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NEFTE COMPASS®

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TRADING

Traders Downbeat on Russian Oil Price Cap

Moves by the US and EU to impose a price cap on Russian oil exports have been met with widespread skepticism among the world's top oil traders.

The bosses of Vitol, Trafigura and Gunvor told the Energy Intelligence Forum in London this week that the price cap — a US-led initiative designed to push down global oil prices and reduce the flow of cash into Moscow's coffers — lacks specifics and could in fact backfire by leading to higher prices.

Ben Harris, assistant secretary for Economic Policy at the US Treasury Department, explained to the forum on Oct. 5 that the rationale of the price cap would be to keep Russian barrels flowing, rather than restricting them. "The point of the price cap is to preserve the trade of Russian oil but at lower prices," he said.

Harris was speaking at the same time as the EU was poised to introduce a new package of trade sanctions against Moscow that would include the price cap on Russian shipments of both crude and products.

The cap would be introduced as an addendum to existing EU sanctions that would allow purchasers and shippers of Russian barrels to continue using Western services such as insurance — as long as they agreed to buy at a certain price, Harris said. The cap on crude oil shipments would come into force on Dec. 5 and for oil products on Feb. 5, 2023 — the same dates as the EU embargoes are supposed to take effect.

Harris said the US had been discussing the idea with importers of Russian crude "in general," but would not say what reaction he got from buyers in India and China, which are by a long stretch Russia's two main customers. So far, neither Beijing nor New Delhi has voiced support for the plan, on the basis that it interferes in the workings of the free market.

Serious Doubts

The leading oil traders who were speaking at the forum, and who were marketing as much as 2 million barrels per day of Russian crude and products before EU sanctions came into force this spring, remain unconvinced by the price cap plan.

"Everybody will be a bit cautious. There is a potential problem that we will actually shut in more oil than we expect," Russell Hardy, the head of Vitol, the world's largest independent oil trader, told the forum. He pointed out that sales of Russian oil are now being handled by little-known companies that have little understanding of how these new sanctions would work.

Ben Luckock, joint head of oil trading at Trafigura, voiced similar reservations. "It's a well-intentioned idea and you can listen to Western governments and understand the logic, but I think we still don't have real details on exactly how it will work," he said. EU sanctions were already tricky to navigate and the price cap could just add to the confusion, he warned. He also said the cap would be impractical if it were not supported by Russia. This is highly

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SPOT CRUDE OIL PRICES

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

	Oct 4	Sep 27	Chg.
Dated Brent f.o.b. (38 API)	93.74	85.96	7.78
Russian Urals c.i.f. NWE (31 API)*	70.31	62.36	7.95
Russian Urals c.i.f. Med (31 API)†	75.31	67.36	7.95
Azeri Light (35 API)	96.36	88.41	7.95
CPC Blend c.i.f. Med (45 API)†	93.56	83.86	9.70
ESPO (35 API)	85.39	82.56	2.83
Dubai (30 API)	88.80	84.80	4.00

PRODUCT PRICES

($/ton, c.i.f. basis)	Oct 4	Sep 27	Chg.
ICE LSGO Futures (front month)	1,103.25	967.25	136.00
ICE LSGO Futures (second month)	1,021.25	922.75	98.50
0.1% Gasoil NWE*	1,043.00	965.25	77.75
0.1% Gasoil Med*	1,091.75	939.25	152.50
10 ppm Diesel NWE*	1,060.00	992.50	67.50
10 ppm Diesel Med*	1,123.25	986.75	136.50
HSFO NWE*	380.00	378.00	2.00

LSGO – low sulfur gas oil. *Basis Rotterdam. †Basis Augusta. *Source: Energy Intelligence* unlikely to happen, given that senior Russian officials say oil sales would be stopped to any countries that sign up to the cap.

Too Many Unknowns

The chairman and chief executive of Gunvor, Torbjorn Tornqvist, also said information was lacking about how the price cap would operate and doubted it would be effective. "There are so many unknowns here, I have a hard to time to see how it will work."

Tornqvist said the cap would not affect current Russian exports flows, which are being directed largely to Asia, with Europe becoming less important as a market. "A lot of crude oil is going outside Europe. That will continue but they will just do more," he told Energy Intelligence in an interview on the sidelines of the forum. "The routes are established and the infrastructure to deal with it is being built up."

He also warned of a looming shortfall of diesel in Europe if Russia were to stop exports, which have been running at around 500,000 b/d and come from Baltic and Black Sea terminals. He said there was a potential for a major price spike this winter, as Europe has scant alternative sources of supply.

