Reuters

A new chance for peace

Boosting oil production in Iraq remains crucial for peace and increased market stability

The changes which have taken place in Iraq this year will shape the country for decades to come. January saw the first democratic elections in over 50 years, and in April the President and Vice-Presidents of the country were announced along with a new cabinet representing all the major groups in Iraqi political life, including several women. This was followed in May by the announcement of one of the country's most important portfolios — that of Minister of Oil — which went to Ibrahim Bahr Al-Ulum.

Bahr Al-Ulum is no newcomer to the portfolio, having served as the interim Minister of Oil from September 2003 to mid-2004 as a member of the Iraqi Governing Council. A petroleum engineer by trade, he has substantial international experience, and direct experience of OPEC affairs gained during his interim post.

In spite of these positive developments, Iraq still faces incredible challenges. The lack of security due to constant attacks on innocent civilians continues to threaten the country's stability. In the aftermath of the US-led invasion in March 2003 the basic infrastructure of Iraqi society collapsed to such an extent that the new government is facing an extremely difficult situation which could take years to address.

It has been and could still be a long, hard road to peace and stability — the two prerequisites for a meaningful delivery of any tangible benefits to the Iraqi people. Although the interim government's mandate is focused on institutionalizing democracy from the creation of a national constitution to the holding of general elections, Iraqis expect that peace and stability be addressed at the same time as other pressing needs, such as reliable power and water supplies, basic education, medical care, employment and personal safety.

Delivering all these necessities will depend to a large extent on the fortunes of the Iraqi oil sector, and here, timing will be crucial. Investment is much needed in energy infrastructure to repair years of neglect thanks to sanctions and more recently sabotage, but at the same time oil represents the country's best chance to ensure economic and social stability.

Iraqi output has dwindled to around the 1.8 million barrels per day level but with the world's second largest reserves, production of 6m b/d is a strong possibility and some forecast even more beyond that. However, the country's oil potential will not be realized until the necessary repairs to installations and pipelines are successfully carried out and the twin blights of smuggling and corruption are effectively tackled.

Bahr Al-Ulum has vowed to do something about these issues, promising to "fight corruption and boost production", recognizing that until these concerns are resolved any substantial foreign investment in the country's oil industry will prove elusive.

Challenges aside, Iraq's achievements in these past few months are welcomed by its fellow OPEC Member Countries, not to mention the global energy industry. These recent developments will hopefully lead to increased stability and peace for Iraqi citizens and instill confidence amongst oil market participants and investors.

With world demand for crude growing so fast, Iraq is now well-placed to realize its potential and return to its rightful role as a reliable oil supplier, for the benefit of the world at large but more importantly its own population who have a right to stability and peace.

OPEC bulletin

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Cover
This month's cover shows an Iraqi worker at the Basra south refinery (see Feature on pp4–9).
Photo: Reuters

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Membership and aims
OPEC is a permanent, intergovernmental Organization, established in Baghdad, September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises the five Founding Members and six other Full Members: Qatar (joined in 1961); Indonesia (1962); SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); and Nigeria (1971). Ecuador joined the Organization in 1973 and left in 1992; Gabon joined in 1975 and left in 1995.

Contributions

The OPEC Bulletin welcomes original contributions on the technical, financial and environmental aspects of all stages of the energy industry, including letters for publication, research reports and project descriptions with supporting illustrations and photographs.

Editorial policy

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IRAQ to fight corruption and boost production — new Oil Minister

Dr Ibrahim Bahr Al-Ulum has been named as Iraq's Minister of Oil in the new democratically-elected government which was sworn in in April, replacing Thamir Ghadhban who held the portfolio for a period of time under the interim government after the US-led invasion of Iraq.

Bahr Al-Ulum is familiar with the job, also having served as the former Minister of Oil from September 2003 to June 2004 in the post-invasion Iraq period.

In assuming his role, Bahr Al-Ulum promised to boost the country's oil exports back to the levels of a year ago, at which time exports were about 1.75 million barrels per day, to re-assert its role in OPEC, the BBC reported.

"We will work towards increasing production with the aim of reaching previous output levels," he said after his appointment was confirmed.

"Our new motto in the Ministry is fight corruption and boost production," he said.

Boosting production

His hopes for a production boost were not just for export purposes, he explained, but to help ease the shortage of fuel on the domestic market due to sabotage and smuggling.

"We will try to alleviate the suffering of the Iraqi people by putting an end to these shortages," he said.

A return to former production levels would also put Iraq back at the heart of OPEC, according to Bahr Al-Ulum.

In the 1970s Iraq produced an estimated 3.5m b/d and some experts say that, with the world's second largest reserves, it has the potential to produce 6.0m b/d. Before the US-led invasion of Iraq which ousted Saddam Hussein, daily crude oil production was around 3m b/d.

Above: A member of an Iraqi security force conducts a joint security boat patrol against oil smugglers in Shat-al-Arab waterway, which leads to the port of Umm Qasir.

Since the toppling of Saddam Hussein, Iraq's oil pipelines and installations have come under attack from saboteurs in the country, which has resulted in varying monthly production figures which were 1.8m b/d in March, according to OPEC figures.

The new Minister has said that his top priority would be to protect the country's pipelines and oil installations from saboteurs who were causing losses worth billions of dollars to the country.

Bahr Al-Ulum, an American-trained petroleum engineer has also said his Ministry wants to "build strong relations with international (oil) companies to increase production to between 5m and 6m b/d by the end of this decade."

Challenges ahead

But he faces a daunting challenge to rebuild Iraq's oil industry, and rectify the petroleum sector. This will be central to the success of Iraq's new government, which relies on oil exports for most of its revenues, the *Wall Street Journal* reported.

The continued violence and insecurity in the country have prevented long-planned repairs on oil installations and restricted access by engineers to facilities damaged by fresh insurgent attacks, officials have said.

Foreign contractors, hired with funds from the Ministry

Left: Iraqi fire fighters extinguish a blaze at a pipeline in Basra.

Right: A British army patrol in Basra province, southern Iraq.

of Oil and American reconstruction aid, routinely are not able to finish their work, which makes operating in the country difficult, potentially threatening foreign investment.

As to the level of involvement of international oil companies in developing Iraq's oil resources, Bahr Al-Ulum was previously outspoken about the need for foreign investment in the sector when he held the post before, and at the time he had invited international oil companies to go to Iraq and make deals, according to the *Wall Street Journal*.

A worker carries out routine maintenance on an oil pipeline near Basra.

Tackling corruption

As far as confronting the corrupt practice of selling fuel on the black market, the Iraqi Ministry of Oil recently announced that it had sacked more than 450 employees suspected of doing this, Lebanon's English-language *Daily Star* newspaper reported.

The move is the most recent in a series of measures designed to tackle corruption within the industry, as well as to try to break smugglers who take cheaper, subsidized petroleum products out of Iraq and sell them in neighbouring countries; this has lead to petrol shortages since the invasion two years ago. Drivers have often had to wait hours to fill up in Iraq, some sleeping overnight in their cars waiting for stations to open.

The Ministry of Oil's General Inspector, Ali Muhsin Ismael, said the government's inability to provide a secure environment was partly responsible, but added that his Ministry accepted some of the blame for the situation.

"There is still corruption in the Oil Ministry and this cannot be (completely eradicated)," Ismael said.

He said that criminals used a number of methods to defraud the industry, including the manipulation of fuel pump gauges and incorrect measurement of tankers' contents — both of which could result in an undeclared surplus that could be sold on the black market.

Positive developments

While the country obviously faces serious challenges, it is recognized that the swearing in of a democratic government is a positive step for Iraq to begin to seriously address the problems it has encountered over the past two years and try to re-build the country.

Despite the problems Iraq has experienced with its production levels over the last 14 years, since the 1991 Iraqi invasion of Kuwait to the US-led invasion of Iraq, other Member Countries within OPEC have managed to increase their production to make up for any shortfalls.

As the President of the OPEC Conference and the Kuwaiti Minister of Energy, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, said at the last Conference held in Isfahan, Iran, in March: "We have been confronted with the Iraqi situation for 14 years now and we have always found a solution, and the right situation for the country within OPEC."

"If Iraq's security problems were solved, the country can produce 2.8m b/d, and hopefully that will be the case, and that they will be back as OPEC-11 with improved security," he said.

Quarterly Iraqi oil update by US State Department

Attacks on pipelines in the north of Iraq combined with water pressure maintenance problems in fields in the south are keeping the country's oil production levels significantly below the 2.5 million barrels/day seen last September. These details were revealed in the latest quarterly update from the US State Department to the US Congress released by the Bureau of Resource Management.

It said exports of crude in the first quarter of this year had averaged 1.4m b/d compared with 1.6m b/d in September last year, but unchanged from levels from the last report submitted in January.

Despite increases in crude oil prices, the drop in production and exports was making it "more difficult" for Iraq to close the almost $5 billion gap between planned expenditures and actual revenues in the current financial year.

The report said production and exports have been limited by attacks on the northern pipelines (300,000 b/d) and pressure maintenance in the southern fields (200,000 b/d). To address the latter, Iraq Relief and Construction Fund resources were being used on projects relating to water pressure, through the construction of additional gas-oil separation plants and the rehabilitation of the Rumalia Field water tables to improve pressurization and increase oil production.

Infrastructure project progress

The report noted that $47m has been added to the allocation for oil infrastructure construction projects this year bringing the total to $1.697bn. The extra money was re-allocated from both the Emergency Supplies of Refined Petroleum Products and Electrical Generation funds.

Since the last report in January, 82 oil infrastructure projects worth $871m had been negotiated and 55 projects worth $323m were under negotiation. Delays had arisen, the report said, because of insufficient contracting staff to carry out work and a change of contractor in the south.

During the first three months of this year, the construction and commissioning of the 100,000 b/d Bai Hassan South gas-oil separation plant had been completed and work has begun on a revamp of a similar a facility at Bai Hassan North. This unit will process 100,000 b/d of wet crude compared to the current 45,000 b/d. The project is expected to be completed in December.

Meanwhile, electrical problems and water pipeline failures continue to delay the commissioning of the Qarmat Ali cluster pump station project where two final units are still not on stream. An "approved task order" has now been issued to repair the 48-inch pipelines that transport water to the stations and work is "tentatively" scheduled for completion in December.

Elsewhere, procurement work has begun on the long-lead equipment for the natural gas liquids/liquefied petroleum gas project in the south, designed to increase LPG output from the current 1,200 tons per day to 3,000 t/d and supply additional dry gas to the pipeline system. The report noted that this is the largest project in the programme valued at $135m and is expected to be completed in late 2006.

In addition, $206m worth of vehicles and heavy equipment had been purchased this year and, as of the beginning of March, 23 per cent of the 1,102 pieces of equipment that have been received at Umm Qasr port were being distributed to the various operating companies of the Ministry of Oil. Also in the first quarter, the Emergency Response Pipeline Repair Organisation repaired four pipelines and $9m has been set aside to support this effort through the end of May.

Several projects are expected to be added during the second quarter of this year, including: engineering assistance and critical spares for the North Gas second gas train; and engineering assistance and critical spares for the East Baghdad field. Also, work will continue to "negotiate and definitize" the remaining projects worth $323m, while construction work on the projects listed below would begin:

South: NGL/LPG projects, $135m; well workovers, $37m; assessment and repair of the Qarmat Ali water pipeline, $26m.

North: Pipeline crossing of the Kirkuk canal/Al Fatha river, $66m; repair of two gas-turbine generators, switchgear, $6m; two gas-oil separation plants, $16m; two gas compression plants, $10m.

Separately, Norway's Det Norske Oljeselskap (DNO) said in April that it had signed a memorandum of understanding with the Iraqi Ministry of Oil that would "serve as a framework to define areas of mutual interest and co-operation." These would include: training and technology transfer; petroleum consulting and services; technical studies; and other areas. DNO Chief Executive Office, Helge Eide, said: "DNO is very pleased with this co-operation with the Ministry of Oil in Baghdad, which is considered by DNO to be a positive step towards a strong foothold for the company in Iraq."

Photo: Qatar Petroleum

Stronger together

Photo: Qatar Petroleum

Last month Qatar hosted the first annual meeting of the Officials of Petroleum Research and Development (R&D) Institutions in OPEC Member Countries. The group aims to increase R&D collaboration among Member Countries and eventually launch co-operation in technological areas.

Qatari Governor for OPEC and Senior Adviser to the Second Deputy Premier, Minister of Energy & Industry, Abdulla Salatt (l), with OPEC Acting Secretary General and Director, Research Division, Dr Adnan Shihab Eldin, who said the meeting heralded the start of "an effective ongoing process of collaboration in R&D."

In an opening address to the meeting, OPEC Acting Secretary General and Director, Research Division, Dr Adnan Shihab Eldin, said that co-operation in R&D would be focused “on long-term strategic technological research areas, such as oil to hydrogen, oil to power, clean fuels, carbon management, enhanced oil recovery and gas to liquids.”

The meeting was held in Doha and the Qatari Governor for OPEC and Senior Adviser to the Second Deputy Premier, Minister of Energy & Industry, Abdulla Salatt, said the meeting represented “a great opportunity to advance the collaboration and teamwork spirit of OPEC Members.”

He described OPEC as a “knowledge generating centre” and said the Organization should have a “pioneering role” in promoting the sustainability and environmentally friendly nature of oil and gas.

Salatt noted that alternative energy promoters were already engaged in research programmes “that aim to reduce the domination of oil and gas in global energy markets” and that OPEC should have it its own independent programme “which should be directed to sustain our position in these markets.”

He added: “We should not be distracted by the recent rise in oil prices away from our main scope in groundbreaking new uses for oil and gas. As a matter of fact, this should motivate us to increase our spending on R&D not only on pure scientific research but also in the application fields.”

Dr Shihab-Eldin said concrete action on collaboration and R&D among Member Countries was already underway, adding: “If we prepare ourselves well for the future not only will we be able to help meet a world energy requirement that, already substantial, is forecast to continue growing in the coming decades, but we will also extend and enhance the earning power of our petroleum resources, to the benefit of both our present and our future generations.”

During the meeting, delegates visited the Qatar Foundation Education City in Doha and saw a presentation on the Science and Technology Park that is being developed specifically as a home for scientific institutions and programmes. Salatt formally invited the meeting to consider locating any “collective R&D institute in this prestigious site.”

Above: Attendees arrive for the first annual meeting of the Officials of Petroleum Research and Development (R&D) Institutions, May 2–3, 2005, in Doha, Qatar.

Below: Delegates listen to a speaker at the Qatar Foundation.

AUSTRALIA wants more oil

Photo: OPEC

Australia is keen to encourage more exploration of its vast offshore sedimentary basins and has recently opened up new acreage. OPEC Bulletin spoke to the government minister in charge about these plans as well as general energy policies in the country.

Australia's Ministry for Industry Tourism and Resources has a broad remit and at its head is Ian Macfarlane (pictured left) who is responsible for energy in this the world's sixth largest country and one of the few members of the Organization for Economic Co-operation and Development (OECD) that is a significant net energy exporter.

Macfarlane admits that Australia has "an ongoing problem" with oil production. According to the Australian Bureau of Agricultural and Resource Economics (ABARE), domestic crude production averaged 574,000 barrels per day in 2002–2003, short of the country's daily consumption which means it is a net importer of oil.

Over half of all crude production comes from the Carnarvon Basin in Western Australia; other major producing areas are the Gippsland Basin, offshore the state of Victoria and the Bonaparte Basin, off the north-west coast of the country. But production is falling to "concerning levels", Macfarlane says with Australian now producing around 60 per cent of the crude it consumes.

"We're still a net energy exporter and will be for a long time because of coal and natural gas but we would hope that with our incentives and a bit of luck we could find a major new oil field."

To this end, the government wants to focus attention on new offshore acreage. In April it released 29 new exploration areas; two off the coast of the Northern Territory; 24 off Western Australia; one near the Ashmore and Cartier Islands; and two off South Australia.

This release includes five Designated Frontier Areas which are subject to the 150 per cent frontier tax concession that was announced in 2004. Bids for 15 of the 29 new areas close on October 20 this year and the remainder on April 20, 2006. Permits will be awarded for an initial term of six years.

The new acreage follows the granting in February of 11 exploration permits in waters off Western Australia and Tasmania. Eight were in the Carnarvon Basin, which holds both oil and gas, and three were adjacent to the Yolla gas field in the Bass Basin off northern Tasmania. Five companies were awarded rights and they are expected to spend a combined A$220 million on exploration.

Macfarlane says it would be "fantastic" if oil was discovered in any of the new areas and that there had been "strong interest" in the latest package but the government

Australian gas plant.

has not set any targets for how much oil it would like to see produced in the future.

"We are not a government that sets targets or that has any financial interests in energy. Our aim is to see the country get the investments it needs. From time to time we provide incentives to establish LNG plants and bring projects to Australia but that aside we let the commercial rules dictate."

While oil production is giving cause for concern, it's a different story with natural gas. As Macfarlane puts it, "we are really awash in it and very well endowed." Most Australian production is sourced from fields located off the West Coast and the country has a well established liquefied natural gas (LNG) sector. In addition, output from coal seam methane is growing.

As well as domestic production, Macfarlane says there are two important potential supply sources from beyond the country. The first is from Papua New Guinea where the government is encouraging the construction of a pipeline that would run to Gladstone in Queensland and then connect to the east coast gas grid. Secondly, there is potential "in time", Macfarlane says, for gas from the Northern Basin in East Timor "depending how we're able to finalize negotiations." This gas could be supplied into the city of Darwin to supply an LNG market and also possibly to add to the domestic supply.

With Australia already the world's sixth largest exporter of LNG, Macfarlane says the government "takes every opportunity to talk with potential clients" to increase exports, including Japan, China, South Korea but also now the West Coast of the US and Mexico where he believes there is "exciting demand."

As far as the existing LNG projects are concerned, Macfarlane says an agreement to expand the Northwest Shelf to a fifth train has been all but finalized and this should be on stream by the end of 2006. Meanwhile, the Northwest Shelf Gorgon gas deposit, which has reserves estimated at 80 trillion cubic feet, is also of interest, he says.

ChevronTexaco, ExxonMobil and Shell are working on moving this project towards commercialization. The current proposal calls for production of 10m tonnes per year of LNG with first deliveries to the North American West Coast in 2010. Other projects include, Scarborough, proposed by BHP Billiton and Browse an option from Woodside Petroleum.

"We're hoping to see some major LNG projects go ahead over the next two to three years," Macfarlane says. "The window of opportunity is still open — no-one knows how long it's going to stay open – but we want to see Australia get a good slice of that market."

Aside from oil and gas, and of course coal (Australia is the world's leading coal exporter), the government has devised a long-term energy plan for the country which includes an A$500m fund to help develop low-emission technologies. In addition, Macfarlane's department has begun a process of energy market reform for electricity and gas. "We have made good progress with electricity and we're about to move into natural gas," he says.

