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GEOPOLITICS

Russia Mobilizes Economy for War

Russia's oil and gas industry could be in the firing line as Moscow mobilizes the economy to support its armed forces in the war in Ukraine.

President Vladimir Putin introduced martial law in the four regions of Ukraine that were recently annexed by the Russian Federation. A number of other Russian regions, including Moscow, are now under a special alert regime that could require quick and extraordinary measures by local authorities in response to emergencies resulting from the war.

A coordination council chaired by Prime Minster Mikhail Mishustin has been set up to mobilize the country's economy to meet the needs of the military. The aim is to take swift decisions to supply the army with all the material and equipment it needs. Business is to participate in the process as well.

Ratcheting up the alert levels raises questions about possible changes in Russian economic policy and the impact on the country's oil and gas sector. Many expect greater state control and a possible consolidation of the industry, as well as a growing government demand for cash from the sector.

Immediate Impact

Industry players say that so far, the introduction of a special regime in some regions has resulted in additional security measures taken to protect critical energy infrastructure, including pipelines, refineries, oil reservoirs and others. The extra precautions follow the destruction of the Crimea Bridge, the explosions on the Nord Stream gas pipelines and what Putin said was foiled attempts to attack Turk Stream and other energy infrastructure.

Russian oil companies also face a loss of staff from the partial military mobilization. The government could make further demands to meet the military's growing need for oil products, especially if there is a further escalation of the war. The need for jet fuel supplies are already swelling with Russia's armed forces having boosted purchases in the first half of this month.

Russian refineries could be forced to keep throughput and supplies of the necessary oil products even if they face lousy margins.

Keeping production at the current level of about 10.6 million barrels per day of crude oil and gas condensate and finding new buyers for the export volumes could also be crucial for Moscow given the massive financial requirements for the war.

Under the draft budget for 2023, oil and gas revenues are planned at 9 trillion rubles ($184 billion), which could be tricky to achieve given the embargoes on Russian crude oil and oil products to come into effect on Dec. 5 and Feb. 5, respectively. The target is already lower than the 9.5 trillion rubles that were envisaged for this year, although the final figure is expected to be higher at some 10.5 trillion rubles.

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	Oct 25	Oct 18	Chg.
Dated Brent f.o.b. (38 API)	91.76	89.46	2.30
Russian Urals c.i.f. NWE (31 API)*	68.14	64.92	3.22
Russian Urals c.i.f. Med (31 API)†	73.14	69.92	3.22
Azeri Light (35 API)	95.59	92.37	3.22
CPC Blend c.i.f. Med (45 API)†	88.74	85.52	3.22
ESPO (35 API)	86.95	85.88	1.07
Dubai (30 API)	89.56	89.70	-0.14

PRODUCT PRICES

($/ton, c.i.f. basis)	Oct 25	Oct 18	Chg.
ICE LSGO Futures (front month)	1,072.25	1,105.00	-32.75
ICE LSGO Futures (second month)	1,003.75	1,020.50	-16.75
0.1% Gasoil NWE*	1,094.50	1,154.25	-59.75
0.1% Gasoil Med*	1,089.50	1,119.25	-29.75
10 ppm Diesel NWE*	1,223.00	1,318.00	-95.00
10 ppm Diesel Med*	1,151.50	1,181.25	-29.75
HSFO NWE*	347.00	341.00	6.00

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

Finance Minister Anton Siluanov admitted the risk of income falling next year. "If these budget revenues are not available, we will look for other sources of funding and prepare proposals to ensure the budget balance," he said in an interview with Russian RBC media holding published this week. He could have implied that the government was considering ruble devaluation and higher taxes.

Siluanov confirmed that the state will increase the tax burden, including that on the oil and gas sector. The State Duma, or the lower house of the Russian parliament, last week approved in its first reading a draft legislation that envisages a higher mineral extraction tax (MET) for crude oil and for Gazprom, while LNG exporters will be subject to an increased profit tax

Gas Priorities

The Russian gas industry's main task remains to cover domestic demand during the winter while also ensuring the safety of production and transportation facilities. Domestic demand hasn't been growing this year and any further potential slowing of the economy should put additional pressure on gas demand. Russia's gas production was already down 10% on the year in the first nine months of 2022, although this was mainly due to a sharp drop in pipeline gas exports.

Pipeline gas and LNG exporters Gazprom and Novatek have benefited financially from high export prices and accepted that they must share windfall profits with the state through additional taxes. The Kremlin's key cash cow — state-controlled Gazprom — will soon complete dividend payouts of a total 1.2 trillion rubles for the first half of 2022, as approved by shareholders in late September. Gazprom, the country's sole pipeline gas exporter, will also start this week to pay a higher MET set exclusively for the company for September-November this year.