Paul Sampson, London

PRODUCTION

Moscow Wins From Opec-Plus Decision

The decision by the Opec-plus group of countries to reduce their oil production quotas by 2 million barrels per day in November show once again how Moscow made the right choice in 2016 to start market management cooperation with Opec and its kingpin Saudi Arabia.

Although the actual cuts are going to be lower as the group is already producing some 3 million b/d below its ceiling, the move is a strong message to the market to push prices up.

Higher prices are exactly what Moscow needs to support its revenues at a time when it offers its crude at a discount and is facing an embargo and price cap.

The Opec-plus decision in fact brings production by the groups' members closer to reality. Russia physically will have no cuts. In fact, it could even increase production as its quota for November was set at 10.5 million b/d of crude excluding gas condensate, down from 11.004 million b/d in October. Russia produced 9.735 million b/d of crude in September.

Russia's output of crude oil and gas condensate stood at 10.733 million b/d last month, nearly 117,000 b/d more than in August, according to sources familiar with the Russian data.

Lower Exports

But Russian crude oil exports to non-FSU countries saw a decline of 172,000 b/d on the month to 4.745 million b/d in September, the lowest level since February, when Russia invaded Ukraine.

Russia's total exports in January-September were still up by 16% compared to the same period of 2021. The September decline was mainly the result of lower shipments to China, both via the Skovorodino-Mohe pipeline and via the Pacific port of Kozmino that handled its largest export volumes in August.

Shipments from Kozmino also saw a decline last month because of lower shipments from the port to India. According to Kpler analysts, not a single cargo of Espo crude set sail for India in September because of high shipping costs. In August, by comparison, six India-bound cargoes were lifted.

In the west, both Russian seaborne and pipeline shipments remained rather strong in September. Shipments from the Baltic Sea and Black Sea outlets remained flat month on month, while deliveries via the Druzhba pipeline to Europe jumped by 100,000 b/d on the month despite earlier expectations that they should drop after Germany's decision to take control of Rosneft-owned refineries and the Russian major's plans to halt shipments.

Exports bypassing the system of Russian oil pipeline operator Transneft declined in September largely as a result of lower shipments of Arco crude from Gazprom Neft's Prirazlomnoye field, where planned maintenance works started in late August.

Sakhalin Problems

Russia's current crude and condensate output is less than 500,000 b/d below what it was producing before the massive Opec-plus cuts that started in May 2020 in response to the Covid-19 pandemic demand destruction.

A significant contribution to the decline came from the Sakhalin-1 project on the Russian Pacific shelf operated by Exxon Mobil where production came practically to a halt from more than 200,000 b/d in April.

Liam Mallon, president of Exxon Mobil Upstream Co., told the Energy Intelligence Forum in London this week that the company was exiting Sakhalin-1 and was working with Rosneft and other partners to that end. "We are in intense discussions that are progressing minute by minute, day by day."

The exit is complicated by a recent decree by Russia's President Vladimir Putin who introduced a ban on the sale of foreign company's stakes in Russian strategic assets.

Mallon said that as the operator, Exxon is "responsible for the integrity of the project," and that production is largely shut in due to the force majeure declared by the supermajor at the end of April.

Exxon explained the declaration then by "recent events that hinder, delay or prevent" it from meeting its obligations and conducting operations to international standards.

There is a strong push from the Russian authorities to restart Sakhalin-1 oil production, which is also important for gas supplies to meet local needs. Associated petroleum gas from Sakhalin-1 was used locally. But with the halt of production, gas from Sakhalin-2 is being sent for local use instead, reducing flows from Sakhalin-2 for liquefaction and export, according to Andrei Okhotkin, commercial director of Sakhalin Energy, operator of Sakhalin-2.

He said last week that Sakhalin-2 was ready to take care of exporting Sakhalin-1's oil volumes if it could help to restart Sakhalin-1 production.

Staff Reports

GAS

Nord Stream Halt Blows Hole in Gazprom Revenues

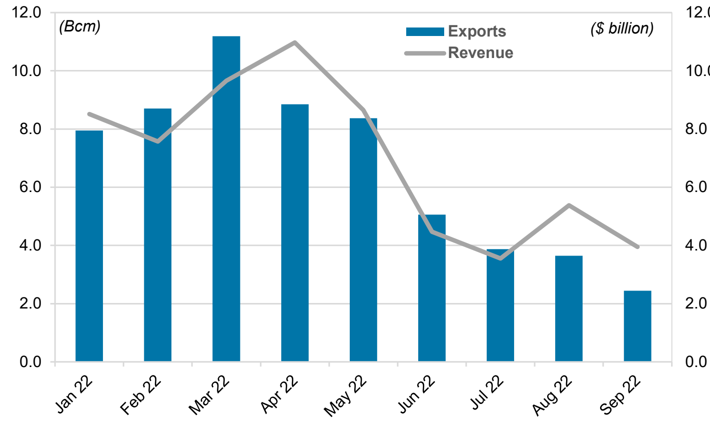
Gazprom's export revenue in Europe dropped 27% on the month in September, as higher prices couldn't offset the halted supplies via the Nord Stream pipeline, Energy Intelligence estimates, based on its own border price assessments and gas transmission data.