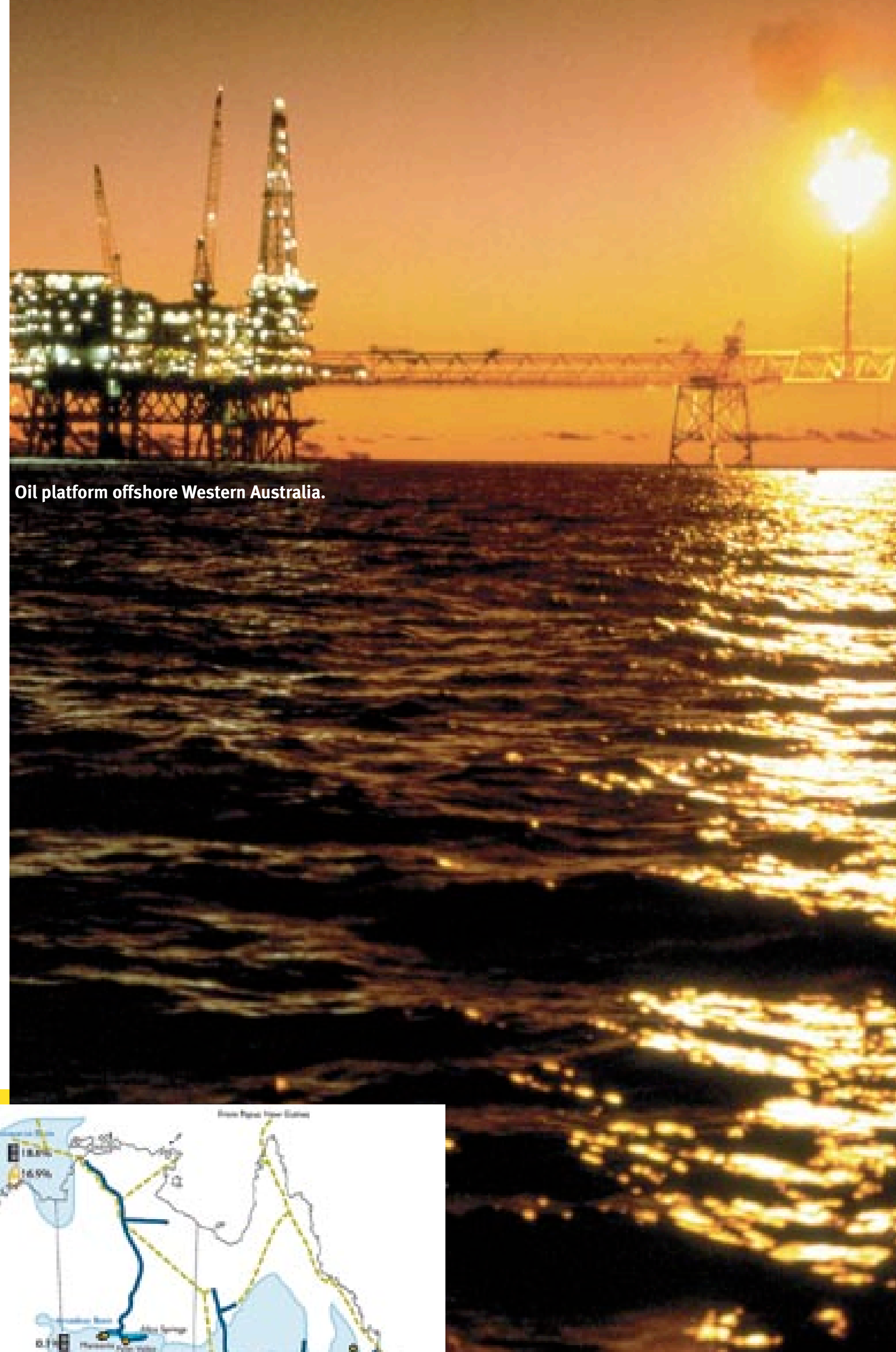
Macfarlane says the government was very keen to attract investment into Australia, no mean feat given the competition it faces from other areas particularly in Asia. So, in order to ensure the country was an attractive investment target, "we had to ensure that we had adequate affordable energy and make sure the energy market wasn't overregulated."

By way of example, in April, the Ministry officially opened the National Offshore Petroleum Authority (NOPSA) responsible for regulating the health and safety of workers on offshore platforms. Based in Perth, Western Australia, NOPSA replaced separate state-based regulators and a host of state-based regulation.

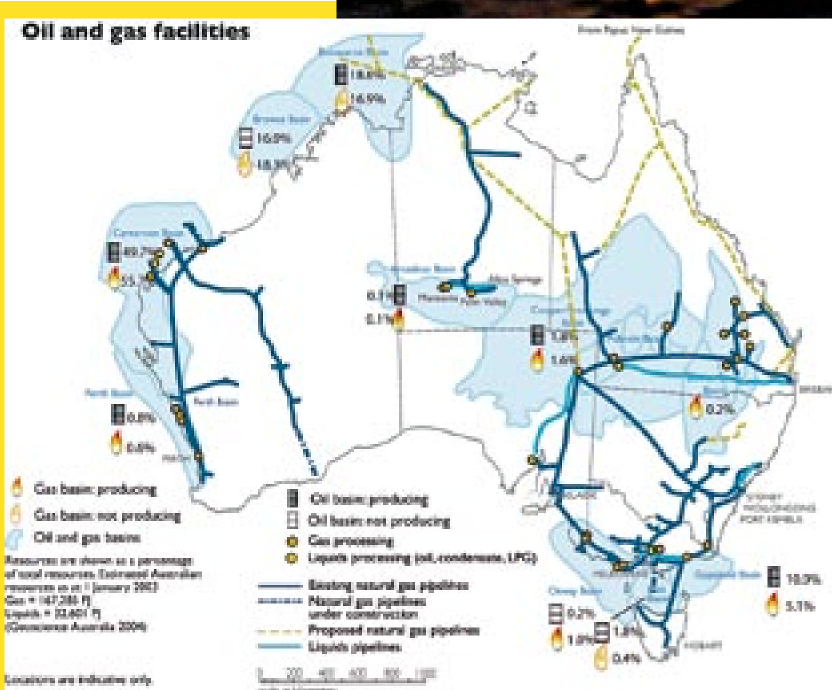
Another important issue that the government wanted to address was the issue of greenhouse gas emissions. Macfarlane claims that Australia is only one of a handful of nations that will achieve its Kyoto Protocol target ahead of time.

"We needed to ensure that we were encouraging investment in technologies which lower greenhouse gas emissions in terms of their energy unit output. So we introduced a range of initiatives and the cornerstone was the fund, which was there to encourage investment, particularly in pilot plants relating to low emission technology". The government also set aside A$75m for solar projects and A$100m for rewnewable energy.

As Macfarlane puts it, "it's an energy policy for Australia as much as you can set these things. We are a country with a high standard of living but geographically disadvantaged and if we want to maintain our economic growth we need to play to our strengths. One of our strengths up to now has been abundant energy at an affordable price and we need to make sure we retain that competitive advantage."



Oil platform offshore Western Australia.



Photos and map on this spread courtesy of the Australian Ministry for Industry, Tourism and Resources.

Close dialogue

Australia's Ministry for Industry, Tourism and Resources, Ian Macfarlane, was speaking during an official visit to OPEC just after he had chaired a joint International Energy Agency (IEA)/OECD energy meeting in Paris.

That meeting saw discussions on several issues including security of supply, energy efficiency and the need for co-operation and dialogue between consumers and producers, governments and institutions.

During his visit to OPEC, Macfarlane met with Acting Secretary General, Dr Adnan Shihab-Eldin, and said that this had been "a great opportunity" to follow up on items raised at the IEA/OECD.

"We both ended up on the same point: that close dialogue will not only underpin a better understanding of the supply-demand curve but also allow the extraordinary levels of investment that need to be made both in production and refining capacity throughout the world."

Macfarlane added: "The one thing we can be sure of is that demand for oil and to a lesser extent gas is going to continue to increase and that demand is certainly going to be driven by places like China but also from traditional developed economies."

On that basis, he said, the question was how consumers and producers should work together to ensure that investment is being made to meet that demand "so that you keep a reasonable level of margin in terms of surplus capacity so the market doesn't suffer any shocks."

Macfarlane said he believed the Joint Oil Data Initiative (JODI) would be a very important tool. "One of the reasons in terms of the fundamentals that caused the price of oil to climb as steeply as it did was that there was actually an underestimation on a historical level of what oil demand was doing and that created some uncertainty."

“I think there was an underestimation of demand and that’s caused some of the price escalation.”

He added: “There were all sorts of reasons for that, people setting very optimistic targets in terms of renewable energies as well as the ability of the transport sector to move away from its fundamental reliance on petroleum. I heard a prediction the other day that oil production would peak in 2010 — I thought then that that was laughable but, seriously, I think there was an underestimation of demand and that’s caused some of the price escalation.”

Macfarlane said it was in both producers and consumers interests that “we see a settling” of the oil price. “I’m not saying where but the volatility in the market is obviously not useful.”

He admitted higher oil prices were of concern to the Australian government but pointed out that the country was somewhat protected from the impact of this because it is a net energy exporter.

“One of the most interesting things that came out of the IEA and the OECD meetings was that the potential dampening effect of higher oil prices on economic growth hasn’t been realized and there was general consensus that while it certainly wasn’t ideal to have high oil prices, some of the fears of dire economic growth hadn’t been realized yet — I guess that’s really the issue.”

Macfarlane with OPEC’s Acting Secretary General, Dr Adnan Shihab-Eldin.
Photos: OPEC

Feature

Exploration & production


Photo: OPEC

This is an edited version of a presentation made by Shell Exploration & Production Company's Gulf of Mexico Deepwater USA Major Projects Manager, Aidan McKay, at OPEC last month as part of the Society of Petroleum Engineers Distinguished Lecturer Series. It discusses the challenges the E&P sector will face over the next 25 years to meet global energy demand; asks where the industry will find oil and gas needed to replace reserves; how to achieve growth; and what all this will cost.

a challenging future

"... about 70 per cent of oil demand ends up as transportation fuels and this area is forecast to grow fast."

This paper suggests that the future for the exploration and production (E&P) industry is going to be much more difficult given the scale of demand growth and required investment levels which are almost beyond belief.

The current world hydrocarbon proven reserve pool is broadly 1,100 billion barrels of oil, 700bn b of oil equivalent (boe) of gas and 3,000bn boe of unconventional oils like heavy oils, bitumen and oil sands. There are sufficient conventional hydrocarbons for 40 years supply at current demand levels and more if unconventionals are included.

Educating society

The historical success the E&P industry has had in ensuring that demand is met in a volatile and changing world has perhaps led society to take longer term energy demand needs for granted. There has been an excess of supply for three decades with minimal upsets. We in E&P need to educate society about the scale of research and development (R&D) and investment required, the time taken to access and develop hydrocarbons and translate them from geological deposits to vital fuels or feed-stocks.

In order to meet demand, the E&P industry will have to be highly innovative whilst providing acceptable returns for investors. This is a significant task.

Global hydrocarbon demand from well bores has grown from around 90m boe/d in 1980 to around 128m boe/d today. The E&P industry has collectively been a marvel of both technological innovation and improving cost structures in achieving this increase.

A wide range of technologies has been developed and deployed since 1980 and over the next 30 years technological innovation will have to be as successful as it has been in the past and indeed there are early signs that it will.

New technology and a large amount of innovation will be required if the industry is going to meet demand growth which is expected to rise from 128m boe/d to 220m boe/d by 2030 — double the increase in demand seen over the last 20 years. This equates to one to two per cent per year for oil and three per cent per year for gas.

In addition to installing new supply capacity for growth, the E&P industry must also replace declining reservoirs at existing assets. Decline rates vary from only two to three per cent per year in some OPEC/major hydrocarbon resource areas and from seven per cent per year up to 20 per cent per year in some deepwater and mature environments. The global average decline may be approximated as four to five per cent, heavily weighted by OPEC/major resource holding countries.

The logic of demand growth may be explained in terms of global GDP growth of one per cent resulting in some 0.5 per cent of energy demand growth. A more simple answer is that about 70 per cent of oil demand ends up as transportation fuels and this area is forecast to grow fast.

Developed societies tend to enjoy their cars, trucks, and buses and like flying in planes. Today there are some 700m cars and trucks around the world and it is forecast that there may be around twice as many by 2030.

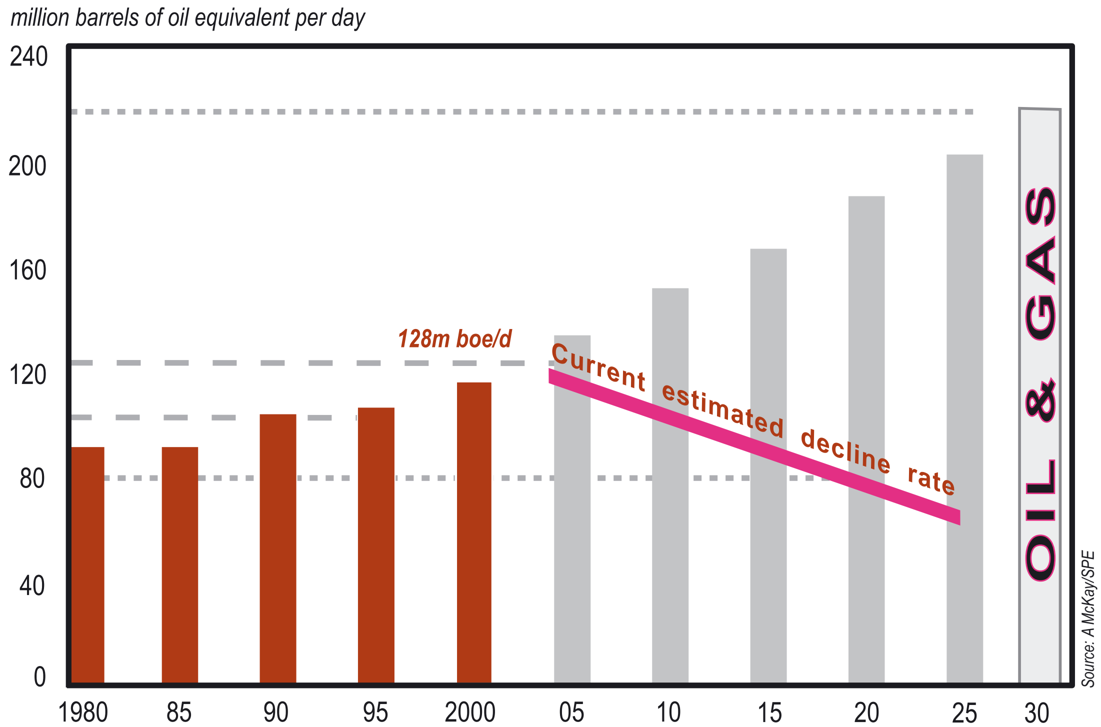
Transport demand growth

Considerable efforts have been made to provide alternatives to the car; several developed countries have world class trains/buses/trams and infrastructure as alternative forms of transportation. Also fuel taxes and taxation on car engine size have been used, resulting in gasoline (petrol) costs higher than $4 per gallon. Despite this, large-engined cars and four-wheel-drive vehicles are still a fast growing option in many developed and developing countries. The individual personal choice may in practice not be the optimum for society.

A similar demand growth indicator is observed with aircraft; today there are about 15,000 commercial jets worldwide. We have seen in North America in the last eight years a 70–80 per cent increase in the number of daily short-haul flights representing rapid on-ground turnarounds and improved uptime.

Forecasts suggest that we may see some 32,000 jets by 2030; this could also represent a huge increase in fuel demand.

Hydrocarbon (oil and gas) demand from wellbores: daily production



Aggregate global production decline is ~ 5+ per cent per annum.
Aggregate long term oil and gas growth is 1.5 per cent pa average.

For natural gas, which is becoming the fuel of choice for power generation and domestic heating, demand growth will be even faster than with oil — three per cent per year as a global average. In localised areas, growth may be as high eight per cent per year. There may be major inroads into transportation by natural gas, but in any case by 2030 we are likely to be in a world where hydrocarbon demand is around 220m boe/d in energy equivalents.

Global proven hydrocarbon resources today total 1,100bn boe of oil, 700bn boe of gas and 3,000bn boe heavy oil, bitumen/oil sands. Global consumption is 44bn boe per year which may grow to 88bn boe per year by 2030. We have sufficient supplies to meet the next 40 years of demand or more; in short, the world is long on hydrocarbons.

However, while there is an abundance of hydrocarbons on the planet, there is not an abundance of quality E&P investment opportunities. A quality investment is one where there is a likelihood of achieving an acceptable return for the different risks taken given the uncertainties around commodity prices.

Using the last 30 years of investment as an indicator, one can extrapolate a possible scale of the investment required to meet this demand. In 1970, the E&P business (approximated by the top 500 E&P companies, excluding national oil companies) spent an estimated $20bn per year which had grown to $60bn per year by 2000. It is likely that there will be a need for huge investments growing to above $100bn per year by 2010 and potentially to $200bn (plus) per year by 2030.

Investment required

There may be a significant impact from technology in reducing future investment costs. However, irrespective of this, the absolute investment levels are almost unimaginably large. To achieve these large savings will require considerable R&D investment and there is much debate as to whether the present levels of R&D are high enough compared to other major industries.

If the huge leaps forward in E&P technology do not continue, oil companies will face rapidly increasing investment levels and achieve very low returns on invested capital for their shareholders. If commodity prices remain high this effect will be limited. An alternative way to achieve acceptable returns at lower prices would be government subsidy or tax breaks for energy companies.

Technology development and implementation have permitted the development of complex and economically marginal fields but the rate at which these benefits have come has not been fast enough to drive unit costs down materially further. We still have a lot to do in technology deployment and reducing the industry cost structure.

There are six logical forces evident in the exploration & production business today, which may shape its future.

The first is continual pressure to achieve structural cost reduction. Essentially this means improving business efficiency through process reengineering, improved supply chain management, globalising to remove the duplication of activities and achieving economies of scale.

The second is E&P portfolio restructuring. This involves selling off fields and assets, the aim being to reinvest the sale proceeds in a better E&P investment, achieve a higher return or return the funds to shareholders. This assumes that exploration will be successful and generate an attractive investment opportunity.

The third is a shift to gas where there is a huge development effort underway both in terms of regional pipeline infrastructure and also export options such as liquefied natural gas (LNG) and gas to liquids (GTL).

The fourth force is achieving growth in earnings through production volume either through exploration or taking over management of green- or brown-field developments for a resource-owning government or acquiring the fields and facilities of others.

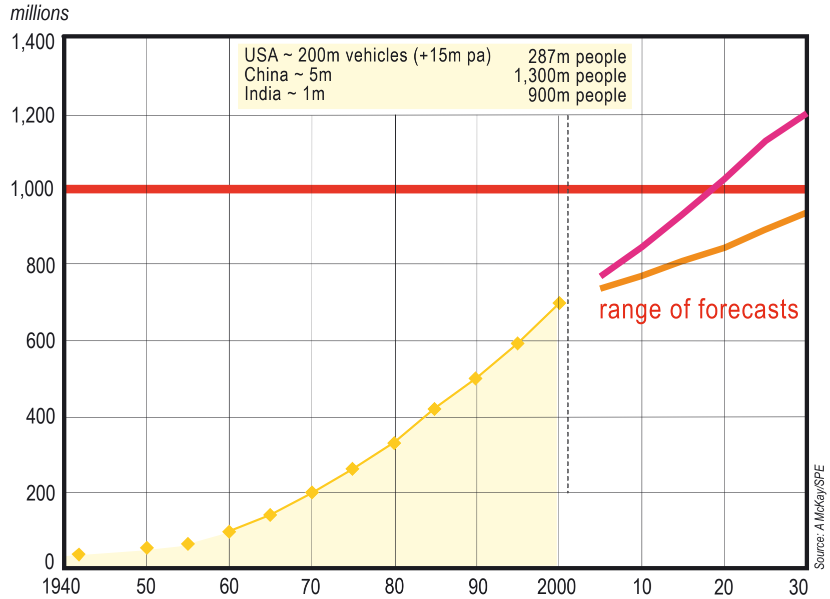
The fifth force is the increasing requirements from oil company shareholders to see improved financial management of balance sheets and assets. This group (which represents our pensions) expects high returns on capital employed, annual reserves replacement, and a clear route to earnings growth. All of this is coupled to an increased need for transparency and credible earnings forecasts.

The sixth force is industrial consolidation, which has been and will be, an essential part of the E&P industry as fields and assets change ownership. Where this ends, is difficult to predict. Over the next decade there will be further consolidation and we can only guess at what might happen.

Impact of consolidation

One serious concern about this industrial consolidation is that while it often represents a transfer of ownership of fields and facilities, new prospects and acreage, it does not always result in an increase in global hydrocarbon supply capacity. The transfer of company assets may be beneficial in terms of efficiencies and gains to owners but

Number of cars and light trucks globally (history and forecast)



Assumes an eight billion population by 2030.

does not generally increase the size of the global hydrocarbon resource pot.

Given the demand growth challenge on a global scale, the E&P industry needs to look at ways to increase the overall pot of hydrocarbons. This will involve getting higher recovery factors from existing fields, more efficient exploration and reducing development costs through technology.

Much has been written about renewables and they will form a part of the energy mix in 2030. Hydrogen fuel is considered promising, but it consumes considerable energy in manufacture from either electricity or natural gas and needs more technological breakthroughs or significant tax incentives to become a commercial proposition and wide-scale alternative.

We in E&P are in a dynamic profitable growth business, which is capital intensive and requires high technology almost like space travel or the defence industry. We face an exciting challenge and the interesting conflict of meeting global hydrocarbon demand and the needs of our various stakeholders. We will need to be as successful in R&D and be as innovative as we have been so far and should ensure we are not under-investing in research we need. This will be vital if we are to meet the needs of society.

"… while there is an abundance of hydrocarbons on the planet, there is not an abundance of quality E&P investment opportunities."

Mega-projects detailed

The Rabigh Integrated Refinery and Petrochemical Complex.

