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CONTENTS

- 2** RUSSIAN OUTPUT CUT HITS REFINERS
- 3** TURKMENISTAN TURNS TO UAE
- 4** RUSSIAN GAS SALES RISE
- 5** BP MULLS AZERBAIJAN EXPANSION
- 6** RUSSIA BOXED IN BY URALS DISCOUNT

OIL MARKETS

Russia Adjusts Output, Taxes to Counter Price Cap

Moscow is finally taking significant steps to protect its oil and gas revenues in response to the price cap on Russian crude oil and oil products imposed by the G7 countries.

First, it is cutting crude oil production by 500,000 barrels per day in March, with further reductions to be made depending on the market situation.

Second, it is limiting the size of the discount for Russian oil for tax calculations and lowering government payouts to Russian companies under the so-called buffer mechanism. This instrument compensates refiners for the sale of products to the domestic market below export prices.

These measures target two objectives: Pushing global oil prices up, and stimulating Russian exporters to negotiate lower discounts for their volumes with buyers.

Moscow's new steps would impact both external and domestic markets. For one, the uncertainty about how long production cuts would continue and whether they would grow adds to the volatility on the global markets. At the same time, Russia's export volumes would depend on the ability of the companies to sell their oil at higher prices, which could terminate the buying bonanza for China, India and Turkey.

Benefit Cuts

The decision to cut production did not come as a complete surprise. Russian Deputy Prime Minister Alexander Novak had flagged in late December that Russia might have to cut output by 500,000–700,000 b/d in early 2023 if refinery runs drop because of the oil products exports challenges following the introduction of the EU price cap from Feb. 5.

However, production of crude oil and gas condensate remained stable in January at 10.872 million b/d, just 53,000 b/d lower than in December. In the first 13 days of February, it grew even higher, to 10.957 million b/d, according to sources familiar with the official Russian data.

Moscow announced its "voluntary" cut even before the problems from the oil products' price cap started to bite. It was pushed by the huge budget deficit of 1.76 trillion rubles (\$23.67 billion) in January. But oil prices did not react with a significant jump, remaining within their recent range of the low-to-high \$80s per barrel.

The cuts would refer to the production of crude oil excluding gas condensate, which stood at 9.779 million b/d in January.

The cut would be distributed proportionally among Russian producers that already received their quotas for March, industry sources say. Russian companies could easily handle the cuts given the six-year experience they have gained from cooperating with the Opec-plus pact.

>> continued on page 2

SPOT CRUDE OIL PRICES

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

	Feb 14	Feb 7	Chg.
Dated Brent f.o.b. (38 API)	84.96	82.92	2.04
Russian Urals c.i.f. NWE (31 API)*	52.67	50.12	2.55
Russian Urals c.i.f. Med (31 API)†	57.67	55.12	2.55
Azeri Light (35 API)	87.67	85.12	2.55
CPC Blend c.i.f. Med (45 API)†	81.07	78.52	2.55
ESPO (35 API)	73.88	69.55	4.33
Dubai (30 API)	84.88	79.75	5.13

PRODUCT PRICES

(\$/ton, c.i.f. basis)	Feb 14	Feb 7	Chg.
ICE LSGO Futures (front month)	850.25	831.75	18.50
ICE LSGO Futures (second month)	839.00	827.25	11.75
0.1% Gasoil NWE*	853.75	841.75	12.00
0.1% Gasoil Med*	849.75	825.75	24.00
10 ppm Diesel NWE*	847.75	835.00	12.75
10 ppm Diesel Med*	862.00	843.50	18.50
HSFO NWE*	385.00	368.25	16.75

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

Reduced output could hand another benefit to Russian companies in that they would consequently have to pay a lower mineral extraction tax (MET). This could be a partial compensation for their payments under changes proposed by the government capping the price discount for Russia's Urals crude export blend for tax calculations.

Bearable Burden

The government proposes setting a discount for Urals at \$34/bbl to Brent for April for calculating MET, excess profit tax and reverse tax.

Over the following three months, the discount will fall in steady increments of \$3/bbl to reach \$25/bbl in July.

