

## Oil outlook

By Imen-Nidhal Boudinar

In November crude oil prices jumped by \$ 10/Bbl rocketing to their historical highs nearly hitting \$ 100/Bbl for the WTI. In addition, November oil prices registered a high volatility induced by participants trading in futures markets. The rebound in oil prices has been spurred by the combination of several factors, of which:

- Persisting downward trend of US distillate stocks.
- Surge of heating fuel prices due to a snap of cold weather in the North East of the USA
- Dollar declining against the Euro reaching record high of 1.48 by the end of November.
- Bad weather conditions in the North Sea inducing the preventive shutdown of nearly 9 oil and gas platforms in Norway
- Resurgence of violence in Nigeria with a new attack against the Forcados oil terminal inducing a cut in Shell production by nearly 500 000 B/d. In addition, several factors have hampered the upward trend in prices through November:
- Anticipated increase of OPEC output during the 5 December Meeting in Abu Dhabi
- IEA estimates trimming world oil demand in 2007 and 2008.
- Fears over a slackening US economy and its negative impacts on world oil demand
- Recent firming up of the \$ against the Euro.

### Highlights

**Long term Oil transactions up by 63 %**

Extreme volatility of oil prices and the bullish trend in the market pushed world long term oil transactions by 63 % over the first 9 months in 2007 compared to the previous year.

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## Shipping

### Ship management at the center of our concerns

Hyproc Shipping S.A. organized from 12 to 13 December 2007 in Oran, a Seminar followed by a brainstorming on "Ship management" regrouping the sailing and coastal teams of the company.



Sonatrach senior and high executives, the CEO of the Holding SVH the CEO of the affiliates STH, SOTRAZ, SOMIZ, ANDALUS and SAFIR, were in attendance at the meeting. As a reminder, Hyproc Shipping S.A. which is a wholly-owned affiliate of the Group, reporting to holding SVH, has been entrusted by the Board of Directors to modernize its management in order to meet efficiently the ever increasing requirements of the international shipping market.

Mr. Larbi Cherif, General Director of Holding SVH, speaking on behalf of The Marketing Activity Vice

President, has recalled the objectives of mid and long term hydrocarbon products trading (oil, refined products and gas) on international and domestic markets. Protecting captive market shares and capturing new remote ones, entails an active and qualitative participation of Hyproc shipping "instrument", therefore, the orientations of the Marketing Activity Vice President and the Board of Directors of Holding SVH are entirely grounded as they seek to manage the company in a modern and state-of-the-art way through the standardization of the "one ship-one management" technique to all the units of the fleet. (Continued on page 3)

## OPEC

### Production ceiling maintained

During their meeting held in Abu Dhabi, United Arab Emirates, on 5 December 2007, the OPEC countries decided to maintain their current production ceiling, emphasizing their determination to take every measure deemed necessary to keep market stability through the maintenance of supply and demand in balance.

Having reviewed the oil market outlook, including the overall demand/supply projections for the year 2008, in particular the first and second quarters, the Conference observed that market fundamentals have essentially remained unchanged, with the market continuing to be well supplied and commercial crude/product stocks remaining at comfortable levels in terms of days of forward cover. At the same time, however, the Conference observed, with concern, that world oil prices remained volatile, in major part due to the perception of market



tightness by market players, exacerbated by non-fundamental factors, including the heavy influx of financial funds into commodities and speculative activity in the markets, while geopolitical developments have contributed to price volatility.

Given the need for extreme vigilance in assessing the market during the coming months, the Conference decided to convene an Extraordinary Meeting in Vienna, Austria, on Friday, 1 February 2008. The Conference also confirmed that its next Ordinary Meeting will be held on 5 March 2008, in Vienna.

The Conference unanimously agreed that Members Angola and Ecuador should have a production allocation of 1.9 mb/d and 520,000 b/d, respectively.