The Russian state-run giant might have generated just under $4 billion from pipeline gas exports to Europe, excluding Turkey, last month, down from $5.4 billion in August, although its average export price is estimated to have increased 9% to some $1,600 per thousand cubic meters.

The revenue is 11% higher than in July, when the price was 43% lower and export volumes were 58% higher than in September (see graph).

Gazprom still generates more money from exports to Europe than it did before the gas price crisis that started last year, exacerbated by Russia's war in Ukraine. The unprecedentedly high prices offset a sharp drop in export volumes, but Gazprom's windfall revenues started to drop in the last several months from the April peaks.

GAZPROM'S REVENUE IN EUROPE*



*Excluding Turkey. *Source: Energy Intelligence, Entsog, Gascade, Nord Stream AG, Tsoua*

The spot price rally in August means that Gazprom's export prices could grow further in October, but they should then decrease, reflecting the cooling of spot prices in September and early October and putting more pressure on revenues when supplies remain tight.

The front-month November futures contract on Dutch TTF hub traded at around €160 per megawatt hour ($1,640/Mcm) at the beginning of this week, down from over €220/MWh a month ago. But prices remain volatile and could be vulnerable to the persisting uncertainty around the supply.

Supply Risks

Russian gas exports remain untouched by EU sanctions and Gazprom doesn't look interested in completely halting supplies and losing the windfall revenue, unless the EU imposes a price cap on gas or takes other measures the Kremlin doesn't like. But last week's apparent blasts on the Nord Stream and Nord Stream 2 pipelines, regardless of who is responsible, reflects the energy stakes being raised as the conflict in Ukraine escalates.

Although Gazprom said this week one undamaged 27.5 billion cubic meter per year Nord Stream 2 pipeline can supply gas to Europe, that still looks like an unlikely scenario, which leaves Gazprom's export capacity limited to the Turk Stream pipeline and Ukrainian transit, now jointly shipping slightly more than 70 million cubic meters per day, well below their combined available capacity of 120 MMcm/d.

But there is already a regulatory and sanctions-related legal framework in place that could trigger disruptions from one side or the other of these remaining routes.

Disagreements over the new pipeline regulations in Austria that came into force on Oct. 1 prompted Gazprom to stop supplies to

Italy's Eni via Austria, although the sides resolved the issue and resumed supplies on Oct. 5. The four-day disruption did not result in a decrease in gas flows via Ukraine as Eni's some 20 MMcm/d are understood to have mostly gone into Austrian storage.

The Ukrainian transit is still at risk after Gazprom threatened that Russia could impose sanctions on Ukrainian gas company Naftogaz in response to its recent arbitration claim against Gazprom. On Oct. 3, Russia imposed such blocking sanctions on the operator of the Katharina gas storage in Germany. Russia blacklisted 31 foreign companies in May, including other storage operators which now cannot take gas from Gazprom and the owner of the Polish section of the Yamal-Europe pipeline, which Gazprom is not allowed to utilize.

Gazprom would be unlikely to stop flows via Turk Stream, given that the pipe supplies Turkey, Hungary and Serbia — countries that do not support the EU's tough sanctions proposals against Russian energy and that Russia looks ready to reward. Russia is said to be in price talks with Turkey, which is not happy about the growth in hub-linked price under the new contract signed at the end of last year. Hungarian importer MVM on Oct. 3 said it had agreed with Gazprom on a deferred gas payment for the upcoming winter period.

But there might be sanctions-driven technical problems at Turk Stream, like those used by Gazprom to slash and then halt exports via Nord Stream in the summer. The Netherlands recently revoked an export license for the pipeline operator, a Dutch subsidiary of Gazprom, which is now prohibited from providing goods and services for the project in Russia. The subsidiary, South Stream Transport, however, says gas flows are safe now.

Drop in Exports, Production

According to Gazprom's monthly statistics released on Oct. 3, the company's overall exports to the "far abroad," or Europe (including Turkey) and China, dropped 40% on the year to 86.9 billion cubic meters in the first nine months of this year.