At the same time, there will be adjustments in the buffer mechanism. Currently, in the formula for calculating gasoline buffer payments, the price of an export alternative is calculated using a reducing coefficient equal to the discount of Urals to Brent, which was earlier capped at \$20/bbl. Starting from April and until December 2025, that would be increased to \$25/bbl.

The changes also envisage setting a price differential limit of \$10/bbl for diesel, valid from April until the end of the year.

Those adjustments are expected to lower the compensation payments and bolster government revenues. Last year, Russian refiners received some 2.2 trillion rubles (\$29.9 billion) under the buffer mechanism.

As a result of those changes, the state budget is to receive more than 600 billion rubles (\$8 billion) this year, according to Deputy Finance Minister Mikhail Kotyukov.

He also said that those tax changes won't have a negative effect on Russia's oil production.

Taxing Time

Analysts vary in their evaluation of the tax amendments' impact on the oil producers' financials, but some of them say it should not cost them more than 4% of earnings before interest, tax, depreciation and amortization. Investments should not suffer dramatically as a result.

The new tax proposals were agreed with the Russian companies at a meeting with Novak and the finance ministry on Feb. 11. They reflect a compromise between the two sides as the Russian tax system is structured in a way that the government rather than producers suffer under declining prices.

Besides, some experts point to the difference between the effective and quoted price for Urals. Goldman Sachs estimated that "the gap

between this average effective price paid and the quoted price has widened since last March, and reached around \$25/bbl in December." Russia until now used quoted Urals prices for collecting taxes, while producer revenues are tied to the higher effective prices received.

Producers can still offer buyers a bigger discount, but that would result in a higher tax bill, so now they will have an incentive to persuade customers to accept the "official" discount.

The finance ministry failed to clarify for how long this Urals price assessment will exist, which ends the discussion — at least for now — on the use of alternative options.

Staff Reports

OIL MARKETS

Russian Exporters Weigh Impact of Oil Output Cut

Russia's decision to cut oil production in March by 500,000 barrels per day will likely have a limited impact on the country's crude exports as long as oil companies continue to successfully market their discounted barrels. Instead, it is the country's refining sector, already hit by the Feb. 5 oil products embargo and price cap, that is expected to bear the brunt of the reduction.

Russia's crude oil exports to non-FSU markets rose to highs of almost 4.9 million b/d in January with shipments from the key export terminals — Primorsk and Ust-Luga on the Baltic Sea, Novorossiysk on the Black Sea and Kozmino on the Pacific Coast — rising to nearly 3 million b/d. Shipping data show that those shipments stood at relatively high levels of nearly 2.7 million b/d in the first 14 days of February. Although those figures are down from January levels so far, they are still up by nearly 500,000 b/d from December 2022, the first month of the EU and G7 embargo and price caps on Russian crude.

Most experts expect that Russian crude exports will remain rather flat in the coming month largely because oil firms managed successfully enough to reroute their barrels from Western markets. Shipping data show that most of the crude shipped from Russian Baltic Sea ports until mid-February was heading to India and, to a lesser extent, China, while Black Sea shipments were destined for India, Turkey and Bulgaria, the latter having received an exemption from the EU embargo. In the east, shipments from Kozmino saw the largest month-on-month decline so far despite a steady recovery of Chinese crude demand.

Friendly Flows

Russian flows to India, China and Turkey — the largest offtakers of Russian barrels these days — are expected to stay high, driven both by attractive prices and strategic cooperation between Russia and those countries. Russian Deputy Prime Minister Alexander Novak was quoted as saying that this year some 80% of crude would be supplied to so-called friendly countries that declined to support the price cap and embargoes.

Indian Oil Minister Hardeep Singh Puri confirmed recently that India would continue to buy crude oil from Russia as long as it could get favorable prices. Industry experts admit that the real discounts for Russian barrels are not as high as reports of \$30–\$40/bbl because price assessments used for Russian crude are not relevant any more. Russia believes that the price for its crude should be formed in the regions where it is sold. Platts started from Jan. 18 providing assessments for Urals crude delivered to India's west coast.