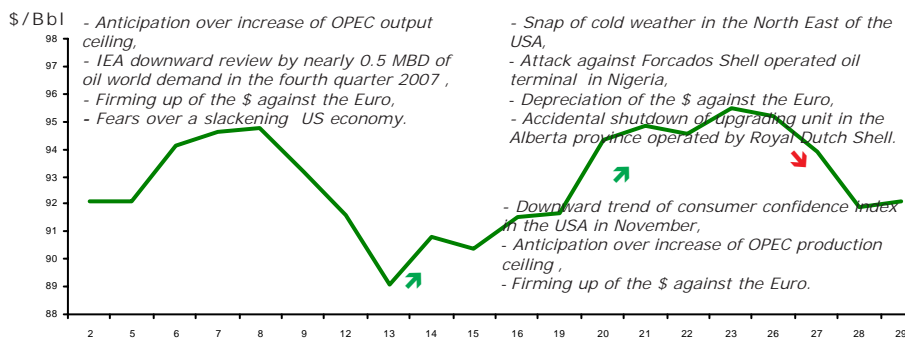
**Oil outlook**

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Transactions reached 172.1 million contracts, namely, 630 MBD, whereas Brent transactions on the ICE increased by only 39 %, i.e, 44.7 million contracts (164 MBD), WTI US crude transactions doubled to 38.3 millions contracts (140 MBD). Strong presence of traders in OTC transactions on the ITC. It includes production, refining and oil trading companies. Indeed, in the third quarter 2007, traders achieved 55.9 % of the OTC transactions on the ITC against only 44 % over the same period in 2006. Banks and financial institutions maintained their share on the ITC which has remained stable at nearly 21 % over several years, whereas Hedge funds share dropped to 23 % in the third quarter 2007, compared to 35.6 % in July- September 2006.

**India: Indian refiners invest in heavy oil processing**

Essar Oil has approved a \$ 6 billion investment plan for the expansion of Vadinar refinery in India with a current processing capacity of 150 000 B/D to be lifted to 210 000 B/D. The new installations will treble the capacity to 680 000 B/D and process a wide range of crude oil including heavy oil. The works should end by 2010 and the refinery will have a Nelson complex index of 12.8 and comply with Euro IV et Euro V environment standards. Essar is not the only



Indian company heavily investing in refining. Reliance industries is currently constructing a second complex of \$ 6 billion on Jamnagar site, contiguous to the existing constructions having a capacity of 660 000 B/D, the complex should process 580 000 B/D by mid 2008, and crude with a 24 °API.

**Brazil Golfinho output increased**

The Brazilian state-owned company Petrobras has announced FPSO barge operations within the frame of the second development phase of its Golfinho offshore field in the Espirito Santos basin. The new installation owns a processing capacity of nearly 20 000 B/D of light oil (28 ° API). Linking the two other producing fields by the end of the year will gradually lift output to 70 000 b/d by mid 2008, increasing production to 200 000 b/d offshore Espirito Santo, against a current 120

000 b/d. Brazil should produce nearly 1.8 MBD of liquid hydrocarbons in 2007.

**Libya: upgrading of Oxy contracts**

After the Italian company ENI, the US group Occidental Petroleum (Oxy) has announced signing agreements with the Libyan company National Oil Corporation (NOC) to upgrade several existing oil contracts. The new agreements, which span over 30 years, relate to the study and implementation of redevelopment programmes of the major deposits and exploration in the prolific Sirte Basin. The group has announced that over the next five years, \$ 5 billion will be invested in the fields having recoverable reserves of 2.5 billion bbls. The overall production would treble to reach 300 000 b/d, against 100 000 b/d currently. The projects will significantly contribute to Libya's objective to reach 3MBD.

**Gas outlook**

By Kamel Tichouchai

**North Europe**

Natural gas Spot prices in the UK registered a strong increase in November 2007, reaching an average of 48.5 pence/th (\$ 10.1/ MMBtu).

Thus, opening the month at nearly 38 pence/th (\$ 7.9/MMBtu), NBP Day Ahead prices gradually firmed up and reached 58 pence/th (\$11.9/ MMBtu) by mid month then dropped and closed at 45 pence/th (\$ 9.3/ MMBtu) by the end of the month.

The rise in prices is due to a high gas demand in the UK spurred by temperatures dropping lower than last month records and also due to disruptions of gas supplies on the UK network gas transport (NTS).

