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NEFTE COMPASS®

CONTENTS

GEOPOLITICS

Samarkand Summit Could be Key for Russian Oil

Uzbekistan's ancient city of Samarkand will be at the center of global politics in the next two days as leaders from 15 countries representing some of Asia's biggest powerhouse economies gather for a meeting of the Shanghai Cooperation Organization (SCO).

Accounting for about a half of the world's population and some 25% of global GDP, the heads of China, India, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Iran, Turkey, Armenia, Azerbaijan, Turkmenistan, Belarus and Mongolia will discuss regional politics and ways to move forward. They will seek to increase security and stability in the region, strengthen economic ties and humanitarian relations and develop connecting infrastructure.

For Moscow, which is embroiled in an economic and political war with the West, strengthening relations with other regional players and creating alliances in the East and South are of vital significance. According to Russian analysts, the success of such efforts would be key for Moscow's economic strength and its survival as a global player.

Moscow is ready to fuel the fast developing Asian economies with its oil and gas, re-directing flows that have traditionally gone to Europe, which now shuns Russian energy.

The summit is also part of Russia's efforts to create an alternative to a one-polar world dominated by the US. According to Russian President Vladimir Putin's aide Yuri Ushakov, "SCO is offering a real alternative to West-focused structures and mechanisms." He added that "a new model is being adopted based on genuine multipolarity and dialogue."

Courting China

Among the event's bilateral meetings, the one between Putin and Chinese President Xi Jinping will be at the center of attention. The two leaders met in February, just two weeks before Russia invaded Ukraine.

According to Ushakov, Ukraine will be discussed by the two leaders in Samarkand. "China takes a balanced approach to the Ukrainian crisis and states clearly that it understands the reasons that forced Russia to start a special military operation," Ushakov said.

The Taiwan situation will be on the agenda, too, together with military and economic cooperation. Trade turnover between the two countries grew by about one quarter in the first seven months of the year to $93 billion. It stood at $140 billion for the whole of 2021.

Chinese data show that exports of Chinese goods to Russia have been rising while the country increased imports of Russian oil. Russia's August crude exports to China could have amounted to 1.90 million-1.98 million barrels per day, according to Energy Intelligence calculations, up from 1.54 million b/d in the same months of 2021, which would make Russia China's largest oil supplier for the fourth month in row.

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SPOT CRUDE OIL PRICES

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

	Sep 13	Sep 6	Chg.
Dated Brent f.o.b. (38 API)	92.04	91.43	0.61
Russian Urals c.i.f. NWE (31 API)*	68.04	68.14	-0.10
Russian Urals c.i.f. Med (31 API)†	73.04	73.14	-0.10
Azeri Light (35 API)	94.09	94.19	-0.10
CPC Blend c.i.f. Med (45 API)†	89.54	89.64	-0.10
ESPO (35 API)	90.93	89.57	1.36
Dubai (30 API)	94.44	95.34	-0.90

PRODUCT PRICES

($/ton, c.i.f. basis)	Sep 13	Sep 6	Chg.
ICE LSGO Futures (front month)	1,057.50	1,079.25	-21.75
ICE LSGO Futures (second month)	1,021.75	1,048.00	-26.25
0.1% Gasoil NWE*	1,063.75	1,078.50	-14.75
0.1% Gasoil Med*	1,047.75	1,068.50	-20.75
10 ppm Diesel NWE*	1,092.25	1,103.50	-11.25
10 ppm Diesel Med*	1,098.75	1,115.50	-16.75
HSFO NWE*	394.00	398.00	-4.00

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

Getting India On Board

Putin's talks with the Chinese leader as well as with India's Prime Minister Narendra Modi will also take place at a time when the G7 countries are aiming to introduce a price cap on Russian oil starting from Dec. 5 when the EU's embargo on Russian crude imports comes into force along with its ban on providing maritime insurance and financial services for Russian crude shipped to non-EU countries.