In September, exports fell 68% on the year and 32% on the month to 4.7 Bcm, due to a complete halt in supplies via Nord Stream in late August. Exports to China, meanwhile, continued to show a strong increase, in line with a planned ramp-up, Gazprom said without providing exact figures.

The lower exports affect Gazprom's natural gas production. Gazprom produced 25.2 Bcm, or 840 MMcm/d, some 56% of total capacity, in September, down 38% on the year. Its nine-month production totaled 313.3 Bcm, down 17%.

As Russia's top gas producer, the drop at Gazprom pulls down the country's overall production as well. It fell 24% on the year to 46.1 Bcm in September. Russia's nine-month production decreased 10% year on year to 502.8 Bcm (see table).

Staff Reports

CASPIAN

Kazakhstan Prioritizes Internal Needs

Oil- and gas-rich Kazakhstan cannot help European customers any time soon in their efforts to replace Russian energy resources.

According to statements by Kazakh officials at the Kioge conference in Almaty last week, the country's gas strategy prioritizes internal needs to avoid a deficit in supplies that is already looming for 2024.

Diversification of oil exports — 98% of which currently go to global markets via Russia — and the development of the alternative trans-Caspian route would depend on Kazakhstan's future production growth. In the next couple of years, the main increase is expected to come from the Tengiz field expansion, which could add 260,000 barrels per day. More significant volumes could emerge only within the next 10 years.

Alternative Routes

Energy Minister Bolat Akchulakov told reporters on the sidelines of the Kioge conference that Kazakhstan is looking at new export routes to accommodate growing production.

"Next year, we would like production to exceed 90 million [metric] tons (1.87 million b/d) and in two years, after the Tengiz expansion, it will be already more than 100 million tons," he said. "We need to start thinking already now how to diversify [exports of] the growing volumes," he added.

This year, Kazakhstan is to produce 85.7 million tons, lower than the original plan. One of the reasons for the drop was a suspension of production at the Kashagan field on Aug. 3 following a gas leak. Akchulakov said production at Kashagan could fully recover by the end of this month.

Akchulakov pointed to the free capacity of 9 million tons per year in the pipeline to China, shipments via which could rise to 20 million tons/yr. Additional about 3 million tons/yr could go by rail in the "southern direction."

As for shipments across the Caspian Sea for further export via the 1.2 million b/d Baku-Tbilisi-Ceyhan pipeline or the western line from Baku to the Georgian Black Sea port of Supsa, Akchulakov said there is a plan to test deliveries at 1.5 million tons/yr. He said the plan requires the "mobilizing" of small tankers of 12,000 tons to sail across the shallow waters of the Caspian.

Shipments could grow to 7.5 million tons/yr following the expansion of berths at the Kazakh port of Aktau that currently can only handle 5.5 million tons/yr, Akchulakov said. But first, it is necessary to understand how production would grow.

Discussions of alternative oil export routes intensified following a series of disruptions at the Caspian Pipeline Consortium (CPC) pipeline to a terminal near the Russian Black Sea port of Novorossiysk, through which Kazakhstan exports about 55 million tons/yr. Akchulakov reiterated that CPC is the most efficient route for Kazakh exports.

Kazakhstan can send another 11 million tons/yr via the network of Russia's national pipeline operator Transneft.

Gas for Home

Kazakhstan produces about 55 billion cubic meters of gas per year, but only about half of those volumes become commercial with the rest being injected back into the reservoirs.

With gas consumption in Kazakhstan growing by about 7% annually, the country expects a deficit in domestic supplies already in 2023, but with some measures taken, it has been pushed to 2024, said Sanzhar Zharkeshov, chairman of the board of national company QazaqGaz.

He said the president of the country had issued a decree "to reroute the export volumes to the domestic market." Kazakhstan exports about 8 Bcm-9 Bcm/yr to China, with volumes having declined because of the growing internal needs.

There are also talks about importing gas, Zharkeshov said, although he declined to give any further details.

Kazakhstan is planning "unprecedented changes" by introducing a new formula for gas sales in the country, which would bring them to parity with exports netback.

New Energy Strategy

To attract investment in new projects, including gas developments, legislative changes are being finalized for the introduction of an improved model contract. It provides for regulatory and fiscal preferences in the form of tax exemptions.

The aim is to attract investments in exploration as only 24% of oil reserves have been explored, while gas resources are estimated at 61.5 trillion cubic meters, with only 3.8 Tcm being proven reserves.

Other priorities of Kazakhstan include petrochemicals, with about $14 billion to be invested in such projects by 2025.

Decarbonization is in focus as well. "In accordance with the approved concept for the transition of Kazakhstan to a green economy, by 2030 the share of renewable energy should reach at least 15% of the total electricity generation, and by 2050 this figure should reach 50%," Akchulakov told the conference.

