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CONTENTS

GEOPOLITICS

Stakes Rise in Russia-Ukraine War

Escalation mounted on all fronts in Russia in the last week pushing stakes higher in the war in Ukraine.

In response to the explosion on the Crimea bridge and other attacks, Moscow said it had started bombing critical infrastructure in Ukraine. Each side accused the other of "terrorist attacks."

Fueling the debate over who could be responsible for the recent explosions on the Nord Stream gas pipelines, Gazprom spokesman Sergei Kupriyanov said on Russian television that in 2015 there was a case when a Nato mine was detected under the original Nord Stream line.

Commenting on the attack on the pipelines, President Vladimir Putin said "there is no doubt it was an act of international terrorism." He told the Russian Energy Week conference on Oct. 12 that the blame lay with those "who aim to fully break the ties of Russia and Europe" and take its market under control. He named Poland, Ukraine and the US as beneficiaries of the destruction of the Nord Stream pipelines.

Russian crude oil supplies to Europe via the Druzhba pipeline were also hit this week by a leak detected on the Polish section of the 1 million barrels per day line running to Poland and Germany via the northern leg and to Slovakia, Hungary and the Czech Republic via the southern leg.

Polish officials later said the leak was caused by the depressurization of one of the two lines rather than by any deliberate damage. Sources, however, believe that the incident might be another step in the hybrid energy war. "We will see it in two-three days. If supplies do not resume on the Polish side, then we clearly have politically-motivated moves," one industry source says.

Stoking tensions higher, Putin has signed a resolution stripping Exxon Mobil of its operatorship in the Sakhalin-1 project on the Russian Pacific shelf.

Faint Ray of Light

A rare ray of hope came with the visit to Russia of United Arab Emirates President Sheikh Mohammed bin Zayed al-Nahyan. He was received in St. Petersburg by Putin, who is to meet with Turkish President Recep Tayyip Erdogan on Oct. 13. Both foreign leaders are undertaking mediation efforts to find a way out of the conflict in Ukraine, although analysts see no indications a solution could emerge any time soon.

Also on the agenda of the meeting between the leaders of Russia and the UAE was their cooperation within Opec-plus, which last week agreed a huge production cut of 2 million barrels per day, causing outrage in the US.

Putin said at the meeting with his UAE counterpart that "our actions, our decision are aimed against nobody, we are not going to create problems for anybody." He said the target of Opec-plus is to create stability on global markets.

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	Oct 11	Oct 4	Chg.
Dated Brent f.o.b. (38 API)	95.17	93.74	1.43
Russian Urals c.i.f. NWE (31 API)*	71.50	70.31	1.19
Russian Urals c.i.f. Med (31 API)†	76.50	75.31	1.19
Azeri Light (35 API)	97.55	96.36	1.19
CPC Blend c.i.f. Med (45 API)†	94.75	93.56	1.19
ESPO (35 API)	90.03	85.51	4.52
Dubai (30 API)	93.70	88.25	5.45

PRODUCT PRICES

($/ton, c.i.f. basis)	Oct 11	Oct 4	Chg.
ICE LSGO Futures (front month)	1,192.00	1,103.25	88.75
ICE LSGO Futures (second month)	1,050.00	1,021.25	28.75
0.1% Gasoil NWE*	1,102.00	1,043.00	59.00
0.1% Gasoil Med*	1,186.50	1,091.75	94.75
10 ppm Diesel NWE*	1,095.75	1,060.00	35.75
10 ppm Diesel Med*	1,232.00	1,123.25	108.75
HSFO NWE*	376.00	380.00	-4.00

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

Kremlin spokesman Dmitry Peskov was more blatant. "This at least balances the mayhem that the Americans are causing," he said, in reference to sanctions and the price cap planned against Russian oil.

Turk Stream Under Attack

Speaking at the meeting of the Russian Security Council on Oct. 10, Putin said that Ukrainian special services organized the explosion at the Crimea bridge on Oct. 8.

He said there had been other attempts by Ukraine's special services to commit similar acts, including missile and artillery strikes on the Zaporizhzhia nuclear power plant and blowing up high-voltage lines at Russia's Kursk nuclear power plant.

"There have been a number of other terrorist attacks and attempts to commit similar crimes against electricity generation and gas transportation infrastructure facilities in our country, including an attempt to blow up a section of the Turk Stream gas pipeline system," Putin said, without elaborating.