The G7 initiative would, in effect, exempt third countries from these prohibitions, if they can prove that they bought Russian oil at or below the price caps.

But to make the plan work, G7 needs to have China and India on its side, experts say. Both countries have already been enjoying discounts for Russian oil, which however, have fallen to about $20/bbl currently from $40/bbl, as European buyers increase purchases ahead of the embargo.

India particularly has been under huge pressure from the US to join the price cap scheme, according to Russia's ambassador to India, Denis Alipov. "The Indians are certainly interested in lowering the global energy prices but they are not at all sure that the plans of the Americans would work," he was quoted as saying.

He added that since the start of this year, Russia's share of India's oil imports has grown to 12%-13%, from 1.2%-2%. It reached 1 million b/d in August, he said.

Politics Vs Economic Sense

Moscow has already warned it will halt supplies to those countries that join the price cap mechanism. Russian Energy Minister Nikolai Shulginov re-iterated Moscow's position last week, saying that "we will not sell [oil] at a loss or below the cost of production."

The G7 plan is aimed primarily at setting a price that would cover the cost but would be lower than the market level. Russian companies' budgets have been based on an oil price of $50/bbl, which could mean that a sales price of $60/bbl could make sense for them.

However, the government has interests that need to be taken into account as well. The draft of the state budget for 2023-2025, which is under consideration in Moscow now, is based on $60/bbl, up from $44/bbl in this year's budget. This may not be enough. According to analysts from Russia's BCS Global Markets investment bank cited by Interfax, the Russian budget balancing price could reach $97/bbl in 2022, the highest in the last seven years, up from $60/bbl in 2021, because of lower production and the strong ruble. Next year, it could go even higher.

Staff Reports

OIL EXPORTS

Russia Sees Strong 2022 Sales, Uncertainty Ahead

Moscow expects its crude oil exports to rise this year as more and more countries are increasing imports of Russian barrels ahead of the EU's embargo on seaborne shipments from Russia that takes effect on Dec. 5 along with a parallel European ban on shipping insurance and financial services.

But the prospects for 2023 are less clear as Moscow and the West continue to ratchet up the stakes in the ongoing energy war: G7 countries are moving ahead with their initiative to impose a price cap on Russia's oil exports, while Moscow is threatening to stop all supplies to countries that support such initiatives.

Politics aside, though, market players remain fairly skeptical that the EU will be able to choke off Russian crude and oil products exports without seriously damaging its own economics and global supply patterns. Russia could not easily abandon those markets, even in favor of new opening markets in Asia.

View From Vladivostok

Speaking on the sidelines of the Eastern Economic Forum in Vladivostok last week, Energy Minister Nikolai Shulginov said that Russia believes crude oil exports will rise this year because of higher demand after the Covid-19 pandemic and because many countries are ramping up imports ahead of the EU embargo.

Indeed, Russian crude oil exports to countries outside the former Soviet Union states jumped by almost 17% in the first eight months of 2022 compared to 4.21 million barrels per day sent to world markets in the same period last year, according to sources familiar with Russia's official data. For all of 2021, Russian exports to countries outside the FSU came in at 4.3 million b/d.

September is usually the month in which Russian oil companies submit their export plans for next year, but this time there are too many uncertainties to make any plans, industry sources say. The EU embargo would impact some 1 million b/d of crude still flowing to the EU by sea, while Russia's largest pipeline oil importers — Germany and Poland — pledge by the end of the year to stop buying Russian crude via the Druzhba pipeline. The two countries account for two thirds of overall Druzhba supplies of some 800,000 b/d.

Political Factors

While 2023 export plans will largely depend on a number of factors, including mainly political decisions, market players in Russia still hope that exports to Europe won't dry up after Dec. 5. First, Slovakia, Hungary and the Czech Republic will still be allowed to purchase Russian barrels. Second, there are expectations that Germany and Poland will continue purchasing Russian barrels as both countries do not have enough alternatives to replace some 500,000-600,000 b/d of Russian crude. According to some market estimations, Germany alone will still need to replace roughly 300,000 b/d of Russian crude.

