



ANOTHER MILESTONE

June's historic meeting between OPEC and the European Union marks yet another milestone in the pursuit of co-operation and dialogue between oil producers and consumers.

This is precisely the kind of contact that OPEC has always supported over the years. It has championed the need for OPEC/non-OPEC co-operation, as well as dialogue with consumers and these efforts have borne fruit, for example, in the establishment of the International Energy Forum.

Now, through the creation of a proper framework for talks to take place with the EU – OPEC's largest trading partner – both parties have agreed to study many of the complex issues that surround the international oil market and explore ways of addressing them jointly.

Both parties stand to benefit: for the EU, this important new initiative is seen as part of a broader approach to strengthen energy dialogues with the main oil and gas suppliers; and for OPEC, this is a significant further step in its continued efforts to encourage dialogue and co-operation among oil producers and consumers.

Both have recognized the importance of an effective framework enabling an exchange of views on energy issues of common interest, including oil market developments, and

the potential this has for contributing to stability, transparency and predictability in the international oil market. In addition, they have agreed on the importance of greater data transparency and an enhanced exchange of views on trends in supply and demand, future policies and their implications, technology developments and other related issues.

Both shared the view that oil price increases over the last year were the result of the convergence of a number of factors. Also, while acknowledging OPEC's response in raising output and speeding up the implementation of capacity expansion plans, the participants nevertheless recognized that uncertainties, particularly associated with the level of future oil demand, will remain substantial.

It has become clear that producers and consumers cannot operate in isolation – a belief OPEC has held for many years. It is only by engaging directly with consumers and governments and institutions about the oil market that stability can be secured.

As the decision in June to raise the production ceiling demonstrated (*see page 8*), OPEC is prepared to do whatever it can to address market volatility. However, it cannot be reasonably expected that OPEC bears this responsibility alone – that is why co-operation is so important.



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EU/OPEC (see story on pp4-7).
Photo: Reuters/OPEC

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Hard copy subscription: \$70/year

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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.

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Indexed and abstracted in PAIS International

Printed in Austria by Ueberreuter Print and Digimedia

OPEC–EU hold landmark talks



HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah said the dialogue with the EU had OPEC's full support.

June saw the first meeting of the European Union (EU)-OPEC Energy Dialogue in Brussels. This important new initiative is seen by the EU as a part of a broader approach to strengthen energy dialogues with the main oil and gas suppliers, and by OPEC as a significant further step in its continued efforts to encourage dialogue and co-operation among oil producers and consumers.

The meeting was pronounced a great success by both parties and more sessions are to be held in the future.

The meeting focused on several issues including the present price of oil, refining capacity, the exchange of data and even an agreement to study the possibility of future joint investment in the refining sector. A second session is to be held at the OPEC Secretariat in Vienna at a later date.

The two Organizations also agreed on a short-term programme of practical work with a round-table to be held in the second half of this year on oil market developments to improve understanding of the functioning of



From left to right:

OPEC Acting for the Secretary General, Dr Adnan Shihab-Eldin; Nigerian Presidential Adviser on Petroleum and Energy, HE Dr Edmund Maduabebe Daukoru; OPEC President of the Conference and Minister of Energy of Kuwait, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah; EU Energy Commissioner, Andris Piebalgs; Luxembourg's Minister of the Economy and Foreign Trade, Jeannot Krecké; UK Minister for Energy, Malcolm Wicks; and the Netherlands Minister of Economic Affairs, Laurens Brinkhorst.

the market and specifically the effect of futures trading. Then, in the first half of 2006, there will be a conference on new technologies, particularly the capture and storage of carbon dioxide. A further round-table will follow in the second half of next year to provide a forum for exchanging views on energy policy developments, including market forecasts and the European Commission's internal energy market observation system.

"This is the first of many, many meetings to be held over the years," Acting for the OPEC Secretary General,

Dr Adnan Shihab-Eldin, said before going into the meeting. He also said he was "optimistic" about the future course of the dialogue "and of the benefits that it will bring to all the parties involved."

The EU is OPEC's main trading partner and accounts for an increasing share of the Organization's total trade. OPEC's delegation was led by Minister of Energy of Kuwait and President of the OPEC Conference, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah. He was joined by Presidential Advisor on Petroleum and Energy of Nigeria

and Alternate President of the OPEC Conference, HE Dr Edmund Maduabebe Daukoru.

The participants from the EU were: Minister of the Economy and Foreign Trade of Luxembourg and President of the EU Council, Jeannot Krecké; Minister of Economic Affairs of the Netherlands, Laurens Brinkhorst; Minister for Energy of the United Kingdom, Malcolm Wicks; and European Commissioner for Energy, Andris Piebalgs.

At a press conference after the meeting, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, said the meeting had been very successful with both parties agreeing on the need for a “fair and stable” oil price and the need for security of supply.

This kind of dialogue and co-operation would, he said, help to remove some of the “misinformation” that surrounds the oil market. This, he added, had been demonstrated by the fact that although the market is well supplied at present, prices have not reflected this fundamental and therefore the “psychology” of the oil market also needed to be discussed.

“We believe that by starting dialogue and co-operation with our colleagues in the EU, we can answer the question as to why the price is still high.” He said there were concerns about security of supply and also refining capacity and that only through an exchange of information such as this with the EU, can these concerns be allayed.

Al-Sabah said OPEC and the EU shared common goals, namely to ensure steady economic growth, price stability and stable supplies to consumers. OPEC also needs to ensure it has a strong enough return on its investments to ensure future consumption needs can be met.

OPEC is also committed to supplying the energy needs of developing economies in the same way it provided the energy needs of the industrialized world.

He said OPEC had informed the EU at the meeting of its investments in oil production “to show OPEC is doing the best it can to ensure sufficient supplies” and at the same time promoting the use of the latest technology to ensure “a better and a cleaner product.”

He added that OPEC had enough oil to continue to supply the market in the third and fourth quarters of this year and that the Organization wanted to see “more stable” prices in order to permit stocks to rebuild more than they have done in recent years.

Al-Sabah also said that the two Organizations were “willing to explore studying joint investment opportunities” in the downstream sector, particularly in refining, “because this will help the market in the future.”

He added: “If we continue with this communication, co-operation and dialogue and if we exchange information about developments in market research and technology, then this will help secure enough supplies and reasonable prices and a stable market. Through the exchange of opinions and experiences, I think the market will be more stable and we can remove some of the psychological worries that have been distorting the real value of crude.”

Al-Sabah said that the meeting was in the spirit of OPEC’s long-held desire to engage “in fruitful dialogue” with consuming nations. “We believe that, through such dialogue, measures can be adopted that will lead to an open, transparent and stable market, beneficial to all participants, producers and consumers alike.”

He added that the Organization was confident the initiative would serve “all of us well in the future. We shall certainly give it our full support in OPEC.”

Luxembourg’s Minister of the Economy and Foreign Trade and President of the EU Council, Jeannot Krecké, said a good exchange of information and data would be key to the success of the Organizations’ relationship.

He said future talks would include the analysis of the methodology used to create data on the oil market and that the two Organizations needed to “take decisions based on the same or similar figures.” This was particu-

“... increased transparency in financial markets and their impact on the oil market is considered to be of common concern.”

larly relevant, he said, in order to gain a proper picture for future demand from countries such as China.

Krecké said the meeting had been a success and had gone “far beyond what we thought.” He added: “We need regular dialogue to clarify the message to the outside world that there is an understanding on both sides for the way we move forward and co-operate.”

Presidential Advisor on Petroleum and Energy of Nigeria and Alternate President of the OPEC Conference, HE Dr Edmund Maduabebe Daukoru, who will assume the position of OPEC President next January, promised to give the dialogue with the EU “every priority” during

his term of office “in order to enhance its effectiveness and smooth operation.”

An official statement said that the participants had recognized “the importance of an effective framework enabling an exchange of views on energy issues of common interest, including oil market developments, and the potential this has for contributing to stability, transparency and predictability in the international oil market.”

It added: “In this context, increased transparency in financial markets and their impact on the oil market is considered to be of common concern.”


Both Organizations stressed the importance of maintaining dialogue when prices are both low and high, noting that extreme prices in either direction, over a sustained period, could create problems for both producers and consumers.

They agreed to “pursue efforts” to achieve “greater market stability, with reasonable prices” that would support healthy global economic growth and steady revenue streams for producing countries, as well as being “conducive to the expansion of upstream and downstream capacity to meet rising international demand for oil.”

The participants “noted that the oil price increases over the last year were the result of the convergence of a number of factors, including strong global economic growth, the consequent rise in demand for oil and a reduction of spare capacity, combined with tightness in the downstream sector, geopolitical developments and increased activity in oil futures markets.

The statement added: “In this connection, while acknowledging OPEC’s response in raising output and speeding up the implementation of capacity expansion plans, the participants nevertheless recognized that uncertainties, particularly associated with the level of future oil demand, will remain substantial. This carries additional risks for the level of investments that are necessary along the entire supply chain.”

These factors, the statement said, had underlined the importance “of greater data transparency and an enhanced exchange of views on trends in supply and demand, future policies and their implications, technology developments and other energy-related issues.”

The following themes were identified at the meeting for enhancing co-operation, in the mutual interest of both the EU and OPEC: oil market developments, both short and medium-to-long term; energy policies; energy technologies; and energy-related multilateral issues. 



HE Al-Sabah speaking at a press conference after the OPEC-EU meeting.

European Commission

OPEC

pumps more oil amid refining concerns



Minister of Energy of Kuwait and President of the OPEC Conference, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, talks with Acting for the OPEC Secretary General, Dr Adnan Shihab-Eldin.

OPEC in June agreed to raise its production ceiling by up to an extra one million barrels per day of oil over the coming months to boost supplies to a market which has an apparently inexhaustible demand for crude. At the same time, the Organization expressed its concerns about a lack of sufficient global refining capacity and

Iran's Minister of Petroleum, HE Bijan Namdar Zangeneh.





Individual production levels of OPEC Member Countries (excluding Iraq) as of July 2005 barrels/day

	Old production	Increase	New production
Algeria	878,000	16,000	894,000
Indonesia	1,425,000	26,000	1,451,000
IR Iran	4,037,000	73,000	4,110,000
Kuwait	2,207,000	40,000	2,247,000
SP Libyan AJ	1,473,000	27,000	1,500,000
Nigeria	2,265,000	41,000	2,306,000
Qatar	713,000	13,000	726,000
Saudi Arabia	8,937,000	162,000	9,099,000
United Arab Emirates	2,400,000	44,000	2,444,000
Venezuela	3,165,000	58,000	3,223,000
Total	27,500,000	500,000	28,000,000

warned that this fundamental is one of the main factors behind the persistent rise in prices.

The 136th (Extraordinary) Meeting of the OPEC Conference, held in Vienna on June 15, concluded that the market was “well supplied” with crude following the Organization’s decision to raise its production ceiling to 27.5m b/d in Isfahan, Iran, in March.

As a result of this, commercial crude and product stocks had continued to build “to comfortable levels”, around a five-year average in terms of days of forward cover. However, the Organization said that world crude prices have remained high and volatile because of a “concern about a lack of effective global oil refining capacity,

in particular possible shortages of middle distillates in key consuming regions.”

The official statement added: “Refineries, whilst already running at high utilization rates, are facing difficulties in coping with strong distillate demand-growth. The situation is being further exacerbated by geopolitical developments and increased speculation in the oil futures markets.”

This was giving cause for “particular concern” within the Organization, with a shortage of effective refining capacity to meet future demand growth due to under-investment in the sector, especially in conversion capacity, as well as excessive regulation. The Conference

All photos Diana Golpashin, OPEC.



From left to right: Saudi Arabia's Minister of Petroleum & Mineral Resources, HE Ali I Naimi; Iraq's Minister of Oil, HE Dr Ibrahim Bahr Alolom; SP Libyan AJ Secretary of the People's Committee for Energy, HE Dr Fatih Hamed Ben Shatwan.

repeated its earlier calls to industry and consumer governments to “urgently address this challenge which, if left unresolved, will exacerbate oil price volatility.”

Despite the fact that it believes there is sufficient crude supply at present, the Organization said it had decided to increase the production ceiling by 500,000 b/d to 28.0m b/d, effective July 1, because of expected

strong global oil demand for the remainder of the year, in particular during the fourth quarter. *(See previous page for new production levels).*

Furthermore, the Conference authorized its President to announce an additional 500,000 b/d increase in the ceiling before its next meeting if oil prices remained at current levels or continued to rise further.



Venezuelan Minister of Energy & Petroleum, HE Rafael Ramirez (l), talks to Acting for the OPEC Secretary General, Dr Adnan Shihab-Eldin.



Left to right: Qatar's Second Deputy Prime Minister and Minister of Energy and Industry, HE Abdullah bin Hamad Al Attiyah; Venezuelan Minister of Energy & Petroleum, HE Rafael Ramírez; Algerian Minister of Energy & Mines, HE Dr Chakib Khelil; Saudi Arabia's Minister of Petroleum & Mineral Resources, HE Ali I Naimi; Iraq's Minister of Oil, HE Dr Ibrahim Bahr Alolom.

The statement added: "In taking this decision, the Conference re-affirmed the Organization's commitment to market stability, a commitment clearly expressed in Member Countries' (MCs) repeated raising of output levels and the acceleration of their production capacity expansion plans aimed at meeting growth in global demand for crude and at maintaining adequate spare capacity."

To this end, the Conference also urged "all parties concerned to join efforts to maintain market stability, with reasonable prices consistent with robust economic growth, in particular in the emerging economies of the developing world, as well as steady revenue streams, for producing countries and the industry, conducive to the expansion of upstream and downstream capacity to meet rising international demand for oil and products."

As always, the Conference agreed to continue to closely monitor market developments and to take any appropriate and prompt action as and when the need arises.



Minister of Energy of Kuwait and President of the OPEC Conference, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah; and Nigerian Presidential Adviser on Petroleum & Energy, HE Dr Edmund Maduabebe Daukoru (r).



Left to right: Nigerian Presidential Adviser on Petroleum & Energy, HE Dr Edmund Maduabebe Daukoru; Indonesian Governor for OPEC, Dr Maizar Rahman; and UAE Minister of Energy, HE Mohamed Bin Dhaen Al Hamli.

The next Conference is scheduled to be held on September 19, 2005, in Vienna.



The Refining Issue

While OPEC Member Countries (MCs) continue to supply more oil and invest in new production to meet ever-growing demand, there are concerns that a lack of sufficient refining capacity to support global demand for oil products could undermine these efforts and lead to continued price volatility.

As the *OPEC Monthly Oil Market Report* (see p44) for June pointed out, “immediate and sizeable investments are needed in the refining sector if OPEC’s considerable efforts on the supply side are to be fully effective.”

The report noted that investments — especially in conversion capacity — have persistently lagged behind market requirements, even as OPEC MCs have repeatedly raised output levels and accelerated their production capacity expansion plans in order to meet the strong growth in global demand for crude, as well as maintaining adequate spare capacity. This is in addition to incremental volumes from non-OPEC producers, expected to be more than 800,000 b/d and 1m b/d in 2005 and 2006, respectively.

“The challenge in the downstream is a responsibility shared by all parties, including the industry and consuming governments,” the report said. “If left unresolved, it will continue to overshadow the timely actions being carried out on the upstream side and further exacerbate oil price volatility.”

It is not only OPEC that is concerned about refinery capacity. A recent International Monetary Fund (IMF) report* noted that downstream investment has lagged behind the growth in global oil demand in recent



* *Oil Market Development and Issues*, prepared by the Policy Development and Review Department of the International Monetary Fund in co-operation with the Fiscal Affairs, International Capital Markets, Research and Statistics Departments, and in consultation with other Departments.

years contributing to bottlenecks in derivative products markets — such as gasoline and distillates — “and weakening the ability of the oil market to deal with temporary imbalances.”

The report said the current scarcity of refining capacity “reflects not only low investment but also a mismatch between available refineries and the type of crude oil being pumped at the margin.”

The lack of refining capacity is particularly acute in heavy crude oil. This, as the IMF noted, “has contributed to a significant rise in light-heavy crude oil price spreads in the past year, when the marginal barrel from OPEC was heavy, and light sweet crudes were in limited supply due to temporary supply disruptions.”

In addition, environmental issues have made it difficult for new refining capacity to be brought on stream, particularly in the United States, where strict environmental standards “made it difficult to justify new refineries.” The last refinery built in the US was in 1976 and even when investment is allowed, environmental regulations and policies “may drive up capital cost.”

Environmental issues are likely to continue to limit the addition of new refineries in industrial countries in the future and therefore, the IMF report noted, any new capacity will “likely be concentrated in developing countries.”

This view is supported by the US Department of Energy’s Energy Information Administration which said in its *Annual Energy Outlook 2005* that “financial and legal considerations make it unlikely that new refineries will be built in the US.” However, additions at existing refineries are expected to increase total capacity over the next 20 years — mainly at facilities on the Gulf Coast.

In particular, refining capacity limitations are impacting the supply of middle distillates at present and “fueling a counter-seasonal rally in distillate prices” as the UK-based Centre for Global Energy Studies noted in its latest monthly oil report.

It added: “With OPEC production at its highest for 25 years, a substantial build in global inventories is now likely over the second and third quarters. However, the bottleneck that is pushing up prices again [...] is not a lack of crude supply but a shortage of refining capacity to process it. In particular, demand for middle distillates — jet fuel, diesel and heating oil — is outstripping the ability of the refining system to produce it.”

The report continued: “The problem refiners face is that middle distillates are both summer and winter fuels. Jet and diesel demand tends to peak to during the summer, when transport fuel consumption is highest, while heating oil and kerosene are used for heating in the winter. Refineries thus need to make enough distillates to meet current demand while rebuilding stocks ahead of next winter.”

Meanwhile, several OPEC MCs are planning to add to their existing refining capacity. Kuwait wants to raise total capacity to over 1.2m b/d by 2010 from 930,000 b/d at present while Saudi Aramco is expanding existing facilities and also wants to build grassroots refineries.

Algeria plans to build a new integrated production and refining project in Adrar and is also considering re-commissioning an existing facility at In Amenas while neighbouring Libya also wants to increase capacity. Venezuela (*see page 20*) plans to add 600,000 b/d from two new refineries to its existing 3.3m b/d, both of which will be used to process heavier crude grades.

Iran has also announced plans to increase refining capacity, to as much as 2.2m b/d by 2008 — also promoting heavier crude processing facilities — and Nigeria expects three smaller, independent refineries to be commissioned in 2008 with more to follow in the future.

For its part, the United Arab Emirates is involved in a project to increase its Ruwais refinery from the current 145,000 b/d to 500,000 b/d by the end of this year and Indonesia is also expanding capacity.

But with existing refining capacity struggling to meet current demand, there are fears that increased product consumption could further pressure an already tight refining sector. This is particularly true for China and India where product demand is expected to be amongst the strongest in the years ahead.

The refining capacity issue is now becoming widespread, even prompting talk of action at government level to address the problem.

A statement issued in June by the G-8 Finance Ministers ahead of their July summit in Scotland urged “oil producing countries and companies and consumers to recognize their common interest in ensuring investment in sufficient future supplies of oil and refining capacity.”

It also called on “countries and international institutions to work to remove barriers and create a climate conducive to investment throughout the supply chain.”

The issue also emerged during OPEC’s landmark talks with the EU in June with the two Organizations saying they were willing to explore studying joint downstream investment opportunities, particularly in refining to help the oil market in the future.



The June 136th (Extraordinary) Meeting of the Conference also agreed to launch a new OPEC Reference Basket (ORB) in order to better reflect the average quality of crude oil in Member Countries. This came into effect on June 16.

The new ORB is made up of the following: **Saharan Blend** (Algeria), **Minas** (Indonesia), **Iran Heavy** (Islamic Republic of Iran), **Basra Light** (Iraq), Kuwait Export (Kuwait), **Es Sider** (Libya), **Bonny Light** (Nigeria), **Qatar Marine** (Qatar), **Arab Light** (Saudi Arabia), **Murban** (UAE) and **BCF-17** (Bachaquero Crudo en Formación, Venezuela).

The decision was taken after the Conference reviewed a Secretariat Report on the composition of the new ORB that it had asked to be carried out at its last meeting in March in Isfahan.

This followed a recommendation from the Board of Governors and the Economic Commission Board to change the composition of the ORB from seven to a more representative basket of 11 crudes.

These represent the main export crudes of all MCs, weighted according to production and exports to the main markets. The Isfahan Conference asked the Secretariat to calculate the new proposed Basket on a trial daily basis in parallel with the current ORB and report back on the results.