Saudi Aramco has detailed several energy projects being planned in the Kingdom. They are worth billions of dollars and many will represent a huge investment opportunity for investors as well as contractors.

In an opening address to the Saudi Mega Projects 2005 conference held in Dammam, Saudi Aramco President and Chief Executive Officer, Abdallah S Jum'ah, said that the mega-projects in oil, gas and refining/petrochemicals would offer "significant, unprecedented investment opportunities and will be available to private sector investors."

He said the projects were all linked to Saudi Aramco's current strategy. For oil this is based on "strong and increasing" demand for crude around the world which means the company is now "aggressively" expanding crude oil production capacity with multiple mega projects.

"These projects are at various stages of planning, design and construction, with a total capacity of about 2.2 million barrels per day," he said, and would take maximum production capacity to almost 12m b/d, "thereby consolidating the company's leading role in the oil industry."

On gas, Jum'ah said the focus was on expanding the provision of natural gas as fuel and feedstock as well as a push into refining and petrochemical projects. The company plans to build another world scale gas processing plant in Khursaniyah for processing associated gas and also expand some of the existing processing plants.

It also wants to build more facilities for gas feedstock recovery and fractionation of gas feedstocks, expand the gas and product pipelines to the twin industrial cities of Jubail and Yanbu, and supply fuel and feedstock to major gas-intensive petrochemical projects.

On refining, Saudi Aramco wants to expand existing facilities to meet growing domestic demand and integrate high-value petrochemical facilities with refineries. It also plans to build grassroots refineries again for domestic supplies and export products to emerging markets worldwide.

There are three major refining projects at various stages. The first is the Rabigh Integrated Refinery and Petrochemical Complex launched in May 2004 between Saudi Aramco and Japan's Sumitomo Chemical. This project will develop the existing 400,000 b/d refinery into an integrated refinery/petrochemical complex that will include a world-scale, high olefins FCC and ethane-based steam cracker together with downstream derivative units producing 2.4m tons per year of secondary petrochemicals. The project is due on stream in the third quarter of 2008.

The second project is a proposed 400,000 b/d export refinery for which, Saudi Aramco Vice President of New Business Development, Isam A Al-Bayat says, the company "has approached the international market, seeking investor interest." The 400,000 b/d export refinery would cost an estimated $4 billion to $5bn and an initial public offering is envisioned that would allow domestic investors to own stock in the venture.

The third project, Ras Tanura and Ju'aymah Refinery and Petrochemicals, is similar to the Rabigh project. Saudi Aramco is looking at the possibility of integrating petrochemicals production with the Ras Tanura Refinery and Ju'aymah Industrial Area feedstocks. Ras Tanura currently consists of a 325,000 b/d hydro-cracking refinery and a 200,000 b/d condensate splitter. The integration would include a large ethane/naphtha-based cracker, an aromatics recovery complex, and complementary downstream derivative units to produce new secondary petrochemicals. The total cost is estimated at around $6bn.

Other potential investment opportunities include: the development of new conversion industries from petroleum-based olefins and aromatics, such as carbon fibres; a power generation and distribution centre to support Saudi Aramco's southern-area facilities (which includes the Hawiyah Gas Plant NGL Recovery Project); divestment of non-core company functions, such as gas turbine repair and refined-products distribution.

Al-Bayat said these plans represented "an unprecedented era of capital expansion" and would require over $20bn to be spent on materials and equipment and $23bn on services between now and 2010. The new projects will also create job opportunities for over 50,000 engineers and over 70,000 workers in other disciplines.

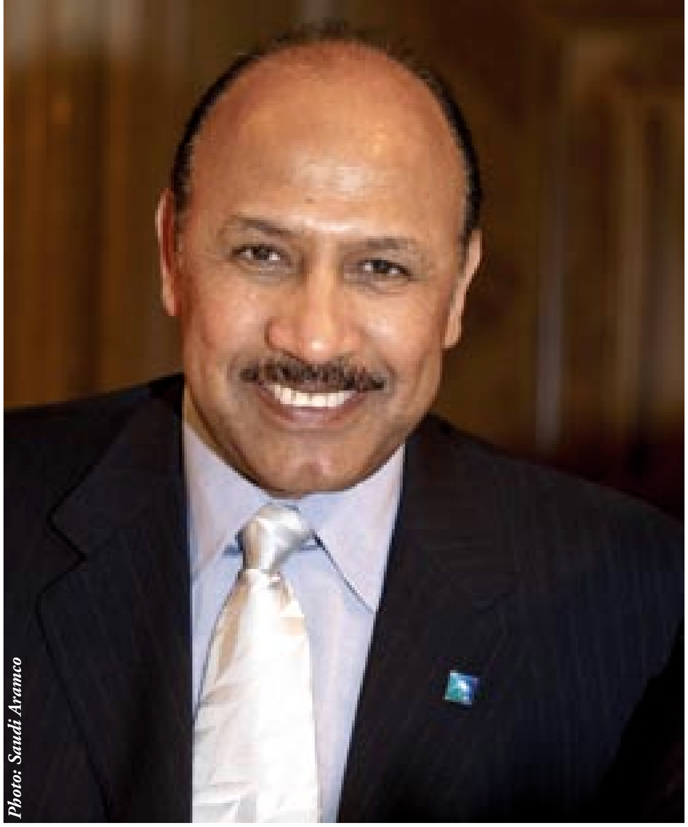


Photo: Saudi Aramco

Honour for Saudi Aramco head

The President and Chief Executive of Saudi Aramco, Abdallah S Jum'ah, has been named 2005 Petroleum Executive of the Year by international energy information service, Energy Intelligence.

He was chosen for the award in a confidential selection process by Chief Executives and other senior officials of the world's leading oil companies, according to Thomas Wallin, President of Energy Intelligence. Jum'ah joins a list of leading energy industry executives who have received the award in the past *(see table below)*.

"It might be my name on this award," Jum'ah said, "but it is really a tribute to the hard work and efforts put in by all Saudi Aramco employees across the company as they strive, sometimes against great odds, to achieve the strategic direction we've set for our company to significantly increase our contribution to the Kingdom of Saudi Arabia's revenue needs and consistently promote the development of the local economy."

Energy Intelligence said that, since becoming Chief Executive in 1995, Jum'ah had led the "far-reaching" expansion of Saudi Aramco's downstream and gas businesses and had transformed the company into a fully integrated international oil and gas enterprise.

"Under his leadership, the company has refocused its strategic direction to maintain its position as the world's premier energy supplier while supporting the expansion and diversification of Saudi Arabia's economy with a continued strong commercial orientation."

Jum'ah is the first executive in the peroleum industry outside of Europe and the Americas to receive the award, which will be officially presented in September in London during the 26th Oil and Money Conference.

Energy Intelligence Executive of Year

Past winners:

2004: Chairman of ChevronTexaco, David O'Reilly
2003: Chairman and CEO of ExxonMobil, Lee Raymond
2002: President and CEO of ConocoPhillips, James J Mulva
2001: Chairman of Royal Dutch/Shell Group, Sir Mark Moody-Stuart
2000: Chairman and CEO of Total SA, Thierry Desmarest
1999: Chairman and CEO of Mobil Corp, Lucio Noto
1998: Chairman and CEO, Petroleos de Venezuela, SA (PDVSA), Luis E Giusti
1997: Group Chief Executive of the British Petroleum Co, Lord Browne of Madingley

Libya unveils second bid round

Ghadames, western Libya.

Libya's National Oil Corporation (NOC) is inviting bids for 44 blocks in the second international licensing round since the lifting of sanctions. Ten of the blocks are located offshore with the remainder distributed amongst Libya's five major basins, Cyrenaica, Ghadames, Sirte, Murzuq and Kufra (see table).

Any contracts awarded from this latest round will be governed by Libya's fourth Exploration and Production-Sharing Agreement (EPSA IV). Bids have to be submitted by October 2 and an opening ceremony will be held in public with the winners announced at the end of the session. NOC said it expects to sign EPSAs from any awards during the first half of November.

Libya has previously said it wants to increase oil production capacity to 2.5 million b/d by 2010 and possibly 3m b/d by 2015. In January, the NOC awarded 15 blocks in the first licensing round with the US' Occidental Petroleum and partners Woodside Petroleum of Australia and Liwa Energy of the United Arab Emirates (UAE) awarded a stake in nine of the 15 blocks on offer.

Chevron and Amerada Hess received one block each as did Algeria's Sonatrach. Three consortia — Brazil's Petrobras and Australia's Oil Search, Canada's Verenex Energy and Indonesia's Medco Energy and Indian Oil Corporation and Oil India — also received one block per pair.

Signs gas deal

Meanwhile, May saw the NOC and Shell Exploration and Production Libya announce a long-term agreement for a major gas exploration and development deal. The contract follows an earlier heads of agreement signed between the two parties covering a long-term strategic partnership in the Libyan gas sector.

Shell said it will modernize and upgrade

Basin	Area number	Block number	Available open acreage (sq km)
Offshore	2	1 + 2	4,650
	17	3	2,010
		4	2,535
	40	3 + 4	4,540
	44	1 + 2 + 3 + 4	10,290
Cyrenaica	42	1 + 3	4,564
		2 + 4	3,352
	94	1 + 2 + 3 + 4	10,001
Ghadames	81	1	1,900
		2	2,650
	82	3	2,500
		4	2,306
Sirte	102	3	2,750
		4	2,750
	121	2	1,830
	123	1	2,750
		2	2,000
		3	2,030
Murzuq	146	1	2,444
	147	3 + 4	2,270
	161	1	2,750
		2 + 4	3,900
	176	3	2,750
		4	2,750
Kufra	171	1 + 2 + 3 + 4	11,000
	186	1 + 2 + 3 + 4	8,400

the existing liquefied natural gas (LNG) plant at Marsa Al-Brega at a minimum cost of $105m rising possibly to $450m which will increase output from 0.7 to 3.2m tons per year. Depending on gas availability, Shell will also jointly develop with the NOC a new LNG plant. Marsa Al-Brega LNG is operated by NOC affiliate, the Sirte Oil and Gas Production and Manufacturing Company with gas supplied from the Sirte Basin.

Shell has also received exploration rights to five blocks in the Sirte Basin covering 20,000 sq km at a minimum commitment cost of $187m. The exploration programme will start immediately, Shell said, with the acquisition of 2D and 3D seismic data in 2005/06 followed by exploration and appraisal drilling.

Shell's Executive Director for Exploration and Production, Malcolm Brinded said: "We are delighted to be back in Libya and honoured to work together with the NOC to develop a modern LNG industry and explore for and develop gas in the prolific Sirte Basin."

He added: "Libya's integrated gas industry has enormous potential, based on its large resources and favourable geographic location. I look forward to our co-operation and believe that this is the beginning of a new lasting and fruitful partnership with Libya."

in brief

NNPC approves Akpo field plan

The Nigeria National Petroleum Corporation (NNPC) has authorized France's Total, as operator, to start development of the offshore gas and condensate Akpo Field. Total has a 24 per cent interest alongside NNPC, Petrobras and Sapetro. Discovered in 2000, the field is around 200 km offshore Port Harcourt in water depths of between 1,100 and 1,700 metres. The development plan calls for 22 producing wells, 20 water injection wells and two gas injection wells, tied back to a floating production, storage and offloading vessel with a storage capacity of 2m b. It will come on stream in 2008 with peak production at 225,000 barrels of oil equivalent per day (80 per cent condensate) which will be piped to the Amenam/Kpono platforms and from there to the Bonny liquefaction plant.

Kuwaiti refining to rise

Kuwait's refining capacity could reach over 1.2m b/d by 2010 from 930,000 b/d at present, according to the head of Kuwait Petroleum Corporation (KPC) in a report from the state news agency KUNA. Sami Fahd Al-Rashid said the company planned to spend over $8bn on modernizing two of the country's existing three refineries — Al-Ahmadi and Mina Abdullah — and constructing a new fourth one which would add 450,000–600,000 b/d of capacity. Separately, KUNA reported that the Kuwait Oil Company (KOC) said oil reserves increased last year by 818m b bringing the reserve total to 97.3bn b with production reaching 2.4m b/d — a new record. Gas production totaled 1.1bn cubic metres. KOC, the report said, wants to increase oil production capacity to 4m b/d by 2020 to meet an expected rise in world demand.

Oxy to develop Oman oil field

Occidental Petroleum Corporation of the US has signed a heads of agreement with the government of Oman to develop the Mukhaizna oil field boosting production from the current 10,000 b/d to around 150,000 b/d within the next few years. Located in the centre of the country, the field was discovered in 1975 by Petroleum Development Oman. Occidental said it and its partner Liwa Energy Limited, owned by Mubdala Development, which is owned by the Government of the Emirate of Abu Dhabi, planned to invest over $2bn in the project. It will involve implementing a large-scale steam flood to increase production and recover around 1bn b of oil.

OPEC/IEA hold third workshop

Executive Director of the IEA, Claude Mandil, said there was a growing interdependence between the world's major energy consumers and the energy producing countries in MENA.

President of the OPEC Conference and Minister of Energy for Kuwait, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, said the MENA region offered tremendous economic opportunities.

A joint International Energy Agency (IEA)/OPEC workshop was held last month in Kuwait on the energy outlook in the Middle East and North Africa (MENA). This was the third in a series of workshops that has seen the dialogue and cooperation between these two Organizations further strengthen.

The focus of this most recent workshop was on both economic and energy supply and demand prospects for the MENA region which represents great economic, commercial and trade potential and is expected to play a growing role in world energy markets over the coming decades.

The first two workshops, which took place at the OPEC Secretariat in Vienna in June 2003 and in Paris at the IEA Secretariat in April 2004, concentrated upon oil investment prospects, in particular the outlook for oil and investment challenges.

Hosted by the Kuwaiti Ministry of Energy, the third workshop was attended by a select group of high-level delegates from the OPEC and IEA Secretariats, as well as senior government officials from OPEC, OAPEC and IEA Member Countries, senior analysts from MENA countries, international experts on MENA economic and energy analysis, and experts from finance institutions.

The workshop included sessions on the economic and energy outlook for the MENA region, as well as country perspectives of the region's energy demand and supply prospects. Presentations were made by international experts, as well as by representatives from several OPEC member countries from the region. The workshop concluded with a panel discussion addressing implications for global energy markets and sustainable development in the MENA region.

In his opening address, President of the OPEC Conference and Minister of Energy for Kuwait, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, said that the populations of MENA countries were rising rapidly and were relatively young; hence, the potential for growth was large and the region offered tremendous economic opportunities. The world's largest consumers, he said, could facilitate the development of this potential, by offering stable markets and steady demand for hydrocarbons from MENA countries, through the removal of unnecessary impediments, duties and taxes.

Force for growth

However, Al-Sabah told the meeting that despite having some of the world's largest oil producers and possessing almost three-quarters of global oil reserves, the region had not received the attention it deserved from planners, industry observers and international agencies responsible for ensuring balanced world economic growth.

Executive Director of the IEA, Claude Mandil, said in his address in the opening session that there was a growing interdependence between the world's major energy consumers


Reuters

and the energy producing countries in MENA.

"The world is becoming more and more reliant on the vast, low-cost energy resources of the region. The timely development of these will benefit both parties in the producer-consumer relationship. For consuming countries the benefits are obvious: economic development cannot be achieved without energy and cannot be sustained unless the energy supply is secure. From the producers' side, development of their energy resources has the potential to act as a driving force for growth, stability and prosperity."

Dr Adnan Shihab-Eldin, Acting for the Secretary General of OPEC, said that the MENA region would "play a central role" in future world energy supply and as a result, oil prices must be at sufficiently robust levels to support the required investment, "the magnitude of which will not be dissimilar to what has occurred in the past."

He added that the investment challenge would be complicated by uncertainties "which we must seek to minimise through continued cooperation and dialogue." However, at the same time as assessing the energy prospects, he said, "we should not lose sight of the very important alternative — and connected — focus of attention of the workshop. This relates to the socio-economic needs of the region and the role that the international community can and should play in supporting them."

Co-operation and dialogue

The continued strengthening of co-operation and active dialogue between OPEC and the IEA is viewed as an important element in helping to improve the understanding of the concerns of all parties and is in line with the clear mutual interests of supporting oil market predictability and stability. A fourth joint OPEC/IEA workshop, which will focus upon the oil demand outlook, is planned for 2006, and is expected to be hosted by an IEA country.

in brief

Trans-Sahara pipeline study

Algeria's Sonatrach and the Nigerian National Petroleum Corporation (NNPC) have signed an agreement with a UK-based joint venture between pipeline consultants Penspen and IPA Energy Consulting for the latter to carry out a feasibility study on the Trans-Saharan gas pipeline. The study which will last nine months will include: market analysis; pipeline infrastructure requirements; establishment of gas supply sources; project cost estimates; assessment of the policy issues and institutional framework relating to the project; economic and financial analysis; pipeline route survey; project risk analysis; assessment of environmental issues; and a regional benefit study. The proposed 4,500 km pipeline would run from Nigeria to Algeria's Mediterranean coast with a possibly capacity of up to 25bn cu m of gas per year.

New Saudi oil field

Saudi Aramco has made a new oil discovery, the Halfa Field, in the Eastern Province of the Kingdom. The Halfa-1 well flowed 6,000 b/d of Arabian Extra Light crude oil (36° API gravity) and 4.2m cu ft/d of gas from an open-hole test conducted over the Hanifa reservoir at a depth of 9,687 ft. The company said that based on test data analysis, the well was expected to flow at a significantly higher rate under normal production completion. Drilling is continuing to evaluate the well's deeper gas objectives. The well is located around 320 km south of Dhahran and 280 km south-east of Riyadh.

SABIC profits rise

Chemicals group Saudi Basic Industries Corporation (SABIC) has announced first quarter 2005 profits of Saudi rials 5.077bn ($1.354bn) an increase of 116 per cent over the same period last year and up eight per cent from the previous quarter. The company said the increase was due to greater productivity and higher prices for most of its products. Production from SABIC affiliates during the quarter was 11.2m tons a rise of 12.4 per cent over the 9.9m t seen a year earlier. Sales were 8.3m t, up two per cent over the first quarter of 2004. Also last month SABIC signed a letter of intent with Italy's Technip for the engineering, procurement and construction of an ethylene and propylene plant at the Yansab complex in Yanbu Industrial City. The plant will have a nameplate ethylene production capacity of 1.3m t/y and 400,000 t/y of propylene.

Dolphin secures Dubai gas sale

Reuters

The next stage of the Dolphin Energy gas project, which claims to be the largest single energy initiative ever undertaken in the Middle East, has come a stage closer to realization. Last month, the company signed a long-awaited gas sales agreement with the Dubai Supply Authority (DUSUP) to deliver future supplies of Dolphin gas from Qatar to Jebel Ali starting from 2007. The agreement with DUSUP provides for the supply of up to 700 million cubic feet/day of Dolphin natural gas from Qatar for a period of 25 years.

The Dolphin Project involves the development of natural gas reserves in Qatar's offshore North Field, processing onshore at Ras Laffan industrial city outside Doha and transportation by sub-sea export pipeline of up to 3.2bn cu ft/d of refined natural gas to the United Arab Emirates (UAE).

The signing ceremony took place at the Palace of the UAE's Deputy Prime Minister and Minister of State for Foreign Affairs, His Highness Sheikh Hamdan Bin Zayed Al Nahayan. He is also Chairman of Dolphin Energy Limited. The agreement was signed by Sheikh Hamdan on behalf of Dolphin Energy and by the Chairman of DUSUP, HH Sheikh Ahmed Bin Saeed Al Maktoum.

Al Nahayan said: "With this important agreement, Dolphin Energy confirms its commitment to meet DUSUP's future requirements through a stable, clean and cost-effective supply of natural gas. DUSUP will not only be an important customer — as the strategic energy developer for the Emirate of Dubai, DUSUP will become a long-term partner. This agreement highlights Dolphin Energy's commitment to meet the future requirements of the UAE energy sector."

Clean energy

For DUSUP, Al Maktoum said: "We welcome the opportunity to work with Dolphin Energy in meeting the growing need for clean energy in Dubai. This contract with Dolphin will enable us to serve our market competitively and efficiently."

In October 2003, Dolphin signed long term gas sales agreements with two other major customers, Abu Dhabi Water & Electricity Company and Union Water & Electricity Company of Fujairah.

Gas supplies to Dubai will start in 2007.

Dolphin Energy's first project was the Al Ain to Fujairah Pipeline, which came on stream in January 2004. It supplies the Fujairah Water and Power Plant on the UAE's East Coast — initially with natural gas from Oman, and subsequently with Dolphin gas from Qatar.