With Russian oil trading becoming murkier by the day, some experts suggest that Europe will also continue purchasing Russian seaborne crude. So far, shipping data show that Europe has made little progress in its efforts to significantly reduce imports of Russian barrels. Shipping data for August show that the EU keeps buying Russian oil at almost pre-war levels although there were some ups and downs since Ukraine conflict started on Feb. 24.

Asian Pivot

Moscow boldly says it will still be able to find alternative markets if the EU fully rejects Russian barrels. China, India and Turkey have helped Moscow to keep exports relatively stable in recent months with Russian companies actively looking for new buyers in the Asia-Pacific region. Russian officials said recently that by October, capacities for shipping Russian crude to the east will increase, while there are also ways to expand other ports' capacities in order to be able to reroute exports.

According to Shulginov, Moscow is also working on ways to work around shipping and insurance issues. Russia is talking to shippers about using insurance companies from friendly countries or setting up a new national insurance company in Russia — although sources say both options are in the initial stages.

Staff Reports

DOWNSTREAM

Outlook for Russian Refining Margins Turns Bleak

In the first two weeks of September, Russia's refineries have watched their margins dwindle now that the summer driving season is over and the government slashed a key subsidy for domestic sales of gasoline. Margins, in fact, have reached their lowest point since the start of the war in Ukraine in February.

To be sure, the crack spread on middle distillates remains attractive, but it is uncertain whether this will be enough to keep operations profitable or if refiners will be forced to undertake serious measures in the months ahead. Two developments have significantly changed refining economics. First, the government has slashed the so-called buffer mechanism for gasoline, or the amount of compensation a refinery receives based on sales of high-octane gasoline to domestic consumers.

In August, a refinery could expect a "buffer" of about 17,000 rubles per metric ton, or $33 per barrel, of 92-octane gasoline, according to calculations by Russian analysts. For September, however, the buffer is shaping up to be $6/bbl. The subsidy for 95-octane gasoline is better, but this is likely to decline in coming weeks.

The final amount of monthly compensation is determined at the start of the following month.

The gasoline subsidy fell after the government amended the formula and domestic wholesale prices dropped at the end of summer. Starting Sep. 2, the price declined over seven straight sessions on the St. Petersburg commodities exchange. As of Sep. 12, one ton cost 43,000 rubles on the exchange, down nearly 4,000 rubles from the beginning of the month.

Gasoline Glut

In effect, refineries overproduced gasoline in July and August — output posted an all-time high of 1.04 million barrels per day over the two months — and now they can't unload stockpiles.

One opinion circulating among analysts' circles is that refineries cranked out record volumes of gasoline with a view to supply Ukrainian territory controlled by Russian forces, a calculation that was dashed after events over the past week. In July and August, large rail shipments of gasoline were made to Crimea, from where product is shipped to occupied areas such as Kherson, and these were expected to continue in September and beyond.

As of Sep. 5, Russia had 1.9 million tons, or 16.2 million barrels, of gasoline in storage, or some 15% more than the average over the past three years at this time of year. The second critical development impacting refinery economics is the export netback for naphtha. This key indicator has fallen deep into negative territory, meaning that refineries looking to offload straight-run gasoline and other ultra-light semi-finished factions to Europe will incur a loss.

The latest data shows that by exporting one ton of naphtha, widely used in Europe as a petrochemicals feedstock, a Russian refinery would incur a loss of 12,000 rubles, or $24/bbl. This contrasts to an approximate loss of $2/bbl two months ago for a similar export.

In Europe, a ton of naphtha goes for about $625, an attractive level, but since Russian producers are forced to sell at a steep discount much like Urals, the export netback deteriorates considerably. The discount is about $300/ton, sources say.