China is also expected to take more Russian crude this year. Chinese imports of Russian crude rose by 133,000 b/d from 2021 to 1.73 million b/d in 2022, as refiners doubled down on deeply discounted Russian barrels after Moscow's invasion of Ukraine. This year, shipments might exceed 2 million b/d as analysts expect rising demand in China. Russia also expanded its infrastructure facilities to allow for higher shipments to the Asia-Pacific region. However, much will depend on the availability of ships and on any further tightening of Western sanctions.

Russia continues to look at other markets. By end-March, Russia should agree on the main terms for crude supplies to Pakistan. Islamabad earlier said Russia could supply roughly 35% of the country's total imports of around 190,000 b/d — or some 67,000 b/d. Price will be an issue, though.

The Russian government recently proposed tax amendments that are likely to force oil firms to seek lower discounts for their barrels, but since the market for Russian crude became rather murky, it is not clear whether those tax changes will have any effect on negotiations between Russian exporters and their customers.

Refiners Bear Brunt

While the planned production cuts will likely only modestly impact exports, they might have a more significant effect on Russian refining runs. Deliveries of crude to Russian refineries were already forecast to decrease in March and April because of planned maintenance.

Even before the planned production cut announcement, sanctions on sales of refined products were expected to cause greater problems for Russia. The marketing of oil products is inherently more challenging, given the complexities of fragmented markets, different regional specifications and shipping constraints.

Staff Reports

CASPIAN

Turkmenistan Taps UAE to Unlock Gas Potential

Turkmenistan's former president, Gurbanguly Berdimuhammedov, seems to be upstaging his son, the new president, by making important trips abroad, most recently to the United Arab Emirates.

The former president, who has assumed the title of "National Leader," held talks with UAE President Sheikh Mohammed bin Zayed al-Nahyan in Abu Dhabi last week and oversaw the signing of a memorandum of understanding on cooperation in the energy sector between state companies Abu Dhabi National Oil Co. (Adnoc) and Turkmengas.

Companies from the UAE were urged to participate in the development of Turkmenistan's Galkynysh field, the world's largest onshore gas field. The two sides also signed an agreement on the conditions and procedure for opening and maintaining a correspondent account between First Abu Dhabi Bank and Turkmenistan's State Bank for Foreign Economic Affairs.

Father and Son

The trip underlined how Berdimuhammedov Sr., who ruled Turkmenistan for 15 years, has moved back into the limelight since handing over the presidency last year to his son, Serdar, and taking the position of chairman of the Halk Maslahaty, the upper chamber of the Turkmen parliament, whose powers he subsequently upgraded. "He was not happy with his son's negotiating skills," one diplomatic source said, adding: "He's back in charge." The father, who is now regarded as a "co-president," was decorated by President Vladimir Putin during a visit to Russia last year and recently hosted the president of Tatarstan in Ashkhabad.

Russia has been particularly active in bolstering ties. Russian Prime Minister Mikhail Mishustin visited Ashkhabad last month, and was quickly followed by the speaker of the Russian State Duma, Vyacheslav Volodin. Russia's Rosgeologiya has agreed to carry out joint mineral exploration in Turkmenistan. Gazprom CEO Alexei Miller visited Ashkhabad this week and held talks on natural gas cooperation with both father and son.

Europe, on the other hand, has been conspicuously absent. To counter the Russian influence, the EU needs Energy Commissioner Kadri Simson to fly to Ashkhabad to press the case for Turkmen gas to be supplied to Europe, the diplomatic source said. "They're still waiting for Europe to do something, but that will not happen," the source said.

Global Reach

Despite holding the world's fourth biggest natural gas reserves, Turkmenistan has struggled to monetize its resources. China is its

only significant customer, with Russia dipping in to buy smaller volumes every now and then. At the latest meeting in Abu Dhabi, the UAE pledged “to attach special importance to the supply of Turkmen natural gas to world markets,” including making investments. It also agreed to assist with the “marketing of products, as well the development of gas transportation infrastructures.”

The headquarters of Turkmenistan’s Tapi pipeline company, which aims to transport gas from the Galkynysh field via Afghanistan to Pakistan and India, is in Dubai. The project remains the top energy priority for Berdimuhamedov Sr. even though it has consistently failed to progress beyond the drawing board. His son-in-law is also the Turkmen consul-general in Dubai, emphasizing the ruling Turkmen family’s ties to the emirate.