Staff Reports

GAS

Russian LNG Companies Seek to Overcome Sanctions

Russian LNG developers had to put most new projects on hold following the EU technology sanctions imposed in April, but they are seeking to revive their plans by targeting non-Western equipment and lobbying for more state support for the development of domestic kit.

Despite the technology challenges, Russian developers are looking for new logistics chains, vendors, technology and equipment, Pavel Sarafannikov, president of the Russian National LNG Association, told the recent St. Petersburg International Gas Forum.

"Many investors have put their projects on pause, but we are confident that this pause will not last long," Sarafannikov said.

Pause for Thought

The companies and authorities must use this pause to define and solve the key problems, he said. The main problem is that Russian manufacturers have yet to develop domestic analogues of key liquefaction equipment.

LNG is one of the spheres where Russia's import replacement efforts have produced little results since 2014, and the country acknowledges it must change that if it wants to keep its ambitious gas export diversification and LNG expansion plans on track.

"In the current economic reality, fast import replacement of LNG equipment is one of the strategic tasks to ensure the energy security of our country," Deputy Prime Minister and Industry and Trade Minister Denis Manturov told reporters in Tyumen at the end of last month.

Russia had planned to export between 80 million and 140 million metric tons per year of LNG by 2035, up from around 30 million tons in 2021. It may have to cut the target, although the country's LNG export champion Novatek believes it is still achievable. The energy ministry will develop a new energy strategy by mid-2023, although it had been previously expected by mid-September this year.

The industry and trade ministry, together with the key LNG developers, Novatek and state-run Gazprom, have defined 18 priority items of equipment which require support for research and development (R&D), Manturov said.

The state support for LNG equipment R&D amounted to 1.5 billion rubles ($26 million) last year, doubling to 3 billion rubles this year. Total support through 2025 will exceed 15 billion rubles, he said.

Novatek boss Leonid Mikhelson said earlier in September his company would invest 30 billion rubles in R&D for liquefaction equipment.

Back on Radar

Some projects are already back on the radar. The country's LNG export champion Novatek said recently it may already next year take a final decision on the two-train 5 million tons/yr Obsky LNG plant in the Arctic, while state-run Gazprom is considering expanding the recently launched Portovaya LNG facility to 3.5 million tons/yr from 1.5 million tons/yr.

Both bet on their own technologies, although both admit they have yet to fully develop technology for large trains. That constraint is making them focus on smaller trains at this stage.

Gazprom's chief strategist Oleg Aksyutin told the St. Petersburg International Gas Forum the company has its own technology for medium-sized LNG trains but admitted that equipment for large-scale LNG plants is something that requires most work in terms of import replacement.

The company still plans to build the 13 million tons/yr Ust-Luga facility, although that is more doubtful than the Portovaya expansion after the withdrawal of Germany's Linde, the provider of liquefaction technology for the project.

Gazprom also plans to build 22 mini-plants, investing 130 billion rubles in the next two or three years, as it seeks to increase domestic gas consumption, particularly in the mobility sector, amid risks of losing the European pipeline gas export market. Small-scale LNG looks safe from sanctions, as Russia has its own technologies.

For the 2.5 million tons/yr Obsky trains, Novatek is looking to scale up its Arctic Cascade technology, now working at the 900,000 tons/yr Train 4 of the Yamal LNG project.

Novatek keeps plans to launch three large trains of the 19.8 million tons/yr Arctic LNG project in 2023-26, which mostly relies on foreign technology. Key foreign liquefaction equipment for all three trains had arrived before the EU sanctions came into force in May, Mikhelson has said. There are problems with other equipment, however, including gas turbines, and Novatek is weighing how to solve them.

Chinese Gear

Another option is to seek technology and equipment from China, which hasn't joined the international sanctions against Russia over the war in Ukraine. Regional producer Yatec, controlled by privately held A-Property, considers using Chinese, as well as Russian, technology for its 18 million tons/yr Yakutia LNG project, which it says is still its strategic priority.

Some small-scale LNG developers also look for Chinese technology, despite the availability of domestic gear for small plants. The little-known developer of the new 160,000 tons/yr Arkhangelsk LNG project in the Arctic links the potential use of Chinese technology with plans to attract Asian equity partners and LNG offtakers, the project executives told Energy Intelligence on the sidelines of the St. Petersburg gas forum.

Staff Reports

OIL MARKETS

China Dominates Russian Espo as India Tails Off

The delivered spot market for key Russian East Siberia-Pacific Ocean (Espo) crude oil appears to have stayed roughly stable, bolstered by Chinese demand even as India falters.