Short-Term Options

As one analyst explained, now that naphtha exports and domestic gasoline sales have joined heavy fuel oil — the crack for which is now around a negative $40 per barrel for a typical refinery near Moscow — as a wildly uneconomic part of the slate, Russia's refineries will have to make tough decisions ahead.

They could try to rebalance the domestic gasoline market, but this will not be easy now that summer is over, and certainly if Russia's economy starts to teeter.

A more likely option will be to boost exports of Euro-grade gasoline. Data seen by Energy Intelligence suggests that refiners plan to export some 457,000 b/d of gasoline, naphtha and similar products, up 30% from actual deliveries abroad in August. Three-fourths of this will consist of naphtha — the very product that has seen its export netback plummet in recent weeks.

A third alternative would be, as much as possible, to blend heavier gasoline factions into the jet fuel pool, which remains a premium product for refiners, one analyst explained.

Finally, refineries could simply slash runs. This is unlikely to happen this fall but is a realistic scenario early next year after the EU enacts an embargo on the import of all Russian petroleum products.

Gary Peach, New York

GAS

EU Delays Price Cap as Russia Tensions Stay High

The EU did not include a price cap proposal in its emergency energy package on Sep. 14, but Brussels is still mulling over the option with a view to reining in gas prices, keeping the stakes high in its energy war with Moscow.

Adding to supply disruption risks, Ukraine's Naftogaz filed an arbitration claim last week over Gazprom's failure to pay for gas transit in full and on time.

Kremlin spokesman Dmitry Peskov on Sep. 12 said it's hard to predict how Naftogaz's claim might affect Russian gas supplies, although its response to the EU price cap would be a full cut-off of supplies, as President Vladimir Putin threatened last week.

"There could be a lot of unpredictable things from both our Western colleagues and the executives of Ukrainian gas industry," Peskov was quoted by Reuters as saying.

Moscow now ships slightly above 40 MMcm/d via Ukraine, the only active route to Western Europe after the Nord Stream pipeline to Germany was closed indefinitely two weeks ago. Gas from the Turk Stream pipeline reaches a limited number of countries in the Balkans and central Europe.

Price Cap

The European Commission has proposed a cap on the revenues of companies that produce electricity at low cost, which will raise more than €140 million ($140 million) for member states to directly cushion the blow from the energy crisis, as well as other measures, the commission's President Ursula von der Leyen said in a state of the nation address on Sep. 14.

The commission works on emergency and temporary measures, "including our discussions on price caps," she said.

The EU member states generally support the idea of capping natural gas prices, but there is no unanimity on whether the cap should apply solely to Russian pipeline gas or all gas imports.

"We will develop with the member states a set of measures that take into account the specific nature of our relationship with suppliers — ranging from unreliable suppliers such as Russia to reliable friends such as Norway," von der Leyen said.

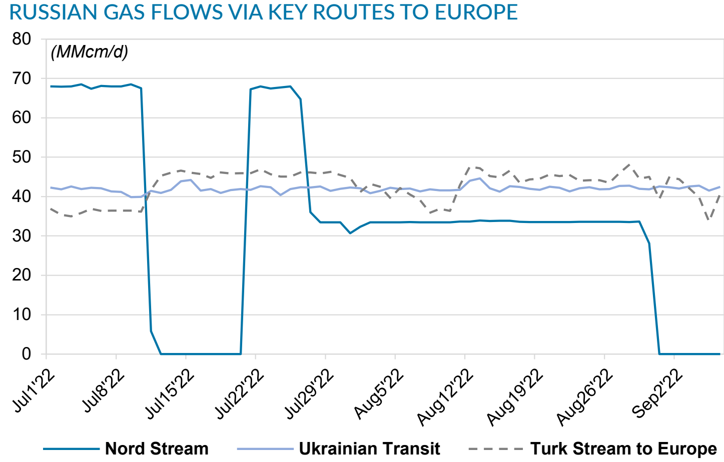
Von der Leyen blamed Russia for unleashing not only war in Ukraine but also a "war on our energy, a war on our economy" and "actively manipulating our energy market."