Lukoil's Uncertain Future

The expectations of a bigger state role in the country's economy has revived speculation about a possible takeover of Russia's top independent oil producer Lukoil by state-controlled Rosneft. Market players already point to the departure of Lukoil's key figures and major shareholders Vagit Alekperov and Leonid Fedun, as well as the death in unusual circumstances of board Chairman Ravil Maganov, as signs of upcoming changes.

The discussed purchase of Lukoil's trading arm Litasco by the oil producer's management could allow them to keep some assets of the company's empire in case its Russian assets come under Rosneft's control. Litasco owns Lukoil's European refineries and trades oil and products globally.

Staff Reports

EXPORTS

Russian Oil Heads East as EU Embargo Looms

Russia looks certain to ramp up crude oil shipments to China and India in the coming weeks, as the EU prepares to activate an embargo on Dec. 5 that, with one or two exceptions, will close the door on Russian crude exports to Europe. An EU ban on refined products imports will follow on Feb. 5 , which will force Russian exporters to find new markets for diesel but could also leave Europe facing shortages, traders warn.

Since Russia's invasion of Ukraine on Feb. 24, there has been a surge in crude oil exports to China and India, which now account for more than 2 million barrels per day between them — close to half of overall Russian crude exports. Much of the business is being done with big-state owned refiners. Since April, Rosneft has been sending several cargoes a month of Urals and East Siberia-Pacific Ocean (Espo) blend to Indian Oil Corp. (IOC), while Unipec and PetroChina are its key Chinese customers. Other well-connected Russian producers such as Surgutneftegas and Zarubezhneft are also sending more barrels east.

Torbjorn Tornqvist, chairman and chief executive of Swiss trader Gunvor, which maintains a small presence in Russia, predicts there will be more barrels heading east as crude sales to Europe drop off. "A lot of it is already going outside Europe, so that will continue and they will just do more. The routes are established ... and the infrastructure for dealing with that is being built up," he told Energy Intelligence in an interview in London. For the past six months, he says there has been a "re-routing" of oil flows in global markets, with Russia sending discounted barrels to India and China and helping to "subsidise" their systems, and crude from the Mideast and US heading to Europe.

Tornqvist said a problem Europe will face early next year is how it will cope with a loss of Russian diesel imports, that account for roughly 50% of its overall intake. "Europe imports around 3 million metric tons a month (1 million barrels per day) of distillates, and roughly half of that comes from Russia," he said. "It's massive." He said Russia would probably be able to divert the cargoes to Asia, including Singapore and China, but may struggle with the logistics during the winter months and be forced to reduce refinery runs.

Fading Fast

Other trading sources say Europe is already fading fast as a market for Russian oil, and that the embargo will have no tangible effect on volumes in the short term. "It's already been factored in, so I don't see much change in export levels, almost everything will be heading east," a veteran Russian trader says. But he wonders if India and China have much appetite to ramp up their intake of Russian barrels any higher. "I think they may have reached their limit. They don't want to be reliant on one supplier."

After the EU crude embargo kicks in, traders predict it will become even harder to track where Russian barrels are going — who is selling and buying them. Over the past six months, there has been a proliferation of obscure entities registered in Dubai, Hong Kong and elsewhere that have cropped up as offtakers of Russian crude. These include players such as Bellatrix Energy, Sunrise X Trading and Tejarinaft that charter tankers for Rosneft on a regular basis, but have no visible profile and no assets to their names. "These are 'pop-up' companies that don't do business with anyone else, and essentially act as charterers," a longtime European trader says. "If they get into trouble, then they will just close down the next day."

Lukoil Dubai

The largest independent offtaker of Russian barrels remains Litasco, the Geneva-based trading arm of Lukoil, which handles barrels not just for its parent but also, on a limited scale, for West Siberian producer Surgutneftegas. Since the EU and Switzerland introduced a raft of Russia trade sanctions in May, Litasco has been moving more of its people to Dubai, where the company has an office, and doing less business out of Geneva, according to multiple sources. "It's becoming more and more a Dubai-based operation, and that seems to suit everybody," a Dubai-based trader says.

Litasco would not comment on reports in Bloomberg that it would split itself into two parts — one handling Russia-related business out of Dubai, and most of the rest from Geneva.

Paul Sampson, London

GEOPOLITICS

Russia Boosts Iran Ties Amid Growing Isolation

Greater Western pressure on Iran is driving Tehran closer to Moscow, with both countries having reportedly agreed on the purchase by Russia of Iranian gas turbines. On top of that, the two sides are gearing up for oil and gas swaps and preparing to sign a comprehensive strategic cooperation agreement.

