sonatrach

Market News

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Marketing Activity Newsletter

Outlook

By Imen-Nidhal Boudinar

In March, Crude oil prices registered a seesaw trend due to the escalation of political unrest in Nigeria and a seasonal slow down of demand inducing stock piling of oil reserves, especially in the US.

Early March, following the bearish trends, essentially fuelled by the steady rise of US oil inventories and the downward review of the estimations of world oil demand in 2006 by several analysts, crude prices regained a bullish trend finishing at a $ 66.05/Bbl peak by the end of the month, namely the highest level since September 2005. This upsurge trend is attributed to :

- A worsening situation in the Niger Delta, inducing a production loss of nearly 630.000/B/d, namely, 26 % of Nigeria normal output.

- The sudden run down of US oil stocks by the end of the month increasing concerns over a shortage of gasoline during the driving season, in particular with the prolonged turnaround periods in the region.

- Iran rejection of the UNO security council resolution calling for a suspension of its uranium enrichment activities within 30 days.

- Upsurge of violence in Iraq amplifying the risks of a civil war in the country.

- The cutback by nearly 200.000 B/d of North Sea productions in April due to the turnarounds of several production fields.

- The scheduled shutdown of many refineries for turnarounds in the USA after postponements during autumn Hurricanes.

Highlights

SAOUDI ARABIA : *Production capacity at 12.5 MB/D in August 2009*.

According to Saudi National Security Assessment Project, a consulting company to the Saudi government, Saudi Aramco should attain its output target of 12.5 MB/d, compared to a current capacity of 11 MB/d, in August 2009, namely, six months ahead of the projected date.

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10th UNCTAD Conference on Oil and Gas in Africa

The conference relating to Oil & Gas Trade and Finance in Africa took place from 2 to 5 April in Algiers

On this occasion, Mr Ali Hached-Vice President - Marketing Activity, made a presentation on « Development of gas Markets: Sonatrach facing changes in a globalised and deregulated environment »

After a brief review of the European, American and Asian gas market prospects, Mr Hached focused his paper on the changes induced by LNG globalisation and deregulation of pipe gas markets.

The first part dealt with the prospects of diversification (both for clients and countries) and arbitrage (inter an intra-regions) offered by globalisation, and also how to manage the producers/ customers inter-dependence in a more balanced way. Clearly, if LNG globalisation enables the customers to diversify their supply sources, it also permits the producers to diversify their outlets.

On the question about pipe gas market deregulation, Mr Hached insisted on the investment / partnership opportunities offered by the opening of the markets and Unbundling of the chain. He has also pointed out that Third party Network Access to producers is not yet properly achieved.

To round off his presentation, Mr Hached emphasised the importance of LNG as a fulcrum for Sonatrach international development, through such projects as, Reganosa, Isle of Grain and also Sonatrach ambition in the US LNG market.

Mr. Ali Hached,
Vice-President Marketing Activity

Thus, LNG could be the core of Sonatrach international expansion strategy and could trigger other projects such as GTL and direct exports of electricity towards Europe.

On the African level, Mr Hached also reminded Sonatrach readiness to commit to :

1- To the gas resources development effort,

2- To promote clean energy consumption use such as LPG,

3- To promote the role of gas as a structuring driver between countries and regions.

Shipping

A brainstorming for implementing vetting in the Sonatrach Group

Last 28 and 29 March, Algiers Hilton Hotel hosted a brainstorming on Vetting within the Sonatrah Group.

In attendance at the brainstorming were : Sonatrach Marketing Activity, AVAL and TRC, its affiliates, HYPROC SC, NAFTAL and STH, HSE the Central Direction and Legal Direction.

In his opening speech, Mr. Ali Hached, Vice President Marketing, reminded that, a few months ago, when the Marketing Activity launched the idea of introducing Vetting in the Sonatrach Group, the project could seem impossible all the more as the tasks were multiple and complex.

Moreover, the time limits laid down were relatively short ***« for the project to quickly take shape and become operational »***.

The brainstorming offered also the opportunity to assess the progress achieved and the results obtained so far.

Mr. Ali Hached also reviewed the significant changes facing the oil and gas sectors.

The entry of new operators will urge Sonatrach to achieve ***« in the competition field, an important step forward in matters of quality »***.

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Russia - China

Signature of four strategic cooperative agreements in energy

China and Russia signed on 21st March 2006, 15 cooperative agreements of which four are related to energy.

Memoranda concluded in the field of energy are related to the supply of gas and electricity to China and to projects for the setting up of joint ventures in the oil sector.

