

## Outlook

By Imen-Nidhal Boudinar

Crude oil prices dropped by nearly \$ 8 / Bbl during the first half of February as a result of the continued deterioration of fundamentals, then, picked up by the end of the month with the resurgence of the geopolitical unrest amplifying concerns over an interruption of market offer.

Thus, during the first half of February the market has eased as a result of:

- The creeping and uninterrupted rise of US oil stocks, in particular, gasoline stocks.
- The deterioration of refining margins
- Persistent mild weather in the USA
- The resumption of production on the oil fields operated by Shell (115 000 B/d)
- The downward review of world oil demand estimation in 2006 by IEA, as a consequence of the mild weather in the USA and the lifting of subsidies on oil products in some Asian countries.
- In this context, the transfer of the Iranian nuclear case file before the UNO has not influenced the prices trend for this period, the operators seem to temporise prior to the next meeting of the International Agency for Atomic Energy , due to convene in March.

Stimulated by the increase of geopolitical tensions in many producing countries, crude oil prices have increased by nearly \$ 3 Bbl/ during the second half of February. The upsurge of the prices results from the convergence of several factors, of which:

- The attempted attack against the largest light crude processing plant in Saudi Arabia with a capacity of more than 7 MBD, namely, 74 % of the current production of the country.
- The fall of nearly the fifth of the Nigeria production (-455 000 B/d) following the sabotage actions aimed against the Royal Dutch Shell installations located in the Niger Delta.
- The aggravation of the inter-community tensions in Iraq hovering the spectrum of civil war in the country.
- Persistent cold weather in Europe inducing an additional demand for crude oil of nearly 300 000 B/d in the OECD countries in March.
- The statements, issued by some members of the OPEC countries, point in favour of a cut of the ceiling output of the organisation at the meeting due to take place on 8 March

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## The Asian market

### Sonatrach reinforces its position in South Korea

On 12 Sunday 2005, within the framework of the activities planned on the occasion of the official visit to Algeria of Mr. Roh Moo-Hyun, South Korean President, Sonatrach concluded two cooperation agreements with the South Korean companies KNOC (Korea National Oil Corporation) and KOGAS (Korea Gas Corporation).

The Algerian Minister of Energy and Mines and his Korean counterpart, the Minister of Industry, Trade and Energy attended the ceremony.

The first agreement, « Strategic Alliance Agreement », signed by Sonatrach Chairman and Executive Officer and his counterpart from KNOC Company, confirms the readiness of both companies to reinforce their relationship which was ratified in May 2003 by a Memorandum of Understanding and a contract relating to the reservation of a storage capacity by Sonatrach in Korea.

As early as 2004, Sonatrach initiated discussions relating to the leasing of a crude oil storage capacity in Asia and gave shape to its action in May 2005 through an incremental capacity of nearly 2 million barrels in South Korea.

In november 2005, this capacity was increased to 2.5 million barrels ensuring Sonatrach to capture a market share on the Asian market, especially, in Korea and China.

The « Strategic Alliance Agreement » signed this year, focuses on strenghtening and enhancing this win-win relationship through the leasing of crude oil storage capacities, in line with

Sonatrach needs and its partner availability. The relationship could be extended to other petroleum products such as LPG. Through this agreement, KNOC ensures a long-term co-operation of a state-owned company, namely a producing country outside the Middle East, strengthens security and diversification of supply sources, and generates revenues from the leasing, which will reduce the overall costs of its strategic reserves.

On the long term, the availability and the storage of oil products from different origins should lead to the setting up of a hydrocarbon commercial hub. Sonatrach will be able to capture new promising markets in the Asian region, such as China and the Republic of Korea, diversify the outlets for its products, acquire a strategic position and take advantage of the arbitrage opportunities in the marketing of its products.

The second Memorandum of Understanding, concluded by Sonatrach Chairman and Executive Officer and his counterpart from KOGAS, paves the way for a direct co-operation between Sonatrach as a major gas producer and KOGAS, the first world LNG importer

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## Production and Marketing of Helium

### Signature of the amendment n°2 to the Memorandum of Agreement between Sonatrach and Helap

On 8 March, 2006, Sonatrach signed an amendment n° 2 to the Memorandum of Agreements of 8 July 1990 related to the main contracts of the joint venture company set up between Sonatrach and Helap (joint company between Air Product and Air Liquide) for the production and sale of helium produced in Arzew.