Iran is being hit with new sanctions on the back of accusations that it is supplying drones to Russia to attack critical infrastructure in Ukraine. Both sides deny the charge, while analysts in Russia note that Ukraine is receiving massive military support from the West.

Iranian President Ebrahim Raisi was quoted as saying this week on the sidelines of the the 18th General Assembly of the Organization of Asia-Pacific News Agencies in Tehran that Iran takes its relations with Moscow very seriously and views the Shanghai Cooperation Organization, which both countries are members of, as another center of power.

Grand Economic Plans

The sanctions imposed on Russia by the West have themselves opened new opportunities for Russia and Iran to cooperate, Ahmad Asadzadeh, Iran's deputy oil minister, told the Russian Energy Week forum in Moscow this month. He said that includes cooperation in oil and gas as well as in power and electricity.

Russian investments in Iran have not amounted to more than $2 billion in past years. But Gazprom and National Iranian Oil Co. (NIOC) recently signed a memorandum of understanding, worth up to $40 billion, which envisages the development of two gas fields and six oil fields, Asadzadeh noted. The two companies' goals include the supply of gas to Pakistan and Oman and gas liquefaction in Iran.

Asadzadeh told Energy Intelligence that the agreement also envisages the exchange of technology, including for the development and transportation of oil and gas, adding that Gazprom was particularly interested in technology that Iran produces for its domestic gas sector.

Iran's Shana news agency over the weekend cited the CEO of Iranian Gas Engineering and Development Co. as saying that Russia and Iran had signed an agreement under which Moscow will purchase 40 Iran-made gas turbines. This would help Russia's gas-fired power generation sector, where Moscow's import-replacement plans have not progressed smoothly. Russia does produce its own small and medium-sized turbines for gas-fired power plants, but it has depended heavily on imports of large gas turbines, which have been disrupted by Western sanctions.

Swaps Bumps

Asadzadeh said that Iran is interested in shipping Russian gas through its territory to neighboring countries that need the gas. Russian Deputy Prime Minister Alexander Novak recently revealed that Moscow and Tehran are discussing oil and gas swaps, which might start at 5 million metric tons per year (100,000 barrels per day) of crude oil and 10 billion cubic meters per year of gas. Novak indicated that an agreement might be reached this year, but provided no further details.

Oil swaps envisage shipping Russian crude via the Caspian Sea to the north of Iran to its refineries at Tabriz and Tehran. In return, the Russian shippers could be allocated an equivalent volume of Iranian Light crude at the Kharg Island oil terminal in southern Iran. However, with Iranian oil still under sanctions, it remains unknown how this swap could work.

There is no clarity about gas swaps either. They are not supposed to involve physical supplies from Russia at this stage, according to Russian industry sources. Although Iran swaps cannot now help Gazprom monetize its gas by redirecting flows from the European market due to infrastructure constraints, the Russian sources say it is important for the Kremlin to build up trade ties with Tehran amid the standoff with the West over Ukraine.

To be fair, gas swaps with Iran had already been discussed before the war in Ukraine but the talks appear to have accelerated under the July memorandum between Gazprom and NIOC. Under the swaps, Gazprom would likely buy gas from Turkmenistan, which in turn would supply gas to Iran, a source close to the company said. Swaps could also involve the supply of Iranian gas to Armenia.

In late September, the Iranian oil ministry announced plans to purchase 9 million cubic meters of gas per day from Russia via Azerbaijan for its needs, as well as an additional 6 MMcm/d as part of a swap agreement that would see the gas exported onward to other nations.

North-South Corridor Constraints

Russia and Iran are keen to develop the North-South international transport corridor, which envisages a combination of ship, rail and road networks for sending goods between India, Iran, Afghanistan, Azerbaijan, Russia, Central Asia and Europe. Asadzadeh said a lot of work has yet to be done to dredge the Volga river and Russia's Caspian Sea ports, as well as to develop the necessary rail infrastructure and prepare ports in Iran for transferring goods.

Other issues that have to be tackled to smooth bilateral trade include settling the differences in tariffs that currently prevent the shipment of goods such as petrochemicals, Asadzadeh added.

He also said the two countries should develop finance and payment mechanisms as Russia is moving away from the dollar and seeks to use national currencies in its trading operations. Asadzadeh suggested that Russia and Iran should establish a joint fund to finance projects between the two countries.

