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NEFTE COMPASS®

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	Oct 18	Oct 11	Chg.
Dated Brent f.o.b. (38 API)	89.46	95.17	-5.71
Russian Urals c.i.f. NWE (31 API)*	64.92	71.50	-6.58
Russian Urals c.i.f. Med (31 API)†	69.92	76.50	-6.58
Azeri Light (35 API)	92.37	97.55	-5.18
CPC Blend c.i.f. Med (45 API)†	85.52	94.75	-9.23
ESPO (35 API)	85.93	89.97	-4.04
Dubai (30 API)	88.85	96.54	-7.69

PRODUCT PRICES

($/ton, c.i.f. basis)	Oct 18	Oct 11	Chg.
ICE LSGO Futures (front month)	1,105.00	1,192.00	-87.00
ICE LSGO Futures (second month)	1,020.50	1,050.00	-29.50
0.1% Gasoil NWE*	1,154.25	1,097.75	56.50
0.1% Gasoil Med*	1,119.25	1,186.50	-67.25
10 ppm Diesel NWE*	1,318.00	1,100.00	218.00
10 ppm Diesel Med*	1,181.25	1,232.00	-50.75
HSFO NWE*	341.00	376.00	-35.00

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

GEOPOLITICS

Moscow Courts Allies Walking Uneasy Tightrope

President Vladimir Putin held a series of intense diplomatic meetings last week showcasing who his administration intends to rely on now that the West is pulling out all the stops to isolate Russia.

Not only did Putin meet with leaders of countries formerly part of the former Soviet Union (FSU) — Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan — at two key summits in Astana, but he also held talks with the heads of Qatar, Turkey and the Palestinian Authority while in the Kazakh capital.

All these countries are performing a delicate balancing act between Russia and the West and are reluctant to choose sides. Their dilemma was clearly demonstrated in the United National General Assembly last week, when only Belarus, North Korea, Nicaragua and Syria joined Russia in voting against a resolution condemning referendums in four Ukrainian regions on acceding to the Russian Federation. FSU countries either did not participate or abstained alongside China, India and African nations.

Moscow is well aware of its friends' precarious situation, and analysts note that the arrival of leaders from Middle East countries — including United Arab Emirates President Sheikh Mohammed bin Zayed al-Nahyan — in St. Petersburg last week for meetings with Putin was an important signal of their desire to maintain ties with Russia.

But while FSU states are still much dependent on Moscow politically and economically, the Middle East countries, as well as others, seem to be attracted by the idea, promoted by Russia and China, of a multipolar world free from US domination. True, economic ties often lag behind political relations, at least between Russia and the Middle East, but Moscow is keen on changing this and will seek more bilateral investments now that Western companies have departed Russia.

Saudi Subtleties

Saudi Arabia was notably absent at the Russian Energy Week Forum, although Saudi Arabian Crown Prince Mohammed bin Salman had promised Putin in a telephone conversation last month that the kingdom would have a high-level representation at the Moscow event. The no-show was viewed as an attempt by Riyadh to avoid further accusations of supporting Russia's war in Ukraine, particularly after a 2 million barrel per day production cut decision at a recent Opec-plus meeting that incensed Washington.

Even without Saudi representation, the kingdom and Opec-plus were widely lauded by forum delegates and Russian officials, including Putin and Deputy Prime Minister Alexander Novak, who emphasized the producer group's significant role in providing stability on global energy markets. Envarbik Fazelyanov, a former Russian diplomat in the Middle East, said there is a demand for strategic partnership with Saudi Arabia on the "highest level." At the same time, a dialogue within Opec-plus and the Gas Exporting Countries Forum — many

>> continued on page 2

members of which also participate in the alliance — should be expanded to forge a specific climate-related agenda for producers, he added.

