Energy Intelligence

VOL. 31, NO. 44
NOVEMBER 9, 2022
WWW.ENERGYINTEL.COM

NEFTE COMPASS®

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EXPORTS

Russian Oil Sales in Flux as Price Cap Takes Shape

With less than a month before the EU embargo on Russian crude oil imports takes full effect on Dec. 5, Russian oil companies are finding it more difficult to allocate their barrels. Market sources say that some planned October loadings were shifted to November and some were canceled, partly because of shipping problems.

In the past week, the G7 countries have confirmed their intention to introduce a price cap on Russian seaborne barrels. And the UK has banned the use of shipping and insurance services for the transportation of Russian crude.

Moscow is seeking ways to keep its crude flowing to world markets, but October exports hit new wartime lows.

Details of the proposed price cap will be finalized "in the coming weeks," G7 foreign ministers said in a statement. As details filter out, Reuters reported that the G7 and Australia agreed to set a fixed price for Russian oil, rather than a floating one, which market players say is easier to control and manage, but which will require regular reconsideration.

Separately, the UK, which accounts for the bulk of the international maritime insurance industry, on Nov. 3 introduced legislation that bans UK companies from providing shipping and related services for exports of Russian crude oil from Dec. 5 and Russian refined products from Feb. 5, unless the cargoes are sold at or below the price cap.

Wartime Low

While the West is still hammering out details of a price cap that would trim Moscow's oil revenues but still allow Russian barrels to continue flowing to global markets, Russia's crude exports dropped in October to their lowest levels since the beginning of the war in Ukraine in February.

According to sources familiar with the data, Russian crude exports to non-former Soviet Union countries dropped by 77,000 barrels per day on the month to just 4.668 million b/d in October, which was also down by over 720,000 b/d from April levels, when exports hit their highest historic levels on the expectations of the forthcoming EU sanctions.

Baltic and Black Sea outlets both saw a decline in shipments of over 100,000 b/d on the month in October, while shipments via the Druzhba pipeline to Europe declined sharply by almost 150,000 b/d. Germany and Poland both said they will stop buying Russian crude through the 1 million b/d Druzhba line by the end of the year. Some market players say that Poland will actually stop Russian crude imports in the first quarter of 2023, while there will be no Druzhba shipments to Germany starting from Jan. 1, 2023. The southern leg of the Druzhba line is still expected to continue shipping crude to Slovakia, Hungary and the Czech Republic due to exemptions from the embargo.

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SPOT CRUDE OIL PRICES

($/barrel f.o.b. terminal, or c.i.f. destination)	Nov 8	Nov 1	Chg.
Dated Brent f.o.b. (38 API)	96.85	95.12	1.73
Russian Urals c.i.f. NWE (31 API)*	75.37	71.73	3.64
Russian Urals c.i.f. Med (31 API)†	80.37	76.73	3.64
Azeri Light (35 API)	102.82	99.18	3.64
CPC Blend c.i.f. Med (45 API)†	95.97	92.33	3.64
ESPO (35 API)	88.67	87.56	1.11
Dubai (30 API)	92.30	91.40	0.90

PRODUCT PRICES

($/ton, c.i.f. basis)	Nov 8	Nov 1	Chg.
ICE LSGO Futures (front month)	1,067.25	1,047.50	19.75
ICE LSGO Futures (second month)	1,048.75	995.25	53.50
0.1% Gasoil NWE*	1,008.00	1,072.75	-64.75
0.1% Gasoil Med*	1,046.50	1,059.75	-13.25
10 ppm Diesel NWE*	1,003.50	1,036.00	-32.50
10 ppm Diesel Med*	1,066.50	1,119.75	-53.25
HSFO NWE*	403.00	377.00	26.00

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

Eastern Promise

Russia's western-bound shipments are expected to be the hardest hit by the embargo. Meanwhile, Russia continues to ramp up shipments to China and other Asian countries, although in October that was not enough to compensate for lower shipments to the West. China has been increasing crude imports in recent months, but market players expect China and India to be less enthusiastic about buying Russian barrels in the next couple of months before there is more clarity on how the price cap will actually work.