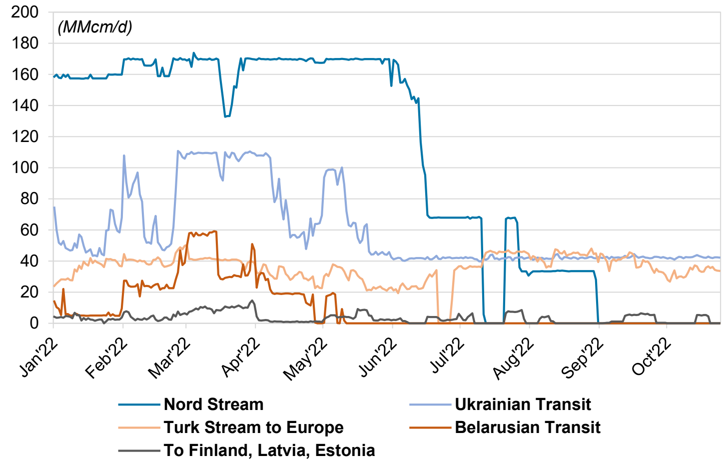
Staff Reports

GAS

Russia Faces Deeper Gas Production Decline

The sharp drop in exports of Russian gas by pipeline since the start of the war in Ukraine in February has slashed Russia's production, but an even bigger cut in output capacity will be seen in 2023, as there is no sign of flows to Europe being restored. Russia's overall gas output is being pulled down by the top

RUSSIAN GAS FLOWS VIA KEY ROUTES TO EUROPE



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

producer and sole pipeline gas exporter, state-run Gazprom, whose production fell 18%, or by 72 billion cubic meters, to 327.4 Bcm in the first nine and a half months of 2022, the company said last week. That in turn is being driven by a steep fall in Gazprom's exports to Europe (including Turkey) and China, which crashed 41.4%, or 63 Bcm, to 89.3 Bcm.

The drop accelerated significantly in the summer, after Gazprom slashed gas flows via the Nord Stream pipeline to Germany in mid-June and later halted flows completely, before the pipeline was damaged in an apparent sabotage attack in late September.

Daily exports to Europe, excluding Turkey, averaged 77 million cubic meters per day in the first 24 days of October, according to gas transmission data, compared with 300 MMcm/d supplied on average in the first five months of this year (see graph).

Gazprom's production fell 34% on the year to some 14.1 Bcm in the first 15 days of October, which translates into some 63% of its total upstream capacity, compared with an average 1.4 billion cubic meters per day in the first five months of 2022, or 93% of capacity. In October 2021, Gazprom produced an average 1.435 Bcm/d (see graph).

From Record to Decade Low?

If exports to Europe remain at the current daily volumes — and they are more likely to fall than rise — Gazprom may lose another roughly 40 Bcm of the European market. With pipeline gas exports to China set to grow by only another 7 Bcm next year, according to the Power of Siberia pipeline ramp-up schedule, and with no other alternative routes in place, exports to Europe will remain the key factor pulling Russia's gas production lower next year, potentially to decade-low levels of below 630 Bcm.

Russia posted a post-Soviet record of 762.3 Bcm in natural gas production last year, but in 2022 it is projected to lose something in between Moscow's official forecast of 10% and some 15%

expected by the International Energy Agency (IEA), according to Sergei Kapitonov, a gas analyst at Skoltech Project Center for Energy Transition and ESG in Moscow.

Gazprom will likely see its exports near annual lows this year and lose almost 100 Bcm of production, or some 20% of the 2021 figure, which was the highest in 13 years at 514.8 Bcm, Kapitonov said. But other producers are increasing their output, which slightly softens the trajectory of Russia's overall decline, he added.

Russia's second-largest gas producer, privately owned Novatek, expects its production to grow some 2%-3% this year, which can partly be attributed to higher production by its 50.1%-controlled Yamal LNG project, which is expected to hit an LNG production record of some 21 million tons, up from 19.6 million tons in 2021.

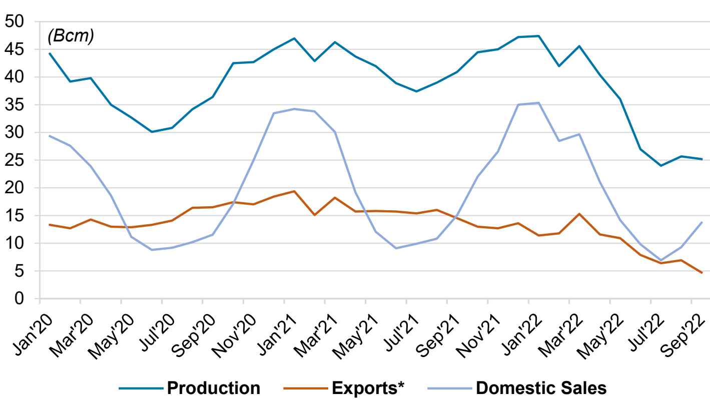
Novatek's and Gazprom's domestic sales data, however, show that the domestic demand is not growing this year, reflecting an economic slowdown triggered by the war in Ukraine and international sanctions against Russia. Gazprom estimates its domestic sales to have fallen 5.2% on the year to some 173 Bcm in the first nine and a half months of 2022, while Novatek's nine-month domestic sales decreased 2.6% to 48.4 Bcm.