At present the API gravity for the new Basket is heavier, at 32.7° compared to 34.6° for the previous basket of seven crudes. In addition, the sulphur content of the new Reference Basket is more sour at 1.77 per cent, compared to the previous basket of 1.44 per cent.

President of the Conference and Kuwait Minister of Energy, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, said the Organization was pleased with the new ORB and that it would better reflect and “provide a more realistic picture” of the average price for OPEC crude oil.



Righting Wrongs

PDVSA

Venezuela has moved to address anomalies in several contracts signed with foreign operators in the 1990s. It says these contracts contain terms and conditions that run counter to the national interest and also need to be brought into line with the new legislation affecting hydrocarbon exploitation and production.

OPEC Bulletin spoke to the Minister of Energy and Petroleum and President of *Petróleos de Venezuela (PDVSA)*, Rafael Ramírez, during the 136th (Extraordinary) OPEC Ministerial Conference in Vienna in June about the contracts' issue and on his wider plans for the oil and gas sector in Venezuela.

Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, says contracts must be aligned to the interests of the Venezuelan state.



Ramírez is confident that these 32 contracts will comply with the new legislation in Venezuela by the end of this year. He says this must happen in order to ensure that the contracts are fair and that the royalty and taxation system they contain are aligned to the interests of the Venezuelan state.

The affected contracts date back to the 1990s. There are 32 in total: 31 resulting from three bidding rounds held in 1992, 1993 and 1997; and one relating to a direct operating contract for the Boscán field.

Contract irregularities

Ramírez argues that the contracts have in effect become operating agreements rather than the “simple service” contracts they should have been originally and adds that,

as well as not being compliant with existing legislation they also fell foul of the legislation in place at the time they were awarded.

As Ramírez noted in a recent speech to the Venezuelan National Assembly: “Contractors were clearly not meant to acquire any rights over volumes, reserves or prices... however, it has been demonstrated that...PDVSA quite simply turned over to third parties the activities of exploration or production that has been expressly reserved by the nationalization law either for state enterprises or for association agreements carried out by a state enterprise.”

The first round of contracts awarded in 1992 was designed to boost production from marginal or abandoned fields and, as such, the contracts reflected the nature of these fields.

PROYECTO RAFAEL URDANETA

Feature



PDVSA has begun the selection phase for the first stage of the Rafael Urdaneta project part of the National Gas Plan.



The map shows the location of some of the Rafael Urdaneta blocks. Source: PDVSA.

By the time of the second round in 1993, most of the fields were still marginal but the Boscán field (contract signed in 1995 as part of the second round) was producing 80,000 barrels per day – some way off marginal field status.

By the third round in 1997, all the fields involved were producing and this, Ramírez believes, amounted to the “active privatization” by PDVSA of national oil interests – something prohibited under the legislation of the time and definitely not envisaged by the current legislation. “With each successive bidding round...the operating contracts became even more illegal,” he says.

In addition, the royalties and taxation structures of these contracts are unfairly weighted in favour of the foreign operators. Moreover, many relate to fields that produce in excess of 500,000 b/d. Under the new legislation, any field of this size must have a majority participation by PDVSA – and these contracts do not.

During the first quarter of this year, the operating contracts produced 499,000 b/d of crude with a unit value of \$34.67. On average, the contractors invoiced \$19.17 per barrel for their services, the equivalent of 52 per cent of the unit price. By contrast, the lifting costs of barrels that PDVSA produces on its own are around \$4.00/b.

To address this anomaly, the Ministry of Energy and Petroleum issued a directive in April which, with immediate effect, capped payments to operating contracts at 66.67 per cent of the unit value of the crude.

Tax and royalty issues

“We have also found that in these contracts, the operators are avoiding taxes, so we have reviewed the contracts to calculate the debt and we will make them pay what they owe,” Ramírez says.

Royalty anomalies are also an issue. In particular, in the case of four contracts run as joint ventures with foreign operators in the Orinoco Oil Belt. “We discovered that these companies were paying a one per cent royalty — that means \$0.26/b — which was too low.”

Also, he points out, some of the contracts contained incentives to encourage work in areas where little production potential was envisaged. However, output has subsequently proved to be higher. “Now these contracts are producing greater volumes than was specified in the contracts and for that reason we are preparing some legislation to adjust the royalty level to that of the new law to cover the extra volume.”

In addition, Ramírez says PDVSA and the government are unhappy with the recovery rate at many of the contracts. He says in some cases this averages only around six per cent which is “very bad” given the fact that the Venezuelan national average is 30 per cent and can be even higher — up to 60 per cent — in other oil producing regions, including Canada and the North Sea.

“We are calling on the companies to invest in technology to increase the rate of recovery. At the same time we are finding more tax evasion issues and so we are preparing to take action on this issue as well.”

Asked about the reaction received from the companies affected, Ramírez replies: “We are talking to them and negotiating but telling them that they have to comply with the [new] law — they have no option, they have to follow it.”

Under the present law, all new contracts will have a 30 per cent royalty rate and a 50 per cent tax rate and PDVSA, as the state-owned company, will always have the majority share in any upstream partnership.

Downstream, however, is also an area the Ministry is investigating — specifically, in relation to Citgo, PDVSA’s US-based refiner and petroleum products’ marketer. “We have discovered,” Ramírez says, “that many of the oil supply contracts associated with the company have a dis-



Venezuela wants to increase synthetic crude production.

count of \$2.00–\$3.00/b. We are reviewing these contracts so the oil will be sold without a discount — this is very important because it affects the level of income tax and royalties we receive from the company.” An investigation has been launched by Venezuela’s National Assembly to check for tax irregularities.

Increased oil and gas production

Meanwhile, PDVSA is planning to launch joint-venture agreements with foreign oil companies to develop 18 blocks in the Orinoco Basin by the end of this year. It wants to increase production of synthetic crude in the area from the current 500,000 b/d at four existing joint ventures — Cerro Negro, Hamaca, Petrozuata and Sincor. Reserves in the basin are 272 billion barrels.

Overall, Ramírez says, PDVSA wants to increase total



PDVSA

Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, outlining oil policy to the Venezuelan National Assembly.

oil production in the country to five million b/d by 2009. Downstream, he also wants to increase refining throughput by adding 600,000 b/d from two new refineries to the existing 3.3m b/d capacity. These new facilities will be used to process heavier crude grades.

While Venezuela wants to maintain majority state control in any oil joint ventures, it's a different story for gas. Here, private investors can participate in projects up to 100 per cent and these contracts are subject to a different law than the one relating to oil.

In April, PDVSA began the selection phase for the first stage of the Rafael Urdaneta project part of the National Gas Plan. A total of 29 blocks are to be offered for development — 18 offshore in the Gulf of Venezuela and 11 north-east of Falcón which overall cover around 300,000 square km.

“We are planning to finish by September,” Ramírez says. “We have had interest from 33 companies from around the world including Russia, the US and Brazil and they now have all the data.”


Venezuela plans to increase its refining capacity.



PDVSA



He says that 27 trillion cubic feet of gas needs to be exploited and commercialized from this area. Any gas produced will initially be used to supply the domestic market and once that is satisfied, then a liquefied natural gas (LNG) export market will be developed along with the five blocks in the Plataforma area currently being explored by ConocoPhillips and Statoil amongst others.

“We have a total of 147 tcf of proven gas reserves but most of our production is consumed by PDVSA for use in oil production and so we are looking for more gas for local industry and domestic supplies but also for LNG exports in the long term.” Ramírez says he hopes a two-train LNG facility, each with a capacity of 4.7 million tonnes per year, will be commissioned by 2009. 

More details on the issue of the renegotiation of contracts and the Ministry of Energy and Petroleum’s policy for oil can be found in a publication entitled *‘Full Sovereignty Over Oil – A National, Popular and Revolutionary Oil Policy’*. This is based on a recent address given by the Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, to the National Assembly of the Bolivarian Republic of Venezuela.

Full copies of the document can be obtained at www.pdvsa.com/en/ or www.mem.gov.ve/noticias/prensa/index.php.

PDVSA Headquarters in Caracas.

Project Kuwait approval due this year



Kuwait's Minister of Energy and President of the OPEC Conference, His Excellency Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, is confident Project Kuwait will finally be launched by the end of this year.

Project Kuwait — the plan to increase oil production from Kuwait's northern fields — is expected to be given the go-ahead by the end of this year, Kuwait's Minister of Energy and President of the OPEC Conference, His Excellency Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, has said.

The possibility that Project Kuwait will be finally launched came a step closer in June when the Finance and Economic Affairs

Committee of Kuwait's National Assembly unanimously approved the draft law for the project.

Al-Sabah told the **OPEC Bulletin** during the 136th Meeting of the OPEC Conference in Vienna that the project was now at an advanced stage. "The Finance Committee report on the draft law is being prepared and I hope that it will be added to the agenda of our National Assembly as soon as possible."

The law will require Assembly approval in order to be enacted and the current session was to end on July 1. "I hope it will make it onto the agenda by then and that we can hold a special session to discuss the northern fields," Al-Sabah said.

Failing that, the vote would be held during the next Assembly session, which begins in the middle of October. "In any case, either deadline means that we will have the approval before



An oil export pier in Kuwait.

the end of this year. We have a lot of support in the parliament and we are more than satisfied with the new model and agreement.”

Once approved, Al-Sabah said it would take half a year for the project to be officially launched. “We will need six months year to prepare the documents and then go through the process of tenders.”

Project Kuwait was first launched in 1997 by Kuwait’s Supreme Petroleum Council (SPC). It was envisaged as a \$7 billion project to boost domestic production with the help of international oil companies (IOCs) as part of an overall plan to boost crude output to 4 million barrels per day by 2020.

The draft law approved in June covers only four fields in the north (less than had been originally proposed in 1997), including, Abdali, Ratqa, Raudhatain and Sabriya. Production capacity at these fields will be increased to 900,000 b/d for a 20-year period.

Chairman of the Finance and Economic Affairs Committee and Member of Parliament Abdel-Wahab Al-Haroun told the Kuwait News Agency (KUNA) that separate legislation would be required for the development of other fields in the north.

He added that the three IOC bidding consortia which the SPC approved in 2003 (see below) were not allowed “to ignore this change.” Responsibility for the development of other fields would lie with Kuwait Oil Company, he said.

Al-Haroun told KUNA that these four fields were expected to produce 5bn b of oil over 20 years. Other elements in the draft law include: an increase in the level of employment of Kuwaiti nationals to 80 per cent and an income tax rate of 25 per cent on IOC profits. Tenders for the project would, he said, be handled by an independent committee.

The three consortia entitled to bid by the SPC for Project Kuwait are: Chevron,

Total, PetroCanada, Sibneft, Sinopec; BP, Occidental, ONGC/Indian Oil Corporation; and ExxonMobil, Shell, ConocoPhillips, Maersk.

Gas import plans

Meanwhile, Al-Sabah told the **OPEC Bulletin** that Kuwait continues to negotiate on two projects to import gas into the country.

He said talks were at an advanced stage with Iran for a pipeline into Kuwait, which is expected to carry up to 10bn cubic feet of gas per day from late 2007 or early 2008 and cost around \$7bn to build. “I think in August maybe we will sign the last agreement and then the project will start,” Al-Sabah said.

He added that talks on another project for an export pipeline from Qatar to Kuwait were also continuing. “I hope we will soon have the approval of all the authorities in those areas the pipeline passes through.”

Newsline

Indonesia opens up new acreage



Reuters

Indonesia offered 27 new exploration areas in June and has also revised some terms and conditions for foreign operators in the country. This acreage release is part of the country's attempts to boost oil and gas production and 70 blocks in total are to be offered over the next 18 months.

Fourteen of the blocks will be awarded under an open tender system while 13 will be subject to direct offers. The latter means that interested parties submit the bids themselves and can expect to receive the blocks as long as no counter-bids are received.

Of the 14 open tender blocks, three are offshore in the Natuna Sea; two offshore Lampung, Sumatra; four off the coast of Strait of Macassar; two offshore and onshore in Buton, Southeast Sulawesi; two offshore Bawean Island, East Java; and one offshore and onshore in West Papua. Bids have to be received by November 10, 2005.

The 13 direct offer blocks include: one offshore and onshore block in Aceh; one onshore block in Central Sumatra; one onshore block in South Sumatra; one onshore block in Bengkulu; one onshore block in West Java; two blocks offshore East Java; one block offshore Bali; three onshore and offshore blocks in East Kalimantan; and two offshore blocks in the Arafura Sea, Papua. Bids have to be received by July 15, 2005.

The Ministry of Mines and Energy said that successful bidders would be announced three weeks after the respective deadlines for submissions. It also announced that the profit ratio split between the government and the investor had been revised for most of the blocks. Previously, this was 85:15 for oil and 70:30 for gas — the larger figure in both cases representing the Indonesian government's take.

New investment wanted

Under the new 27 blocks only two remain subject to the existing scheme. For oil blocks: 11 will have a 65:35 split; eight, 75:25; and six, 80:20. For gas: 19 blocks have a 60:40 split, four have 65:35; three 70:30; and one 55:45.

BP Migas, the Upstream Oil and Gas Agency, has set a target of 1.3 million barrels per day of production by 2008–2009 compared to the current level of just under 1m b/d.

Production has been declining in recent years and the new acreage is part of an effort to reverse this trend. The Ministry of Mines and Energy is confident that the new acreage will prove popular with investors and is hoping to encourage around \$350m in investment in the sector over the next three years.

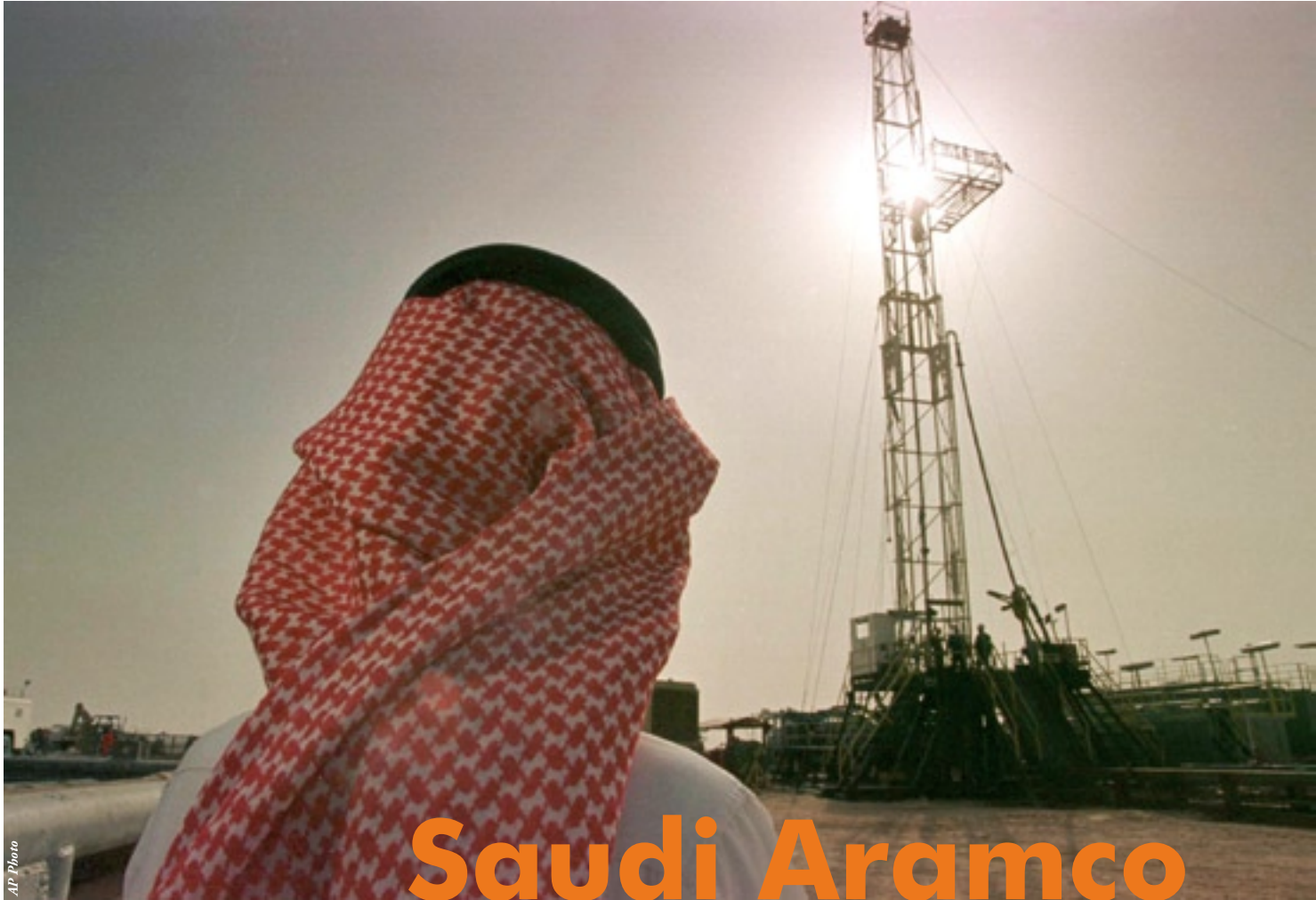
The Ministry's Director General for Oil and Gas, Iin Arifin Takhyan, was quoted by the state Antara News Agency as saying interest in the blocks was already high and that the application of new technology both in undeveloped and already producing fields would help boost production.

As well as new discoveries, there are plans to increase the life of existing fields. In April, BP Migas unveiled an incentive package for marginal oil fields to give an additional cost recovery rate of 20 per cent. Most of the country's oil fields are mature and, according to BP Migas, there is a natural decline rate of about 15 per cent per year. This means that exploration and development prospects, particularly for oil are becoming smaller and harder to find.

At the same time, the country has many smaller discoveries, leads and prospects as well as depleted fields that could make a significant contribution, BP Migas believes, to future production capacity and which could be commercialized as part of "a dynamic marginal field programme."

The Indonesian government has also created other policies to encourage upstream investment including a decision in May to abolish value added tax (VAT) on the import of capital goods by companies who carry out oil exploration in the country.

Employees of Indonesia's state-owned oil company Pertamina inspect pipes linking oil storage tanks at the company's main depot in north Jakarta.



AP Photo

Saudi Aramco endorses capacity plan

Saudi Aramco's board of directors has endorsed a five-year plan to run between 2006 and 2010 that will see the company maintain spare oil production capacity of 1.5 to 2.0 million barrels per day above production levels. Following this endorsement, the plan will now be submitted for approval to Saudi Arabia's Supreme Council of the Ministry of Petroleum and Minerals.

In a presentation to Saudi Aramco senior executives, President and Chief Executive Officer, Abdallah S Jum'ah said the company

was planning significant investments to develop new crude production and expand maximum sustained capacity above the current level of 10.5m b/d.

"The increase in production capacity will maintain a spare capacity of 1.5 to 2m b above production levels," Jum'ah said, "therefore assuring global markets that the company will maintain its position of being the world's most reliable supplier of crude oil during global supply disruptions."

He said the plan represented a challenge

for the company which meant, "we have to double, triple and quadruple our efforts and not cut corners in order to ensure success in our initiatives. We need to take this message down to front-line workers: We have a big job to do, and we have to do it in the most proper way we can." Between 2006 and 2010, Saudi Aramco will continue its exploration efforts to add hydrocarbon reserves to at least replace crude oil production and seek new non-associated gas discoveries by itself and in partnership with international oil companies.

It will also focus on opportunities that “will facilitate development of the Kingdom’s industrial sector by providing new business opportunities and creating jobs”, Jum’ah said, adding human resources would be developed and efficiency and productivity increased.