A meeting of the Russian-Saudi intergovernmental commission on trade and economic cooperation was supposed to take place in Moscow simultaneously with Russian Energy Week, and Novak failed to say when this might happen. He did say that Russian companies are interested in joint petrochemical projects both in Russia and Saudi Arabia. He stressed that relations between the two countries are dynamic, practically all areas of cooperation are under discussions, including energy, transportation, construction social sphere and agriculture.

According to Novak, Russian companies are ready to provide support for geological exploration in the kingdom, as well as construction of power stations and renewable energy development. And in a game-changing move for both countries, Russia nuclear state corporation Rosatom is preparing documents to participate in a tender for the kingdom's first nuclear power station, Novak said.

Meanwhile, Moscow and Ankara started working on ways to transform Turkey into a new gas hub, mainly by diverting Russian gas flows that used to be shipped to Europe via Nord Stream. Prices for gas to be further shipped to Europe would be set in Turkey, a role that Putin had offered Germany in the past. Turkey has also become the biggest buyer of stranded Russian barrels, leaving behind China and India, a trend that Novak confirmed.

Details of talks with the leaders of the UAE and Qatar remain unknown. CEOs of two Russian champions, Gazprom and Rosneft, were present at talks with Qatari Emir Sheikh Tamim bin Hamad al-Thani. The Qatar Investment Authority holds 18.46% in Rosneft and its representative chairs the oil producer's board of directors, having replaced ex-German Chancellor Gerhard Schroeder, who left the Russian company in May because of sanctions.

Staff Reports

GAS

Gazprom Chips Away at New Export Strategy

Russia's latest idea to create a natural gas hub in Turkey for sales to Europe boils down to another piece in an improvisational strategy that Gazprom is adopting now that key export routes are sanctioned, destroyed or in limbo nearly eight months since the February invasion of Ukraine.

President Vladimir Putin floated the idea in response to the recent blasts on the Nord Stream pipelines in the Baltic Sea. Moscow now believes it is more feasible to expand the capacity of the Turk Stream pipeline instead of repairing the Baltic Sea lines. The Turkish hub could be a price benchmark for gas trade with Europe, according to Putin. The concept is in line with Gazprom's policy to reduce direct energy interactions with Europe now that the economic divorce between the two sides is nearing finality.

When tensions were high in 2014 because of Russia's annexation of Crimea and the first waves of Western sanctions, Gazprom scrapped the South Stream pipeline project and announced it would no longer build pipelines within the EU. Later it considered consolidating its European-based trading subsidiary into a St. Petersburg-based unit and tested spot sales from St. Petersburg via the Electronic Sales Platform (ESP).

By selling gas on the Turkish-EU border, Gazprom would take another step in that direction, leaving it up to Europe to offtake the product. Such a hub would also avert potential regulatory problems in Europe, much like the one in Austria earlier this month that resulted in a four-day suspension of Russian gas supplies to Italy's Eni.

Redirecting Nord Stream volumes to Turk Stream would also buttress Moscow's policy of strengthening ties with countries that did not join the sanctions regime against Russia.

Grand Gas Bazaar

With three of four lines in the Baltic Sea damaged, the Polish section of Yamal-Europe closed and the underutilized Ukrainian route at constant risk of a cutoff, Turkey may become the only transit route for Russian gas to Europe. Overreliance could be risky, though, given the history of tumultuous relations between Moscow and Ankara.

Turkey, which has long coveted a gas hub role, has agreed to study Putin's proposal. To fortify any such hub and improve liquidity, Ankara would likely seek to add Azeri and, if possible, Turkmen gas, experts say. Blending gas from various sources for spot sales might also reduce the toxicity of Russian gas in Europe, which otherwise seeks to phase out Russian imports by 2027, according to experts.

Whether the EU will agree to buy more Russian gas via Turkey and invest in expanding the receiving pipeline capacity inside the bloc is a big question. Experts also doubt that Gazprom could build new pipes in the deep Black Sea when the available pipelay fleet is seriously restricted by sanctions. Gazprom CEO Alexei Miller, however, insists the gas giant can. He even said that Turk Stream might even replace Nord Stream gas flow volumes, which last year

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totaled 59.2 billion cubic meters, compared with the current Turk Stream capacity of 31.5 billion cubic meters per year.