▪ **60 to 80 Gm³ / year to be supplied to China**

The major project Russian concerns the construction of two gas pipelines between the two countries to be completed in five years. The first Chinese energy company, CNPC and the giant Gazprom have signed an agreement for the construction of two pipelines for an overall cost of $G 10. The first gas pipe will run from Western Siberia and the second from Eastern Siberia, each of them with a supply capacity of 30 to 40 G.m³/year.

▪ **No final agreement on Siberia-Daqing oil pipeline**

The Russian and Chinese presidents have also discussed about the oil pipeline project linking Siberia to the Pacific Coast, but could not reach an agreement.

CNPC and the Russian state-owned Transneft have signed a Memorandum of Agreement for the realisation of a feasibility study on the project.
Out of an overall capacity of 1.6 MB/d of the Siberian oil pipeline, 600.000 B/d will be delivered to China.

▪ **Setting up of two Russian-Chinese Joint ventures**

CNPC, Chinese State-owned Company and Rosneft have concluded two agreements for the setting up of two joint ventures dealing with exploration-production, refining and retail of petroleum products.

The joint venture to be located in Russia will be in charge of acquiring licences in the upstream, while the joint venture located in China will deal with downstream activities.
Both companies will start operating by the end of the year.

Outlook

Highlights

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The coming on stream of several fields should boost production capacity by nearly 2.3 MB/d, of which 800.000 B/d should offset the natural reserves depletion.

- The first increase originating mainly from the Haradh field with 300.000 B/d, and with the third gas/oil separation unit reaching its full capacity as of 1st April.

- Shaybah capacity output will be raised to 750.000 B/d in 2009 compared to a current flow of 500.000 B/D.

- Completion of the development programme of Khurais, including the construction and commissioning of production installations of 1.2MBd of Crude Arabian Light as of June 2009.

RUSSIA : *Diversification of gas and oil exports in 2020*

Russia has planned to re-launch its oil and gas export diversification by supplying nearly one third of its oil exports to the Asian Pacific region in 2020, against a current 3% rate. For this purpose, the construction of the Siberia-Pacific oil pipeline will open up a new route and capture a share on the Asian market for Russian hydrocarbon exports.

Additionally, the development of oil and gas deposits in Sakhalin, and the new oil reserves in Eastern Siberia should cover the growing demand of the Asian market.

CANADA : *Shell acquires new assets in heavy crude in Alberta*

Royal Dutch Shell has announced the acquisition of assets in oil sands, North of Alberta province, for 465 Million Canadian dollars.
For this, the British-Dutch group has created a new affiliate denominated SURE, Northern Energy, in charge of developing these acreages in Alberta.

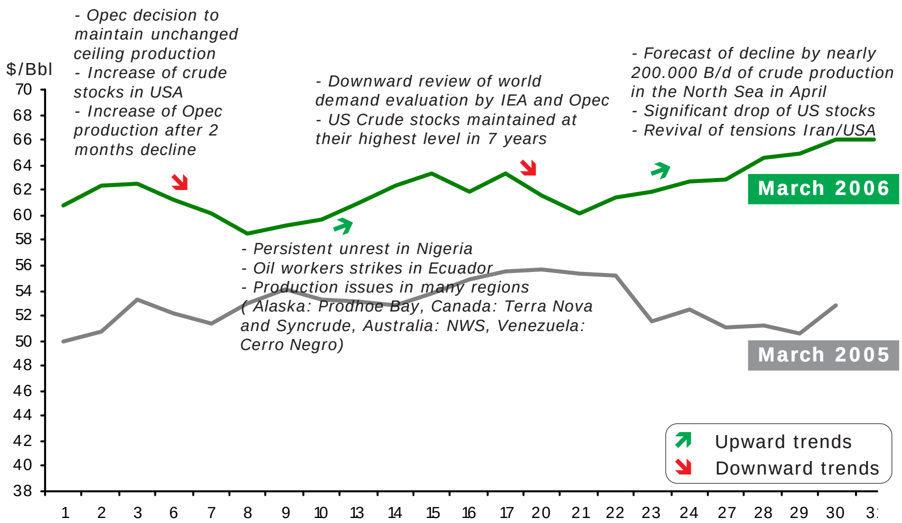
The other North American affiliate of the group, Shell Canada, holds 60 % in the project of Athabasca oil sands with reserves estimated at 6 GBbls of oil and a daily production of 155.000B /d which could be raised to 500.000 B/d. With reserves of 175 GBbls, Alberta owns the most important potential oil reserves in the world behind Saudi Arabia, but has to overcome tough development conditions.

The Canadian Association of petroleum producers (CAPP) estimates at 1 MBd the output from only oil sands in Alberta; this amount should be increased to 2.7 MBd by the end of the decade.

New historical record

For crude prices in mid April. Brent DTD was over its August historical record in 2005 (67.33) finishing at 69.53$/Bbl on 12 April.