Optimization

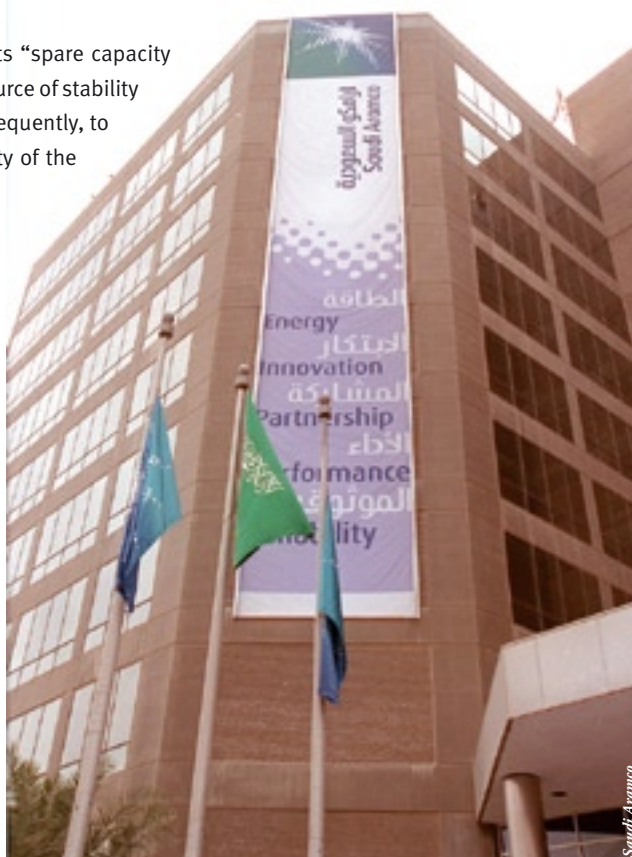
By focusing on high-realization markets and maintaining a diverse presence in major crude oil markets, Saudi Aramco believes it will “optimize revenues” and protect its international oil markets. Moreover, it wants to optimize its assets portfolio “to improve productivity and enhance revenue generation,” maximize revenues to the Kingdom and promote the local economy.

Saudi Aramco is forecasting a healthy economic and oil-demand outlook with crude supplies expected to decline from mature areas and increase from new production areas mostly from countries outside the Organization for Economic Cooperation Development.

The company says its “spare capacity cushion” is “a critical source of stability in oil markets and, consequently, to the health and prosperity of the global economy.”

Left: An official of the Saudi Aramco watches progress at a rig at the al-Howta oil field near Howta, Saudi Arabia.

Right: Saudi Aramco headquarters in Dhahran, Saudi Arabia.



in brief

Norway, Iraq to cooperate

Norway’s Ministry of Petroleum and Energy and the Norwegian Petroleum Directorate have signed an agreement on oil sector support with Iraq’s Ministry of Oil focusing on “Iraq’s drive to restore its standing as an oil producer and supplier.” Norwegian firms Statoil and Hydro have been invited to take part in this work. In June Hydro signed a co-operative agreement with the Iraqi Ministry to provide training, consultancy and technical studies. Hydro will also be given the opportunity to carry out studies of proven oil fields in Iraq not yet developed.

Venezuela gas discovery

Chevron has made a “significant” gas discovery at the offshore Macuira 1X exploration well in Venezuela which tested at a rate of 51 million cubic feet per day of natural gas. The well is the first in Block 3, one of five offshore blocks in Plataforma Deltana close to the Loran gas field in Block 2 which saw a successful drilling in 2004. Chevron said the discovery had advanced plans to evaluate the country’s first liquefied natural gas (LNG) project. Chevron operates Block 3 and Petr leos de Venezuela has an option (up to 35 per cent) to back into the block once it is declared commercial.

Program to boost UAE Mubarek field

Sky Petroleum of the US has signed an agreement with UAE-based Buttes Gas and Oil Company International, a unit of Crescent Petroleum Company International, to take part in an infill drilling program in the Mubarek oil and gas field, offshore the UAE. Total estimated cumulative recovery to date exceeds 100m b representing around 30 per cent of the original oil in place – 275m b – and more reserves could be produced.

Saudi Aramco ups Showa Shell stake

Aramco Japan Holdings Company, a unit of Saudi Aramco, has bought more shares in Showa Shell Sekiyu from the Royal Dutch/Shell group. Saudi Aramco already held 9.96 per cent of Showa Shell. The additional shareholding will enhance its long-standing relationship with Royal Dutch/Shell and strengthen Showa Shell’s refining and marketing business in Japan. Following the latest acquisition Saudi Aramco now holds 14.96 per cent of the Japanese company and Royal Dutch/Shell, 35.04 per cent.

Algeria signs first Medgaz pipe deal



The official contract signing ceremony in Algeria.

The contract for the first phase of the Medgaz Algeria-Spain gas export pipeline project was signed in early June by Algeria's Sonatrach and the Algerian-Spanish group Cosider-Masa.

The first phase covering 302 kilometres and costing 7.14 billion dinars will link the gas fields of Hassi R'Mel with the town of Sougeur.

Once completed, the Medgaz pipeline will initially export 7bn cubic metres per year of Algerian gas to Spain eventually rising to 18bn cu m. Work on the first phase is expected to start this summer and take around 20 months to complete.

At a ceremony to mark the signing, Sonatrach's President Mohamed Meziane said that the contract represented the first important step for the Medgaz project "which

will reinforce and strengthen our exports in the Mediterranean Basin gas market."

This first stage of the pipeline will also feed a 1,200 MW electric power plant at Hadjeret Ennousse and boost supplies of gas to local communities along its path.

The contract for the second phase, which will link the pipeline to Arzew, is being put out to national and international tender, Meziane said. The third phase will be a link between Relizane and Beni Saf on Algeria's Mediterranean coast from where the pipeline will go underwater before reaching Almeria in Spain.

Meziane said the signing of this first contract was strategically important and "demonstrated once again the political desire of our sector to ensure its historic role as a motivator for national development and to cre-

ate wealth. Indeed, the economic and social benefits of this project will affect everybody. We are also using this, our own natural gas energy, for the benefit of the domestic population, for small and medium-sized businesses as well as major industry. This project will establish Sonatrach and thereby Algeria as an important player in the European energy supply market."

Medgaz was launched in 2001 and first gas is expected in the second half of 2008. It is run as a consortium comprising seven international companies including founding partners and core shareholders, Spain's CEPSA and Sonatrach, along with BP, Endesa, Gaz de France, Iberdrola and Total.

Algeria also has another new gas export project dubbed GALSI (Gazoduc Algeria-Sardinia-Italy). This was launched in 2001

by Sonatrach, ENEL of Italy, and Wintershall of Germany who signed a memorandum of understanding to create a company to carry out a feasibility study on the link. Since then, EOS Energia and Edison have joined the project.

According to Sonatrach, a feasibility study has confirmed the project's viability and a marine hazards survey is being carried out this year. It has been suggested that the pipeline could come on stream in 2008 and would cost over \$2bn to build.

Meanwhile, Algeria is increasing its existing gas export infrastructure. Last month, Italy's ENI and Sonatrach reached an agreement to expand the Trans Tunisian Pipeline Company (TTPC) pipeline which carries gas from Algeria to Sicily via Tunisia.

The agreement sets the increase up to 3.2bn cu m of annual transport capacity starting from 2008 and a further 3.3bn cu m/y from 2012 bringing total capacity at that time to 33.5bn cu m/y compared to the present 27bn cu m/y.

The expansion will cost €330m and be entirely financed by ENI. The additional trans-

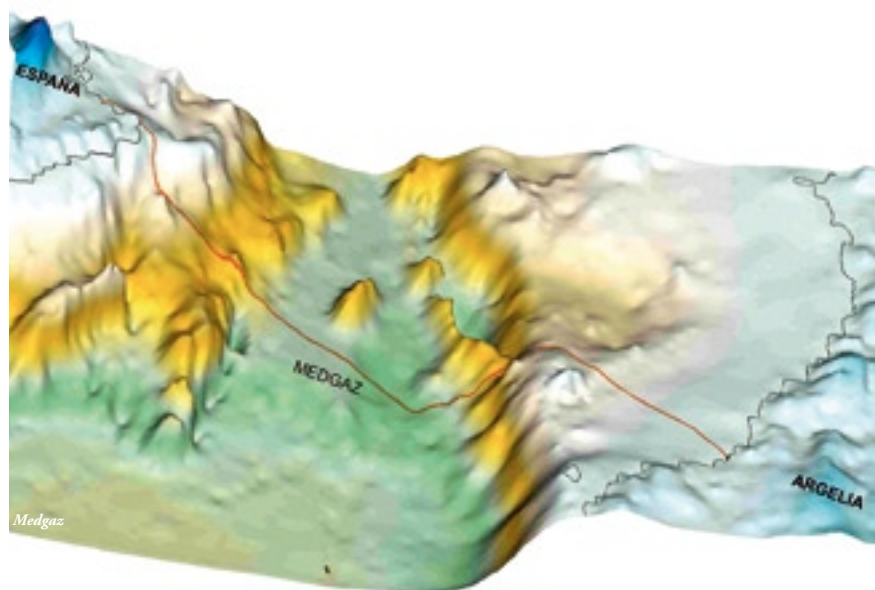
port capacity will be completely put at the disposal of third importers in Italy. Sonatrach will carry out the investments required to expand the part of the pipeline that extends from Algeria to the Tunisian border.

The agreement also set the corporate and contractual re-organization of the Transmediterranean Pipeline Company Limited (TMPC), the 50:50 joint venture by ENI and Sonatrach that owns the TMPC sub-sea pipeline linking the Tunisian coast to the Italian grid.

The TTPC and TMPC pipelines were built in the late 1970s and expanded in the early 1990s. The TTPC pipeline crosses into Tunisia from Oued Saf Saf, which is the point of delivery of gas to the Algerian border. It then runs onto Cap Bon, on the Sicilian Channel, where it connects with the TMPC pipeline. It covers 742 km with two 371 km, 48-inch diameter pipes and has three compression stations.

The TMPC pipeline crosses the Sicilian Channel from Cap Bon to Mazara del Vallo, Italy where it runs for 775 km comprising five, 20–26-inch pipes.

“Once completed, Medgaz will export 7bn cubic metres per year of Algerian gas to Spain rising to 18bn cu m.”



in brief

\$2bn Saudi petchem project planned

Saudi Arabian independent development company Delta International and BP subsidiary Innovene have signed a memorandum of understanding for a major investment in the Kingdom's petrochemical sector. Plans call for the construction of a world-scale cracker and associated derivative capacity, most likely located in Jubail. The project, expected to cost around \$2bn, will form a platform for future opportunities. Innovene and Delta will be equal partners in the joint venture and pending approvals, expect to sign an agreement by the end of the year. The first plants could be commissioned in late 2008.

Algerian exploration success

First Calgary Petroleum (FCP) of Canada said well ZCHW-1 in Algeria, 9.6 km south-west of the FCP-Sonatrach ZCH-1 discovery in the Rhourde Yacoub Block 406a, has oil and gas potential. FCP said it had identified the presence of 28 metres of net hydrocarbon pay over several formations. Well testing will begin later. Separately, Ireland's Petroceltic had its production-sharing contract with Sonatrach for the Isarene area in the Illizi Basin approved by Presidential Decree. Isarene has 28m b of discovered oil reserves and a potential of 400m b and 380 billion cubic feet of discovered gas with potential estimated at 4.6 trillion cu ft.

KNPC profits soar

An increase in oil product prices and improved operational efficiency helped lift profits at Kuwait National Petroleum Company to a record 628 million dinars for the year ending March 31, 2005, from 95m dinars in the previous 12 months. Separately, Kuwait Oil Company signed a 360m-dinar contract with South Korea's SK Engineering and Construction Company to refurbish 19 gathering centres and a gas booster station and replace oil and gas pipelines in the south and southeast of the country.

Sonatrach to explore in Niger

Sonatrach's international arm SIPEX has signed a prospecting and research contract for the Kafra oil block in Niger. Kafra straddles the border between the two countries and adjoins Sonatrach's Tafassasset permit in Algeria. The block covers 23,737 sq km in a 'favourable' oil area with a nearby discovery to the south at Agadem. SIPEX will spend \$29.5m on seismic and drilling wells.

Nigeria, São Tome award licensing blocks



Development of the blocks in the Joint Development Zone will benefit from its proximity to the energy infrastructure of the Niger Delta.

The President of Nigeria, Olusegun Obasanjo, and his counterpart from São Tomé e Príncipe, Fradique de Menezes, have approved the award of five oil blocks in the 2004 Joint Development Zone (JDZ) licensing round. A ceremony to mark the approval was held in Abuja based on recommendations made by the Joint Ministerial Council (JMC) of both countries.

In all, some 26 bids were received from 23 companies operating alone, in partnership or as consortia, for the five blocks on offer. The JMC and the Nigeria-São Tomé e Príncipe Joint Development Authority (JDA) congratulated

the winners of the awards and thanked all those companies who had submitted applications.

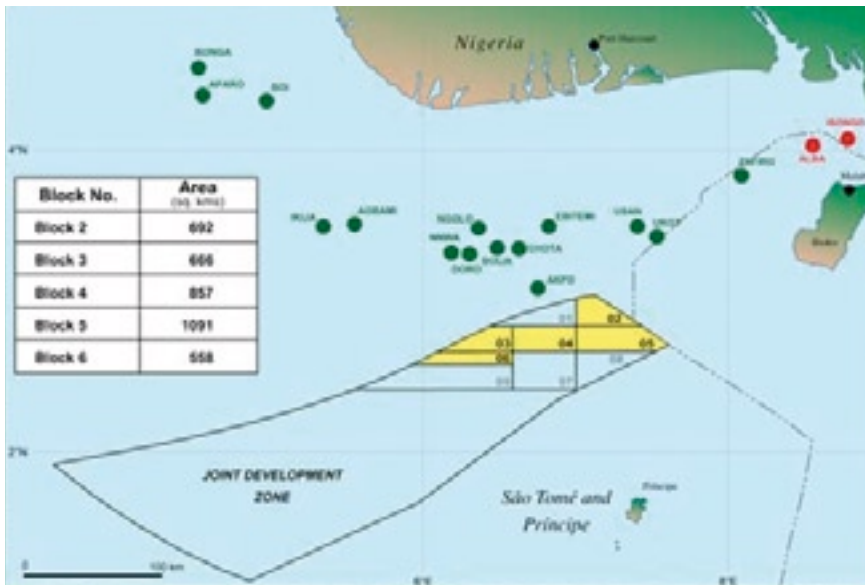
The bidding round was unveiled in November 2004. The blocks are located in the JDZ, which is an area of overlapping maritime boundary between the two countries covering some 35,000 square kilometers in the Gulf of Guinea (*see map*). It is estimated the area could ultimately contain as much as 6 billion barrels of recoverable crude oil.

The area also benefits from its proximity to the existing energy infrastructure of the Niger Delta where there have been significant

discoveries in recent years including Bonga, Agbami and Akpo in Nigeria and Zafiro and Alba in Equatorial Guinea.

Under the JDZ's fiscal regime, a uniform tax rate of 50 per cent is charged and payable to the JDA. Royalties are calculated on a sliding scale that varies according to daily production rates and ranges from zero to five per cent. Profit sharing is based on an 'R' factor that reflects the project's profitability. Production-sharing contracts for the JDZ include a minimum work obligation divided into three exploration sub-periods of four years, two years and two years.

The five blocks awarded in the Joint Development Zone



Source: Nigeria, São Tomé e Príncipe Joint Development Authority

The following bids were approved:

Block 2

Devon/Pioneer/ERHC (including existing rights) as operator (65 per cent), Equator Exploration/ONGC Videsh (15 per cent), A & Hartman (10 per cent), Foby Engineering (five per cent) and Momo Oil and Gas/SOJITZ/IMT International/Nissho Iwai (five per cent). A signature bonus of \$71m is payable on this block

Block 3

Anadarko as operator (51 per cent), Devon/ERHC (including existing rights) (25 per cent), DNO/EER (10 per cent), Equinox Oil and Gas/Equinox and Energy Limitada/PetroChina (10 per cent) and Ophir/Broadlink (four per cent). A signature bonus of \$40m is payable on this block.

Block 4

Nobel/ERHC (including existing rights) as operator (60 per cent), Conoil (20 per cent), Hercules/Centurion (10 per cent), Godsonic Oil and Gas (five per cent), Overt/Addax (five per cent). A signature bonus of \$90m is payable on this block.

Block 5

ICC/OEOC Consortium as operator (75 per cent), ERHC (existing rights) (15 per cent), Sahara/Denham/WoodGroup (10 per cent). A signature bonus of \$45m is payable on this block.

Block 6

Filthim-Huzod Oil and Gas/DNO/ASA/EER/SINOPEC as operator (85 per cent), ERHC existing rights (15 per cent). A signature bonus of \$45m is payable on this block.

Shell, UAE's Mubadala form alliance

Mubadala Development Company, a wholly-owned unit of the Government of the Emirate of Abu Dhabi has signed a memorandum of understanding with Shell EP International, which will lead to the formation of a strategic energy alliance. This will focus initially on the Middle East and North Africa, outside Abu Dhabi. A statement said that areas of co-operation would include the economic development of new and existing hydrocarbon resources and the research and development of "economically viable and environmentally acceptable energy solutions."

Statoil to double gas output

Norway's Statoil has announced plans to double gas production to 50 bcm by 2015. It plans to achieve this by concentrating on new LNG projects, the development of new discoveries, as well as improved recovery from its existing fields both off Norway and overseas. The company said that its global exploration activity had been stepped up with the aim of securing an extra 1.2bn barrels of oil equivalent (boe) in new resources by 2007. Statoil will spend Nkr3.5-4bn per year on exploration through 2007 by which time it hopes to be producing 1.4m boe/d compared to 1.175m boe/d this year.

Total signs Nigeria farm-in deal

Elf Petroleum Nigeria (EPN), a subsidiary of France's Total, has signed a farm-in agreement with Nord East Petroleum Nigeria. Under the agreement EPN will acquire a 40 per cent interest in oil prospecting licence 215, located offshore southwest Nigeria. The licence is situated in the central part of the Niger Delta and covers around 2,500 square km in water depths of between 200 and 1,600 meters.

New UAE energy firm formed

United Arab Emirates President, His Highness Sheikh Khalifa bin Zayed Al Nahyan has issued a decree that will establish a new energy company in Abu Dhabi with a capital of 4.1bn dhirams. To be known as The Abu Dhabi National Energy Company, the company will be a public joint-stock subsidiary of the Abu Dhabi Water and Electricity Authority. Its activities will include acquiring shares in companies or projects operating in the water, electricity, oil, gas and mineral sector outside the UAE.

Qatar, UAE inaugurate gas plant



Qatar's Second Deputy Prime Minister and Minister of Energy and Industry, HE Abdullah bin Hamad Al Attiyah. Dolphin Energy CEO, Ahmed Al-Sayegh.

Officials from Qatar and the United Arab Emirates (UAE) last month attended the foundation stone-laying ceremony to mark the formal start of construction work on the \$1.6 billion gas processing plant in Ras Laffan City, Doha, which is part of the Dolphin Energy project.

The ceremony was attended by His Highness, The Heir Apparent of Qatar, Sheikh Tamim Bin Hamad Al Thani, Qatar's Second Deputy Premier and Minister of Energy and Industry, HE Abdullah bin Hamad Al Attiyah, and UAE Minister of Energy, HE Mohamed Bin Dhaen Al Hamli. Other guests included government officials and industry representatives.

The gas processing plant is expected to come on stream in 2006 and is being built by Japan's JGC Corporation and supplied with gas turbines by Rolls Royce of the UK under contracts awarded in January 2004.

The facility will process raw gas from Qatar's North Field — removing by-products such as condensates and LPGs for international sale.

The resulting refined gas will then flow over 370 km via Dolphin's dedicated 48-inch export pipeline to Taweelah in Abu Dhabi, for distribution to customers throughout the UAE. From there, a spur link will carry gas onto Dubai. Initial export capacity of the pipeline will be two billion cubic feet per day.

Energy growth record in 2004

Overall world energy consumption grew by 4.3 per cent in 2004, the largest ever annual increase, in volume terms, in global primary energy consumption and the highest percentage growth since 1984. According to the BP Statistical Review of World Energy in 2004, growth in energy demand from China was up 15.1 per cent over the year. The Review said that over the past three years, Chinese energy demand has risen by 65 per cent, accounting for over half the increase in global demand over the period. The Review said that China now consumes 13.6 per cent of the world's total energy. Outside China, world energy demand rose by 2.8 per cent, representing the fastest percentage point increase since 1996 and approximately twice the rate of the previous two years.

Petrobras output record (again)

Petrobras said it is about to achieve oil self-sufficiency in Brazil after hitting another record daily crude production target in June. On the 23rd of the month it lifted a total of 1,834,505 b/d, around 15,000 b/d more than the previous daily record of 1,820,000 b/d and 22.9 per cent above the average output for 2004 of 1,493,000 b/d. Petrobras said that the increase in output was due to increased production performance from its platforms in the Campos Basin and enhanced recovery from fields located in mature production areas in the North and Northeast regions, as well as the state of Espírito Santo.