New Markets

While rejigging export routes to Europe, Gazprom is also weighing ways to diversify eastward and compensate for the expected loss of the European market.

Already Gazprom is ready to start construction of a link connecting its westward pipes in West Siberia with pipelines in East Siberia, Miller told the Russian Energy Week conference last week. Work on the construction of the Soyuz Vostok transit pipeline in Mongolia, part of the 50 Bcm/yr Power of Siberia 2 export project with China, should also start soon, Deputy Prime Minister Alexander Novak said.

Russia is also looking for opportunities in Central Asia and has recently floated an idea of a pipeline to Pakistan via Kazakhstan, Uzbekistan and Afghanistan.

As part of a memorandum signed with National Iranian Oil Co. (NIOC) earlier this year, Gazprom is also mulling gas swaps with Iran — although this doesn't involve physical supplies from Russia, at least at this stage, a source familiar with the matter tells Energy Intelligence. Under the swaps, Gazprom would likely buy gas from Turkmenistan, which in turn would supply gas to Iran, the source said. A separate swap could involve the supply of Iranian gas to Armenia.

Staff Reports

EXPORTS

Russian Oil Producers Hunt for New Buyers

While Moscow has approved an ambitious plan to expand infrastructure and diversify export routes, the acute task for Russian companies in coming months is finding new customers and creating an alternative supply system, industry officials have said.

Deputy Prime Minister Alexander Novak told the Russian Energy Week conference last week that, thanks to investments, oil export capacity at key ports could rise by 40 million metric tons per year (802,000 barrels per day). The investments are estimated at 150 billion rubles ($2 billion) over three years, he said, adding that work is already under way with national oil pipeline monopoly Transneft.

Market sources also say that Russia is actively working to ensure higher pipeline and rail shipments, including those to China via the Meget transshipment point in the Irkutsk region. From there oil can be delivered by rail through Mongolia. Sources say the aim is to ensure shipments of some 200,000 b/d via the route if the demand is there.

"Our key task is to ensure enough export capacities," one industry player involved in infrastructure said. "But it is the task of oil companies to allocate their barrels."

New Contracts First

No doubt, the key challenge will be to contract the volumes the West shuns, Gazprom Neft boss Alexander Dyukov told the forum. In his words, Russia still needs to reroute about 1 million b/d of the 2.5 million-3 million b/d of crude oil and products that was supplied to Europe before the war in Ukraine.

On top of seaborne supplies banned to the EU starting Dec. 5, Russian companies also need to reroute crude currently shipped to European countries via the Druzhba pipeline. Germany and Poland, which together imported 480,000 b/d along this line in 2021, plan to cease these purchases by year's end. Market sources say most Druzhba contracts for 2023 are not being extended, and some oil exporters are poised to stop supplies in November-December. Rosneft is already believed to have stopped deliveries to German refineries after Berlin nationalized three stakes that Russia's largest producer had owned. Other companies will follow, sources say.

Smaller volumes of oil will continue to flow via the Druzhba system to Central European countries that secured exemptions from the EU ban. Industry sources hope that economic sense will prevail at some point and Druzhba flows will resume in the not-too-distant future as the pipeline remains the most commercially attractive route for both sides.

Client Search

Meanwhile, companies are busy seeking out new customers and devising logistical schemes and export patterns. "It was very difficult in the first months, but now it seems things are getting better," one source said. Russia already managed to reroute roughly 1.5 million-2 million b/d, with most barrels absorbed by China, India, Turkey. Russian producers have also tested supplies to Latin America, Africa, the Middle East and Asian countries.

Sources say that Russian companies are signing short-term contracts — for half a year or a year — as well as some longer-term deals. Crucial issues involve price, payments, shipping and insurance issues and a possible price cap as EU sanctions will also ban the provision of insurance and shipping services for Russian seaborne supplies unless those comply with a proposed price cap.

