2
Atyrau	113.8	3,177.7	121.7	497.1	111.8	442.0	9.9	55.1
Caspi Bitum	18.7	521.3	24.5	100.0	25.3	100.1	-0.8	0.0
Condensate	2.3	63.9	0.5	2.1	3.4	13.4	-2.9	-11.4
Total	**370.4**	**10,344.6**	**319.8**	**1,306.3**	**395.3**	**1,562.4**	**-75.5**	**-256.1**

('000 metric tons or '000 b/d)	July Output: Mazut (b/d)	Mazut (tons)	Gasoil (b/d)	Gasoil (tons)	Gasoline (b/d)	Gasoline (tons)	Jet Fuel (b/d)	Jet Fuel (tons)
Pavlodar	6.5	30.1	15.0	62.2	14.4	52.4	1.3	5.0
PetroKazakhstan Oil Products	19.1	89.1	44.0	182.8	49.5	180.3	7.8	30.1
Atyrau	21.0	98.1	37.3	154.8	32.3	117.6	3.7	14.3
Condensate	0.0	0.0	0.2	1.0	0.7	2.5	0.0	0.0
Total	**46.5**	**217.3**	**96.5**	**400.9**	**96.8**	**352.7**	**12.7**	**49.4**

Notes: Table is based on the following factors for conversion to barrels: 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.

CEYHAN CRUDE OIL LOADING PROGRAM FOR SEPTEMBER 2022

Position	Date	Position Holder (Producer)	Vol.*
1	02-04	Itochu	600
2	03-05	Socar	700
3	04-06	Socar	650
4	05-07	Socar	650
5	06-08	Exxon	600
6	08-10	Socar	1,000
7	09-11	Socar	650
8	10-12	Socar	700
9	11-13	Joint	650
10	12-14	Socar	650
11	13-15	Socar	700
12	14-16	Socar	650
13	15-17	Socar	700
14	16-18	Joint	650
15	17-29	Socar	650
16	19-21	Socar	950
17	20-22	Socar	650
18	21-23	Socar	700
19	22-24	TPAO	570
20	23-25	Socar	700
21	24-26	Socar	650
22	25-27	Socar	700
23	26-28	Joint	700
24	27-29	Socar	650
25	29-01	Socar	1,300
Total			17,770

* In '000 bbl. *Source: BTC*