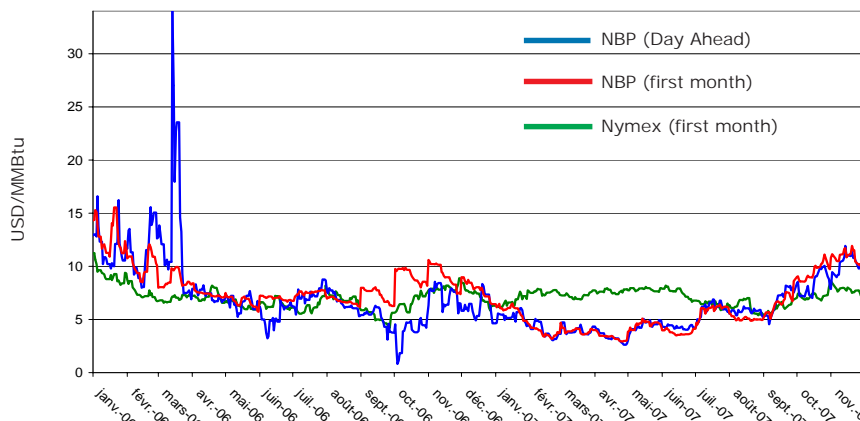
In average, daily demand has increased by 46 Mm3 in November then stood at nearly 312 Mm3/d against 266 Mm3/d in the previous month.

In addition, a comparison of the average demand level in November

2007 and demand registered for the same period in 2006 shows an increase of nearly 13.5 Mm3/d. However, Day Ahead prices are in average higher by nearly 10.5 pence/th (nearly \$ 2/MMBtu) over those registered last year during the same period.

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**UK and US price evolution**



## Events

### East-West motorway- bitumen supplies

#### **Signing of agreements between Naftal, COJAAL and CITIC-CRCC**

Within the frame of the construction of the East-West motorway, Naftal concluded two agreements for the supply of bitumen. The first agreement was signed with the Japanese consortium COJAAL on 21st November 2007, and the second agreement was concluded with Chinese Group CITIC-CRCC on 28th November 2007 in presence of Naftal CEO and the General Director of Holding SVH, General Director of the projects and representatives of the workers.

- The Japanese consortium COJAAL is in charge of constructing the eastern section of 399 in length, requiring 330 000 MT of bitumen to be completed in 2 years from 1st January 2008 to 31st December 2009.
- The Chinese group CITIC-CRCC will construct the central section which covers 169 km in length. The quantity of bitumen required for this section is 180 000 MT and will last two years from 1st January 2008 to 31st December 2009.

### LNG market

#### **Sonatrach present at World LNG Summit**

**Sonatrach Marketing Activity attended the work sessions of the World LNG Summit organized by CWC Group from 3rd to 6th December 2007 in Rome and addressed the theme of : "The opportunities for securing the supplies and the challenges for securing the markets : The point of view of a producer". The main points of the presentation dealt with:**

Review of the historical fundamentals which contributed to the development of the gas industry and constitute the present foundation of the market structure. Long term contracts have been one of the corner stone of this industry and have ensured long term investments with a fair risk sharing between the producers and buyers. The take-or-pay clause, a stable regulatory environment and the governments commitment in different projects have also highly contributed to the development of the gas industry. Due to the lack of world price reference, natural gas prices have always been negotiated between the sellers and the buyers who have aimed to cover the costs of their investments, maximise the value of their products and maintain competition of natural gas price against other alternate energy, respectively.

Today, although the gas industry has remained highly capitalistic it has undergone drastic changes since late 90's with the end of the monopolies, the emergence of new majors following mergers and takeovers and also the expansion of LNG trading inducing price interaction between regional markets. The change of environment has brought about a higher risk for the different players. Thus, one of the main changes operated in the gas market is the development of LNG trading which has trebled its volumes over the period 1990-2006, shifting from 72 bcm /year to nearly 211 bcm/year. According to analysts, the growth will be far more important for LNG share to reach nearly 40 % of natural gas

global market.

