

Oil Outlook

By Amira Remadna

In October, Crude oil prices registered a volatile trend with price levels fluctuating between \$ 56 and \$ 59 / Bbl.

The Oil market has been marked by a high speculation driven by abundant world offer backed by comfortable levels of oil and oil product inventories in the major consuming countries.

Disruptions of oil supplies from some producing countries have also impacted on the trend.

Thus, the main factors affecting October oil outlook can be summarized as follows:

- The American Department of Energy announcing delay in the schedule, setting back the purchase of 11 MB to restore the strategic stocks during the winter season aiming to ensure more flexibility of oil supply on the global market in general and in the US market in particular.

- Ample distillate stocks in the USA hitting levels never reached since January 1999, thus, ensuring future supplies for the heating season.

- Cut of the Norwegian oil production by 280 000 barrels following measures taken by the regional security authorities compelling the operators of Snorre and Draugen fields to suspend production for at least one week because of non compliance of the survival canoes with the required standards.

- IEA downward review of the world oil demand by 100 000 barrels in 2006.

- Significant increase of the Chinese oil imports in September achieving a growth rate of 24 %, higher from a year ago.

- OPEC decision to reduce its actual September output by 1.2 million barrels/day as of 1st November 2006. This has provoked uncertainties as traders became concerned as to the real cutback in OPEC supply,

- In addition, weather forecasts announcing a mild winter especially in November and December.

Energy Cooperation

Algeria and China sign a hydrocarbon Agreement of Understanding

Algeria and China signed on 7 November 2007 an Agreement of Understanding related to cooperation in the hydrocarbon sector.

The Agreement of Understanding was signed by Mr Abdelhafid Feghouli vice-president - Sonatrach and his Chinese counterpart Mr Zhou Jiping, vice-president of CNPC oil company.

The signing ceremony was attended by HE, Mr Abdelaziz Bouteflika and the delegation accompanying him during his state visit to China.

Pursuant to this Agreement of Understanding, both countries commit to explore jointly the



«opportunities of development in the fields and projects of common interest”.

Algeria and China signed on Monday 6 November in Beijing a statement on the development of strategic cooperation and also concluded seven agreements and conventions in the fields of justice, finance, industry and transport.

Algeria-Sardinia-Italy Gas pipeline project (Galsi)

Signing of five natural gas sale/purchase agreements

Sonatrach has concluded five agreements for the sale/purchase of natural gas through the Galsi project with, respectively:

- **Edison** for a volume of 2 bcm/year,
- **Enel** for a volume of 2 bcm/y,
- **Hera** for a volume of 1 bcm/y,
- **Ascopiave** for a volume of 0.5 bcm/y, and,
- **Worldenergy** for a volume of 0.5 bcm/y.

Sonatrach will also market via Galsi a volume of 2 bcm on the Italian market of which 1 bcm to Sardinia.

The signing ceremony took place on the day the Italian premier Mr Romano Prodi started a two-day official visit to Algeria.

The Galsi project with a global capacity of 8 bcm/year, involves constructing a direct pipeline from Algeria to Italy through Sardinia to be completed in 2009.

This ceremony is a step forward in the progress of the project operation and will be followed by the setting up of a new realisation company Galsi.

The sale agreements are the outcome of a cooperation which has been developed for three decades between Sonatrach and the Italian companies and reflect Sonatrach willingness to actively participate in meeting the growing needs for

natural gas in Europe and especially in Italy.

Furthermore, the signing of the sale/purchase agreements contribute to achieving the export target of 85 bcm/y in 2010 and the strategy of strengthening Sonatrach position on the European natural gas market.



Gas pipeline route

Oil Outlook

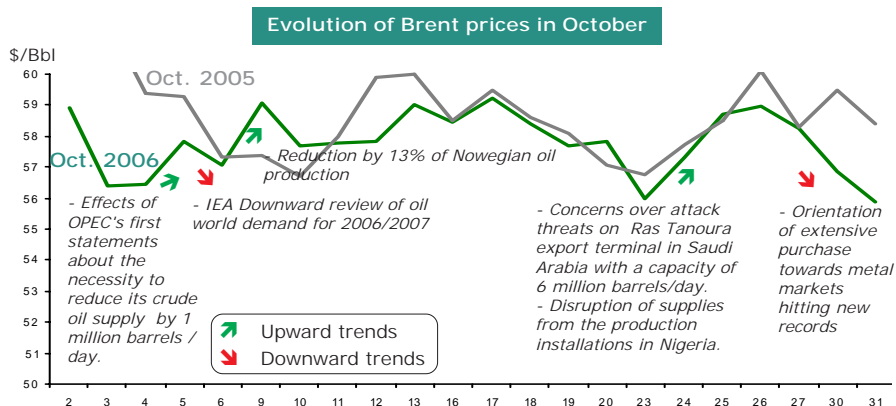
HIGHLIGHTS

Flagging American economy: a level never attained since the first quarter 2003.