Exports bypassing the system of Russian national oil pipeline operator Transneft rose in October, partly because production and exports resumed from the Sakhalin-1 project in the Russian Far East following Exxon Mobil's exit from the once 200,000 b/d development. Kpler data show that exports of Sokol crude from Sakhalin-1 resumed in late October, with three tankers leaving for South Korea in October and three in early November. India's ONGC Videsh and Japan's Sodeco decided to retain their 20% and 30% stakes in the project, respectively.

While Russia's exports in October were the lowest since February, shipments from Russian ports in the first several days of November were rising as both Russian companies and customers aim to ship as much as possible before the embargo kicks in.

Staff Reports

GAS

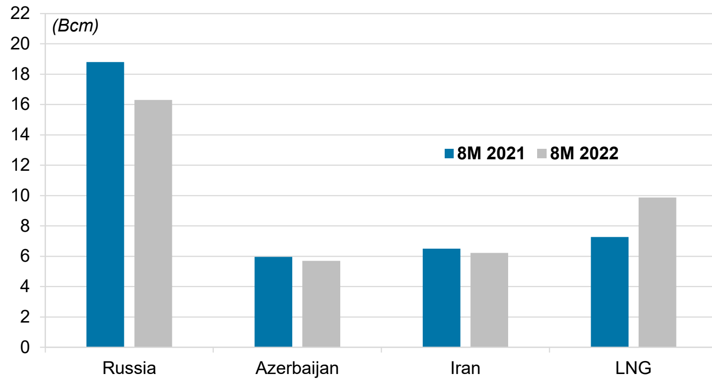
Turkey Starts Road Map for Hub to Supply Europe

Turkey has intensified its work on a proposed gas hub, which Russia sees as an opportunity to keep the door open for its pipeline gas in Europe despite the EU's plans to phase out Russian imports by 2027 in response to the Kremlin's invasion of Ukraine.

Ankara will complete a road map for the gas hub in Thrace in the European part of western Turkey by the end of the year and plans to hold a gas conference for suppliers and buyers in January or February 2023, Energy Minister Fatih Donmez told the TRT Haber TV channel on Nov. 8.

Apart from Russian gas, which now accounts for some 40% of Turkey's imports, Ankara wants the hub to trade pipeline gas coming from Azerbaijan, Iran and potentially Iraq and Israel, as well as LNG from the Middle East, Africa and US and its own gas that Turkey plans to start producing soon in the Black Sea, Donmez said.

TURKEY'S PIPELINE SUPPLIERS VS. LNG



Source: EPDK, Energy Intelligence

Despite the tougher competition, such a diversity of suppliers should be welcomed by Russia, as it could reduce the toxicity of its gas in the eyes of the Europeans. But getting other sellers, let alone European buyers, on board might take considerable effort and talks.

Azerbaijan Eyes Margins

Azerbaijan, which expects to deliver 11.5 billion cubic meters of gas to Europe via Turkey this year, up from 8.2 Bcm in 2021, could supply the planned hub, but it is up to the foreign companies that produce the gas that would need the sales to be profitable, Deputy Energy Minister Elnur Sultanov told reporters on the sidelines of the recent Eurasia Economic Forum in Baku.

"If one can make money on it, if there are good margins, they will be ready [to participate]," Sultanov said, adding that Azerbaijan "will certainly look at it."

The main gas project in Azerbaijan is the Shah Deniz offshore field being developed by a consortium operated by BP, with a 29.99% stake. Other participants include Azerbaijan's Socar (21.02%), Russia's Lukoil (19.99%), Turkey's TPAO (19%) and Iran's Nico (10%).

Azerbaijan aims to increase exports to Europe to 20 billion cubic meters per year by 2027, with the expansion costing $20 billion, Sultanov said. But with Turkey having the first right to any volumes in excess of the initial 16 Bcm/yr of exports from the second-stage development of Shah Deniz, Ankara could theoretically use the volumes to bolster liquidity at the gas hub.

