

## Oil Outlook

By Imen-Nidhal Boudinar

Crude prices have taken a downward trend during August, due to tension alleviation in the Middle East and fundamentalists detente following the fall in crude oil global demand.

In fact, the key elements that had an impact on oil prices are:

- Fights cessation in Lebanon calming down worries on conflict extension to all Middle East area.
- Fears on air traffic decline following the terrorist plot thwarted by the British authorities.
- BP's decision to maintain half of Prudhoe Bay field output (i.e. 200 000 B/d) during the period required for corroded pipelines repairs.
- Pumping resumption in Bonny Light field carried out by Shell in Nigeria, after repairing the leak in the pipeline that entailed a drop of about 210 000 B/d of Bonny Light production.
- The announcement of US unexpected gasoline stocks increase relieving operators fears on fuel supplies while major summer trip season is coming to its end.
- Relegation of Ernesto hurrican, the first of Atlantic cyclonic season, to the rank of tropical storm, thus sparing oil facilities located in the Gulf of Mexico.

However, the market remains concerned about Iran intransigence on its enriched uranium programme which reduces the opportunity of a diplomatic outcome of the crisis, as well as Irak's fragile oil industry that can hardly reach its production levels recorded before March 2003.

## Nigeria-Algeria Gas pipeline (Nigal)

**The feasibility Study has declared the Project viable and cost-effective**

*The Feasibility Study has demonstrated the technico-economic profitability and viability of this giant Regional Project, declared Mr Chakib Khelil, Minister of Energy and Mines, during a joint Press Conference held with the Minister of Oil Resources of Nigeria, Mr Edmund Daukoru and the Nigerian Minister of Mines and Energy, Mr Mohamed Abdullahi.*

The project's profitability has been established by the Study performers based on the proximity of the important the European market, and gas reserves abundance in Nigeria and in the transit area of the futur pipeline.

With a length of 4,128 km, of which 1,037 km located in Nigeria, 841 km in Niger and 2,310 in Algeria, the Gas pipeline will reach a capacity of 20 to 30 billion m<sup>3</sup>/year mainly intended for the European market.

The pipeline should transport about 20 billion m<sup>3</sup> per year. Its overall cost is estimated at 10 billion dollars, to which must be added 3 billion dollars for the exploration and production of the Gas to be transmitted.

The Ministers underlined, in their declarations, the advantages brought by the project for all relevant parties, including Europe, which will therefore secure a new source of Natural Gas supply.

M. Chakib Khelil evoked the remaining phases: signing of intergovernmental



agreements, harmonisation of pipeline achievement standards, study of environmental impact and finally communication effort toward the European Union, the main Gas beneficiary.

For the Nigerian Minister, Mr Mohamed Abdullahi, the project is a real exemple of Regional complementarity and cooperation.

Mr Edmund Daukoru, Nigeria Oil Minister, who is also OPEC Chairman, has underlined partners clear change of judgement since the study has confirmed the project's feasibility.

## Gas Outlook

By Othmane Irain

### Northern Europe

Natural Gas prices in the United Kingdom have continued, during August 2006, their declining tendency that started the month before. This price drop results from Natural Gas supply increase following the end of maintenance, while at the same time, demand level remained relatively low.

Starting the month with 39.70 pence/th, "Day Ahead" spot prices have displayed a slight rise to 42.13 pence/th on August 2nd day, which is the highest level recorded that month. During the same period, Interconnector Gas pipeline operated in the "reverse" flow (Zeebrugge-Bacton) except for August 3rd where in shifted to "forward" mode before coming back on August 4th to "reverse" mode. Since August 5th, the Interconnector

is operating in "forward" flow (see the graph on page 4).

Price drop continued all over the month to reach its lowest level since June 20th, that is 27.75 pence/th.

On August, Zeebrugge Gas market has experienced a tendency similar to the one recorded for NBP however with a slight difference for the first, assessed in average at about 0.4 pence/th for "Day Ahead" prices.

