

## Oil outlook

By Amira Remadna

Crude Oil prices lost nearly \$ 20 on 8 August with a barrel of Brent hitting its historic peak at \$ 78.69.

This downward trend results not only from the transition season period, but also from several combined factors among which:

- The Downward review of the risk premium further to the easing of concerns over a decline of world demand mainly driven by:

- Alleviation of the political outlook in the Iranian nuclear case

- BP announcing resumption of whole production on the giant Prudhoe Bay oil field projected for early October.

- The settlement of the Israeli-Lebanese crisis

- An extensive refinery maintenance programme scheduled in September through December in Europe, USA and Asia. Due to the refinery turnarounds, an additional volume of crude oil of nearly 2 MBD will be available on the market.

- A flagging US economy shifting from 5.6% during the first quarter to 2.6% in the second quarter.

- The significant increase of US distillates stock hitting the highest levels since 1999, which means availability of heating products for the winter season.

- Hurricane striking Florida, the Caribbean and the Atlantic with no damages.

In the light of the foregoing, the President of the OPEC has indicated that the slump in prices could only be harmful to investments.

In addition, if prices continue to fall, the Organization should intervene by reducing its ceiling output.

The Organisation is to convene a meeting in Abuja on 14 December 2006.

## OPEC

### Output cut by 1.2 MBD.

*The Organisation of Oil Exporting Countries has decided during its Consultative meeting convened in Doha from 19 to 20 October, to reduce by 1.2 MBD the daily production of the member countries, not including Iraq,*

After a review of the current oil market situation and the forecasts for supply / demand during the fourth quarter 2006 and the year 2007, the Conference noted that the actions taken so far by the organisation, have contributed to the stability of the oil market while ensuring adequate supplies.

Heads of delegations also noted that presently crude oil supplies are well in excess of actual demand.

The above average level of crude stocks in the OECD countries aggravates this situation. Thus,



the imbalance in supply / demand fundamentals shows a destabilized market.

In order to ensure stability market again, the Conference decided to reduce the current output by 1.2 MBD effective 1<sup>st</sup>

November 2006.

This reduction should settle the actual level of production at 26.3 MBD.

The OPEC Members also decided to review this decision during the next Extraordinary meeting scheduled to convene in Abuja (Nigeria), on 14th December 2006.

## 7<sup>th</sup> World LNG Summit

### LNG industry and market at the core of the work sessions

*CWC Group organised From 11 to 13 October 2006 in Rome its 7th World LNG Summit, gathering the major experts and operators of the gas industry. Mr Chawki Rahal, Vice President - Marketing Activity attended this meeting and presented a paper on " Sonatrach and LNG markets: Opportunities and Challenges ". The main themes can be summarized as follows:*

**1- Prospects for LNG industry (Certainties and uncertainties):** LNG is the key driver of world gas expansion. LNG demand is expected to grow by a further 6 % / year in the coming years according to Cedigaz, IEA, IGU prospects. This growth results from the following factors, namely :

- LNG Flexibility will be a key element for future balance of global supply-demand

- LNG trading will expand rapidly compared to LNG pipeline

However, uncertainties remain and could be a hurdle to the ambitious prospects of LNG development, namely:

- Is the LNG industry mature or is it still open to new technology breakthroughs ?

- Liquefaction Unit costs have been significantly cut, however, would it be possible to conceive trains with a 8-9 MT capacity ?

- What is the role of energy power in the LNG demand growth?

- What is the role of electricity power in LNG demand growth ?

- Possible imbalance between Atlantic Basin and Pacific Basin LNG projects.

- How is the future regional pattern of LNG market: Atlantic, Pacific, or emerging Asian countries ?

- What is the future relation between prices linked to oil and those linked to the spot market (Henry Hub)?

- What is the future of Long-term LNG contracts especially in the USA ?

- Whether there will or not be LNG quality standardisation ( Wobbe Index?...)