BTCP pipeline inaugurated

The Azerbaijan section of the Baku-Tbilisi-Ceyhan (BTC) oil export pipeline was inaugurated in June by the Presidents of Azerbaijan, Georgia and Turkey. The ceremony marked the start of the first infill phase of the pipeline which will run from Sangachal for 1,770 km with a capacity of 10m b of crude. The inauguration of BTC follows the commissioning of the BTC head pump station at the Sangachal terminal and officially marks the commencement of the first linefill phase of the Baku-Tbilisi-Ceyhan oil export pipeline. Filling will take over six months with the loading of the first tanker at Ceyhan in Turkey scheduled for the fourth quarter of this year. BTC shareholders are: BP, 30.1 per cent; AzBTC, 25 per cent; Unocal, 8.90 per cent; Statoil, 8.71 per cent; TPAO, 6.53 per cent; ENI, five per cent; Total, five per cent; Itochu, 3.4 per cent; INPEX, 2.5 per cent; ConocoPhillips, 2.5 per cent; and Amerada Hess, 2.36 per cent.



HH the Heir Apparent of Qatar Sheikh Tamim Bin Hamad Al Thani placing the stone (c), watched by the UAE and Qatar Ministers of Energy.

In his speech to the 500-plus guests, on behalf of the UAE Government, HE Al Hamli said Qatari gas represented “an ideal source of clean, secure and reliable energy for the UAE. Dolphin Energy’s gas, which will be available in large quantities for a long period of time, will support our current and future industrial growth.”

For the Government of Qatar, HE Al Attiyah stated: “The Dolphin Gas Project is an example of the strong co-operation among the GCC (Gulf Co-operation Council) nations.

“It will create economic benefits which will create the potential for further investment. This in turn will create employment opportunities and develop energy markets.”

The ceremony follows the announcement in May that a gas-sales agreement had been signed with the Dubai Supply Authority (DUSUL) to deliver 700m cu ft/d of Dolphin gas for a 25-year period. Other sales agreements have been signed with Union Water and Electricity/Oman Oil Company, Abu Dhabi Water and Electricity Authority, Ras Al-Khaimah and — as mentioned above — DUSUL.

Dolphin Energy is owned 51 per cent by Mubadala Development Company, on behalf of the Government of Abu Dhabi with Total of France and Occidental Petroleum of the US each holding a stake of 25 per cent in the company.



Mahmoud Ahmadinejad will be sworn in as President in August.

Tehran — Former Mayor of Tehran, Mahmoud Ahmadinejad, has been elected the new President of Iran after a second round of voting which saw him beat his nearest rival Akbar Hashemi Rafsanjani by a significant majority. Ahmadinejad won 17,248,782 votes compared with 10,046,701 for Rafsanjani; he will be sworn in on August 3, replacing outgoing President Mohammad Khatami.

At a press conference after the result was announced, Ahmadinejad said that the foreign policy of the future government would place special focus on “justice, peace, solidarity and development of ties based on mutual respect.”

New Iranian President elected

According to the Islamic Republic News Agency, IRNA, he added that the foreign policy of his cabinet would not only underline political development, but also the expansion of cultural and economic relations would be of great importance.

“On the domestic scene, government policies will be based on moderation and any extremism will not only be avoided, but will also be seriously dealt with. Besides optimum use will be made of all potentials, opportunities and merits,” Ahmadinejad said.

He also confirmed that Iran would proceed with its national nuclear programme, which the country needed for medical, scientific and engineering applications, the IRNA report said.

“It is the right of the Iranian nation to move forward in all fields and acquire modern technology. Nuclear technology is the outcome of scientific progress of Iranian youth.” He added that Iran would continue its talks with the European Union “to vindicate the right of the Iranian nation for peaceful application of nuclear energy.”

Iran’s Foreign Ministry spokesman Hamid Reza Asefi welcomed the large turnout in the elections and said that the programmes and policies set by outgoing President Khatami would “definitely” be followed by the next cabinet.

Ahmadinejad, was born in 1956 at Garmsar near Tehran. He studied civil engineering at Tehran’s University of Science and Technology and holds a PhD from the same institution. He was active in student politics in the 1980s and joined the Revolutionary Guard in 1986 where he also worked as an engineer.

He was governor of the cities of Khoy and Maku and worked as an advisor to the government of Kurdistan Province before moving to the Ministry of Culture in 1993 and then being appointed governor of the province of Ardebil.

In 1997 he went back to Tehran’s University of Science and Technology working as a lecturer before becoming Mayor in 2003.

WTO starts entry talks with Iran



The WTO headquarters in Geneva, Switzerland.

Geneva — The World Trade Organization (WTO) has established a working party to examine Iran’s application for membership, some nine years after the country first applied to join the 148-member trade group.

Iran’s Ambassador to the United Nations (UN) in Geneva, Mohammad Reza Alborzi, said that “a decision that has long been overdue has now been established.” He added that “the future of Iran’s working relationship with the WTO will make it clearer to us and to the member states as to the potential outcomes of the accession process, something that we would explore and examine closely and prudently.”

Iran’s Ministry of Foreign Affairs also welcomed the news. Its spokesman, Hamid Reza Asefi was reported by

IRNA as saying: “We believed from the beginning that our right to be accepted into the WTO was ignored for no reason. In the past months the Islamic Republic of Iran, in its negotiations with Europe and influential WTO countries, has stressed the need to recognize Iran’s right to join this trade organization.”

The decision to open accession talks was supported by the United States removing its long-held opposition to Iran becoming a member.

Accession talks can take several years due to the amount of negotiations that need to take place. Other OPEC Member Countries currently negotiating access include Algeria, Iraq, Libya and Saudi Arabia. The latter hopes to receive membership by the end of this year.

Conference pledges help for Iraq



Officials and ministers from the UN, US, Iraq and EU address a news conference.

Brussels — The European Union (EU) sponsored a conference of some 80 nations in Brussels in June aimed at supporting the Iraqi transitional government. UN Secretary General, Kofi Annan, said the meeting marked “a watershed for Iraq” as a “sovereign, elected Iraqi Government.”

He said that all attendees had recognized their obligation “to help Iraq fulfill the promise of its democratic transformation” and called on all countries to “deliver the material support they have already pledged to the government.”

Iraq’s Prime Minister Ibrahim Jaafari thanked the EU for organizing the conference and said Iraq deserved the attention the meeting offered. “We are a country with a great civilization and we need your assistance because we are experiencing very difficult times.”

US Secretary of State, Condoleezza Rice said: “The Iraqis themselves will set the course of Iraq’s future but they will not bear the weight of their responsibilities alone. Iraq has many allies as we are demonstrating here.”

Annan said the process of drafting a new constitution represented “a seminal opportunity for Iraq” and while this would not be easy, the transitional government could rely on external support in the months ahead. “I pledge today to the people of Iraq that the UN is determined to accompany them all the way on their historic journey of transition.”

An official statement said the participants called on other creditors to provide debt relief on generous terms comparable to those agreed by the members of the Paris Club. It said the disbursement of the \$32 bn already pledged to Iraq’s reconstruction should be expedited and invited countries “that have not yet pledged to join the international efforts supporting the reconstruction process in Iraq.”

Iraq’s Foreign Minister Hoshiyar Zebari said: “Today was a good day for Iraq and good news for the Iraqi people to see that the international community is coming together to stand by the process to build freedom and democracy.”

UAE futures exchange launched

Dubai — Dubai Holding and the New York Mercantile Exchange (NYMEX) announced in June the formation of the Dubai Mercantile Exchange (DME), a 50/50 joint venture which will develop the Middle East's first energy futures exchange.

NYMEX said the DME, initially trading sour crude and fuel oil, was expected to open in early 2006 and would be regulated by the Dubai Financial Services Authority. It will be based in the Dubai International Financial Centre, a financial free-zone designed to promote financial services within the United Arab Emirates (UAE).

Dubai Holding and NYMEX will both contribute funds and services towards establishing the exchange, which will house both open outcry and electronic trading platforms. NYMEX will also provide software and systems to run the trading operations, including trade entry and risk management systems. Trades executed on the DME will be cleared through the NYMEX clearing house in New York.

Chief Executive Officer of Dubai Holding, Mohammed

Al Gergawi said: "This is an important first step towards providing an energy exchange for the greater Middle East region. Our priority is to build on this agreement and develop a platform for managing risk which reflects the increased financial sophistication of the region's capital markets."

NYMEX Chairman, Mitchell Steinhouse said: "We are committed to the long-term success of the DME [...] in the development of global energy markets to create a state-of-the-art world class commodity exchange in the Middle East." He added that Dubai represented an opportunity for the global energy futures industry to fill a time-zone gap in trading between Europe and Asia. "DME will fill that gap by establishing an exchange with products that address the growing needs of the regional market."

NYMEX said that contracts traded on the DME would be tailored to meet the needs of the marketplace and might include "physical delivery alternatives that represent the physical trade flows."

The NYMEX trading floor in New York.



Reuters

Qatar hosts G-77 summit



The G-77 summit adopted the Doha Communiqué to promote cooperation between member nations.

Doha — Qatar in June hosted the Second South Summit of the G-77 and China which saw discussions held on various topics, including economics, trade and development. The summit also adopted the Doha Communiqué containing requests and recommendations to the international community on ways of promoting cooperation among member nations.

In a speech at the close of the summit, His Highness The Emir of Qatar, Sheikh Hamad bin Khalifa Al-Thani said, “We are able through constructive dialogue conducted at this Summit to arrive at an appropriate strategic vision concerning a number of economic and development matters expected to be dealt with at the high-level meeting of the UN General Assembly next September.”

He added that the summit had stressed the importance for developing countries “to follow a course that strengthens their ability to participate and negotiate actively in a more just world economic order.”

Combating poverty, he said, was and should remain one of the top priorities for developing countries “which need serious global support to allow them to fulfill the

necessary social, health and educational programmes. We call upon the developed countries to fulfill the pledges they made at the UN conferences to realize the expectations of the

developing countries regarding official aid for development, debts, trade, commodities, science, technology, education and other fields.”

The G-77 was founded in 1964 and now has 132 members. Over 5,000 people attended the meeting, including more than 30 heads of state.

Group Chairman and Prime Minister of Jamaica, P J Patterson told a news conference that the summit had been “one of the most successful meetings to advance the cause of the developing world.” He welcomed Qatar’s announcement of a \$20m donation to the South Fund for Development and Humanitarian Assistance, as well as pledges of financial support from China, India, Socialist People’s Libyan Arab Jamahiriya, Kuwait and the UAE. Patterson said developing countries were already showing signs better of integration and hoped this would continue.

The Summit also approved a ‘Plan of Action’ which called on developing countries to increase their scientific expertise and close the technological gap with industrialized nations, as well as co-operate on disease prevention, particularly for HIV/AIDS, malaria and tuberculosis.

IMF encouraged by Indonesia

Jakarta — The International Monetary Fund (IMF) has praised Indonesia's economic performance after carrying out an assessment of the country with the Fund's Senior Resident Representative in Indonesia, Stephen Schwartz, saying economic growth had continued to gain momentum in 2005.

"Encouragingly, growth has become more broad-based, with investment increasingly playing a supportive role." He added that with the steady implementation of the government's economic agenda, its growth target for 2005 of five-and-a-half per cent, increasing to six per cent in 2006, was well on track.

However, the IMF noted that inflation had risen, due in part to the recent adjustment of fuel prices towards international levels. This together with pressure on Indonesia's foreign exchange and bond markets in recent months were, Schwartz said, "a reminder of the economy's susceptibility to shifts in sentiment toward emerging markets, which places a premium on sound economic policies." Overall, the IMF team was, he said, "encouraged" by the government's commitment to achieve higher economic growth and reductions in unemployment and poverty, and that its medium-term strategy was "well-tailored to achieve these objectives."

The team supported the Indonesian government's plans to further reduce the fiscal deficit aimed at lowering the public debt burden over time. Measures include formulating a monetary policy geared towards low and stable inflation; steps to strengthen the financial sector; improving the investment climate and infrastructure; strengthening the legal framework; and enhancing governance.

"The authorities have kept their focus on this broad economic agenda, even while attending to the urgent needs in the aftermath of the tsunami tragedy," Schwartz said. He added that improvements in the administration of tax and the taxation system, as well as a planned shift to interest rates as a step towards implementing formal inflation targeting would "enhance the transparency of monetary policy."

In the financial sector, Schwartz welcomed measures taken to improve governance following the collapse of many of the country's institutions in the wake of the 1997 Asian financial crisis with improvements introduced in the governance of state-owned banks.

Schwartz added that discussions had also focused on improving the investment climate and increasing labour market flexibility as a means of addressing unemployment. The IMF also welcomed the government's new medium-term energy policy aimed at reducing consumption and increasing oil production.

A report based on the discussions will be presented to the IMF's Executive Board in mid-July.

A construction site in front of the Jakarta Stock Exchange. The IMF said steps have been taken to improve the governance of state-owned banks in Indonesia after the 1997 Asian financial crisis.



Virgin Nigeria takes to the skies



As well as the new route to London, Virgin Nigeria wants to add other destinations within Africa and to the Middle East.

Virgin Nigeria

Lagos — Virgin Nigeria, the new private sector airline for Nigeria, has launched its inaugural route between Lagos and London, the first of several destinations it hopes to announce in the coming months. Created last year, the airline said the service would operate three times a week from the middle of July using an Airbus A340-300 aircraft.

Chief Executive, Simon Harford said the airline was also finalizing plans for new short-haul routes within Africa which would be announced shortly. These will be flown by Airbus A320 aircraft. Domestic flights to Abuja and Port Harcourt as well as to Accra in Ghana are starting and other routes to the Middle East and the US are also being considered. Harford added: “Virgin Nigeria has gone from conception to launch at a speed that is on par with world aviation standards. [...] We are intent on building a wide network of routes across Africa and beyond. We are also intent on operating to standards that allow Nigerian aviation to hold its head up high around the world.”

Chairman of the airline, Felix Ohiweri, said, “We take very seriously the importance of Virgin Nigeria to the Nigerian economy and nation and are determined to operate to the highest standards of private sector and aviation governance.”

The airline employs 200 Nigerian staff, a figure that will rise to 1,000. It is an entirely private sector Nigerian company owned 51 per cent by local institutional shareholders and 49 per cent by strategic investor Virgin Atlantic Limited, owner of the UK-based Virgin Atlantic Airways.

The Nigerian shareholders include Africa Capital Alliance, Dantata Group, Standard Trust Bank, IBTC and several insurance companies, banks and fund managers. The airline has said it plans eventually to widen share ownership to all Nigerian investors through an initial public offering and listing on the stock market.

Virgin Nigeria said it was hopeful that it would soon be able to start direct flights between Nigeria and the US. In January, the Federal Government of Nigeria applied to the US government for rights to allow Virgin Nigeria to start trans-Atlantic services.

The airline said it was now in the second stage of that application and “we are confident that the availability of full information and understanding will enable the two nations...to soon allow direct flights between the two countries.”

Virgin Nigeria is designed as a replacement for national carrier Nigeria Airways, which collapsed in 2003 with over \$60m in debts.

Oil money funds housing in Venezuela

Caracas — Venezuela’s National Executive, via PDVSA subsidiary, the Venezuelan Oil Corporation (CVP), has transferred 1.44 trillion bolivars to BANDES, the Economic and Social Development Bank, to finance housing projects across the country.

The Venezuelan government has created the Housing and Infrastructure Development Fund whereby surplus oil revenues are to be used to provide funding to build up to 30,000 residences as well as associated infrastructure including educational, health and water projects.

The funding has been allocated as follows: Fondur, 893,146 million bolivars; National Housing Bank (BANAVI), 193,504m bolivars; Inavi, 128,248m bolivars; Corpovargas, 43,313m bolivars; Fundabarrios, 36,671m bolivars; Savir, 28,902m bolivars; and Corpozulia, 3,095m bolivars.

Using oil revenues to fund housing development and social projects is a provision contained in Venezuela’s new Organic Law on Hydrocarbons “aimed at enhancing the economic and social development of all Venezuelans.”



A mural depicts Venezuelans working in their oil fields at the entrance of a state-funded cooperative in Caracas, Venezuela.

World Bank head in Nigeria



World Bank Chief Paul Wolfowitz meets with locals at the venue of a World Bank-assisted project in Bauchi, Nigeria.

Abuja — World Bank President Paul Wolfowitz visited Nigeria in June and said he was hopeful that a deal on the country’s debt would be forthcoming. Wolfowitz arrived in Nigeria from the G-8 Finance Ministers meeting in London which saw an agreement to cancel \$40bn worth of debt owed by 18 of the world’s poorest nations mainly to the World Bank Group, the African Development Bank and the IMF.

Wolfowitz said he was “delighted” about the agreement, adding that creditor nations “will hopefully come up with a deal to forgive Nigeria’s debt. I’m very positive that something will happen.”

Wolfowitz spent two days in Nigeria. He visited a power sector project and met with the Nigerian government’s economic team headed by Finance Minister Ngozi Okonjo-Iweala as well as legislators and representatives of civil society groups. He also met with Nigerian President Olusegun Obasanjo.



OPEC Fund extends \$22.72m to Turkey for irrigation project

The OPEC Fund for International Development signed a \$22.72 million loan agreement with Turkey last month in support of an integrated irrigation/environmental initiative in the Central Anatolia Region that seeks to boost agricultural productivity and support energy development, while protecting the threatened wetlands of the Develi plain.

Irrigation and energy targeted

With an annual average precipitation of just 340 mm, Central Anatolia receives less rain than anywhere else in Turkey. This is a serious problem for the area's large farming population. Crop yields per hectare are low and cultivation is confined to 60 per cent of arable land for lack of water. The climatic conditions are also a hazard for the plain's fragile ecosystem, which is protected under the Ramsar Convention.*

The Fund's loan will complement government resources to implement the second phase of this important, ongoing project. Phase one completed the construction of three dams and related irrigation schemes over an area of some 19,000 hectares. Under phase two, works will continue with the building of a 10,700 metre tunnel to divert water from the Zamanti River, together with associated structures such as a weir, approach and conveyance channels, a chute to feed the future hydroelectric power station, and the main irrigation channel.

On completion, the project will allow for the irrigation of a further 7,460 ha of farmland. An additional 7,000 ha will be upgraded from partially irrigated to fully irrigated.

Boost to agriculture

This should lead to greatly increased agricultural production, especially at a commercial level, and ultimately raise incomes and living standards among the 100,000 rural inhabitants of the Develi Plain. The environmental component of the project will secure the protection of the ecosystem formed by the Sultansazlığı and Yay lakes, which are located close to the Gediz Delta.

This is the fourth loan to be extended by the OPEC Fund to Turkey. Two of the previous loans were for balance of payments support, while the third helped finance a multi-sectoral, rural development project. Turkey also received emergency aid from the Fund in 1999 following a devastating earthquake.

The recent agreement was signed in Istanbul, on the sidelines of the 38 Annual Meeting of the Board of Governors of the Asian Development Bank. The signatories included the Director-General of the OPEC Fund, Suleiman J Al-Herbish, and the Director General, Under Secretariat of Treasury of Turkey, Memduh Aslan Akçay.

Financing from the OPEC Fund constitutes almost half of the total cost of the project of \$46.70m. The lending terms are 3.25 per cent per annum over 20 years, with an annual service charge of one per cent on amounts withdrawn and outstanding.

* *The Convention on Wetlands, signed in Ramsar, Iran, in 1971, is an intergovernmental treaty which provides the framework for national action and international co-operation for the conservation and wise use of wetlands and their resources.*

Award for Director-General

The Republic of the Philippines in June bestowed its Congressional Medal of Achievement on Director-General of the OPEC Fund for International Development, Suleiman Jasir Al-Herbish, describing him as an accomplished manager and administrator.

The citation for the Congressional Medal to Al-Herbish said it was being conferred on him “in recognition of his distinguished administration of the 12-Member OPEC Fund” and the key role, in the institution, of Saudi Arabia.

The citation spoke of the long service of Al-Herbish in the global oil industry, including Governorship for Saudi Arabia at OPEC and Directorship of several key Saudi public and private enterprises.

Furthermore, Al-Herbish was being honoured for “his personal interest in the welfare of the oil-importing countries of the developing world, whose plight ... the OPEC Fund seeks to alleviate.”

The award was presented, on behalf of the Philippine nation by the Speaker of the Congress of the Philippine House of Representatives the Honorable Jose de Venecia, Jr. Accompanied by several Members of Congress and ranking



national officials, including the Philippine Ambassador to Austria, HE Victor G Garcia III, de Venecia told Al-Herbish and assembled OPEC Fund staff that the Philippines was appreciative of the Fund’s contributions to social and economic development in the country.

He disclosed that Saudi Arabia, Al-Herbish’s home country and Fund Member State had, over many years, provided major support to the Philippines, employing close to one million Philippine nationals in, especially, the health sector.