Russia's economy is expected to decline further in 2023, though at a slower pace than in 2022, which should keep pressure on the country's gas consumption. Russia's economic development ministry expects gross domestic product to decrease 0.8% in 2023, compared with a 2.9% decline in 2022, while the International Monetary Fund forecasts Russia's GDP to decrease 2.3% in 2023 after a 3.4% fall in 2022 and the World Bank predicts it will drop 3.6% in 2023, compared with a 4.5% fall this year.

Strategy Reassessment

The drop in production doesn't pose serious threats to gas wells, which are usually shut in the summer and re-opened in the winter to cover higher demand, but it means part of the upstream capacity might remain idle year-round and new upstream investments might be reviewed until new markets are found.

GAZPROM'S NATURAL GAS PRODUCTION, PIPELINE GAS EXPORTS, DOMESTIC SALES



Exports to Europe and China. Source: Gazprom, Energy Intelligence

"In the longer term we might expect a full reassessment of Gazprom's export strategy, which can include not only geographical diversification, but also product range diversification, with more attention to production of gas chemicals and possibly LNG," Kapitonov said. New gas resources are needed for this purpose, but Gazprom's investments might not be as high as its record spending in 2018-19, he added.

This year, however, Gazprom is spending big, taking advantage of its huge windfall revenues from record-high prices in Europe. Gazprom's board last week approved an increase of the 2022 investment program to a record 1.98 trillion rubles ($32.3 billion), up 13% from an initial target and 67% higher than the 2021 outlay. The previous record was hit in 2018 when Gazprom's investments totaled almost 1.5 trillion rubles.

Staff Reports

ENERGY TRANSITION

Russia Backs Green Technology Drive

Russia will focus on developing its own technologies for the energy transition and domestic low-carbon market with a view to enhancing its self-reliance in the face of Western sanctions and to opening new export markets in "friendly" countries.

But while Moscow is eager to show it is not backing down from its own decarbonization ambitions, it will need to tweak its transition strategy in light of the withdrawal of foreign partners from low-carbon projects and the more general divorce with the West amid the war in Ukraine.

Geopolitical tensions this year have fundamentally altered the way companies around the globe are approaching the transition. Conventional energy sources have made a comeback and are expected to keep their dominant role on the world energy balance for some time. Russia, one of the world's top oil and gas producers, has always supported a weighted approach to the transition, which it speeded up in recent years, largely driven by tougher European legislation and by investments in low-carbon projects with their foreign partners.

But as most Western majors have pulled out of projects in Russia, participants at the recent Russian Energy Week forum agreed that the country's efforts toward the transition should now be focused on "technological sovereignty" — the development of technologies as part of the import-replacement drive that has intensified since the Feb. 24 invasion of Ukraine. One bonus of this approach would be that it would enable Russia to export its homegrown technologies to friendly countries. Among the technologies on the agenda, the focus should be on carbon capture, utilization and storage (CCUS), hydrogen and renewables. Apart from the intensified development of new technologies, the general pace of Russia's energy transition should be reasonable, smooth and justified, Deputy Prime Minister Alexander Novak told the forum.

Carbon Catchers

Speaking at the forum, Alexey Malyutin, Gazprom Neft's director for development of strategic initiatives, said that the company, the oil arm of state-controlled Gazprom, already has an active full-chain CCUS project in Serbia, which allows it to utilize and store up to 150,000 metric tons of CO_2 per year. He said the company has the necessary expertise to develop a similar project in Russia for up to 1 million tons/yr of CO_2, but that would require the establishment of the whole chain — from technologies to potential customers.

Gazprom Neft had been preparing a pilot CCUS project in Russia's Orenburg region, but sources said it would have used foreign technology. According to Russia's energy ministry, the country's largest companies — including Gazprom Neft, Lukoil, Novatek, Rosneft and others — are currently considering some 10 CCUS projects. Russian officials have said the country's storage potential is significant at an estimated 200 million-350 million metric tons/yr.

Hydrogen Boon

Hydrogen technology is also something that Russia should focus on, industry experts believe, even though enthusiasm for hydrogen around the globe has seemingly calmed down.

According to Denis Deryushkin, general director for the Russian energy ministry's energy agency, hydrogen technology could be something that Russia would be able to sell abroad at a time when the country's plans to export hydrogen itself are being reconsidered because of the departure of Western companies and the loss of potential markets in Europe, Japan and South Korea. Russia's hydrogen development strategy envisaged exports of 2 million-12 million tons/yr by 2035, but many projects are currently being reconsidered as they involved Western partnerships.