Brent prices in march



Events

Cooperation

Sonatrach and BG Group conclude a Memorandum of Understanding (MoU)

Sonatrach and BG Group signed on 26 March in Algiers, a Memorandum of Understanding for cooperation covering the whole gas chain.

This agreement encompasses several fields of cooperation, in Algeria and abroad, especially, in natural gas exploration and LNG production, liquefaction, marketing and shipping.

It also enables both parties to take advantage of all the opportunities offered by their present positions and those that could emerge through joint acquisitions and / or asset swaps in the world gas upstream and downstream.

Mr Mohamed Meziane, Sonatrach CEO and Mr Franck Chapman, BG Group CEO attended the signing ceremony.

As a reminder, commercial relationship between Sonatrach and BG started in 2002, with the conclusion of a Master agreement for LNG sale/ purchase on the US market, namely on the Lake Charles (Louisiana) regasifaction terminal.

BG Group plc is an integrated company operating in the four segments of the Gas chain, particularly in the LNG industry sector, with a presence spanning 20 countries over the five continents.
It is incorporated in England and listed in London and New York stocks markets.

Shipping

A brainstorming for implementing vetting in the Sonatrach Group

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The Vice-President has underlined that the « Vetting Project » is a part of the ***«up-grading process of our whole hydro-carbon shipping segment»***, and as a challenge, this process ***" is to be perceived as a major strategic objective, considering its determining role in the value chain "***.

The Vetting project is a key element of ***« a resolutely aggressive strategy*** *aiming at* ***taking hold*** *on hydrocarbon marine terminals in Europe, such as Isle Of Grain for LNG, and leasing storage capacities (in Koeje and Ulsan in South Korea for crude oil)».*

Mr. Ali Hached rounded off his speech declaring *« the Vetting credibility and efficiency we are gradually phasing in, should guarantee and enhance* ***Quality, Security and Reliability*** *of our port installations and oil marine terminals, without forgetting our target to meeting a level of economic integrity and rationality in order to reduce service costs to the international standards».*

Vetting in brief

- Vetting is related to oil tankers chartering.
- It focuses on careful and detailed supervision and technical inspections of oil transport carriers.
- It aims at establishing and maintaining a high technical level of compliance for vessels.
- To ascertain through control and test procedures of security, reliability, whether vessels meet the requirements of hydrocarbon marine terminals.
- Vetting represents for oil and gas industry a tremendous economic and commercial challenge.
- It is an instrument of shipping competition.
- It is a drive for safer ships and cleaner seas.

High sulphur fuel oil imports for bitumen

Hedging: An instrument for stable bitumen prices in the domestic market

The aftermath of national economic growth recovery during the recent years has been an increasing demand for bitumen associated with new road network projects.

Algerian Sahara Blend having a low content of heavy residues, is not suitable as feedstock for the production of bitumen, therefore, high sulphur fuel oil is imported in order to meet the domestic needs.

National production, with a capacity of 300.000 MT / year originating from both Skikda and Arzew units, is wholly dedicated to a steadily growing market totalling 500.000 MT / year.

In order to supply bitumen regularly to the domestic market, contracts have been negotiated on a yearly basis between Sonatrach and foreign suppliers.

The import costs of the product is linked to oil market prices, namely, heavy fuel prices (3.5 % sulfur). Over the recent years, rocketing crude oil prices have led to the increase of prices of bitumen production.

In 2005, high sulphur fuel oil imports expenditures were 60 % higher with an impact on heavy fuel oil prices in the domestic market.

In order to face these changes, the Marketing Activity is currently assessing the possible use of hedging instruments in order to manage risks related to heavy fuel oil import prices, especially during periods of peak prices.

According to the hedging instrument used, different options could be implemented, among which :

1. Swaps, which consist of swapping a floating price against a fixed price. Within the frame of a fixed or swap price, a variable price is exchanged against a firm price. Swaps are arbitrage deals.

2. Options, which enable to fix the purchase price limits of high sulfur fuel oil for Bitumen.

However, implementing a new instrument depends on the availability on finance markets.

Cost reduction

A new generation of anti-corrosion coating

A proposal on a new generation of anti-corrosion coating has recently been awarded the 3rd Prize of the contest for the first five best conceptions about cost reduction. The author, Mrs. Allaoua, an engineer at the Marketing Activity, presents the main points :

This proposal aims at reducing costs in the matter of protection against corrosion while improving the resistance of metals against the latter.

This could be achieved by the substitution of zinc metal, which is incorporated in paints based on epoxy resin (widely used in the Upstream, Downstream and Pipe Transport) by conducting polymers having remarkable inhibiting properties of corrosion.

These polymers known for their stability also make it possible to obtain coatings (paints) with longer duration of exploitation on the one hand, and decrease environmental risk, on the other hand.