With limited upstream resources, Azerbaijan might have no spare gas for hub sales on top of its own direct contracts in Europe. On the other hand, it could theoretically be able to buy gas at the hub to fulfill its contractual obligations if it lacks its own gas.

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To free more gas for export, Azerbaijan is also developing renewables projects, Sultanov said.

Russian Imports Bounce Back

The proposed gas hub and potential expansion of the Turk Stream pipeline would turn Turkey into Russia's key export route to Europe.

Turkey's own imports from Russia have been falling this year, mainly due to an increase in Gazprom's hub-linked prices under one of its supply contracts with Turkish state-run importer Botas, which prompted Ankara to seek a discount.

The discount hasn't yet been finalized, or at least announced, but experts agree that Moscow would be ready to appease Turkey, which did not join international sanctions against Russia and has acted as a mediator between Moscow and Kyiv during the war.

The supply trend reversed in August when Turkey boosted its pipeline gas imports from Russia by 46% on the month to 2.11 Bcm, according to data from Turkey's Energy Market Regulatory Authority (EPDK).

Exports increased 1.5% on the year in August, after falling more than 20% year on year in April and May and more than 30% in June and July.

While Gazprom's hub-linked prices are understood to have remained relatively high in August, they were more attractive than spot prices that reached new highs that month amid increased uncertainty over supply after Gazprom's sharp cuts in exports to Europe.

Due to high prices, Turkey did not buy spot LNG for the second consecutive month in August, with all LNG coming under term contracts with Algeria and totaling a modest 296 million cubic meters, down 54% on the year.

Turkey's imports from Azerbaijan in August decreased 1.5% on the year to 539 MMcm and imports from Iran increased by 0.7% to 905 MMcm, while the country's total gas imports fell 7.6% to 3.85 Bcm.

In the first eight months, however, Turkey's imports from Russia fell 13.3% on the year, while supplies from Azerbaijan and Iran decreased 4.5% and 4.3%, respectively, as Ankara relied on LNG in the beginning of the year. LNG imports jumped 36% on the year to almost 10 Bcm.

Staff Reports

TURKEY GAS PIPELINES FROM RUSSIA, CASPIAN

Source: Energy Intelligence

GAS

Gazprom Export Revenue Stuck at Wartime Lows

Gazprom's war-driven windfall from high prices in Europe keeps waning, as its export revenue decreased slightly in October from September levels.

The Russian state-run giant's export revenue in Europe, excluding Turkey, totaled some $4 billion in October, down 2% from September, Energy Intelligence estimates based on gas transmission data and its own border price assessments. Gazprom's average export price estimates are usually more conservative.

Gazprom enjoyed a huge windfall revenue from high prices during the energy crisis that hit Europe in the second half of 2021 and was exacerbated by the Kremlin's invasion of Ukraine in February 2022. The windfall has been waning since summer, although the revenue remains relatively high, especially if compared with the year 2020 when prices were at record lows as Covid-19 restrictions hit demand (see graph).

After peaking at more than $10 billion in April, Gazprom's revenue in Europe hit this year's low of $3.6 billion in July amid a sharp reduction in gas flows via the Nord Stream offshore pipeline to Germany that started in mid-June. The revenue bounced back to $5.4 billion in August, reflecting a spot price rally of the previous two months caused by Nord Stream supply cuts, but fell to some $4.1 billion in September on further supply cuts even though Gazprom's average export price in Europe kept increasing.

Gazprom's price also increased 5% on the month to almost $1,700 per thousand cubic meters in October, the highest level this year, but that was not enough to offset the continuing decrease in export volumes.

Will Revenue Rebound?

The current easing of European hub prices to their lowest levels in months should result in some decrease in Gazprom's prices in winter months, which means Gazprom's export revenue might go further down as no recovery in supply volumes is in sight.

Hub prices, however, remain volatile while a wide gap between day-ahead spot prices and longer futures contracts reflects the uncertainty around winter supplies, which can potentially support Gazprom's revenue in the first quarter of 2023.

