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Market News

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Marketing Activity Newsletter

outlook

by Imen-Nidhal Boudinar

Within a month, crude prices have registered an upsurge of $8 /Bbl with new records levels reaching $ 74/Bbl for Brent by the end of April.

Although the bullish trends have been essentially fuelled by political factors (Iran/Nigeria), other factors specifically linked to oil, namely the concerns over the capacity of the refinery industry to supply the US market during the upcoming driving season, have spurred the steady rise of prices in April.

Soaring oil prices are attributable mainly to:

- Escalation of tension in the disputed nuclear case opposing Iran to the United States and EU, and the approach of the deadline set by IAEA for Iran to cease its uranium-enriching activities.

Iran determination to pursue its nuclear programme will continue to accentuate the tensions on short-term market.

- Uncertainties related to the resuming of Nigerian production so far reduced by 550.000B/d, namely representing one third of the output of the fifth supplier to the US market.

- Instability in Iraq inducing a production flow of .8 MB/d compared to a production capacity of 2.5 BM/d.

- Chad threat to suspend its crude oil production (170.000 B/J) as of 18 April further to the dispute with the World Bank over the use of its oil revenues.

- Apart from the geopolitical reasons, macro-economic factors have also impacted on the market with the Chinese GDP progressing by 10.2 % in the first quarter 2006 instead of the expected 9.7 %, thus, anticipating a vigorous world energy demand.

- The bearish trends of US stocks of oil products end of March, within a context marked by a seasonal rise of demand and more stringent environment regulations.

By the end of April, crude prices have registered a slight decline due to the US Government decision to stop supplying crude oil to the strategic reserves and the perspective of a possible suspension of the new regulation on fuels.

(to be continued on page 2)

10th International Energy Forum in Doha

Energy producing and consuming countries:" Energy security, a shared responsibility"

Qatar capital city Doha hosted, from 22 to 24 April, the 10th International Energy Forum which gathered 59 countries and six international organisations, with the aim to set up a common strategy to tackle the energy challenges regardless of the existing political and economic disparities.

10th International Energy Forum- Official photo

The Ministers have debated on a wide range of issues relating to the investments and cooperation frameworks in a context where energy concerns prevailed.

Committing to a wider cooperation to face the increasing energy challenges

The ministers have expressed their concerns over the possible impact of high prices on the economy growth whilst reaffirming their shared commitment in favour of a less volatile market and stable prices.

Abundant and cheap energy has veiled the key role energy has played throughout the decades.
Facing the uncertainties that could endanger energy security and access, the Forum has stressed the necessity to strengthen dialogue and cooperation between producing and consuming countries.

The Forum has also highlighted the importance of exchanging data in order to improve world market transparency while promoting world energy security.

In this view, the ministers reaffirmed their readiness to provide updated information to the JODI programme (Joint Oil Data Initiative) and project to extend the initiative to include information on other energy sources having a significant share in the world energy mix.

OPEC: persisting risks on world energy demand

The study on the prospects of long-term oil market development presented by the OPEC has emphasized the sustained and significant investments allocated by the Organisation to the upstream sector in order to increase its capacity of surplus production. Indeed, OPEC plans to invest nearly 100 G$ in the upstream by 2010 in order to increase its output capacity to 38 MB D, namely an increase of 5 MB D compared to 2005. While insisting on the efforts deployed to guarantee security of energy supply, OPEC, has stressed the uncertainties linked to the world oil consumption developments especially with the implementation of new energy and environment policies and the expected technological developments on the long run.
Therefore, OPEC concern over the security of demand is illustrated by the amounts of the investments allocated by the organisation.
The other issue to be tackled by the OPEC concerns the insufficient refinery capacity, which should be a source of market instability over the next years. For this purpose, OPEC has called on the consuming countries to allocate the necessary funds to the sector and consider means to speed up the projects thereby creating a suitable environment to the investors.

