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GEOPOLITICS

Russia Gives New Push to Asia Pivot

Russia will strengthen its ties in the Asia-Pacific region where the vast majority of states do not accept the "destructive logic of sanctions," President Vladimir Putin told the Eastern Economic Forum in the city of Vladivostok this week. He said Moscow would build new bridges with the area based on the principles of cooperation and economic benefit.

Russia embarked on the so-called pivot to Asia decades ago, but the divorce with the West over the invasion of Ukraine has prompted Moscow to push for deeper political and economic relations with Asia-Pacific, which Putin said had become the center of economic and technological growth. That push was felt strongly in Vladivostok, where Putin was speaking alongside leading officials from Myanmar, Mongolia and China and greetings were sent from the leaders of India, Malaysia and Vietnam.

Energy Links

Energy links have traditionally played a significant role in building Russia's ties with partners. Putin said that the European market — Russia's traditional export market for oil and gas — is no longer the premium one, especially given efforts by Western countries to impose embargoes or price caps on Russian oil, gas and petroleum products. Putin said that Moscow was instead ready "to satisfy demand for energy" in other parts of the globe, including in Asia-Pacific, where China is Russia's major partner.

In a sign that Russia aims to increase supplies to China, Putin said that major parameters, including price issues, were agreed for a new gas supply route to China via Mongolia. A feasibility study for the Mongolian transit section, dubbed Soyuz Vostok, was completed in January this year. The section will be part of the 50 billion cubic meters per year Power of Siberia 2 natural gas pipeline from Russia to China seen by Moscow as a strategic route to significantly boost pipeline gas exports to China. Gazprom now has two supply contracts with China for a total 48 Bcm/yr.

On the oil side, Moscow is ramping up export capacities of the Kozmino port at the end of the East Siberia-Pacific Ocean (Espo) pipeline. Russian Energy Minister Nikolai Shulginov told journalists on the sidelines of the forum that by October the port will be able to increase shipments by 140,000 barrels per day, which implies an increase to around 860,000 b/d. The increase would be achieved through the use of chemical additives to boost flows through the Espo pipeline and through rail shipments. Industry sources tell Energy Intelligence that Russia has also approved a plan to expand the capacity of other crude oil export outlets, including the country's Baltic and Black Sea ports, in order to be able to boost supplies to non-Western countries.

Putin also said that oil champion Rosneft agreed major issues on petroleum products supplies to Mongolia. Myanmar also said it aims to purchase Russian oil products. An EU embargo on Russia oil takes effect on Dec. 5 this year and on oil products on Feb. 5, 2023.

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SPOT CRUDE OIL PRICES

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

	Sep 6	Aug 30	Chg.
Dated Brent f.o.b. (38 API)	91.43	99.34	-7.91
Russian Urals c.i.f. NWE (31 API)*	68.14	76.45	-8.31
Russian Urals c.i.f. Med (31 API)†	73.14	81.45	-8.31
Azeri Light (35 API)	94.19	102.50	-8.31
CPC Blend c.i.f. Med (45 API)†	89.64	97.95	-8.31
ESPO (35 API)	89.11	99.69	-10.58
Dubai (30 API)	95.20	100.38	-5.18

PRODUCT PRICES

($/ton, c.i.f. basis)	Sep 6	Aug 30	Chg.
ICE LSGO Futures (front month)	1,079.25	1,122.00	-42.75
ICE LSGO Futures (second month)	1,048.00	1,095.50	-47.50
0.1% Gasoil NWE*	1,078.50	1,134.75	-56.25
0.1% Gasoil Med*	1,068.50	1,135.75	-67.25
10 ppm Diesel NWE*	1,103.50	1,168.00	-64.50
10 ppm Diesel Med*	1,115.50	1,167.75	-52.25
HSFO NWE*	398.00	464.00	-66.00

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

De-dollarization

De-dollarization also topped the agenda as Moscow builds ties with non-Western partners. Russia's Gazprom and China's National Petroleum Corp. have signed additional agreements to their long-term gas purchase and sales agreement, which envisages a switch to national currencies — rubles and yuans — for the 38 Bcm/yr Power of Siberia pipeline to China. Putin said the proportion will be 50-50.

Russia and Turkey earlier agreed on partial payments for gas supplies, while oil firms are steadily turning to non-Western currencies in their contracts. Myanmar said it was ready pay in rubles for Russian petroleum products, while China also called for the expansion of payments in national currencies. German Gref and Andrei Kostin, chairmen of Russia's largest banks Sberbank and VTB, respectively, both told the forum that de-dollarization moves will gather pace, with the role of yuan set to grow strongly because of the high bilateral turnover. Other non-Western currencies that Russia favors include Tukish liras, UAE dirhams and Indian rupees, with Moscow trying to fine-tune bilateral payment systems with those countries.