He also noted that Russian representatives are not allowed to take part in the investigation into the explosions and the destruction of the Nord Stream gas pipelines. "But we all know who ultimately benefits from this crime," he said.

Russian bombings targeted Ukrainian energy infrastructure as well. Ukraine is facing blackouts and said it would stop electricity exports to Europe.

Exxon Out

Putin signed an order that transfers management of the Sakhalin-1 project from Exxon to Rosneft.

The order also provides for the creation of a new Russian-registered operating company for the Sakhalin-1 production-sharing agreement (PSA) — a similar step to that taken previously at the Sakhalin-2 project.

Up to now Exxon has been the sole operator of Sakhalin-1 — via a Bermuda-based operating company — and holds a 30% stake in the project.

Putin's order said the changes at Sakhalin-1 were necessary to address "threats to national interests and economic security of the Russian Federation as a result of violations by some foreign legal entities and individuals of obligations under the PSA."

The Sakhalin-1 project is responsible for the development of the Chayvo, Odoptu and Arkutun-Dagi fields, which hold 2.2 billion barrels of oil and 485 billion cubic meters of gas reserves.

In addition to Exxon, the other participants in the project are Japanese consortium Sodeco (30%), India's ONGC Videsh (20%) and two Rosneft subsidiaries: Sakhalinmorneftegas-Shelf (11.5%) and RN-Astra (8.5%).

Sakhalinmorneftegas-Shelf will assume management responsibility of Sakhalin-1 for the time being, until the stakeholders confirm that arrangement or choose another entity to fulfill the role.

The foreign partners will have one month to confirm whether they want stakes in the new operating company that mirror their current holdings in the project. Exxon is ineligible for the exclusive operatorship role this time around. If the foreign investors choose not to participate in Sakhalin-1 going forward, the Russian government will appraise the value of the stakes and sell them to a Russian entity.

Staff Reports

PRODUCTION

Putin: Russia Will Not Play Ball With Price Cap

Russian President Vladimir Putin repeated once again that Moscow will not supply its oil and gas to countries that introduce a price cap on Russian oil and gas.

"Russia will not act contrary to common sense and on its own account pay for someone else's welfare," he said speaking at the Russian Energy Week conference on Oct. 12. "We will not supply energy resources to the countries that limit prices for them."

Instead Russia would reorient its energy resource to new growing markets, mainly in Asia-Pacific, Putin said. If not all volumes manage to find new customers, Russia is ready to cut production.

Russia's state oil producer Zarubezhneft said at the same forum that in preparation for the EU embargo on Russian crude to come into effect on Dec. 5, the company is considering various scenarios, including a complete halt of production. This is a worst-case scenario, although, as Putin said, production and exports are to stay at the current level "in the horizon of 2025."

Deficit Warning

Moscow sees the price cap planned by the G7 countries as an alternative to the embargo on Russian oil as a violation of market principles that would lead to a deficit and hit the poorer countries in the end.

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If the price cap is introduced it would create a precedent for similar steps in other industries and for other countries, Putin said. It could lead then to "the destruction of the global market economy," he warned, adding that Russia refuses to play by such rules.

He pointed to the absence of spare production capacity in the world because of underinvestment in the industry, which is partly due to the green agenda. He noted that the release of strategic reserves won't help, in a reference to steps taken by the US, which could help to lower oil prices before parliamentary elections in November.

Ready to Cut

Russian Deputy Prime Minister Alexander Novak said at the same forum that Russian oil producers share this view on the price cap. They are ready to face the oil embargo instead and cut production if necessary.

Zarubezhneft CEO Sergei Kudryashov said that the company is prepared for the worst scenarios. He noted that the company doesn't have refining capacity inside the country or access to the East Siberia-Pacific Ocean pipeline allowing exports eastward, which is why Zarubezhneft is considering a full production halt in Russia.

He added that a 70% cut in production would not be critical for the company. He emphasized that the company could stop production quickly and bring it back on line within two weeks.

How big the loss would be in the end is unknown. Some industry players claim that about 20% of output could be lost generally if operations are halted for a couple of months.

Gazprom Neft CEO Alexander Dyukov expressed hope that the price cap and oil embargo would not impact its output. Much would depend on the creativity of the company in finding buyers for its volumes.

Putin proposed making Turkey a new gas hub for sales of Russian gas to Europe. Turkey could get a similar role in Russian oil sales.