(to be continued on en page 4)

Outlook

HIGHLIGHTS

(continued from page 1)

BOLIVIA

Nationalisation of hydrocarbon fields

Bolivia President Evo Morales has announced early May the country hydrocarbons nationalisation during a ceremony organised in Carapari, south of Bolivia. The nationalisation decree compels the foreign companies to " surrender ownership and production of hydrocarbons to YPFB" (the Bolivian State-owned company) and imposes a new distribution of revenues, allotting 82 % to the Government against 50 % previously. Thus, the military troops have occupied the 53 installations across the country.The Bolivian President has set a 180-day deadline to the foreign oil companies operating in the country to comply with the new regulation and renegotiate new contracts of exploitation. Twenty-six foreign companies, such as Total Repsol-YPF, the American giant ExxonMobil, BG Group and Petrobras are operating in the country. Bolivia produces 42.000 B/d of crude oil, wholly destined to the domestic consumption, with reserves amounting to nearly 400 MB. Gas potential reserves are more significant. Bolivia is the second biggest producer of natural gas in Latin America with 900 Gm³ of proven reserves (against 4000 Gm³ in Venezuela).

CHINA/SAUDI ARABIA

Saudi Aramco and Sinopec sign a Memorandum of Understanding

The Saudi Company Saudi Aramco and the Chinese company Sinopec, signed a MOU during the visit of Sinopec's President to Riyadh. The agreement is relating to the development of economic partnership of both companies and enhances their mutual interest in exploring opportunities to expand a long-term business relationship. The commercial and technical cooperation between the two companies encompasses oil processing, storage, and exploration-production of natural gas, oil products and petrochemicals derivatives. The agreement between Sinopec and Saudi Aramco covers also two joint projects in China:

- The Fujian refining and ethylene project: a joint venture will be set up in 2006 and is planned to be on stream in 2009.
- Qingdao refinery project: pursue negotiations in order to reach agreement on terms for Saudi Aramco participation in the project.

Finally, the memorandum stipulates that Saudi Aramco is committed to supply Sinopec and its affiliates 1 MBd of Arabian crude oil by 2010.

BRAZIL

Brazil to attain oil self-sufficiency soon

Further to his visit to the Albadora Leste oil field, offshore the Rio de Janeiro state, the Brazilian president has announced the launching of platform P-50, excepted to reach its maximal output flow of 180.000 B/d within six months, to increase Brazilian crude production by 13.4 % in 2006. Albadora Leste field has proven reserves estimated at 500 MB of oil.

The Brazilian state-owned company Petrobras has recently announced the discoveries of new hydrocarbons in the Espirito Santo Basin with reserves totalling 600 MB of light crude. The starting-up of platform-P50 will enable Brazil to reach an average production of 1.9 MB/d in 2006, namely, a level slightly higher than domestic production (1.8 MB). The Brazilian Group will raise its output to 2.3 MB/d in 2010, with a domestic production reaching 2MB/d.

CHINA

Setting up of tax on "windfall profits"

The Chinese Government has decided to impose a charge on "windfall" profits resulting from crude oil production in China for prices above $ 40Bbl. This charge, in force since March 26, provides for a 20 % tax on profits for a barrel price exceeding $ 40/Bbl, and a 40 % tax for a price exceeding $ 60 Bbl. This tax should enable the Government to redistribute profits resulting from the world oil price increase especially for refining companies, which are penalized by the system of price control in force in China.