Growth has created interaction between prices in different regional markets inducing trading patterns less rigid than the former models and specifically with the introduction of new concepts of deviation and margin sharing. Therefore, the point-to-point model is less and less envisaged as it constitutes a constraint to the different actors who seek to optimize LNG value. Like the other LNG producers, Sonatrach has already implemented this pattern through its position on the Isle of Grain terminal (UK). Indeed, in 2007, Sonatrach used only 16 % of its capacity in this terminal against 75 % in 2006. Most of the LNG dedicated to this terminal has been deviated towards the US and Asian markets with most attractive margin levels. Thus, Sonatrach's future production will not be exclusively dedicated to a single market but will be dedicated to the most valuable. So, the real question today, is this one: is the challenge securing supply or securing markets. The proliferation of regasification terminal projects in the different markets and their utilization rate offer ample access opportunities. The US and Spanish terminals are a good example insofar as only 40 to 44 % of the global capacity has been used in 2007. However, the situation is entirely different in the upstream where most of the liquefaction projects have been delayed due to the rise in EPC contracts costs. In the future, the increase in cost prices will inevitably lead to an increase of natural gas prices. As a result, access to LNG presents obviously a real challenge for some operators. (continued on page 4)

### **Ship management at the core of the concerns**

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In his closing address, Dr. Chawki Mohamed Rahal, has expressed his entire satisfaction with Hyproc launching its revamping process by organizing the brainstorming dealing with ship management, a key word for Hyproc functioning and has confirmed that Sonatrach Group ambitions to back the company in its task.

He congratulated all the participants and expressed his wish for other meetings to address other topics as much important and promised a strong participation of the Marketing Activity executive staff in the future.

He also recalled the constraints linked to the navy staff tasks to whom he expressed his gratitude. The meeting has served as a platform for the exchange of fruitful information between the executive staff and the shipping professionals and has shown the high degree of commitment between the members of the corporation whose activities offer few opportunities for meeting.

The brainstorming on ship management consisted of five workshops monitored by Ernest & Young Counsellors.

The work sessions dealt with:

- Improving vessel-earth communication  
Improving vessel performance
- The workshops rounded off the sessions and submitted proposals and recommendations for the company to define the objectives and implement solutions.

#### **Main themes**

- « "Introduction and prospects »  
M.Mohammedi, PDG
- « Ship management concepts »  
S.L.Ghomri DG/  
Second Captain A.Charef
- « TMSA & Risk Assessment »  
A.Benali /  
Commanding officer N.Behlouli
- « Marketing Vision of Sonatrach Marketing Activity »  
COM
- « Situation & Performance of 2007 Fleet »  
M. Boukerche /  
A.Ziri / K.Benariba
- « Reporting & Communication -  
Board-Coast Commanding  
Officer »  
L.Relimi
- « Authority & Responsibility-  
Commanding Officer »  
M.Moualid

**Gas outlook**

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On Zeebrugge, Day Ahead prices registered the same trend as NBP prices. Opening the month around 38.5 pence/th, Zeebrugge Day Ahead prices closed at nearly 45 pence/th with a positive differential of the price average compared to NBP estimated at nearly 0.75 pence/th. Increasing prices are mainly due to dropping temperatures and fears over uncertain supplies from Norway and the North Sea.

Indeed, in November 2007, the Interconnector operated mainly in forward direction (with a positive differential of Zeebrugge spot prices compared to NBP, estimated at nearly 0.75 pence/th). In November, the Interconnector registered 12 changes of direction. In addition, the average flow registered was 63 GWh/d against 196 GWh/d a month earlier, namely down by 67.8 %.

First Month NBP forward prices (December 2007 contracts) showed a significant increase in comparison to the previous month and reached in average nearly 52.2 pence/th (\$ 10.8/MMBtu). Opening the month around 52 pence/th, First Month prices rose considerably and reached 57.8 pence/th (\$12/MMBtu), then dropped and closed at 46.4 pence/th.

Similarly, Zeebrugge First Month prices reached in average 52.1 pence/th (\$ 10.8/MMBtu) against nearly 46.6 pence/th (\$9.5/MMBtu) in the previous month, namely a 5.5 pence/th increase (\$1.3/MMBtu) compared to a month earlier.

