

## Oil Outlook

By Imen-Nidhal Boudinar

Amid a deteriorating geopolitical outlook and a precarious balance between world oil supply and demand, Brent prices rocketed to record highs going beyond \$ 90/Bbls. Indeed, strong fundamentals combined with an upsurge of geopolitical unrest have pushed oil prices up:

- Declining European and US oil inventories fuelling fears over oil supplies as winter season is approaching in the North hemisphere.
- Reduction by nearly 600 000 B/D of the Mexican production due to bad weather conditions, further tightening short term world offer.
- Upsurge of geopolitical tensions between Iraq and Turkey accentuating the option for Turkish military action at the Iraqi border.
- In addition, worsening situation between Iran and the USA following new sanctions imposed on Iranian banks.
- Escalation of unrest in Nigeria inducing a cut of its output flow by nearly 547 000 B/d since February 2006.
- Another bullish factor, the continuous decline of the \$ following the Fed decision to decrease its main intervention rate by a quarter of a point, namely to 4.5 % during the meeting held on 31st October 2007.
- Geopolitical risks and uncertainties generated by anticipation over a tight market supply have provided a propitious environment for speculators who massively resorted to futures markets avoiding stock markets hit by the real estate credit crisis in the USA.

### Highlights

**Upstream capital costs index up 11 % through the last six months**  
Over the last six months IHS/CERA upstream capital cost index grew by 11 % and reached a record high of 198 points in the third quarter 2007 (base 100 in 2000). The index was 106 points in 2005. The basket of upstream oil field equipments has increased 5 % - 20 % in the last six months, with equipments associated to sub-marine installations increasing by 15 %.

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## 3rd OPEC Summit

**Market stability and environment concerns at the core of the debates**

Saudi Arabia hosted on 17-18 November the third summit of Heads of states of Opec member countries. The Summit was preceded by a technical seminar and a preparatory meeting with ministers of Petroleum of the Opec member countries.



The President of Algeria, Mr. Abdelaziz Bouteflika attended the third Opec Summit in Ryadh on 17-18 November. The event is continuing the series of Summits held in Algiers (1975) and Caracas (2000), and focused on long term stability of the oil market. In his speech at the closing session, the President noted that long term strategy should take account of the future generations and reinforce solidarity towards the less developed countries. He added, that for this purpose, strengthening cooperation, partnership and dialogue

between the oil producing and consuming countries is essential. Prior to the Summit, a preparatory meeting of Opec ministers was held. Two issues have been fully debated, namely:

- The importance of the long term development issue versus the issue of short term adjustment of Opec oil supply,
- issues relating to environment protection.

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## 20<sup>th</sup> World Energy Congress



**Energy interdependence at the core of the debates**

Promoted by the World Energy Council (WEC), the 20th World Energy Congress took place from the 11 to the 15 November 2007 in Rome.

Algeria was in attendance with an important delegation of high executives, experts and operators, headed by Mr. Chakib Khelil, Minister of Energy and Mines. Placed under the theme of energy future in an interdependent world, the Congress aims to acquire the necessary instruments in order to face the challenges of global energy changes. In the opening address, the speakers have underlined that the challenges of reconstruction that lead to the creation of the WEC at the

end of the First World War, are still topical, however, they are to be placed in a different dynamics based on new approaches, both technical and scientific. According to the speakers in the next decades the world will face a high demand for energy consumption, requiring an effort for innovation in terms of energy efficiency, resorting to renewable energy and mastering the productions flows based on coal, gas and nuclear energy.