Meanwhile, Asian partners are also seen as candidates to replace Western firms that leave Russia. State nuclear corporation Rosatom's subsidiary Rusatom Overseas agreed with China's CEFC to consider the joint construction of a hydrogen plant on Sakhalin Island for export to China — a project that was earlier abandoned by France's Air Liquide.

Russia's En+ Group is considering a project to build a large wind farm near the Far East city of Blagoveshchensk in partnership with Chinese investors, with electricity to be exported to China.

Staff Reports

CORPORATE

Novatek Eyes Shell's Sakhalin-2 Stake

Russia's top independent gas producer Novatek is emerging as a leading candidate to replace Shell in the Sakhalin-2 upstream and LNG project on the Russian Pacific shelf.

Following the notification by Shell that it would not take equity in the new project operator — Russia-registered Sakhalin Energy, which replaced Bermuda-based Sakhalin Energy Investment Co. — the Russian government issued a resolution this week outlining the requirements for a new contender.

This should be a Russian legal entity with the experience of producing 4 million metric tons per year of LNG and an accumulated output volume of not less than 40 million tons. It should have active 10-year charter agreements for LNG tankers for volumes of 4 million cubic meters, experience in international trading of not less than 40 million tons of LNG, and supply contracts for more than five years.

Sole Contender

Only Novatek meets those criteria. According to sources close to the Russian government, it is widely expected that Novatek would get the 27.5% minus one share that Shell had in the project.

Novatek's key shareholder and CEO Leonid Mikhelson confirmed to reporters at a briefing on the sidelines of the Eastern Economic Forum in Vladivostok on Sep. 7 that the company is interested in joining Sakhalin-2 but will take a final decision after the completion of the audit.

Russian President Vladimir Putin said this week there are enough domestic and foreign contenders to participate in the Sakhalin-2 project, but didn't name them.

Japan's Mitsui and Mitsubishi applied for 12.5% and 10% stakes, respectively, in Sakhalin-2's new operator and got the necessary approval from the Russian government. Gazprom kept its 50% minus one share.

Thinking Ahead

Speculation about Novatek joining Sakhalin-2 intensified after Mikhelson offered to use LNG from the project for the gasification needs of the Kamchatka Peninsula under regulated prices. He came up with the idea at the meeting chaired by Putin on Sep. 5.

Kamchatka currently needs about 400 million cubic meters per year, with consumption to double by 2035, according to Deputy Prime Minister Alexander Novak, who agreed with the proposal to use LNG from Sakhalin-2 in the initial stages.

Mikhelson's initiative could indicate that he is already thinking about what to do with the Sakhalin-2 volumes that are not contracted. The project currently produces some 10.6 million metric tons of LNG a year, while only 9 million tons have been committed under contracts signed with the previous operator. The noncontracted volumes have been sold as spot cargoes.

There could be additional spare volumes as there was a long-term offtake agreement for 1 million tons/yr of LNG with Gazprom Marketing & Trading, formerly owned by Gazprom and now blacklisted by Moscow.

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Will Shell Sue Russia?

While Japanese consumers of Sakhalin-2 gas have been in the process of re-signing the contracts with the new operating company, the future of the 1 million ton/yr offtake contract with Shell expiring in 2028 is uncertain. It is not clear whether Shell will re-sign the contract with the new operator. Shell has said it continues to monitor developments relating to the contract and will assess its options in line with applicable legal requirements and agreements.

Analysts believe that Shell wouldn't want to be seen re-signing the contract as it could be interpreted as doing new business in Russia. Shell could insist that the existing contract should be honored.

The international major has taken a write-down on Russia but that doesn't mean the company is happy to lose the money, so it could take the case to court. In fact it told the Russian government that it reserves all its legal rights.

Dubai Suitor

Meanwhile, a little-known Dubai-based logistics company is reportedly looking to buy Shell's 50% stake in the 125,000 barrel per day Salym Petroleum Development (SPD) joint venture with Gazprom Neft.

According to Russian business daily *Kommersant*, a company called Wellnord is looking to purchase a stake in SPD for €150 million ($148 million) in a deal that was already discussed with Moscow. Neither side agreed to comment.

Information about the company is scarce. Wellnord's official website says that it provides "a wide range of transport services within the Caspian Sea and Black Sea" and operates "a chartered fleet of oil tankers … with extensive experience in transporting crude oil and petrochemical products."