Al-Herbish remarked that relations between the Philippines and the OPEC Fund were excellent. He thanked the Speaker, the Congress and House of Representatives, as well as the People and Federal Government of the Philippines for the award. He added that the OPEC Fund intended to continue with its projects and programmes of co-operation with the Philippines.

Co-operation with the Philippines began in August 1977 when the Fund extended a first, road project loan to the country; it is involved in several economic sectors, including energy, transportation, education, agriculture and agro-industry.

The Award is the Congress highest medal of honour. Recent recipients have included South Africa’s Nelson Mandela; President of Pakistan, HE Pervez Musharraf; President of China, HE Hu Jintao; and Minister of Petroleum and Natural Resources of Saudi Arabia, HE Ali I Naimi.

This section includes the OPEC Monthly Oil Market Reports (MOMR) for both May and June published 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

May

OPEC Reference Basket¹

The OPEC Reference Basket saw a strong start in April following a speculative investment bank report forecasting the possibility that oil prices might double amid fear of tightness in summer fuels. Although the sustained closure of outbound arbitrage barrels continued to pressure regional markets, healthy refining margins and perception of surging demand supported prices. The Basket rallied in the first week in April by nearly six per cent for a rise of almost \$3 to close at the highest weekly average on record at \$52.07/barrel. However, the rise was short-lived and the market turned bearish. The lack of arbitrage opportunities continued to pressure regional markets at a time when US crude oil inventories continued to build to comfortable levels on high OPEC production. Moreover, a downward revision by the IEA of its world demand forecast kept bearishness intact sending oil futures downward, while the flow of western crude eastward kept the Asian market bearish. Hence, the Basket plunged six per cent or \$3.21 in the second week to close at \$48.86/b (see **Table A**).

The third weekly period in the month saw

mixed movement. It began with a strengthening of the US dollar, which inspired fund sell-offs in the futures market. This helped crude oil prices to ease while OPEC supplies continued to rise. Hence, the Basket slipped to \$46.52/b, the lowest level since March 1. However, new developments in the Yukos saga tipped fears of a possible supply shortfall amid a series of refinery setbacks in the US in the run up to the US driving season, which helped to strengthen market bullishness. This was enhanced by the surprise draw on US crude oil stocks for the first time in ten weeks. Accordingly, the Basket jumped over five per cent or \$2.50/b in the last two days of the third weekly period; however, the weekly average closed down 1.8 per cent at \$48/b.

The final week of the month was marked by concern over bottlenecks in downstream capacity amid continued refinery outages in the USA. The Basket rallied above the \$50/b level for the first time in two weeks, surging nearly three per cent. However, prices reversed the previous four-day rise, sustaining the downward streak. Plentiful OPEC supplies amid the closure of the arbitrage opportunities pressured regional markets and sustained bearishness in the marketplace. Yet, in the final week, the Basket saw a hefty rise of well over three per cent or \$1.60 to close at \$49.60/b. On the final day of the month, the Basket eased further on

weak economic data in the USA amid an amply supplied market. The Basket closed at \$47.90, down \$2.3 or 4.6 per cent on the month.

In April, the Basket saw mixed movement. Perception of tightness in the downstream capacity and the release of a speculative investment bank report claiming that the market had entered a 'super-spike' period that could boost prices to \$105/b pushed up oil prices to a record weekly high early in the month. However, prices tipped downward later in the month on rising OPEC output and persistent crude stock-builds in the USA, although continued concern over refinery outages in the USA kept prices in check. As a result of these movements, the monthly average closed over 1 per cent higher at \$49.63/b, marking a slowdown from the rates seen in the last four months.

The calm sentiment continued into May as strong exports from OPEC Members and rising USA crude oil inventories at the highest level in nearly six years suggested that the downward movement could remain. These trends helped ease the Basket's weekly average to \$47.55/b, although concern over summer fuels kept some tension in the market.

US market

The US cash crude oil market eased earlier in the month on swelling crude oil supplies, while a widening of the sweet-sour spread sup-

1. An average of Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana Light and Isthmus.
Note to reader: The new OPEC Reference Basket will be introduced as of the next issue of the report.

ported stronger refining margins. The bullish sentiment strengthened on concern over gasoline supplies ahead of seasonal demand, as arbitrage flows of rival West African crude remained blocked by a non-existent West Texas Intermediate (WTI)/Brent front month spread. The sustained contango of the forward structure encouraged refiners to store crude oil. Hence, the WTI/West Texas Sour (WTS) spread narrowed by 88¢ for the first week of the month to \$5.17/b. The WTI weekly average rose \$1.70 or over three per cent to close at \$56.05/b, a record high level. Nevertheless, a downward revision to the International Energy Agency's (IEA) global demand forecast amid a strengthening US dollar drew speculative interest out of the futures market to exert further pressure on buying interest as refiners adopted the 'wait-and-see' approach hoping for prices to slump even further.

The WTI second weekly average narrowed a hefty \$4 or over seven per cent to close at \$52.06/b, the lowest in the previous six weeks. In the third week, a series of refinery glitches boosted concern over summer fuels, putting gasoline in the driving seat and expanding the sweet/sour differential at a time when the transatlantic arbitrage opportunity remained closed. Although the weekly average closed 45¢ lower at \$51.59/b, the WTI/WTS spread widened 81¢ to \$5.99/b. Nevertheless, the spot May contract that expired April 25 slipped \$3/b on comments that Saudi Arabia could quickly tap spare capacity and news of rising OPEC supply. Although the Energy Information Administration (EIA) weekly petroleum data revealed that crude oil stock-builds were larger than anticipated, the continued outage of an ExxonMobil pipeline that takes crude to Louisiana refineries from offshore supported bullishness in the marketplace. However, the new month emerged on less encouraging economic growth at a time of comfortable petroleum stocks levels in a well-supplied market. WTI closed the final week with an average of \$52.69/b for a gain over \$1 or two per cent with the WTI/WTS spread narrowing by 53¢ to \$5.46/b. The April monthly average closed 99¢ or nearly two per cent lower than in March, at \$53.09/b.

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

	Apr 05	May 05	2004	2005*
Reference Basket	49.63	46.96	32.11	45.74
Arabian Light	48.68	47.09	31.74	44.45
Dubai	47.24	45.68	30.90	43.36
Bonny Light	53.18	50.23	33.27	49.43
Saharan Blend	51.98	48.69	33.40	48.80
Minas	55.96	50.34	32.24	49.79
Tia Juana Light	43.27	41.67	30.16	40.41
Isthmus	47.13	45.05	33.04	43.96
Other crudes				
Brent	51.87	48.90	33.34	48.66
WTI	53.09	50.25	36.50	50.52
Differentials				
WTI/Brent	1.22	1.35	3.16	1.86
Brent/Dubai	4.63	3.22	2.44	5.30

* Year to date average.

European market

The European market began the month on improving refining margins with firmed price differentials to the benchmark. Although the arbitrage was closed for transatlantic barrels, Chinese demand for light sweet Western crudes amid tight supplies helped Brent prices to sustain strength. However, the price of Dated Brent, which rose to a record high average of \$54.47/b in the first week, kept some third decade April cargoes unsold pressuring the North Sea crude. Hence, the second week saw a drop in prices as well as in differentials that was weighed down by the abundant cargoes of sweet grades. Brent dropped almost \$4/b or nearly seven per cent, to close the weekly period at \$50.76/b. As the market moved into May trading, the overhanging April cargoes further pressured price differentials in the North Sea into the third week as the outright price dipped below the \$50/b level. Moreover, potential buyers waited on the sideline, relying on stockpile builds during a sustained contango as price differentials continued to slide. Dated Brent's monthly average closed 78¢ or 1.5 per cent lower than the March average to settle at \$51.87/b.

In the Mediterranean, Urals started on a bearish note on ample prompt supplies, including Iraqi crude from Sidi Kerir. Limited spare storage and demand-sapping refinery maintenance strengthened bearishness in the Mediterranean. However, strong refining mar-

gins kept a floor under the market. Moreover, unattractive Mideast prices also helped the sentiment for Urals into the second week on the clearing of the April programme amid arbitrage exports. Nevertheless, high outright prices prevailed amid narrowing differentials and squeezing refinery margins in the third week, thereby limiting the buying interest, which prompted buyers to look for sweet grades while awaiting the new May programmes. The May programmes showed higher volumes than in April, pressuring the price differentials in the north as well as in the south following a bout of offers. Nevertheless, outbound arbitrage barrels prompted by the return of some refineries from turnaround amid healthy refining margins helped Urals monthly average to edge down 7¢ to \$47.89/b, causing the spread with Brent to narrow 71¢ to \$3.98/b.

Far East market

The Mideast crudes started the month on higher retroactive official selling prices (OSP) for March loadings. Hence, talks began on the low side, especially for June Oman crude, which fetched a 10¢/b premium to MOG in the first week. Closed arbitrage for rival western barrels heading eastward and Asia's appetite for crude oil pushed the Mideast grade to be assessed at a firmer level with the perception of lower Abu Dhabi output. Nevertheless, this sentiment was short-lived as high outright

prices inspired Chinese procurement of West African crudes at a time when hope was growing that Russian Urals could find its way to Asia while some North African crude was steaming eastward. June Oman flipped to sell at a 5¢/b discount, with Abu Dhabi Murban assessed at an 80¢–90¢/b premium to ADNOC's OSP. The bearishness deepened on ample OPEC supplies that pressured market sentiment, causing Oman June-loading barrels to trade at the steepest discount in eight months of 18¢/b to MOG. Nevertheless, as the arbitrage became uneconomical for Russia's Urals heading to Asia, June Oman saw some strength traded at a lower discount of 15¢/b. June Murban was also under pressure, trading at a premium of less than 40¢/b to the OSP. The Mideast crude weakened due to the amply supplied regional market at a time when Taiwan's CPC did not purchase Mideast crude in its latest buy-tender (see **Table B**).

Asian market

The Asian-Pacific regional crude market saw healthy demand for Indonesia's grades with Japan snapping them up for direct burning at thermal power plants. Minas was assessed at a \$1.80/b premium to the Indonesian Crude Pricing (ICP). However, high outright prices encouraged Asian refiners to use the more lucrative East African grade Sudanese Nile Blend. Malaysia sold a May Kidurong cargo at a premium of 70¢/b to Tapis Asian Petroleum Price Index (APPI), which was 35¢ lower than the deal done in the third decade of March. Nevertheless, although Japan's TEPCO demand was declining, that of other utilities was seen remaining steady. This helped May Minas to trade at a stronger premium of \$2.30/b. Later in the month, the focus was on Taiwan's CPC buy-tender that left the regional market amply supplied after it secured an allotment of West African crude.

June

OPEC Reference Basket

The calm sentiment from the previous month continued into May as persistent OPEC

supplies helped US crude oil inventories to reach the highest level in nearly six years. As a result, prices averaged \$47.59/b in the first week of the month, down four per cent or \$2/b from the week before. This was due in part to the eastward flow of western crude inspired by the deep contango in western markets and high outright prices in Asia. However, concern over summer fuels revived the bulls, somewhat balancing the earlier bears amid seasonal demand for light sweet grades, which boosted prices in Europe. Bearish trends continued in the second week on comments by the IEA that higher fuel costs and a weakening economic picture were denting global demand. The rise in crude stocks in the USA, the outlook for weaker global demand growth and an OPEC output rise on the horizon all helped to support calmness in the marketplace. Accordingly, the OPEC Reference Basket slipped 21¢ to \$47.38/b. Continued builds in US crude oil inventories to almost six-year highs kept the market bears alive at a time when arbitrage opportunities remained closed suggesting continued high OPEC supply. The Basket fell further in the third week, losing \$2.11 or 4.5 per cent to close at \$45.25/b, supported by a stronger US dollar (see **Table A**).

Market bullishness revived following a strike at Total's five European refineries, which raised fears of a possible shortfall in refined products. This was exacerbated by the approach of the US driving season at a time when US crude oil stocks experienced a surprise draw for the first time in five weeks. Further upward pressure came from a general perception that supplies in the USA would fall as refineries boosted operating rates to produce gasoline for the peak demand summer driving season. The OPEC Reference Basket surged in the fourth week by nearly two per cent for a rise of 78¢ to close at \$46.02/b. The Basket closed the month on bullish sentiment peaking to \$47.62/b.

On a monthly basis, the OPEC Basket ended lower for the first time in six months, dropping \$2.67 or 5.4 per cent to close the month at \$46.96/b. The first days of June saw renewed upward pressure as a hefty draw on US crude oil inventories and the appearance of Tropical Storm Arlene in the US Gulf Coast revived con-

cerns of possible supply disruptions. This helped the Basket to rally in June, breaking above the \$50/b level for the first time since April.

US market

Cash crude differentials in the US market strengthened on lack of competing West African barrels and the continued outage of a pipeline that takes crude to Louisiana refineries from offshore. Nevertheless, the expectation for less encouraging economic growth figures from the USA at a time of comfortable stocks levels in a well-supplied market helped to balance this bullish momentum. Hence, the WTI weekly average slipped five per cent or \$2.63/b to settle at \$50.06/b on May 5. The contract also fell below Dated Brent for the first few days in May. The WTI/WTS spread narrowed \$1.40 to \$4.05/b. Continued weak arbitrage for transatlantic barrels overwhelmed news of the twelfth build in thirteen weeks in the US crude oil inventories. The cash crude differentials weakened on softer refining margins in the second week. However, the EIA warned that US crude oil prices are expected to stay above \$50/b through 2006 and gasoline costs will remain high due to tight refining conditions and a lack of spare crude oil production capacity. WTI gained 76¢ or 1.5 per cent to average \$50.82/b for the second week, with the WTI/WTS spread narrowing to \$3.14/b. However, the sentiment changed in the third week on a further rise in the US crude oil stocks to a six-year high amid ample OPEC barrels.

Moreover, sufficient supply of South American crude prompted sellers to get rid of barrels while there was still enough storage capacity. WTI saw a hefty drop of \$2.81 or 5.5 per cent to close the third week at \$48.01/b, and even fell below Dated Brent for two days. The WTI/WTS spread narrowed to \$2.86/b on a continued lack of West African crude. The revived concern over summer fuel supply once again put pressure on the marketplace and WTI's weekly average surged \$1.49 or over three per cent to close at \$49.50 with the WTI/WTS spread narrowing further to \$2.73/b. Yet, the monthly average for WTI closed down 5.4 per cent or \$2.89 in May to settle at \$50.20/b.

European market

North Sea crudes began May on a bearish note as unsold prompt cargoes weighed on a market awaiting the release of the new load programmes. Accordingly, the contango for benchmark crudes widened further as dealers struggled to shift a heavy overhang of undisposed May barrels. The weekly average for Dated Brent slipped \$2.12 or over four per cent to settle at 49.81/b. The benchmark remained under pressure on the perception that there was an abundance of crude and the threat of barrels coming out of storage, stalling the rally on the front end of the curve. Brent dipped 49¢ in the second week to average \$49.32/b. The slide in prices prompted buying interest that helped to firm differentials as the glut in May cargoes cleared amid thinning market availability for June barrels. Nevertheless, the market only saw a short-lived rise as strike-induced refinery outages in France late in the second decade of May alerted the market to additional available cargoes. Brent slipped a further five per cent or \$2.31/b to average \$47.01/b for the week. Differentials continued to slide, yet concern over tight refined products due to the strike at Total's five refineries revived market bullishness as second half June stems clearing with some sweet barrels heading east. Hence, Brent surged \$1.11 or 2.4 per cent to close the fourth week at \$48.12/b. Nevertheless, the last few days in the month were quiet on holidays in most of Europe amid firm sentiment yet available supplies dwindled, limiting activities. Dated closed 78¢ or 1.5 per cent lower than the March average to settle at \$51.87/b.

The Mediterranean crude began the month with plentiful availability which prompted some refiners to hold off buying while others switched to sweeter grades. Urals dropped \$2.21 or 4.5 per cent to settle at a weekly average of \$46.44/b.

However, this bearish sentiment was buoyed by a sharp hike in Mideast price differentials to Europe, as well as strong refining margins amid aggressive bidding. Urals second weekly average inched 39¢ higher to close at \$46.83/b as buyers continued to mop up the May programme amid prompt demand from Europe's largest refiner. However, the bulls

started to fade as Total withdrew interest due to an impending strike. In the third week, although sentiment seemingly revived on tight May avails and the possibility of arbitrage to Asia, this was short-lived as falling products prices started to bite into refining margins. Hence, sellers reduced the differentials to move cargoes out of the region with Urals plunging \$2.5 or over five per cent to settle at \$44.33/b. Moreover, with a widening strike closing three more of Total's refineries, buyers stayed on the sideline awaiting a further price decline. However, the rising healthy refining margins encouraged buying interest in the fourth week amid clearing May barrels with Urals fetching a 81¢ rise to average \$45.14/b. Moreover, news that June Urals supply from the Black Sea port of Novorossiysk would fall by ten per cent from the May level inspired prices to rise significantly in the final days of the month to peak at \$50.18/b. Still, the monthly average declined, dropping \$1.65 from the previous month to stand at \$46.24/b.

Far East market

Mideast crude began the month with June Oman trading at a 15¢/b discount to MOG with the July new month trade notionally at a 4¢–8¢/b premium. However, the market was seen pressured by a discount late in the previous month amid the reselling of barrels from Chinese traders on procurement of attractive West African crude. Moreover, the higher-than-expected OSP pushed the Mideast sour benchmark into negative territory, offered at 1¢–4¢/b discount for Oman July-loading. Although Abu Dhabi July Murban was assessed at 20¢–30¢/b premium to OSP, full contract volumes amid high OSP pressured Abu Dhabi crude to trade at lower levels. The narrowing Brent/Dubai EFS spread in the second half of the month prompted Asian buyers to switch to cheaper West African grades, while Mediterranean crudes headed eastward, pressuring the Mideast grades. This was boosted by the weakening differential of Urals in the Mediterranean. July Oman traded at a steeper discount of 20¢–30¢/b to MOG with Abu Dhabi Murban at a discount of 25¢/b to ADNOC's OSP in the fourth week. However, in the final days of the month, the market flipped into the posi-

tive territory amid diminishing avails on narrowing Brent/Dubai EFS. July Oman was heard to trade at a 5¢–10¢/b premium to MOG with Abu Dhabi Murban heard sold at a \$1/b discount to the OSP on high outright prices.

Asian market

The Asian market began the month on a quiet note amid the Golden-Week holiday in Japan. Taiwan CPC was awarded hefty lots of West African crude in its buy-tender as looming gasoline demand bolstered the light sweet market at the expense of Asia-Pacific rivals. This exerted downward pressure on the regional crude market amid narrowing EFS spreads. Malaysia's June Tapis traded at a 70¢ premium to the APPI compared to May loading which sold at +\$1/b. Later in the second decade, regional crude started to clear at a slower pace amid buyers adopting a wait-and-see approach. However, high outright prices and continued narrowing of the EFS spread only sustained the pressure on the regional crude in May. July Tapis was heard sold at a 10¢ premium to the APPI compared to a 60¢/b premium for the last June-loading deal.

Product markets and refinery operations

May

Refinery outages in the Atlantic Basin and robust demand in Asia have strengthened sentiment in the product markets in April, and refinery margins surged across the globe. More recently, a combination of high US gasoline stocks, resumption of normal operations by US refiners after spring maintenance and lower product demand from south-east Asian countries have changed market momentum and put pressure on product prices. With the switch in US refinery operations to a gasoline-producing mode and the need to build gasoline stocks, clean product and possibly crude oil prices may face further pressure, but the heavy maintenance schedule in Europe during May could remove this risk. Additionally, due

to limited spare refining capacity and possible refinery outages, the risk of a sharp price slide seems unlikely (see **Table B**).

In April, refinery margins for WTI at the US Gulf Coast increased by \$4.11/b compared to the previous month. At the same time, refinery margins for Brent in Rotterdam and Dubai in Singapore surged by \$3.93/b and \$1.15/b, respectively, compared to March. As mentioned earlier, refinery margins have shrunk with the recent change in momentum, but remained healthy.

In April, the refinery utilization rate in the USA increased by 1.3 per cent to 91.5 per cent from the previous month. In Japan, it dropped by nearly six per cent to 86.1 per cent in the same period, while in Europe and Singapore it rose by 0.5 per cent and 1.1 per cent respectively (see **Table C**).

US market

A chain of refinery problems, together with high refinery maintenance schedules and high demand from the agricultural sector in the US Midwest in April, lifted product prices and improved the crack spreads of different products, including high-sulphur fuel oil, against the benchmark WTI crude. The crack spread of fuel oil recently increased from minus \$23/b to minus \$14/b (see **Table B**).