The development of homegrown technologies and their use in the domestic market should help Russia export them in the future to friendly countries. Tatyana Zavyalova, senior vice president for ESG at Russia's Sberbank, says China is currently the largest hydrogen consumer with consumption of 25 million tons/yr, or more than a quarter of the global hydrogen market of 90 million tons/yr, while the EU's share is just 10 million tons/yr. China and other friendly countries could be a potential market for Russian technologies.

Konstantin Romanov, the head of Gazprom Hydrogen, also said that the international focus for hydrogen export has now been put on hold. Gazprom would focus on technology innovation and, more importantly, on nurturing the local market.

Staff Reports

OIL MARKETS

Refiners Face Winter Headache as Urals Dries Up

The disappearance of Russia's Urals crude oil from the European refining slate has created serious issues, most of which revolve around crude quality and diesel yields.

Medium-sour grades like Urals are an ideal feedstock to produce high-quality diesel in the sorts of volumes required by the European retail market. Many refineries in Europe were designed to process it as a base crude.

But with refiners shunning Urals, a full EU ban on Russian crude looming on Dec. 5, and Opec-plus cutting its nominal output by 2 million barrels per day, the market is heading for a crunch in medium-sour oil supply.

Russian diesel, which has very good cold properties, was also essential to correct the pool of other diesels that are not suitable for the European winter. Once the EU ban on Russian oil products kicks in on Feb. 5, 2023, this feedstock will become unavailable.

With sour crude supply running away, European refiners are feeling hard-pressed to look for heavier barrels if they want to meet winter diesel specifications.

"So, it's not that easy to find a spot cargo of something which is 27-28 API," a source said. "There is a larger trend of appreciation for the heavier barrel."

Grades that closely match Urals quality and yield enough diesel see their differentials well supported, like Norway's Johan Sverdrup.

But anything lighter tends to clog refiners' overhead capacity and produce too much low-value naphtha when what is needed is heavier, sour crude to produce more diesel.

This trend is partly reflected in the lower differentials for some of the North Sea crudes. These grades used to be an ideal complement to Urals to match the retail market requirements. In the absence of Urals, they are struggling to find buyers now that the gasoline season is over.

Russian Diesel Flows Drop as Term Deals Expire

Europe's diesel traders are still grappling with supply-side chaos even as the tension caused by French refinery strikes starts to ease.

Ultra-low-sulfur diesel (ULSD) margins remained close to record highs in the \$70s per barrel, despite a return to work by workers at Exxon Mobil's Gravenchon and Fos refineries and TotalEnergies' Donges plant. Colleagues at Total's other diesel-focused plants and terminals are expected back in the coming days but traders warn it could still take weeks before French fuel is flowing. Strikes have knocked out at least 300,000 b/d of French ULSD production.

Meanwhile the battle to replace Russian ULSD imports ahead of an outright ban next year is still ongoing.

Russian gasoil imports into Europe have fallen sharply this month, after a raft of term supply deals expired at the end of the third quarter. Contracts are unlikely to be renewed until after Russia withdraws from Ukraine. January will see another sharp drop in Russian diesel flows into Europe as calendar contracts end ahead of the Feb. 5 EU import ban.

For now, Russia still makes up around a third of Europe's gasoil imports, on a par with ramped up volumes from the Mideast Gulf. India accounts for around a fifth of Europe's diesel arrivals these days, while the US accounts for almost a tenth and longer-haul suppliers in the Far East, including China, the remainder. Total arrivals are pegged at some 1.8 million b/d this month.

Europe is successfully drawing East of Suez diesel away from West Africa while US barrels are increasingly heading trans-Atlantic rather than to markets in South America. But the rerouting of global diesel flows is coming at a high price for European motorists.

There are already signs that distillate demand is flagging even with fuel switching away from natural gas. UK diesel demand is on track to fall 10% below pre-pandemic levels this year as high pump prices and a wider cost-of-living crisis hit car use. Recent consumer surveys show almost half of UK motorists cutting back on nonessential journeys.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Rosneft Tenders Sokol Crude

Russia's state-controlled Rosneft has announced a tender for Sokol crude oil produced at the Sakhalin-1 project, which was recently handed over to a Russian-registered operating company. Trading sources confirmed that Rosneft is offering six cargoes of Sokol crude, each for 95,000 metric tons, for loading from the De-Kastri terminal in November and early December. Data from Kpler show that shipments might resume already this month.