Staff Reports

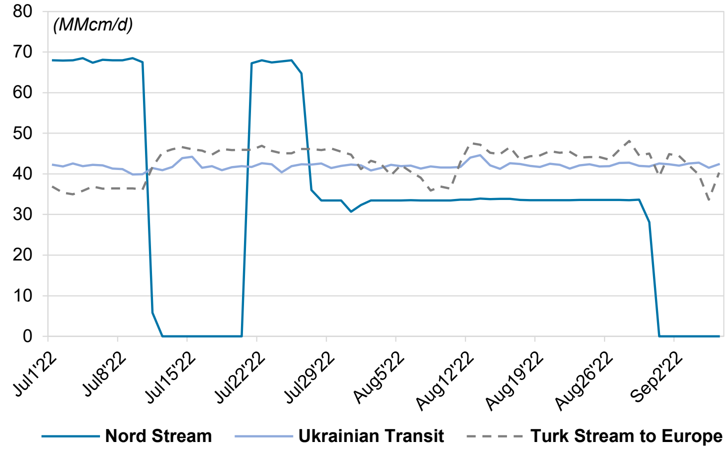
GEOPOLITICS

Russia May Halt Energy Exports Over Price Cap

Russia indefinitely suspended gas flows via the Nord Stream gas pipeline last week and will be ready to stop energy exports to Europe completely if price caps are imposed on its oil and gas, President Vladimir Putin warned on Sep. 7.

"There are contractual obligations, supply contracts. And if some political decisions are made, which contradict the contracts, then we simply won't fulfil them," Putin told the Eastern Economic Forum in Vladivostok.

RUSSIAN GAS FLOWS VIA KEY ROUTES TO EUROPE



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

Russia won't supply anything if that is not in its economic interests, he said. "We will supply neither gas nor oil, nor coal, nor fuel oil."

Cap in Hand

The European Commission has proposed a set of mechanisms to curb the growth in gas prices, including one that would cap the price for Russian pipeline gas, in response to Moscow's further tightening supplies by prolonging the Nord Stream pipeline shutdown.

The proposals will be considered on Sep. 9, although some EU member states, including heavyweight Germany, are reportedly skeptical about the price cap idea.

European Commission President Ursula von der Leyen said on Sep. 7 that the price cap on Russian gas could be introduced speedily. She said the main objective is to "cut Russia's revenues which Putin uses to finance this atrocious war against Ukraine."

Russia's pipeline gas accounted for 40% of the EU's imported gas at the beginning of the war in February, while now it accounts for 9%, von der Leyen said.

Gazprom's lower exports are offset by higher prices, however, which keep Gazprom's revenues high. The delayed restart of Nord Stream has kept the front-month October futures contract on Dutch TTF at around €230/MWh, or $2,350/Mcm as of midday Sep. 7, after prices cooled down to some €215/MWh on ahead-of-schedule re-filling of European storage at the end of last week.

Long Shutdown

Russia's state-run Gazprom prolonged the Nord Stream shutdown, which was supposed to end on Sep. 3, after it detected an oil leak on the last operational Siemens gas turbine at the pipeline's Portovaya compressor station. Siemens Energy has said such leaks can be fixed on site and should not normally cause a complete shutdown, but Gazprom says the turbine must be repaired at a special facility. Gazprom says it is banned from using the turbine by the Russian technological regulator because of a risk of fire or explosion.

The shutdown could last for a long time, as Moscow clearly links the restart with the lifting of sanctions that it believes hinder the repair of the turbines and prevent Gazprom from taking an already repaired turbine from Germany where it has been sitting at a Siemens Energy facility since July.

The return of the repaired turbine would allow Gazprom to resume Nord Stream flows at some 33 MMcm/d, the volume that the pipeline has shipped since late July when it had only one operational turbine left at Portovaya. Other turbines need repair but Gazprom doesn't send them from Russia, fearing that sanctions may hinder their return.

Sanctions Deadlock

"Give us the turbine, and tomorrow we will switch Nord Stream on," Putin said in Vladivostok, referring to the repaired turbine in Germany.

Berlin says Gazprom can take the turbine whenever it wants, while EU sanctions do not target Russian pipeline gas exports. EU politicians accuse Gazprom of weaponizing gas supplies and deliberately cutting Nord Stream flows on political grounds amid Russia's war in Ukraine, which also makes it benefit financially from high gas prices. But Moscow says it cannot receive the turbine, because of a "sanctions deadlock" created by the West. "We need to understand the legal status of the equipment, its technical conditions. They don't give us any [documents on that]," Putin said.