Dragon Oil has been flying the flag for the UAE in Turkmenistan. In 2020, the Dubai-owned producer extended its production sharing agreement for the Cheleken field for 10 years.

Adnoc and other UAE companies will have another opportunity to assess the opportunities afforded by the Galkynysh field at a roadshow in Dubai on Apr. 26–27 aimed at attracting foreign investment into the Turkmen energy industry.

The two countries will not want to repeat the debacle of the award to Dubai-based Gulf Oil and Gas of a \$1.15 billion contract for drilling on Galkynysh. After the company failed to fulfil the contract, the Turkmen were forced 10 years ago to bring in a group of specialist firms to finish the job.

President Serdar Berdimuhamedov’s team was this week strengthened by the appointment of Ashirguly Begliyev, a former head of Turkmenogas, as deputy prime minister with responsibility for the fuel and energy complex.

Michael Ritchie, London

GAS

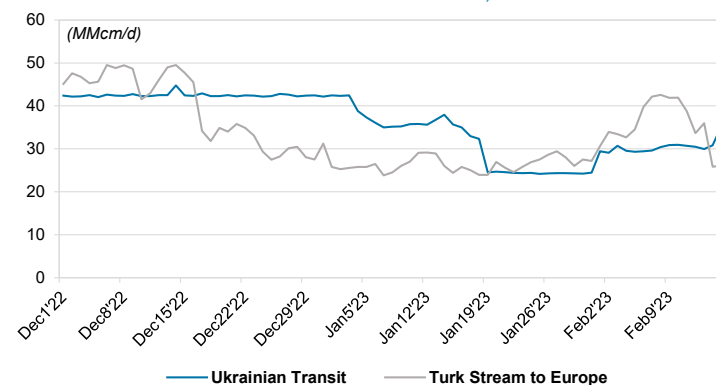
Russian Gas Sales to Europe Rise as Prices Dip

Russia’s pipeline gas exports to Europe have increased in February so far after a drop in January, driven mostly by market factors.

A decrease in Gazprom’s export prices is one of the key factors pushing the sales higher, but an expected further decline in its hub-linked prices in the next several months should put its export revenue, already at wartime lows, under increased pressure.

State-run Gazprom, Russia’s sole pipeline gas exporter, supplied some 990 million cubic meters, or 66 million cubic meters per day, to Europe in the first 15 days of February, up 4% from the

RUSSIAN GAS FLOWS TO EUROPE VIA UKRAINE, TURK STREAM



Source: GTSOU, Entsog, Energy Intelligence

same period of January, according to gas transmission data. This includes physical gas flows via the two routes currently available — the Ukrainian transit and the Europe-bound onshore continuation of the Turk Stream gas pipeline.

Compared with the same period of last year, exports fell 79%, reflecting the bitter divorce between Russia and Europe over the war in Ukraine. Europe is seeking to gradually phase out pipeline gas imports from Russia, while Gazprom is apparently sticking to the tactic of restricted supply and has cut off deliveries to many buyers and via several routes in response to sanctions and other measures that Moscow sees as “unfriendly.”

On the Rebound

The average daily flows were 14% higher in the first 15 days of February than the full-month average in January. That is because the Ukrainian transit had remained at higher levels in the first several days of this year, before falling sharply with a decrease in spot prices that made Gazprom’s hub-linked long-term contract deliveries too pricey. Gazprom’s prices follow the spot dynamic with a lag of one to several months.

In February, Gazprom’s prices decreased, narrowing the gap with spot prices, which prompted buyers to increase offtakes from Russia. Ukrainian transit flows jumped 20% to 29.4 MMcm on Feb. 1 and kept between 29 MMcm and 31 MMcm for two weeks before increasing further to some 35 MMcm on Feb. 15. However, that is still lower than around 42 MMcm/d which Gazprom shipped via Ukraine from May 2022 through the beginning of January.

Supplies via Turk Stream, which are limited to southern and central Europe, increased 36% on the month to some 36 MMcm/d in the first half of February, which might be mainly attributable to a sharp fall in deliveries in January on price factors and on higher competition from LNG coming to the region.

Weaker Weapon

In the first five weeks of this year, Russian pipeline gas accounted for just 7.5% of the EU’s total imports, down from 37% on

average in 2021, EU Economy Commissioner Paolo Gentiloni told a briefing on Feb. 13.