This amendment will give Sonatrach the opportunity to sell in the international market through its affiliate Cogiz, responsible for marketing industrial gas , 10 million scft / year of Helium supplied by Helios. As a reminder, the Memorandum of Agreement of 28 July 1990 restricted the marketing of these volumes only to the Maghreb market which proved, in terms of demand, unable to absorb the whole quantity.



Concurrently to the amendment n°2 signed with Helap, Sonatrach and Helios signed an agreement for the sale and purchase of helium relating to Sonatrach rights for quantities of 10 million scft/year. On the same date, an assignment agreement has been concluded between Sonatrach , Helios and Cogiz.

**OPEC**

**OPEC To leave its ceiling output at 28 MBd**

During their meeting held in Vienna on 8th March 2006, the OPEC countries decided to maintain their current production ceiling of 28.0 million barrels per day for the time being, in order to contribute further to market stability and robust global economic growth, as well as maintain prices at levels reasonable to both producers and consumers. The Conference also noted that, although all indicators show that the market is fundamentally well-supplied with crude oil and that commercial oil stocks in the OECD are at high levels, world crude oil prices remain volatile, these being driven by geopolitical factors and associated concerns regarding potential future supply disruptions, as well as downstream bottlenecks, exacerbated by more stringent US fuel quality

standards. These factors are reflected in the increased activity observed in the futures market and the pattern of disconnect between prices and commercial stock levels, that has become apparent since 2004. In view of the importance of continued vigilance, given the possible risks and uncertainties, the Conference further agreed to continue to closely monitor market developments and to take appropriate and swift action, as and when the need arises. For this purpose, The Conference will convene an Extraordinary Meeting in Venezuela on Thursday, 1 June 2006. The Conference decided that its next Ordinary Meeting will be convened in Vienna, Austria, on 11 September 2006, immediately preceding the 2006 OPEC International Seminar.

**European Union**

**The Commission presents its project on the European Energy Strategy**

The European Commission published on 8 March 2006 a new «Green Paper» whereby it sets out the foundation of «an energy strategy for Europe».



The document puts forward the « new energy realities facing Europe, outlined questions for debate and suggested possible actions at the European level ». Three objectives have been targeted:

- Sustainability,
- Competitiveness,
- Security of Supply.

To achieve these objectives, the Commission introduces a number of concrete proposals to meet these « six priority areas ».

- 1- Completing « *the internal gas and electricity markets* ».
- 2- the EU need to « *ensure that its internal energy market guarantees security of supply and solidarity between Member States* ».
- 3- Instauring « *a real community-wide debate on the different energy sources* ». to ensure that « *EU's energy mix pursues the objectives* ».
- 4- need to face the challenges related to climate change.
- 5- presenting a « *strategic energy technology plan*».
- 6- The need for a « *common external energy policy* ».

As regards «*energy partnerships with the producers, the transit countries and other international players*», the document mentions « **the increasing importance of Algeria** as a gas supplier to the EU could point to **a specific energy partnership**».

Note: further information on The «Green Paper» on the following web site :

[http://europa.eu.int/comm/energy/green-paper-energy/doc/2006\\_03\\_08\\_gp\\_document\\_en.pdf](http://europa.eu.int/comm/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf)

**Outlook**

**Highlights**

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**Saudi Arabia**

**Haradh project on stream.**

The Saudi Company Saudi Amoco announced on 8 February that eight new fields due to supply the third Haradh field gas/oil separation unit ( GOPS-3), have come on stream , well ahead of schedule. GOPS-3 will reach its full capacity of 300 000 B/d during the second quarter 2006 and will boost the production capacity of Saudi Arabia up to 11.3 MB/d. Furthermore, the Saudi Company intends to launch four «mega-projects» which will increase by 1.9 MB/d the crude oil production capacity of the Kingdom and by 68 % the production of ethane used to feed the petrochemical industry, with a substantial increase of natural gas and condensate production.

**Mauritania**

**First oil at Chinguetti.**

Last February 24, Chinguetti field was put on stream, enabling Mauritania to join the oil producing countries Club. The extraction flow will reach 75 000 B/d at nominal capacity. The deposit conceals a potential of some 120 Mb of recoverable. Discovered in 2001, Chinguetti is developed by a joint venture between Woodside (47%), Hardman (19%), the Mauritanian company of Hydrocarbons (12%) , BG (10.2% ) , premier (8.1%) and Roc Oil (3.3%).