Industry experts and insiders agree that European prices will remain high not only into the winter but in the longer term, too, as the global supply is not yet sufficient to ease the tight market. The new 100 million metric ton per year LNG capacity coming on line between 2025 and 2027 should loosen markets, Cowen analysts wrote in a recent report.

Europe's gas storage is now relatively full, which together with increased imports of LNG and the EU's anti-crisis proposals, are cooling down day-ahead spot prices, but it will be more difficult for the continent next year, analysts at Cowen investment bank said. Gas prices will remain elevated through 2024, which should cost Europe, including the EU, Norway, UK and Ukraine, $1.4 trillion, or nearly 7% of the region's GDP, the analysts said. Despite the high costs, however, "we suspect EU diversification away from Russian energy will likely not reverse," they added.

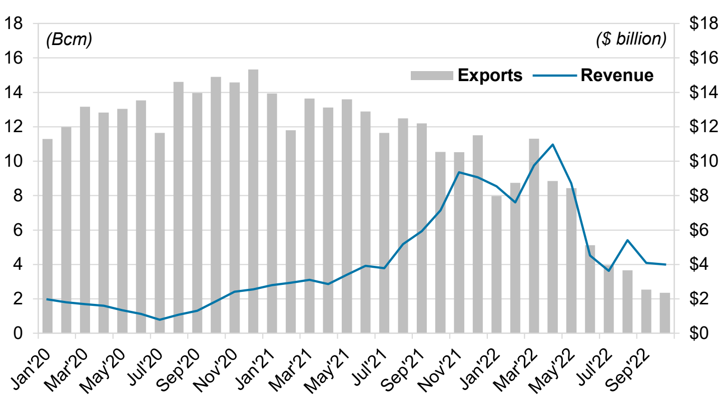
More Cuts?

The chances of Gazprom restoring supply volumes to regain some market share seems unlikely, as since last year the company has tended to restrict the supply for economic or political reasons rather than to ease the tight market. Gazprom has repeatedly denied deliberately restricting the supply.

With the underutilized Ukrainian transit capacity, there is room to increase the supply, but Gazprom has kept daily transit flows almost unchanged at slightly above 40 million cubic meters per day, or some 55% of available capacity, since late May and did not increase them to compensate for supply cuts in Nord Stream.

Moscow says it can increase supplies to Europe via the Turk Stream pipeline in the Black Sea, where it is considering expanding the export capacity as part of a project to build a gas hub in Turkey, but this won't happen this or next year. Turk Stream's Europe-bound 15.75 billion cubic meter per year string now operates at some 75% of capacity.

GAZPROM'S REVENUE IN EUROPE*



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

The market is more inclined to expect Gazprom to halt the Ukrainian transit at any point as part of the hybrid war aimed at forcing the Ukrainian and European leaderships to be more open to peace talks — something that Kyiv sees as being unacceptable on Russia's terms.

A potential EU price cap on gas can also trigger a halt in Russia's supplies. The EU, however, has signaled that it doesn't see the price cap on imported gas as the best tool to curb energy prices, Bloomberg reported this week.

Staff Reports

GEOPOLITICS

Russia Steps Up Mideast Charm Campaign

Russia is eager to expand political and economic ties with the Middle East following Moscow's divorce with the West over the war in Ukraine.

Russian Foreign Minister Sergei Lavrov visited Abu Dhabi last week for the talks with his United Arab Emirates' counterpart Abdullah bin Zayed al-Nahyan and Minister of Industry and Advanced Technology Sultan bin Ahmed al-Jaber. During the talks the sides "reaffirmed their steadfast resolve to build up their mutually beneficial multifaceted cooperation," according to a statement by the Russian foreign ministry.

Lavrov's visit follows a meeting between Russia's President Vladimir Putin and UAE President Sheikh Mohammed bin Zayed al-Nahyan in St. Petersburg last month. On the business level, Russian companies, including Lukoil, Gazprom, pipe producer TMK and 20 small oil-field service providers, participated in the Adipec conference in Abu Dhabi last week, seeking a bigger presence in Mideast markets.