Moscow has emphasized it would not agree to a cap and would stop supplies to all those adhering to "non-market" principles. A source at one Russian firm said that some customers were trying to include clauses related to a price cap, but there is a general decision "not to accept such clauses."

There is a unanimity among Russian officials and companies that, as President Vladimir Putin stressed last week, once the price cap for one set of goods is introduced, there is no guarantee it could be widened to include other goods, services and economic sectors. Bearing that in mind, Russian companies are unlikely to agree to any cap, sources say, even if that incurs lower exports or production.

Incremental Progress

As for payments and currencies, sources say that after months of discussions there has been progress. "We are making good progress with rubles, yuans, dirham payments," one industry source says, although admitting that difficulties still exist.

Insurance, fleet and trading are critical issues, and each company is understood to be searching for its own solutions. Reuters reported this week that Rosneft is chartering tankers to deliver crude via its Rosnefteflot subsidiary while also using tankers of shipping giant Sovcomflot, which is also under sanctions. Other companies are also using Sovcomflot or little-known tanker owners that keep popping up.

Dyukov said the vital task today is to create a whole new "alternative" supply system that will include expanded port facilities, insurance, tanker fleet, payment patterns, trading, pricing mechanisms. Russian companies admit this will require time, but Dyukov said he had no doubts it would be accomplished.

Staff Reports

GEOPOLITICS

Inching Toward China, Astana Distances From Russia

Kazakhstan is undertaking greater efforts to fortify energy ties with China in the hope of pumping more oil eastward as an alternative to its main transit route, Russia, and attracting more Chinese investment in infrastructure projects.

Last week in Astana the CEO of state oil company Kazmunaigas, Magzum Mirzagaliyev, met with Huang Yongzhang, head of PetroChina and vice president of its parent company, China National Petroleum Corp. (CNPC). Issues discussed included an increase of capacity in the Kazakhstan-China oil pipeline that runs over 2,200 kilometers from the Kenkiyak oil field in western Kazakhstan to the border town of Alashenkou and supplies PetroChina's Dushanzi refinery in the western region of Xinjiang.

During the first half of this year, the pipeline, which is jointly owned by KMG and CNPC, was running at close to its full 400,000 barrel per day capacity. Throughput has grown by some 15% compared to the end of 2021 due to extra flows of Kazakh oil beyond the 200,000 b/d of Russian crude supplied by Rosneft under a long-term contract with PetroChina.

Although still low, Kazakh oil deliveries to China have been creeping up in recent months as exports via Russia have become more erratic. Troubles started in March when Russia partially closed the 1.4 million b/d Caspian Pipeline Consortium (CPC) terminal on the Black Sea coast for repairs. As a result, some Kazakh barrels — most notably from the giant offshore Kashagan field — were diverted to China.

In early July, soon after a Russian court ordered CPC's closure for a month due to numerous "irregularities," although the ruling was later suspended, Kazakh President Kassym-Zhomart Tokayev ordered the government to accelerate work on expanding the Kazakhstan-China pipeline. He also called on Kazmunaigas to reactivate a long-stalled project to transport oil across the Caspian Sea to Baku, where it could ship further across the South Caucasus to Turkey.

Tokayev, a long-serving foreign minister and former ambassador to Beijing who speaks Mandarin, is determined to move closer to China and distance his country from Russia, analysts say. "He is making a very clear signal that China is a more important and reliable partner than Russia, and he knows there is not much [Russian President Vladimir] Putin can do about it," one analyst commented. He said other Central Asian countries such as Turkmenistan and Uzbekistan also sense an opportunity to strengthen relations with China now that Putin's attention is fixated on the conflict in Ukraine.

Historic Visit

To underline this shift, Tokayev hosted Chinese President Xi Jinping on Sep. 24 — Xi's first overseas trip since the start of the Covid-19 pandemic in early 2020. According to the Chinese foreign ministry, the visit marked a "new milestone" in 30 years of bilateral relations and brought "new substance and impetus" to the countries' "permanent comprehensive strategic partnership." Xi also voiced his opposition to "external forces' interference in the affairs of Central Asian countries," which was perceived to be a dig at Russia.