Turkey today is already a large consumer of Russian oil transported from the Black Sea port of Novorossiysk via the Bosporus Strait. "We can already say that this is major country for the transit of Russian oil," Novak said. "We see interest from the Turkish companies in buying more Russian oil but this is a commercial issue which is to be decided between the companies," Novak told reporters.

Other Risks

According to First Deputy Russian Energy Minster Pavel Sorokin, a bigger challenge for Russian production are the problems with technology that are becoming acute after the departure of international majors and services companies. Technology plays a bigger role in the development of hard-to-recover reserves, the share of which is increasing in Russia.

As part of its import-replacement program, the Russian oil and gas industry should increase the share of domestic equipment to 80% by 2025, from 60% now, Putin said.

Oil companies are also concerned at the bigger tax burden looming for the industry next year.

Staff Reports

GAS

Gazprom Faces Drop in Exports to Turkey

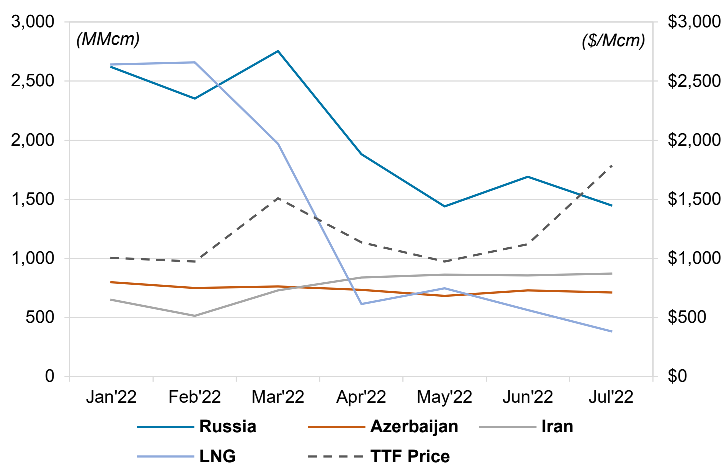
In addition to a sharp drop in exports to Europe, Russia's Gazprom is facing an accelerating decline in pipeline gas supplies to Turkey. At the same time, Moscow is proposing to build another pipeline to Turkey, bolstering the latter's role as a key hub and transit route for Russian gas to Europe.

While deliberate cuts appear to play a key part in the fall in Russian exports to Europe, the decline in Turkey is largely driven by an eroded demand for pricey gas under the new hub-linked supply deal signed by Gazprom and Turkish state importer Botas at the end of last year.

Turkey is now seeking to revise the Russian gas price, which jumped on the spot price rally, accelerated by the war in Ukraine. Bloomberg recently reported that Ankara was not only seeking a 25% discount but also a delay in some payments until 2024.

Turkey has a strong chance of getting its way, experts say, which could further undermine Russia's waning windfall revenues from its high-priced gas exports.

TURKEY'S PIPELINE GAS, LNG IMPORTS 2022



Source: EPDK, Energy Intelligence

Turkey's Leverage

Turkey has been playing a balancing act between Moscow and the West since the Feb. 24 invasion of Ukraine and has mediated various talks between the conflicting sides. It did not join the international sanctions against Moscow and is not deemed as "unfriendly" by the Kremlin — something that Ankara might expect to be rewarded for, like Hungary, which last week secured a deferred payment for winter gas supplies from Russia.

Ankara already agreed earlier this year to pay for 25% of its gas supplies from Russia in rubles, reflecting the two sides' intention to strengthen ties. President Vladimir Putin promised last month to increase gas sales to Turkey.

Turkey's key leverage in price talks is its growing role as a transit country for Russian gas when there are no other routes to Europe left available except for Ukraine, where the risk of disruption is growing by the day amid the escalation of the conflict and Russia's threats of possible sanctions against Ukrainian gas company Naftogaz.

Moscow is ready to strengthen Turkey's transit role. Putin told the Russian Energy Week forum in Moscow on Oct. 12 that Turkey could transit Russian gas volumes that cannot be shipped via the damaged Nord Stream pipeline in the Baltic Sea, which would make Turkey a large gas hub for supplies to Europe. Gazprom CEO Alexei Miller told the same forum that building new Turkey-bound pipeline capacity in the Black Sea would be more feasible than repairing Nord Stream.

Sabotage Threats

There are risks for the Turk Stream pipeline as well. Moscow would not want to see cuts in its flows to Turkey or its European supporters in Hungary and Serbia, which also receive Russian gas via the route. The Europe-bound string of Turk Stream now supplies around 30 million cubic meters per day, or 70% of capacity, while the Ukrainian transit route ships slightly above 40 MMcm/d.