The lower share in EU imports makes current fluctuations in Russian gas flow volumes a far weaker factor for spot price dynamic than they used to be last year. For Europe that means a lower risk of Russia using gas supplies as a weapon — something that European politicians have repeatedly accused Moscow of.

For Moscow, the lower export flows coupled with a decrease in export prices means a further decline in export revenues, putting extra pressure on Russia's sanctions-hit budget.

Gazprom's export prices in Europe should fall further in the next couple of months, reflecting the January decrease in spot prices. With higher export prices in January, Gazprom might have earned some \$1.6 billion from exports to Europe, excluding Turkey, Energy Intelligence calculates based on its own border price estimates. That is the lowest wartime monthly level, dropping from the April 2022 peak of nearly \$11 billion, and the lowest level since September 2020 when European prices only started to recover after the Covid-19 pandemic.

Thanks to stellar revenues in the first months of 2022 fueled by the energy crisis in Europe and exacerbated by Russia's Feb. 24 invasion of Ukraine, Gazprom could have clocked up a record \$70 billion in export revenue in Europe last year. This year, it could return to the 2020 Covid-19 lows of slightly more than \$20 billion.

Staff Reports

CASPIAN

BP Mulls Potential for Azerbaijan Expansion

BP has spudded a new appraisal well at the prolific Azeri-Chirag-Guneshli (ACG) complex in Azerbaijan's sector of the Caspian Sea that will accumulate data on the deep-lying gas reserves that lie beneath the oil reservoir. At the same time, the UK major is drilling an exploration well at another giant offshore field, Shah Deniz, in the hope of finding new proven reserves to develop.

This is the first time that BP has made a concerted effort to probe the extent of the "deep gas" below ACG that, if developed, could provide a key source of future production for Azerbaijan and, potentially, Europe.

There is no guarantee, however, that BP would sanction new development phases for either ACG or Shah Deniz if the wells prove successful. The costs of drilling deeper into the two

structures could be prohibitive, and a hard sell for shareholders that are concerned about the company's continued reliance on fossil fuels.

Hot Property

As operator of the ACG production-sharing contract (PSC) that was signed in 1994 and extended five years ago until 2049, BP has the right to appraise the deeper formations of the area. But any development of the deep gas would need to be done under a separate contract with Azeri state oil company Socar. Under the terms of the PSC, all the associated gas produced from ACG that is not used for reinjection is the property of Socar.

BP, which has a 30.37% stake in the ACG license alongside Socar with 25%, Hungary's Mol (9.57%), Japan's Inpex (9.31%), Norway's Equinor (7.27%), Turkey's TPAO (5.73%), Japan's Itochu (3.65%) and India's ONGC (2.31%), is eager to maximize the gas potential of the reservoir as oil production continues to decline. According to figures published by BP, oil output from ACG last year fell some 10% year on year to 415,000 barrels per day. At its peak, ACG was producing more than twice that amount.

BP and its partners hope to stabilize production at ACG for several years by kick-starting the \$6 billion Azeri Central East (ACE) development that is now around 80% done, and due for completion by the end of this year. ACE, which involves the construction of a new platform that can process up to 100,000 b/d of crude, is set to provide 300 million barrels throughout its lifetime.

Third Phase

At Shah Deniz, BP began drilling a new exploration well — SDX-8 — at end of January, in a sign that it is eyeing a possible third phase of development. Like ACG, Shah Deniz has been a key source of production for BP and most of the heavy lifting is done.

The field is now producing at peak levels under Phase 2, which came on line in June 2018, of around 16 billion cubic meters per year, of which 10 Bcm/yr is going to Europe via the Trans Adriatic Pipeline, and 6 Bcm/yr to Turkey under a long-term contract with state importer Botas. An extra 3 Bcm-4 Bcm/yr is going to Turkey under Shah Deniz Phase 1, which came on stream in late 2006 and is now gradually winding down. Shah Deniz also produces around 100,000 b/d of gas condensate, which is transported via the Baku-Tbilisi-Ceyhan oil pipeline to the Turkish Mediterranean coast.