Dolphin Energy is owned 51 per cent by Mubadala Development Company, on behalf of the Government of Abu Dhabi — and 24.5 per cent each by Total of France and Occidental Petroleum of the US.

in brief

Statoil spends $2bn in Golf of Mexico

Norway's Statoil is buying EnCana Corporation's entire deepwater US Gulf of Mexico portfolio for $2bn. The deal includes several discoveries and exploration opportunities which could deliver 30,000 net barrels of oil equivalent per day by 2008-09 rising to over 100,000 net boe/d after 2012. The properties contain expected discovered resources of 334m net boe and expected total resources of over 500m net boe. The portfolio includes an average 40 per cent working interest in 239 gross blocks covering 5,665 sq km. Central to the deal is the Tahiti development in which Statoil will hold 25 per cent working with operator Chevron and where first oil is expected in 2008. There are also several adjacent prospects with tieback options into Tahiti, including Jack (25 per cent) and St Malo (6.25 per cent) in the Walker Ridge Area. A production test is due in 2006 and first oil in 2013. At another discovery, Sturgis (25 per cent), in the Atwater Valley, appraisal drilling is planned this year. Statoil said a Tahiti-type development was possible with first oil after 2011.

Petrobras hits new oil record

Brazil's Petrobras produced a record amount of oil in April with daily production averaging 1.704m b, 16.5 per cent higher than in the same month last year and an increase of 14.2 per cent on the average for 2004 as a whole. The company said that this new level of output meant it was on target to guarantee Brazil's self-sufficiency in oil by the end of this year or early next. April's monthly average surpassed by more than 100,000 b the previous monthly record which was 1.597m b in February 2003 and by more than 210,000 b/d the average production for 2004.

BP extends Egypt concessions

BP Egypt has extended two concessions in the Gulf of Suez — the Merged Concession Agreement (MCA) and South Gharib — by 20 years and 10 years, respectively. BP will invest at least $615m over seven years in exploration and development activities as well as renewing and upgrading the existing facilities and infrastructure across the Gulf of Suez. Operations in these two concessions are conducted by Gulf of Suez Petroleum Company (GUPCO), a 50/50 joint venture between BP and Egyptian General Petroleum Corporation (EGPC). Production from the concessions amounts to over 100,000 barrels of oil equivalent a day (boed).

Kuwaiti women get the vote

Kuwait's women's activist Roula al-Dashti shouts for joy after parliament passed the new law.

Kuwait City — Kuwaiti women have been granted the right to vote and stand in elections, under a historic amendment to the state's election law that triggered celebrations outside parliament, according to Agence France Presse.

The Kuwaiti Prime Minister, Sheikh Sabah Al-Ahmad Al-Jabir Al-Sabah, told reporters in parliament that he planned to name a woman minister.

"God willing, it will be soon. Now we have the right to appoint women in the government," he said, adding: "Thank God ... that women got their political rights.

"I congratulate the women of Kuwait for having achieved their political rights."

Kuwaiti women now join their counterparts from Gulf neighbours Qatar, Oman and Bahrain in having the vote.

The amendment, which was finalized after several years of debate and struggle by Kuwaiti women, passed by a vote of 35 Members of Parliament (MPs) in favour, including 14 ministers, 23 against and one abstention. The bill had been opposed by conservatives.


Reuters

Iraq's new cabinet includes several women.

Arab women increase MP presence

The number of women Members of Parliament (MPs) in the Arab world has almost doubled in the last five years, according to a new report.

The International Parliamentary Union (IPU) said 6.5 per cent of the region's MPs were women, compared with 3.5 per cent in 2000.

Jordan, Tunisia and Morocco contributed most, but the trend should continue thanks to the recent Iraqi elections (see picture).

However, the region is still well below the world average, with several Gulf states having entirely male parliaments.

The result, announced by Parliamentary Speaker, Jassem Al-Khorafi, was greeted with thunderous applause from the public gallery who also sang Kuwait's national anthem.

Women activists and their supporters came out of parliament cheering the result, and singing and dancing, while others were in disbelief.

"This is a historic moment. It's difficult for me to speak," activist Fatima Al-Abdali said, who was in tears. "Today, it was a victory for democracy ... the day of completing democracy in Kuwait."

The final vote came after a nine-hour heated debate during which anti-women MPs tried to block the vote after realizing the government had a sufficient majority to pass the amendment.

But they succeeded in passing an addition to the amendment requiring Kuwaiti women who take part in the elections "to comply with regulations dictated by Islamic Shariah law", without explaining the nature of those guidelines.

"I am overexcited. I can't believe this," activist Roula al-Dashti said, who clarified that she would stand for election in 2007. "I'm starting my campaign as of today."

Dashti said she was not concerned by the reference to Shariah law.

Hard-line MP Waleed Al-Tabtabai said: "This vote is against the will of the Kuwaiti people ... it aims at changing the identity of the society."

Opponents had fiercely campaigned against women's suffrage on the grounds that Islamic teachings bar women from participating in political life.

The amendment of Article 1 of the electoral law automatically allows women to vote and run for both the municipal council and parliament.

The article, which dated back to 1962 and limited the right to vote to men, was deemed out of step with the state's constitution which stipulates equality of the sexes.

The amendment will increase the number of eligible voters in Kuwait from the current 145,000 males to more than 350,000 people, or 37 per cent of Kuwait's native population of 950,000.

Saudi Arabia to liberalize banking on road to WTO

President Bush greets Saudi Crown Prince Abdullah at his ranch in Crawford, Teaxas.

Jeddah — Saudi Arabia will allow foreign investors to own 60 per cent of the local banks' capital instead of 49 per cent before the end of this year, according to a report last month in the English-language daily *Arab News*.

Arab News quoted the *Al-Eqtisadiah* business daily as saying that Saudi Arabia would take this step according to the requirements needed to become a member of the World Trade Organization (WTO).

The official announcement of Saudi Arabia's membership to the WTO would be made at the organization's meeting in Hong Kong in December, according to the report.

The United States President, George W Bush, promised last month after meeting Saudi Arabian Crown Prince Abdallah bin Abd Al-Aziz Al Saud at his Texas ranch that Washington would support the Kingdom's efforts to join the WTO before the end of this year.

Saudi Arabia has 11 banks, out of which seven are partially owned by foreign investors. The seven banks are Saudi British Bank, Saudi Hollandi Bank, Banque Saudi Fransi, the Arab National Bank, Samba Financial Group, Bank Aljazira and the Saudi Investment Bank, with foreign stakes varying between 31 and 40 per cent.

"The Saudi and American negotiators have reached an agreement last month on increasing the share of foreign investors in the capital of a bank to 60 per cent," *Al-Eqtisadiah* said.

Saudi Arabia has enacted and updated a number of laws in recent years in its bid to join the world body. They include opening up the insurance and telecom sectors for foreign investment.

A WTO agreement with the US is the remaining major hurdle before the Kingdom's admission to the body. The talks between Crown Prince Abdallah and Bush were instrumental in helping the Kingdom achieve its goal.

At the time, the Saudi Arabian Minister of Finance, Ibrahim Abd Al-Aziz Al-Asaf, expressed his optimism about the Kingdom's speedy WTO accession and said the remaining technical issues related to WTO agreement with the United States could be resolved within weeks.

Speaking to Saudi Television on the outcome of Crown Prince Abdallah's meeting with Bush, Al-Asaf said the US assurance to help Saudi Arabia win WTO membership before the end of this year was a significant achievement.

"We have reached an agreement on major topics during our talks with the US Secretary of Commerce and Industry and the US negotiating team. Only technical aspects are remaining which could be settled within the coming days or weeks," Al-Asaf said.

Budget blow for Nigeria's leader

Abuja — The Nigerian Senate has rejected plans by the Nigerian President, Olusegun Obasanjo, to curb budget increases for 2005 despite a warning by the International Monetary Fund (IMF) to limit spending, the BBC has reported.

An alliance of senators said government plans to unilaterally cut Nigeria's 1.8 trillion naira ($13.6 billion) budget was "illegal and unconstitutional".

Last month President Obasanjo had signed a bill into law sanctioning a 38 per cent jump in spending, compared with 2004. But in May the President said his government would not implement the 2005 budget in full.

Members of Nigeria's Upper House voted unanimously to reject President Obasanjo's plans to scale budget spending back to 1.7tr naira.

"We would adjudge any review unacceptable to the National Assembly and the Nigerian people," the Chairman of the Senate Committee of Information, Tawa Wada, said. "If he (the President) has to slash the budget, the law has to be amended," Senator Mukhtar Aruwa said. "It is not for him to sit there and unilaterally slash the budget without the law being amended."

President Obasanjo originally submitted a budget proposal for 2005 of 1.685tr naira.

However, that figure was inflated to 1.8tr naira following six months of political wrangling between Nigeria's National Assembly and the government.

During this time, the President sacked his Minister of Education for allegedly bribing politicians to increase his budget. The scandal eventually led to the resignation of the Senate President.

Nigeria has come under international pressure over its spending plans for the current year.

In a recent report, the IMF described Nigeria's budget as "the greatest risk to macroeconomic stability."

Specifically, the IMF said the 2005 appropriations bill "implied a 52 per cent increase in federal government spending financed by higher oil revenue, the use of half of the 2004 savings of oil revenue windfall, sales of government assets, and privatization receipts."

Higher oil revenue would result from the increase in the budget reference oil price, from $25 to $30 per barrel, which the IMF said appeared to be too high "because of underestimated cost offsets against companies' petroleum profit tax liabilities, which increases the resources available to state and local governments (SLGs).

"There is also a risk that the oil revenue windfall from domestic crude oil sales would be distributed for spending, as in 2004, which would greatly increase SLG spending," the IMF said.

As a result, the implementation of the appropriations bill, and distribution of much higher oil revenue to SLGs would lead to a sharp widening of the non-oil primary deficit to 47 per cent of non-oil GDP (from 35 per cent in 2004).

"The significant expansion in domestic liquidity following from such loose fiscal policy would reignite inflationary pressures and undermine the achievements of 2004," the IMF said.

IMF Managing Director, Rodrigo Rato (l), after a bilateral meeting with Nigerian President Olusegun Obasanjo.

The lending body also said that any substantial increases in spending should be matched with increases in efficiency.

As for the 2006 budget, the IMF welcomed Nigeria's plan to move to a more goals-oriented approach to budgeting by the ministries.

"The budget office would set specific spending limits within a medium-term expenditure framework. In addition, the mission recommends to also determine allocations to programmes within line ministries in order to permit a more meaningful functional classification of the budget and improvement of information on budget execution at the level of the spending units," the IMF said.

The lending body said that expenditure tracking surveys would help identify "useful improvement in financial management, monitoring and institutional arrangements."

The IMF also said it welcomed the creation of a poverty monitoring and tracking unit to ensure that the allocated resources reached their intended purposes.

Polio cases spread in Indonesia

Indonesian mothers wait for polio vaccinations with their children in Sukabumi, West Java.

London — Four young children in Indonesia are now confirmed to have polio, in the country's first outbreak in a decade, the BBC reported.

Officials said other suspected cases, all of which have been recorded in the same area of West Java province, were still being investigated.

The World Health Organization (WHO) has called on Indonesia — which generally has good vaccination coverage — to step up its campaign.

Officials have said they were confident they could prevent a major outbreak.

Polio is a waterborne disease which usually infects young children by attacking the nervous system. It causes paralysis and muscular atrophy, and there is no cure.

Polio vaccination rates across Indonesia as a whole stand at about 90 per cent, but in western Java the rate has been around 55 per cent.

Authorities have now launched a drive to immunize five million children in the area.

DNA tests done on a viral sample from one of the infected children has determined that the polio arrived in Indonesia from Nigeria, via Saudi Arabia.

Experts suspect the strain could have been carried by migrant workers or pilgrims visiting Muslim holy sites in Saudi Arabia.

The disease has all but disappeared in the developed world, but it is still endemic in Nigeria, a problem that was made worse in 2003 when rumours were spread that the polio vaccine had been contaminated to make people infertile.

Until the middle of last century, when a vaccine was discovered, polio was endemic across the globe, and the international campaign for universal vaccination has been one of the great successes in the fight against disease of recent years.

US 'blocking Iran plastics deal' — INPC

London — Iran's National Petrochemical Company (INPC) said last month that it was being excluded from buying a major Dutch plastics maker by political pressure from the United States.

Polypropylene maker Basell is being sold by its joint owners, Shell and chemicals giant BASF of Germany.

INPC has been "unofficially told Iran cannot buy Basell," the Islamic Republic News Agency (IRNA) cited the firm's boss as saying.

A Shell spokeswoman in London reportedly said the Basell negotiations were confidential. She declined to confirm whether the Iranian firm was among the bidders being considered, or comment on press reports that US officials had raised objections. US firms face trade sanctions if they import Iranian goods.

Basell is the world's biggest maker of polypropylene and its US customers are worried about the implications of an Iranian deal, according to Reuters and the *Wall Street Journal*.

US sanctions date back to tensions following Iran's 1979 Islamic Revolution.

But diplomatic tensions with the US and Europe are currently escalating over Iran's nuclear programme, making a change of policy unlikely.

"Shell and BASF announced that we had an intention to review strategic alternatives for Basell in July 2004.

Offers for the company have been received and advanced discussions have taken place," the Shell spokeswoman said.

"We are bound by commercial confidentiality and I cannot give you any further comment."

A deal to sell Basell for €4.4 billion ($5.7bn) is reportedly close to completion. Its products are used in everything from plastic bottles to car parts.

"Although INPC won all aspects of the Basell tender, due to US pressures, we cannot buy Basell," IRNA quoted the Iranian firm's Managing Director, Mohammed Reza Nematzadeh, as saying.

An Indian firm, Haldia, is now poised to win the bidding for Basell, the *Wall Street Journal* reported. Haldia is backed by two New York-based financiers, Chatterjee Group and Access Industries.

The US is "concerned that Basell is a very large multinational with a high degree of technology and Iran is state sponsor of terrorism and a proliferator," Reuters cited a US State Department official as saying.

UAE plans new telecom company

Sharjah — Tough competition is expected in the monopolized telecom sector of the UAE following a government decision to license a new company with a capital of four billion dirhams, according to the English-language daily *Arab News*.

Until now, the government-controlled Emirates Telecommunications Company (Etisalat) was the only operator in the sector. The state owns 60 per cent of stakes in Etisalat and UAE citizens own the rest.

The state pension and social security fund and other private investors will hold a 40 per cent stake in the new entity, which is expected to be operational early next year.

According to the Director General of the Telecommunications Regulatory Authority (TRA), Mohammad Al-Ganem — which approved the decision in May — the new company would be a local entity with local investment and there would not be any foreign investors at the launching stage.

"The new company will be based exactly on the model of Etisalat and it will be a purely local investment venture," Al-Ganem was quoted as saying in the local press.

"At this stage there will be no foreign company involved."

The license agreement is expected to be signed before August this year. Other details are yet to be finalized.

For years, it has been argued that the UAE should open up its telecom sector for a second GSM operator.

The UAE Minister of State for Finance and Industry and Chairman of TRA, Hamdan Bin Rashid Bin Said Al Maktum, said licensing a second telecom operator was the first step in the liberalization of the sector.

"We will create the fertile ground and environment for all telecom companies in order to achieve their aspired goals in the short and long term," he told the official UAE news agency, WAM.

A man speaks on his mobile phone at Dubai's Etisalat.

Qatar to host G77 summit in June

Qatar Tourism Authority

Doha — Some 60 heads of state and many prime ministers, including Britain's Tony Blair, will attend the second Group of 77 and China South Summit in Doha on June 15–16, a senior Qatari official said last month, according to a report in the English-language daily *Arab News*.

"Around 60 heads of state and a large number of heads of government and ministers will attend the biggest global summit to be held in the Middle East," Qatar's Assistant Foreign Minister, Mohammad Al-Rumaihi, told reporters.

The heads of state will get together on June 15–16, but their summit will be preceded by preparatory meetings of foreign ministers and other senior officials, he said.

Qatar expects to host more than 5,000 people between June 10 and 17 in connection with the summit, including some 1,500 participants, 3,000 aides and bodyguards and 800 journalists, Al-Rumaihi said.

The deliberations will focus on "strategic issues of concern to the South ... the main goal is to promote development and tackle problems which hamper (economic growth) in member states," he said.

The summit will also look into trade within the group and relations with the North, the Qatari official said.

He added that Blair would address the summit on behalf of the Group of Eight industrialized nations to explain his proposals to solve debt problems.

Saudi Arabia loosens control on citizenship laws

Jeddah — The Interior Ministry's Agency for Civil Affairs in Riyadh will start accepting citizenship applications from May 23 for foreigners who qualify, an official statement said.

The statement released said aspirants holding doctorates would get preferential treatment, according to a report carried by the English-language daily *Arab News*.

"Applications of those holding doctorates in medicine, engineering and other sciences will be received from May 23 to June 8," the statement said.

According to the BBC, thousands of foreign residents in Saudi Arabia started queuing to apply for Saudi citizenship on hearing the news.

Large crowds built up outside government offices in several Saudi cities as people scrambled to get hold of forms to apply for citizenship. In some places, the forms ran out early.

Applicants must have stayed in the Kingdom for not less than ten years. They must accumulate a minimum of 23 points to qualify in the first stage of the process. Those with doctorates get 13 points in addition to 10 points for a 10-year continuous stay.

Applications of those holding master degrees and have family connections with Saudis would be accepted from June 11–29, provided they have accumulated 23 points.

The date for submitting applications by bachelor degree holders is from July 2–20; candidates should have obtained at least eight points from a family relationship.

Qualified women can submit their applications through legal agents conforming to the same principles.

The agency said it would not accept re-applications from candidates whose applications were rejected earlier unless they acquired at least eight points.

Libya grapples with unemployment

Libya's Prime Minister, Shokri Muhammad Ghanem.

London — After many years when the entire population officially had jobs, Libya is now trying to tackle a growing unemployment problem, as it moves towards a more liberal economy, according to the BBC in a report last month.

Socialist ideology remains deeply entrenched in the mindset of many Libyans, where officials are currently struggling to define unemployment and to find solutions for its jobless citizens.

Official estimates say 13 per cent of Libyans are unemployed. With a local population of 5.5m people, half of whom are under 20, this is an alarming figure and one that calls for solutions. The government recognizes that there is a problem.

Libya's Prime Minister, Shokri Muhammad Ghanem, told the BBC that unemployment was one of the country's highest priorities on its list. He said there are many reasons why the problem has emerged.

"There are so many factors, among them (being that), at certain period in time, Libya's schools and universities unfortunately stopped teaching English for a long time, which affected the abilities of Libyans to work for foreign companies and also their ability to comprehend what's (going on) around them in this world."

The Prime Minister added that some foreign companies had violated the mandatory quotas for Libyan employees, and that the government seemed to have been relaxed in implementing the laws and regulations in that regard.

But Ghanem said the government was committed to addressing the problem. "First of all there's a crash programme in training, and training in (the) English language, both locally and abroad," he said. "Secondly, trying to implement the laws we have, and thirdly, to encourage Libyanisation in foreign companies."

But unemployment in Libya is different from unemployment in the rest of the world, because in the past everyone expected a job in the state sector, according to the Foreign Affairs Co-ordinator of the Revolutionary Committee, (a body to promote Libyan leader Moammer El Qaddafi's ideology), Mustafa Al-Zaidi.

"Previously, everyone who graduated from high school or universities was employed by the state," he said. "Of course now the state is overcrowded by employees."

He added that some Libyans would only work in administrative and managerial jobs and said that three million foreigners had gone to Libya to do the work locals refused to do.

Gaddafi's Green Book emphasizes the need for "partners, not wage-workers" and describes wage-workers as "a type of slave".

This ideology presents a conflict with the principles of a free market economy to some, but to others, like Zaidi, this is the way forward for Libyan society.

"We believe in 'partners, not wage-workers' and we are calling for a free society," he said.

"That's why you can see in Libya some who are not implementing the principles of the Green Book of the Revolutionary Committee movement. Maybe they don't agree with it and feel its wrong. We are not forcing them to be partners with a stick, that's not the way it works."

Although the principles outlined in the Green Book are enshrined in Libyan law, Zaidi hinted this could change.

"We raise our points in front of the people's congresses and individuals, if they accept it as a policy, it will be a law; (the) people will choose," he said.

Zaidi went on to stress that the Revolutionary Committee movement did support privatization, but not in a capitalistic way.