She called for ending the dependency on Russian gas "all over Europe." Russian pipeline gas now accounts for 9% of EU consumption, down from 40% last year, she said.

"Europe is not the only consumer of natural gas and not the only continent that needs natural gas to support a high pace of growth," Peskov said on Sep. 14, adding that other markets can well compensate the lack of demand for Russian gas in Europe.

Russia blames Europe for high prices and denies accusations of deliberately restricting its own gas supply on political or commercial grounds. It seeks to build infrastructure to diversify gas exports to other markets, primarily in Asia, in response to Europe's plans to phase out imports from Russia.

RUSSIAN GAS FLOWS VIA KEY ROUTES TO EUROPE



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

The situation on the energy markets is a result of the Western countries' policy of the last several decades, including sanctions against various countries and the ESG (environmental, social and governance) agenda, Russian Deputy Energy Minister Pavel Sorokin reiterated. The sanctions have removed at least around 5 million-6 million barrels per day of supply on the oil market, while the environmental policies have resulted in traditional energy sources receiving at least $250 billion-$270 billion less in annual investments, Sorokin told the St. Petersburg International Gas Forum on Sep. 14, citing the ministry's estimates.

Price Volatility

To tackle the high gas prices, the European Commission will also work on establishing a new price benchmark, "more representative" than the Dutch TTF, which von der Leyen said had failed to adapt to the energy crisis.

TTF is linked to a relatively small and pipeline-based market, which doesn't reflect the current reality in the EU, Energy Commissioner Kadri Simson said last week, floating an idea to develop a complementary index for LNG, which Brussels relies on to replace Russian pipeline gas.

The TTF prices remain highly volatile amid the constant uncertainty around Russian gas supplies, although they have eased since a sharp spike in late August due to a relatively high stocks level ahead of the winter. In late August, the prices jumped 40% after Gazprom announced a three-day shutdown of the Nord Stream gas pipeline to Germany, which was then prolonged indefinitely.

The EU considers tackling the TTF volatility by amending the rules on collateral and taking measures to limit intra-day price volatility, according to von der Leyen.

The front-month October futures contract on Dutch TTF hub closed at €198.6 per megawatt hour ($2,050 per thousand cubic meters) on Sep. 13, up 4% from Sep. 12 but down from €346.5/MWh as of late August. On Sep. 14, it traded above €200/MWh after the EU unveiled the emergency package.

Staff Reports

CASPIAN

Chevron Revisits Pre-CPC Routes for Tengiz Sales

As doubts grow over the long-term viability of the Caspian Pipeline Consortium (CPC) pipeline as Kazakhstan's main oil export route, the boss of Chevron said the US major is looking to restart deliveries of Tengiz crude by rail, an alternative he admitted would be more expensive but eminently doable.

Speaking at a conference in London last week, Mike Wirth said around 1 million barrels per day of crude is flowing via CPC, or 70% of the line's capacity, despite the closure for repairs of two of the three single point moorings at the Yuzhnaya Ozereyevka terminal on the Russian Black Sea coast. Historically around half of the volumes flowing via CPC come from Tengiz, with most of the rest coming from two other giant fields in Kazakhstan: Kashagan and Karachaganak.

While stressing that CPC remains the primary option for Kazakhstan and the top producers, Wirth said Chevron would work with the government on exploring "worthy" alternatives. These include plans to ship barrels across the Caspian Sea to Azerbaijan, and then feed them into two existing pipelines: the 1.2 million b/d Baku-Tbilisi-Ceyhan (BTC) line that runs to the Turkish Mediterranean, and the much smaller "western" pipeline route running to the Georgian Black Sea port of Supsa. In early July, Kazakh President Kassym-Jomart Tokayev called on state oil company Kazmunaigas to begin discussions with Chevron and their other partners in the Tengizchevroil joint venture — Exxon Mobil and Lukoil — on financing the trans-Caspian scheme.