November-loading spot Espo is believed to have traded at premiums of above $1.00 per barrel to ICE Brent futures for delivery to China, said two Chinese market sources.

The levels would be in line with the top end of premiums traded at last month, when October-loading spot Espo likely sold at premiums ranging from 50¢/bbl to above $1.00/bbl to the 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.

Demand from China has been the key driver of the November Espo market, even more so than last month because Indian appetite for the Russian crude has been dropping quickly, said eight trading sources.

Chinese appetite for Espo appears firmer than last month, partly due to the fact that Chinese refineries are refining oil products for winter, said a Chinese market source. Espo has a relatively low pour point and can produce gasoline and gasoil that are suited for winter temperatures, he added.

Ultimately, Espo is still cheaper relative to many other comparable crudes for Chinese buyers, said a Chinese trading source.

Chinese refiners' optimism had also risen last month in anticipation of bumper new product export quotas, which were granted by the government in late September. This, combined with expectations that domestic Chinese products demand could recover significantly, have pushed Chinese refineries to consider lifting runs, said three trading sources.

Several trading sources believe that the boost to Chinese crude demand from the new export quotas are likely to bolster China's appetite for Espo.

Indian buyers, however, have turned away from Espo due to high freight rates from Espo's export port Kozmino and some Indian refineries undergoing turnarounds, said six market sources.

Right now, comparable crudes are cheaper, said an Indian trading source. Delivered Espo prices into India are just too expensive, said a trading source.

Because of this, Indian buyers took a lot less November Espo, he added. Last month, Indian market players had bought around six October-loading Espo cargoes, said a market source.

Diesel Markets Harder to Replumb

Diesel markets will be much harder to "replumb" than crude when EU sanctions against Russia step up next year, warns Vitol CEO Russel Hardy.

Hardy spoke alongside Gunvor CEO and Chairman Torbjorn Tornqvist and Trafigura's Co-Head of Global Energy Ben Luckock at this week's Energy Intelligence Forum. The trio of trading executives have a ring-side view of how geopolitics are reshaping the global energy system.

Hardy suggests the crude market "is already solving itself" through trade and pointed to the recent rerouting of Russian heavy fuel oil to Asia as a likely blueprint for how the diesel market might handle the EU's looming ban on Russian product imports.

The EU banned Russian fuel oil imports alongside coal on Aug. 10. Since then, virtually all Russian fuel oil has headed to the Middle East and Asia with "qualified" fuel oil coming back to Europe in its place. The EU's ban on crude imports takes effect on Dec. 5 with an embargo on products following on Feb. 5, 2023.

Hardy says he also expects some ousted Russian diesel to head to Africa and possibly Brazil. That could help free up more US Gulf Coast production to come to Europe, helping the market fill the 700,000 barrel per day gasoil hole left by Russia.

Europe's diesel market is already extremely tight heading into winter with prices already steeply backwardated. Trafigura's Luckock highlighted the clear tension between prompt fuel shortages in Europe and the prospect of a worsening regional economy causing demand destruction.

Gunvor's Tornqvist thinks Europe will have a tough time without Russian gasoil. Major doubts remain around G7 plans to cap Russian crude and product prices. The scheme is designed to keep Russian fuels in the market just not Europe. "Will it be effective? I have some serious doubts," he admits.

Trafigura's Luckock suggests the price cap is only adding to current market chaos. Vitol's Hardy warned it could backfire by shutting in Russian production.

Front month ICE low-sulfur gasoil futures have spiked more than 15% in the last week with French refinery strikes adding to diesel market woes. As much as 800,000 b/d of French capacity is off line, wiping out at least 200,000 b/d of diesel production.

Freddie Yap, Singapore, Kerry Preston, London

IN BRIEF

Moldova Faces Gas Cutoff

Gazprom could stop gas supplies to Moldova if Chisinau fails to pay before Oct. 20, the Russian exporter warned on Oct. 4.

It said it could cancel the current gas supply contract at any time because Moldova has failed to sign an agreement to settle its historic debt to Gazprom.

In the meantime, Gazprom continues to supply Moldova, but at limited levels of 5.7 MMcm/d confirmed for Oct. ?, which it said was due to Ukraine having closed the Sokhranovka entry point in May.

However, Gazprom underutilizes the other entry point in Ukraine, Sudzha, shipping just above 40 MMcm/d instead of the booked 77 MMcm/d.

Moldovagaz CEO Vadim Ceban wrote in *Telegram* that the company will do all it can to pay on time.