Mideast countries seem to be responsive to Russia's overtures but have to be careful not to undermine their relations with the US. Still, according to market sources, UAE companies could be among candidates to acquire BP's 19.75% stake in Russian state-controlled oil major Rosneft, and Abu Dhabi National Oil Co. (Adnoc) is reportedly considering buying trader Gunvor, which owns a 26% stake in the Ust-Luga oil terminal near St. Petersburg.

Russian industry players confirm that there is a general push from the Russian government to enhance ties with Mideast countries on all levels, including energy.

Lukoil Eyes Expansion

Lukoil hasn't lost its appetite for assets in the region. In fact, it is keen on expanding its presence in Abu Dhabi, insiders tell Energy Intelligence. The Russian major is already a participant in the giant Ghasha sour gas project and would be ready to increase its 5% in the venture if one of the participants were to withdraw. Adnoc holds a 55% stake in the Ghasha concession, with other partners including Germany's Wintershall Dea (10%), Italy's Eni (25%), Austria's OMV (5%).

Energy Intelligence understands that Lukoil is looking at other opportunities in Abu Dhabi as well.

Lukoil has no plans to withdraw from Iraq and is waiting for the new government to approve the development plan for the Eridu field at Block 10, which is expected to be more profitable for the Russian producer than its West Qurna-2 project.

West Qurna-2 is now producing 430,000 barrels per day with output depending on three factors: Iraq's quota under the Opec-plus deal; the volumes needed for Iraq's export blend to meet its quality specifications; and infrastructure constraints.

An expansion of the field's production to 800,000 b/d doesn't seem to be an urgent issue now since better terms are needed, but there is nobody to discuss them with due to the political deadlock in Baghdad.

The profitability of West Qurna-2 is very low. After tax, Lukoil gets about 85¢ per barrel in a reimbursement fee. But Lukoil says that without West Qurna-2 there would have been no Block 10.

Despite the delays with the approval of the development plan for Block 10, Lukoil has no plans to quit it, as opposed to partner Inpex. But it is too early to say whether Lukoil would buy the stake of the Japanese company.

Sibur Talks

A delegation from Russia's largest petrochemical producer Sibur was at Adipec to discuss potential cooperation. It is understood that the sides are mainly discussing equipment and technology supplies as Sibur needs to replace its Western contractors that left Russia as a result of sanctions. Sibur head Mikhail Karisalov said in a recent interview that his company has had talks with UAE vendors over technology transfer for the planned giant Amur gas chemical complex in Russia.

Market sources say Abu Dhabi's sovereign fund, Mubadala Investment Co., has no intention of selling its1.9% stake in Sibur, which was its largest foray in Russia over the past decade. But the fund also has no plans to expand its investments as Russia is considered to be too risky in light of sanctions and the war with Ukraine.

Mubadala has built up a portfolio of some 50 investments in Russia since 2010. On the oil and gas side, Mubadala Petroleum with Russian Direct Investment Fund own a 49% stake in the Gazpromneft Vostok production unit in West Siberia alongside Gazprom Neft.

Gazprom Neft had in the past held talks with UAE companies on technological cooperation, but failed to sign any big deals. Gazprom Neft did not show up at Adipec as it was offered a stand in a far corner of the exhibition. Gazprom Neft is under EU sanctions, while Canada is the only country that has blacklisted Lukoil.

Staff Reports

CASPIAN

Exploration Back on Track in Turkmenistan

Caspian Sea exploration got a boost in Turkmenistan when Dragon Oil agreed to carry out seismic tests on a block adjacent to its producing Cheleken oil field.

The cooperation agreement signed at the Oil and Gas Turkmenistan conference at the end of October between Dragon, a subsidiary of Dubai's Emirates National Oil Corp., and state Turkmenneft, calls for 3-D seismic to be shot over offshore Block 19.

An official statement said: "Turkmenneft will also formalize deals with a number of other foreign companies." There have been few signs of further activity in that direction, however.

Dragon in 2020 signed an extension of its production-sharing agreement (PSA) for the Cheleken area for 10 years until 2035. The company has so far invested over $8 billion into the project. A similar PSA extension for offshore Block 1 operated by Malaysia's Petronas has yet to materialize.