Safety concerns would also be paramount in any decision by BP to take the projects forward. The company still has memories of a near-disaster in 2008, when a gas leak was discovered at the Central Azeri platform at ACG, prompting the evacuation of more than 200 workers.

Paul Sampson, London

OIL MARKETS

Urals Discount Boxes Russia in Corner

The market has merely shrugged off a 500,000 barrels per day oil production cut by Russia on Feb. 10, somehow dismissing any concerns about prompt crude supply.

Trading sources said that Saudi Aramco has allocated Asian buyers their full allocation of term volumes without demand for more barrels, confirming the lack of prompt appetite for sour crude, even East of Suez.

Saudi crude is deemed too expensive compared with the product margins currently achieved in Asia. If anything, it makes distressed Russian bbl a better bargain.

But Moscow's unilateral decision to cut production, despite failing to decisively hike prices, may upset its newfound commercial partners in India and China.

Part of the incentive to buy Urals in Asia is the wide \$38 per barrel discount to the dated Brent marker.

If Russian crude must travel farther out and at higher costs to find customers, then crude prices should discount for the higher freight and insurance premiums.

Last week, S&P Global Platts launched a Urals crude assessment for delivery to the west coast of India.

At nearly \$70/bbl, the assessment shows a \$23/bbl shipping premium over the \$47/bbl, f.o.b. loading price at Primorsk, reflecting the surging transport cost.

Russia has put itself in a corner. If it narrows the Urals discount to dated Brent to \$25/bbl or less by July, as it intends to, China and India may pressure Moscow to back down by buying elsewhere. But if Russia does not fix the two-tier pricing system between sanctioned and non-sanctioned bbl, which has increasingly priced Middle East bbl out of Asia, Saudi Arabia may stop playing nice and now be more willing to stand its market ground in Asia.

Refined Products Run Into Problems

Shipping data indicate that Russia's exports of petroleum products are beginning to encounter difficulties finding new markets now that the EU ban on imports is a reality.

Seaborne product exports in the first two weeks of February amounted to 2.34 million b/d, according to Kpler, down nearly 500,000 b/d from the average in January, when European traders gorged on Russian products ahead of the Feb. 5 prohibition.

To be sure, more products are expected for delivery by rail, with cargoes of gasoline and diesel headed to Iran, Uzbekistan, Pakistan and North Korea, according to reports and data seen by Energy Intelligence. However, these volumes are unlikely to account for the 500,000 b/d decline in seaborne deliveries seen so far this month.

Another big change is that more product cargoes are leaving Russian ports without a destination. Granted, this could be due to an erosion of transparency in the trade as a result of the embargoes, and ships that have not disclosed their destination are believed to be offloading their bbl onto larger ships — a trend mirroring what is taking place in the crude oil segment.

Otherwise, the great migration of products has begun. Diesel sales of over 500,000 b/d to Europe in January will diminish sharply this month, and African countries like Senegal, Djibouti, Ghana and Algeria are snapping up cargoes, according to shipping data. Saudi Arabia is expected to offload two large cargoes of diesel from Primorsk at end-month, while the United Arab Emirates is also anticipating one such cargo.

Many ships laden with diesel are slated by Kpler as headed for Gibraltar, or more generically, the Mediterranean, which indicates that they will either undergo a ship-to-ship transfer, or the bbl are awaiting a buyer.

Russian Deputy Prime Minister Alexander Novak was quoted telling the energy ministry's in-house magazine that the country intended to sell 75% of its products exports this year to so-called "friendly countries."

Julien Mathonniere, London, Gary Peach, New York

IN BRIEF

Russia, China Sign Gas Deal

Russia and China have signed an intergovernmental agreement on pipeline gas supplies via the “Far Eastern Route.”

The sides did not announce it, but a related document prepared by the Russian energy ministry to initiate the ratification process says the agreement was signed on Jan. 31.

The agreement defines key parameters of a 10 Bcm/yr gas supply contract signed by Russia’s Gazprom and China National Petroleum Corp. in February 2022.