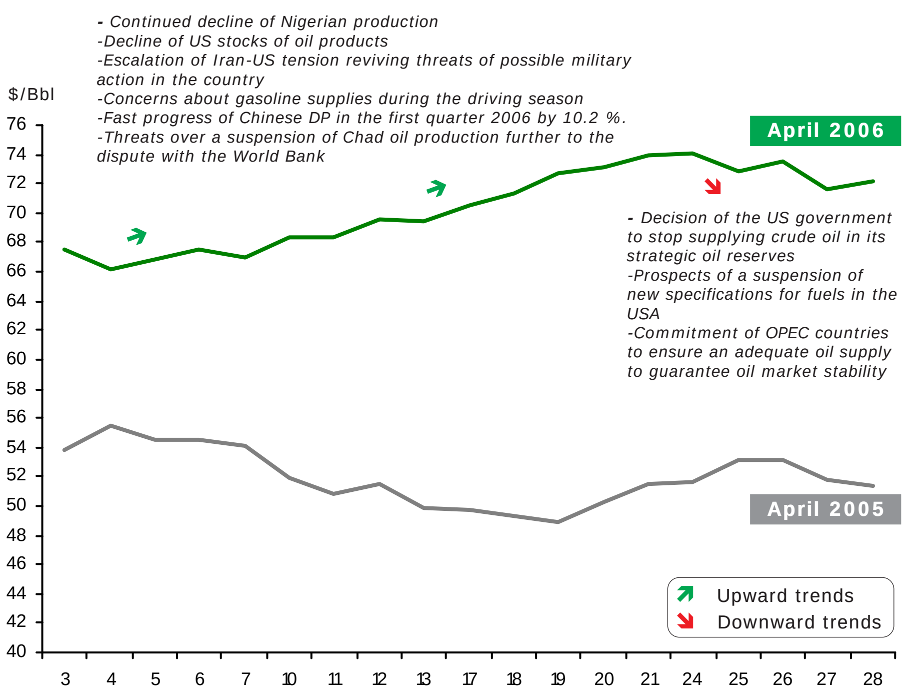
RUSSIA

Increase of Rosneft oil production by nearly one third, namely up to 2.1 MB/ d, between 2005 and 2010.

The Russian Group projects to increase by one third its oil production between 2005 and 2010 to reach an output flow of 2.1 MB/d, namely, an average increase of more than 6 M / year. With Vankor and Sakhalin-1 production on stream, the growth of the Group will be spurred during the first five-year stage. During stage 2, between 2010 and 2015, with the new fields on stream within the frame of Sakhalin-4 and 5 projects, in the far Eastern Russia and Kazakhstan, Rosneft oil production would be lifted to 2.8 MB/d.

The Russian group hydrocarbon reserves stand at 15 Gbep, namely a 28-year production. The group projects to increase its share in the Russian hydrocarbon production from 16 % in 2005 to 25 % in 2015, to achieve 26 % of the Russian exports within ten years (against 17 % in 2005) and to generate 24 % of the domestic refining in 2015 against 11 % in 2005.

Evolution of Brent prices in April



Events

Commission for Electricity and Gas Regulation

CREG presents its balance sheet and announces its programme of natural gas supply to the domestic market and projections of power generation infrastructures.

On 26 April 2006, the first meeting of the national operators and CREG took place. On this occasion, the Commission for Electricity and Gas Regulation has presented a report on the programme, set out pursuant to Article 46 of act n°02-01, dated 05 February 2002 relating to electricity and gas distribution by pipe, of natural gas supply to the domestic market and the projections for power generation by the horizon 2006-2015.
According to the report:

- During 1995-2004, for clients supplied by the traditional operator, Sonelgaz, the annual growth registered an increase of 5.4 % of natural gas domestic consumption, shifting from 10 Gm^3 in 1995 to 16 Gm^3 in 2004.

- Electricity needs shifted from nearly 16 TWh in 1995 to 26 TWh in 2004, namely an increase of 5.1 %.

In 2005, natural gas consumption reached 16.84 Gm^3 , distributed according to three types of uses: power stations with 10.3 Gm^3, industrial clients including Naftec and Asmidal Annaba 2.55 Gm^3 and public distribution with 3.97 Gm^3. Consumption does not include Sonatrach own needs and clients directly supplied by Sonatrach.

On the medium and long terms according to this study, the projected natural gas demand will continue to grow. It will reach 23 Gm^3 by 2015 according to the average scenario and 26 Gm^3 according to the high scenario.

This could be explained by the growing public distribution needs, namely 6.5 %/ year, + 4.5 % for the industrial sector and 2.2 % for power stations, according to the average scenario.

By 2015, electricity consumption will reach 51.170 GWh according to the average scenario against 58.495 GWh according to the high scenario, namely an increase of 6%.
To meet this increase, several power station projects are under way of realisation.

As an example, the Hadjeret Enouss station planned for July 2008 with a capacity of 1200 MW. Further to the enforcement of Act N° 02-01 relating to electricity and pipe gas distribution, new operators have been involved in the sector of electricity distribution.