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**Oil Outlook**

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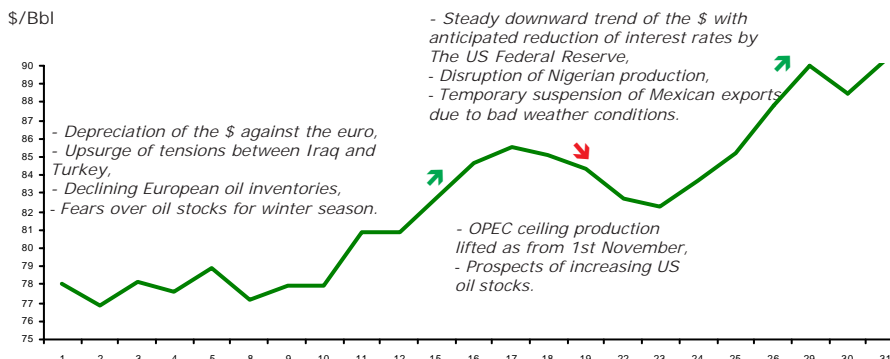
**Highlights**

A part from a high level of activity in the upstream, cost increases are somehow due to higher raw material prices. For example, steel prices rose by 8 to 23 % over the last six months, depending upon quality and country origin. On the short term, CERA estimates that the cost index of upstream capital should continue increasing.

**Global refining capacity should increase by 1.7 % over the next five years**

Similarly to exploration-production, the index reached a record high in the downstream during the third quarter reaching 166 points ( base 100 in 2000), namely, an increase of 8 % over the last six months. The present price level entailed the cancellation of several construction projects although they were necessary to meet the increasing world demand. Currently, worldwide, the refining and petrochemicals sector face strong tensions while new installations are being built in the Middle East and Asia, expansions in the USA and heavy oil projects in the Alberta province. According to CERA consultant, the global refining capacity is set to increase by 1.7 % per year (1.5 MBD) over the next five years, which represents a yearly increase of the activity higher by 20 to 30 % over the last years.

**Evolution of Brent prices in October**



**CANADA  
Royalties increased in Alberta province**

Canada oil province Alberta has decided to raise royalties on its oil and gas production by 20 % relative to the projections made under the present calculation. Under the new regime, companies operating in exploration/production of oil sands with a production of 174 billion bls, should pay between 1% to 9 % to the province before a project becomes cost effective, and between 25% and 40 % when breakeven point is reached. The variation is pegged on crude oil barrel price (minimal rate for a price lower than \$ 55/Bbl and maximal for a price higher than \$ 120/Bbl. The measures will be effective as of 1st January 2009. In the gas sector, the Province government will increase from 35 %

to 50 % the maximal royalties imposed on companies. Last year, Alberta province received \$ 9.5 billion from its royalties on oil and gas. Its conventional oil production reached 500 000 b/d and oil sands output reached 1 MBd.

**CHINA**

**Increase in oil prices**

China has increased by 8 % the main fuels prices to enable oil groups in China to lift output and avoid shortage, a situation made difficult by the high oil prices in the global markets. At the pump the price increase will represent 0.46 Yuan (0.04 cent of Euro). The main Chinese economics planning body has underlined that the gap between world's oil prices and domestic fuel prices was continuously increasing.

**Gas outlook**

By Bouzid Ahmed

**North Europe :**

Natural gas spot prices firmed up in October 2007 reaching in average 41.25 pence/th.

Opening the month at nearly 41 pence/th, NBP Day Ahead prices decreased steadily and reached 35 pence/th by the mid-month then jumped and closed at 39 pence/th by the end of the month.

The increase in prices is due to a high demand in the residential/ industry sectors as a result of temperatures dropping below the normal season.