Chinese state oil companies are well represented in Kazakhstan. CNPC has several upstream assets, including an 8.33% stake in the Kashagan project and total ownership of a 120,000 b/d onshore producer, while Citic Resources owns 50% of smaller producer Karazhanbasmunai in a joint venture with KMG. Some private Chinese companies own shares in marginal Kazakh oil producers.

PetroChina is also a major buyer of Kazakh gas under a five-year contract signed in 2018 between Kaztransgas, KMG's former gas transmission arm now known as Qazaqgas, for pipeline deliveries of up to 10 billion cubic meters per year.

During their recent meeting, the bosses of KMG and PetroChina discussed the possibility of further co-operation in upstream projects in Kazakhstan, as well as in other projects such as the expansion of the Shymkent refinery situated in Kazakhstan's most populous region near the border with Uzbekistan.

Paul Sampson, London

FINANCE

Russian State Taps Oil, Gas for Budget Income

Russia's energy and finance ministries displayed untypical agreement in statements last week about the outlook for taxes on hydrocarbons even though, in practice, the balance they claim to have struck in actuality means a greater tax burden on the oil and gas industry at a time of upheaval on the domestic market.

Deputy Energy Minister Pavel Sorokin and Deputy Finance Minister Alexei Sazanov told participants of last week's Russian Energy Week that a "balance" has been struck between the "industry's interests and budget revenues" — one allowing the oil and gas producers to function "comfortably" in a volatile environment and the budget to raise necessary revenues for waging the conflict in Ukraine. Both official said this balance is only effective in current conditions and might be amended if the situation warrants it.

Russia is facing unprecedented sanctions from the West following its invasion of Ukraine. In recent months the country's oil and gas revenues have started to decline, and they are expected to fall further in 2023 as the EU embargo on Russian crude oil and products takes effect. A price cap plan led by the G7 could exacerbate the trend, especially if Moscow cuts off supplies to countries that adopt the cap and try to limit what Russian oil companies can earn.

Gas Producers Targeted

To preserve budget revenues, Moscow is planning to raise the tax burden on the oil and gas sector. The State Duma, or lower house of parliament, this week approved in a first reading legislation that increases taxes in 2023-25.

On the gas side, the bill calls for higher taxes on exporters so that revenues will grow by more than 2.5 trillion rubles ($40 billion) over 2023-25, including over 800 billion rubles next year. The sole pipeline gas exporter, Gazprom, will pay an extra 50 billion rubles a month in 2023-25 due to a proposed hike in the mineral extraction tax (MET) applied exclusively to the state-run giant. The bill also involves a separate MET adjustment for Gazprom effective from Jul. 1, 2023.

Combined, the two measures will yield 2.08 trillion rubles to the budget in the next three years. Moscow has already raised the MET on Gazprom to extract an additional 1.2 trillion rubles in September-November this year from windfall profits.

Under the bill, LNG exporters will be subject to an increased profit tax of 32%, up from the normal rate of 20%. This will bring in an extra 200 billion rubles in revenues next year. Sazanov said discussions are ongoing on whether to raise the rate to 34%. The increased tax will not apply to new projects, including Novatek's 19.8 million metric ton/yr Arctic LNG 2 scheduled to start in late 2023.

Novatek CEO Leonid Mikhelson told a briefing last week this exclusion of Arctic LNG 2 was "important to us." Interestingly, the company's flagship Yamal LNG project will only face a partial tax increase: part of the tax destined for the federal budget will rise to 15% from 2%, while the regional tax will remain at a reduced rate of 13.5% the project has enjoyed from the start. Mikhelson said the profit tax increase doesn't violate the intergovernmental agreement between Russia and China on Yamal LNG where Chinese investors have a 29.9% stake.