This includes "Chariket Kahraba Skikda" SKS with a capacity of 825 MW and "Chariket Kahraba Berrouaghia "SKB with a capacity of 484 MW.
Both will come on stream in 2006. "Kahrama Arzew", has already been operating since June 2005 with a capacity of 336 MW.

These projects are to be coupled with the existing infrastructures of power stations with a production capacity of 6451 MW of which 2740 MW are steam turbine, 3436 MW gas turbine and 275 MW hydro station.

In addition to electricity generated from traditional power station, electricity from renewable energy or cogeneration is also considered, namely a 5 % contribution to the production target by 2015.

Algeria - Spain cooperation

Mr. Chakib Khelil visits Madrid

Within the framework of cooperation between Algeria and Spain, a ministerial delegation headed by Dr. Chakib Khelil Minister of Energy and Mines visited the Spanish Capital on 18 April 2006. During the meeting, Mr Chakib Khelil and his Spanish counterpart Mr. José Montilla have focused their discussions around the Medagz project. Mr. Chakib Khelil has announced that the first two gas pipelines sections are underway of construction on the Algerian territory and they will be completed next year. The submarine link will be achieved in 18 months. The Spanish Minister of Industry has entrusted Enagas with the mission to construct the stretch consisting of two segments with a total length of 290 km. The Algerian Minister has declared that gas sale/purchase contracts have been concluded with Cepsa and Iberdola and are underway of finalisation with Endesa, shareholder in the Company Medgaz. Both Ministers have confirmed that the Medgaz project will soon be finalised and operative on schedule, namely, between end 2008 and early 2009.
The Spanish Minister indicated July 2006 as the start of the first major investments for the gas pipeline. A joint project for a submarine electric cable linking both countries, coupled with a combined cycle gas turbine in Algeria, have also been at the core of the discussions.

Shipping

Sonatrach launches a call for tenders for the acquisition of AtlanticMax LNG tankers

Considering the prospects of LNG production growth with the implementation of new projects (Gassi-Touil, new Skikda unit), Sonatrach launched in April 2006 an international call for tenders (N° 20 Sonatrach-Hyproc S.C./ 2006, in the Baosem) for the joint acquisition (1 firm and one in option) of large capacity LNG tankers (VLGNC with a capacity over 150.000 cm).

The acquisition of such vessels, operative as of 2008-2009, is attributable to :

- The need to reinforce the existing LNG tanker fleet in view of the increase of the LNG production capacity and in order to reinforce Sonatrach position in the market.

- Meet all existing Ex-hip contracts and strengthen this type of contract for future agreements.

- Acquiring operational flexibility in order to make arbitrages on different markets.

- Participating and leasing capacity in regasification terminals

- Adapting to new trading rules in the matter of supply

The new tankers will be mainly allocated to supplying the Atlantic Basin markets.

Tunisia and the Italian company ENI have concluded two agreements for 400 million US $ in order to expand the TTPC gas pipeline capacity, which will be increased from a current capacity of 27.4 Gm^3/year to nearly 33.9 Gm^3/year.

4th Marketing Activity Executive Conference

Human Resources in the heart of the discussions

Marketing Activity is holding its 4th Annual Executive Conference on 24 May.

The main theme of the conference, articulated in the Group's values, deals with:

"Valorising hydrocarbons and capabilities - New challenges and new responses" .

Indeed, in response to a Directive signed on 25 March, Sonatrach has adopted a **"Human Resource Policy"** giving priority to seven specific fields, among which human capabilities

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(Continued from page1)

To round off, the organisation has insisted on the progress in the field of research relating to the capture and storage of carbon emissions in order to address efficiently the issue of Greenhouse effect.

IEA :
increased dependency of consuming countries on fossil fuels to meet demand

The Forum gave the IEA the opportunity to present the prospects included in the 2005 World Energy Outlook, relating the developments of world supply and demand by 2030. Therefore, the energy needs will be 25 % higher in 2015 and 50 % higher in 2030 compared to 2005. Two thirds of the increase will be covered by oil and natural gas. OPEC market share will reach 42 % in 2015 and 50 % in 2030, thanks to huge investments in the upstream and downstream chains (G$ 614 between 2004 and 2030 for the MENA region).

