

## Oil outlook

By Imen-Nidhal Boudinar

During the first twenty days of September, soaring crude oil prices were tempered by the uncertain outlook of world economic growth with the instability observed in stock markets. Indeed, rising prices were mainly spurred by:

- Upsurge of geopolitical tensions in the Middle East ( Syria-Israel)
  - Persistent concerns over low levels of US oil stock reserves
  - Several tropical depressions in the Atlantic threatening oil installations situated in the Gulf of Mexico.
  - OPEC decision to increase by 0.5 MB/d its output ceiling at the end of Vienna meeting on 11 September.
- " Series of attacks against hydrocarbon transport infrastructures in Mexico affecting nearly a quarter of gas production of the world fifth crude oil producer.
- After the downward trend registered in the last week in September and essentially due to the resuming of production in the Gulf of Mexico and the expiry of October contract in the Nymex, crude oil prices closed the month at levels over \$ 82/Bbl for the WTI (\*) sustained by the following factors:
- Weakness of the dollar against the Euro (reaching \$ 1.42) inducing speculation on futures markets.
  - Precarious balance between world oil supply and demand at the approaching winter season, spurring demand for oil products.
  - Persisting tensions in Nigeria with a new attack on the Italian oil & gas contractor group site, SAIPEM.

### Highlights

#### IRAQ/SYRIA

**Reopening of Kirkouk-Banias oil pipeline at the heart of the discussions between the two countries.**

At the end of the Iraqi Prime Minister visit to Damascus, a series of agreements relating to security, economy, oil and gas, have been concluded between the two countries.

It has been agreed to take the necessary steps for the rehabilitation and reopening of the Iraqi-Syrian oil pipeline connecting the Kirkouk fields to the Banias Mediterranean terminal.

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## 12th international Gas Summit

**Security of supply Vs Security of Markets at the core of the the discussions**



Mr. Chawki Mohamed Rahal, Marketing Activity Vice President attended the Congress of the Gas Industry Executives on 17 and 18 October 2007 in Paris and addressed on this occasion the issue of "Security of Supply Vs Security of market: towards new relationships between the energy actors". The presentation dealt mainly with the following points:

Energy security should be conceived in a global environment, taking account of both demand security for the producers and supply security for the consumers and also, the security of transit for the countries of energy transit. It should never be considered only from one end of the chain, but on the whole.

Concerning security of supply, Mr. Rahal recalled the instruments that the European consuming countries have at their disposal to secure their gas supplies, namely:

- LNG, through diversification of suppliers, avoids transit issues and reduces Europe dependency on imports via gas pipelines;
- Existence of an extra capacity of regasification and a price system including demand fluctuations and climate contingencies allowing Europe to attract a significant part of marginal trading of LNG (non contract cargoes) and to have

extra supplies during peak demands.

As to the regulatory matters, Mr. Rahal pointed out that the European Commission aimed to suppress long term contracts. Further to dialogue with the producers, The Commission has reconsidered its position and as a result, sees contracts as being fundamental for the development of the gas industry. The European and the Algerian authorities have also reached an agreement on destination and PSM clauses.

Mr Rahal stressed that the gas industry has considerably expanded thanks to a stable regulation. Currently, the regulatory sector is experiencing major developments amid market liberalisation, resulting in a transfer of risk to the producers who have to adapt to the new environment.

One form of hedging against risk is participation in the gas downstream and diversification, an approach which contributes to the market stability.

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## Spanish gas market

**CNE restrictions placed on Sonatrach Gas Commercializadora for the trading of gas on the Spanish market, lifted**

A decree dated 8 October 2007, lifted the restrictions imposed on Sonatrach Gas Commercializadora for selling gas in Spain.

As a reminder, on 28 February 2007 the initial decree issued on Spain Official Bulletin, authorised Sonatrach to sell natural gas in Spain with a ceiling cap of 1 bcm per year. This is an unprecedented restriction, as no other Spanish

or foreign companies have been subjected to this kind of limitation.