Crimea Off-Limits

Resuming exports by rail would be doable, Wirth said, as Chevron had used this option to great effect several years ago when there was insufficient capacity in the CPC system. In the late 1990s/early 2000s, Chevron was deploying thousands of rail tank cars that would load crude outside the field and take it to different destinations, mostly running via Russia. These included using terminals in the Baltic states, and even Finland, though the transportation tariffs could be exorbitant. The most popular destination, the port of Feodosiya in Crimea, is strictly off limits now that the peninsula is under Russian occupation.

Chevron would also rail Tengiz crude to the Russian Black Sea terminal of Taman, which is owned by Moscow-based logistics firm Oteko, the brainchild of Belgian tycoon Michel Litvak. Taman is now being used exclusively as an oil products outlet, with Swiss trading giant Vitol one of its main users.

Trainspotting

Another option is for Chevron to restart rail deliveries from Baku, running to the Georgian Black Sea port of Batumi, which is owned by Kazakh state pipeline operator Kaztransoil, and Kulevi, which is majority owned by Azeri state oil company Socar.

In the past, Chevron used the services of Cross Caspian Logistics, a Baku-based firm that would ship the crude in vessels owned by Azerbaijan's Caspian Shipping Co. and then arrange for onward transportation under contracts with the Azeri and Georgian state railways. The main issue with this route, according to a trading source who used it extensively, was its expense. "These guys would get the job done, but would charge you and arm and a leg for it," the source said.

There is also scope for Chevron to send crude eastwards by rail to China, but this would also be costly and there are also capacity constraints. There is also a rail connection running south via Turkmenistan to Iran, but this can't be used by Chevron because of sanctions against Tehran.

Paul Sampson, London

OIL MARKETS

US Boosts Europe's Diesel Supply as Ban Looms

More replacement ultra-low sulfur diesel (ULSD) is heading to Northwest Europe this month, allaying traders' fears about how the market is going to cope with the looming ban on Russian fuel imports. "It's still not the panic you'd expect," says a leading regional distillates broker. "The market seems pretty well supplied at the moment."

Volumes are rising from both the US and East of Suez but Russian ULSD continues to make up the bulk of Europe's fuel imports ahead of the EU's Feb. 5 embargo.

NWE's premium over the Mediterranean has evaporated as more cargoes have started to arrive. More than half of the 1.3 million metric tons of ULSD expected from the Mideast Gulf and Asia this month is booked to go to the north, up from barely 450,000 tons last month.

But it is higher trans-Atlantic flows that have got traders excited, especially going into winter when US diesel is a better replacement for Russian fuel than East of Suez. The market has long expected unwanted Russian ULSD to eventually move to South America and free up US barrels for Europe.

The recent surge in sailings is being taken as a sign global trade flows could be finally starting to reroute.

Russian ULSD was pegged at a hefty $107.25 per ton discount to other origins by S&P Platts at the Sep. 13 close. G7 plans to set maximum prices for Russian ULSD exports continue to bemuse traders. Most think the scheme will prove unworkable for crude and never be rolled out to diesel.

The Intercontinental Exchange (ICE) has meanwhile issued new guidance on how traders can prepare for January's ban on Russian fuel being delivered against its benchmark LSGO contract.

Sellers will be able to report stock levels in tanks designated for ICE delivery from the end of November. So long as they can prove they have removed an equal volume of gasoil by the end of December, and show that any additions are not from Russia, then ICE will consider any fuel still held in tank at the end of the year to be non-Russian.

The accounting short cut is designed to avoid all ICE nominated tanks from being emptied entirely ahead of the ban.

Russian Crude Oil Income Shrinks

The $25 per barrel decline in in the price of international crude oil benchmark Brent over the past three months, coupled with the discount for Russia's Urals, has eroded Russia's oil export income in the third quarter. Energy Intelligence estimates that this trend will continue in the fourth quarter and into 2023, when Russia, pinched by an import ban in the EU and a possible price cap, will see its core client base reduced to a handful of Asian buyers, particularly China and India. This will lead to a decline in output.