Russian Interest

Russian oil giant Lukoil is said to be eyeing Turkmen blocks to expand its presence in the Caspian offshore. In 2007, the privately owned company was discussing the development of Blocks 19, 20 and 21 together with ConocoPhillips but talks stopped in 2009 as relations soured between Moscow and Ashkhabad. Block 21 has since been linked to Areti, which is headed by Russian businessman Igor Makarov, who has strong connections in Turkmenistan.

Lukoil's new main target is to become the operator of the Dostluk oil field shared between Turkmenistan and Azerbaijan. However, it seems that neither country is in a hurry to get started.

Azerbaijan's Deputy Energy Minister Elnur Sultanov told reporters on the sidelines of the Eurasia Economic Forum in Baku on Oct. 27 that there are no objections against Lukoil's participation from either side. A memorandum of understanding on the field has been signed and a working group between the two countries has been set up. The next step should be a government-to-government agreement, he said, adding that how long that would take would depend on the will of both sides.

Reflecting the new mood of cooperation between Ashkhabad and Baku, Azerbaijan's state-owned energy company Socar said at the conference that it planned to open a representative office in the Turkmen capital. Industry sources said Socar had in fact planned to open the office before Covid-19 but had put it on hold because of the pandemic.

Russia has been reaching out to Ashkhabad and other Caspian and Central Asian states, eager to maintain its influence in the region against the backdrop of its war in Ukraine. But Western diplomats say Turkmenistan and other former Soviet Union states remain wary of Moscow and are taking a more cautious and balanced view to see if better options lie in building stronger ties to Europe in particular.

Turkmenistan still harbors hopes of exporting gas to the EU via a trans-Caspian pipeline, although the gas export priority set by the leadership remains the Tapi pipeline across Afghanistan to Pakistan and India that has made little progress.

Game of Thrones

The former Turkmen leader, Gurbanguly Berdimuhammedov, whose son has succeeded him as president, visited Moscow on Nov. 3 where he was decorated by Russian President Vladimir Putin, who praised the recent "positive momentum" in bilateral relations. "We expect Turkmenistan to maintain its traditional policy toward Russia as formed under your leadership," Putin said.

Countering the Russian overtures, US Assistant Secretary of State for South and Central Asian Affairs Donald Lu met President Serdar Berdimuhammedov in Ashkhabad on Nov. 7, on the first stop on a tour to foster closer ties that also takes in Uzbekistan and Kazakhstan.

Turkmenistan is also starting to play the green card in a bid to further monetize its massive gas reserves, the fourth largest in the world. The country's deputy chairman of the cabinet of ministers, Shakhym Abdrakhmanov, told the Adipec conference in Abu Dhabi last week that Turkmenistan would pursue a low-carbon strategy with a special focus to be put on hydrogen and natural gas as a transition fuel. He said a road map on developing the country's hydrogen potential had been approved although the pace of the low-carbon drive is still at an "embryonic" stage.

Michael Ritchie, London, Staff Reports

OIL MARKETS

Russia's Crude Sales to Asia Face Constraints

Russia will struggle to sell more oil to non-EU buyers than it currently does, meaning that part of its nearly 7.5 million barrels per day of crude oil and refined product exports could be jeopardized in 2023.

Energy Intelligence expects a global loss of 1.1 million b/d of Russian oil after the EU crude ban enters into force on Dec. 5, in line with consensus market estimates.

"Make no mistake: the EU judiciary has teeth, as US tech companies can confirm: expect compliance," wrote Alexander Stahel, a commodity investor at Switzerland-based Burggraben Holding.

So far, only China, India and non-EU Turkey have increased their intake of heavily discounted Russian barrels, becoming de facto the largest buyers. But all three countries are facing constraints.

China is importing up to 1.6 million b/d of Russian oil. But Beijing has learned the hard way from its trade war with the US. State-owned refiners are likely to chose security of supply over a good bargain, meaning that any upside to the current Russian crude intake could be limited by the energy diversification efforts that China has made over the past 20 years.