Russia points to risks of sabotage, which it believes can be organized by Ukraine. Speaking at the Russian Security Council meeting on Oct. 10, Putin accused Kyiv of an attempt to blow up a section of Turk Stream, which he said "has been proven by objective data, including the testimony of the detained perpetrators."

Putin again blamed Ukraine's key supporter, the US, for orchestrating the recent blasts on the Nord Stream and Nord Stream 2 pipelines. He said the US would benefit from damage to Russian gas export pipelines and noted that Russian representatives were not being allowed to take part in the investigation.

Dropping Exports

Russia's pipeline gas exports to Turkey, which are solely handled by state-run Gazprom, fell 15% on the year to 14.2 billion cubic meters in the first seven months of 2022, while Turkey's overall gas imports dropped less than 1% to 34.2 Bcm in the same period, according to the latest available data from Turkey's Energy Market Regulatory Authority (EPDK).

Gazprom remains by far the largest gas supplier for Turkey, but its share in Turkey's gas imports fell to 41% in January-July from 49% a year ago.

After a marginal year-on-year decrease in January and February and a 7% increase in March, exports showed a sharp two-digit decline in April-July, as the spot price rally started to push Gazprom's hub-linked contract price up.

Turkey bought 1.45 Bcm of pipeline gas from Russia in July, down 14% on the month and 37% on the year, the sharpest year-on-year decline in 2022.

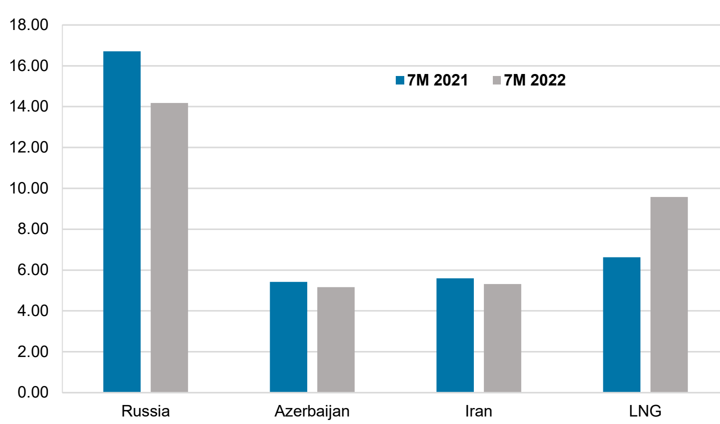
Turkey is understood to be offtaking Russian gas under Gazprom's oil-linked contracts, which still account for the biggest part of its almost 30 billion cubic meter per year portfolio in Turkey, while minimizing offtakes under the new four-year TTF-linked contract with Botas for 5.75 Bcm/yr, which looks the least attractive option for Ankara.

Spot LNG imports also decreased sharply in March-July, reflecting the growth in spot prices. In July, Turkey bought no spot LNG at all, with all the 382.8 million cubic meters of imported LNG coming from a long-term contract with Algeria.

In contrast, Turkey increased imports under oil-linked contracts with Azerbaijan and Iran in July — by 31% on the year to 710 MMcm and 37% to 870.5 MMcm, respectively.

Staff Reports

TURKEY'S PIPELINE SUPPLIERS VS. LNG



Source: EPDK, Energy Intelligence

EXPORTS

Obstacles Lie Ahead for Arctic Shipping

Russia is setting even more ambitious targets for its strategic plans to expand shipping via the Northern Sea Route (NSR), the shortest maritime route between the Atlantic and Pacific oceans. Development of the NSR is becoming more crucial for Moscow today when traditional export routes are closing because of sanctions, but more obstacles emerging as the West intensifies pressure on Moscow over the war in Ukraine.

Current exports of all goods via the NSR stand at some 34 million–35 million metric tons per year, with some 23 million tons shipped via the route in January–August, Gadzhimagomed Guseinov, Russia's first deputy minister for Far East and Arctic development, told the Eastern Economic Forum in Vladivostok last month. He said shipments year on year are growing by 3%-6%.

Russia's recently approved NSR development plan until 2035 — which envisages investment of some $30 billion — sees exports rising to no less than 80 million tons/yr by 2024 and no less than 150 million tons/yr by 2030. Guseinov said that the targets are even more ambitious — 90 million tons/yr by 2024 and over 200 million tons/yr by 2030.