Futures prices were in the upward trend for Q1-2008 and Q2-2008 ICE contracts with an average of 54.80 pence/th (\$ 11.3/MMBtu) and 45.3 pence/th (\$ 9.4/MMBtu), respectively.

**USA :**

In November 2007, US Natural gas prices maintained their upward trend increasing by \$ 0.7/MMBtu, namely an average level slightly below \$ 8/MMBtu. Thus, opening the month at \$ 8.021/MMBtu, first Month prices (December 2007 contract) reached \$ 8.64/MMBtu then fell and closed at \$ 7.20/MMBtu at the end of the month.

The rebound in prices is mainly due to increased demand following the winter blast especially in the North East.

Spot markets and stock markets registered the same trend. Indeed, spot prices in the North East registered in average \$ 8.00/MMBtu whereas prices in the Gulf of Mexico (Henry Hub) stood in average at \$ 7.12/MMBtu.

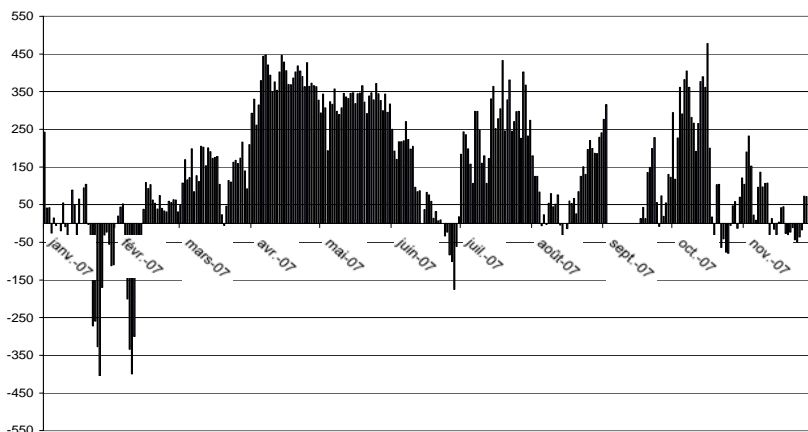
**Stock market :**

Reaching a historical record on 7 November (1 \$ against 2.108 \$), the E/\$ parity registered successive decreases and closed at 2.056 by the end of November.

**Co2 market :**

CO2 Quota prices for the second phase ( December 2007 contract) continued their downward trend then closed at 0.01 Euros /Ton against 0.09 Euros /ton in the previous month, whereas quota prices for, the second phase ( 2008 and 2009 contracts) showed a slight increase and closed in average at 22.59 and 23.12 Euros/ton, respectively.

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



**Sonatrach present at World LNG Summit**

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However, in order to optimize LNG value, producers seek more and more the access to natural gas downstream through leasing regasification capacity on different terminals. This new situation has created new relationships between the producers and the consumers, a relation more partnership-oriented than the classical sale/ purchase relation.

To round off, to adapt to the new developments, Sonatrach has implemented an approach centred on a scheme offering it more flexibility and arbitrage opportunities between different markets to add value to its LNG. Such a scheme plan has already been implemented through leasing of regasification capacity in Isle of Grain (UK) and shortly in Montoir (France) and also leasing of transport capacity in Medgaz and Galsi gas line projects.

In addition, the Conference has unanimously admitted that LNG access is a real challenge for most of the operators due to rising costs of EPC contracts. In this regard, no liquefaction project has been announced for the mid term.

**In brief**

**Indonesia intends to privatise Pertamina in 2012**

Indonesia intends to privatise Pertamina in 2012 via takeover and optimise the company's portfolio. The Indonesian company seeks to sell part of its assets especially in the real estate so as to concentrate on its core activity. Some Pertamina affiliates would sell part of their capital segment as from 2008 or 2009.

**The world exploration-production investments should be up by 11 % in 2008**

According to the latest Lehman Brothers yearly study on the major international oil and gas companies, investments in exploration-production should register a sustained growth in 2008 (11%) for the sixth consecutive year. Deep water offshore works should contribute to the expected growth by a total level of \$ 369 billion. The study covers 344 companies. The latter have drawn their 2008 budget on a hypothetical price of 68 dollars per barrel.