India became Russia's largest buyer in October, after New Delhi imported north of 900,000 b/d of Russian oil. State-owned refiners said that India had appetite for more. But Russian crude and products already represent a quarter of the country's total imports, up from less than 3% before the Ukraine war.

The country also has limited crude storage capacity: about 160 million barrels according to Energy Intelligence estimates — a minnow compared to China's 1.7 billion bbl.

More than 75% of Turkey's crude regimen is now Urals, with Azerbaijan's Socar also buying for its Star refinery in Turkey. National refiner Tupras is also a customer. Turkey could perfectly run 100% of Urals pending the right discounts.

But quite counterintuitively, the bulk of Turkey's Urals imports surge ships from Russia's Baltic ports, not from the Black Sea. And finding tankers to make the trip from Northwest Europe to the Mediterranean could prove difficult after the EU insurance ban is in place.

Diesel Slips as Asian Refiners Replace Russia

Ultra-low-sulfur diesel (ULSD) values are falling in Europe despite the EU's imminent ban on Russian imports with a convoy of tankers from the Mideast Gulf and Asia coming to the market's rescue.

Benchmark ULSD barges were pegged at a $45 per barrel premium to Brent crude midweek, down from more than $50/bbl a week ago and over $75/bbl in late October. Cash differentials have also tumbled ahead of the November ICE low-sulfur gasoil contract's Nov. 10 expiry.

East of Suez ULSD arrivals are pegged at 1.1 million metric tons (1.2 million b/d) this week alone, with November volumes expected to easily outstrip the record 3.2 million tons (770,000 b/d) that came through the Canal last month.

It comes as Moscow plans a last hurrah for Russian ULSD exports ahead of EU sanctions on shipping from next month, and an outright ban on product imports next February. ULSD loadings from Primorsk are set to reach 1.466 million tons (365,000 b/d) in November, up from 960,000 tons in October and the highest since before Russia's invasion of Ukraine.

Whether it will all load and who will prepared to buy it remains to be seen. Few European companies are willing to be seen handling Russian products even to take it out of region. Brokers say Russian ULSD is ultimately expected to flow to markets in West Africa, Latin America and potentially the Middle East. Under ICE rules around physical settlement, no new Russian gasoil can be discharged into eligible tanks in Amsterdam-Rotterdam-Antwerp after Nov. 30.

China has meanwhile emerged as a major potential ULSD supplier to Europe, although traders say its reliability will depend on Beijing continuing to issue generous export quotas. Beijing allocated a massive 13.25 million tons of extra export quotas for the fourth quarter last month but priority is normally given to the domestic market.

The country already has surplus refining capacity with new startups and regular demand-damaging Covid-19 lockdowns both boosting potential diesel exports. China's refining capacity is set to reach 18.9 million b/d this year, up 50% in the last decade, with another 1.4 million b/d already planned by 2025.

Europe imported a total 6.5 million tons (1.6 million b/d) of ULSD and gasoil from all sources last month, according to tanker-tracker Refinitiv, including nearly 2.7 million tons or 40% still from Russia.

Julien Mathonniere and Kerry Preston, London

IN BRIEF

Serbia Eyes Russia Oil Stake

Serbia might consider all options to safeguard the future of the country's oil and gas company, Naftna Industrija Srbije (NIS), including nationalizing the stake held in it by Russian oil producer Gazprom Neft, Serbian President Aleksandr Vucic told the *Financial Times.*

"If nobody wants to work with NIS?... then we'll act, but it's not the case so far," Vucic said. He added that "we have to secure enough oil and gas for our people."

Gazprom Neft bought 51% in NIS in 2009 as part of a broader intergovernmental agreement. In 2011, the company increased its holding to 56.15%, but was forced to reduce it to 50% in May this y ear to allow NIS to continue operations after EU sanctions were imposed against Gazprom Neft. Hungary's Mol has eyed the Russian stake.

From Dec. 5, NIS will also be unable to receive crude oil from Russia shipped via Croatia's deepwater port of Omisalj and the Jadranski Naftovod pipeline.