Lifeline for Oil, LNG

Hydrocarbons are expected to account for a large chunk of the planned shipments. Russia's major oil producer Rosneft is ramping up production at its Vostok Oil giant projects — from where oil will be evacuated via the NSR — to 30 million tons/yr (600,000 barrels per day) in 2024 and further to 115 million tons/yr (2.3 million b/d) in 2033.

Private gas and LNG producer Novatek is planning to ship at least 70 million tons/yr of LNG via the NSR, while the company's needs also require shipments of gas condensate and equipment necessary for its planned Arctic LNG-2 and other projects. Novatek hasn't so far announced amendments to its plans despite sanctions, which ban the provision of LNG technology and equipment.

Meanwhile, the lack of infrastructure and an adequate Arctic fleet remain the key hurdles in the way to developing the NSR. Construction of the essential infrastructure, including ports, railways and transshipment terminals, will require investment of 793.2 billion rubles, while building the icebreaking and cargo fleet will require another 539.6 billion rubles. Together, the two targets will require total investment of 1.333 trillion rubles — or roughly 75% of the total 1.8 trillion rubles of investment penciled in for the NSR development plan by 2035.

Shopping for Ships

According to state nuclear corporation Rosatom, some 132 Arctic high ice-class vessels are required to develop NSR navigation. Of the total, there are existing 45 vessels, while another 32 vessels are being built in Russia and South Korea and another 55 need to be constructed, according to Vladimir Panov, Rosatom's special representative for the Arctic development.

Panov said that sanctions imposed on Russia after the start of the Ukraine conflict on Feb. 24 have only intensified Russia's construction efforts. The plan now is to double the amount of planned icebreakers to be constructed to 10 by 2035. He said five icebreakers are expected to support the NSR in the eastern direction, but it was recently decided to build additional six icebreakers and four more non-nuclear icebreakers, which will free up in-use nuclear-powered icebreakers to be redirected to the eastern direction.

Apart from icebreakers, Russian projects require more Artic ice-class tankers. Viktor Evtyukhov, deputy trade and industry minister, said 71 more ice-class vessels will be needed for the NSR in addition to 32 that are already being built. However, consumers of the vessels will first need to confirm the exact amount of vessels they need, the deputy minister said.

In the meantime, construction of the already ordered tankers is being delayed, sources say. Novatek faces delays with tankers it ordered for the Arctic LNG-2 project, industry experts note. Novatek ordered 21 Arc7 tankers for the project and will need another five for its Obsky LNG project.

Construction of the fleet is being complicated by sanctions. Evtyukhov said Western companies have refused to supply the necessary equipment and technologies — including the critically important navigation systems — for ice-class vessels. The ministry is looking for alternatives.

Staff Reports

CASPIAN

Kazakhstan to List National Gas Company

Kazakh national gas company Qazaqgaz, which was separated from state energy giant Kazmunaigas (KMG) at the end of last year, is eyeing an initial public offering (IPO) in 2025.

Wholly owned by sovereign wealth fund Samruk-Kazyna, Qazaqgaz aims to become "a major driver for energy" in the country and a "world-class investment case," according to the company's CEO, Sanzhar Zharkeshov.

Speaking at the recent Kioge conference in Almaty, he said that prior to its listing, the company has to do some thorough "homework," including corporate governance improvement, the expansion of the resource base and the modernization of its transportation network.

Meeting domestic gas demand is a priority with its export ambitions being limited to supplies to China under the existing contract with China National Petroleum Corp. in the medium term. In a bold new step, Qazaqgaz could expand outside the country and participate in the development of the giant Galkynysh gas field in neighboring Turkmenistan.

Presidential Backing

Having replaced Kairat Sharipbayev, a son-in-law of Kazakhstan's former long-serving president, Nursultan Nazarbayev, Zharkeshov told reporters on the sidelines of the Kioge conference that the "IPO is a big priority for the company" following a corresponding resolution of the country's President Kassym-Zhomart Tokayev.

He confessed though that "we are only at the beginning of the way," which is why any details of the size of the stake that could be floated are still to be hammered out. He said that an international consultant is still to be selected and the stock exchange for the listing is yet to be chosen.

The government will first see how the IPO of KMG goes, which is planned to take place by Dec. 10 this year. The government's stake could drop to 75% as a result, according to Sky Bridge, which is advising KMG on the sale.