The contract is part of Russia’s plans to expand its gas exports to Asia, which now becomes increasingly important amid a loss of the European market for its pipeline gas following the war in Ukraine. Gazprom is now also in talks over a 50 Bcm/yr Power of Siberia 2 contract with China, which would increase exports to almost 100 Bcm/yr from 15.4 Bcm exported via the Power of Siberia pipeline in 2022, up 48% from 2021.

Turkey Postpones Gas Summit

Turkey has postponed a gas hub summit in Istanbul until Mar. 21–22 due to the deadly earthquake last week.

The summit, initially planned for Feb. 14–15, is aimed to gather potential suppliers and buyers of the gas at the proposed gas hub where Ankara wants to complete the first transaction already this year.

Ankara now needs to tackle the aftermath of the quake, which could affect President Recep Tayyip Erdogan’s positions ahead of elections planned for mid-May.

The delay gives more time for Ankara and Moscow, a key supplier that floated the hub idea last year, to discuss the main principles of hub operations.

The hub “cannot be a priority for Turkey now, we understand this,” Kremlin spokesman Dmitry Peskov said last week. The earthquake might delay the hub’s start-up, but not significantly, he said.

Lukoil Stakes Out Kazakhstan

Lukoil revealed it will hold a 50% stake in a new joint venture (JV) with Kazmunaigas (KMG) to develop the Kalamkas–Sea, Khazar and Auezov areas in the Kazakh sector of the Caspian Sea.

Lukoil is still to finalize the sales and purchase transaction with KMG to acquire the stake in the JV, called Kalamkas–Khazar Operating, which will operate the project. It is the first deal to be signed under Kazakhstan’s improved model contract terms.

Lukoil did not reveal how much it is paying for the stake. KMG had earlier said that the signature bonus amounts to \$32 million, while direct investment in the project is expected at \$6 billion

According to Lukoil, the partners signed several agreements last week regarding the project. The inked documents “define rights and obligations of the subsoil user during joint development activities in the area,” the Russian major added.

Shell Eyes Kazakh Expansion

Shell has signed a memorandum of understanding (MOU) with Kazakhstan’s state oil company Kazmunaigas (KMG) to widen cooperation in the upstream oil and gas sector in the Central Asian republic.

The MOU, signed in Astana by the head of Shell Kazakhstan, Herman Burmeister, and KMG’s president, Magzum Mirzagaliyev, calls for the two companies to collaborate in several areas, including the joint appraisal and exploration of new acreage, the possible creation of new joint ventures and the use of new technologies.

Shell’s two main assets in Kazakhstan are its 29.25% interest in the giant Karachaganak gas condensate field, which it operates jointly with Eni, and its 16.88% stake in the North Caspian Operating Co., the international consortium overseeing the Kashagan oil development.

Czech Utility Sues Gazprom

Czech utility Cez has filed a \$45 million arbitration claim against Russia’s Gazprom over undelivered natural gas in 2022. Gazprom is already facing similar claims, including a multi-billion euro claim from German utility Uniper.

Cez did not specify the volumes that were not supplied and the price for the gas. A source familiar with the matter tells Energy Intelligence that Cez bought some gas volumes via Gazprom Export’s Electronic Sales Platform (ESP) with delivery in 2022, most like at auctions in 2021, before a spot price rally in Europe. ESP hasn’t sold any gas since October 2021, when Europe faced the currently continuing gas price crisis.

The delivery to Cez might have been interrupted after Gazprom in late August 2022 stopped supplies via the Nord Stream offshore pipeline to Germany, which feeds onshore pipes running to the Czech Republic. ESP sold some 700 MMcm with 2022 delivery to the Olbernhau II interconnection point on the German–Czech border, according to Gazprom data.

Russia Urges Blast Probe

Russia responded to last week’s article by US investigative reporter Seymour Hersh on Washington’s alleged involvement in last year’s Nord Stream gas pipeline explosions by calling for an open investigation into what it believes was a terrorist act against civil infrastructure.

“This report must prompt an accelerated international investigation, but we now see attempts to silently curtail this international investigation,” Kremlin spokesman Dmitry Peskov said on Feb. 9.

Russia’s State Duma is now preparing a statement to call on the UN to initiate investigation.

Peskov admitted that as an investigative journalism piece, Hersh’s report cannot be regarded as a primary source and some parts of it could be disputed. But he said it was a “very important report” with deep analysis.