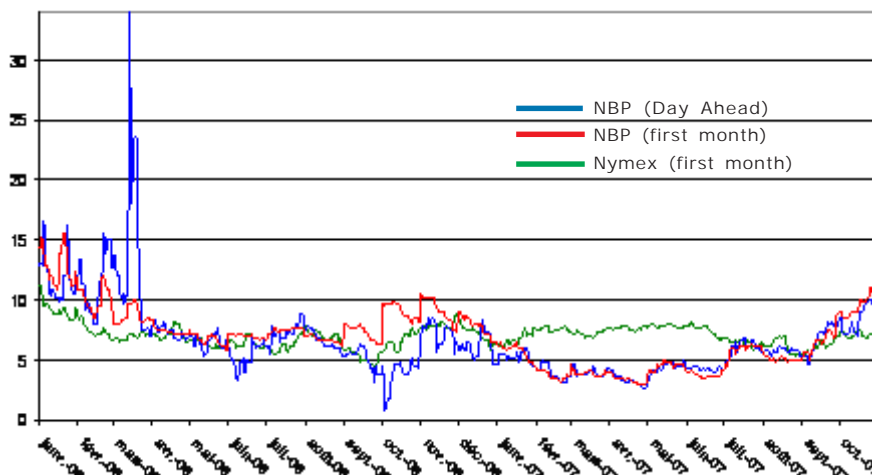
In average, daily demand progressed by nearly 67 Mm3 in October then stood at nearly 266 Mm3/d against 199 Mm3/d in the previous month.

In addition, the level of average demand in October 2007 compared to the demand level for the same period in 2006 shows a slight increase of nearly 12Mm3/d.

However, Day Ahead prices were in average higher by 21 pence/th than those registered during the same period last year.

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**UK and US price evolution**



## EVENTS

**Sonatrach/Energias de Portugal****Cooperation agreements**

*Under the terms of the Memorandum of Understanding of 11 April 2007, Sonatrach and Portugal energy group Energias of Portugal (EDP S.A) concluded on 31st October 2007 agreements to establish a strategic partnership in natural gas and electricity business areas in the Iberian Peninsula.*

The first agreement relates to the supply of natural gas by Sonatrach to EDP through its affiliate Sonatrach Gas Comercializadora, of a contract volume of 1.6 bcm per year half of which will be allocated to three combined cycle gas turbines projects in Spain and Portugal in which Sonatrach holds a 25 % minority stake.

The second agreement sets the conditions for Sonatrach's participation in EDP's combined cycle gas stations under construction, namely:

- Soto 4 - (425MW - in Spain),
- Lares 1 - (440MW - in Portugal),
- Lares 2 - (440 MW- in Portugal),

It is worth noting that the signing of the agreements follows Sonatrach's acquisition of 2.035 % of EDP capital in April 2007. This allows Sonatrach to become a member of EDP's General supervisory Board, the highest strategic body of the Portuguese group.

The agreements represent the good commercial relationship between Sonatrach and EDP the first electricity producer in Portugal and major operator in the Spanish gas market through its affiliate Naturgas. It also translate the

convergence of interests of the two groups with Sonatrach striving to diversify and integrate the gas downstream in particular on the traditional markets and the necessity for EDP to establish an alliance with a reliable gas supplier to achieve its development.

The agreements are part of Sonatrach strategic plan to export 85 bcm per year by 2010, thus, confirming Sonatrach role as a major supplier of the European market and specifically the Iberian market.

**Energy cooperation****Sonatrach and Sardinia sign cooperation agreement in the natural gas sector**

Sonatrach and the Autonomous region of Sardinia entered into an agreement on 12 November 2007 to establish partnership in the natural gas sector.

The agreement provides for the setting up of a joint company in charge of market development and marketing of natural gas through Galsi gas line in Sardinia.

On this occasion, Mr. Meziane, Sonatrach CEO declared: "We are particularly satisfied with the conclusion of the agreement which demonstrates the common commitment to developing a real cooperation providing Sardinia with to the least polluting fossil fuel. As to Sonatrach, the agreement is part of a strategic plan to penetrate the European gas downstream".

Mr. Soru, President of the Autonomous Region of Sardinia, indicated: "We are

proud about the progress of the Galsi project and the strong collaboration with Sonatrach. The participation of Sfiris is a new step forward and constitutes a major partnership opportunity for the future".

As a reminder, Sfiris is shareholder with 10 % in the Galsi project, jointly developed with Sonatrach (36 %), Edison (18%), Enel (13.5%), Wintershall (13.5%) and Hera (9%).