Bigger Reserves

Zharkeshov said that the "increase of the resource base will be key equity story for the IPO success." Kazakhstan has gas resources enough for more than 100 years but the bulk of them are still to be explored, he said.

To grow the resource base, Qazaqgaz is setting up an E&P unit, Zharkeshov announced. "We aim to get 20 new licenses that are on the state balance now, using our priority rights as a national company." Zharkeshov added that the company aims to attract investors for gas projects.

Zharkeshov, who was educated in the US and has experience working with Exxon Mobil in various countries, also believes that gas could become a new adventure for foreign investors active in the country that haven't recently struck any major deals in Kazakhstan similar to megaprojects they already participate in, including Kashagan, Karachaganak and Tengiz.

The development of the gas transportation system which Qazaqgaz operates is another priority to ensure uninterrupted supplies. "We will invest about 500 billion tenge ($1 billion) in the next three years in the network, especially in the Mangistau and Atyrau regions," Zharkeshov said. Qazaqgaz operates the national pipeline network of 76,000 kilometers, with an annual capacity to handle 267.8 billion cubic meters of gas.

To meet internal demand and avoid shortages, Qazaqgaz also expects to participate in the development of the 26.2 trillion cubic meter Galkynysh field in Turkmenistan.

Qazaqgaz has been invited to participate in the prequalifying tender for design and construction of the facilities at Galkynysh under stage three of the field's development. Being at stage two and already producing some 20 billion cubic meters per year, Galkynysh is to be developed in seven stages with each adding 30 Bcm/yr, according to Qazaqgaz.

KMG on the Block

The IPO for shares in energy champion KMG will be held simultaneously on the Almaty and Astana stock exchanges in early December, with 25% of the company's shares due to be sold to local and international investors. The head of privatization at KMG's owner, sovereign wealth fund Samruk-Kazyna, Yernal Zhanadil, was quoted as saying that the sale would be held before the holidays kick off in mid-December.

KMG was weakened when QazaqGaz was spun out of the company but it increased its attractiveness to investors last month when it exercised an option to buy back for $3.8 billion the 8.4% stake in the giant Kashagan project that it had sold to Samruk in 2015 for $4.7 billion. Its stake in Kashagan has now doubled to 16.8%.

At a presentation held this week in Astana, KMG's finance chief Dauren Karabayev said the company would prioritize increasing oil production, primarily from its share of the Tengiz and Kashagan projects, and also increasing exploration both on- and offshore. He also said there would be a much stronger focus on increasing petrochemicals capacity.

Paul Sampson, London, Staff Reports

OIL MARKETS

French Strikes Plunge Diesel Into Chaos

French refinery strikes have plunged Europe's diesel market into chaos with the front-month spread on ICE low-sulfur gasoil (LSGO) futures exploding to almost $150 per metric ton in frantic trading ahead of the October contract's Oct. 12 expiry.

Almost two-thirds of French refining capacity is off line after the hard-line CGT union this week refused to accept an increased pay offer from Gravenchon and Fos operator Exxon Mobil and called on its members at Total's Donges facility to join the walkout. Strikes have already shuttered Total's Gonfreville plant, while the French oil company's Feyzin plant is also down at least until Oct. 17 for repairs. Almost 800,000 barrels per day of French capacity is currently out of action, according to Energy Intelligence estimates, wiping as much as 300,000 b/d of desperately needed diesel production.

That is a big chunk of European production at the best of times but comes as the region is scrambling to source replacements for the 600,000 b/d of ultra-low-sulfur diesel (ULSD) it gets from Russia ahead of the EU's Feb. 5 ban on imports.

Total has been buying up the spot market in a bid to ease domestic fuel shortages, while sources say Exxon has been covering missing French production from its own system, including bringing diesel over from the US.

Brokers report a steady flow of ship-to-ship transfers into northern France from big ships sitting offshore the UK's Southwold including recent arrivals from China, India and Saudi Arabia. Most East of Suez diesel is sold long before the tankers even arrive in European waters, sometimes before it's even loaded.

Russian cargoes have been changing hands for less than a $20 per metric ton premium to "qualified" non-Russian fuel — barely a fifth of the $100/ton discount published by S&P Platts — as increasingly desperate European buyers run out of alternatives.

"There are just no other offers around," says a leading Northwest European broker.

Benchmark NWE cargoes were pegged at a $32.25/ton discount to the pumped-up October screen on Oct. 12, equivalent to a triple-digit premium to November. Flat prices and margins are both at their highest since Russia's invasion of Ukraine in February.