Putin reiterated that the problem is that Gazprom has a service contract for turbines with Siemens Energy's subsidiary in UK, a country which has blacklisted Gazprom. Canada, where the turbines are repaired and which also imposed sanctions against Gazprom, issued a waiver and sent the repaired turbine to Germany in July. But the logistics have changed, which means amendments to the service contract are needed, Putin said.

Staff Reports

CASPIAN

Kazakh Leader Calls Snap Poll to Cement Power

Western oil executives operating in Kazakhstan are applauding the decision of President Kassym-Zhomart Tokayev to call early elections this autumn. They say the move will allow him to push through much-needed economic reforms and tackle the widespread corruption that proliferated during the 30-plus year reign of his predecessor, Nursultan Nazarbayev. But they also warn this will be a rocky period for Tokayev, a 69 year-old ex diplomat, as the fallout from the Russia-Ukraine war threatens to choke off Kazakhstan's oil exports from the Black Sea.

Tokayev, who was elected president for a five-year term in June 2019, several months after Nazarbayev had resigned, requested the snap elections in his State of the Nation address last week. He also called for the parliamentary ballot that was due to be held in 2025 to be brought forward to the first half of next year. He said his priority was to "maintain the moment of reforms" and usher in a new political system "with fair and open rules of the game." From now on, the president will only be allowed to serve one term of seven years, which means Tokayev, who is certain to win, will rule until 2029.

Tokayev set the ball rolling in June, when he asked voters in a referendum to approve changes to the constitution, including the strengthening of parliamentary powers, the scrapping of Nazarbayev's self-anointed status as "Leader of the Nation," and a ban on any relatives of the president holding positions in government. Since then, Nazarbayev has been kept out of the public view and is living in the capital named after him, Nur-Sultan, "as if under house arrest," according to a veteran Kazakh observer. His three daughters, who between them control billions of dollars in assets in Kazakhstan, have had their wings clipped together with their husbands — though his middle daughter, Dinara, and her husband, Timur Kulibayev, still own a majority stake in the country's largest bank, Halyk.

Western Majors

Since coming to power, Tokayev has maintained a close relationship with the Western majors that operate Kazakhstan's largest oil and gas fields. "He has talked from time to time about amending the big contracts, but I don't see any big changes coming," a Western oilman who has worked on Kazakhstan since the early 1990s says. "He knows he has to work with the big oil companies, not against them."

The oil company that has the most to think about in Kazakhstan is Chevron, operator of the giant Tengiz field that, at current production levels of around 650,000 barrels per day, accounts for more than a third of Kazakhstan's oil output. As it looks to complete a $45 billion expansion project that will increase output by another 260,000 b/d or so, starting in 2024, Chevron is fully aware that its 40-year joint venture contract expires in 2033. "In industry terms, that's not so far away," a source who worked on Tengiz for several years says. "This is Chevron's biggest and most important overseas project, and they will have to negotiate hard to keep it beyond 2033."

New Caspian Route

Tokayev, who met with Chevron's chief executive, Mike Wirth in Nur-Sultan in mid-August, got a commitment from the US major and its partners to supply an extra 2.6 billion cubic meters of gas to the domestic market to prevent any shortages. He is also urging Chevron to invest in a new oil transportation scheme — first planned over 15 years ago — that would involve shipping large amounts of oil across the Caspian Sea from a new port at Kuryk. The project, which could cost billions of dollars, has taken on more urgency since Russia began to hold up flows along the 1.4 million b/d Caspian Pipeline Consortium (CPC) pipeline that runs to a terminal near the Russian Black Sea port of Novorossiysk.

Tokayev, who angered Russian President Vladimir Putin at a forum in June when he said he would not recognize the independence of the breakaway Luhansk and Donetsk regions of eastern Ukraine, will try to defuse tensions with the Kremlin once he is re-elected, analysts say. “He knows that Putin can cut off Kazakh oil flows whenever he wants, so he can’t afford to antagonize him,” a long-time Western observer says. “At the same time, he won’t capitulate and will not allowed Kazakhstan to be bullied.”

Paul Sampson, London

PRODUCTION

Russia Wins From Opec-Plus Cut Decision

The decision by the Opec-plus group this week to cut oil production in October has been viewed by Russian media and analysts as a victory for Moscow.

The reduction of just 100,000 barrels per day will have little impact on the physical oil market but it is indeed symbolic: It comes after finance ministers from the G7 group of nations agreed at their meeting in Berlin on Sep. 2 to proceed with a plan to put a price cap on Russian oil. In their joint statement, ministers also called on Opec to increase output “to decrease volatility in energy markets.”

The Opec-plus cut decision is a strong message that the group is ready to defend its control of oil markets from what many delegates saw as excessive Western intervention, including the proposal to implement price caps on Russian crude.