Upon the completion of most US refinery maintenance and the slower pace of gasoline demand growth over the last four weeks as well as gasoline imports exceeding 1m b/d in April, the US physical and futures product markets have lost their earlier strength, and prices of clean products slipped further compared to the other components of the barrel. According to EIA figures, on May 4, gasoline demand over the four weeks to May 4, was almost flat compared to the same period of last year.

In the US market, demand for the middle of the barrel, particularly for jet/kerosene and diesel, remained strong, extending its previous upward trend in April. Based on EIA figures, over the last four weeks, on average, middle distillate demand displayed a surge of almost seven per cent compared to the same period last year. However, with the expected fall in US

Table B: Selected refined product prices

\$/b

	Mar 05	Apr 05	May 05	Change May/Apr
US Gulf (cargoes)				
Naphtha	59.70	61.54	58.02	-3.52
Premium gasoline (unleaded 93)	64.61	69.83	63.33	-6.50
Regular gasoline (unleaded 87)	62.64	65.03	59.41	-5.62
Jet/kerosene	66.33	71.40	63.39	-8.01
Gasoil (0.2% S)	64.52	65.62	61.64	-3.98
Fuel oil (1.0% S)	34.72	39.65	39.81	0.16
Fuel oil (3.0% S)	30.59	34.74	36.96	2.22
Rotterdam (barges fob)				
Naphtha	62.33	61.62	54.65	-6.97
Premium gasoline (unleaded 95)	62.03	68.55	62.85	-5.70
Regular gasoline (unleaded)	56.03	61.36	56.26	-5.10
Jet/kerosene	68.81	71.67	64.90	-6.77
Gasoil (0.2% S)	69.30	70.38	64.51	-5.87
Fuel oil (1.0% S)	34.06	35.59	34.56	-1.03
Fuel oil (3.5% S)	30.09	34.53	33.79	-0.74
Mediterranean (cargoes)				
Naphtha	51.34	51.05	44.97	-6.08
Premium gasoline (unleaded 95)	54.23	59.51	53.58	-5.93
Jet/kerosene	66.66	69.93	na	na
Gasoil (0.5% S)	73.26	71.44	64.90	-6.54
Fuel oil (1.0% S)	35.31	38.31	35.99	-2.32
Fuel oil (3.5% S)	29.07	33.67	32.20	-1.47
Singapore (cargoes)				
Naphtha	50.74	49.85	44.76	-5.09
Premium gasoline (unleaded 95)	59.47	61.50	54.46	-7.04
Regular gasoline (unleaded 92)	58.72	60.23	53.37	-6.86
Jet/kerosene	66.33	71.40	63.39	-8.01
Gasoil (0.5% S)	68.11	69.39	63.83	-5.56
Fuel oil (180 cst 2.0% S)	34.13	38.30	38.00	-0.30
Fuel oil (380 cst 3.5% S)	33.61	37.75	37.18	-0.57

Midwest farm demand, diesel consumption and prices may decline slightly.

With respect to fuel oil, lower exports from Venezuela coupled with a decrease in output along the US Gulf Coast lifted high-sulphur fuel oil prices. With the resumption of more refinery operations after maintenance and due to increasing production, the fuel oil crack spread is expected to fall again versus WTI.

European market

Surging New York Mercantile Exchange (NYMEX) gasoline prices in April have produced support for the clean products in Europe, particularly for gasoline, and lifted its crack spread against Brent to more than \$10/b in the same

month from almost zero in the middle of March 2005. The recent bearish developments in the US product market have also dampened the European clean product market and, as a result of the unfavourable arbitrage opportunity to the USA, the price of European gasoline has fallen. This situation has affected the naphtha market further, partly by diverting Middle Eastern cargoes to Europe. European naphtha prices have fallen by over \$100/t since early April.

The performance of the middle of the barrel, especially the achievement of jet/kerosene, was very impressive, and its crack spread against the corresponding Brent benchmark crude oil exceeded \$20/b in April. A seasonal drop in heating oil demand in north-west Europe may

Table C: Refinery operations in selected OECD countries

	Refinery throughput <i>m b/d</i>				Refinery utilization <i>per cent</i> ¹			
	Mar 05	Apr 05	May 05	May/Apr	Mar 05	Apr 05	May 05	May/Apr
USA	15.14	15.35	15.63	0.3	90.2	91.5	93.2	1.6
France	1.70	1.58	1.65	0.1	86.9	81.1	84.5	3.4
Germany	2.28	2.17	2.28	0.1	98.3	93.2	98.3	5.1
Italy	1.81	1.90	1.85	0.0	78.1	81.8	79.7	-2.1
UK	1.53	1.53 ^R	1.51	0.0	83.9	84.0 ^R	82.6	-1.4
Eur-16	12.07 ^R	11.94 ^R	11.85	-0.1	86.9 ^R	86.0 ^R	85.4	-0.6
Japan	4.33	4.04 ^R	3.62	-0.4	92.0	85.8 ^R	76.9	-8.9

1. Refinery capacities used are in barrels per calendar day.

R Revised since last issue.

Sources: OPEC statistics, Argus, Euroilstock Inventory Report/IEA.

put some pressure on the demand for the middle of the barrel products, but heavy refinery maintenance in May will provide support for the middle and the top of the barrel. Apart from clean and middle distillate products, the market for fuel oil was also strong in April compared to March. However, it could lose ground again if there is an increase in Russian supply (see **Table B and C**).

Asian market

Robust demand from Indonesia and Vietnam has kept the gasoline market in Asia strong over the last months. Slowing imports from Indonesia and higher exports from Taiwan and China have switched sentiment in the light distillate market recently. The Singapore gasoline market crack spread versus Dubai has dropped by more than \$5/b since the middle of April.

The situation for naphtha was more bearish, as heavy maintenance of petrochemical plants exacerbated pressures on a market already oversupplied by Indian products. The Asian market for middle distillates remained strong, particularly for jet/kerosene, due to high demand by India. However, its price fell recently due to heavy sell-offs in the swap market. The jet/kerosene crack spread against Dubai crude stood at around \$24/b in April.

The market for gasoil has been somewhat under pressure because of Chinese exports and lower imports by Indonesia. Due to lower prices in the domestic market, Chinese refiners Chinaoil and Sinopec began exporting gasoil

since the beginning of this year. However, rising domestic prices could bring an end to Chinese gasoil exports.

The fuel oil market in Asia remained tight, supporting high-sulphur fuel oil prices over the last two months. However, arbitrage cargoes and the resumption of normal operations by regional refiners following maintenance could erode some of the strength in high-sulphur fuel oil (see **Table B and C**).

June

The seasonal bullish movement which began early in April has been undermined by a combination of high gasoline stock levels in different markets, particularly in the USA, the return of refineries from maintenance along with increasing output and slowing demand for gasoline compared with the first five months of last year. As a result, gasoline products have failed to take seasonal leadership of the market even with the onset of the driving season. In sharp contrast to the weakness in gasoline, the distillate market looks surprisingly strong, as lower distillate stocks and higher demand for diesel compared with gasoline have raised the perception that distillate supplies may tighten further in the next few months as refiners step up gasoline production to meet peak demand during the summer. This perception triggered buying interest for US NYMEX heating oil and helped to lift distillate and crude prices. With the increase of US refinery output and further improvement in distillate stocks, this situa-

tion may change over the next weeks and put some pressure on the market. Over the last four weeks, US distillate stocks have soared by 4m b to stand at 107.7m b on June 3. Similarly, the bottom and light end of the barrel had very poor performances in May, and their disappointing achievements along with the weak gasoline market have resulted in lower refinery margins in different areas this month compared to the previous one. US refinery margins fell to \$6.40/b from \$7.39/b in April. In north-west Europe, margins for Brent declined by \$1.80/b from \$6.47/b the month before. This situation was worse in Asia, as Dubai's margin in Singapore tumbled by \$3.20/b to \$4.96/b in May.

Meanwhile, due to the maintenance schedule, Japanese refineries cut their utilization rate further in May to 76.9 per cent from 85.8 per cent in the previous month. In the same month, European refiners reduced their utilization rate as well, but very marginally by 0.6 per cent from 86 per cent in April. In the USA, the utilization rate rose by 1.7 per cent to reach 93.2 per cent in May.

US market

Lack of major refinery snags, combined with the improvement in gasoline stocks, output and imports, reversed the upward trend of gasoline prices triggered in early April. Over the last four weeks, US gasoline production has surged by 117,000 b/d compared to the same period last year. With the easing of gasoline supply fears for the driving season, market players focus their

attention on a possible future shortage of heating oil. This has led to an unusual situation at this time of year of heating oil futures leading the market. Although distillate demand in the US market is stronger than gasoline demand, some market analysts are skeptical about the recent strong momentum in distillates which appears to be manipulated by speculators.

Increasing output and improved distillate stocks may cause distillates to lose their current strength. Indeed, over the last four weeks, US distillate production rose by 325,000 b/d or 8.5 per cent above the corresponding period last year. At the same time, distillate stocks surged by 4m b to reach 107.7m b on June 3.

With respect to fuel oil, fundamentals continue to be bearish both for low- and high-sulphur grades, as sluggish demand from utility plants and bunkers weighed on the market, and the crack spread of high-sulphur crude oil in the US Gulf Coast against WTI benchmark crude oil fell sharply, from -\$9/b in the middle of May to -\$15/b recently.

European market

With the narrowing of arbitrage economics for European gasoline to the USA, gasoline exports were expected to decrease sharply in May and put pressure on gasoline prices. However, according to preliminary data, this did not have much impact on traders' schedules as they fixed further gasoline cargoes for the USA. In May, traders exported about 1.4-1.6m tonnes, up from 1.3-1.4m tonnes in April, which prevented a further fall in the gasoline crack spread against Brent benchmark crude, which remained around \$14/b in the same month.

The European distillate market also received some support from unseasonable buying interest in IPE gasoil and NYMEX heating oil as well as tertiary stock-building in Germany. The European low-sulphur gasoil crack spread in May outpaced the gasoline crack spread versus Brent crude oil, which is quite unusual at this time of the year. Despite the bullish sentiment for gasoil, jet/kero prices dropped due to the influx of arbitrage cargoes from the Middle East.

Furthermore, as was expected, the European high sulphur fuel oil (HSFO) market also lost

ground, and has recently been dampened by increasing exports from Russia and higher regional outputs. The HSFO crack spread against Brent crude oil widened to -\$17/b in early June from -\$13/b in the middle of May.

Asian market

The continuation of slowing imports by Indonesia and higher exports from China and Taiwan put further pressure on gasoline prices in Asia in May. The gasoline crack spread in the Singapore market against the Dubai benchmark decreased by more than \$8/b since early March and reached \$7/b on June 2. This bearish momentum in the Asian gasoline market may recover slightly with the entering of Chinese refineries for maintenance and increasing Japanese imports during the driving season.

The market for naphtha looks more disappointing, as prices for petrochemical products, particularly for ethylene, are plunging and market sentiment was dominated by hefty regional supplies.

Moreover, despite their strength in the Atlantic Basins, middle distillates in Asia recently lost their earlier strong momentum as Chinese traders will not import diesel from June through mid-September due to the fishing ban, as well as on lower imports by Vietnam and Indonesia.

Similarly, the jet/kerosene crack spread versus Dubai crude oil fell sharply to \$15/b in May from \$25/b in the previous month due to ample supply from the Middle East.

Over the last few weeks, the high-sulphur fuel oil market in Asia also weakened significantly because of a lack of Chinese buying interest and high imports of arbitrage cargoes from Europe and the Caribbean. However, solid demand from Japanese utilities helped low-sulphur fuel oil to remain strong.

The oil futures market

May

The NYMEX crude futures contract started April on a bullish note, although bearishness

dominated most of the month. The WTI prompt month contract surged over six per cent in two days after an investment bank report suggested that the oil market had entered a new 'super-spike' period which could see crude prices reaching as high as \$105/b. The CFTC weekly data for April 5, revealed that non-commercials increased long positions to some 174,000 contracts, the highest level since last May, while reducing short positions to 84,000. Hence, net long positions widened by a hefty 15,000 lots to 89,000 with open interest peaking at an all time high of 860,000 contracts. The front-month contract peaked at over \$57/b, the highest recorded level ever. Nonetheless, OPEC's resumption of consultations on boosting supplies amid crude oil stock builds for the eight consecutive weeks as well as a cut in the official EU growth forecast drew money out of the energy market on fund sell-offs for profit-taking. The front month contract started to retreat towards the \$50/b level inspired by the strengthening US dollar. The CFTC report for the week ending April 12, revealed non-commercials had reduced long positions by a hefty 19,000 contracts while increasing shorts by 10,000 contracts, leaving net long positions down 29,000 lots at 60,000.

The bearishness continued to sustain strength on the release of a bearish IEA report with a downwardly revised demand forecast amid steady OPEC output with crude oil stocks in the US remaining above two-year highs. Accordingly, the NYMEX front month contract hovered around the \$50/b level into the third week. However, bulls revived on a spate of refinery troubles in the USA, which ignited supply worries ahead of the driving season. NYMEX WTI rallied ahead of the prompt month expiry that surged nearly four per cent on April 19 with the new front month emerging in a contango structure hovering around the \$55/b level. Nonetheless, non-commercials reduced their long positions by another hefty 29,000 lots with a moderate reduction of shorts as well. Net longs fell to their lowest level in nine weeks to 33,000 lots.

In the final week in April, the downward movement in WTI, which was sustained on the

meeting between Saudi Arabia's Crown Prince and the US President to discuss possible ways to bring down high oil prices, helped to defuse market pressure. This was coupled with comments from Saudi Arabia that it could quickly tap spare capacity and news of rising OPEC supply. NYMEX WTI slipped over three per cent in the final week on another hefty crude oil stock-build in the USA, followed by another \$2/b slash in the last day of the month on less encouraging economic growth. Accordingly, the front month slipped below \$50/b for the first time since February 18. Hence, the CFTC report for the last week of the month revealed non-commercials continued to reduce long exposure and increased shorts. The net long positions were down by some 7,000 lots to 32,000, the lowest since January 18, and open interest was at 810,000 lots the lowest since March 1, while the monthly average for open interest stood at some 146,000 contracts over the same period last year. The general perception appears to be that crude prices are trending downward due to an amply supplied market. Tightness in the downstream capacity might still keep prices in check, although divergence with the main petroleum products is on the horizon.

The futures contract forward curve sustained the contango structure for the sixth consecutive month. The contango extended even further into the 18 month when compared to the front end of the curve. The 1st/2nd month average spread was 70¢ wider at minus \$1.38/b with the 1st/6th month spread expanding a further \$1.85 to reach \$2.55/b. The contango moved into the later months with the 1st/12th month at minus \$1.38 versus +\$1.19 in March and the 1st/18th month spread at minus 17¢ versus \$2.82/b in March. Persistent healthy US crude inventories reached 327 million barrels in the last week of April, an increase of 28m b over same period last year to mark a six-year high.

June

The crude oil futures contract had a bearish start to the month continuing the downward trend in late April on less encouraging economic growth data in the USA. The first week

was somewhat quiet as the NYMEX futures market reacted to a hefty fund sell off on May 3, on revived concern over weak economic data amid a six-year high in US crude oil stocks backed by increased OPEC supply. However, concern for the last quarter of the year emerged amid tight refining capacity. The first weekly CFTC data revealed that non-commercials drew out of the energy market for a hefty drop in long positions of some 15,000 lots to 107,000 from record peak in early April of 174,000 contracts. Accordingly, net long positions narrowed to 8,000 contracts, some 18,000 lots lower than the previous week. However, open interest was little changed at 811,000 lots. The NYMEX WTI front-month weekly average fell nearly \$2/b to \$50.47/b.

The second week turned bullish on concerns that refiners might not be able to meet demand in the second half of the year. However, the bears revived as US stocks continued to build and the IEA reported that higher fuel costs and the weakening economic picture were denting global demand. Persistent higher OPEC supply amid a strengthened US dollar tempted fund sells-offs. Accordingly, NYMEX WTI prompt month plunged nearly seven per cent in two days with the weekly average at \$50.35/b. The CFTC data for the weekly period to May 10, revealed that the net long positions narrowed to nearly flat at 85 lots amid a decline in long positions and a build in shorts. Some of these changes were also reflected in the commercial sector as open interest saw a build of 21,000 lots to 832,000 contracts.

During the third week, the futures market was affected by a series of bearish trends with US crude oil stocks continuing to rise, OPEC output steady and a weakening economic picture. Indeed, US crude oil stocks experienced only four declines in nineteen weeks and one draw in the last fourteen consecutive weeks. The NYMEX WTI front-month contract, which expired on 20 May, dropped to \$46.80/b, a three-month low, while the weekly average slipped over \$2.50 to \$47.71/b. The futures contract volume showed that net long positions flipped into net shorts by 2,300 lots amid a hefty drop in the longs to 88,000 lots while shorts stood at 90,000

contracts. Meanwhile, open interest experienced a significant drop of 41,000 lots to reach 791,000, below the 800,000 level for the first time since March 1.

The sentiment reversed in the fourth week as the new front-month contract emerged higher in a contango market. Worry over gasoline demand amid the emerging driving season reignited concern that higher refinery runs would start to eat into crude oil inventories as a surprise drop in US crude oil stocks stirred the bulls. Hence, the NYMEX front-month contract for WTI was \$3.20 higher in the first five days as the new front-month, for a weekly average of \$50.53/b. Nevertheless, net short positions continued to widen further to 14,000 lots as shorts increased to 95,000 while longs dropped to 81,000. Open interest declined by another hefty 28,000 contracts to 763,000. The last trade day of May 31, saw a build in non-commercial long positions although at a slower pace than shorts, which widened net short positions to 17,400 lots, a level last seen on December 17. Open interest also increased by a healthy 20,000 contracts to 783,000 as commercials increased longs and dropped short positions. The futures market appeared poised in early June amid market volatility, awaiting direction on concern over tight downstream capacity.

NYMEX WTI forward curve remained in contango in its seventh straight month. The 1st/2nd month average spread widened slightly into negative territory by 4¢ to \$1.42/b. The spread peaked on May 18, at a high of -\$1.88/b on continued healthy crude oil stock builds in the USA to a six-year high. However, the contango spread eased later in the month to below \$1/b levels and bottomed at -51¢/b on May 27, on speculations that refiners will boost processing to produce gasoline for the summer driving season. The 1st/6th month spread followed suit and widened 23¢ to -\$2.78/b on renewed worries that rising global oil demand may outstrip supply during the second half of the year. Moreover, the contango steepened further into the 12th and 18th month forward contracts. The 1st/12th month spread widened at a faster rate of 76¢ to -\$2.15/b, while the 1st/18th month spread outpaced all the movements at \$1.31/b

or \$1.14/b wider on the perception that supply tightness would not ease into the next year.

Tanker market

May

OPEC spot fixtures increased by only 100,000 b/d in April to reach 14.2m b/d, despite a rise of 280,000 b/d in OPEC production, but remained 2.4m b/d above the same period last year. With this minor increase, OPEC's share of total spot chartering fell to 61 per cent against 67 per cent in the previous month, the lowest level in a year. The major contributor to the growth in OPEC spot fixtures was the Middle East, which saw an increase in share from 53 per cent in March to 56 per cent in April. Middle East/West long-haul fixtures increased by 500,000 b/d to 2.26m b/d, while Middle East/East long-haul fixtures remained almost unchanged at 5.65m b/d. The zero growth in fixtures to the East was due to the fact that charterers refrained from fixing more vessels from the Middle East ahead of refinery maintenance and sought light sweet crude out of the Middle East.

In contrast to OPEC, non-OPEC spot fixtures soared by 1.86m b/d or 26 per cent to 8.9m b/d, which corresponded to the highest growth since January 2004. Consequently, global spot chartering increased by almost 2m b/d or nine per cent to average 23.1m b/d. Compared to the same month last year, global spot chartering was up by nearly 3.5m b/d. Preliminary estimates showed that sailings from the OPEC area fell by 800,000 b/d to stand at an average of around 22.7m b/d, with Middle Eastern countries, which represented 72 per cent of OPEC's sailing, contributing almost 500,000 b/d to the decline. Preliminary data shows that arrivals in the USA and the Caribbean increased by 400,000 b/d to reach a record high of over 11m b/d, confirming the surge in US stocks. However, arrivals in north-west Europe and Japan declined by around 500,000 b/d each to register 7.4m b/d and 3.9m b/d, respectively, while arrivals in the Euromed region remained unchanged at 4m b/d.