The new tender might signal the expected production recovery at the project, where output dropped to minimal levels of just 5,000-10,000 b/d compared to some 200,000 b/d in April, because of the actions of Exxon Mobil as the previous operator. Exxon reportedly halted production because of an unwillingness to use tankers owned by sanctioned Sovcomflot. Exxon quit the project after it lost the operatorship of Sakhalin-1. India's ONGC Videsh and Japan's Sodeco retained their holdings in the project.

Kazakhs to Buy Russian Gas

Kazakhstan is negotiating to buy Russian gas to cover an expected deficit in the next two years. The issue was discussed at meetings in Moscow last week between Kazakhstan's First Deputy Prime Minister Roman Sklyar and Energy Minister Bolat Akchulakov and Russia's Deputy Prime Minister Alexander Novak and Gazprom CEO Alexei Miller.

A Russian government press release said that talks covered Russian gas supplies to Kazakhstan and the transportation of crude oil and oil products, as well as "investment projects in Kazakhstan with the participation of Russian business."

Akchulakov said on the sidelines of the recent Russian Energy Week forum that Kazakhstan was aiming to buy 4 Bcm/yr, which the country could need right away. But in 2024, Kazakhstan would like to get 10 Bcm/yr of Russian gas.

Kazakhstan produces about 55 Bcm/yr of gas but only about half that amount is used commercially, with the rest being injected back into the reservoirs. Growing domestic needs have also prompted Kazakhstan to reduce exports to China. Akchulakov told Energy Intelligence that shipments to China would amount to about 4 Bcm this year, less than half of past exports.

Gazprom Starts Up Giant Field

Gazprom has started commissioning work at the Kovyktinskoye field in East Siberia which will increase exports to China via the Power of Siberia pipeline, the Russian gas giant said on Oct. 25.

Kovyktinskoye gas started to flow into the newly built 800 km section of Power of Siberia, connecting the field with the Chayandinskoye field which has been exporting gas to China via the pipeline's first 2,200 km section since December 2019.

Gazprom expects to complete commissioning and start commercial operations at Kovyktinskoye in December, CEO Alexei Miller said.

With Kovyktinskoye launched, Power of Siberia exports are expected to grow to 22 Bcm in 2023, from the planned 15 Bcm this year, Deputy Prime Minister Alexander Novak said earlier in October. When both Kovyktinskoye and Chayandinskoye fully ramp up their production, Power of Siberia exports should reach the contracted level of 38 Bcm/yr in 2025.

Kovyktinskoye might also feed the proposed 50 Bcm/yr Power of Siberia 2 pipeline to China across Mongolia, as Gazprom plans to link up its eastern pipelines.

Russian LNG Hits China High

Russia's LNG exports to China hit a new high in September, growing 22% on the month and 32% on the year to some 824,000 metric tons, according to data from China's General Administration of Customs.

Due to high spot prices, China tends to buy more volumes under oil-linked long-term contracts with Novatek's Yamal LNG plant, as well as with pipeline gas suppliers, including Russia's Gazprom.

China's overall LNG imports fell 12% on the year in September, because of a sharp growth in spot prices (p9).

In the first nine months, China's total LNG imports fell 20%, while LNG imports from Russia rose 30% to some 4.3 million tons.

Apart from lower-priced Yamal LNG under a long-term contract with China National Petroleum Corp., China this year has been stepping up spot purchases from the Gazprom-controlled Sakhalin-2 LNG plant in Russia's Far East, close to key Asian markets.

Additional volumes from Russia enable Chinese buyers to redirect their other contracted volumes from other sources to the even higher-priced European market, experts say.

Sides Differ on CPC Restart

Confusion surrounds the full restart of the Caspian Pipeline Consortium (CPC) oil pipeline from Kazakhstan to a terminal near the Russian Black Sea port of Novorossiysk.

Kazakh Energy Minister Bolat Akchulakov said last week that CPC would resume full operations of the maritime terminal after Oct. 25 as all the technical troubles would be resolved.

But the consortium which operates the 1.35 million b/d pipeline dismissed the reports, saying that maintenance work is still being carried out. Two of the three single point moorings (SPMs) at the CPC terminal are out of operation as the consortium needs to replace buoyancy tanks because of cracks detected in the subsea hose attachments to the tanks. The CPC pipeline remains the key export route for Kazakh crude, but disruptions in supplies since March have forced Kazakhstan to look for alternative outlets. According to reports, the routes that are already being tested include rail transport and shipments across the Caspian Sea to world markets via the Baku-Tbilisi-Ceyhan pipeline.