Following a decrease of more than 50 % during the second quarter 2006, the US economic growth slowed down during the third quarter and reached a level of 1.6 % against 5.6 % during the first quarter. The main reason to that is the significant reduction of investments in the real estate sector. Indeed, a 17 % cut in expenditures related to the purchase of new lodgings has been reported since the beginning of the year. Furthermore, companies' investment expenditures slightly slowed down reducing by 0.1 % the economic growth during the third quarter. The value of imported goods rose by more than 7 % compared to a 2 % rate registered during the second quarter. However, different analysts forecast a significant progress of expenditures in the household sector during the fourth quarter. This should give an impulse to the US economy and bring the US annual economic growth to 3.3 %.

China boosts its programme of crude oil strategic reserves.

Amid an environment of falling oil prices, the Chinese authorities have decided to boost the building up of crude oil strategic stocks. According to the Vice President of the State Bureau of Energy, since last August, China has started building up its crude oil strategic



reserves, i.e., a volume of 3 million barrels has been already stocked.

The first centre of strategic reserves with a capacity estimated at 33 million barrels, has achieved 10 % of its objective.

The centre is located in Zhenhai in the Zhejiang province. It is part of the four national bases scheduled for the storage of strategic reserves. The overall storing capacity amounts to 566 million barrels. No specification has been made as to the type of oil to be stored, and the volume projected by the Chinese authorities should cover at least a 30-day consumption.

Significant decline expected for UK production by 2007.

In 2001, the United Kingdom contributed up to 40 % of the whole production of crude oil in Europe, namely, 2.5 million barrels / day. The volume of exports represented nearly 64 % of the total output. However, crude oil exports shifted from 90 million tons in 2001 to 55

million tons in 2005. In addition, crude oil production for the period June 2006 through August 2006 has experienced a significant drop of 12 % from a year ago. According to the latest estimations which take into account the starting up of new oil fields in Great Britain, the volume of net oil imports should settle at 250 000 barrels / day in 2007 and exceed 1 million barrels/day by 2015.

Brazil : new oil output to flow by the end of 2006.

Brazil which achieved oil self-sufficiency in April 2006, should reach the new 160 000 barrels output by December 2006 to be added to the daily production with the coming on stream of two new rigs in the Campos Basin, namely, FPSO Presidente JK (P-34) in the Jubarte field off the coast of the Espirito Santo State, and FPSO Cidade do Rio de Janeiro located on the Espadarte field. The capacity is estimated at 60 000 barrels /day and 100 000 barrels/day, respectively.

Gas Market Outlook

By Othmane Irain

North Europe

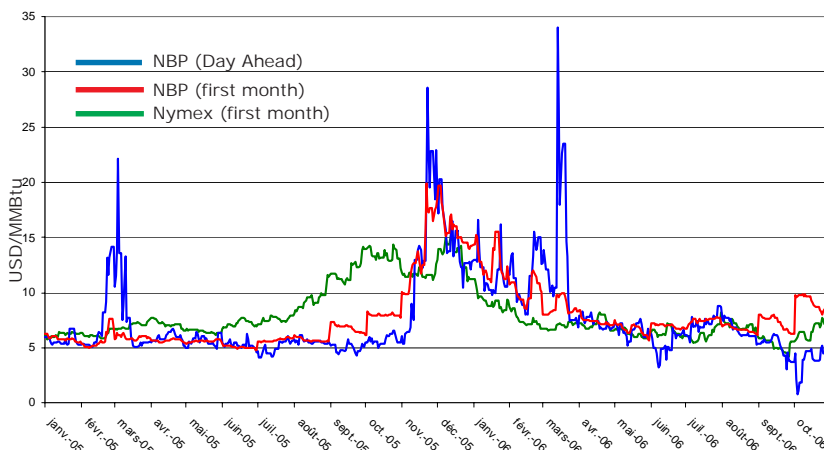
In October 2006, natural gas spot prices in the UK registered a significant decline driven by a weak demand (relatively low in comparison with the normal seasonal demand) and to the commissioning of the new Langeled gas pipeline from Norway. Although demand increased early October compared to the previous month, it still remains below the seasonal demand. Day ahead spot prices opened at 24 pence/th then collapsed and reached levels under 10 pence/th and even 4 pence/th on 3rd October. Demand growth should have put upward pressure on prices, yet, the commissioning of the new Langeled gas pipeline during the testing period, has changed the situation increasing the daily offer by an additional volume of nearly 500 Gwh.