Zeebrugge market "Day Ahead" spot prices have lost in average about 6 pence/th compared to the previous month to settle at 34.70 pence/th to 40.29 pence/th one month before.

As for "first month" prices (September delivery), they have followed the same trend as "Day Ahead" ones with however, levels higher than 30 pence/th.

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Oil outlook

HIGHLIGHTS

**United States (Alaska)- A corrosion problem on oil pipeline network stops production of Prudhoe Bay field.**

Bp Group announced on August 6th, 2006 the total interruption of its production (that is 400 000 B/d) in Prudhoe Bay, Alaska after finding a leak on the pipeline. In March, BP had already found a leak on a Prudhoe Bay pipeline due to corrosion. Prudhoe Bay field represents about half of Alaska's total production and about 8% of US total production. Prudhoe Bay pipeline network equals to 35 kilometers.

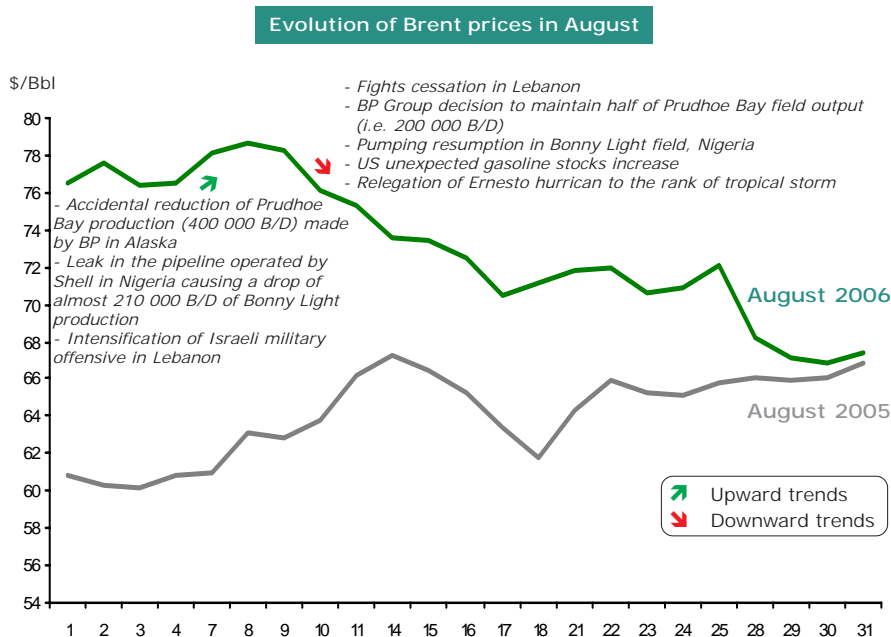
BP Group has recently declared that the resumption of normal production pace in Prudhoe Bay



field (vs a current output of 220 000 B/d) could happen by the end of October and would be conditioned by regulation authorities agreement on its corroded pipeline network deviation plans.

**Venezuela - Strengthening of energy cooperation with China.**

On the occasion of the Venezuelan President in China, on last 22-27 August, at least 12 energy agreements were signed between the two countries. These agreements translate the will of the south american country to diversify its export markets. Indeed, Venezuela wishes to reduce its dependency toward the United States which currently import 1.5 MBD of Venezuelan crude. The two countries had previously decided to rise venezuelan oil deliveries to China from 168 000 to 30 000 B/d during the next months. Within the framework of export expected increase, CNUOC (China National United Oil Corp) signed an agreement with PDVSA for the purchase of 8 MB of crude on the period from September to December 2006. Besides, Venezuela plans to supply China with 500 000 B/D by 2009 and 1 MBd during the next decade. In this prospect, the two