Oil Under Maneuver

On the oil side, Moscow will soldier on with the so-called tax maneuver conceived to shift the tax burden to the wellhead and reduce export duties on crude and products. The mineral extraction tax is poised to rise in 2023-25, which should bring the budget additional 629 billion rubles over the period.

Sazanov also said that the state has no plans to expand the list of fields eligible to the so-called excess profit tax (EPT) regime. He explained that an expansion of the EPT would depend on whether companies are confident that their barrels produced will find customers. Otherwise, the budget cannot afford any losses, he added.

Separately, the state will extend until end-2025 temporary amendments to calculating the formula for the so-called buffer mechanism that compensates oil companies for the difference between selling gasoline and diesel on the domestic market and exporting them. The amendments were initially planned by year's end, but the state decided to extend them in order to cut subsidies it is paying oil firms for domestic gasoline sales. Sources say oil companies were disappointed with the decision, which will cut compensation payments by 662 billion rubles in 2023-25.

As expected, Russian companies are displeased with the higher tax burden given that their investment plans are already impacted by sanctions. They claim they need tax stability for development planning.

Staff Reports

MARKETS

Crude, Products Trade Enters Terra Incognita

Russian crude exports to the EU are still 1.6 million barrels per day, down by a third from their 2.4 million b/d level before the war in Ukraine, but they are poised to plummet by at least about 1.2 million b/d once the ban comes into effect on Dec. 5. A handful of Central and southeast European companies will soak up the remainder under an exemption granted by the EU.

Russia will have to ship these volumes to new markets without using shipping assets linked to G7/EU insurance or finance. And for now it is unclear how much capacity will be available.

Russia's largest oil company Rosneft is now using its Rosnefteflot subsidiary to find options for crude transportation to buyers in Asia and potentially Latin America and Africa. Rosnefteflot was essentially a support company tasked with activities such as ship towing, refueling, or inspection. As a result, Rosneft's offshoot owns less than half a dozen of tankers and has had to charter tonnage, as well as leasing tankers from Russia's state-owned shipper, Sovcomflot.

Shipping data show that Suezmax-sized tankers capable of carrying up to 1 million barrels of crude have been able to capture the bulk of these new flows to Asia. Smaller Aframax vessels that used to carry Russian oil from the Baltic to Rotterdam are no longer economical to cover that length of voyage. And there are not enough very large crude carriers (VLCC) available to mop up the Russian crude displacements out of Europe, not to mention future products flows.

"While VLCCs normally lead the way in terms of freight market movements, this time they were following the Suezmaxes," Erik Broekhuizen, head of shipping research at Poten & Partners wrote.

Greek shipowners have been the large providers of tonnage. But smaller, non-EU companies that have been doing business off the radar are now picking up crude trade from Russia, including firms based in Liberia, the United Arab Emirates, and Vietnam. The problem is that the looming EU insurance ban has forced Russian sellers to charter Suezmaxes from less reliable shipowners with higher risk profiles and barely any proven track records.

Sky's Limit for Diesel

French refinery strikes have pushed Europe's already desperate diesel market into uncharted territory. Acute price backwardation, record high physical premiums and historic spreads between northwest Europe and the Mediterranean illustrate how efforts to switch from Russia to East of Suez suppliers are seriously disrupting Europe's diesel trading dynamics and exposing major shortfalls.

East of Suez ultra-low-sulfur diesel (ULSD) arrivals are the highest ever. October arrivals are up 20% on last month at 2.4 million metric tons (580,000 b/d), according to tanker trackers. But the greater volumes are still not enough to make up for missing French production and evaporating Russian ULSD supplies.

Industrial action has wiped out around 300,000 b/d of French ULSD production since mid-September. Russian flows to Europe, meanwhile, are running at under 250,000 b/d this month, down from over 500,000 b/d before the war. Brokers say longer journey times from the Mideast and Asia mean fuel is being sold much further in advance. Meandering tanker routes via the Suez Canal and through the Mediterranean also mean fewer tankers are making it to northern markets previously served by Russia via the Baltics.