**United States**

**The American President wants to reduce US oil dependence on the Middle East.**

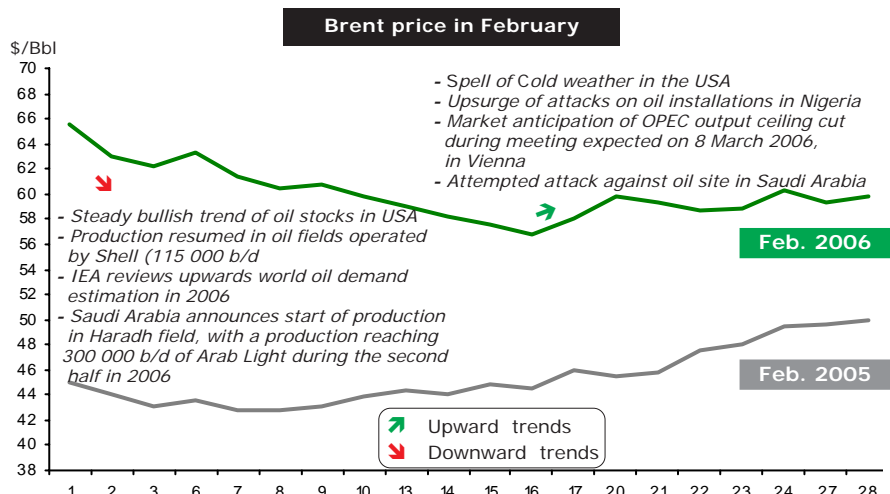
In his annual speech on the State of the Union on 31, January 2006, the American President asserted the necessity to reduce US dependency on the Middle East through the replacement of more than 75% (1.65 MB/d out of 2.2 MB/d imported in 2005) of its imports from the Middle East by 2025. Whilst the Middle East covered 10% of the US needs and 24% of their net

oil imports in 1990, these shares shifted to 11% and 17% in 2005, respectively. The stability of the American reliance on the Gulf takes place in a context of rapid increase of crude oil imports, which accounted for 63% of the domestic consumption, against 42% in 1989. The American president has also insisted on the prospects offered by the technological breakthroughs in vehicle fuels, alternative cars and clean coal, in cutting the volumes of imports for the long term.

**Venezuela**

**Petrozuatra to produce 145 000 B/d of synthetic crude in 2006.**

Within the framework of the development project of extra heavy crude, Petrozuatra, PDVSA and ConocoPhillips project the drilling of 28 wells in 2006, namely, the double of the wells drilled in 2005. Thus, production of processed extra heavy crude will shift from 120 000 B/d currently, to nearly 145 000 B/d thanks to the upgrading of refineries which was completed in 2005. Venezuela produces some 630 000 B/d of extra heavy crude to be converted into 570 000B/d of synthetic crude.



## E v e n t s

### The Asian market

#### **Sonatrach reinforces its position in South Korea** *(continued from page 1)*

The implementation of this cooperation projects would require: to establish channels of communication, to set up joint working teams for the exploration, and identification of project opportunities of mutual interest, in particular for LNG business transactions, which have registered over the recent years an increasing number of spot transactions

due to a high price volatility, thus, offering arbitrage opportunities.

With these agreements, Sonatrach gives shape to the willingness of the decision-makers from both countries aiming to expand the exchanges between the operators, namely, public operators, in the energy sector in particular and industry, in general.

#### KNOC

##### (Korea National Oil Corporation)

The state-owned company KNOC is involved in exploration, development, storage and marketing of hydrocarbons.

Since its creation, KNOC has been entrusted by the Korean government with the mission of securing the hydrocarbon supplies for the domestic market, particularly, setting up a sufficient storage infrastructure to ensure a self reliance of at least 60 day consumption for the local market.

This goal has been reached thanks to an ambitious construction plan of hydrocarbon storage terminals (tanks and underground caverns in rock caves).

Capacities enabling the storage of volumes of more than a 100 day self sufficiency (namely, more than 150 Mboe), have already been achieved.

For management cost reduction purposes, KNOC has launched a leasing programme to international oil companies.

#### KOGAS

##### (Korea Gas Corporation)

Korea Gas Corp. (KOGAS) was set up in 1983. Initially, it was a state-owned company of the Korean government which currently owns only 26.86 % of the shares. Korea Electricity Power Corp (KEPCO) has acquired 24.46 %, the regional governments 9.86 % and individual investors 38.82 %, of which a third are foreigners.

The Republic of Korea is the second LNG exporter behind Japan with LNG mainly coming from Qatar, Indonesia, Malaysia and Oman.