Sky-high prices in the second quarter, when Brent averaged $112/bbl, meant Russia could earn more on oil exports while producing less and selling at an average $15/bbl discount. This quarter, however, Brent is down on average $12 to $100, and Moscow is feeling the difference.

This week the Russian finance ministry announced that the budget surplus, which had been 482 billion rubles ($8 billion) after seven months, declined to 137 billion rubles by the end of August.

More signs of financial strain are likely to emerge. In the fourth quarter, Brent is forecast to average $94, according to Energy Intelligence's Research & Advisory. Russia will then sell its crude at approximately $78, or some 10% less than in the third quarter. Revenues on exports will decline to $38 billion, down from $47 billion in the second quarter.

In terms of volume, exports are expected to increase in the fourth quarter, to around 5.2 million-5.3 million b/d, as Europe buys heavily to stock up ahead of the December embargo. Third-quarter crude exports are estimated at 5.1 million b/d.

Next year is difficult to forecast given the number of variables, but Energy Intelligence's base-case scenario is that Russian output of crude and condensate will decline by about 1.2 million b/d, while exports will average 4.3 million b/d. As a result, revenues on crude sales abroad could plummet around 25% to $120 billion.

Kerry Preston, London, Gary Peach, New York

IN BRIEF

Novatek Exits Mediterranean

Russia's Novatek will exit its Mediterranean upstream projects offshore Lebanon and Montenegro, CEO Leonid Mikhelson confirmed last week.

In both countries, the departure is linked to the governments' stance on the projects, Mikhelson told a briefing on the sidelines of the Eastern Economic Forum in Vladivostok without providing details.

In Lebanon, Novatek has a 20% stake in a TotalEnergies-operated project to develop offshore blocks 4 and 9. The Lebanese energy ministry has said Novatek is withdrawing due to economic and financial reasons, as well as political risks.

In Montenegro, Novatek takes part in an Eni-operated project to explore four offshore blocks.

Offshore projects in the Mediterranean have never been a priority for Novatek, which saw them as opportunity to gain international upstream experience without large investments and deepen cooperation with European majors.

Halliburton Leaves Russia

Oil-field services giant Halliburton has completed its planned withdrawal from Russia, announced shortly after Moscow invaded Ukraine on Feb. 24.

The US-based company said it completed the sale of its Russian operations to "a Russia-based management team made up of former Halliburton employees." The new company, BurService, is fully independent of Halliburton.

US-based services peer Baker Hughes had also previously agreed the sale of its business in Russia to a local management team. Weatherford, which has no assets in Russia, said it would end technology and equipment transfers and new investments in the country. Schlumberger — which has the largest exposure to Russia among big services firms — said it was suspending new investment and deployment of new technology in the country but plans to remain in Russia while complying with Western sanctions.

Lukoil, Gazprom Neft Team Up

Lukoil looks set to replace Repsol in a Siberian joint venture with Gazprom Neft that the Spanish company withdrew from in late 2021 as part of a global review of its upstream oil and gas portfolio.

Russian business daily *Kommersant* reported that the country's number two and number three oil producers will team up in a joint venture based around Gazprom Neft's Eurotek-Yugra subsidiary.

Market sources confirmed talks between the two companies, while Gazprom Neft Deputy CEO Vadim Yakovlev had recently said that the company may soon announce a new partner for the assets dropped by Repsol.

Eurotek-Yugra holds the license for the Erviye field, which is estimated to hold almost 250 million boe of recoverable resources. The field was discovered in 2013 and is located in the Karabashsky blocks 1 and 2 in West Siberia.

Seeking to expand its resource base at home, Lukoil has already acquired 50% of Gazprom Neft's subsidiary Meretoyakhaneftegas in the Russian Arctic onshore.