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Oil outlook

HIGHLIGHTS

**Venezuela and Nigeria have decided to reduce their daily oil output**

Amid a market dominated by speculation about abundant crude oil offer, Venezuela and Nigeria have officially informed the OPEC Secretariat about a cut of their daily production. Indeed, as of 1<sup>st</sup> October 2006, Venezuela will reduce its output by 50 000 barrels/day and Nigeria by 120 000 barrels/day.

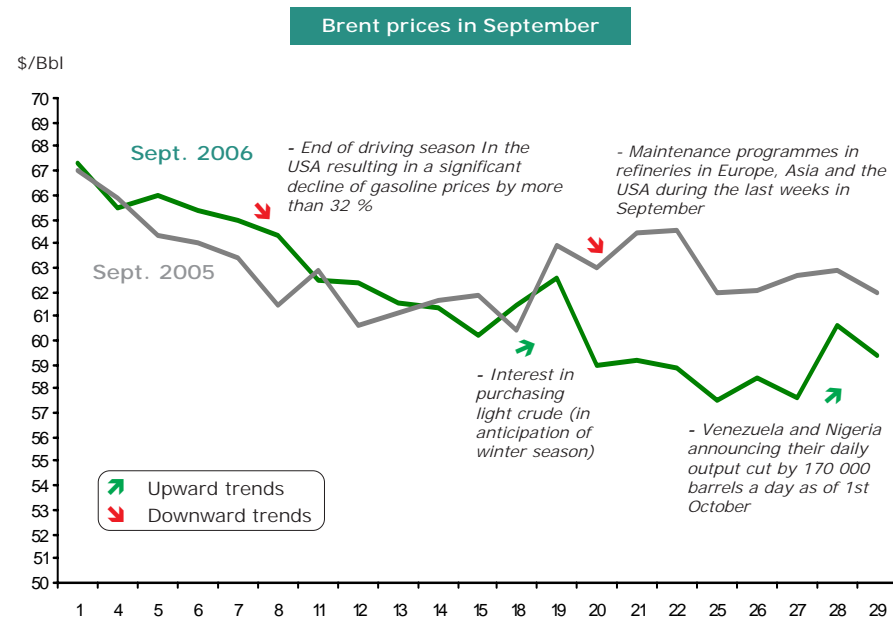
Currently, both countries produce 2.5 MBD and 2.1 MBD , respectively .

**First oil of a new oil field in the British North Sea**

The Buzzard oil field, discovered in the British North Sea in 2001, is expected to come on stream in November 2006 and will be operated for 24-years. Total recoverable reserves are estimated at more than 400 million barrels and gross production is expected to reach 200 000 barrels/day by 2007. Buzzard crude oil has an average density of 32.6 API and high sulphur content, namely 1.44% in weight. It will be added to crude oil transported via the Forties pipeline system. Forties is a light crude with a density of 44-45 API and a low sulphur content of 0.2 %.

**Starting of Thunder horse not expected before 2008**

Thunder Horse which was discovered



in 1999, is the largest oil field in the Gulf of Mexico. It is also the largest deposit in the USA since the giant fields in Alaska, namely, Prudoe Bay and Kuparuk River, were discovered in 1968 and in 1969, respectively. The field which BP has operated for 25 years, was expected to come on stream in 2005 with a daily crude oil production of 250 000 barrels of crude oil and 5.56 bcm of natural gas. Recently, BP has announced that following damages caused by Dennis and Katrina hurricanes in July and August 2005, its first oil will be

postponed to mid-2008. **Atlantis: a new field to come on stream in 2007** Atlantis, located some 300 km South of New Orleans, was discovered in 1998. It represents the third largest oil field in the Gulf of Mexico with reserves estimated at 575 million barrels oil equivalent. First oil from Atlantis is expected in 2007 and should increase the daily output of the Gulf of Mexico region by 200 000 barrels in term of crude oil and nearly 5 bcm of natural gas.