Moldova struggles to pay, as the contract, signed in late October 2021, is partly linked to the rallying hub prices. In October, the price is preliminarily estimated at $1,031/Mcm, down from $1,883/Mcm in September, Ceban said.

Gas Majors Approve Dividends

Shareholders of Russia's top two gas producers, state-controlled Gazprom and privately held Novatek, last week approved interim dividends for the first half of 2022.

Gazprom will pay 1.208 trillion rubles ($21.8 billion), or 51.03 rubles/share, which exceeds any full-year dividends ever paid by the company. Gazprom hasn't paid interim dividends before. It did not pay full-year 2021 dividends, as the government, which controls 50.23% in Gazprom directly and indirectly, decided to take the entire planned record payout in the form of extra mineral extraction tax (MET) in September-November.

The finance ministry now suggests imposing an extra MET of 50 billion rubles per month on Gazprom in 2023-25.

Novatek shareholders approved paying 136.64 billion rubles, or 45 rubles/share in interim dividends, up 63% from the dividends paid for the first half of 2021. Novatek's shareholders include France's TotalEnergies with a 19.4% stake, but dividend payments to foreign shareholders are restricted by Moscow in response to international financial sanctions imposed over Russia's Feb. 24 invasion of Ukraine.

Germany Might Get Kazakh Oil

Kazakhstan might consider crude shipments to German refineries, where Berlin recently seized stakes in three plants belonging to Russian oil giant Rosneft, although there are currently no talks on the issue.

Energy Minister Bolat Akchulakov told reporters on the sidelines of the Kioge conference last week that supply chains are changing and countries like Germany are looking for alternative supplies. But he added that pipeline systems are not changing that rapidly and that when it comes to Germany, it becomes an issue of transit as Kazakhstan has no borders with Europe.

Berlin had earlier sought to secure Kazakh crude for the Schwedt refinery via the Druzhba pipeline from Russia. However, sources told Energy Intelligence that Kazakhstan doesn't have enough crude to ship via the Druzhba line. Russian pipeline monopoly Transneft said last week that Kazakhstan has not asked for additional transit volumes via Russia. Germany said it aims to fully end Russian crude shipments via the Druzhba pipeline by year's end.

Kazakhstan Eyes CPC Restart

Kazakhstan believes that technical troubles that led to reduced operations of the Caspian Pipeline Consortium (CPC) oil pipeline will be fully resolved by mid-October. However, experts do not expect the 1.4 million b/d pipeline to fully resume shipments immediately as two of Kazakhstan's largest fields are still undergoing maintenance.

Energy Minister Bolat Akchulakov said last week that by mid-October all the single point moorings (SPMs) at the CPC terminal near the Russian Black Sea port of Novorossiysk will be ready to resume operations after the replacement of buoyancy tanks. CPC in late August reduced loadings from two of the three SPMs because of cracks in the subsea hose attachments to the tanks. Akchulakov said the tanks themselves are ready to be changed and the consortium is now waiting for the vessel that should help to replace them.

Industry players, however, raised doubts that CPC shipments will resume in full as production is still limited at Kazakhstan's Kashagan oil field after a gas leak was detected at the field's onshore Bolashak processing plant. Akchulakov said there are several options for Kashagan. One is to resume output at 400,000 b/d in late October. Maintenance at the Karachaganak oil field is set for completion this week.

Lukoil Delayed in Caspian

Drilling at the Zhenis Block in the Kazakh sector of the Caspian Sea by a joint venture between Lukoil and Kazmunaigas (KMG) is being delayed until December.

According to Nurlan Konysov, KMG's director for exploration and production department, drilling was supposed to start this month. But the partners face problems with supplies of equipment for the drilling platform. The Azeri semisubmersible drilling rig *Dada Gorgud* is to do the drilling after it is upgraded with the necessary equipment. The imported parts are difficult to get although Lukoil is not under Western sanctions.

Lukoil's former CEO Vagit Alekperov was in Kazakhstan last week for a meeting with the country's Prime Minister Alikhan Smailov to discuss Lukoil's projects in the country.

Konysov said that drilling at Zhenis is expected to yield a fountain flow.

Lukoil and KMG also set up a joint venture for the exploration of the Al-Farabi offshore block. According to Konysov, seismic works are to start next year.