Russian Deputy Prime Minister Alexander Novak warned that further decisions by the Opec-plus group would depend on market volatility, pointing to sanctions against Russian, Iranian and Venezuelan oil, as well as the price cap plan as the main contributors to uncertainty.

Russia’s Response

Novak and other Russian officials, including Kremlin spokesman Dmitry Peskov and Energy Minister Nikolai Shulginov, said Russia would just stop selling its oil to those countries that support the price cap decision.

Novak called the price cap mechanism “absurd” and an interference with free market rules that could only push prices higher.

Chris Weafer, CEO of consultancy Macro-Advisory, wrote that “the main impact of the G7 oil price cap will be to further shift economic competitiveness from Europe to India, Turkey, China and other Asian states.”

According to Weafer, when the EU ban kicks off in December, Russian exports will drop and a net loss of 2 million b/d to the global market is expected. Opec already said it will not add enough extra oil to compensate. This means “the price of oil will rise this winter and Russian revenue will not be badly hit because of sales to Asian buyers.”

Meanwhile, the Russian state budget’s oil and gas revenues are already reducing. According to data from the finance ministry, they stood at 672 billion rubles ($11 billion under the current exchange rate) last month, 3.4 % lower than in August 2021. However, for the first eight months of the year they amounted to 7.818 trillion rubles, a hike of 43% from the same period of 2021.

Production Shrinks

The Opec-plus production cut decision doesn’t have any impact on the output by Russia, which has been pumping much below its quota.

According to the sources familiar with the Russian data, production of crude oil, excluding gas condensate, stood at 9.748 million b/d in August. Russia’s quota under the Opec-plus deal was set at 11.004 million b/d for August.

The combined output of crude oil and gas condensate dropped to 10.59 million b/d from 10.76 million b/d in July.

Novak said Russia expects crude oil and condensate production of 520 million-525 million metric tons (10.43 million-10.53 million b/d) this year.

According to Shulginov, production would see a decline of 2% this year from 2021 when Russia produced 10.51 million b/d (524 million tons) of crude and condensate. Refining could drop by 8% to 262 million tons (5.25 million b/d).

Exports Stay Healthy

Russian crude oil exports to non-former Soviet Union markets remained robust in August. Shipments outside the FSU states averaged 4.9 million b/d, slightly up from 4.89 million b/d in July.

There were no shipments to neighboring Belarus as the Mozyr refinery — the only one being supplied by Russian producers — is still undergoing capital maintenance. Russian crude oil shipments to non-FSU states rose both via and bypassing the system of national pipeline operator Transneft. Along the Transneft network, exports from the Far East terminal of Kozmino — Russia’s chief outlet to the Asian market — reached 876,000 b/d in August, a historic high as Transneft made its best to increase supplies to the Asian market, including the usage of partial railway shipments in additional to pipeline deliveries to Kozmino.

In the west, exports from the Black Sea are estimated at over 500,000 b/d, while those from the Baltic Sea are pegged at 1.4 million b/d.

Pipeline deliveries via the Druzhba pipeline dropped after temporary payment problems in early August along the southern leg of the line for transit via Ukraine. Shipments are poised to dip further as European consumers, including Germany and Poland, refuse to purchase Russian barrels.

Staff Reports

OIL MARKETS

North-South Divide Emerges in European Diesel

The Mediterranean is proving easier to resupply than Northwest Europe as regional traders scramble to replace Russian diesel imports ahead of EU sanctions next year.

Europe's two regional markets were trading near parity last week but the north is now at around a $15 per metric ton premium as it struggles to persuade traders to keep East of Suez tankers on the water for the extra six-seven days needed to get to buyers in the north.

Tanker trackers reckon almost 1.4 million tons of ultra-low-sulfur diesel (ULSD) came through the Suez canal to Europe from the Mideast Gulf and Asia last month, of which nearly 1 million tons discharged in the Med.

"LR2s from East of Suez were being picked off in the Med," says a leading broker, referring to the 110,000 ton tankers commonly used to carry clean products long distances. Gasoil market backwardation means ships lose the longer they are on the water so nearer markets automatically have an advantage.

Port draft restrictions also play a part, says the broker, arguing that it's usually easier to discharge large tankers in the Med. Few ports in NWE can handle LR2s so require expensive ship-to-ship transfers. The key UK Thames can only take the smaller medium-range tankers traditionally used to load Russian ULSD from Primorsk.

