

Energy Intelligence Premium Weekly

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Thursday, September 15, 2022

Strategy: Moscow in Driver's Seat on Remaining Exits

The Western exodus from Russia's oil and gas sector will likely pause over the next several months, our analysis shows, given Moscow's efforts to keep most remaining investors in place. Rapid escalation of Western economic restrictions (sanctions, price cap) threatens to change the calculus, however.

- **Moscow isn't looking to actively push Western firms out.** Western sanctions against Russia have fostered an **all-out energy war**, but Moscow wants Western oil and gas firms still invested in Russia to stay — at least for now. **Putin's decree** prohibiting the sale of strategic assets (including BP's 19.75% stake in Rosneft and Exxon Mobil, Sodeco and ONGC Videsh's stakes in Sakhalin-1) without special permission as well as **restructuring of Sakhalin-2** are indeed impediments to how Western firms would prefer to exit. But Russian sources tell us the moves are to ensure Russian ownership of assets if companies opt to leave, not a retaliatory desire to nationalize. The prohibition — which expires at end-2022, but can be extended — looks to pause the exodus, sources explain, in the hope companies will reconsider if relations between Russia and the West thaw. Shell had the option to stay in Sakhalin-2, **but declined**.
- **Exxon is the exception.** Energy Intelligence understands that Moscow and partner Rosneft **want Exxon replaced** as Sakhalin-1 operator. Exxon's "unilateral" decision to curtail oil output at the 200,000 barrel per day development to under 5,000 b/d after deciding to exit has soured relations, sources tell us. Reports of Exxon preparing legal action to advance a sale of its 30% stake outside the decree's limitations speak to the impasse. Several sources suggest Exxon and Rosneft were close to negotiating a sale but were stuck on valuation. Moscow is not able to restructure Sakhalin-1's ownership as it did at Sakhalin-2 since a Bermuda-based Exxon subsidiary directly operates Sakhalin-1, rather than a joint operating entity comprising all partners.
- **Restricted gas flows to Europe complicate, but don't yet compromise, Total's efforts to stay.** Total is **fighting hard** to maintain its Russian LNG holdings (~30% of its gas production) despite public pressure to exit, and Moscow is similarly keen to preserve the relationship. CEO Patrick Pouyanne **has argued** that Europe's dependence on Russian gas make Total's 19.4% stake in LNG champion Novatek and stakes in Yamal LNG and Artic LNG 2 strategic for Europe, to ensure security of supply. While **curtailment of Russian pipeline gas flows** weakens the energy security argument, we see Total able to fend off calls to exit unless Russian LNG shipments to Europe also become affected. Should Total be forced to leave, the "strategic" designation of its assets mean it would face the same exit challenges as BP and Exxon.
- **Schlumberger is using its lower profile to protect its strategic Russian business.** Western pressure to exit Russia has fallen mostly on producers, offering services giant Schlumberger a smoother path. **Halliburton** and **Baker Hughes'** exits reflect their limited physical presence in Russia, whereas Schlumberger has invested heavily in training and equipment production centers in Tyumen, Sakhalin and elsewhere. Russia accounts for ~5% of Schlumberger's revenues, more than twice the rate of Halliburton. Schlumberger has suspended new investments and technology transfers to Russia in response to sanctions, but continues work outside those prohibitions. For Moscow, Schlumberger's commitment is welcomed given the **increasingly crucial role** advanced services technologies and capabilities will play as Russia's upstream development shifts to harder-to-exploit resources.
- **Russia prefers to maintain the status quo, but the situation is highly fluid.** (1) Putin's tight control on ownership changes at strategic assets, (2) the smooth transfer to date of lesser assets to Russian companies, and (3) the continued commitment of partners like Total and Schlumberger have made a difficult situation manageable for Moscow. It is therefore likely, in our view, that Moscow will continue using energy flows rather than asset ownership as a bargaining chip in its escalating standoff with Europe and G7 countries. However, we acknowledge a successful Western price cap on **Russian oil** and possibly gas could change the stakes. Another potential wildcard is disruptions to Russian upstream operations abroad. **Novatek's exit** from Total-held blocks off Lebanon and Eni-held blocks off Montenegro is thought to be strategically driven, but **we will watch closely** for Western government or partner-led pressure on Russian champions to exit higher value assets (Egypt, Abu Dhabi, Mexico and Kazakhstan). Such moves could change Moscow's willingness to accept Western presence in its domestic energy sector.

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Total Walks Novatek Tightrope

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Foreign Majors Get Mixed Results in Russia Exits

The exit of international majors and services giants from Russia is showing mixed progress... [click for full report](#)

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Energy Security Keeps Japan in Sakhalin-2

Japan has been labeled an "unfriendly state" by the Kremlin for its opposition to the Ukraine invasion, but the world's largest LNG market has little choice but to cling to Russian LNG... [click for full report](#)

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Key Russian Asset Exits

Shell sold its Russian downstream business to Lukoil and declined to join the new Sakhalin-2 operating company, with Novatek expected to take its place (Mitsui and Mitsubishi are staying).

Equinor fully exited with the transfer of four JVs to partner Rosneft and a 30% stake in the Kharyaga PSA to operator Zarubezhneft.

Total transferred its 20% stake in the Kharyaga PSA to Zarubezhneft and sold its 49% stake in Terneftegas (gas condensate producer) to JV partner Novatek.

Trafigura sold its 10% stake in Rosneft's Vostok oil project to obscure Hong Kong trader Nord Axis, which some believe has ties to Rosneft.

Halliburton sold its Russian operations to a local management team comprised of former employees.

Baker Hughes sold its Russian business to its local management team.

Source: Company Reports, Energy Intelligence

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