French oil company TotalEnergies was bidding for diesel into all available French ports last week — Le Havre, Bordeaux, Donges, Lorient and La Pallice/La Rochelle in NWE and Lavera in the Med — without any success. Swiss trader Glencore briefly offered ULSD into Lavera on France's Med coast but at a $43 per ton premium to already eye-watering published assessments.

ULSD cargoes ended the week printing at a $114.75/ton premium to November low-sulfur gasoil (LSGO) futures in NWE, up from a $132.75/ton discount to the outgoing October screen a week ago. Flat ULSD prices were up a whopping 15% on the week. NWE diesel was pegged at a $52.25/ton premium to the Med, up from an $85.25/ton discount a week ago.

Closely watched independent gasoil tanks in Amsterdam-Rotterdam-Antwerp dropped 10% last week to a five-week low of 1.651 million tons, according to Insights Global. The stock monitor reported fresh diesel arrivals from China, India and the UAE as well as Russia and local refiners. Re-exports went to France, the UK and Poland, as well as what brokers suspected to be Russian fuel to Argentina and West Africa.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Exxon Ostracized

Exxon Mobil said it had exited Russia following the annulment of its operatorship in the Sakhalin-1 project by presidential decree. In accordance with the decree, a new operating company, Sakhalin-1, was registered in Yuzhno-Sakhalinsk on Oct. 14.

Under President Vladimir Putin's order, all foreign participants in the project can maintain their stakes but must inform the Russian government of their intention within 30 days. Exxon sees the move by Moscow as a unilateral termination of its interests in Sakhalin-1. Exxon had operated the field via a Bermuda-registered affiliate that owned 30% in the venture. It will not receive proceeds from the sale as financial losses from the halt of Sakhalin-1 production is reportedly estimated at 4 billion rubles ($65 million) a month.

The US major's stake will be sold to a Russian company, likely Rosneft, whose two subsidiaries already hold 20% in the project. One of them has been appointed a sole executive authority for the venture. India's ONGC Videsh has decided to retain its 20% stake, while Japan's Sodeco is also expected to keep a 30% holding.

Rosneft Supplies Germany

Rosneft has not ceased crude oil supplies to Germany despite threats to do so after its refining assets in the country were nationalized by Berlin, Energy Intelligence has learned from trading sources.

Rosneft admitted the flows in a lawsuit filed last week with the federal administrative court in Leipzig. The suit disputes Germany's decision last month to put Rosneft's holdings under external management of the Federal Network Agency. In the suit Rosneft argues the German government's asset seizure has no legal basis since the company continues to supply oil to Germany. "Rosneft in full carries out its crude oil supply obligations, there are no disruptions in shipments or operations," the document, as quoted by German and Russian press, said. Rosneft accounted for 12% of German refining capacity, having owned 54.17% in the 220,000 b/d PCK Schwedt refinery, 24% in the 310,000 b/d Miro plant and 28.57% in the 206,000 b/d Bayernoil plant.

Novatek Mitigates Risk

Russia's gas and oil producer Novatek has mitigated the risks of the EU oil embargo by redirecting volumes to other markets, CEO Leonid Mikhelson told a briefing last week. "Since we are a small oil producer, small in terms of some products, we have resolved the issue of markets over the past several months," he said.

Last year Novatek, which exports oil under short-term contracts, produced 4.3 million metric tons (85,000 b/d) of crude oil, down 10.9% from 2020. Mikhelson criticized the EU's proposed gas price cap mechanism to curb the growth in energy prices. He said the EU was unlikely to impose such a cap on LNG imports because that would mean capping the price of US LNG that Europe has actively been buying this year to ease its looming energy deficit.