On 8 June 2007, Sonatrach appealed to the general direction of the energy and mines policy, pertaining to the authority of Spain Ministry of Industry and Tourism. The latter declared the restriction imposed was disproportionate and accordingly the volume restriction on SGC trading rights was legally lifted.

**Oil Outlook**

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**HIGHLIGHTS**

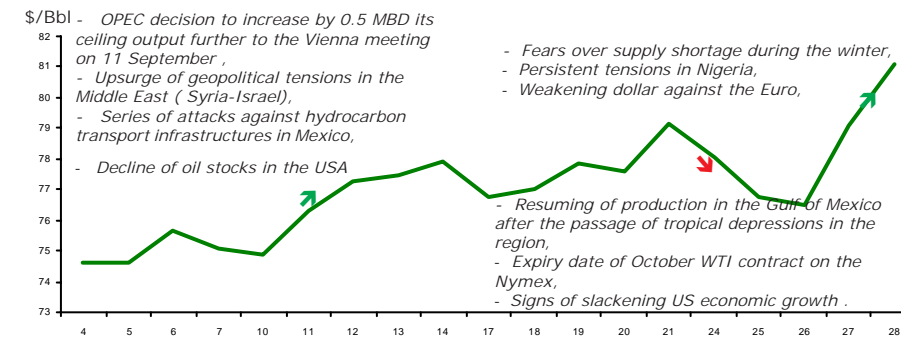
The pumping of the Kirkouk-Banias pipeline was suspended by the US armed forces in April 2003, shortly after the launching of the war against Iraq. The oil pipeline had permitted to export up to 300 000 B/D of crude oil over the two years prior to the US attack on Iraq.

**USA**

**Shell agrees on the project to increase capacity of its Port Arthur refinery**

The Anglo- Dutch group Shell has made final investment decision that allows the company to proceed with a 325,000 b/d expansion of its refinery processing capacity in Port Arthur. In 2010, the refinery, owned by Motiva Enterprises, a 50/50% joint venture between Shell and Saudi Refining, will have a global capacity of 600 000 B/D. The Port Arthur expansion equals the construction of a new first refinery in the USA over more than thirty years. Motiva Enterprises owns three refineries in the USA (Norco, Convent and Port Arthur) totalling a processing capacity of 740 000 B/D. It also manages a network of 7700 service-stations in the East and South of the USA.

**Trading: Non-energy players share treble over 5 years on OTC market, by 53 % in 2006.**



Within two years, crude oil volumes traded on futures markets doubled worldwide, shifting from 78.5 bbl/ year in 2004, to 144.1 bbl/year in 2006 ( 395 MBD) representing some \$ 9400 billion.

US Intercontinental Exchange is the major stock exchange with a share of 50.7 % in 2006 of the futures exchanges of crude oil in the world. Its share is far more important on natural gas futures market in the USA, as it reaches 80 % of the exchanges based on Henry Hub. ICE is the uncontested leader for the OTC exchanges of energy in the world. This stock exchange institution regrouped 1150 participants in its OTC market by the end of 2006, offering 990 types of possible contracts.

Between 2002 and 2006, the share of non commercials shifted from 18.3 % to 53.2 % of the OTC exchanges operated on the ICE.

Whereas the share of the banks and financial institutions has not undergone significant development (21.2 % in 2006), Hedge funds jumped from 0.2 % in 2002 to 32 % in 2006.

**ANGOLA**

**Greater Plutonio coming on stream.**

The state-owned company Sonangol and its partner BP have announced early October the coming on stream of Greater Plutonio project fields, located offshore on block 18, some 160 km off western Angola. The deposit, composed of five distinct fields is developed by means of FPSO with an oil processing capacity of 240 000 B/D. The British group BP has been operating on block 18 since May 1999. BP and the Angolan company hold a 50% share each.

**Gas outlook**

By Bouzid Ahmed

**North Europe**

In September 2007, natural gas spot prices in the UK registered an upward trend reaching 34.1 pence/th.

Opening the month at around 27 pence/th, NBP Day Ahead prices climbed steadily and reached 40.5 pence/th on 21st September then fell and closed at 37 pence/th by the end of the month, namely, 10 pence/th higher than the opening prices.