Sri Lanka Tests Russian Oil

Sri Lanka will continue to purchase Russian crude oil and petroleum products under "feasible financial" terms, the country's minister of power and energy, Kanchana Wijesekera, told Energy Intelligence on the sidelines of the Adipec conference in Abu Dhabi last week.

Sri Lanka, which experienced a fuel crisis since May because of financial troubles, was expected to become one of the new buyers of Russia's crude oil and oil products that are being frozen out of Western markets. According to some estimates, Sri Lanka has bought over 2.6 million bbl of Russian oil since May, although the minister said the purchases were through traders in Singapore and in the Middle East. The minister also said that not all Russian grades fit Sri Lanka's refineries, which made the country turn to Mideast grades such as the UAE's Murban.

Lukoil Sets Up Security Arm

Russia's privately held Lukoil became the first major to be allowed to establish a private security company following President Vladimir Putin's earlier decree on safeguarding the country's key energy infrastructure.

Under an order signed by Prime Minister Mikhail Mishustin, Lukoil will be the co-founder of a private security organization together with private security company Agency Lukom-a, with each partner holding 50%.

According to Deputy Energy Minister Anastasia Bondarenko, Lukoil was the first to get approval for such a venture. She said it would take six months before the new organization starts its activities and urged other companies to follow suit. The move is in line with Putin's decree in the summer that called for tighter security for key energy facilities because of the war with Ukraine.

Sakhalin-2 Shifts Strategy

The new operator of the Sakhalin-2 project, Gazprom-controlled Sakhalin Energy LLC, plans to move away from a "maximum recovery" upstream strategy to a "rational development" approach, the company said.

The shift in the upstream strategy aims to extend the period of continuous production from the mature Lunskoye field offshore Sakhalin Island in Russia's Far East. The field was launched in 2008 and is expected to face natural production declines later this decade. The main source of feeder gas for the project's LNG plant, Lunskoye produced more than 16 Bcm, or 44.63 MMcm/d, of gas last year. The project's other field, Piltun-Astokhskoye, mainly produces oil.

In the first 10 months of this year, the project produced 15.2 Bcm of natural gas, up 12.9% on the year, meaning full-year LNG production will likely exceed last year's 10.4 million metric tons. The plant hit a record in 2017 when it produced 11.49 million tons of LNG, well above its nameplate capacity of 9.6 million tons/yr.

Russian Oil Output Falls

Russia's crude oil and gas condensate production stood at 10.718 million b/d in October, down 0.4% on the previous month and 1.1% lower than a year ago, according to sources familiar with official Russian data.

Production of crude oil without gas condensate was 9.703 million b/d last month, far below Russia's Opec-plus crude production quota of 11 million b/d. In September, Russia produced 9.758 million b/d of crude excluding condensate.

Both of Russia's top two producers, Rosneft and Lukoil, saw their output decline by almost 30,000 b/d in October compared with the previous month.

Output from the three Russian projects governed by production-sharing agreements (PSAs) rose by some 20,000 b/d in October to 118,000 b/d.

The Sakhalin-1 PSA — where output fell to just 1,000 b/d in September under previous operator Exxon Mobil — produced 20,000 b/d in October.

The neighboring Sakhalin-2 PSA — abandoned by Shell — produced almost 72,000 b/d in October versus 66,000 b/d in September.

Vostok Oil to Shuffle Shares

Russian President Vladimir Putin signed on Nov. 4 an order allowing transactions with the shares of the Vostok Oil Artic venture led by state-controlled Rosneft.

Singapore-based oil trader Trafigura said in July that it had sold its 10% stake in Vostok Oil to an obscure Hong Kong trading outfit called Nord Axis for an undisclosed sum. Trafigura paid €7 billion ($9 billion at the time) for its stake in December 2020.

The other two non-Russian partners in Vostok, Swiss trading giant Vitol and its Singapore-based partner, Mercantile & Maritime Energy (MME), jointly acquired a 5% stake in September 2021 for €3.5 billion. They have subsequently signaled their desire to sell out.