Improving aid efficiency

Delivering aid is not an easy task, the primary concern being whether the money ends up being used prudently, or for its intended purpose.

Essentially, every aid agency that has been in the business for a long time knows the issues concerned when it comes to the effective management of aid deployment, which involves many partners and parties, and crosses many geographic and cultural boundaries.

The issues can be challenging and complex, and the harmonization of aid goals between donors, agencies and countries can be difficult when the same processes, or reporting procedures are not followed in every case.

Harmonizing aid goals

The OPEC Fund for International Development has been in the aid business for 29 years now, and knows the issues involved in building partnerships for development, which happens to be one of the eight United Nations Millennium Development Goals (MDGs).

Part of the challenge in building effective partnerships includes the harmonization of aid goals, which is the current buzzword in development circles since the meeting on Joint Progress Toward Enhanced Aid Effectiveness was held in Paris in March.

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Eradicate extreme poverty and hunger

Achieve universal primary education

Promote

The high level forum addressed the issues of ownership, harmonization, alignment, results and mutual accountability of development aid.

In the closing statement, it was agreed that "aid effectiveness must increase significantly … to support partner country efforts to strengthen governance and improve development performance."

In order to enhance partner country efforts, especially in light of the MDGs, it is essential that all aid donors maintain close contact with beneficiary countries. Accordingly, the OPEC Fund Director-General, Suleiman J Al-Herbish, recently undertook two important visits to Egypt and Yemen to reinforce the Fund's relationship with the countries, review ongoing operations and discuss further co-operation.

In Egypt, the OPEC Fund has supported the development process in the public and private sectors. Financial assistance amounting to more than $102 million has been given for public sector projects in the fields of energy, agriculture, education, health and national development banks.

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gender equality and empower women

Reduce child mortality

Photos: Reuters

While in Egypt, Al-Herbish had a working meeting with the Egyptian Minister of International Co-operation, Fayza Aboulnaga, as well as with a number of ministers and representatives from the private sector. He also met with the Secretary-General of the League of Arab States, Amre Moussa, with a view to strengthening mutual co-operation regarding development projects in the Arab region as a whole.

In Yemen, the Fund has extended development financing totalling over $177m to the country. This sum includes balance of payments support as well as co-financing for projects in a wide range of sectors.

Yemen has also benefited from diverse grants for regional programmes in the areas of health, social development and education, as well as emergency assistance for flood victims.

Al-Herbish met the President of Yemen, Ali Abdullah Salah, and the Prime Minister, Abdulquader Bajamal. The Fund delegation was warmly welcomed on both occasions and thanked for its long standing support to the country, which began in 1976, the year of the institution's establishment.

Both the President and the Prime Minister prioritized vocational training, sanitation, agriculture, power and education as areas of special focus in the country's development plan.

Al-Herbish assured the leaders of continued support, noting that Yemen was always accorded the utmost importance in the Fund's lending programmes.

"Yemen's priorities are the Fund's priorities," the Director-General said.

These types of co-operative visits are essential for serious aid and development issues to be tackled and for the streamlining of international efforts to address some of the most pressing needs which affect developing countries.

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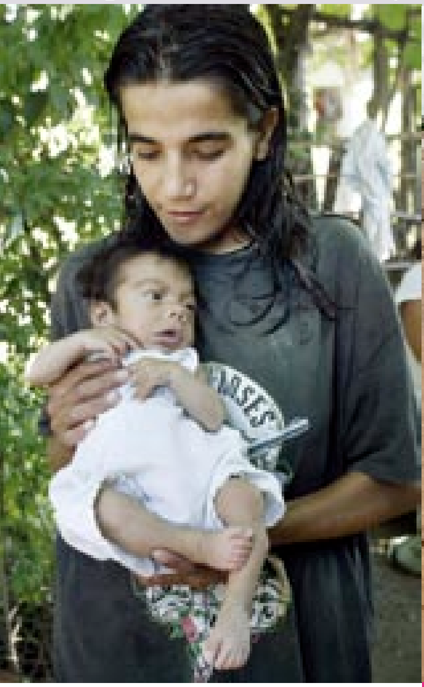

Improve maternal health

Ensure environmental sustainability

Develop a

Stronger support for MDGs

As far as the MDGs are concerned, Al-Herbish recently spoke at the 32nd International Energy Conference of the International Research Center for Energy and Economic Development in the USA where he called for stronger political will to push forward global poverty eradication efforts and help developing countries achieve the MDGs.

"The political will to shift from dialogue and consensus-documents to action remains key to transforming the vision of sustainable development into reality," he said.

Recalling the many pledges made by the international community to sustainable development since the first Earth Summit in Rio de Janeiro, Brazil, in 1992, Al-Herbish noted the lack of concrete progress in many areas.

"Issues of growth with equity have remained largely unresolved," he stated.

"The world's poorest countries have not been able to share the benefits of globalization; indeed they face further marginalization from the main world economy."

Al-Herbish called for greater co-operation among all stakeholders in the development process.

"The diverse difficulties of today cannot be resolved by any single government or development agency, acting alone," he said.

The OPEC Fund, he asserted, was fully committed to working with others to fight poverty and inequality.

The Director-General went on to emphasize the commitment of the OPEC Fund's Member Countries to global social and economic progress, citing the pledge made at the First OPEC Summit of Sovereigns and Heads of State in 1975 and reaffirmed 25 years later at the Second Summit in Caracas, Venezuela in the year 2000.

"The resolve of OPEC Fund Member Countries (to live up to the Fund's mandate) is as strong today as it ever was," he said.

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global partnership for development

Combat HIV/AIDS, malaria and other diseases

Photos: Reuters

March

This section is based on the OPEC Monthly Oil Market Report published in mid-April by the Research Division of the Secretariat, containing up-to-date analysis, additional information, graphs and tables. The publication may be downloaded in PDF format from our Web site (www.opec.org), provided OPEC is credited as the source for any usage.

Crude oil price movements

OPEC Reference Basket[1]

The Basket started off strong in March, continuing the upward movement seen in the last two decades of February. Deteriorating arbitrage economics for western barrels headed east enhanced the bullish sentiment in Asia while lower programmes for March loading in the Mediterranean and tight gasoil and heating oil in Europe gave a further boost to market sentiment. Continued concern over high global demand amid downstream bottlenecks also pressured prices. As a result, the Basket's weekly average gained $2.63 or nearly six per cent to stand at $46.58/barrel. The arbitrage situation hindered Russian crude from heading east, leaving indisposed cargoes to pressure the regional market. A continued cold snap in the Western hemisphere combined with an upward revision to US Energy Information Administration's (EIA's) demand projection spurred a revival in the futures market. The prospect that demand could outpace supply sent the Basket surging close to $50/b to close the second week with an average of $48.76/b for a rally of $2.20/b or 4.7 per cent. While continuing to suppress the regional market, freight rates supported sentiment across the Atlantic and Asia. This was furthered by another cold snap in the US East Coast. Market bullishness was further enhanced by the hefty fall in US product inventories of gasoline, distillates and heating oil. Accordingly, the Basket rose $1.72 or 2.8 per cent to settle at $50.13/b. With US crude oil stocks at three-year record highs and OPEC discussing a further output increase of 500,000 b/d, the market eased. However, a tragic refinery blast in the USA added concern over a shortfall in refined products and pushed the weekly Basket price up 59¢ or 1.2 per cent to a new record high of $50.72/b. Despite slimming demand in Europe due to April maintenance and another hefty build in the US crude oil stocks, continued concern over the hefty draw on gasoline inventories ahead of the driving season supported prices. Although the Basket saw a healthy rise in the last day of March, the final weekly average was down a hefty $1.56 or over three per cent to settle at $49.16/b (see **Table A**).

On a monthly basis, the Basket registered a strong surge in March, gaining $7.40 or 17.75 per cent over the previous month to settle at $49.07/b. This was due in part to the prolonged late winter cold snap in the USA and an upward revision in world oil demand at a time when additional OPEC supply was seen as not being sufficient to meet the expected surge in demand. The March Basket stood $17.02/b higher than the same period last year. The daily Basket price continued the previous month's upward momentum in March, rising through to the third week to a peak of $51.76/b. Following a downtrend in late March, the Basket turned upward again in early April, pushed higher by an investment bank report predicting that oil prices were in a 'super-spike' period that could see prices reach as high as $105/b over the next few years. Accordingly, the Basket jumped to an all-time high of $52.93/b. Nevertheless, this bullish momentum was short-lived and by the end of the first week in April, prices had eased on healthy crude stock-builds in the USA amid consideration of a second OPEC output increase. The Basket closed the first week in April at $49.94/b, with a weekly average of $49.16/b, while the month-to-date price reached $52.05/b, an increase of $2.98 over the March average.

US market

Crude oil prices strengthened towards the second half of February with March beginning on a bullish note with concern over the restart schedule of the Chevron/Texaco's Petronius field in the Gulf of Mexico. A refinery glitch in the US Gulf Coast added to concern whether gasoline stocks would build to sufficient levels to meet summer demand while arbitrage was somewhat closed for the flow of transatlantic barrels. Hence, WTI surged in the first week by an average of $2.36/b while the WTI/WTS

1. An average of Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana Light and Isthmus.

spread narrowed a slight 7¢ for a weekly average of $4.87/b. Prices eased in the second week before planned maintenance at the Mars platform revived supply concerns. The WTI/WTS spread widened slightly to $4.90/b on continued tight transatlantic arbitrage activities due to the narrow WTI/Brent spread. Consequently, the WTI weekly average surged $1.85 in the second week to close at $54.03/b. While maintenance delays on the Mars platform pressured sour differentials, the lack of light sweet rival West African crude due to poor arbitrage with no sign of emerging westbound barrels pushed the WTI to peak at $56.88/b for a weekly average of $55.51/b. Hence, the WTI/WTS spread widened to $5/b. The impact of the OPEC decision to add 500,000 b/d to the market at the Meeting in Isfahan followed by another possible output increase of 500,000 b/d, was diminished by an explosion at BP's 470,000 b/d-refinery in Texas City, which turned out to be more of a tragedy than damaging to the infrastructure. However, the psychological effect placed alertness in the marketplace amid tight gasoline stocks. While the industry worried that higher OPEC production would result in reduced spare capacity, growing US crude stocks at 309 million barrels (m b) for the week closed March 18, the highest level since July 2002, helped to ease concerns, as did the prospect that China's energy appetite could have some limits. WTI slipped, with the weekly average down $1.11 to settle at $54.40/b. The final days in March saw a continuation of the downtrend as refiners stayed on the sidelines amid high outright prices and further US stock-builds of 5.4m b. The WTI/WTS spread widened $1.05 to $6.05/b. The WTI average price for March was $53.91/b for a gain of $6.22 or 13 per cent over February.

Table A: Monthly average spot quotations for OPEC's Reference Basket and selected crudes including differentials *$/b*

			Year-to-date average	
	Feb 05	**Mar 05**	**2004**	**2005**
Reference Basket	**41.68**	**49.07**	**30.75**	**44.08**
Arabian Light	40.10	46.85	30.32	42.13
Dubai	39.35	45.60	29.50	41.27
Bonny Light	45.43	53.15	31.71	47.96
Saharan Blend	45.44	52.59	31.90	47.87
Minas	44.56	54.30	30.74	47.69
Tia Juana Light	36.77	43.50	29.17	39.04
Isthmus	40.08	47.52	31.93	42.57
Other crudes				
Brent	44.87	52.60	32.03	47.58
WTI	47.69	54.09	35.29	49.83
Differentials				
WTI/Brent	2.82	1.49	3.26	2.25
Brent/Dubai	5.52	7.00	2.53	6.31

European market

In Europe, the market emerged on a stronger note with differentials firming in both the north and the south on healthy demand. Despite the closed arbitrage, dwindled availability kept bears hibernating. However, the larger monthly programme for April weakened average refinery margins further amid a narrowing of the arbitrage window. The continued rise in freight rates and slipping refinery margins added further downward momentum to differentials in North Sea crudes at a time when absolute prices were rising. Although Dated Brent surpassed WTI late in the month following stock-builds in the USA, weak price differentials remained through March sustaining the contango market ahead of spring refinery maintenance. Dated Brent peaked in March at an all-time high of $55.72 to close the month at $52.49/b for a gain of $7.62 or 17 per cent over February.

While prices followed suit in the Mediterranean on rising global demand, differentials declined on larger programmes and not-so-tempting refining margins. The sentiment further weakened on closed arbitrage for outbound rival Russian Urals. Nonetheless, the opening of inter-continent arbitrage depressed differential further in the Mediterranean while more northern barrels flowed south. The Brent/Urals spread average in March stood at $5.44/b, nearly $1/b wider than the February average. Moreover, the prospect of more OPEC barrels added to the burden on the sweet/sour spread in the Mediterranean at a time when Iraq's Basrah Light was flowing at a steady rate.

Far East market

Mideast crudes performed stronger in Asia with May-loading Oman showing a premium, on bid at 10¢/b and on offer at 18¢/b to MOG, which continued to strengthen selling at a 22¢/b premium in the first week. Closed arbitrage supported Mideast differentials on the tight flow of western crudes. Bullish European demand for products, which limited the outflow of arbitrage cargoes, supported the market sentiment in Asia on demand from China. Hence, the Oman premium in May escalated further to 25–28¢/b to MOG in the second week. Moreover, healthy refining margins supported Abu Dhabi distillate-rich Murban to trade in the third week at a healthy premium of $1.15/b to ADNOC's official selling price (OSP). Oman was assessed at a lower premium of 12–23¢/b in the third week, before a late snap of May barrels boosted the premium to 30¢/b to MOG. Healthy refining margins continued to support Abu Dhabi Murban, while scheduled maintenance on some oil fields in May and June supported trade at a premium of $1.40/b before slipping to $1.20/b in the final days of March.

Asian market

On the regional front in Asia, the market began the month strengthened by healthy demand for sweet grades with Malaysia's April Tapis sold at a $1.50/b premium to the APPI quote. This sentiment was underpinned by the lower operational rate at Japan's TEPCO which usually requires more sweet crude for direct burning thermal plants. Hence, Indonesia April Centa and Minas were heard bought at strong premiums of $2.05 and $1.40 to Indonesian

Crude Pricing (ICP). Nevertheless, high outright regional crude prices and rising differentials made West African crude more attractive to Asian refiners. With benchmarks set at the highest level on record, Asian regional crude came under pressure. However, the procurement of local grades by Asian majors helped to boost demand for regional crudes. Continued high prices encouraged North-East Asian refiners to opt for cheaper alternative crudes. Although premiums lost momentum, May Tapis was on offer at around $1.10/b, enhanced by the scheduled maintenance at the Tapis field which prevented a further tumble at month-end. Persistent demand from Japan's TEPCO supported the spread for regional sweet grades, such as Duri and Minas for May loading which were on offer at a premium of $1.50 and $2.00 to ICP.

Product markets and refinery operations

Lingering cold weather in the US Northeast and North-East Asia, coupled with planned and unplanned refinery maintenance across the globe and the unexpected drop of US gasoline stocks in March, switched market sentiment in favour of product developments. This situation sparked fears of a gasoline supply crunch during the US driving season and has overshadowed bearish developments in the crude market, including stock-builds in the USA and resulting in aggressive fund-buying as well as record-high prices both for crude and products (see **Table B**).

Table B: Selected refined product prices *$/b*

		Jan 05	Feb 05	Mar 05	Change Mar/Feb
US Gulf (cargoes)					
Naphtha		50.86	48.69	59.70	11.01
Premium gasoline	*(unleaded 93)*	53.58	53.02	64.61	11.59
Regular gasoline	*(unleaded 87)*	52.58	52.11	62.64	10.53
Jet/kerosene		56.12	56.20	65.78	9.58
Gasoil	*(0.2% S)*	53.34	54.67	63.81	9.14
Fuel oil	*(1.0% S)*	31.33	31.26	34.72	3.46
Fuel oil	*(3.0% S)*	26.79	27.24	30.59	3.35
Rotterdam (barges fob)					
Naphtha		51.32	54.49	62.33	7.84
Premium gasoline	*(unleaded 95)*	47.84	49.96	56.03	6.07
Regular gasoline	*(unleaded)*	47.72	49.69	55.94	6.25
Jet/kerosene		55.05	58.05	68.81	10.76
Gasoil	*(0.2% S)*	51.92	54.31	64.60	10.29
Fuel oil	*(1.0% S)*	26.68	27.78	34.06	6.28
Fuel oil	*(3.5% S)*	23.54	25.48	30.09	4.61
Mediterranean (cargoes)					
Naphtha		41.69	44.26	51.34	7.08
Premium unleaded	*(0.15g/l)*	45.80	48.33	54.20	5.87
Premium gasoline	*(unleaded 95)*	45.72	48.28	54.23	5.95
Jet/kerosene		52.75	55.65	66.66	11.01
Gasoil	*(0.5% S)*	51.04	53.64	63.65	10.01
Fuel oil	*(1.0% S)*	28.69	29.59	35.31	5.72
Fuel oil	*(3.5% S)*	21.80	24.79	29.07	4.28
Singapore (cargoes)					
Naphtha		41.34	44.61	50.74	6.13
Premium gasoline	*(unleaded 95)*	47.57	54.27	59.47	5.20
Regular gasoline	*(unleaded 92)*	46.87	53.70	58.72	5.02
Jet/kerosene		51.10	54.54	66.33	11.79
Gasoil	*(0.5% S)*	51.26	55.74	67.24	11.50
Fuel oil	*(180 cst 2.0% S)*	28.08	30.35	34.13	3.78
Fuel oil	*(380 cst 3.5% S)*	26.61	29.28	33.61	4.33

Due to soaring prices across the barrel, the crack spread of premium products against benchmark crudes widened significantly in March, and refinery margins improved in the same month. In the USA, margins soared to $3.28/b for WTI crude, up from $2.02/b in February. In Singapore, refining margins rose 18 per cent, while in north-west Europe they were not able to outpace the benchmark's performance and declined to $2.54/b from $2.99/b in the previous month.

The new trend of the product markets is still persisting, particularly in the USA and Asia, but given increased arbitrage cargoes to the USA and the higher refinery utilization rates, the product markets may lose part of their earlier strength. However, due to limited effective refinery spare capacity, especially in the USA, the product market is exposed to refinery glitches and could again affect crude prices.

In March, the refinery utilization rate in the USA increased marginally to 90.2 per cent from 89.5 per cent in February. In Europe and Japan, the utilization rate dropped by 11.4 per cent and 10.7 per cent respectively, while in Singapore it surged 2.2 per cent compared to the previous month.

US market

US gasoline stocks dropped by about 12m b over the last weeks of March. This drop was due to higher demand, lower production and a decline in imports. On April 1, the four-week average of US gasoline demand had risen by 1.5 per cent compared to the same period last year, and that has hiked the gasoline crack spread versus benchmark crude WTI to exceed $12/b recently from about $1/b at the beginning of March. The bullishness in the gasoline market was also fueled by refinery outages in Texas and Venezuela and more fund activities in the futures market.

Similarly, continued strong demand for jet

Table C: Refinery operations in selected OECD countries

	Refinery throughput *m b/d*				Refinery utilization *per cent*[1]			
	Jan 05	Feb 05	Mar 05	Mar/Feb	Jan 05	Feb 05	Mar 05	Mar/Feb
USA	15.30	15.01	15.14	0.1	91.2	89.5	90.2	0.8
France	1.81R	1.70	1.70	0.0	92.9R	86.9	86.9	0.0
Germany	2.36R	2.27R	2.26	0.0	101.7R	97.6R	97.3	–0.3
Italy	1.83R	1.85R	1.81	0.0	78.6R	79.8R	78.1	–1.6
UK	1.65R	1.62R	1.60	0.0	90.6R	88.5R	87.7	–0.8
Eur-16	12.49R	12.31R	12.12	–0.2	90.0R	88.7R	87.3	–1.3
Japan	4.31	4.42R	3.92	–0.5	91.6	94.0R	83.3	–10.7

1. Refinery capacities used are in barrels per calendar day.
R Revised since last issue.
Sources: OPEC statistics, Argus, Euroilstock Inventory Report/IEA.

fuel and diesel strengthened the distillate market and its spread against WTI, further extending the upward trend. Over the last four weeks of March, distillate demand in the USA surged by seven per cent on average compared to the same period of last year. However, with the start of warm weather and the approaching driving season, market players focused their attention more on developments in the gasoline market rather than in distillates.

Apart from the top and middle of the barrel, the price of fuel oil in the USA also soared in line with a spike in prices in Europe and Asia and due to higher utility demand as well.