Gas outlook

By Othmane Irain

**North Europe :**

Natural gas spot prices in the UK started declining in August through September 2006

This downward trend is mainly due to a weak demand of the residential/ tertiary sector.

Spot Day Ahead prices started at 28.35 pence/th during September and stood at 30 pence throughout the first half of the month and registered the highest peak, namely, 33.25 pence/th on September 14.

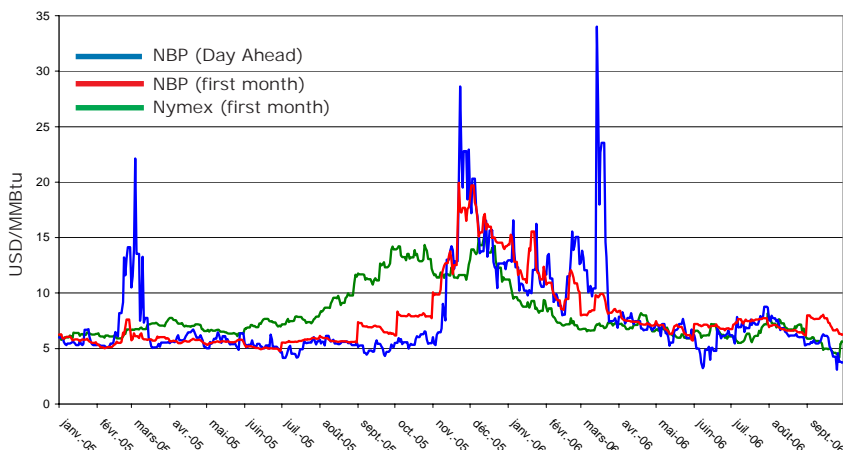
Since then, prices have considerably fallen and reached 16.25 pence/th on 25th September before climbing again to stand at around 20 pence/th by the end of the month.

This downturn trend is mainly due to the tests on the new Langeled gas pipeline, i.e, the addition of a significant volume of natural gas from Norway.

The monthly average of Day Ahead prices was 26.95 pence/th against 34.31 pence/th in the previous month.

(Continued page 4)

Gas - Evolution of UK and US prices



**E v e n t**

**International Development**

**Setting up of Natural Gas Marketing Companies in Spain and Italy**

Within the frame of its strategy of international gas downstream penetration, Sonatrach has recently reinforced its international presence through the setting up of two new affiliates in charge of marketing natural gas directly to the Spanish and Italian markets, namely:

- "Sonatrach Gas Comercializadora, S.A", and

- " Sonatrach Gas Italia, S.P.A "

The creation of these marketing companies such as Sonatrach Gas Marketing in the UK, will enable Sonatrach to capture a maximum of margin throughout the gas chain, to develop its expertise in sales to the end-user and be kept abreast of the evolvments of the energy market deregulation process in Europe.

**Pipeline transport**

**Inauguration of SP2 Pumping station**

Mr Chakib Khelil, Minister of Energy and Mines and Mr Mohamed Meziane CEO of Sonatrach Group, heading an important delegation, inaugurated the SP2 Pumping station in the Daira (District) of Ain Madi in the wilaya of Laghouat.

The SP2 pumping station is located 25 km North West of Laghouat and aims at expanding LPG transport capacity of the Hassi-R'Mel - Arzew pipeline from 6 to 9 million tons/ year.

As a reminder, the construction works launched in January 2004 will considerably reinforce Sonatrach capacity.

**7<sup>th</sup> World LNG Summit**

**LNG industry and market at the core of the work sessions**

*(continued from page 1)*

**2. Globalisation of LNG market (Opportunities and challenges.**

In his second point, Mr Chawki Rahal, Vice President - Marketing Activity has underlined that LNG market is to ascend to the international level. The rapid decline of the British North Sea gas production, the emergence of new promising markets (USA, China, and India) and the starting up of new LNG production sites are at the core of an increasingly globalised market. These changes on the international scene, should bring about new opportunities and new challenges such as:

- entering new markets, thus, enabling a diversification of LNG supply portfolio,
- availability of a more flexible supply portfolio and
- setting up of synergies between LNG exporting countries.