It is worth noting that on 3rd October, Within Day spot prices reached negative levels (- 5 pence/th). Shippers have decided to sell at negative prices in order to market

surplus gas and avoid paying penalties for not complying with the nominations.

(Continued page 4)

Gas - Evolution of UK and US prices



E v e n t s

11th Summit of the Executives of the Gas Industry

The Marketing Activity Vice President addresses the energy security issue

The 11th Summit of the Executives of the Gas Industry took place on 26th October in Paris. During the meeting, Mr Rahal, invited Panelist, addressed the latest developments of the energy crisis facing Europe and gave his view on the security of energy.

Energy security must be addressed in a global context taking into account both the security of demand for the producers and the security of supply for the consumers, and also security of transit for the country of energy transit. The energy security should be considered globally.

In his address, Mr Rahal has also tackled the issue of diversifying supply sources. According to Mr Rahal, the approach based on diversification of supply sources presents three limits :

- Firstly, it overlooks the issues relating to infrastructure (lack of interconnexion, existence of energy isles in Europe, limited storage capacity in sectors, such as gas...).

- Secondly, this approach considers the producing countries as sole responsible for energy security, which is wrong.

- Finally, as a result, producers seek diversification of clients.

Regarding the issue of security of gas supply, Mr M. C. Rahal has clearly



stated that presently this question could not be addressed in the same way as oil supplies.

Indeed, oil is a global commodity benefiting from well-developed commercial and strategic storage capacities.

Disruption risks can be covered by a diversification of supply sources, whereas Natural Gas remains a regional commodity where diversification of supply sources could lead to a diversification of clients.

Mr Rahal, has rounded off his presentation stressing that energy security as a global commodity requires maintaining a permanent exchange of view and dialogue.

Biofuels worldwide

(2nd part)

By Kahina Besbas - Direction EMP

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.

Biofuels are expanding in many countries across the world.

- In India, 9 states and 4 regions under federal control were obliged to blend gasoline with 5 % of ethanol as from 1st January 2003

- In China, a marketing programme for ethanol used in a 10 % blend was launched in 2001 (1 Mt produced in 2003)

- In Australia, a production target of 280 000 t of ethanol has been fixed for 2010 with a blend use of a maximum of 10 %, namely, 2% of the domestic gasoline consumption by the end of 2010.

- Canada has fixed a target of 1.3 Mt for ethanol consumption by 2010. Alcohol could be used in a 10 % blend

- Some Central American countries (Salvador, Guatemala, Honduras, Nicaragua and Costa Rica) have worked out an ambitious policy to promote ethanol, a fuel extracted from sugar cane. In 2010, 720 000 t should be produced the half will be allocated to export.

However, the biofuel world exchanges remain for the time being very limited. The reason behind this, is that today, the major

producers are also the most important consumers.

Nevertheless, It should be noted, that this situation could evolve, as European and USA biofuel markets have become very appealing. It is also worth noting, the opening in May 2004 of a futures market in New York (Nybot: The New York Board of Trade) for ethanol which could forecast the setting up of a world market for this product.

Traditional gasoline and diesel will still be present in the fuel mix offered to car drivers during the 30 forthcoming years although biofuels benefit from a renewed support from the public authorities who have fixed ambitious consumption objectives: 5.75 % (percentage in energy) in 2010 and 8% in 2020 of fuel consumption for transport in Europe and from 4% in 2010 to 20% in 2030 of fuel consumption for transport in the USA.

The production technologies to be developed will have a significant impact on costs and future fuel-related energy, such as lignocellulosic ethanol (wood, straw).

Theoretically, they will enable to obtain best returns with unbeatable cost effective production and good prospects of expansion by 2020.