The volumes imported by KOGAS have been steadily increasing and should reach nearly 20 million tons in 2006.

Presently, KOGAS is the first World LNG import company.

During the recent years, thanks to its acknowledged expertise, KOGAS has embarked on the internationalisation of its activities, particularly oriented towards securing gas reserves, in Rasgas in Qatar, in O LNG in Oman, and with China National Petroleum Corp in China and in Russia.

### The Energy market

#### **Takeover Bid of Endesa: uncertain outcome**

*The European Energy market particularity seems to favour the emergence of new groups through mergers and acquisitions. In this view, each European State seeks acquiring an "Energy Champion" in order to keep control over this strategic sector.*

Since it has launched in September 2005, the takeover bid on its compatriot of power generation Endesa, the Spanish gas company Gas Natural has been experiencing many developments.



At the national level, the diverging opinions relating to the takeover bid are reflected in the decisions of the authorities who had to state on the issue.

According to the National Commission for Energy (CNE) which is in charge of the market regulation, Gas Natural takeover project is acceptable and would foster competition.

According to the Competition Defence Court, the new entity would benefit from an excessively dominant position on gas and power markets that would damage competition.

Early February, Spain's Government agreed with the National Commission for Energy (CNE) and approved Gas Natural takeover bid on Endesa, but several conditions aiming at protecting competition were set, namely:

- The transfer of 2.8 Gm<sup>3</sup>/y of natural gas by Gas Natural, until 2009, including the surplus of Sagane 1 contract in relation to the quantity required to supply the regulated market.

- Selling of Endesa assets by Gas Natural, in regasification companies Sagas and Reganosa.

- The transfer by Gas Natural of some 4300 MW of electricity generation stations, with a 2 year ban on acquisition of combined Cycle station.

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### Gassi Touil integrated gas project

#### **Sonatrach and Gas Natural - Repsol YPF consortium conclude an agreement for the setting up of a liquefaction company**

Within the frame of the integrated project relating to the «Development, Exploitation, Liquefaction and Marketing of Natural Gas originating from Gassi Touil and Rhourde Nouss deposits» (see *Market News n° 9 - December 2004*), Sonatrach and the Spanish consortium Gas Natural-Repsol YPF, signed on 14 March, 2006, an agreement for the setting of a liquefaction company at Arzew.

This new company will be jointly in charge of the construction follow-up of a new LNG plant consisting of one train, with an option for the realisation of a second liquefaction train.

With a nominal capacity of four (04) million tons/year, the plant is expected to be completed in 54 months and come on stream by October 2009.

### Management and operation of sea terminals

#### **The company STH holds its first Board Meeting**

The Company for the Management and Operation of Hydrocarbon Sea terminals (STH) held its first Board Meeting on 20 February, 2006 in Oran.

During the meeting, the members of the Board of Directors have discussed and adopted the questions set forth in the Agenda, in particular:

- The company's rules
- The company's organization chart and macro-structure

The Chief Executive Officer has also reviewed the reasons behind the setting of STH and presented the difficulties met during its start-up.

At the end of the meeting, the members have agreed to convene their next Board Meeting in the very near future in order to examine the issues relating to the review of the activities of the company, and to the means to be implemented to enable the company to fully carry out its mission.

## In Brief

## Energy market

**Takeover Bid of Endesa: uncertain outcome***(continued from page 3)*

- Selling Gas Natural Electricity Marketing Activity and Endesa gas Marketing Activity
- The transfer of 1.5 million points of delivery of gas and the functional unbundling of regulated and free LNG activities.
- Renunciation by Gas Natural of a 12 % stake of Endesa in the Medgaz project.

In case of a successful takeover, Iberdola, second Spanish electricity operator, will benefit from the selling by Gas Natural of up to 10 billion euros of assets, in particular in power stations (+ 6.6% of the market share) and 1.25 million of gas customers (+ 13% of the market share).

In spite of these constraints, Gas Natural has accepted all the terms as the objective of setting up a vertically integrated electricity and gas company has been maintained.

Moreover, Gas Natural will keep control over its gas contracts with Algeria (gas pipelines and LNG). Endesa which had strongly objected to the takeover as soon as its has been launched, sticks to its initial position and announces that it intends to refer the case to the Spanish Supreme Court.

**E.ON overbidding**

End of February, the German Power and gas giant E.ON joins in and tops the bid from Gas Natural by 30 %. The German group offers 55.1 billion euros, including the transferability of the debt compared to 48.5 billion euros

offered by the Spanish gas company. The new entity set up by E.ON and Endesa would have a turnover of 75 billion euros and would have more than 50 million clients over more than 30 countries.