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, AUGUST 2022

	Processing							
	Year-To-Date		August		Change From Previous Month		Aug Crude Oil Deliveries	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Bashneft	264.7	8,788.4	248.2	1,051.1	-33.7	-142.6	208.3	882.1
Lukoil	883.2	29,318.8	940.0	3,980.9	-13.4	-56.9	869.3	3,681.3
Gazprom Neft	665.4	22,090.6	701.8	2,972.3	-1.6	-6.7	651.5	2,759.3
Surgutneftegas	344.4	11,432.8	297.3	1,259.2	0.1	0.3	295.2	1,250.0
Slavneft	290.5	9,643.2	318.0	1,346.8	-4.5	-19.0	318.1	1,347.3
Rosneft	1,273.9	42,288.9	1,427.1	6,043.7	0.3	1.3	1,343.9	5,691.6
TAIF-NK	126.7	4,206.9	122.1	517.0	-7.5	-31.9	107.1	453.7
Gazprom Neftekhim Salavat	140.1	4,649.3	128.5	544.2	-21.6	-91.3	0.0	0.0
Gazprom Refineries	108.4	3,597.3	82.0	347.2	27.0	114.5	0.0	0.0
IPC	100.2	3,326.5	106.9	452.7	-0.1	-0.3	110.7	469.0
Russneft	0.3	8.3	0.4	1.7	0.3	1.4	0.0	0.0
Tatneft	325.7	10,812.4	320.7	1,358.1	-9.6	-40.6	278.3	1,178.8
Novatek	136.8	4,541.8	121.4	514.1	-22.6	-95.5	0.0	0.0
ForteInvest	232.6	7,723.2	217.7	921.9	7.0	29.8	160.4	679.1
Rusinvest	100.5	3,336.4	101.3	428.9	5.6	23.9	99.5	421.3
Petrosakh	0.6	20.0	0.6	2.4	0.0	-0.1	0.0	0.0
Mariisk	1.8	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	391.3	12,989.0	389.4	1,649.3	25.2	106.9	324.6	1,374.5
Russia Total	**5,387.1**	**178,834.3**	**5,523.4**	**23,391.4**	**-48.9**	**-206.9**	**4,766.9**	**20,187.8**

	August 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	40.1	187.4	86.4	358.9	68.5	249.5	0.0	0.0
Lukoil	92.4	431.4	383.0	1,591.8	216.7	789.6	65.2	252.8
Gazprom Neft	47.1	220.0	230.9	959.5	200.1	728.8	74.8	289.7
Surgutneftegas	73.6	343.6	126.8	526.9	48.0	174.7	10.3	40.1
Slavneft	87.2	407.1	85.1	353.8	59.4	216.5	44.4	171.9
Rosneft	285.5	1,332.8	439.7	1,827.0	247.6	902.1	52.5	203.5
Taif-NK	1.9	8.9	59.3	246.4	12.9	47.1	1.6	6.2
Gazprom Neftekhim Salavat	3.0	14.1	52.6	218.4	33.9	123.5	0.0	0.0
Gazprom Refineries	4.0	18.8	12.1	50.4	19.3	70.5	2.6	10.2
IPC	34.1	159.2	21.6	89.6	16.3	59.3	6.5	25.1
Russneft	0.0	0.0	0.1	0.5	0.0	0.0	0.3	1.0
Tatneft	0.0	0.0	178.4	741.5	56.4	205.6	8.2	31.9
Novatek	0.0	0.0	0.0	0.0	0.0	0.0	18.1	70.3
ForteInvest	17.3	80.6	40.8	169.6	14.8	54.1	10.1	39.3
Rusinvest	0.0	0.0	38.0	157.9	13.0	47.5	0.0	0.0
Petrosakh	0.0	0.0	0.0	0.0	0.1	0.5	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	43.2	201.5	8.8	36.5	27.7	101.0	1.0	3.8
Russia Total	**729.4**	**3,405.4**	**1,763.6**	**7,328.7**	**1,035.0**	**3,770.3**	**295.7**	**1,145.9**

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, SEPTEMBER 2022

(MMcm)	Year-To-Date	Sep	Change From Previous Month
Lukoil	13,781.7	1,464.6	-32.6
Surgutneftegas	6,244.7	666.4	-14.2
Rosneft	36,443.5	5,148.3	683.9
Gazprom Neft	24,916.9	2,639.0	-4.8
Slavneft	621.2	69.8	-0.2
Russneft	1,602.8	173.3	-9.7
Tatneft	682.0	77.5	-2.9
Bashneft	601.7	72.4	3.0
IPC (Neftegasholding)	4,475.3	521.2	-28.4
Russian Oil Company Total	89,369.7	10,832.6	594.1
Novatek	59,551.5	6,266.2	295.4
Gazprom	313,300.0	25,200.0	-500.0
Other Producers	21,603.6	2,272.4	109.9
PSA Operators	18,993.0	1,545.6	-75.0
Russia Grand Total	502,817.8	46,116.8	424.4

Download full dataset here. *Source: Energy Intelligence*