The projections set out by IEA outline three main challenges:

- The increasing dependency of consuming countries on imports from a reduced number of countries will aggravate the concerns over security of supply.
- The climate changes due to carbon emissions call for a definition of a sustainable energy system on the long term.
- Access to renewable energy services for the benefit of poorer countries.

IEA proposes also an alternative scenario based on an accelerated implementation of new measures aiming to promote a more rational use of energy and replacement of fossil fuels for security and environment-oriented protection.
The world primary energy demand (oil and natural gas) estimated according to this scenario would be 10 % lower compared to the reference scenario of 2030. However, oil will maintain its position as major energy source with a share hardly higher than a third in the world energy mix.

Finally, IEA has underlined the significant contribution of the producing countries considering the uncertainties linked to the implementation of more stringent energy policy measures in the consuming countries.

Oil companies:
The new international environment restrains investments

Oil companies emphasized the uncertainties on supply/demand, which seriously affect investment planning. Eliminating hurdles to the market access and resources would enable the companies to contribute efficiently to the world energy security.

Forum conclusions

Based on both IEA and OPEC studies, the Forum has underlined the necessity to accelerate and promote the development of more environmental friendly technologies and more efficient alternative energy sources in order to meet the future demand and improve energy efficiency. The participants have also agreed to reduce the impact of politics on energy industry.
Italy will be the host country of the 11th IEF in 2008 with India and Mexico as co-hosting countries.

OPEC

OPEC informal meeting

The OPEC countries have announced at the end of their informal meeting, held on the sideline of the 10th World Energy Forum in Doha, that they do not intend to change their production policy and renewed their commitment to secure oil supply to the consuming countries in order to ensure a stable oil market.

The organisation has also indicated that crude price volatility is mainly fuelled by geopolitical tensions and speculation in a market where fundamentals clearly point to a crude offer much higher than actual demand, illustrated by the oil stocks piling in the OEDC countries.

IN BRIEF

China-KUWAIT : A project agreement for the construction of a new refinery South of China.
The Commission for the National Development and Reforms has agreed the construction project of a new refinery South of China with a capacity of 300.000 B/d, representing an investment of G$ 5. The new unit will be constructed by an affiliate of the State-owned Kuwaiti company Kuwait Petroleum Corporation within the framework of a joint venture with the Chinese company Petrochina.

CANADA: starting up of phase 3 of Syncrude project in 2006.
The third phase of the Syncrude development project in the Athabasca province in Canada, will be completed in the second quarter of 2006. The production of crude upgrader extracted from sands will reach a capacity of nearly 350.000 B/d of Syncrude Sweet Blend against 214.000 B/d in 2005.

Kazakhstan-Russia: CPC capacity to be more than doubled.
Kazakhstan and Russia project to double CPC (Caspian Pipeline Consortium) oil pipeline capacity to 67 MT/year or 1.35 MBd against a current capacity of 30 MT/ year. Russia agreement to the project is subject to the participation of Kazakhstan to the construction of the Bourgas-Alexandroupolis oil pipeline. Kazakhstan is willing to raise its oil exports from a current volume of 1.3 MB/d to 3 MB/d in 2015. Kazakhstan is also negotiating a possible participation in BTC oil pipeline (Bakou-Tbilissi-Ceyhan). The CPC expansion project comprises the construction of six pumping stations, a storage capacity of 480.000T and an additional port infrastructure on the Black Sea. The CPC shareholders have indicated that they will not oppose Transneft stake participation.

Gas Natural-Endesa takeover:
The European Commission launched on May 3rd an infringement procedure against the decree passed by the Spanish government to block the takeover bid launched by the German energy group E-ON on Endesa (approach which has been approved by Brussels).
The decree in question, adopted on February 21st, namely, four days after E-ON announcement of its takeover bid on Endesa, reinforces the Spanish regulator mission in that, it gives the regulator the powers to study and to ward off the acquisition operations that could affect the country's strategic interests.

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Djenane El Malik - Hydra - Alger -
Contact: Cellule Communication - email : cid.com@sonatrach.dz - Fax : 021 54 86 04 - tel: 021 54 70 00 - 54 80 11 - 54 90 22