Over the days, rising prices were spurred by an increasing demand in the residential/industry sector due to falling temperatures. Declining supplies from Norway added to the BBL gas line shutdown for maintenance (from 17 to 21 September) have also impacted the upward movement in spite of the coming on stream of the Norwegian Ormen Lange field.

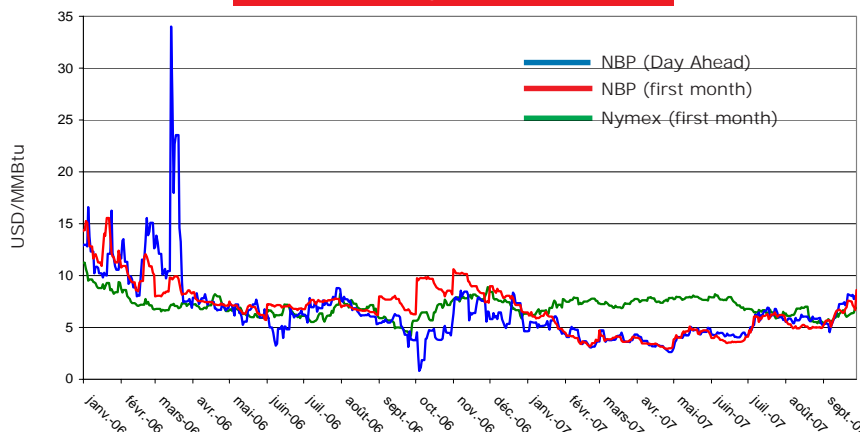
In average, daily demand progressed by nearly 10 Mm3 in September 2007, to stand at nearly 198 Mm3/d against 188 Mm3/d in the previous month.

In addition, the average demand level in September 2007 compared to the

demand level during the same period in 2006 showed a significant decrease estimated at nearly 25 Mm3/d. Thus, Day Ahead prices were in average lower by nearly 7.15 pence/th compared to those registered during the same period last year.

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**UK and US price evolution**



## EVENTS

**Medgaz shareholding****Conditions for increasing Sonatrach stake in Medgaz, suspended**

On 30 January 2007, Sonatrach lodged an appeal with the CNE, the Spanish regulator of the energy sector, to increase its share capital in Medgaz.

The appeal has been lodged following Total and BP withdrawal from Medgaz, as both companies, with a total share of 16 %, could not win a gas sale contract to sell gas through the gas line.

On 8 May 2007, the National Commission for Energy CNE said it has authorised Sonatrach to increase its voting rights, corresponding to the 16 % additional participation in Medgaz and the decision is conditional to a set of measures granting the CNE a right to veto all decisions taken in Medgaz.

The CNE estimated that by increasing its share capital in Medgaz, Sonatrach would benefit from a significant influence both as a shareholder and member of the Board of Directors. The conditions imposed aim to make Sonatrach voting rights corresponding to the 16 % stake recently acquired, inoperative.

Therefore, early June 2007, Sonatrach lodged an appeal with the regulator to cancel the restraining conditions. Sonatrach was backed

# MEDGAZ



by its four partners (Cepsa, Iberdrola, Gaz de France and Endesa) in Medgaz, company under the Spanish law in charge of the construction of the sub-sea gas line running between Algeria and Spain.

Indeed, Medgaz on its turn has submitted an appeal to the Spanish Ministry of Industry over the conditions imposed by the CNE.

On 19 July 27, The Spanish Ministry of Industry has rescinded the conditions placed on Algeria's state-owned Sonatrach.

**12<sup>eme</sup> Sommet des Dirigeants de l'Industrie du Gaz**

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Concerning security of market, Mr. Rahal underlined that the prospects of growth and consolidation of gas demand, both in the emerging and mature regions, are appreciable. However, access to the market for the traditional gas suppliers of Europe is still subject to:

- (i) limited possibilities of portfolio diversification of the "clients-markets" due to a lack on interconnections, absence of a code for a unique network and also mergers between gas and electricity operators, reducing direct sales to electricity operators;
- (ii) an asymmetrical treatment on non European affiliates;
- (iii) incumbents weight.