It's another headache for traders in NWE who are far more reliant on Russian diesel imports than their colleagues in the Med. The north is better placed for US diesel shipments — the bulk of which have traditionally landed on the French Atlantic coast — but those volumes are still lacking. White House threats to limit fuel exports are only adding to market nerves.

Underlying ICE low-sulfur gasoil futures dipped 4% on the week on fears high fuel prices are starting to destroy demand. New figures for the UK market show diesel buying briefly rising above pre-pandemic levels in May before falling sharply again in June.

Russian ULSD cargoes are currently pegged at a $102.75/ton discount to other origins in NWE by benchmark price provider S&P Platts. Rival Argus is printing the two quotes roughly $50/ton apart with market sources suggesting it could be even less given the lack of alternatives.

Russian Delivered Espo Market Firms Up

The delivered spot market for key Russian East Siberia-Pacific Ocean (Espo) crude oil firmed up slightly, with Chinese independent refiners paying significantly more for their delivered cargoes.

October-loading spot Espo is likely to have sold at premiums ranging from 50¢ per barrel to above $1.00/bbl to the ICE Brent futures benchmark on a delivered basis, said two Chinese market sources. These price differentials are likely to have been paid by Chinese independents, who prefer to buy crude delivered to their ports and on an ICE Brent price link.

Last month, September-loading Espo that sold to Chinese independent refiners mostly traded at levels ranging from discounts of around $1.50/bbl to slightly higher than ICE Brent. Some September cargoes also sold at as high as a premium of $1.00/bbl to ICE Brent.

Cargoes sold on a delivered basis are usually resold by market players who had bought Espo on a loading basis from around the crude's Russian export port of Kozmino. Seaborne Espo is generally always sold on a loading basis, with some of the volumes then resold to Chinese independents.

In the latest trading month, October-loading spot Espo had traded on a loading basis at levels ranging from a discount of $2.00/bbl to around parity to the Dubai benchmark price, said three Chinese market sources.

The price of Espo sold on an f.o.b. basis of a discount of $1.00/bbl to parity to Dubai would be equivalent to levels ranging from a discount deeper than $1.00/bbl to around parity to ICE Brent, said two trading sources.

This means that Chinese independents are paying roughly $1.00/bbl to $2.00/bbl more for their delivered October-loading cargoes than the price paid by market players who had bought those cargoes on a loading basis.

This wide price spread covers freight costs, the risk premium for market players buying and reselling the cargoes, changes and spreads in the benchmark price structures as well as other costs, said a China-focused trading source.

Kerry Preston, London, Freddie Yap, Singapore

IN BRIEF

Portovaya LNG Starts Up

After years of delays, Russia's Gazprom is set to finally start commercial production at the 1.5 million metric ton/yr Portovaya LNG facility in northwestern Russia. The plant has produced its first 30,000 tons of LNG and is preparing to load the first cargo, Gazprom Deputy CEO Vitaly Markelov told the Eastern Economic Forum on Sep. 6.

Portovaya completed the crucial 72-hour tests, aimed at making sure the facility is ready for commercial operations, Markelov said. The plant has been in the commissioning stage since late 2021. It was initially scheduled to start operations in 2018, but faced several delays.

Gazprom believes LNG from Portovaya will be in demand, according to Markelov, as spot prices are unprecedentedly high. But the nearest market, Europe, may be out of reach because of Russia's war in Ukraine.

Moscow business daily *Kommersant* reported this week that the RusKhimAlyans joint venture between Gazprom and compatriot RusGazDobycha is interested in joining the Portovaya project to gain experience for the 13 million ton/yr Ust-Luga facility that RusKhimAlyans is building nearby.

Lukoil Chairman Dies

Ravil Maganov, chairman of the board of directors of Lukoil, Russia's biggest independent oil producer, died last week.

Lukoil said that Maganov had passed away after falling out of a window of a hospital where he was being treated for a serious illness. The prevailing conclusion is that he committed suicide.

Maganov had been with Lukoil since its formation 31 years ago. He was Lukoil's first vice president for upstream operations until 2020 when he was elected board chairman.

Maganov's brother is CEO of Russia's regional oil producer Tatneft. Lukoil is losing its key people. Alekperov stepped down as the company's CEO and member of the board of directors following sanctions against him by the UK and Australia. Second-largest shareholder Leonid Fedun retired and sold some of his assets, including soccer club Spartak Moscow.

Gazprom Neft Wins Kara Field

Gazprom Neft received rights to explore and develop the strategic Ust-Yeniseyskiy license area in the Yenisey Gulf of the Kara Sea.

The field was provided to the country's third-largest crude oil producer without an auction under the so-called declarative principle, a simplified procedure that allows a license to be granted under request from a company without auctions.