Crude oil spot freight rates declined sharply in April due to plentiful tonnage availability, essentially the result of lower seasonal demand for crude oil and the expansion in the fleet capacity since the beginning of the year of 5–7m dwt, according to secondary sources. Freight rates usually reach their lowest level of the year in April due to the lower seasonal demand. Freight rates for the very large crude carriers (VLCC) sector continued to drop for the second consecutive month with Middle East/eastbound long-haul rates falling 17 points or 16 per cent to average Worldscale 88 due to refining maintenance in Asia, while the Middle East/westbound long-haul rates declined by 13 points or 14 per cent to settle at a monthly average of W79 as a result of refining maintenance in the Atlantic Basin. In addition to lower demand, the growing need for North and West African light sweet crude exerted downward pressure on freight rates for vessels moving from the Middle East. Freight rates in the Suezmax sector dropped significantly – by 26 per cent – to stand at an average of W123, the lowest level in one year for vessels moving from West Africa to the US Gulf Coast, while reaching W128 on the NW Europe/US East and Gulf Coasts, the lowest level in 18 months. The declines on these two routes of 43 points and 31 points, respectively, compared to the previous month were due to lower activity since stocks in the USA were at their highest level since July 1999. Similarly, freight rates in the Aframax sector fell on all routes, especially on those to the USA. Freight rates on the Indonesia/US West Coast route declined by 53 points to an average of W186 after a long period of high levels. At the same time freight rates on the Caribbean/US East Coast route moved down by 60 points to stand at an average of W198, due to ample tonnage in the USA as mentioned previously. Similarly, freight rates in the Mediterranean and from there to NW Europe continued to decline for the fifth consecutive month to settle at W197 and W153, respectively as a result of lack of activity from charterers due to refining maintenance, which is seen to be heavier than expected in Europe. Except for the Aframax sector, freight rates for the other sectors were lower than last year.

As for crude oil, product freight rates moved down along all routes, reversing the gain of the previous month. The decline ranged from eight to 35 points on average due to lack of activity resulting from a slowdown in trade. Furthermore, holidays, mainly in Asia, put downward pressure on freight rates. Tankers carrying 30,000–50,000 dwt along the Middle East/East route lost 23 points to stand at an average of W280. With 27 points, the Singapore/East route dropped by almost the same magnitude to stand at an average of W320. The Caribbean/US Gulf Coast route showed a slight decline of eight points or three per cent to average W294. The NW Europe/US East and Gulf Coasts route lost 19 points to stand at an average of W310. Freight rates within the Mediterranean region and from there to North-West Europe declined by 35 points and 11 points to average W278 and W324, respectively. Despite these declines, freight rates remained higher than last year's figures along all routes.

June

OPEC spot fixtures declined by 1.2m b/d or nine per cent to 12.79m b/d in May, the lowest level since last June. Compared to the same month of the previous year, OPEC spot fixtures were 3m b/d lower, which implies that the share of the spot fixtures declined sharply in one year. However, despite this drop in fixtures, OPEC's share of total spot chartering increased slightly from 61 per cent in April to 62 per cent in May. Middle East eastbound long-haul fixtures were the major contributor to the decline in OPEC area spot chartering, falling by 720,000 b/d to 4.8m b/d, corresponding to a contribution of 60 per cent to total OPEC's decline. However, Middle East westbound fixtures dropped by 220,000 b/d or ten per cent to 1.97m b/d. Together, Middle East/East and westbound fixtures accounted for 53 per cent of total OPEC fixtures against 55 per cent in the previous month. Similarly, non-OPEC spot fixtures fell by nearly 1.1m b/d or 12 per cent to 7.78m b/d, keeping their share in global spot chartering almost unchanged at 38 per cent. The decline in both OPEC and non-OPEC fixtures led to

a fall of 2.27m b/d in global spot-chartering, which reached 20.57m b/d, the lowest level so far in 2005. Compared to the same month of last year, global spot chartering was down 4.5m b/d. Preliminary estimates showed that sailings from the OPEC area remained stable at 27.1m b/d compared to the previous month. Middle Eastern countries, which represented 70 per cent of OPEC sailings, also remained at the same level of 19m b/d. However, compared to last year sailings from OPEC were 4.3m b/d higher than the May 2004 level, reflecting growth in OPEC production of almost 2m b/d over May 2004. Preliminary data shows that arrivals to the USA and Caribbean continued to increase to reach a record of 11.6m b/d, which corresponds to a growth of 750,000 b/d over last month and 1.5m b/d y-o-y growth. This significant increase led to a six-year high in US stock levels. Arrivals at the Euromed region also increased by almost 500,000 b/d to reach 4.76m b/d, the highest level in more than two years. In contrast, arrivals in north-west Europe and Japan continued to fall for the second consecutive month by 130,000 b/d and 270,000 b/d to stand at 7.58m b/d and 3.82m b/d, respectively, corresponding to nearly the same level as in May 2004.

Crude oil spot freight rates showed mixed developments in May among the different sectors with VLCC rates continuing to weaken, hitting 19-month lows, whilst rates for Suezmax and Aframax improved, except on the Indonesia/US West Coast. Freight rates for VLCCs moving from the Middle East to the East and westbound declined by 18 points and ten points respectively to stand at monthly averages of around W70. This very low level was due to a significant ample tonnage resulting from an increase in tanker capacity of around seven per cent according to secondary sources, coupled with a slowdown in fixtures, especially from Asian countries because of refining maintenance and the lack of desulphurization capacity to use heavy sour crude from the Middle East. In contrast to the VLCC sector, Suezmax rates to the USA improved due to growing demand for light sweet crudes. However, arbitrage opportunities supported by

the differential between WTI and Brent and the end of the refining maintenance season in the USA supported the increase in trade from West Africa and north-west Europe to the USA and therefore to the growth in freight rates. On the West Africa/US Gulf Coast route, freight rates recovered by five points to an average of W128, while on the north-west Europe/US East and US Gulf Coasts routes rates increased by 18 points to settle at an average of W146. Compared to the same month last year, freight rates in the Suezmax sector remained almost unchanged. With the exception of the Indonesia/US West Coast route, freight rates in the Aframax, supported by healthy activity from charterers, rose significantly, reversing the huge decline displayed in the previous month. Freight rates from the Caribbean to the US East Coast soared by 73 points or 37 per cent to W271, while in the Mediterranean region and from there to north-west Europe, rates increased by 17 points and 69 points respectively to stand at W214 and W222 due to healthy activity with the approaching end of the refining maintenance season. For the Mediterranean/north-west Europe route, the level reached in May was the highest so far in 2005. In contrast, along the Indonesia/US West Coast route, freight rates plunged by 62 points to W124, the lowest level since October 2003. Compared to May 2004, freight rates on the Caribbean/US East Coast route were up 107 points and 56 points on the Mediterranean/NW Europe route.

Product freight rates experienced further declines for the second consecutive month as a result of little activity from charterers in combination with the huge availability of tonnage. Freight rates for tankers carrying 30,000–50,000 dwt along the Middle East/East route slid by 44 points to settle at an average of W236, while on the Singapore/East route rates dropped by 34 points to a monthly average of W286 due essentially to the slowdown in Chinese distillate imports following the increase in the refining throughputs to new highs and refining maintenance in the petrochemical sector. Similarly, freight rates on the Caribbean/US Gulf Coast route declined by 44 points or 15 per cent to average W250 and the north-west Europe/US

East and Gulf Coasts route lost 27 points to stand at an average of W283. However, freight rates across the Mediterranean region remained stable at W277, whilst from the Mediterranean to north-west Europe, they declined by 34 points in May to average W290. Despite these declines, freight rates remained higher than last year's figures, except for the Caribbean/US Gulf Coast route.

World oil demand

May

Forecast for 2004

World

Compared with the last report, the world oil demand estimate for 2004 has been revised down a marginal 10,000 b/d to average 83.12m b/d. OECD and non-OECD countries saw adjustments in different directions. Both North America and OECD Europe were revised up by 10,000 b/d, while developing countries and 'Other regions' saw downward revisions of 20,000 b/d and 10,000 b/d, respectively. Within the developing countries, the 'Other Asia' region was revised down by 60,000 b/d, which offset a 40,000 b/d increase in the Middle East region.

Forecast for 2005

Based on lower-than-anticipated consumption in the first quarter, world oil demand growth was revised down by 80,000 b/d to 1.82m b/d or 2.2 per cent from last month's forecast to average 83.94m b/d. The first-quarter downward revisions in European demand and China surpassed the upward revision in Other Asia and FSU, leading to a cumulative downward change of 260,000 b/d.

OECD

Total OECD demand has been revised down by 120,000 b/d from the forecast in the last report and is expected to see 250,000 b/d or 0.5 per cent growth to average 49.8m b/d. With detailed data for January and February

and preliminary data for March, OECD consumption is now estimated to grow by 530,000 b/d or 1.1 per cent. Western Europe's demand was revised down as new data indicated a contraction of 120,000 b/d or 0.8 per cent despite the late winter. Germany alone experienced a decrease of six per cent in the first quarter partly reflecting the impact of high prices on demand. The main fall was in the light heating oil sector, when demand decreased by almost 11 per cent compared with the corresponding period of 2004. Diesel also fell by five per cent on lower sales due to the fact that the first quarter of this year has two fewer working days than the same period in 2004. The slow-down in product demand in OECD Europe was in line with the lower GDP growth which occurred in those countries. In contrast, preliminary data for the first three months of 2005 for the OECD Pacific region suggests an upward revision in oil demand to now stand at 210,000 b/d or 2.2 per cent. Much of this increase came from cold temperatures that contrasted with the mild weather last year. Demand for kerosene/jet fuel which is used as heating oil in this region grew by 4.5 per cent during the first quarter compared with the same period last year. In Japan crude oil imports increased by 2.7 per cent in March from February, while oil product imports saw strong growth of 6.7 per cent from the same month last year due to the strength in demand. Furthermore, nuclear power production remains depressed as only ten of TEPCO's 17 nuclear plants are on line. This boosted oil demand for thermal power by ten per cent in March versus the same period a year ago. South Korea, the world's fourth biggest oil importer, also saw a rise of 4.5 per cent in 1Q as industrial production experienced a healthy increase. The monthly figures for March showed more impressive growth as crude imports rose about 30 per cent y-o-y, implying demand growth of eight per cent. It should be noted that the strong import figure was also due in part to low volumes seen a year ago. Still, this year is not yet over and the question is whether South Korean demand can keep up at such a high pace. This will depend on how the consumption of transportation fuels develops if the government implements

a new regime which would increase diesel prices. Recently, the government announced that it plans to raise the domestic transportation tax on diesel by more than 14 per cent in July as part of the effort to reduce air pollution. Preliminary indication for the first quarter of 2005 puts North American oil demand growth at 440,000 b/d or 1.8 per cent as cold temperature hit the US north-east in mid February which lasted during March. The below-normal temperatures boosted demand despite high oil prices. Total US demand grew by 1.1 per cent during the first three months of this year, lower than the 1.7 per cent experienced in the same period last year. US gasoline demand growth has been 1.1 per cent, which is far below the growth of 3.1 per cent experienced in the first quarter of 2004. These numbers are significant when linked to weaker US economic growth during the first quarter of this year. The slow-down in gasoline demand was also observed in preliminary April data increasing by only 0.9 per cent compared to the 2.9 per cent observed in the same month last year. On the whole, North American oil demand is projected to increase 340,000 b/d or 1.3 per cent to average 25.5m b/d, far from the 620,000 b/d or 2.5 per cent experienced a year ago.

Developing countries

Oil demand in developing countries is forecast to grow by 890,000 b/d or 4.2 per cent to total 22.2m b/d. Compared to the last report, oil demand has been revised up 60,000 b/d, mainly from Other Asia as early indications for 1Q show higher than anticipated growth. This is also in line with healthy economic expansion of 5.5 per cent in the region. Within this group and based on preliminary data, India's consumption registered an increase of five per cent in 1Q of 2005; however, this growth is still below that experienced in 1Q 2004. The reduction in oil demand in India came from improvement in road conditions and the increase of electricity in railways as well as the increase in gasoline prices. The switch to gas should also cut oil consumption, mainly in the power and industry sector. For the first two months of this year, Thailand saw a strong increase of 6.6 per cent

in oil demand compared to the same period last year. The increase was mainly in the transportation sector as diesel consumption jumped by almost 11 per cent, while gasoline demand climbed about four per cent. Early indication for Indonesia's demand also showed a growth of 5.5 per cent. Consumption in Latin America is forecast to rise 130,000 b/d or 2.6 per cent to average 5.0m b/d, slightly down from last month's report due to a downward revision in GDP growth as well as lower first-quarter actual data in Brazil. The expectation of high GDP growth in the Middle East of 7.5 per cent, driven by high oil prices, was behind the strong forecast of growth in oil demand of 290,000 b/d or 5.4 per cent to a total of 5.7m b/d. Healthy demand growth of 7.2 per cent and 6.4 per cent in 1Q of this year based on actual data from Iran and Saudi Arabia confirms the observation above.

Other regions

Apparent demand in the Other regions group is now forecast at 11.9m b/d, an increase of 680,000 b/d or 6.1 per cent over last year. Demand growth was revised down marginally as the upward revision in the FSU offset the downward one for China. Preliminary data for March for China combined with more detailed information for January and February indicated that 1Q apparent demand only increased by 4.4 per cent compared to a 15.1 per cent gain in the first quarter of 2004. After a sharp reduction in the first two months, Chinese crude oil imports rebounded in March. The slowdown in apparent demand growth in the first quarter reflects the sharp reduction in crude oil stocks following high imports at the end of last year, combined partially with higher product exports as companies preferred to export products rather than sell them at lower domestic prices. Also, China car sales were down 7.7 per cent in 1Q from a year ago as the government tightened credit policies and pushed companies to reduce spending. Demand for fuel oil in power generation also declined due to the shift in electricity pricing to a cost-plus basis which was made to address negative margins that power producers have been experiencing because of soaring

cost of fuel oil. China will also be using less fuel oil to produce electricity as new coal-driven power generation capacity comes on stream. The seven per cent increase in the price of gasoline announced in March as well as the recent rise of four per cent in gasoil prices may also slow demand growth this year. Hence, China's apparent demand is projected to increase by 540,000 b/d or 8.3 per cent to average 7.1m b/d, below the astonishing growth of 17.2 per cent which was seen in 2004 and 60,000 b/d below the previous March estimate. Much of the uncertainty on the demand growth in China will depend on how the government deals with the new pricing system, but the demand outlook for this year is expected to remain lower than the peak seen in 2004. In the FSU, the data on trade statistics and production for the first three months of this year indicates that apparent demand rose 250,000 b/d or 7.0 per cent more than expected in the last report, reflecting lower exports mainly in March. For the whole year, FSU demand is projected to increase by 140,000 b/d or 3.6 per cent to average almost 4.0m b/d.

June

Revisions to previous years (2003–04)

World

The latest data indicates an upward 40,000 b/d correction to oil demand for the year 2003 to now stand at 79.56m b/d. The bulk of the revision originated on developing countries figures with Latin America and Middle East data revised up by 20,000 b/d and 40,000 b/d while Other Asia was revised down by 70,000 b/d. Western Europe's figures were increased by 50,000 b/d to 15.55m b/d for the whole of 2003. As for the year 2004, all revisions took place on developing countries data. All four major regions underwent minor revisions, with the Middle East gaining 30,000 b/d, while Other Asia, Latin America and Africa data were all revised up by 10,000 b/d each.

Forecast for 2005

As we approach the end of the first half of

the year, with preliminary global oil demand data for 1Q pointing to a growth of nearly 2.5 per cent y-o-y and a forecast world economic growth rate of 4.14 per cent, the latest estimate for global oil demand calls for a growth rate of 2.2 per cent which in volume terms indicates a gain of 1.77m b/d over 2004. Preliminary figures for the first three months of the year indicate that the lion's share of demand growth – or nearly 50 per cent of total global growth – originated in developing countries with the remaining 50 per cent equally distributed between OECD and the Other regions group which encompasses China, FSU and some Central European states. As for the whole of 2005, the forecast shows that 48 per cent of total world oil demand growth will take place in developing countries, followed by 37 per cent in the other regions and 15 per cent in the OECD countries.

On a quarterly basis, the latest estimates indicate that global oil demand will rise by 1.66 per cent y-o-y during the present quarter to 82.34m b/d and by 2.36 per cent to 83.72m b/d during 3Q. The growth rate for the last quarter of 2005 is estimated at 2.14 per cent resulting in an absolute demand level of 85.9m b/d for an all-time record-high. In volumetric terms, demand will have to rise by 1.9m b/d y-o-y during 4Q2005 to reach the 86m b/d mark. Given the implications to the market of such a level of demand in the last quarter of the year, in terms of supply and the balance, it is extremely important that this situation be closely monitored.

OECD

On a regional basis oil consumption is forecast to grow by slightly more than one-half of one per cent, or 260,000 b/d to 49.81m b/d. Oil consumption in North America has been sluggish in the last two months following the 1.7 per cent y-o-y rise seen during 1Q2005. According to the EIA's Weekly Petroleum Status Report, total US product supply for the period January–May 2005 stood at 20.55m b/d, which was 1.2 per cent higher than the same period last year. The major product categories in the same five-month period showed the following y-o-y growth: gasoline 1.1 per cent, distillates

1.5 per cent, fuel oil 8.6 per cent and kerosene 2.5 per cent. Canada's demand registered the third consecutive negative monthly growth in May. In contrast, Mexico's appetite for oil has been rising rapidly. Oil demand in Western Europe continued to show negative growth during the first five months of the year with 1Q preliminary figures pointing to a 1.02 per cent contraction versus the same period last year. The trend of lower gasoline use, dieseling of the transport sector and ongoing fuel oil substitution is continuing unabated. Unexpectedly, demand strength is coming from OECD Pacific countries. Oil demand grew by a solid 2.2 per cent y-o-y during the first quarter of 2005 and preliminary data indicates that South Korean consumption rose by eight per cent in April and 18 per cent in May due to the healthy demand in the industrial and transportation sectors. Japanese demand growth came strong at 3.7 per cent in April, although preliminary data points to a timid 0.5 per cent rise in May.

Developing countries

Oil demand in developing countries is expected to rise by 850,000 b/d or nearly four per cent to average 22.25m b/d for the whole of 2005. The latest forecast has been adjusted slightly downwards from the last report to reflect lower GDP rates in Latin America and the Middle East as well as an increase in domestic prices in some Asian countries as governments begin to feel the burden of international oil prices on their budget accounts. Based on income and price elasticity as well as forecast GDP growth rates of 5.7 per cent, 3.9 per cent, 6.9 per cent and 5.1 per cent for Asia, Latin America, the Middle East and Africa, oil demand growth rates in the four sub-regions are estimated at 5.1 per cent, 2.6 per cent, 4.1 per cent and 3.4 per cent, respectively. Developing countries pose a big challenge when it comes to assessing oil demand due to the quality, availability and timeliness of the data. The forecast for this group depends heavily on past income and price elasticity of demand which is applied to forecast economic growth rates. Thus, extreme caution should be exercised as 880,000 b/d or 49 per cent of the total

1.8m b/d global demand growth for 2005 is assumed to originate in this group.

Other regions

Growth in apparent demand in the Other regions group, determined from production and trade data, is now estimated at 5.9 per cent or 660,000 b/d to average 11.9m b/d for the present year. China will account for four-fifths of total growth while the FSU will contribute the remaining one-fifth. Consumption is estimated to remain unchanged from last year in the Other Europe group, which encompasses several small Central European states. China's apparent demand during 1Q of the year appears to have increased by just 280,000 b/d or 4.6 per cent with respect to the same period of 2004.

Despite the somewhat disappointing demand growth observed during 1Q2005, especially when compared with the 15.1 per cent of the first quarter of 2004, strong economic growth and industrial output point to a healthy 8.2 per cent growth in apparent demand for 2005 in line with the estimated 8.6 per cent GDP growth rate. Developments in China's power sector constitute a major difficulty when it comes to assessing oil consumption for the present year. There are conflicting reports with regard to the shortages of electricity during 2005. Based on China's strong economic expansion for 2005, it is possible that the demand for power generation will increase by around 12 per cent. To meet growing demand, some 70 GW of new electric power generation capacity is planned for 2005.

During 1Q2005, total electricity generation was up by more than 14 per cent; nonetheless it is not yet clear whether additional power generation will be in place when needed. Information coming from China indicates that in the beginning of 2005 up to 21 provinces and municipalities across the country suffered from electricity shortages. However, these shortages have begun to ease. Throughout 2005, large-scale power shortages are likely to scale back and become more sporadic. Overall, however, supply still remains tight. Developments in China's power sector could add around 20 per cent or more to apparent demand, but for now

we will leave the growth estimate at 540,000 b/d. FSU's apparent demand growth for the year is forecast at 120,000 b/d or 3.2 per cent based on good y-o-y growth observed during the first quarter of 2005 of 290,000 b/d or eight per cent and an estimated GDP increase of 5.5 per cent. However, in the last seven years apparent demand has shown a declining trend, arrested only in 2003 and 2004. Developments should therefore be followed closely as a potential exists for downward revisions to the expected growth figures.