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 GAS CONDENSATE PRODUCTION, SEPTEMBER 2022

	Year-To-Date		Sep		Change	
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)
Lukoil	5.6	181.1	4.9	17.3	0.1	-0.3
Rosneft	122.4	3,930.7	164.9	581.8	16.9	42.3
Gazprom Neft	18.2	583.5	16.8	59.2	-0.3	-3.0
Slavneft	1.9	60.0	2.6	9.1	0.3	0.8
Russneft	0.8	24.3	0.7	2.5	0.0	-0.1
IPC (Neftegasholding)	2.5	81.7	2.1	7.3	-0.6	-2.3
Russian Oil Company Total	**151.4**	**4,861.3**	**191.9**	**677.2**	**16.5**	**37.5**
Gazprom	418.9	13,454.3	427.0	1,507.1	134.4	439.8
Novatek	117.5	3,773.6	127.8	451.1	6.8	9.6
Other Producers	232.7	7,473.2	242.5	856.1	23.7	57.9
PSA Operators	38.1	1,223.2	32.5	114.8	-0.3	-4.9
Russia Grand Total	**958.5**	**30,785.5**	**1,021.8**	**3,606.3**	**181.0**	**539.8**

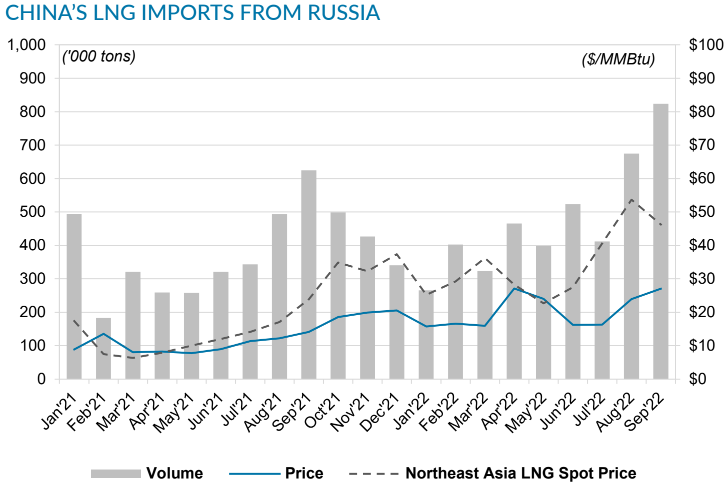
Table is based on the following factors for conversion to barrels: 8.5. Data for the previous month were revised. Download full dataset here. *Source: Energy Intelligence*

RUSSIAN CRUDE OIL PRODUCTION/EXPORTS, SEPTEMBER 2022

	Year to Date		Sep		Change From Previous Month		Sep Exports		% of Sep Output Exported
('000 b/d or metric tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	(b/d)	(tons)	
Lukoil	1,582.7	59,761.8	1,584.0	6,572.8	-1.6	-226.0	425.0	1,741.8	0.3
Rosneft	3,122.0	117,883.2	3,188.4	13,229.8	-27.3	-558.2	2,086.1	8,549.5	0.6
Gazprom Neft	771.2	29,119.2	767.4	3,184.4	12.8	-51.4	291.2	1,193.4	0.4
Surgutneftegas	1,187.4	44,835.2	1,178.0	4,888.1	3.2	-149.4	693.3	2,841.4	0.6
Slavneft	234.8	8,867.2	242.5	1,006.1	-0.5	-35.6	0.0	0.0	0.0
Russneft	136.0	5,135.4	137.4	570.2	0.2	-18.2	33.3	136.6	0.2
Tatneft	572.3	21,608.1	588.7	2,442.6	5.3	-58.8	274.8	1,126.2	0.5
Bashneft	351.3	13,263.2	384.9	1,597.2	-3.6	-68.5	0.0	0.0	0.0
IPC	329.9	12,456.8	335.1	1,390.3	4.8	-25.7	0.0	0.0	0.0
Russian Oil Company Total	8,287.5	312,930.1	8,406.4	34,881.4	-6.8	-1,191.7	3,803.7	15,588.9	0.4
Gazprom	114.4	4,320.8	110.6	459.1	-8.6	-52.0	7.4	30.4	0.1
Novatek	50.7	1,915.8	45.8	190.0	-3.2	-19.9	6.1	25.0	0.1
Other Producers	1,125.2	42,487.3	1,126.0	4,672.2	-1.4	-161.9	462.0	1,893.4	0.4
PSA Operators	165.1	6,232.9	68.8	285.7	6.5	18.3	0.0	0.0	0.0
Russia Grand Total	9,742.9	367,887.1	9,757.7	40,488.4	-13.4	-1,407.2	4,279.2	17,537.7	0.4

Table is based on the following factors for conversion to barrels: crude oil production - 7.23; crude oil and gas condensate exports - 7.32. Download full dataset here. *Source: Energy Intelligence*

CHINA'S LNG IMPORTS FROM RUSSIA



Source: China's General Administration of Customs, Energy Intelligence