**Biofuels worldwide**

(First part)

*By Kahina Besbas*

**Amid a context of high oil prices, traditional alternate fuels ( biofuels, LPG, GNV) have registered a sustained expansion and the prospects for their development across the world are promising.**

There are two major types of biofuels:

**1. bio-ethanol** or its derivate ETBE (ether) for the use in gasoline engines. It is produced from two main types of cultures: sugar plants (cane sugar, beet roots) and amylase plants such as wheat and maize. It could be used either pure, blended (85 % or E85) or in ether form

**2. Biofuel** or EMHV (Vegetal oil Methylic Esthers ) used for diesel engines and produced from vegetal oil deriving from colza, sunflower, soya and even palm. It could be used either pure or blended.

The costs of Biofuels production are generally higher than fossil fuel prices (tax excluded), even in an environment of high oil prices. However, one should note that ethanol costs in Brazil are particularly low and already compete with oil fuels.

Biofuel world production went over 33 billion litres in 2004, namely, 3 % of 1200 billion litres of biofuels world consumption.

Brazil, world leader in biofuel promotion, produced in 2005, nearly 17 billion of litres of ethanol (40% of gasoline national consumption) from sugar plants (cane sugar, beetroots) wheat and maize.

Furthermore, Brazil shows willingness to export as a first step ethanol towards Japan and the USA and Europe on the long term. For this purpose, the first ethanol port

terminal with a loading capacity of 32 000 t, was constructed in Santos in 2005.

The USA, second country to have launched a large-scale initiative to promote biofuels, produced 15 billion litres of ethanol in 2005 (blended with 30% of the whole gasoline sold in the USA) mainly from maize.

On the other hand, as the first world producer of soya, the USA are interested in biodiesel which production has reached 280 million litres.

The European fuel market marked by an increasing domination of gas oil consumption, has promoted the development of biodiesel production.

Indeed, biodiesel produced in the 25 countries of the European Union has increased by 65 % in 2005, to settle at 3.2 Mt against 1.9 Mt in 2004. The European Union is keeps the lead in the world market and Germany with 1.66 Mt remains the first European biodiesel producer and consumer.

In 2006, the global capacity production of the 25 countries of the European Union should reach 6.069 Mt.

Countries	2004(kt)	2005 (kt)
Germany	1035	1669
France	348	492
Italy	320	396
Czech Rep.	60	133
Poland	-	100
Other	165	419
<b>Total</b>	<b>1900</b>	<b>3200</b>

*Source : European Biodiesel Board (EBB)*



**3. Sonatrach facing globalisation :**

Finally, Mr Chawki Rahal, Vice President - Marketing Activity, has stressed that the Sonatrach Group has implemented this globalisation dynamic and for this purpose has adapted its strategy to this ever-changing environment. This approach is based on:

- increasing LNG capacity production;
- increasing transport capacity of LNG tankers and
- securing the penetration points of gas in Europe and North America.

Another the key element of Sonatrach strategy is based on integrating the international gas downstream through the development of an offensive presence on the final market by the acquisitions of stakes or leasing capacities in regasification terminals (USA, United Kingdom) or a direct marketing on the final market. Sonatrach could also take advantage of Algeria's geography position, which creates arbitrage opportunities in the Atlantic Basin (North America and Europe).

**In brief**

**Gas outlook**

*(continued from page 2)*

On Zeebrugge market, Day Ahead prices showed a trend similar to the one registered on NBP, however, the differential was at the advantage of Day Ahead prices with a differential of 0.8 pence/th compared to 0.4 pence/th during the previous month.