countries signed an agreement on the establishment of a strategic alliance in order to transmit up to 500 000 B/d. Moreover, PDVSA, CSSC (China State Shipbuilding Corp) and CSIC (China Shipbuilding Industry Corp) signed a Memorandum of Understanding to jointly build 18 tankers which will strengthen the Venezuelan company fleet. Oil cooperation between Caracas and Beijing is not limited to Venezuela oil delivery but also deals with exploration and production works in the South American country. Therefore, CVP, branch of PDVSA, and CNPC (China National Petroleum Corp) signed a cooperation agreement so as to jointly develop Junin 4 Block, located in Orinoco belt. Junin 4 production, which reserves as assessed to about 20 GBbls, should reach 200 000 B/d in 2010. CNPC and PDVSA also signed several Memorandum of Understanding on the establishment of joint ventures that will operate in several oil fields and further the creation of engineering and well drilling service team. China and Venezuela should thus jointly extract 400 000 B/d in 2011, in the South American country.

**China: Approval of Sinopec and KPC refinery project in Guangdong.**

Chinese authorities have approved a refinery project of 5 G\$, located in the south of China, resulting from a JV between the Chinese Sinopec and the Kuwaiti state Company "Kuwait Petroleum". In terms of investment, this facility is the most important achievement of the kind with chinese/foreign capitals. The

refinery, which will be built on an existing Sinopec site, was subjected to a chinese kuweiti Memorandum of Understanding, in late 2005. It should be commissioned in 2010 with a production capacity of 12 to 15 Mt/year. The installation shall also include a 1Mt/year ethylen production unit. CAPC should assume the great part of the investment, Sinopec however keeping majority control over the installation.

**Iran: Petropas shall invest 4G\$ in two Venezuelan fields**

Petropars, the Iranian state company plans to invest 4 G\$ in two Venezuelan fields, which is the most important investment of the company outside its country. Petropars was allocated Ayacucho 7 heavy crude block, in Orinoco basin where it intends to invest 2 G\$. The company was also interested in a Gas field in the Gulf of Venezuela and in Falcon Gas field. Iran and Venezuela decided to establish two joint ventures in the petrochemical sector.

Moreover, Iran asked Venezuela to be its partner in the construction of a refinery in Indonesia. The National Iranian Oil refining and Distribution Co and the Indonesian Pertamina have indeed signed earlier this year an Memorandum of Understanding on the construction in Java, of a 5 G\$ refinery of 300 000 B/d. On the other hand, Teheran, Caracas and Djakarta have agreed to build a refinery in Venezuela. The crude supplying this facility will be derived from the field exploited by Petropars in Venezuela.

## E v e n t s

### Italian Gas Market

#### *Signing of four Natural Gas sale and purchase contracts*

Within the framework of the first stage of TTPC (Trans Tunisian pipeline Company) gas pipeline extension, which is expected to be operational in April 2008, Sonatrach has signed four Natural Gas sale/purchase contracts with the following companies:

- **Edison** for a volume of 2 Gm<sup>3</sup>/year,
- **Compagnia Italiana gas** (Mogest) for a volume of 0,5 Gm<sup>3</sup>/year,
- **World Energy** for a volume of 0,45 Gm<sup>3</sup>/year,
- **Bridas Energy International** for a

volume of 0,25 Gm<sup>3</sup>/year.

TTPC gas pipeline crosses the Tunisian territory from Oued Saf-saf municipality, Gas delivery point on the Algerian border, to Cap Bon, on Sicily Canal where it joins TMPC Gas pipeline (Transmediterranean Pipeline Company Limited).

Gas sale agreements signed with various companies strengthen the cooperation already established between Sonatrach and Italian Gas companies, namely thanks to natural Gas additional supplies through the Transmediterranean

Gas pipeline extension.

Thus Sonatrach consolidates its position as major and reliable supplier.

These agreements translate the will of Sonatrach and its partners to actively satisfy the growing energy needs of the Italian market.

Besides, these agreements signature enables Sonatrach to achieve its Gas marketing objectives in the international market thus targeting an export level of 85 billion cubic meters per year by 2010.