Algeria and Italy concluded on 7th November in Rome, an inter-government agreement for the construction of the Galsi project gas line. On the same date the Galsi Company and Snam Rete Gas, affiliate of the Italian group Eni, signed an agreement for the construction of the Italian section of the gas line (from entry point in Sardinia to the entry point in the Italian network) by Snam Rete Gas.

**20<sup>th</sup> World Energy Congress**

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Concerning climatic changes, the speakers have stressed the necessity to accelerate transition towards a low-carbon economy and put in place different international conventions ((UNFCCC, Kyoto Protocol).

In his address, Mr Chakib Khelil, Algeria Minister of Energy and Mines, declared:

- There is a global market for all the energy producers and consumers,
- The crisis hit the whole players,
- The financial speculation and the dollar depreciation have impacted crude oil prices, thus, today, it is more suitable to say that there has been a production peak than a demand peak.

The Minister added that importing countries seek security of supply whereas producing countries are interested in medium and long term security of demand. HE, Mr Chakib Khelil, underlined that he believes in interdependence between Algeria and Europe, and supplies to Europe have never been disrupted.

Mr Mohamed Meziane, Sonatrach CEO, took part in a panel of experts. The issue of Europe natural gas supplies was at the core of the debates.

Mr Mohamed Meziane declared that Sonatrach has gone along with the opening of the European gas market, then stressed that security of supply should be a counterpart to security of demand. It is a two-way process.

The experts expressed their willingness to meet Europe increasing gas needs through a combination of gas pipes projects and LNG supplies.

**3rd OPEC Summit**

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At the opening works session of the ministerial conference, the Minister of Energy and Mines, Mr. Chakib Khelil, addressing the issue of the impact of hydrocarbons on climatic change, stressed the necessity to promote R&D in the Opec Research department in order to acquire new technologies especially in carbon capture (Co2), a promising technical process aiming to limit greenhouse gas effects.

The final statement issued further to the third Summit of the 13 Opec leaders, including Ecuador - a former member who withdrew 15 years earlier and has been re-accepted in the organisation during the Summit- is centred around three issues:

- Oil market stability
- Energy for a sustainable development.

- Energy and environment

The declaration reaffirms the willingness to "continue securing a sufficient and regular supply (oil) to meet global needs", with a special attention to environment. For this purpose, oil exporting countries expressed their determination to commit to preserve the environment through development of clean oil technologies and carbon capture.

As to the concerns over dollar depreciation, although the issue has been at the core of several debates, it has not been included in the final statement adopted at the Summit. The Saudi Minister has declared at a press point that "the weakness of the dollar should be addressed in a technical way" by the Opec finance ministers.

**Gas outlook**

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On Zeebrugge Day Ahead prices registered the same trend as NBP. Opening at around 41.5 pence/th, Zeebrugge Day Ahead prices closed at nearly 40 pence/th with a positive differential for the average prices compared to NBP estimated at nearly 0.40 pence/th. This rise in prices is spurred by concerns over supply uncertainties from Norway and also due to declining temperatures.

Indeed, in October the Interconnector operated mainly in forward direction. This situation is due to the increasing demand on Zeebrugge. However, the net average flow registered in October 199 GWh/d against 95 GWh/d in the previous month, namely up by 109%.

NBP First Month prices (November 2007 contract) registered a significant rise compared to a month earlier estimated in average at nearly 46.3 pence/th. Opening the month at around 44 pence/th, First Month prices went up reaching 51.5 pence/th then fell and closed at 47 pence/th.

Similarly, Zeebrugge First month prices registered in average a level of 46.6 pence/th against nearly 34 pence/th in the previous month, namely, an increase of 12.6 pence/th.

Forward prices registered a bullish trend for the ICE contact of Q1-2008 closing at 53.40 pence/th and a bearish trend for Q3-2008, closing at 39.63 pence/th.