Day Ahead prices on Zeebrugge market have lost an average of 7 pence/th relative to the previous month then stood at 27.76 pence/th against 34.70 pence/th a month earlier. In September, the Interconnector has operated in the forward flow with a daily average volume of 416 Gwh (see graph). NBP first month prices (October contract) stood at 40 pence/th throughout the beginning of September then declined and finished around 33 pence/th. In September, First Month price average was estimated at 38,76 pence/th against 35,40 pence/th during the previous month.

Similarly, Zeebrugge First month prices averaged a level of 38,97 pence/th against 36,17 pence/th a month earlier, namely, a 3 pence/th increase.

Forward prices (winter 2006/07) continued declining then settled around 76,50 pence/th at September closing for ICE January 2007 contract.

**USA :**

US Natural gas prices have maintained their downward trend

due to the continued increase of stock inventories and concerns over a financial crisis on the New York stock exchange since the American Hedge Fund, Amaranth Advisors, has lost within a few days two thirds of its capital, namely, \$10 billion through speculation on the gas market, early September.

Hedge Fund Amaranth Advisors has lost two thirds of its assets after a Canadian trader made wrong bets. Thus, First month prices (October 2006 contract) shifted from \$ 6.29 /MMBtu early month to \$4.20 MMBtu at the close.

**Stock market :**

In September 2006, the £/\$ parity has registered a rebound and finished at 1.8682 on 29 September 2006 against 1.9034 at the beginning of the month.

**Carbon dioxide Market :**

In September, First phase (2006/2007) Carbon quota prices, which started slightly upward, declined significantly to reach 13 euros/EUA for 2006 contract and 13.30 euros/EUA for 2007 contract.

Second phase (2008 contract) quota market has registered the same trend as the first phase and closed at 16.20 euros/EUA against 17.84 euros/EUA early month.

**Gazprom to go it alone in operating Shtokman fields.**

Gazprom Has decided to operate the Shtokman gas field- without the participation of foreign partners in this \$20 billion project. Thus, Gazprom has decided that Shtokman production will not be shipped to the United States as originally planned but sold on European markets. Shtokman was discovered in 1988, and it was expected to produce gas as of 2000, but it remained in project ever since. After many years of negotiations, Gazprom had selected five companies: Statoil and Norsk Hydro for Norway, Chevron and ConocoPhillips for the USA, and Total for France.

**Construction of oil pipeline linking Russian giant Verkhnechonsk oil field to the Pacific Ocean.**

Rosneft and TNK BP have signed an agreement for the construction of a pipeline linking the Russian Verkhnechonsk giant deposit to the East Siberia-Ocean oil pipeline. With a total length of 120 km and an overall cost of \$150-\$200 million, the pipe will link Verkhnechonsk to the Talakan deposit. The latter will be connected to the pipeline section, which is currently under construction and located between Eastern Siberia and the Pacific Ocean. Verkhnechonsk oil, condensate and gas field is one of the largest fields in the Eastern region of Siberia. It has proven reserves of 202 million tons of crude oil, namely 1.5 billion barrels, 3.4 million tons of condensate and 129 bcm of natural gas. Oil production should reach 7 to 10 million tons/year by 2011-2012, namely, 140 000 to 200 000 barrels/day.

**A new refinery in India coming on stream.**

With a production capacity of 12 million tons/year, Essar Oil Vadinar refinery is expected to come on stream during the fourth quarter 2006. The refinery is the second largest refinery in India after Reliance Jamnagar (27 million tons/y). Compared to the other refineries in India, Essar Oil Vadinar refinery is able to process heavy and high sulphur content acid petroleum.

It is a complex refinery with an annual diesel and gasoline production expected to reach in 2007, some 5.5 million tons and 2.2 million tons, respectively. The refined products will be marketed on the local market and for export. The refinery is mainly supplied with oil from the Middle East.

**Evolution of Interconnector gas flow**