### Downstream

#### *Assistance contract between Sonatrach and Axens, branch of the French Petroleum Institute*

Downstream Activity and Axens Company have signed, on September 5th 2006, at the General Directorate of Sonatrach, an agreement on "Service performance on strategic planning tool applied to refining, petrochemistry and distribution".

Signed by Mr Feghouli, Vice-President of Downstream Activity and Mr Sentenac, President and Chief Executive Officer of Axens Company, branch of The French Petroleum Institute (FPI), this contract relates to Axens assistance to set up at Downstream level, a strategic planning tool in the field of refining, petrochemistry and distribution.

The contract has a duration of 50 weeks.

### Energy Week in Algeria (SEA)

*The third edition shall be held on November 25-29 in Oran*

" *Reforms: Strategies, Opportunities, Innovations*", this is the topic retained for this third edition of Energy week in Algeria. Crossroad of exchange at the service of promotion and development of hydrocarbons and energy industry in general, SEA3 shall encompass in fact three main events:

- The Third International Oil and Gas Exhibition (**ALOGE 3**, Algeria Oil and Gas Exhibition 3) from 25 to 29 November, 2006: ALOGE 3 shall enable national and international oil and gas bodies to present their technologies and know-how.
- The Fifth International Strategic Conference (**CSI 5**) on energy investment opportunities in Algeria from 26 to 27 November, 2006; CSI 5, a privileged meeting forum will enable national and international company leaders and experts to exchange experiences and debate on energy sector development and investment opportunities in Algeria, at the light of current reforms.
- Sonatrach Seventh Scientific and Technical Days (**JST 7**) from 28 to 29 November, 2006; they will enable national and international energy executives as well as the scientific community to discuss the last developments and challenges related to technology, human resources development, environmental protection and globalization.

### OPEC

#### *Maintaining Production Ceiling at 28 MBD*

*During their meeting held in Vienna on 11<sup>th</sup> September 2006, the OPEC countries decided to maintain their current production ceiling of 28.0 million barrels per day, in order to maintain oil market stability for the benefit of the world economy and ensure that supply and demand remained in balance, with prices at reasonable levels, supplying to the market the needed volumes.*

After consideration of oil market current situation, the Conference noted that the actions initiated by member states to increase their production capacities during the last years allowed progressive and uninterrupted oil stocks reconstitution, namely of crude oil, reducing fears on supply potential interruption as well as worries on geopolitical tensions.

Moreover, the Conference agreed that Non OPEC production recovery expected for 2007, with a growth level unprecedented since 1984, should increase the global unbalance of supply/demand balance sheet leading to short term prices moderation.

Considering the uncertainties weighing on oil market for the rest of 2006, OPEC countries agreed to hold an extraordinary meeting on December 14, 2006, in Nigeria, to review market developments and take appropriate measures.



On the other hand, at the light of identified bearish risks, the organisation allowed its Chairman to initiate required concertations before holding December's extraordinary meeting.

Taking into account the important role played by all producing countries, the Conference reiterated its request to Non OPEC producers to continue active cooperation with the Organization so as to secure oil market stability.

The Conference also confirmed the holding of OPEC's next Ordinary Meeting on March 15th, 2007, in Vienna.

**Gas outlook**

*(continued from page 1)*

On August, "First Month" price average was estimated at about 35.40 pence/th to 40.63 pence/th in the previous month.

Similarly, Zeebrugge "First Month" prices have shown in average, a level of 36.17 pence/th to 40.64 pence/th in the previous month, i.e. a drop of 4.5 pence/th.

"Forward" prices (winter 2006/07) have continued their decline to settle at the end of August around 79 pence/th for January 2007 ICE Contract.

**United States**

Natural Gas prices in the US have shown a significant increase in August 2006 in comparison with

the previous month, due to the announcement that some hurricanes formed on the Gulf of Mexico area.