The Spanish Government has clearly shown that it intends to block the German bid, either through its specific share "Golden Share" in Endesa, with a risk of being accused of protectionism by Brussels, or through regulatory instruments.

It seems that the government has opted for the latter, which gives the National Committee for Energy (CNE) a scrutiny right on takeover bids in the energy sector.

According to some analysts, to ensure the success of its takeover bid, the best solution for Gas Natural would be overbidding E.ON offer. But apart from the fact that Gas Natural needs financial supports in order to re-launch its offer, E.ON can easily overestimate the offer as it is backed by more important financial resources.

At the European level, the European Competition Commissioner in a report published mid February, has voiced his opposition to the energy sector concentration and has announced that a series of individual inquiries have been initiated against major groups.

Currently, Endesa case is uncertain and the developments show the dissent that exists between national and corporate interests.

■ **BRAZIL - Petrobras acquires 50% in a refinery in Texas.** The Brazilian Group Petrobras is to enter the refining sector in the USA further to the conclusion of an agreement with Astra Oil in view to recover its 50 % stake in the Pasadena refinery, in Texas. With a capacity of 110 000 B/d, the unit is currently being revamped and will be able to process up to 70 % of heavy crude, namely, some 70 000 B/d from the Marlin deposit, developed by Petrobras in the Campos Basin, off Rio de Janeiro.

■ **SUDAN - Oil production doubled in 2006.** According to officials from the industry and the Sudanese ministry of petroleum, Sudan oil production estimated at 330 000 B/d should be doubled by the end of the year. This increase will mainly result from the start operation of the Petrodar project, with an extraction flow reaching at least 150 000 B/d by the end of 2006. Its maximal capacity will reach 300 000 B/d to 350 000 B/d. Moreover, Block 5a will start producing an additional 80 000 B/d in 2006, and Block 6, 30 000 B/d. Petrodar project is a joint venture between CNPC (41%), Petroliam Nasional Berhad (40%), Sudapet (8%), CPCC (6 %) and Al Thani Investments (5%).

■ **NORWAY - Statoil reviews downwards its hydrocarbon production targets.** Statoil, the major Norwegian oil group, has affirmed that this year and next year, its production could be cut back by production agreements in countries such as Iran and Libya. The company has produced an average of 1.169 boe/d of oil and natural gas, compared to its targeted volume of 1.175 boe/d. The company could also miss its production target of 2007 (1.4 Mboe/d) due to the development timescales in several fields of the Barents Sea. The replacement rate of the Norwegian company fell to 102% in 2005 against 106 % in 2004.

■ **USA (Gulf of Mexico) - Agreement between Sempra LNG and Merrill Lynch Commodities.** Sempra LNG has signed an agreement with Merrill Lynch Commodities, an affiliate of Merrill Lynch & Co, relating to the reservation of a capability of regasification in its Cameron terminal project, in Louisiana, near Lake Charles terminal (Gulf of Mexico). Under this 15 year agreement, Merrill Lynch Commodities will have the opportunity to import 3.7 million tons of LNG per year. The contract will be implemented either in the first phase of Cameron LNG's development, to be completed in 2008, or its proposed expansion, which could be completed in 2010.

**Towards Gaz de France / Suez merger ?**

**S**uez and Gaz de France have announced that their friendly merger would be a Suez swap share, after payment of a dividend for one Gaz de France share.

Prior to the merger, Suez shareholders will receive an exceptional dividend of 1 euro per share, namely, EUR 1.25 billion.

The parity ratio one-for-one share, will represent a 3.9 % premium for GdF shareholders on the basis of the average stock price over the last three months.

The Group will be run by Mr Gérard Mestrallet, Chief Executive Officer or Chairman of the Board, according to the organisation selected by the representative bodies of the employees, and Mr Jean-François Cirelli.

The merger will create a new entity that will generate EUR 64 billion revenues and could realise synergies of EUR 500 million /per year, as of 2009.

The new group will become the fifth-largest producer of electricity, the operator of the largest European gas transport and distribution network benefiting from significant storage capabilities, and the leading energy services provider in Europe, as well as a world leader in water and environmental services.

This merger project, approved by Suez and Gaz de France Boards of Directors will be submitted for approval to the applicable competition authorities.

According to Gaz de France, the transaction is scheduled to be completed in the second half of 2006.