Rosneft to Place Yuan Bonds

As part of Moscow's de-dollarization drive, Russia's biggest oil producer Rosneft is planning the largest ever bond issue by a Russian company denominated in Chinese yuan.

Based on the bids collection on Sep. 13, Rosneft has reportedly increased the 10-year bond issue up to 15 billion yuan (about $2.2 billion), from the originally planned not less than 10 billion yuan.

The coupon indicator has been set at 3.05% annually, down from 3.15% initially. Payments would be made every six months. Technical placement is preliminarily scheduled for Sep. 20.

The issue was organized by a pool of Russian banks, including among others Gazprombank and Moscow credit bank. Rosneft cannot tap Western capital markets as it is under US and EU sanctions.

Naftogaz Sues Gazprom

Ukraine's Naftogaz has filed a request for arbitration against Russia's Gazprom over unpaid gas transit services, as tensions rise amid the dragging war in Ukraine.

Naftogaz claims Gazprom has failed to pay for gas transit on time or in full.

Under the five-year transit contract signed in late 2019, Gazprom agreed on "ship-or-pay" volumes set at 40 Bcm, or some 110 MMcm/d, for this year. But after Kyiv closed the Sudzha entry point in mid-May, one of the two entry points on the Russian border, citing Russian troops' interference in the operations of the compressor and metering station, Gazprom is understood to have stopped paying for the transit capacity booked at Sudzha, equal to 30% of the total "ship-or-pay" capacity. "Naftogaz also assesses the possibility of additional claims," Naftogaz CEO Yuriy Vitrenko said without elaborating.

Tatneft Grows in Uzbekistan

Russian oil producer Tatneft agreed to participate in new exploration and petrochemical projects in Uzbekistan as part of a broader cooperation that Russian companies are developing in the Central Asian country.

Tatneft will participate in exploration projects at promising areas in Uzbekistan, the Central Asian country said without elaborating. It is understood that the parties have yet to finalize the details of their future cooperation. Tatneft will also participate in small gas chemical projects. Sources at national oil and gas champion Uzbekneftegas earlier told Energy Intelligence that Tatneft was looking at two planned hexene-1 and butene-1 projects in Uzbekistan, which is restructuring its gas industry in a move to better monetize gas reserves.

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, AUGUST 2022

('000 metric tons or '000 b/d)	Processing: Year-To-Date (b/d)	Year-To-Date (tons)	August (b/d)	August (tons)	July (b/d)	July (tons)	Chg. (b/d)	Chg. (tons)
Pavlodar	108.7	3,479.5	117.8	481.3	38.9	159.0	78.9	322.3
PetroKazakhstan Oil Products	127.8	4,093.1	124.8	509.6	134.2	548.0	-9.4	-38.4
Atyrau	114.9	3,678.5	122.6	500.8	121.7	497.1	0.9	3.7
Caspi Bitum	19.4	621.6	24.6	100.3	24.5	100.0	0.1	0.2
Condensate	2.3	72.3	2.0	8.3	0.5	2.1	1.5	6.3
Total	**373.1**	**11,945.0**	**391.8**	**1,600.4**	**319.8**	**1,306.3**	**72.0**	**294.1**

('000 metric tons or '000 b/d)	August Output: Mazut (b/d)	Mazut (tons)	Gasoil (b/d)	Gasoil (tons)	Gasoline (b/d)	Gasoline (tons)	Jet Fuel (b/d)	Jet Fuel (tons)
Pavlodar	7.7	35.7	41.1	170.9	34.2	124.5	2.7	10.3
PetroKazakhstan Oil Products	16.5	76.8	40.6	168.8	48.5	176.7	7.5	29.2
Atyrau	26.7	124.4	38.0	158.0	35.9	130.8	3.4	13.1
Condensate	0.0	0.0	0.5	2.2	1.0	3.5	0.0	0.0
Total	**50.8**	**237.0**	**120.3**	**499.9**	**119.5**	**435.5**	**13.6**	**52.6**

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.