Two polymers have been developed within the IAP-CU laboratories in order to incorporate them in a formulation of anticorrosion coatings presently supplied by the National Company of Paints (l'Entreprise Nationale des Peintures (ENAP)

The protection efficiency of carbon steel against corrosion by such coatings is compared to the one obtained by conventional coatings using zinc phosphate.

For this purpose, an evaluation of the anticorrosion performance of the developed coatings was realized on a nuance of carbon steel in an aggressive saline medium. Electrochemical methods of expertise (potentiodynamic polarisation and electrochemical impedance spectroscopy) have shown that coatings based on the proposed polymers are by far much performing than those marketed by ENAP.

A feasibility study of the proposal has been carried out, whereby the standard composition of the proposed coating and the synoptic scheme of the manufacture process of the developed polymer. In this study, we suggest producing the coating within ENAP, which has already all the required manufacturing installations.

The calculation of the expected profits relating to this proposal is based on the assessment of the costs differentials regarding anticorrosion agents (zinc phosphate and proposed polymer) required to protect a surface unit (1m^2) of steel.

There are two situations :

-No investment (using existing processes at ENAP): $ 0.35 / m^2 of protected steel.

-With investment (estimated at 20 % of the raw material required for the polymer Production): $ 0.20 / m^2 of protected steel.

In order to assess the incidence of our concept on cost reduction, we have studied three (03) projects of gas transport by pipe (Medgaz, Galsi and TSGP). The total estimated profits is :

$ 3 015 253 corresponding to a profit unit of $ 0.35 /m^2 of protected steel.

$ 1 723 002 corresponding to a profit unit of $ 0.20 /m^2 of protected steel.

Other profits are also expected through:

- The realisation of rehabilitation works over the whole transport network and storage capacities
- Market opportunities with the National Company Sonelgaz.

Fair - Exhibition

SIPAA, first Fair-Exhibition on Port, Airport and Auxiliaries Infrastructures

Hosted by the company Expo-Foir and the "Société Algérienne des Foires et Expositions "SAFEX", this first edition took place at the Palais des Expositions - Algiers, from 27 to 30 March 2006.

In attendance at the Fair-Exhibition were: Sonatrach affiliates, Hyproc Shipping company and STH (Société de Gestion et d'Exploitation des Terminaux Marins à Hydrocarbures), and also some twenty operators and participants such as the regional companies of port management (Algiers, Skikda and Bejaia) and companies dealing with port equipments, the National Security, customs services and shipping companies.

This event focused on:

- Introducing to the greater public the missions and port operating activities of the different companies.
- Debating on the Union agreement with the EU and the requirements pertaining to the accession to WTO.

In Brief

NIGERIA- first cargo from Erha deposit.
The US group ExxonMobil has announced that the first oil of the Erha deepwater oil field has come on stream, with an initial output of 150.000B/d. The production will be boosted up to 190.000 B/d by the end of the year with the starting up of satellite fields located north of Erha. The first cargo was delivered end of March. It will feed the refining system of the group. Crude originating from Erha owns a high API degree of 32 % with a sulphur content of 0.21 % and acidity of 0.37 %.

RUSSIA- Oil export tariff raised to $ 186.4/T.
Russia has decided to raise oil export tariffs to the record level of $ 186.4 /t on 1st April. This tariff currently fixed at $ 160.8/t and reviewed every two months is based upon the average exchange rate of the Ural on the world market. The export tax on clear petroleum products (in particular for gasoil) will shift to $ 137/t and dark petroleum products (fuel oil…) to $ 74.3/t at the same date.

CHINA - Increase of gasoline and gasoil prices.
In order to support local refiners, China has decided to increase gasoline and gasoil prices to adjust to high crude oil prices. The National commission for development and reform, the main body for economic planning, has announced that producers could sell gasoline 300 yuans per ton higher ($ 31.2) and 200 yuans for gasoil, namely , an increase ranging between 7% and 9 % for gasoil and gasoline for the end-user.

Madrid mercantile court has provisionally suspended Natural Gas hostile takeover bid on Endesa in response to a complaint lodged by the latter. It has also rejected Endesa request to present *« under a different form»* the billion-euro security it has been ordered to pay to suspend the takeover bid. The two Groups have the opportunity to appeal within five days. The EU Internal Market Commissioner has declared he is ready to launch a procedure of infringement against Madrid, suspected of blocking the takeover bid on Endesa by the German E-on. The Portuguese Competition Authority (AdC) has declared it intends to initiate an enquiry on the deal, on grounds that the bid could have harmful impacts on competition of the Portuguese market. AdC fears a damaging effect on the Iberian electricity market, MIBE to be launched next July.

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