Price Patterns Appear as Urals Replaced

Some European refiners have continued to replace Russian barrels in a relatively orderly way. But with an EU ban on Russian crude oil looming on Dec. 5 and Brent now trading December barrels, price trends for the potential substitutes have started to shape up more clearly.

North Sea crude has a geographical advantage. As refineries gradually resume operations after their semiannual turnarounds, the pressure on prompt Brent-linked barrels reflects the renewed appetite for regional, lighter and low-sulfur substitutes to Urals.

"With seasonal maintenance now behind us on the natural trading cycle, differentials have firmed on the North Sea by some 50¢-70¢ per barrel," a trader told Energy Intelligence, while official data from Russia show that the Urals discount still stands at about $20/bbl below dated Brent.

With the EU crude ban in mind, Saudi Arabia also seems to be moving its pawns in the European market. Saudi Aramco has cut the November selling prices of its Arab Extra Light to NWE and the Mediterranean by $1.80/bbl, most likely in a bid to undercut US crude competition with a higher-quality alternative.

Likewise, the $1.50/bbl cut to Arab Medium and Heavy in both NWE and the Med is clearly targeting Russia's Urals customers, traders said. What remains unclear, though, is what refineries owned by Russian companies in Europe will buy after the ban. Rosneft's German assets — notably the 240,000 b/d PCK Schwedt refinery — are now under German trusteeship.

"I still don't have a good feeling if [all] European Urals buyers have found alternative for the Dec. 5 deadline," a trader said. "My gut feeling is that Litasco will not have a solution for Isab [in Syracuse, Italy] and Flushing [in Vlissingen, Netherlands]," adding that Brent spreads would continue to firm on the back of this.

Kerry Preston and Julien Mathonniere, London

IN BRIEF

Japan Dodges Sakhalin-2 Ban

The EU has granted a six-month sanctions exemption that will allow European companies to provide shipping and related services for exports of Russian crude oil from the Sakhalin-2 project to Japan. The exemption runs from Dec. 5 until Jun. 5, 2023 on the grounds that it is essential for Japan's energy security.

The EU has banned seaborne imports of Russian crude oil from Dec. 5 and from that date EU companies will also be barred from providing shipping and related services for exports of Russian oil to third countries, unless they comply with the price cap.

Crude exports from Sakhalin-2 amounted to around 80,000 b/d in the first eight months of 2022, with Japan as the largest offtaker. Japan's Mitsui (12.5%) and Mitsubishi (10%) have retained their equity stakes in the project, but UK energy major Shell (27.5%) plans to divest its stake. Russian gas giant Gazprom holds a majority stake of 50% plus one share.

Serbia, Hungary OK New Pipe

Serbia's President Alexandar Vucic and Hungary's Prime Minister Viktor Orban agreed on the construction of a 128 km pipeline that should allow Serbia to continue receiving crude oil from Russia via connections to the Druzhba pipeline.

Serbia receives Russian crude for its 4.8 million metric ton/yr (96,400 b/d) Pancevo refinery, majority owned by Russian major Gazprom Neft, from Croatia's deepwater port of Omisalj and onward via the pipeline owned by Croatia's Jadranski Naftovod (Janaf). Those shipments should stop in November as a result of EU sanctions on Russia.

Plans to build a new pipeline connecting Serbia to the Hungarian pipeline network have been on the agenda for many years, but intensified this year Russia invaded Ukraine. Hungary receives Russian oil via the southern leg of the Druzhba pipeline running through Ukraine. Pipeline supplies via the Druzhba line were exempted from EU sanctions that envisage a ban on Russian seaborne shipments, on the provision of services for Russian seaborne shipments and a price cap on Russian oil.

Novak Expands on Iran Swap

Russia and Iran are looking at moving ahead with oil and gas swap deals, with "technical details being worked out," Russian Deputy Prime Minister Alexander Novak told reporters. Novak said initial swaps might start at 5 million metric tons/yr (100,000 b/d) of crude oil and 10 Bcm/yr of gas, and he indicated that an agreement might be reached this year. Moscow is seeking to expand economic ties with Iran and other "friendly" countries as it faces sanctions from the US, the EU and other countries over the war in Ukraine.