Mr. Rahal rounded off his presentation pointing out that the traditional suppliers should be innovative in order to overcome the issues relating market security on the example of Europe which has proven record on setting up and implementing the necessary instruments to ensure the security of its gas supplies.

**New system for remuneration****Information and training days at the Marketing Activity**

Within the frame of the new remuneration system, the Marketing Activity organized on 24, 25 and 26 September in Algiers, Information and Training days for the senior executives.

Animated by the consultant Towers Perrin and supported by the task force Remuneration, set up by the Marketing Activity, the workshops aimed to rouse the awareness of the management responsible of positioning within the Marketing Activity about the importance of positioning their staff in the R & C model, and also enabling them to:

- Better understand the "Roles and Contributions" model
- Get used to the objectives and principles of the New System of Remuneration
- Have a better approach of the process of positioning in the R&C model.

During the workshops, the Marketing Activity management dealing with positioning, while getting used to the



definition of the different roles and referential of contributions, were able to also get familiarized with the use of the required instruments relating to the positioning. Thus, they could simulate logical progress of behaviours in the levels of contributions for each axis of contribution.

The positioning operation in the R & C model is due to start at the Marketing Activity in October 2007. The workshops have been beneficial from several points of view, considering the interest the relevant managements have expressed on this occasion.

**Shipping****Naming ceremony of Sonatrach first VLCC**

The VLCC naming ceremony took place on 19 October 2007, in Nantong - China. The supertanker, named "MESDAR" after the oil field in Hassi-Messaoud, is an acquisition of the 50/50 joint venture New Ocean Shipping Venture" (NOSVL) created on 13 June 2006 between Sonatrach Petroleum Corporation (SPC) and Kawasaki Shipbuilding Corporation (KSC).

The construction of the vessel has been undertaken in the Sino-Japanese shipyard NACKS, a joint venture between China Ocean Shipping Company (COSCO) and Kawasaki Heavy Industries Ltd.

The vessel will be delivered on 2nd November 2007, namely, two months ahead of the expected date. The acquisition of the new vessel is part of the development scheme of the Sonatrach group fleet aiming at ensuring alone or in partnership, the transport of 30 %, then 50 % of its crude oil and condensate exports by 2010 and 2015, respectively.

**Gas outlook***(continued from page 2)*

On Zeebrugge market, Day Ahead prices and NBP prices showed a similar trend. Thus, opening the month around 31.7 pence/th, Zeebrugge Day Ahead prices closed at nearly 37.4 pence /th with a positive differential of the average prices compared to NBP, estimated at nearly 2.24 pence/th. The differential at the advantage of Zeebrugge is due to:

- Decrease of UK supplies further to the scheduled shutdown of the Interconnector (from 3rd to 16th September 2007).
- Shutdown for maintenance of Zeepipe, linking Norway to Zeebrugge.

Indeed, in September 2007, the Interconnector operated mainly in forward direction and only once in reverse flow. The situation is due to the availability of ample gas volumes on the UK market and attractive prices on Zeebrugge. In addition, the net average flow registered in September was 60 GWh/d against 95 GWh/d in the previous month, i.e, a decrease of 36 %. The decline is linked to the planned shutdown of the Interconnector for maintenance for 14 days.

NBP First Month prices (October 2007 contract) also climbed in comparison to the previous month by an average of 7.1 pence/th. Opening the month at nearly 28.10 pence/th, First Month prices climbed significantly and closed at 33.10 pence/th.

Similarly, First Month prices on Zeebrugge registered in average a level of 33.3 pence/th against 28.7 pence/th in the previous month, namely, up by nearly 4.7 pence/th.

Forward prices showed a bullish trend for Q4-2007 contract, closing at 40.25 pence/th. The same trend was registered for Q1-2008 prices which closed at 46.65 pence/th.