**USA:**

In October 2007, natural gas prices in the USA rose by \$ 1.1/MMBtu from the previous month and stood below \$ 7/MMBtu at the closing. Opening at \$ 6.91 /MMBtu, first Month prices ( November 2007 contract) registered an upward trend by mid-month, then, reached a level of \$ 7.45 /MMBtu and dropped to close at \$ 7.27/MMBtu by the end of the month. The rebound in prices is mainly due to the rise in crude oil prices.

Spot markets and stock markets registered the same trend due to an increasing demand spurred by cold weather in several regions, especially in the North East. Indeed, spot prices in the North East showed an average of \$ 7.13/MMBtu, whereas prices in the Gulf of Mexico (Henry Hub) stood at \$ 6.68/MMBtu.

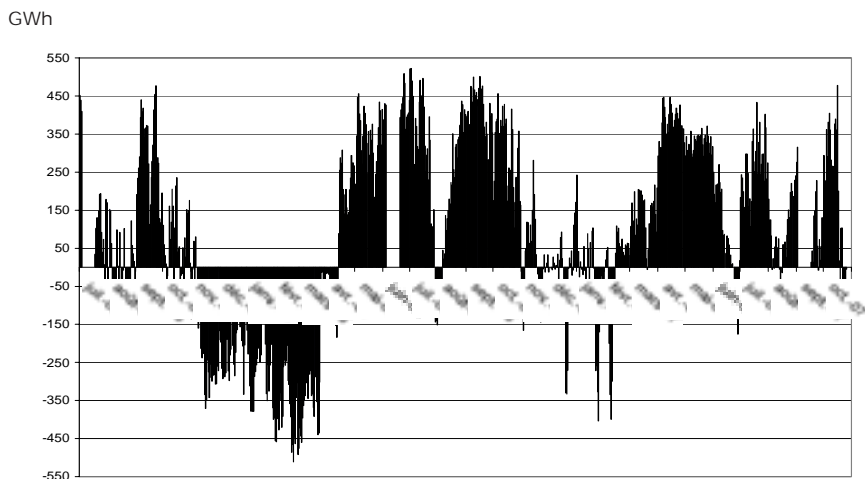
**Stock market:**

The £/\$ parity was steadily on the uptrend reaching 2.052 in the mid-October then, closed at 2.077.

**CO2 market:**

CO2 quota prices for the second phase (2008 and 2009 contracts) registered in average a slight decrease and closed at 22.25 and 22.80 euros/EUA, respectively.

**Evolution of natural gas flow on the Interconnector**



**20<sup>th</sup> World Energy Congress**

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During the closing ceremony of the Congress, the WEC declared that in the future, a sustainable energy requires an unprecedented global cooperation between the industry and the governments and also a further integration of regional and international energy markets.

A sustained contribution of the industry will urge the governments to implement policies capable of ensuring incentives for investments which should be optimized on the long term. Substantial investments are essential to double the global energy supplies by 2050.

**In brief**

**Italy**

**Eni Trading & Shipping started operating**

Eni has created a trading affiliate named Eni Trading & Shipping which will be Eni's single interface to international crude oil and oil products markets. The affiliate has started operating on 1st October 2007. It is in charge of marketing Eni's crude oil production share on the international markets, buying crude oil and feedstock for the refining group, ensuring services of risk management for its Mother Company and providing maritime and transport activities.

**Russia**

**Russia raises oil export tax**

The Russian Government plans to increase by 10 % tax on oil exports as from 1st December 2007, further to the world prices resurgence in September and October. The tax will hit a record high of \$ 275.40/T against a current \$ 250.30/ T.

**USA**

**Marathon to acquire downstream assets in Citgo**

Marathon Oil has officially announced concluding an agreement with Citgo Petroleum, an affiliate of the Venezuelan company PDVSA in the USA for the acquisition of four storage terminals and a 16 % stake which it holds in a regional oil product pipeline. Located in the Ohio (North East of the USA) , the terminals represent a total storage capacity of 1.7 MBep. The transport infrastructure has a transit capacity of nearly 52 000 B/D.