Omsk Refinery Upgrades

Russia's Gazprom Neft completed construction of a 2 million metric ton/yr (40,000 b/d) deep refining complex at the Omsk refinery that will reduce output of dirty products to virtually nil. The 160 billion ruble ($3 billion) project revolves around a hydrocracking unit that will boost yields of middle distillates at the 400,000 b/d refinery, Russia's largest. Specifically, Gazprom Neft said the complex would boost diesel output by 34%, gasoline by 8% and jet fuel by 10% compared to pre-pandemic 2019 volumes.

In addition to processing low-margin heavy oil residues, the new units will produce needle coke, a high-margin product for the domestic metallurgy industry, the company said. Official data show that the Omsk refinery had a clean product yield of nearly 79% in August, one of the highest in the industry, where the average for the month was less than 64%. As a company, Gazprom Neft had a clean product yield of 71%, contrasting to 56% for Rosneft, data show.

Spimex Adds Diesel

The Russian Federal Antimonopoly Service (FAS) has proposed to raise the required percentage of diesel that must be routed through the St. Petersburg International Mercantile Exchange (Spimex) to 10% from the current 8.5%. Sources also say that the energy ministry is pushing oil companies to boost diesel production. The moves should avert a domestic diesel shortage and subsequent price spike, which is a sensitive social issue.

In fact, sales of petroleum products on Spimex are already rising because exports are falling as more buyers avoid Russian hydrocarbons. In January-September, diesel sales on the exchange jumped by 20% compared to the same period last year, while fuel oil sales were up by 21%. In addition, diesel stocks have risen and are now 10% higher than the average over the past three years.

Firms Embrace Digital

Gazprom Neft, Russia's third-largest producer, and Transneft, the monopoly pipeline operator, have agreed to establish a single digital space for the transportation of oil and products. The move is part of Russia's broader digitalization efforts and oil and gas industry efforts to digitalize day-to-day operations. Gazprom Neft said the newly established space will tackle issues of crude and products shipment as well as quality control.

Digital solutions should boost efficiency of operations at Gazprom Neft's refineries, some of the most advanced in Russia, and product deliveries to customers. The efforts might also help forecast demand for specific products and supply schedules, which will become critically important in light of the forthcoming EU ban. Gazprom Neft and Transneft are also partners within the so-called industry competence center — one of the over 30 centers established for various industries to ease Russia's dependence on foreign equipment and technologies, including mainly software.

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 CRUDE OIL AND GAS CONDENSATE PRODUCTION, SEPTEMBER 2022

	Year-To-Date		September		Change From Previous Month	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Top 5 Producers	**1,337**	**47,013**	**1,077**	**4,185**	**-41**	**-298**
Tengizchevroil	624	21,511	656	2,484	111	351
North Caspian Operating Co.	252	8,651	105	398	21	67
Karachaganak Petroleum Operating Co.	247	8,531	92	350	-179	-714
Mangistaumunaigas	117	4,515	121	515	1	-11
Uzenmunaigas	98	3,805	103	438	5	9
Other Producers	**384**	**14,874**	**374**	**1,593**	**-10**	**-96**
Total	**1,721**	**61,887**	**1,452**	**5,778**	**-51**	**-394**

Official Kazakh figures are in metric tons. Conversions to barrels: 7.05, Karachaganak: 7.9, Tengiz: 7.92, Kashagan: 7.94. Download full dataset here. *Source: Kazakh Information and Analytical Center of Oil and Gas.*

KAZAKH GAS PRODUCTION, SEPTEMBER 2022

(MMcm)	Year-To-Date	September	Change From Previous Month
Top 5 Producers	**35,853**	**2,624**	**-1,116**
Karachaganak Petroleum Operating Co.	14,785	613	-1,295
Tengizchevroil	11,970	1,377	199
North Caspian Operating Co.	5,297	277	53
CNPC-Aktobemunaigas	3,159	288	-70
Kazakhoil-Aktobe	641	70	-3
Other Producers	**3,491**	**365**	**-8**
TOTAL	**39,344**	**2,989**	**-1,124**

Download full dataset here. *Source: Kazakh Information and Analytical Center of Oil and Gas*