Third Algeria Energy Week Oran, Algeria 25-29 November 2006

Programme of the presentations of the Marketing Activity Executive Staff

Presentations - Salle Mostaganem
Thème 9 : Commercialisation et Valorisation des hydrocarbures

- BICHARI Mehdi : « Adaptation de l'Activité Commercialisation à l'évolution du Marché pétrolier international »

- TAIBOUNI Nassima : « Les concepts clés du marketing des produits pétroliers dans un environnement concurrentiel »

- OUDJIDA Sofiane : « Le transport maritime des hydrocarbures : passé, présent et perspectives »

Poster session N°1 - Hall des Salles Oran 1, 2 et 3

- ALLAOUA-NAZEF Melha : « Application de la Spectroscopie d'Impédance Electrochimique pour l'évaluation des revêtements anticorrosion »

In Brief

Gas Market Outlook

(continued from page 2)

This situation has somehow improved in the second week of October when Day ahead spot prices went above 20 pence/th.

This upward trend has been sustained by a cut of volumes further to the shutdown of Britannia field. Therefore, Day ahead prices have continued climbing to finish around 30 pence/th.

On Zeebrugge market, day ahead prices have registered the same trend as the NBP but with a slight advantage in favour of the Zeebrugge prices estimated at nearly 0.5 pence/th against 0.8 pence/th during the previous month.

Day ahead spot prices on Zeebrugge have lost on average nearly 6 pence/th compared to the previous month then stood at 21.5 pence/th against 27.7 pence/th a month ago.

In October, the Interconnector has operated forward with an average daily volume of 296 Gwh against 416 Gwh during the previous month (see graph).

The export decline toward Zeebrugge was very important during the last week in October due to the temperature decline and the increase of demand in the UK. A reverse of the Interconnector operation flow should be expected by next month.

NBP first month prices opened around 50 pence/th (November contract) then declined by nearly 10 pence/th and closed at 40 pence/th by the end of the month. Although first month prices have registered the same trend as Day ahead prices,

they have been in average higher by 10 pence/th compared to September prices, namely, 48.11 pence/th against 38.76 pence/th.

Similarly, Zeebrugge first month prices registered an average level of 47.7 pence/th against 38.97 pence/th in the previous month, i.e, an increase of nearly 9 pence/th.

Day ahead prices pressure has had a significant impact on forward prices (winter 2006/2007) which continued to drop to settle around 61.97 pence/th for January 2007 ICE contract at October close.

USA

US natural gas prices firmed up in October as a result of colder temperatures in the North East of the USA and also growing demand.

Thus, first month prices (November 2006 contract) shifted from 5.39 \$/MMBtu at the beginning of the month to 7.15 \$/MMBtu at the close.

Stock market

The £/\$ parity in October 2006 registered a rebound and closed at 1.9073 on 31st October 2006 against 1.8850 in early month.

Carbon market

Co₂ quota prices for the first phase (2006/2007) have continued their downward trend and reached 10.84 Euros/ EUA for the 2006 contract and 11.03 Euros/EUA for 2007 contract.

Quota market for the second phase (2008 contract) has registered the same trend as first phase closing at 15.43 Euros/EUA against 16.20 Euros/EUA in the previous month.

Iraq : With the commissioning of Samawa and Nadjaf refineries and a daily production of 20 000 barrels. Iraq has announced an ambitious programme for the development of its oil industry. This planned development concerns the construction of three new refineries with a total processing capacity of 520 000 b/day, the development of Khanke and Kifi oil fields with a projected output of 40 000 b/d and also the new Tawke oil field with proven reserves estimated at 100 million barrels.

Indonesia : Oil production development.

Indonesia's oil production has been reduced to 890 000 barrels/d compared to 1.6 MBD in 1995. As a result of the declining output of its existing oil fields, Indonesia has become an oil importer.

Chevron, first oil producer in Indonesia with a volume of 430 000 to 440 000 b/d , has recently announced an investment programme for the development of declining oil fields in Indonesia. The expected investments are estimated at \$ 1 billion and will cover the development of the North Duri field in the Sumatra province within four years. The development of Duri which is expected to come on stream by the end of 2006, should add some 15 000 b/d to the regional production. For the period 2006/2007, Chevron is also planning other investments of \$6 billion for the development of gas deposits located in the deep waters, offshore Makassar.

European Union : Under the EU merger regulation, the Commission approves merger of (GDF) Gaz de France and Suez, subject to conditions. These conditions make legally binding commitments submitted by the parties on 13 October 2006 and cover five main elements:

- Divestiture of the Suez groups's holding in Distrigaz
- Divestiture of GDF's holding (via Segebel) in SPE.
- Restructuring of the activities of Fluxy's s.a and relinquishing of all control over the company.
- A series of additional measures (most notably investments) relating to the gas infrastructures in Belgium and France.
- Divestiture of Cofanec Coriance and the district heating networks operated by Cofanec Services.

Evolution of Interconnector gas flow