European market

Tight product supplies due to refinery turnarounds and unplanned refinery outages on both sides of the Atlantic, as well as a hike in Nymex gasoline prices following a higher-than expected draw on US gasoline stocks, lifted European product prices, and their crack spreads against the benchmark crude surged significantly over the last few weeks of March. The gasoline crack spread in Rotterdam versus Brent rose from almost zero to over $10/b on April 7.

In the Mediterranean area, the gasoline market was stronger due to higher exports to the Middle East and North Africa. The new circumstances of the gasoline market also supported naphtha prices, but demand from petrochemical plants is still sluggish, and the use of liquefied petroleum gas (LPG) as an alternative feedstock has dampened the naphtha market.

In addition to the gasoline market, demand for middle distillates in Europe, especially in the Mediterranean area, was also strong. Among the different grades of middle distillate products, the performance of jet-kerosene was excellent with prices reaching a record-high. This situation has encouraged Middle Eastern suppliers to send jet-kerosene to Europe rather than the Singapore market.

High-sulphur fuel oil prices also firmed on the back of tight bunker-spec supplies in the market and light flows from the Baltic.

Asian market

Regional robust demand, refinery shutdowns for scheduled maintenance and lower exports from the Middle East have lifted middle distillate prices significantly. This was particularly the case for jet-kerosene prices and its crack level versus the Dubai crude exceeded $24/b. China's buy tender for 430,000 tonnes of jet fuel for the second quarter has provided more support for this product. The firm market for middle distillates in Asia strengthened regional distillate-rich crude oil prices, and the price of the Tapis benchmark crude exceeded $61/b in early April.

The gasoline market has also risen due to robust regional demand and production glitches. The unplanned shut-down of a gasoline unit at the Shell Dickson refinery in Malaysia supported the high octane gasoline market. Despite the good performance of the gasoline market, the naphtha market remained lacklustre due to the maintenance schedule of petrochemical plants and higher exports from India. Following the replacement of naphtha feedstock by LPG, Indian refiners increased their naphtha exports up to 20,000–25,000 t/month.

The fuel oil market in Asia has done well over the last few weeks as result of tight supply due to refinery maintenance and less arbitrage cargoes from Europe, as well as higher utility demand in Japan. The fuel oil market in Asia for low density (18°CSt) is exceptionally tight now.

The oil futures market

New York Mercantile Exchange (NYMEX) crude oil futures rebounded in early March to a four-month high. The bulls gained momentum on a refinery glitch in Texas which pushed gasoline futures up over eight per cent in the first few days in March. The West Texas Intermediate (WTI) futures contract followed suit with the Commodity Future Trading Commission (CFTC) data for the week ending March 1, revealing that non-commercials increased long positions to over 130,000 lots, a level last seen in the previous October. Net long positions were up to 60,000 lots, the highest level since June 1. The Nymex WTI prompt month contract closed the same weekly period at $53.57/b after slipping a marginal 7¢ on the day. However, a cold snap in the US northeast stirred speculative buying interest in heating oil futures with the open interest peaking to a record high of some 775,000 contracts. The stride persisted into the second week with the CFTC report for the week ending March 8, showing that non-commercial net long positions saw another peak at nearly 77,000 lots. In the same period, Nymex WTI rose to $54.59/b following another cold snap on the US East Coast amid a weakened US dollar, which helped to inspire fund buying in the futures market. Open interest continued to climb to an all time high, breaking the 800,000 mark to reach 816,000 contracts.

The futures market sustained strength on an upward revision to the International Energy Agency (IEA) global demand forecast and despite OPEC's decision in Isfahan to boost output by 500,000 b/d to 27.5m b/d. Continued concern over the hefty drop in heating oil and gasoline inventories added momentum to the futures market as the NYMEX WTI front month peaked at an all-time high of $55.05/b on March 15. The CFTC report for the week ending March 15 revealed that non-commercial long positions increased to a record high of 169,000 contracts, the highest since May 11, last year. However, as short positions also rose to 101,000 contracts, net longs narrowed to 68,000 lots while open interest blossomed to 842,000 lots. The bullish sentiment was also supported by lingering cold weather in the US north-east, which implies that refiners still have to produce heating fuel at a time when they should be switching to gasoline. The NYMEX WTI peaked to a new all-time high of $56.72/b on March 18. In the week ending March 22, non-commercials reduced short positions at a faster rate than the longs, boosting net long positions to nearly 70,000 lots, while open interest peaked at an all-time high of more than 845,000 lots. Nonetheless, news that OPEC would begin discussions about whether to raise the production ceiling helped to reverse the oil price trend. Over the course of two days, the NYMEX WTI front month plunged 6.5 per cent, falling below the $54/b barrier for the first time in two weeks.

A tragic explosion at BP's Texas City refinery helped to reverse the downward momentum, as reassurances that there would be no impact on production appeared insufficient to suppress speculation that a key piece of the infrastructure may have suffered a damaging blow. This bullish trend proved short-lived as the continued build in US crude oil stocks spurred fund sell-offs on profit-taking. However, an expectation that OPEC would refrain from an immediate output increase generated some bullishness. Non-commercials continued to reduce their shorts at a faster rate than longs leaving the net long positions at over 73,000 contracts. Bulls got unexpected support from the infamous 'super-spike' report from an investment bank which heightened concern over refined products amid refinery bottlenecks, despite continued strong builds in crude oil inventories. The NYMEX WTI prompt month closed at $55.40/b for a gain of $3.65 or seven per cent over the same time last month.

The forward structure remained in contango throughout March for the fifth consecutive month. The average 1st/2nd month spread for March was at –68¢/b or 14¢ wider in contango than in February. Moreover, the contango extended into the sixth month, with the 1st/6th month spread widening a further 60¢ to –70¢/b in March. A continued crude oil stock-build prolonged the contango, with the spread widening towards month-end to reach over $1/b. The US crude oil inventory closed the last week in March at 315m b or more than 23m b higher than last year at this time, a level last seen in July 2002.

Tanker market

OPEC area spot fixtures declined in March for the first time this year to average 14.12m b/d compared to 15.83m b/d in the previous month. Despite persistent higher OPEC crude oil production, the drop of 1.71m b/d occurred due to expected lower seasonal demand as well as refining maintenance in different regions. However, OPEC's share of total spot chartering moved up to 67 per cent against 62 per cent in February, the highest level since November 2004, and gained three percentage points compared to the same period of 2004. Most of the decline was attributed to Middle Eastern fixtures, especially on the Middle East/westbound long-haul route, which fell 21 per cent, following the end of winter in the Northern Hemisphere implying lower demand for crude. Middle Eastern long-haul fixtures accounted for 53 per cent of OPEC global chartering. Similarly, non-OPEC spot fixtures declined a further 2.6m b/d to stand at a monthly average of 7.0m b/d, which was 1.7m b/d lower than last year's figure. The combination of the drop in OPEC and non-OPEC fixtures led global spot chartering to average around 21.2m b/d, which corresponded to a significant decline of more than 4.3m b/d, the highest level in almost a year. According to preliminary estimates, sailings from the OPEC area fell by 1.1m b/d to stand at an average of 23.52m b/d, with the Middle East, which represented 72 per cent of OPEC's sailings, falling by around 800,000 b/d. Preliminary data shows that, contrary to the previous month, arrivals in the USA and the Caribbean declined in March by nearly 500,000 b/d to average 11.14m b/d, but remained 1.5m b/d higher than the March 2004 level. At the same time arrivals in the Euromed region declined by 500,000 b/d to stand at an average of 4.0m b/d, the lowest level since October 2004. However, arrivals in Japan remained unchanged at 4.4m b/d. The only exception was NW Europe which experienced an increase of 300,000 b/d.

Spot freight rates for crude oil showed mixed patterns across the different sectors. After displaying a strong recovery in February, freight rates for the very large crude carrier (VLCC) sector slipped on a monthly basis by 25 per cent to 28 per cent in March due to an increase in tonnage availability and low fixtures. Freight rates on the Middle East/eastbound long-haul route fell by 40 points to stand at a monthly average of Worldscale 105, while on the Middle East/westbound long-haul route, they declined by 29 points to W92. This significant drop resulted from a growing increase in tonnage availability as buyers from countries with limited desulphurization capacity, particularly China and India, looked outside the Middle East for sweet crudes to meet requirements for light products with more stringent sulphur specifications. In addition, the start of refinery maintenance in some Asian countries such as Japan, China and South Korea put more pressure on freight rates by reducing demand for crude oil and therefore the number of cargoes. However, compared to last year, freight rates on both routes were almost at the same levels as in March 2004. In the Suezmax sector, freight rates on the West Africa/US Gulf Coast route increased slightly by six points to W166, reversing a decline of seven points in the previous month, while on the NW Europe/US East and US Gulf Coasts, rates dropped by eight points to average W159, which was slightly higher than the March 2004 level because of limited arbitrage due to a minor differential between WTI and Brent-Forties-Oseberg (BFO). The West Africa/US Gulf Coast route saw the only increase in the Suezmax sector which confirms the competition between the USA and some Asian countries for the light sweet African crudes to meet the necessary product demand. The Aframax sector showed mixed movement with freight rates on the Indonesia/US West Coast route experiencing a strong increase of 71 points or 42 per cent to reach an average of W239. At the same time, a sudden surge of activity sharply pushed up freight rates on the Caribbean/US East Coast to average W258, which corresponded to a substantial 43 point increase after a loss of 138 points in February. In contrast, freight rates in the Mediterranean and from there to NW Europe declined for the fourth consecutive month, although losses were lower than in the previous month, as a result of a decline in activity due to refining maintenance in Europe. It is worth noting that most of the routes in different sectors recovered quickly in the second half of March following OPEC's decision to increase production by 500,000 b/d.

Product freight rates increased on all routes as a result of high demand for distillates supported by cold weather in combination with the refining maintenance in Asia, Europe and the USA. Freight rates for vessels carrying 30,000–50,000 dwt along the Middle East/East route increased by 11 points compared to a slide of 67 points in the previous month, to stand at an average of W303. Similarly, the Singapore/East route gained 22 points, pushing average freight rates to W347. Compared to March 2004 figures, rates on both routes for cargoes heading to the East were 42 points higher each. The Caribbean/US Gulf Coast route showed a significant increase of 45 points or 18 per cent to reach an average of W302, while the NW Europe/US East and US Gulf Coast routes gained 38 points to stand at an average of W329. However, freight rates within the Mediterranean region and from there to NW Europe continued to climb for the second consecutive month, growing a substantial 40 points to average W335. The increase in the Mediterranean region was quite small up four points to average W313.

World oil demand

Forecast for 2004

World

As further revisions to the demand data for 2004 have been incorporated, based on the latest information, global as well as regional figures have seen only marginal revisions. With minor increases and decreases netting out, the figure for total world oil demand growth of 2.61m b/d for 2004 is slightly lower than the assessment presented in the last report. Likewise, changes to the quarterly distribution were minor with the first and third quarters revised up by 20,000 b/d while the fourth quarter was up 10,000 b/d, while 2Q remained unchanged. On a regional basis, OECD as well as total other regions aggregate demand was unchanged at 49.54m b/d and 11.24m b/d, respectively, while total developing countries consumption was marginally revised up by 30,000 b/d to 21.36m b/d. All in all total world demand is estimated to have grown by 3.28 per cent to a yearly average of 82.13m b/d.

Forecast for 2005

Total world oil demand for the present year is projected to rise by 1.89m b/d or 2.3 per cent to average 84.02m b/d, on continued strength and global oil consumption above recent years but below 2004. World oil demand has been revised up slightly, mainly due to lower than normal temperatures in the Northern Hemisphere during the second half of February and the first half of March as well as on indications of somewhat stronger consumption from preliminary data from the OECD for the first two months of 2005, despite a minor downward revision to the forecast of total world economic activity, which now stands at 4.12 per cent. As mentioned above, preliminary data for OECD countries for the period January-February, as well as figures on apparent demand from the FSU and China for January and direct communication data for the first quarter from OPEC Member Countries suggest that demand rose by 2.8 per cent y-o-y during the first quarter to average 84.03m b/d. This apparent significant growth rate could in part be the result of the moderate 1.63 per cent rise observed during the first quarter of 2004. It is important to note that, although projections for world oil demand growth for this year are considerably lower than actual growth during 2004, the substantially higher first quarter y-o-y growth of 2.8 per cent this year should be carefully noted. Following the exceptionally high growth of 4.87 per cent seen during the second quarter of 2004, world oil demand growth is projected to decelerate to 2.07 per cent or 1.67m b/d to average 82.62m b/d for the second quarter of 2005. Demand is estimated to gain momentum during the last two quarters of the year on the back of strong consumption in transportation and heating oil fuels. The 3Q world oil demand is estimated to grow by 2.2 per cent or 1.8m b/d to 83.55m b/d, while demand in the last quarter is estimated to reach 85.83m b/d, or just a notch below the unprecedented 86m b/d mark.

OECD

Total OECD consumption is estimated to grow by 0.8 per cent or 390,000 b/d during the present year to average 49.92m b/d. On a regional basis, North America will account for a big proportion of the increase (350,000 b/d) and the USA will contribute more than 80 per cent of that growth. Preliminary supply figures for the period January–March 2005 released by the EIA indicate that finished motor gasoline deliveries rose by 0.7 per cent to 8.92m b/d versus the same period last year. Distillate deliveries remained almost flat during the first three months of 2005, while kerosene and fuel oil rose by 3.7 per cent and 9.8 per cent, respectively. The estimated 0.6 per cent y-o-y increase in Western Europe's demand, which translates into 100,000 b/d, will be partially offset by the projected drop of 60,000 b/d in OECD Pacific demand. The split of total OECD oil requirements by products for January 2005 shows that inland consumption grew by 0.3 per cent or 150,000 b/d versus January 2004 to 46.08m b/d. Consumption of fuel oil and naphtha rose by 4.5 per cent and 4.4 per cent in January while LPG and gas oil/diesel demand fell by 3.4 per cent and 0.8 per cent, respectively. In North America, inland consumption rose by 350,000 b/d or 1.54 per cent on demand for fuel oil (210,000 b/d) and gasoline (150,000 b/d). In contrast, inland consumption in Western Europe fell by 170,000 b/d or 1.25 per cent on a sizable drop in gasoline, fuel oil and LPG consumption. Strong naphtha demand was not sufficient to counteract the fall in LPG, gasoil/diesel and fuel oil consumption in OECD Pacific countries.

Developing countries

Developing countries oil consumption – based on lower but still healthy economic growth figures compared to the previous year – is estimated to rise by 3.8 per cent or 810,000 b/d to average 22.17m b/d. The estimated growth in demand in this group of countries will make up for more than 40 per cent of total world oil demand for the present year. Demand growth for products from the Asian countries within this group was revised upwards from the last report – increased by 50,000 b/d to 290,000 b/d based on the healthy 5.3 per cent projected rise in GDP for 2005 and indications of strength in consumption during February and March.

It is important to mention that, in response to the new market reality of high oil prices, several Asian countries have started to introduce measures to curb demand growth especially in the transportation sector. The Indian and Chinese governments recently increased the price of gasoline and China is likely to raise diesel prices once the harvest season is over. In the same line, Indonesia and Thailand lowered subsidies on transportation fuel and Malaysia is expected to follow suit. Record high oil prices and record revenues for many Middle Eastern producing countries, supporting solid GDP growth rate of 7.55 per cent point to another solid rise in oil demand in that region. Oil consumption is forecast to increase by 300,000 b/d or 5.61 per cent to a yearly average of 5.64m b/d. In Latin America and Africa demand is expected to rise by 140,000 b/d and 80,000 b/d based on healthy projections of economic expansion.

Other regions

Oil demand in this group in estimated to rise by more than six per cent y-o-y or 700,000 b/d to reach an average of 11.93m b/d for 2005. China's yearly average demand is projected to reach 7.12m b/d which represents a y-o-y rise of 9.2 per cent or 600,000 b/d. Very preliminary data and estimates of production and trade figures indicate that apparent consumption in China grew by seven per cent to 6.67m b/d during 1Q2005.

Despite this significant growth it is only half of the 15 per cent rise in apparent demand for the first quarter of 2004. Preliminary trade data, subject to further revisions, showing healthy import levels of crude and products is the main reason behind such growth. China's net imports of crude and products seem to have dropped in January following healthy buying and stocking during the last quarter of 2004 but rebounded substantially in February following the end of the Chinese New Year. Preliminary indications for March point to another month of healthy buying. In the FSU, very preliminary production and trade statistics show that apparent demand rose by more than five per cent to 3.81m b/d during 1Q2005. However, this preliminary figure is likely to be revised downward in the near future. As for the whole year, FSU apparent demand is projected to rise by 2.27 per cent or 90,000 b/d to 3.86m b/d. Oil consumption in the group of Central European countries is projected to increase by three per cent or 30,000 b/d to reach a yearly average of 860,000 b/d.

World oil supply

Non-OPEC

Estimate for 2004

The total non-OPEC supply estimate for 2004 remains unchanged. Non-OPEC supply averaged 49.74m b/d for the year, which represents an increase of 1.1m b/d from 2003, or 2.2 per cent y-o-y. The quarterly distribution for non-OPEC supply was 49.67m b/d, 49.76m b/d, 49.51m b/d and 50m b/d for 1Q, 2Q, 3Q and 4Q, respectively.

Forecast for 2005

Non-OPEC supply growth in 2005 has been revised down by approximately 70,000 b/d versus the estimate published in the March report. Non-OPEC gains are now expected to average 990,000 b/d in 2005, which represents a y-o-y increase of two per cent from 2004. For the full year, non-OPEC supply is expected to average 50.7m b/d, with a quarterly distribution of 50.45m b/d, 50.79m b/d, 50.53m b/d and 51.15m b/d for the 1Q, 2Q, 3Q and 4Q, respectively.

On a quarterly basis, 1Q2005 has been revised down by 50,000 b/d, 2Q revised up by 40,000 b/d, and 3Q and 4Q revised down by 150,000 b/d and 110,000 b/d, respectively. The major revisions come from lower-than-

Table D: FSU net oil exports *m b/d*

	1Q	2Q	3Q	4Q	Year
2001	4.30	4.71	4.89	4.47	4.59
2002	5.14	5.84	5.85	5.49	5.58
2003	5.87	6.75	6.72	6.61	6.49
2004[1]	7.17	7.28	7.34	7.37	7.29
2005[2]	7.48	7.78	7.76	7.87	7.75

1. *Estimate.*
2. *Forecast.*

expected growth in Russia, Kazakhstan, and the UK. Preliminary data for Russian output in the first quarter of 2005 indicates that production was roughly 80,000 b/d below expectations. In 2005, Russian production is now expected to grow by an average of 360,000 b/d versus 450,000 b/d in our previous assessment. Full year average production growth in Kazakhstan has been assessed at 100,000 b/d vs a previous 150,000 b/d. The forecast for the UK has also been revised down a modest 40,000 b/d and is now expected to decline by 130,000 b/d in 2005 (see **Table D**).

However, the outlook for other selected non-OPEC countries remains strong, particularly in the second half of the year. This report sees an improved outlook versus last month's report particularly in Brazil, Angola, Sudan and Azerbaijan, as the start up and ramping up of projects remains on track, and in some cases ahead of schedule. Sequentially, 1Q2005 non-OPEC production is expected to grow 450,000 b/d vs 4Q2004; for 2Q, production is expected to grow 350,000 b/d vs the 1Q; and then dropping in 3Q due to the maintenance season. However, in 4Q non-OPEC production is expected to reach 51.1m b/d. This represents an increase of approximately 600,000 b/d vs the previous quarter and 1.1m b/d vs 4Q of last year.

FSU net oil export

FSU net oil export for 2005 is expected to average 7.75m b/d, an increase of 460,000 b/d over the previous year. This represents a downward revision of 70,000 b/d from last month, largely due to the previously indicated lower expectations for Russia's oil production growth. However, exports from Azerbaijan are expected to increase significantly, particularly in the second half of the year, underpinned by volume growth in Phase I of the ACG project.

OPEC NGLs and non-conventional oils

The 2005 forecast for OPEC NGLs and non-conventional oils remains unchanged at 4.19m b/d, which represents an increase of 240,000 b/d over 2004. The quarterly distribution is projected at 4.11m b/d, 4.17m b/d, 4.21m b/d and 4.26m b/d for 1Q, 2Q, 3Q and 4Q, respectively.