The area harbors 64 million metric tons of crude and 146 Bcm of gas resources and is not well explored. The area is located close to Gazprom Neft's other license areas on the Gydan Peninsula, which it intended to explore with Shell before the foreign major announced its withdrawal from Russia.

Moscow earlier said it prepared several areas for licensing in the Yenisey Gulf and in the Ob Bay in the Kara Sea as the country moves ahead with plans to develop Arctic resources and support additional cargo shipments via the Northern Sea Route, which should reach 80 million tons/yr (1.6 million b/d) in 2024.

Azeris, Uzbeks Ink Documents

The energy ministries of Azerbaijan and Uzbekistan have agreed to step up cooperation by signing a memorandum of understanding and setting out a road map of activities in the sector.

The road map covers 30 areas and includes the creation of a joint working group; cooperation in the liberated territories of Azerbaijan; participation of Uzbek companies in renewable energy, energy transition and decarbonization projects; joint projects in the hydrocarbon and petrochemical sectors; and sharing best practice in the fields of construction of new thermal power plants, heat supply, liberalization of energy markets and efficient use of energy resources.

Ties between the two sides have blossomed since Uzbek President Shavkat Mirziyoyev came to power five years ago, and at one stage BP in partnership with Azeri state oil and gas company Socar agreed to appraise three exploration areas in Uzbekistan.

Uzebkistan has meanwhile closed a deal with Masdar of the United Arab Emirates to build a 500 MW wind farm — the biggest in Central Asia — near the city of Zarafshan in the country's Navoiy region for completion by the end of 2024. Uzbekistan aims to meet 25% of its energy needs with renewables by 2030, and reach carbon neutrality in 2050.

Turkey Eases Off Russian Gas

Russia exported 12.7 Bcm of pipeline gas to Turkey in the first half of 2022, down 11.6% from the same period of last year, according to data from Turkey's Energy Market Regulatory Authority.

Unlike most of Europe, where Gazprom appears to be restricting its own supply amid the war in Ukraine, Turkey is not regarded as "unfriendly" by the Kremlin as it has not joined the sanctions against Russia, rather playing a balancing act between Moscow and the West.

The drop in Russian supplies is in line with Turkey's overall pipeline gas imports, as the country relied more on LNG in the first half of this year despite a sharp growth in spot prices.

Turkey's total gas imports increased 1.7% on the year to 30.9 Bcm in January-June, while LNG imports jumped 51.6% to 9.2 Bcm and combined pipeline gas imports from Russia, Azerbaijan and Iran fell 10.8% to 21.6 Bcm.

In June, Russia's pipeline gas exports to Turkey, handled solely by Gazprom, increased 17.4% on the month but fell 29.5% on the year to 1.69 Bcm.

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 REFINERY ACTIVITY, JULY 2022

	Processing							
	Year-To-Date		July		Change From Previous Month		Jul Crude Oil Deliveries	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Bashneft	267.2	7,737.3	281.9	1,193.7	11.8	86.7	235.6	997.8
Lukoil	874.9	25,337.9	953.4	4,037.8	7.8	162.1	921.5	3,902.5
Gazprom Neft	660.1	19,118.3	703.4	2,979.0	-0.5	94.0	680.4	2,881.5
Surgutneftegas	351.3	10,173.6	297.3	1,258.9	4.1	57.3	295.2	1,250.0
Slavneft	286.5	8,296.5	322.5	1,365.7	30.4	168.8	322.5	1,365.7
Rosneft	1,251.5	36,245.1	1,426.8	6,042.4	260.7	1,263.2	1,350.5	5,719.2
TAIF-NK	127.4	3,689.9	129.6	548.9	-0.4	16.3	114.5	484.9
Gazprom Neftekhim Salavat	141.7	4,105.1	150.1	635.6	-2.4	10.6	0.0	0.0
Gazprom Refineries	112.2	3,250.2	54.9	232.7	-36.2	-140.7	0.0	0.0
IPC	99.2	2,873.7	107.0	453.1	0.8	17.7	105.3	446.0
Russneft	0.2	6.6	0.1	0.3	-0.1	-0.3	0.0	0.0
Tatneft	326.4	9,454.3	330.3	1,398.7	-0.1	44.9	288.1	1,220.0
Novatek	139.1	4,027.7	144.0	609.6	22.8	113.2	0.0	0.0
ForteInvest	234.8	6,801.3	210.6	892.0	-46.7	-162.6	153.1	648.4
Rusinvest	100.4	2,907.5	95.6	405.0	25.5	117.5	94.4	399.7
Petrosakh	0.6	17.6	0.6	2.6	0.0	0.1	0.0	0.0
Mariisk	2.1	60.6	0.0	0.0	0.0	0.0	0.0	0.0
Krasnodareconeft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yaroslavl-Mendeleyev	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	391.8	11,348.5	364.2	1,542.4	-71.7	-244.0	308.5	1,306.4
Russia Total	**5,367.5**	**155,451.7**	**5,572.3**	**23,598.4**	**205.8**	**1,604.7**	**4,869.5**	**20,622.1**