Thus, "First Month" prices (September 2006 delivery) started at 7.18 \$/MMBtu early in the month to close at 6.82\$/MMBtu in the end of the month, reaching in the meanwhile, on July 31st, the highest level in the month, that is 8.21 \$/MMBtu.

**Monetary Market**

In August 2006, £/\$ parity recorded some recovery to end with 1.9018 on August 31st, 2006 to 1.8676 early in the month.

**In Brief**

**4Gas plans to build a methane terminal in Gironde:**

The Dutch Company 4Gas, branch of Carlyle American Investment Fund, signed an agreement with Bordeaux autonomous port for a methane terminal development project on Verdon site (Gironde), announced the autonomous port. The construction of LNG storage and regasification terminal in Verdon, in Gironde estuary, could start during 2008 and be commissioned in 2011. Overall investment is assessed at around 400 million Euros. The two companies have for the time being signed "a reservation convention" for this site. It could be a third methane terminal to be installed in France, after that of Montoir-de-Bretagne (Loire-Atlantique) and Fos-sur-mer (Bouches-du-Rhône), which are exploited by Gaz de France.

**Russia:**

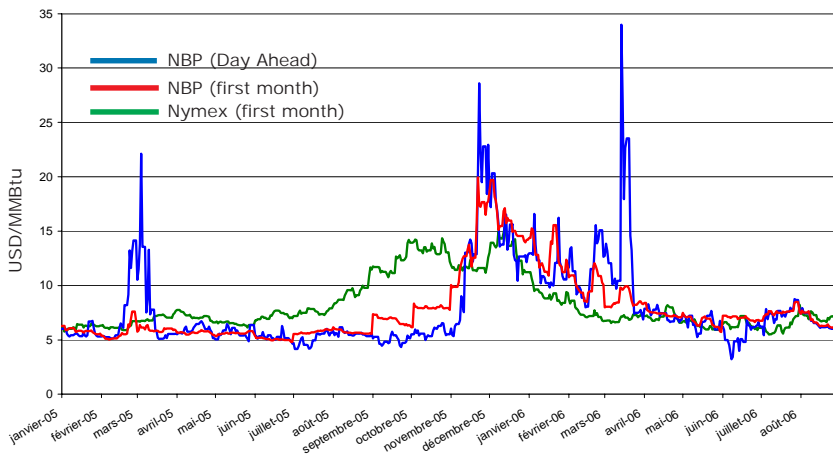
- Increase of Oil Export Tax: The Russian government increased crude price forecasts used for 2007 budget calculation. The new reference price is henceforth set between 60 and 61.5 \$/Bbl, to 58 \$/Bbl before. On the other hand, the Russian government has decided to rise by 16.6 \$/Bbl crude oil export tax. As from August 1<sup>st</sup>, this tax is set at 216.4 \$/Bbl.

- Increase in crude oil production in August: Russian crude production has progressed by 0.9% in August, reaching a record level of 9.8 MBJ, due to production starting of Sakhalin-1 field, which is exploited by ExxonMobil. The US Group planning to extract 250 000 B/d from the field by the end of the year, Russian crude production could reach new records. According to some information provided by the Ministry of Energy, production sharing agreements (PSA, including Sakhalin-1 and 2) represented extraction output of 144 000 B/d in August that is almost twice more than in July.

**Azerbaïdjan: Installation of an oil platform.**

Statoil Group announced the installation of Azeri East Platform on its production site above Azeri-Chirag-Gunashli (ACG) field, located in Azeri sector of the Caspian Sea. The norwegian group has a share of 8.56% on this field operated by BP. Azeri East Platform production shall start by the end of the year, few months in advance. In nominal operation, the unit shall produce 260 000 B/d. As a whole, the seven ACG platforms shall produce 1 MBD, a nominal level they will reach in 2009. Produced oil will be processed before being exported through BTC oil pipeline to the Mediterranean region.

**Gas - Evolution of UK and US prices**



**Evolution of Interconnector gas flow**