OPEC NGL production, 2001–05

	m b/d
2001	3.40
2002	3.42
2003	3.57
1Q04	3.65
2Q04	3.66
3Q04	3.71
4Q04	3.78
2004	3.70
Change 2004/2003	0.13
2005	3.93
Change 2005/2004	0.23

OPEC crude oil production

Total OPEC crude production averaged 29.76m b/d in March, according to secondary sources, which represents an increase of 300,000 b/d compared to February. In the middle of March, OPEC agreed at the Meeting in Isfahan to modify its production agreement from 27m b/d to 27.5m b/d. For 1Q2005, total production averaged 29.52m b/d, up 1.3m b/d from 1Q of last year (see **Table E**).

Rig count

Non-OPEC

Non-OPEC rig count dropped by 129 in March compared to the previous month. North America lost 149 rigs, due to losses in Canada and Mexico, which were partly offset by new rigs in the USA. Western Europe gained 17 rigs over the previous month, whilst OECD Pacific added just one rig. Overall, non-OPEC rig activity in 1Q2005 was 2,390, which represents an increase of 196 from 1Q2004 and a historical record high. In 2005, non-OPEC rig activity in expected to remain strong, largely fueled by North America's gas drilling.

OPEC

OPEC's rig count was 274 in March, unchanged from February. Rig count averaged 271 in 2Q2005, up 34 rigs from 1Q2004 and eight rigs from 4Q2004.

Stock movements

USA

In the period February 25–April 1, US commercial oil stocks reversed the downtrend typical for this time of year, increasing an unseasonable 4.90m b or 140,000 b/d to 955.9m b. This slight build came mostly from a mix of crude oil, unfinished oils and other oil stock, while substantial draws mainly on gasoline helped to diminish the overall gains.

Crude inventories continued to build, reaching a level not seen since June 2002. Oil stocks stood at 317.1m b on 1 April, representing an increase of 17.7m b or 510,000 b/d since February 25. This increase could be justified mostly by higher domestic oil production which rose from 5.49m b/d to 5.50m b/d and lower refinery input which fell by 150,000 b/d to 15.06m b/d.

Higher crude oil imports which hovered around 10m b/d were part of this build, and figures were higher at the beginning of the period than at the end. Compared with last year and the five-year average, crude oil stocks are eight per cent and six per cent higher, respectively. In terms of days of forward cover, crude oil stocks stood 1.3 days above last year but declined a slight 0.3 days below the five-year average.

The draw on gasoline stocks of 12.2m b or about five per cent was mainly due to robust implied demand which rose from 8.88m b/d to 9.10m b/d or about three per cent higher than in the previous period. Declining gasoline imports added to this draw, slipping 80,000 b/d to 900,000 b/d. The draw on gasoline stocks would have been higher if gasoline production had not picked up by 130,000 b/d to 8.62m b/d. At this level, gasoline inventories stood more than six per cent above last year' figure and five per cent higher than the five-year average. Forward cover slipped from 25.3 days to 23.3 days, still one day above last year's level.

Even approaching the end of seasonal demand, distillate stocks continued to head downward, falling a further 5.9m b or five per

Table E: OPEC crude oil production, based on secondary sources *1,000 b/d*

	2003	2004	4Q04	Jan 05	Feb 05	Mar 05	Mar/ Feb
Algeria	1,134	1,229	1,289	1,305	1,317	1,333	16
Indonesia	1,027	969	961	955	948	947	–1
IR Iran	3,757	3,920	3,947	3,927	3,907	3,906	–1
Iraq	1,322	2,015	1,960	1,813	1,846	1,813	–34
Kuwait	2,172	2,344	2,448	2,406	2,443	2,481	39
SP Libyan AJ	1,422	1,537	1,608	1,608	1,613	1,617	5
Nigeria	2,131	2,351	2,344	2,291	2,324	2,365	41
Qatar	743	781	798	781	793	796	4
Saudi Arabia	8,709	8,982	9,450	9,143	9,191	9,346	155
UAE	2,243	2,360	2,486	2,388	2,381	2,440	59
Venezuela	2,305	2,580	2,615	2,698	2,700	2,717	17
OPEC-10	**25,644**	**27,052**	**27,947**	**27,502**	**27,614**	**27,948**	**334**
Total OPEC	**26,965**	**29,068**	**29,907**	**29,315**	**29,461**	**29,761**	**300**

Totals may not add, due to independent rounding.

cent to stand at 104.1m b. Much of the draw occurred on heating oil inventories as cold weather especially in US Northeast forced consumers to turn up their heating despite higher prices. This was supported by implied demand figures which showed an increase of 70,000 b/d to 4.23m b/d. Higher distillate production helped to slow the draw-down as output rose 400,000 b/d to 4.13m b/d. The year-on-year and average five-year deficit remained at the previous month's levels of one per cent and two per cent, respectively, a trend which is expected to improve further as consumption is projected to fall seasonally in the coming months.

The Strategic Petroleum Reserve (SPR) continued to build steadily towards its maximum capacity of 700m b, gaining a further 6.0m b to stand at 687.5m b during the period February 25–April 1, 2005.

US commercial oil stocks in the week ending April 8, 2005 showed a further increase, building 5.8m b to 961.7m b compared with the previous weekly period. Most of the increment came from crude oil stocks which rose by 3.6m b to 320.7m b on the back of lower implied crude oil demand which dropped from 15.06m b/d to 14.77m b/d, pushing refinery runs down from 93.71 per cent to 91.03 per cent. Gasoline inventories added to the build, rising a modest 800,000 b to 213.1m b on a 80,000 b/d increase in output to 8.70m b/d and higher imports which reached 1.0m b/d, a rise of 100,000 b/d. Middle distillates declined slightly by 120,000 b to stand at 104.00m b due to lower imports and output (see **Table F**).

Western Europe

Crude oil flows into European tanks helped total oil stocks in Eur-16 (EU plus Norway) to regain the previous month's losses, building an unseasonable 7.5m b/d or 240,000 b/d to stand at 1,097.8m b. Distillates contributed significantly to this build as refiners pushed production up in an attempt to benefit from high gasoil prices. Moderate draws on gasoline and fuel oil stocks capped the overall build. The y-o-y surplus widened to 12.7m b from the 7.3m b registered last month.

Crude oil inventories in Eur-16 showed a further build on increasing imports especially from Middle East countries and lower exports to Asia due to closing arbitrage. Lowering refinery runs due to seasonal maintenance also contributed to this build, rising by 3.1m b or about one per cent to stand at 468.2m b or 10.60m b below the year-ago level.

Eur-16 gasoline stocks followed the US draw pattern, falling by 2.3m b to 140.6m b on the back of decreased output due to low refinery runs which dipped by 180,000 b/d. Cleaning up tanks from winter gasoline was another factor behind the draws as refiners started to prepare for summer gasoline specifications. Despite the

Table F: US onland commercial petroleum stocks[1]

m b

	Jan 28, 05	Feb 25, 05	Apr 1, 05	Change Mar/Feb	Apr 1, 04	Apr 8, 05[2]
Crude oil (excl SPR)	**295.3**	**299.4**	**317.1**	**17.7**	**293.7**	**320.7**
Gasoline	216.3	224.5	212.3	–12.2	201.3	213.1
Distillate fuel	118.6	110.0	104.1	–5.9	104.0	104.0
Residual fuel oil	40.1	38.2	39.2	1.0	39.0	39.0
Jet fuel	43.1	43.0	38.8	–4.2	35.6	39.2
Total	**957.7**	**951.0**	**955.9**	**4.9**	**914.1**	**961.7**
SPR	678.6	681.5	687.5	6.0	652.1	688.8

1. *At end of month, unless otherwise stated.*
2. *Latest available data at time of publication.*

Source: US/DoE-EIA.

Table G: Western Europe onland commercial petroleum stocks[1]

m b

	Jan 05	Feb 05	Mar 05	Change Mar/Feb	Mar 04
Crude oil	**455.1**	**465.2**	**468.2**	**3.1**	**478.8**
Mogas	136.2	142.9	140.6	–2.3	141.8
Naphtha	25.5	24.6	25.5	0.9	24.2
Middle distillates	354.0	347.3	357.4	10.1	325.9
Fuel oils	111.7	110.3	106.1	–4.2	114.3
Total products	**627.4**	**625.2**	**629.6**	**4.4**	**606.2**
Overall total	**1,082.5**	**1,090.3**	**1,097.8**	**7.5**	**1,085.1**

1. *At end of month, and includes Eur-16.*

Source: Argus, Euroilstock.

Table H: Japan's commercial oil stocks[1]

m b

	Dec 04	Jan 05	Feb 05	Change Feb/Jan	Feb 04
Crude oil	**117.5**	**116.2**	**109.3**	**-6.9**	**108.3**
Gasoline	12.9	14.8	15.6	0.8	14.1
Middle distillates	40.0	34.4	27.1	-7.3	27.8
Residual fuel oil	19.5	19.4	18.3	-1.1	19.5
Total products	**72.4**	**68.6**	**61.0**	**-7.6**	**61.4**
Overall total[2]	**189.9**	**184.8**	**170.3**	**-14.5**	**169.7**

1. *At end of month.*
2. *Includes crude oil and main products only.*

Source: MITI, Japan.

draw, the y-o-y deficit narrowed to 1.2m b from 8.3m b last month.

Middle distillate inventories regained the previous month's losses, building a considerable 10.1m b or about three per cent on higher output as refiners raised middle distillate production to its maximum in order to benefit from soaring prices. However, refiners were forced to store much of it as end-users were reluctant to buy at very high prices, preferring to wait for prices to ease. Flows of Russian and US materials added to the build, with the y-o-y surplus extending to about ten per cent, an increase of about seven per cent from last month's level (see **Table G**).

Japan

For the third consecutive month, total commercial oil stocks in Japan continued to head south in February, losing a massive 14.5m b or eight per cent to stand at 170.3m b, the lowest level in six months. Middle distillate and crude oil inventories contributed mostly to the draw. The only product which showed an increase was gasoline but this minor build did little to counter the massive draw. Compared with last year's figure, total commercial stocks in Japan were slightly higher by 600,000 b.

Increasing refinery utilization in February, which rose 2.2 per cent to 93.8 per cent, and lower imports pressed crude oil stocks down, which lost 6.9m b to register 109.3m b but stood 1m b higher than a year ago. Crude oil stocks had not been this low since last August when they dipped to the lowest level for the year.

Middle distillate stocks also showed a very strong draw, falling by 7.3m b or about 21 per cent. This level is the lowest in eight months when middle distillates reached 26.8m b in June 2004. The previous month's surplus turned to a minor deficit of 700,000 b or about three per cent. Seasonal winter demand especially for kerosene was one of the main reasons behind this draw as cold winter hit northern Japan.

Lower implied demand and rising gasoline production due to increasing refinery throughput helped gasoline stocks to build, increasing modestly by 800,000 b to 15.6m b which was 1.50m b higher than the level observed a year ago (see **Table H**).

Balance of supply/demand

Table I for 2004 remains nearly unchanged from last month. World oil demand averaged 82.1m b/d, whilst non-OPEC supply and OPEC NGLs and non-conventional oils averaged 53.7m b/d. This resulted in an average annual difference of 28.4m b/d for 2004, versus 27.2m b/d in 2003.

Table I for 2005 shows that world oil demand is now expected to average 84m b/d, whilst non-OPEC supply and OPEC NGLs and non-conventional oils are expected to average 54.9m b/d. This results in an average difference of 29.1m b/d for 2005. The quarterly distribution is expected to be 29.5m b/d in 1Q2005, 27.7m b/d in 2Q, 28.8m b/d in 3Q and 30.4m b/d in 4Q.

Based on the quarterly supply/demand balance for 2005, the resulting required OPEC crude production levels and the projected production capacity, spare capacity is estimate to average 8.8 per cent in the first quarter of 2005 and to rise to 9.1 per cent in the second with OPEC producing at current levels. In the third and fourth quarters, OPEC's spare capacity is expected to average 10.9 per cent and 9.5 per cent, respectively. Therefore, even with the high expected demand for OPEC crude in the fourth quarter, estimated at 30.4m b/d, spare capacity should be more than adequate to accommodate the projected requirements and will even reach twice the level seen in the same period last year.

Table I: World crude oil demand/supply balance

m b/d

	2000	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
World demand														
OECD	48.0	48.0	48.1	48.9	50.2	48.2	49.2	50.6	49.5	51.0	48.4	49.4	50.9	49.9
North America	24.1	24.0	24.1	24.6	25.0	24.9	25.2	25.6	25.2	25.5	25.1	25.5	26.0	25.5
Western Europe	15.2	15.3	15.3	15.5	15.8	15.3	15.7	16.1	15.7	16.0	15.4	15.7	16.2	15.8
Pacific	8.7	8.7	8.6	8.8	9.4	8.0	8.3	8.9	8.6	9.5	7.9	8.1	8.7	8.6
Developing countries	19.3	19.7	20.2	20.5	20.8	21.4	21.4	21.7	21.4	21.7	22.3	22.2	22.5	22.2
FSU	3.8	3.9	3.7	3.8	3.6	3.8	4.0	4.1	3.9	3.8	3.8	4.0	4.1	3.9
Other Europe	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.9	0.9	0.8	0.8	0.9	0.9
China	4.7	4.7	5.0	5.6	6.2	6.8	6.4	6.7	6.5	6.7	7.4	7.0	7.4	7.1
(a) Total world demand	**76.5**	**77.2**	**77.9**	**79.5**	**81.8**	**81.0**	**81.7**	**84.0**	**82.1**	**84.0**	**82.7**	**83.6**	**85.8**	**84.0**
Non-OPEC supply														
OECD	21.9	21.8	21.9	21.6	21.8	21.5	20.7	21.0	21.3	21.2	21.3	20.7	20.8	21.0
North America	14.2	14.3	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.6	14.6	14.5	14.4	14.5
Western Europe	6.8	6.7	6.6	6.4	6.4	6.3	5.7	6.0	6.1	6.0	6.1	5.7	6.0	5.9
Pacific	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Developing countries	10.9	10.9	11.2	11.3	11.7	11.7	12.0	12.1	11.9	12.3	12.3	12.4	12.7	12.4
FSU	7.9	8.5	9.3	10.3	10.8	11.1	11.3	11.4	11.2	11.4	11.6	11.8	12.0	11.7
Other Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.2	3.3	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6
Processing gains	1.7	1.7	1.7	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.8	1.8	1.9	1.9
Total non-OPEC supply	**45.7**	**46.4**	**47.7**	**48.6**	**49.7**	**49.8**	**49.5**	**50.0**	**49.7**	**50.4**	**50.8**	**50.5**	**51.2**	**50.7**
OPEC NGLS and non-conventionals	3.3	3.6	3.6	3.7	3.9	3.9	4.0	4.0	3.9	4.1	4.2	4.2	4.3	4.2
(b) Total non-OPEC supply and OPEC NGLS	**49.0**	**50.0**	**51.4**	**52.3**	**53.6**	**53.7**	**53.5**	**54.0**	**53.7**	**54.6**	**55.0**	**54.7**	**55.4**	**54.9**
OPEC crude supply and balance														
OPEC crude oil production[1]	28.0	27.2	25.4	27.0	28.2	28.4	29.8	29.9	29.1	29.5				
Total supply	77.0	77.2	76.7	79.3	81.7	82.1	83.2	83.9	82.8	84.1				
Balance[2]	**0.6**	**0.0**	**–1.1**	**–0.2**	**0.0**	**1.1**	**1.5**	**–0.1**	**0.6**	**0.0**				
Stocks														
Closing stock level (outside FCPEs) *m b*														
OECD onland commercial	2534	2632	2478	2525	2468	2546	2589	2569	2569					
OECD SPR	1270	1285	1345	1407	1421	1426	1432	1444	1444					
OECD total	3804	3918	3822	3932	3888	3972	4021	4013	4013					
Oil-on-water	877	830	814	885	909	898	895	908	908					
Days of forward consumption in OECD														
Commercial onland stocks	53	55	51	51	51	52	51	50	51					
SPR	26	27	28	28	29	29	28	28	29					
Total	79	82	78	79	81	81	79	79	80					
Memo items														
FSU net exports	4.1	4.6	5.6	6.5	7.2	7.3	7.3	7.4	7.3	7.6	7.8	7.8	7.9	7.8
[(a) — (b)]	27.4	27.2	26.5	27.2	28.2	27.3	28.3	30.0	28.4	29.5	27.7	28.8	30.4	29.1

1. *Secondary sources.*
2. *Stock change and miscellaneous.*

Note: Totals may not add up due to independent rounding.

***Table I** above, prepared by the Secretariat's Energy Studies Department, shows OPEC's current forecast of world supply and demand for oil and natural gas liquids.*

*The monthly evolution of spot prices for selected OPEC and non-OPEC crudes is presented in **Tables One and Two** on page 54, while **Graphs One and Two** (on page 55) show the evolution on a weekly basis. **Tables Three to Eight**, and the corresponding graphs on pages 56–57, show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided by courtesy of Platt's Energy Services).*

Table 1: OPEC spot crude oil prices, 2004–05 $/b

Member					2004										2005			
Country/	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb			March			
Crude (API°)	4Wav	4Wav	5Wav	4Wav	5Wav	4Wav	4Wav	5Wav	4Wav	4Wav	4Wav	1W	2W	3W	4W	5W	5Wav
Algeria																	
Saharan Blend (44.1)	33.71	37.96	35.14	38.16	42.67	43.92	50.48	42.97	39.61	44.39	45.44	50.84	52.96	54.04	53.83	51.28	52.59
Indonesia																	
Minas (33.9)	32.19	37.18	36.75	36.28	41.79	44.27	49.68	37.25	34.76	42.55	44.56	50.62	53.64	55.26	56.46	55.52	54.30
IR Iran																	
Light (33.9)	30.41	34.97	32.67	35.42	38.40	38.77	43.59	37.81	34.77	39.87	40.56	44.92	47.40	50.06	50.93	49.20	48.50
Iraq																	
Kirkuk (36.1)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Kuwait																	
Export (31.4)	31.75	34.78	33.83	34.98	38.44	36.12	38.81	35.87	34.91	38.55	40.09	43.74	45.60	47.11	48.37	47.30	46.42
SP Libyan AJ																	
Brega (40.4)	33.82	37.96	35.46	38.08	43.07	44.04	50.14	43.21	37.98	43.61	44.97	50.58	52.71	53.91	na	51.23	52.11
Nigeria																	
Bonny Light (36.7)	33.74	37.87	35.60	38.08	42.55	43.56	49.91	43.60	39.08	44.01	45.43	50.69	52.97	54.28	54.97	52.85	53.15
Saudi Arabia																	
Light (34.2)	32.48	35.63	34.70	35.55	38.93	36.58	39.00	35.56	34.64	38.26	40.10	43.85	46.11	47.62	48.88	47.80	46.85
Heavy (28.0)	30.31	33.07	32.00	32.75	35.41	32.38	33.79	30.17	29.34	33.41	35.62	39.45	40.91	42.42	43.68	42.60	41.81
UAE																	
Dubai (32.5)	31.69	34.65	33.58	34.70	38.22	35.52	37.61	34.87	34.16	37.78	39.35	42.90	44.66	46.21	47.47	46.77	45.60
Venezuela																	
Tia Juana Light[1] (32.4)	29.88	33.63	31.67	33.81	36.86	37.23	43.55	37.37	32.36	35.75	36.77	41.65	43.55	44.68	44.65	42.95	43.50
OPEC Basket[2]	32.35	36.27	34.61	36.29	40.27	40.36	45.37	38.96	35.70	40.24	41.68	46.58	48.78	50.13	50.72	49.16	49.07