The oil and gas swaps would be separate deals. On the oil side, Russia and Iran have been considering a revival of their Caspian oil swap deals under which Iran used to get up to 150,000 b/d of crude from Russia, Kazakhstan and Turkmenistan for its two northern refineries at Tabriz and Tehran. In return, the Russian shippers were allocated an equivalent volume of Iranian Light crude at the Kharg Island oil terminal in southern Iran. Iran has also been looking at deals under which it would receive refined oil products from Russia.

Uzbeks Change Energy Minister

Uzbekistan's President Shavkat Mirziyoyev has appointed a new energy minister, Zhurabek Mirzamahmudov, to replace Alisher Sultanov, who has resigned for health reasons after being in the position since February 2019.

Mirzamahmudov, who will retain his current post of deputy prime minister overseeing fuel and chemicals, will have a big in-tray as Uzbekistan grapples with domestic gas demand that is soaring by more than 10% per year. As a result, the country has had to slash its gas exports — principally by pipeline to China — and look at ways at boosting domestic processing capacity. The country aims to eliminate all gas exports by 2025. Tashkent has set an ambitious plan to increase gas output by some 30% by 2030 from current levels of around 54 Bcm/yr. In parallel, there has been a surge in renewables projects over the past year, with Abu Dhabi's Masdar and Saudi Arabia's Acwa both involved in major wind and solar projects.

Kazakhs to Boost China Sales

The head of Kazakhstan's state energy company Kazmunaigas, Magzum Mirzagaliyev, held talks this week with the head of China's state-owned PetroChina, Huang Yongzhang, on increasing supplies of Kazakh crude oil via the Kazakhstan-China pipeline and on raising the capacity of the Shymkent refinery in Kazakhstan's populous southeast.

Kazakhstan is looking to ramp up crude exports to China to loosen its dependence on the 1.4 million b/d Caspian Pipeline Consortium line that runs to the Russian Black Sea port of Novorossiysk. In April, crude from the giant offshore Kashagan field headed to China for the first time, via the pipeline that runs from the Caspian port of Atyrau to the border town of Alashenkou.China is a big upstream player in Kazakhstan, where PetroChina's parent, China National Petroleum Corp., holds an 8.33% stake in the Kashagan project and full ownership of onshore producer Aktobemunaigas.

Novatek Plans Mini LNG Plant

Novatek has got the green light to build its second small-scale LNG plant in Russia. The company's small-scale business is primarily focused on the use of LNG in the transport sector. That is in line with the Kremlin's plans to spur domestic gas demand at a time when it risks losing the European market for pipeline gas amid the standoff with the West over Ukraine.

The new 14,280 metric tons/yr plant, scheduled to start up in late 2023, will be located near the town of Kashira in the Moscow region, where local authorities last week approved its construction. The Kashira LNG plant is estimated to cost 2.6 billion rubles ($45 million).

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, SEPTEMBER 2022

('000 metric tons or '000 b/d)	Processing: Year-To-Date (b/d)	Year-To-Date (tons)	September (b/d)	September (tons)	August (b/d)	August (tons)	Chg. (b/d)	Chg. (tons)
Pavlodar	110.4	3,969.7	124.0	490.2	117.8	481.3	6.2	8.9
PetroKazakhstan Oil Products	128.7	4,629.5	135.7	536.3	124.8	509.6	10.9	26.7
Atyrau	115.8	4,166.6	123.5	488.1	122.6	500.8	0.9	-12.8
Caspi Bitum	20.1	721.8	25.3	100.2	24.6	100.3	0.8	-0.1
Condensate	2.2	79.9	1.9	7.6	2.0	8.3	-0.1	-0.7
Total	**377.2**	**13,567.4**	**410.5**	**1,622.4**	**391.8**	**1,600.4**	**18.6**	**22.0**

('000 metric tons or '000 b/d)	September Output: Mazut (b/d)	Mazut (tons)	Gasoil (b/d)	Gasoil (tons)	Gasoline (b/d)	Gasoline (tons)	Jet Fuel (b/d)	Jet Fuel (tons)
Pavlodar	9.4	42.6	44.5	179.1	41.0	144.6	4.9	18.3
PetroKazakhstan Oil Products	18.4	83.2	44.2	177.8	49.6	174.7	7.5	28.1
Atyrau	22.3	100.8	38.9	156.3	38.8	136.8	3.5	13.3
Condensate	0.0	0.0	0.5	2.1	0.2	0.7	0.0	0.0
Total	**50.2**	**226.6**	**128.2**	**515.4**	**129.6**	**456.9**	**15.9**	**59.7**

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.