**USA**

In September 2007, US First Month natural gas prices (October contract) declined by nearly \$ 0.08 /MMBtu compared to the previous month then stood in average at \$ 6.11/MMBtu. Thus, opening the month at \$ 5.46/MMBtu, First Month prices (October 2007 contract) registered a bullish trend and reached a level of \$ 6.65 /MMBtu, further to threats over Ingrid and Jerry hurricanes which provoked a decline in production by 8 % in the Gulf of Mexico. By the end of the month, prices slightly fell and closed at \$ 6.42/MMBtu.

Spot markets also registered the same trend as stock markets. Gas prices slightly decreased because of a declining demand due to mild temperatures. Indeed, spot prices in the Gulf of Mexico region (Henry Hub) stood at \$ 6.11/MMBtu in average.

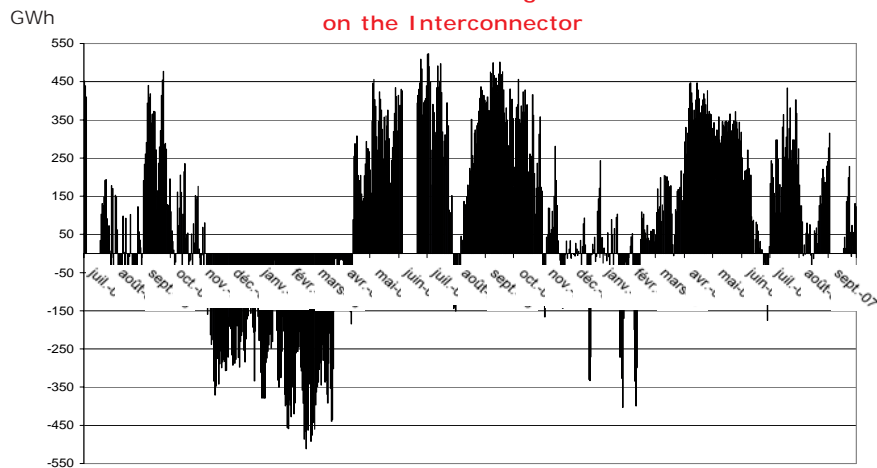
**Stock markets:**

£/\$ parity in September 2007, showed a slight increase and closed at \$ 2.03 against \$ 2.01 at the opening.

**CO2 market**

Co2 quota prices for the first phase (December 2007 contract) maintained their bearish trend and closed at 0.08 Euro/EUA against 0.10 Euros/EUA in the previous month, whereas quota prices for the second phase ( 2008 and 2009 contracts) were slightly up and closed in average at 20.96 and 21.50 Euros/EUA, respectively.

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

**In brief****MEXICO****Decrease of Oil output in 2008, confirmed**

The Mexican company Pemex, has projected a decrease of 0.7 % of oil output in 2008 in Mexico, on the basis of the current level of 3.14 MB/D (compared to an average of nearly 3.7 MB/D in 2006). The decline is due to the accelerated depletion of Cantarell field which provide nearly 60 % of the national production. This year, its output should reach 1.53 MB/D, namely, decreasing by 15 % in comparison to 2006.

**CHINA****Increase by 15.3 % of oil imports over the January -August 2007 period**

According to the latest customs statistics, Chinese crude oil imports reached 110.4 MT during the 8 first months in the year, representing an increase of 15.3 % over the same period in 2006, whereas oil products imports fell by 5.7 % over the same period and reached 24.28 MT.

**IRAQ / JORDAN****Start-up of Iraq oil supplies with one year delay**

Jordan has received its first Iraqi oil supplies under the agreement signed in 2006 between the two countries and which execution has been delayed due to technical and security reasons. Indeed, Iraq has conveyed by road some 166 tanks of oil from Kirkouk to Jordan. With an initial volume of 10 000 B/D representing 30 % of Jordan daily needs, the supplies should reach progressively 30 000 B/D. Crude oil will be sold at a preferential price, i.e 18 dollars below market price. Jordan depended entirely on Iraqi oil before the US invasion in 2003, with imports totalling 5.5 MT half of which was free of charge and the other half, sold at preferential price.