Table 2: Selected non-OPEC spot crude oil prices, 2004–05 $/b

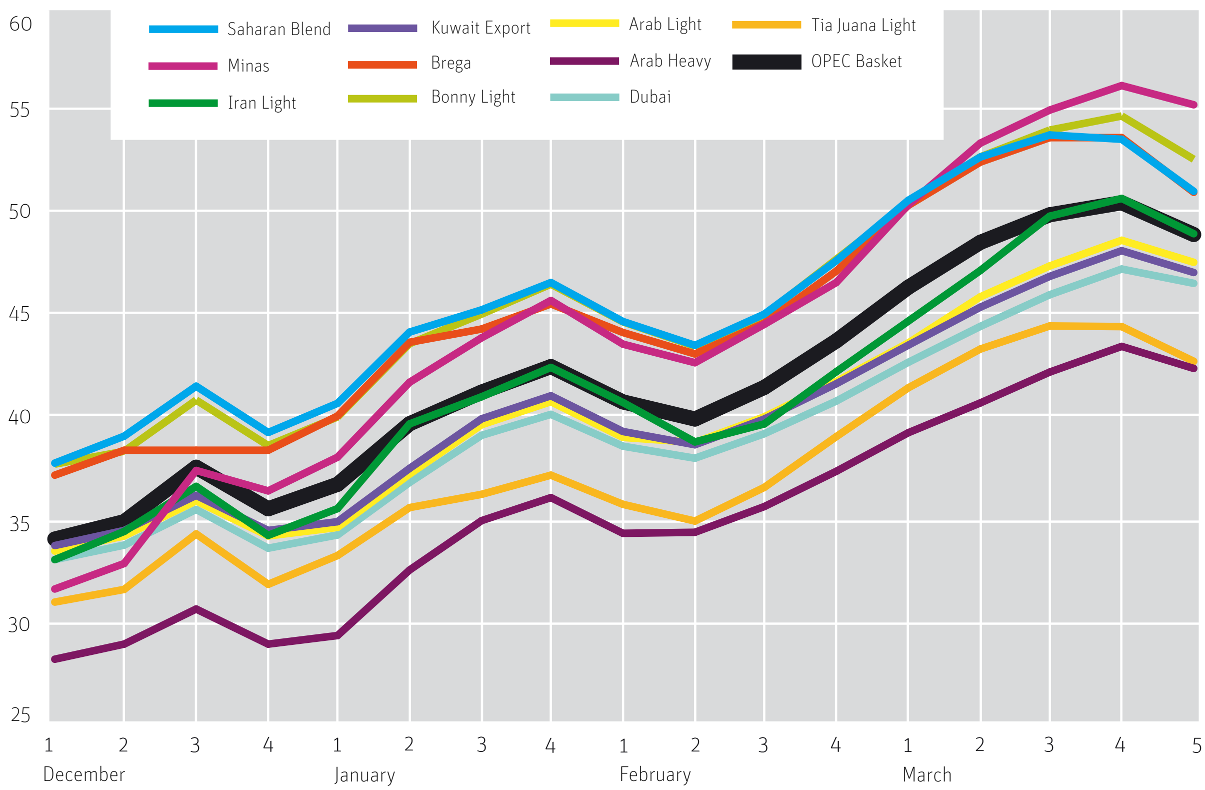
					2004										2005			
Country/	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb			March			
Crude (API°)	4Wav	4Wav	5Wav	4Wav	5Wav	4Wav	4Wav	5Wav	4Wav	4Wav	4Wav	1W	2W	3W	4W	5W	5Wav
Gulf Area																	
Oman Blend (34.0)	31.71	34.78	33.92	35.10	38.49	36.53	39.81	36.65	35.40	39.04	40.54	44.29	46.25	47.72	48.98	47.53	46.95
Mediterranean																	
Suez Mix (Egypt, 33.0)	28.40	33.00	30.56	33.21	36.75	36.43	39.56	35.34	32.48	36.37	36.98	43.22	45.02	45.38	45.61	43.66	44.58
North Sea																	
Brent (UK, 38.0)	33.23	37.71	35.21	38.33	42.87	43.43	49.74	42.80	39.43	44.01	44.87	50.68	52.80	54.00	54.07	51.43	52.60
Ekofisk (Norway, 43.0)	33.31	37.79	35.37	38.42	42.86	43.44	49.75	42.23	39.26	43.92	44.70	50.52	52.60	53.68	53.75	51.15	52.34
Latin America																	
Isthmus (Mexico, 32.8)	32.76	36.95	34.85	37.41	40.88	41.47	47.40	41.10	35.315	38.89	40.08	45.50	47.58	48.81	48.78	46.92	47.52
North America																	
WTI (US, 40.0)	36.80	40.11	38.18	40.69	44.77	45.98	53.32	48.22	43.12	46.64	47.69	52.18	54.03	55.51	54.40	54.35	54.09
Others																	
Urals (Russia, 36.1)	29.88	34.87	32.08	35.45	38.29	37.96	42.12	37.52	35.52	38.89	40.46	45.72	47.05	47.79	49.03	46.20	47.16

1. *Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.*
2. *OPEC Basket: an average of Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana Light and Isthmus.*

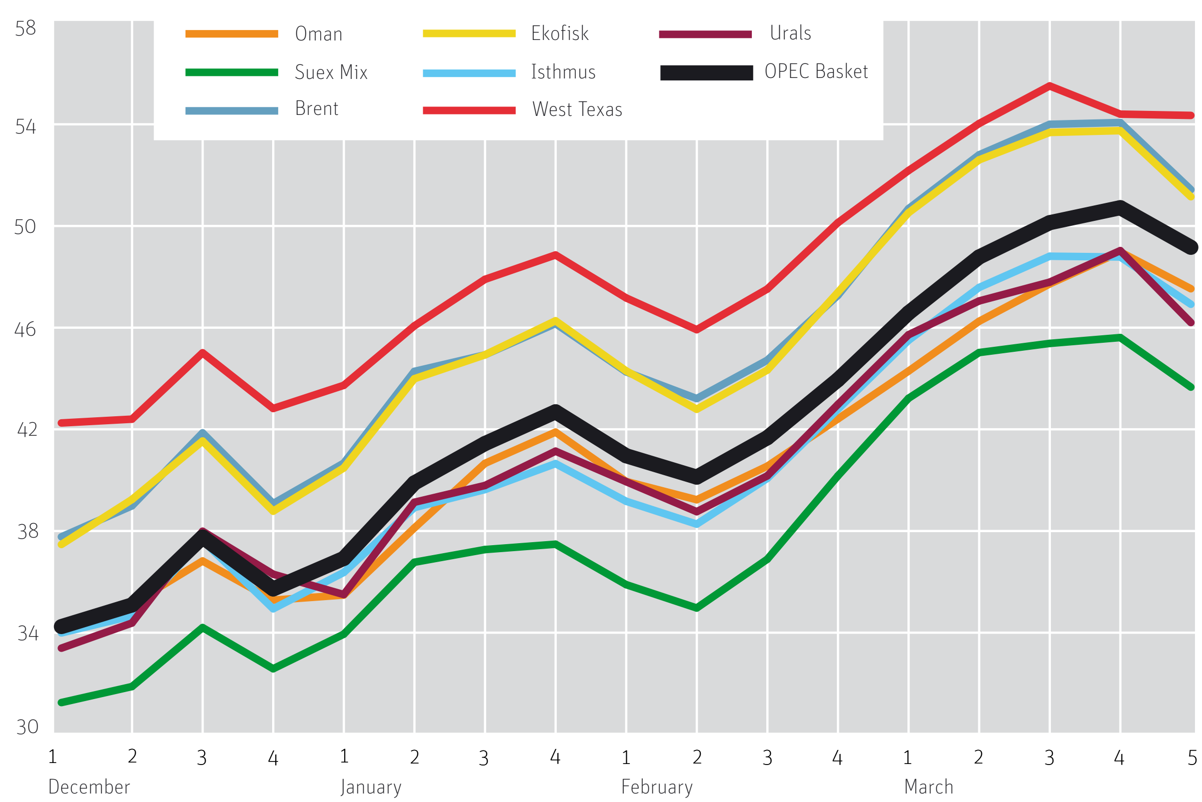
Kirkuk ex Ceyhan; Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

Sources: The netback values for TJL price calculations are taken from RVM; Platt's Oilgram Price Report; Reuters; Secretariat's calculations.

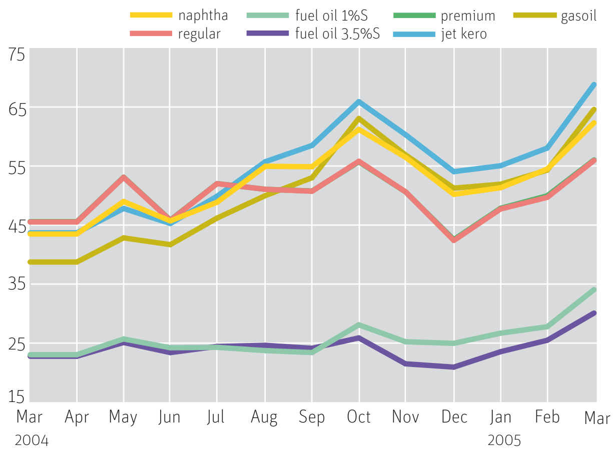
Graph 1: Evolution of spot prices for selected OPEC crudes, December 2004 to March 2005



Graph 2: Evolution of spot prices for selected non-OPEC crudes, December 2004 to March 2005

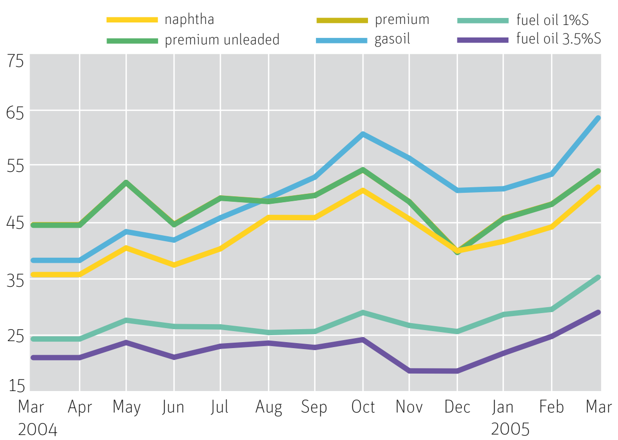


Graph and table 3: North European market — spot barges, fob Rotterdam *$/b*



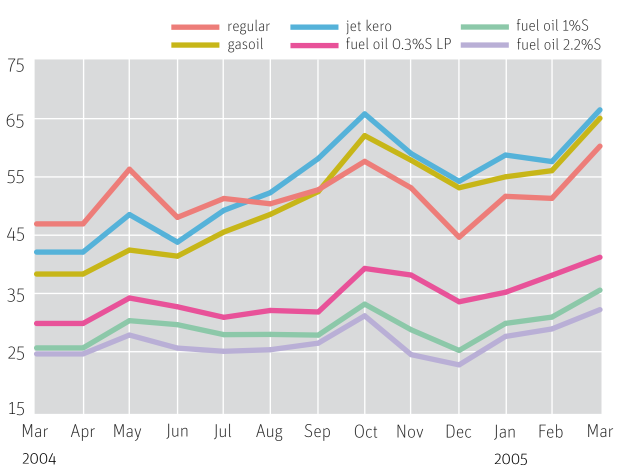
		naphtha	regular gasoline unleaded	premium gasoline unl 95	gasoil	jet kero	fuel oil 1%S	fuel oil 3.5%S
2004	March	42.65	41.57	41.68	37.77	40.55	23.33	21.49
	April	43.49	45.52	45.58	38.74	43.69	23.03	22.77
	May	48.99	53.08	53.11	42.83	47.81	25.70	25.10
	June	45.70	45.79	45.85	41.68	45.26	24.21	23.39
	July	48.87	52.01	52.03	46.18	49.88	24.28	24.44
	August	54.96	51.06	51.06	49.99	55.74	23.73	24.62
	September	54.88	50.73	50.77	53.02	58.49	23.40	24.12
	October	61.21	55.81	55.72	63.06	65.91	28.10	25.88
	November	56.49	50.64	50.62	56.89	60.31	25.23	21.49
	December	50.20	42.42	42.54	51.26	54.05	24.96	20.93
2005	January	51.32	47.72	47.84	51.92	55.05	26.68	23.54
	February	54.49	49.69	49.96	54.31	58.05	27.78	25.48
	March	62.33	55.94	56.03	64.60	68.81	34.06	30.09

Graph and table 4: South European market — spot cargoes, fob Italy *$/b*



		naphtha	premium gasoline unl 95	premium gasoline 0.15g/l	gasoil	fuel oil 1%S	fuel oil 3.5%S
2004	March	34.24	40.92	41.07	36.94	23.63	20.02
	April	35.78	44.55	44.65	38.31	24.32	21.01
	May	40.52	52.16	52.15	43.41	27.66	23.69
	June	37.48	44.64	44.74	41.92	26.54	21.07
	July	40.37	49.37	49.40	45.88	26.47	23.03
	August	45.94	48.76	48.80	49.41	25.47	23.59
	September	45.90	49.84	49.87	53.12	25.66	22.81
	October	50.76	54.43	54.39	60.78	29.03	24.20
	November	45.68	48.70	48.74	56.47	26.72	18.65
	December	39.98	39.72	39.88	50.75	25.65	18.62
2005	January	41.69	45.72	45.80	51.04	28.69	21.80
	February	44.26	48.28	48.33	53.64	29.59	24.79
	March	51.34	54.23	54.20	63.65	35.31	29.07

Graph and table 5: US East Coast market — spot cargoes, New York *$/b, duties and fees included*



		regular gasoline unleaded 87	gasoil	jet kero	fuel oil 0.3%S	fuel oil 1%S	fuel oil 2.2%S
2004	March	45.56	37.87	40.47	28.90	24.67	23.11
	April	46.94	38.33	42.10	29.85	25.65	24.62
	May	56.32	42.45	48.54	34.22	30.33	27.86
	June	48.06	41.40	43.80	32.71	29.64	25.62
	July	51.30	45.54	49.26	30.90	27.93	25.07
	August	50.39	48.57	52.29	32.08	27.97	25.34
	September	52.80	52.49	58.16	31.82	27.85	26.47
	October	57.67	62.09	65.82	39.29	33.17	31.16
	November	53.12	57.86	59.01	38.16	28.77	24.50
	December	44.66	53.14	54.25	33.57	25.22	22.74
2005	January	51.67	55.02	58.76	35.20	29.86	27.62
	February	51.32	56.08	57.64	38.11	30.94	28.91
	March	60.28	65.07	66.52	41.21	35.57	32.22

Table and graph 6: Caribbean market — spot cargoes, fob *$/b*

		naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
2004	March	40.69	37.93	40.74	19.11	18.82
	April	41.08	38.18	41.70	20.62	20.50
	May	46.82	42.18	46.71	23.86	23.73
	June	43.00	41.30	44.16	21.62	21.37
	July	44.95	45.39	49.00	21.06	20.82
	August	46.62	48.67	52.38	21.34	21.04
	September	49.65	52.80	58.10	22.47	22.11
	October	55.18	62.12	64.83	27.16	26.87
	November	50.51	56.02	57.23	20.50	20.26
	December	41.06	50.50	52.15	18.75	18.41
2005	January	49.21	53.75	56.75	23.62	22.60
	February	47.01	55.09	56.83	24.91	24.25
	March	58.11	64.23	66.41	28.22	27.50

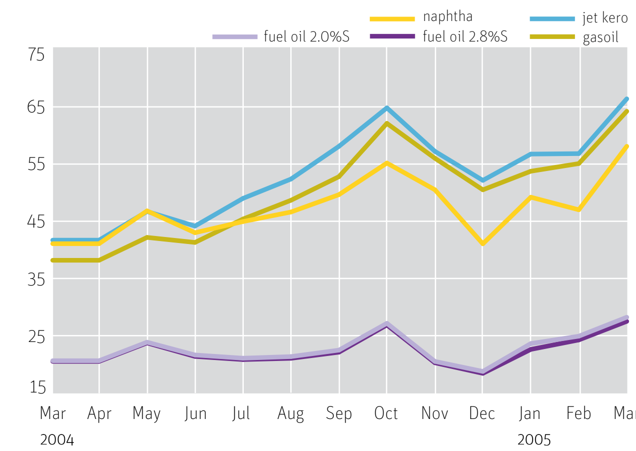


Table and graph 7: Singapore market — spot cargoes, fob *$/b*

		naphtha	premium gasoline unl 95	premium gasoline unl 92	gasoil	jet kero	fuel oil 180 Cst	fuel oil 380 Cst
2004	March	36.03	44.10	43.15	38.42	37.72	24.31	24.57
	April	36.48	44.09	42.79	42.82	40.92	25.30	25.54
	May	39.69	49.71	48.41	44.62	45.71	27.58	27.83
	June	37.19	45.19	44.04	42.84	43.17	26.63	26.87
	July	38.60	46.52	45.12	46.25	48.08	26.92	26.98
	August	44.19	51.50	50.62	51.67	52.29	27.99	28.19
	September	43.95	49.06	48.20	54.29	55.30	26.99	27.18
	October	48.81	54.73	53.68	58.40	61.25	30.14	29.95
	November	47.46	52.45	51.74	56.82	57.64	28.72	27.99
	December	42.79	44.81	44.24	51.33	50.07	25.95	24.00
2005	January	41.34	47.57	46.87	51.26	51.10	27.16	26.61
	February	44.61	54.27	53.70	55.74	54.54	29.31	29.28
	March	50.74	59.47	58.72	67.24	66.33	32.73	33.61

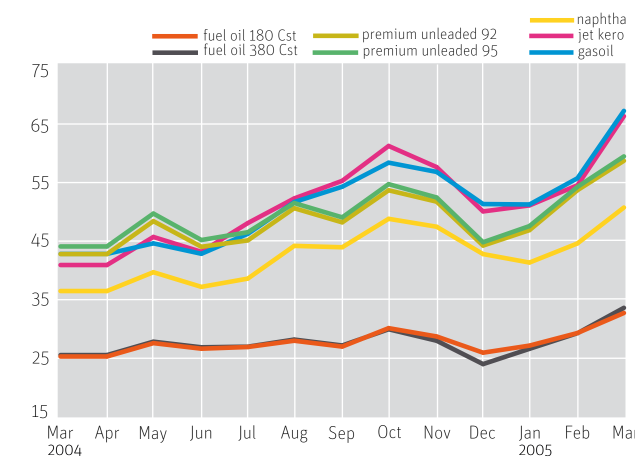
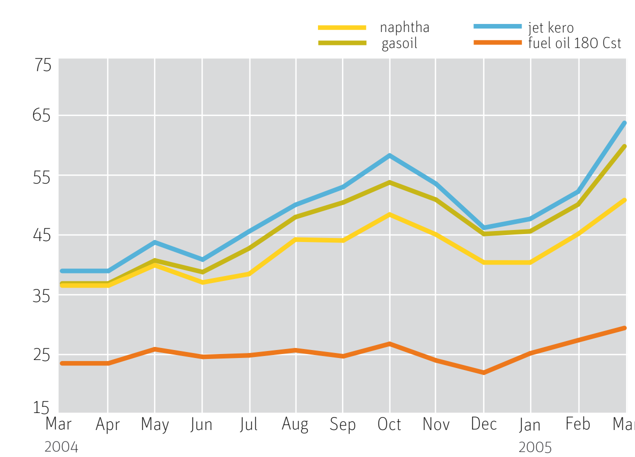


Table and graph 8: Middle East Gulf market — spot cargoes, fob *$/b*

		naphtha	gasoil	jet kero	fuel oil 180 Cst
2004	March	35.04	34.84	35.02	21.96
	April	36.54	36.89	38.98	23.53
	May	39.94	40.74	43.77	25.89
	June	37.06	38.79	40.88	24.61
	July	38.47	42.75	45.58	24.86
	August	44.23	47.98	50.03	25.72
	September	44.07	50.44	53.04	24.71
	October	48.42	53.79	58.29	26.79
	November	45.07	50.90	53.56	24.02
	December	40.40	45.16	46.20	21.97
2005	January	40.39	45.60	47.68	25.20
	February	45.16	50.10	52.24	27.39
	March	50.84	59.83	63.74	29.44



Source: Platts. Prices are average of available days.

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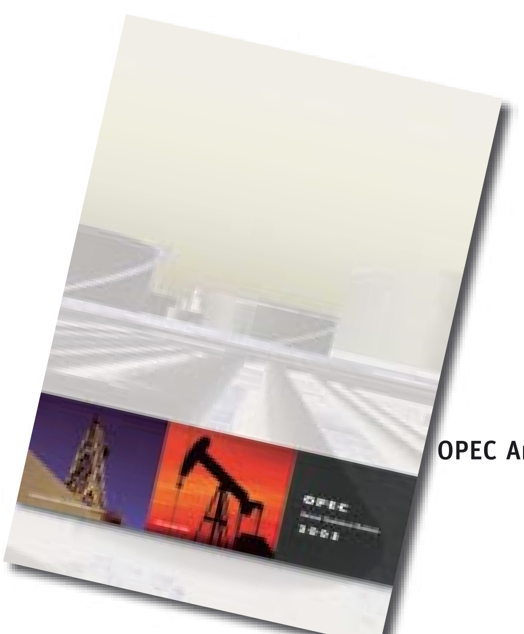

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