	July Output							
	Mazut		Gasoil		Gasoline		Jet Fuel	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Bashneft	29.8	139.2	104.3	433.2	78.8	286.9	0.0	0.0
Lukoil	93.1	434.6	401.5	1,668.5	222.0	808.6	54.0	209.4
Gazprom Neft	40.8	190.6	253.7	1,054.1	197.9	720.9	70.3	272.5
Surgutneftegas	84.6	395.1	118.6	492.9	46.1	167.8	5.7	22.1
Slavneft	89.0	415.5	87.8	364.9	59.6	217.2	44.5	172.5
Rosneft	278.2	1,299.0	427.9	1,777.9	242.2	882.4	52.5	203.6
Taif-NK	2.3	10.8	68.7	285.4	12.2	44.3	0.0	0.0
Gazprom Neftekhim Salavat	0.1	0.5	55.0	228.7	36.5	132.8	0.0	0.0
Gazprom Refineries	0.0	0.0	8.9	36.9	13.3	48.6	0.3	1.3
IPC	32.7	152.6	23.7	98.5	16.2	59.2	5.4	20.8
Russneft	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.1
Tatneft	0.0	0.0	181.0	752.2	59.3	216.1	5.7	22.0
Novatek	0.0	0.0	0.0	0.0	0.0	0.0	22.5	87.2
ForteInvest	15.8	73.9	43.7	181.4	18.4	67.0	7.8	30.2
Rusinvest	0.0	0.0	40.5	168.1	10.8	39.5	0.0	0.0
Petrosakh	0.0	0.0	0.0	0.0	0.2	0.6	0.0	0.0
Mariisk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Krasnodareconeft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yaroslavl-Mendeleyev	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	43.5	202.9	10.8	45.0	32.5	118.3	0.5	1.9
Russia Total	**710.0**	**3,314.8**	**1,826.0**	**7,588.0**	**1,046.0**	**3,810.3**	**269.3**	**1,043.5**

Table is based on the following factor for conversion to barrels: Crude oil and gas condensate - 7.32; Mazut - 6.64; Gas Oil - 7.46; Gasoline - 8.51; Jet Fuel - 8.00. Crude deliveries include deliveries via the Transneft pipeline system only. Totals may not add due to rounding. Data for the previous month were revised. . Download full dataset here. *Source: Energy Intelligence.*

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RUSSIAN GAS PRODUCTION, AUGUST 2022

(MMcm)	Year-To-Date	August	Change From Previous Month
Lukoil	12,316.4	1,497.1	-6.5
Surgutneftegas	5,578.3	680.6	5.3
Rosneft	31,297.5	4,464.4	319.3
Gazprom Neft	22,603.6	2,643.8	-227.6
Slavneft	551.4	70.0	-2.1
Russneft	1,429.6	183.0	5.2
Tatneft	606.4	80.5	1.8
Bashneft	529.2	69.4	-1.8
IPC (Neftegasholding)	3,969.6	549.6	7.2
Russian Oil Company Total	**78,882.0**	**10,238.5**	**100.8**
Novatek	**53,002.4**	**5,970.8**	**-276.8**
Gazprom	**288,100.0**	**25,700.0**	**1,700.0**
Other Producers	**18,821.0**	**2,162.5**	**245.3**
PSA Operators	**17,417.1**	**1,620.6**	**155.4**
Russia Grand Total	**456,222.5**	**45,692.4**	**1,924.8**

Download full dataset here. *Source: Energy Intelligence*

RUSSIAN CRUDE OIL AND GAS CONDENSATE PRODUCTION

('000 b/d)	Aug 22	%Chg.	Jul 22
Rosneft	3,383.1	-7.54%	3,415.1
Lukoil	1,609.5	5.21	1,606.8
Surgutneftegas	1,189.5	6.07	1,193.4
Gazprom Neft	778.7	2.26	813.8
Tatneft	590.7	3.08	579.2
Other Producers	3,039.4	9.23	3,151.8
Russian Grand Total	**10,590.9**	**1.57%**	**10,760.1**

Change from Aug '21. Table is based on conversion rate of 1 metric ton = 7.32 barrels. *Source: Energy Intelligence.*