World oil supply

May

Non-OPEC

Estimate for 2004

The estimate for the total non-OPEC supply in 2004 remains broadly unchanged. Some minor revisions for the fourth quarter of 2004 have been included in Colombia, Peru, and UK, but with immaterial consequences to the full year average published in last month's report.

In 2004, non-OPEC supply averaged 49.7m b/d for the year, an increase of 1.1m b/d from 2003, or 2.2 per cent y-o-y. The quarterly distribution was 49.6m b/d, 49.7m b/d, 49.5m b/d, and 50m b/d, respectively.

Forecast for 2005

Non-OPEC supply is expected to average 50.57m b/d, which represents an increase of 800,000 b/d from 2004. However, non-OPEC supply growth has been revised down by 190,000 b/d versus the estimate published in the April report. On a quarterly basis, non-OPEC supply is expected to average 50.35m b/d, 50.61m b/d, 50.35m b/d and 50.97m b/d, respectively.

Russian and Mexican production growth have been revised down on the basis of actual data for the first quarter, which came in lower than expected. More importantly the outlook for both countries has been revised down for the remainder of the year. Minor adjustments

in Norway, Argentina and Brazil have also been incorporated to reflect actual data. However, the outlook for other non-OPEC countries, particularly Angola, Azerbaijan, Brazil and Sudan, continues to be strong and remains unchanged from last month's assessment.

OECD

The outlook for the OECD has been revised down by 90,000 b/d from last month's report. Oil production is estimated to average 14.43m b/d in 2005, which represents a decline of 130,000 b/d from 2004. In North America, oil production is still expected to fall in the USA and Canada but the outlook for both countries remains unchanged from last month's report. Production shut-downs in the US Gulf of Mexico continue to impact oil production there. In addition, new works on offshore facilities have been recently announced by some operators, the impact of which is expected to reduce Gulf of Mexico production in the second half of the year despite the expected reversal of production that resulted from Gulf of Mexico field shut-downs. In Canada, oil production is expected to decline by 20,000 b/d due to the reported accident at Suncor oil sands plant facility earlier this year.

Oil production in Mexico is now expected to decline 80,000 b/d in 2005, a reversal of previous expectations calling for a slight increase. Actual 1Q crude and NGL production came in 90,000 b/d below expectations. In addition, it has been reported that the Cantarell field, which produces approximately 2m b/d of crude, could be declining from 2005 instead of the original plan of 2006, at around 90,000 b/d per year. Whilst no formal announcements have been made in this regard by Pemex, Mexico's production data from December 2004 to March 2005 indicates that production has been trending down.

Furthermore, there are no new projects that could materially offset Cantarell's decline until the second half of 2006 when further platforms are expected to start at the Ku-Malooop-Zaap project; therefore we have taken a conservative view ahead of what is likely to be a disappointing year for Mexican oil production.

In Western Europe, oil production is expected to decline in most countries except in Denmark where production is likely to increase slightly. In OECD Pacific, oil production is expected to decline in Australia – although by half the level seen in 2004 – and to remain broadly flat in other countries. For both regions, the outlook remains unchanged from last month.

Developing countries

The outlook for developing countries remains broadly unchanged. Oil production is estimated to average 12.44m b/d in 2005, which represents an increase of 560,000 b/d from 2004. Major production increases are expected in Angola, Brazil, and Sudan of approximately 220,000 b/d, 175,000 b/d and 75,000 b/d, respectively. In contrast, the countries that will see some noticeable production declines (>20,000 b/d) include Oman, Colombia, Syria, Egypt, Yemen, and Argentina. However, the most recent assessment for Argentina and Colombia indicates that production is running slightly below current expectations.

Other regions

The outlook for Other regions has been revised down by 80,000 b/d. Oil production is estimated to average 15.38m b/d in 2005, which represents an increase of 500,000 b/d from 2004. The only material revision took place in Russia. Actual data for 1Q indicates that Russian production came in 10,000 b/d below expectations and for the month of April, preliminary data indicates that oil production declined by 25,000 b/d relative to March, which is also well below forecasts for 2Q2005. There are growing concerns that full year production growth in 2005 may not meet current expectations due to ongoing issues in Yuko's remaining assets, failure to deliver part of the growth plans by major Russian oil producers, and the potential impact of higher export taxes – \$18.58/b, effective June 1 – on production in the later part of 2Q2005. With seven consecutive months of data showing worse-than-expected production performance and in the absence of any major projects in the near term, we have revised down

our 2Q2005 forecast, but kept the quarter-on-quarter growth forecast intact for 3Q and 4Q, which results in a full year average downward revision of 80,000 b/d. Russian production growth in 2005 is now expected to average 270,000 b/d vs 360,000 b/d in our previous assessment. The current consensus is in the range of 250,000–350,000 b/d, but there are further risks ahead.

The outlook for other countries in this category remains unchanged. We would highlight that oil production is expected to increase in Azerbaijan, China and Kazakhstan, and that most of the expected growth has already been delivered in the first quarter of 2005. However, in Azerbaijan, oil production is expected to increase significantly in the third and fourth quarters when Phase I of the ACG project reaches full capacity.

FSU net oil export

FSU net oil export for 2005 is expected to average 7.63m b/d, an increase of 340,000 b/d over the previous year. The average net export volume has been revised down by 80,000 b/d from last month's report. 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 (see **Table D**).

OPEC NGLs and non-conventional oils

The 2005 forecast for OPEC NGLs and non-conventional oils remains unchanged at 4.19m b/d, representing 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, respectively.

OPEC NGL production, 2001–05				
m b/d				
2001	2002	2003		
3.6	3.6	3.7		
1Q04	2Q04	3Q04	4Q04	
3.9	3.9	4.0	4.0	
2004	04/03	2005	05/04	
3.9	0.2	4.2	0.2	

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	7.30	7.38	7.37	7.31
2005 ²	7.49	7.63	7.68	7.74	7.63

1. Estimate.

2. Forecast.

OPEC crude oil production

Total OPEC crude production averaged 29.95m b/d in April, according to secondary sources, which represents an increase of 276,000 b/d from March. Production increased primarily in Kuwait, Nigeria, and Saudi Arabia and declined slightly in Indonesia, and Venezuela. Iraqi oil production averaged 1.87m b/d, or 26,000 b/d more than last month (see **Table E**).

June

Non-OPEC

Estimate for 2004

The estimate for non-OPEC supply in 2004 remains unchanged from last month's report. Non-OPEC supply averaged 49.8m b/d for the year, an increase of 1.1m b/d from 2003, or 2.2 per cent y-o-y. Some minor historical adjustments have been made to the base for Canada and Angola to reflect the latest data, with no material impact on the overall number.

Forecast for 2005

The full year outlook for non-OPEC supply in 2005 remains broadly unchanged from last month's report. Non-OPEC supply (including processing gains) is expected to average 50.59m b/d, which represents an increase of 800,000 b/d over the previous year. However, on a quarterly basis non-OPEC oil supply in 1Q and 2Q2005 has been revised down by 10,000 b/d and 50,000 b/d, whilst 3Q and 4Q have been revised up by 80,000 b/d and 70,000 b/d.

On a quarterly basis, non-OPEC supply is now expected to average 50.34m b/d, 50.56m

Table E: OPEC crude oil production, based on secondary sources

1,000 b/d

	2003	2004	4Q04	1Q05	Feb 05	Mar 05	Apr 05	May 05	May/Apr
Algeria	1,134	1,229	1,289	1,315	1,314	1,327	1,332	1,340	8
Indonesia	1,027	968	963	948	945	945	945	941	-4
IR Iran	3,757	3,920	3,947	3,900	3,911	3,870	3,914	3,910	-4
Iraq	1,322	2,015	1,960	1,834	1,846	1,844	1,857	1,804	-53
Kuwait	2,172	2,344	2,448	2,438	2,443	2,468	2,521	2,554	33
SP Libyan AJ	1,422	1,537	1,608	1,613	1,613	1,619	1,627	1,633	6
Nigeria	2,131	2,351	2,344	2,332	2,324	2,380	2,410	2,413	4
Qatar	743	781	798	789	793	794	796	796	0
Saudi Arabia	8,709	8,982	9,450	9,220	9,191	9,322	9,438	9,540	102
UAE	2,243	2,360	2,486	2,396	2,363	2,436	2,455	2,416	-39
Venezuela	2,305	2,580	2,617	2,699	2,700	2,699	2,630	2,674	44
OPEC-10	25,644	27,051	27,950	27,652	27,595	27,859	28,067	28,217	150
Total OPEC	26,965	29,067	29,910	29,486	29,441	29,703	29,924	30,021	97

Totals may not add, due to independent rounding.

b/d, 50.43m b/d and 51.04m b/d in 1Q, 2Q, 3Q and 4Q, respectively.

Actual data for 1Q and the first two months of 2Q have led to minor downward revisions to oil supply in Australia, Canada, Denmark, UK and Russia, which have been partially offset by upward revisions in the USA, Colombia, and China. In addition, this report sees an improved outlook for the second half of 2005 for Sudan, China, and Canada and a slightly negative outlook for Denmark and Australia. Russian production continues to disappoint. The full year outlook for Russian oil production has been revised down again based on actual data for 1Q and the first two months of 2Q2005 which came in slightly below expectations. In addition, the outlook for the second half of 2005 looks increasingly negative for the same reasons as discussed in the May report. As a result, the contribution from Russia in 2005 has now become our biggest concern for non-OPEC supply growth.

OECD

The outlook for the OECD has been revised down slightly. OECD oil production is estimated to average 20.86m b/d in 2005, which represents a decline of 410,000 b/d from 2004 and a revision of 40,000 b/d from the May report. The outlook for the USA has margin-

ally improved (up by 10,000 b/d) as a result of better-than-expected production in 1Q2005 and for the rest of the year. However, US oil production is still expected to average 7.64m b/d, which represents a decrease of 30,000 b/d. With the approach of the Hurricane season in the Atlantic Basin, it is worth recalling that Gulf of Mexico production last year was severely affected by hurricanes, with 30m b of production lost due to shut downs resulting from damage to a 10,000 kilometre network of pipeline, rigs and platforms. Almost one year later, the impact of Hurricane Ivan is still being felt. This year, the latest forecast by the National Oceanographic and Atmospheric Administration is predicting another above-normal season with a potential for three to five major hurricanes, out of a total of 12-15 hurricanes.

The outlook for Mexico remains unchanged. Oil production is expected to average 3.76m b/d, a decline of 80,000 b/d versus 2004. Recently, the Mexican Energy Minister indicated that total supply in 2005 is expected to average 3.8m b/d, which is in line with our forecast. The outlook for Canadian oil production has been revised slightly down from last month's report, despite a recent announcement that the 100,000 b/d White Rose field in Eastern Canada will start one year earlier (4Q2005). The performance of

conventional crude oil production and in particular oil sand production in the big mining projects has been slightly below expectations this year and this, in addition to the ongoing shut-downs at Suncor facilities, is likely to keep Canadian oil production growth in 2005 under pressure. The full year average has been revised down by 10,000 b/d despite an upward revision of 30,000 b/d in 4Q2005.

In OECD Europe, oil production is expected to decline in all countries except for Denmark where production is now expected to remain flat, vs an earlier expectation of a slight increase. OECD Europe oil production is expected to average 5.9m b/d, which represents a decline of 230,000 b/d vs last year. The most recent data for the UK shows lower-than-expected production in 1Q2005 and this has led to a minor down revision of around 10,000 b/d for the entire year. In OECD Pacific, oil production is expected to decline by 50,000 b/d vs a previous expectation of a decline of 40,000 b/d, driven by declines in Australia.

Developing countries

The full year outlook for developing countries has slightly improved vs last month's report. Oil production is estimated to average 12.48m b/d in 2005, which represents an increase of 610,000 b/d from 2004 and an

improvement of 40,000 b/d vs the May report. Major production increases are expected in Angola, Brazil, and Sudan contributing 500,000 b/d for the full year average, or 80 per cent of the total for developing countries. However, the most recent assessment for Sudan indicates that the build up in production in the Dar project is likely to be faster than previously anticipated. The project is still expected to start in July at 140,000 b/d rising to 200,000 b/d by the end of the year/early 2006.

Full year average growth for Sudan is now assessed at around 110,000 b/d vs a previous expectation of 70,000 b/d. The outlook for the countries expected to experience a decline in production (Oman, Colombia, Syria, Egypt, Yemen, and Argentina) remains unchanged.

Other regions

The forecast for Other regions remains broadly unchanged. Oil production is estimated to average 15.39m b/d in 2005, which represents an increase of 600,000 b/d from 2004. The outlook for Russian oil production has been revised down again. Actual data for 1Q and the first two months of 2Q indicates that Russian production came in 10,000 b/d and 30,000 b/d below expectations, respectively. The new forecast sees Russian oil production growing 250,000 b/d in 2005 vs 270,000 b/d last month.

More importantly, there is increasing concern that full year production growth in 2005 may not meet current expectations due to declining production in Yukos' remaining assets, the failure of other Russian oil producers to deliver on their growth plans, and the potential impact of higher export taxes. In fact, the outlook for the second half of 2005 looks increasingly negative and is likely to be subject to further significant revisions in the months ahead.

The outlook for China has improved, but remains unchanged in the main countries of this category. Full year average oil production is expected to increase in Azerbaijan, China and Kazakhstan by 80,000 b/d, 150,000 b/d and 100,000 b/d, respectively. However, Chinese oil production, particularly in the offshore,

is performing above expectations and recent announcements by Chinese operators continue to point to a strong second half. The outlook for China has been revised up by 30,000 b/d, and production is now expected to average 3.63m b/d in 2005.

In Kazakhstan the government has recently raised the issue of gas flaring with some operators, and indicated that it could ask operators to reduce oil/condensate production in fields that have associated gas if the appropriate measures are not taken to build the infrastructure to allow for a better use for the gas. At this stage it is very difficult to estimate the impact that such measure could have on oil production, or if the government is likely to take such action. For these reasons, our forecast remains unchanged.

FSU net oil export (crude and products)

FSU net oil export for 2005 is expected to average 7.6m b/d, an increase of 300,000 b/d over the previous year.

The latest available data (March 2005) shows Russian net oil exports averaging 6.3m b/d, compared to 6.2m b/d in the same month last year. In 2005, Russian exports are expected to increase only slightly versus last year. Exports from Kazakhstan are estimated at 397,000 b/d for March 2005, slightly higher than last year. As in the case of Russia, oil exports from Kazakhstan are expected to increase moderately in 2005 vs 2004.

However, oil exports from Azerbaijan are expected to increase significantly, particularly in the second half of 2005, underpinned by volume growth in Phase I of the ACG project. Already Azerbaijan is exporting around 100,000 b/d (March 2005) vs 33,000 b/d in January 2005. By the end of the year, Azerbaijan is expected to be exporting close to 150,000–200,000 b/d.

OPEC NGLs and non-conventional oils

The 2005 forecast for OPEC NGLs and non-conventional oils remains unchanged at 4.19m b/d, representing 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, respectively.

OPEC NGL production, 2001–05

<i>m b/d</i>			
2001	2002	2003	
3.58	3.62	3.71	
1Q04	2Q04	3Q04	4Q04
3.88	3.89	3.97	4.04
2004	04/03	2005	05/04
3.95	0.24	4.19	0.24

OPEC crude oil production

Total OPEC crude production averaged 30.02m b/d in May, according to secondary sources, which represents an increase of 97,000 b/d from last month. Year-to-date OPEC production increased by 700,000 b/d. During May, production rose primarily in Kuwait, Saudi Arabia and Venezuela but declined in Iraq and UAE. Iraqi oil production averaged 1.8m b/d, broadly unchanged from last month (see **Table E**).

Rig count

May

Non-OPEC

In April, total non-OPEC rig count stood at 2,243 with oil rigs totaling approximately 841 and gas rigs at 1,376. Total non-OPEC rig count dropped 382 in April compared to the previous month. North America lost 380 rigs due to losses in Canada. Western Europe lost five rigs over the previous month, whilst the OECD Pacific lost just one rig. The Middle East, Africa, Latin America and rest of Asia gained a net total of 13 rigs. In 2005, non-OPEC rig activity is expected to remain strong.

OPEC

OPEC's rig count was 281 in April, which represents an increase of seven rigs from March. Increases took place in Algeria (three), Qatar (one), UAE (one) and Venezuela (five). Iran and Nigeria lost two and one rigs, respectively.

June

Non-OPEC

In May, non-OPEC rig count stood at 2,186, which represents an increase of 71 rigs from the revised April figure of 2,115. Of the total, 277 rigs were operating offshore and 1,909 onshore. Regionally, North America added 53 rigs due to gains in Canada and Mexico, which offset a decline of 15 rigs in the USA. The volatility in rig numbers in North America can generally be attributed to Canadian rig activity which tends to vary significantly from month to month. Western Europe gained six rigs over the previous month, whilst OECD Pacific added three rigs. The Middle East, Africa, Latin America and rest of Asia gained a total of nine rigs. In terms of the oil and gas split, non-OPEC had 608 oil rigs and 1,331 gas rigs.

OPEC

OPEC rig count dropped to 280 in May, down one rig from last month. Increases took place in Indonesia (three), Qatar (one), and Venezuela (three), while Algeria, Kuwait, Libya, Saudi Arabia, and UAE saw losses which resulted in a net decrease for the total OPEC rig count. Of the total, 216 rigs were operating onshore and 64 rigs offshore. In terms of oil and gas split, OPEC had 222 oil rigs whilst the remainder was gas and other rigs.

Stock movements

May

USA

US commercial oil stocks observed a significant build of 16.3m b or 580,000 b/d to stand at 972.2m b in the period April 1–29, 2005. Crude oil and all other products, except distillates and fuel oil, contributed to this build, particularly crude which accounted for about two thirds of this rise.

Increasing crude oil imports, which rose from 9.89m b/d to 10.26m b/d over the period, as well as lower refinery runs, which fell by 1.99 per cent to 91.72 per cent due to refiner-

ies outages, helped crude oil stocks to add 9.9m b or 350,000 b/d over the period to stand at 327.04m b, a level not seen since July 1999. This level widened both the y-o-y and the five-year average surplus by one per cent to nine per cent and seven per cent, respectively. Days of forward cover also increased from 20.9 days to 21.5 over the period.

Gasoline inventories followed the same pattern but at a slower pace, building up by 1.2m b or 40,000 b/d to stand at 213.5m b on the back of higher gasoline imports and refinery throughput, which showed an increase of 150,000 b/d to 1.05m b/d and 130,000 b/d to 8.75m b/d, respectively. Relatively weak implied demand of gasoline, which declined by 9.10m b/d to 9.02m b/d, also contributed to this stock-build. Despite this rise in gasoline stocks, the y-o-y surplus narrowed to 4.7 per cent or 1.4 per cent lower than the previous period, while the five-year average shrank by one per cent to four per cent. In terms of days of forward consumption, gasoline inventories remained unchanged at 23.3 days at the end of this period.

Distillate stocks followed a different trend, declining by 1.8m b or 60,000 b/d to 102.3m b, mainly due to slightly improved implied demand which observed a minor increase to stand at 4.24m b/d. Lower production added to the draw as distillate output fell by 100,000 b/d to 4.03m b/d.

Distillate imports remained stable at 290,000 b/d, minimizing the draw on inventories. Such a moderate stock-draw failed to dent the y-o-y deficit which widened considerably by three per cent to four per cent while the five-year average shortage was extended by one per cent to two per cent. Days of forward cover improved slightly from 24.1 days to 24.3 over the period.

The Strategic Petroleum Reserve (SPR) added 3.7m b to stand at 691.2m b. The SPR is now about four months away from reaching its full capacity of 700m b with the rate of crude oil flow estimated to be less than 100,000 b/d following the return at the end of April of the 5.4m b crude loan given last year to some US Gulf Coast refineries due to Hurricane Ivan.

US commercial oil stocks in the week end-

ing May 6, witnessed a further build of 6.92m b to stand at 979.12m b. Crude oil and gasoline inventories continued to contribute to this build as the first added 2.67m b to 329.70m b and the second moved up by 190,000 b to 213.69m b. Distillate inventories changed direction, increasing 1.70m b to 103.98m b as implied demand started to ease with the end of winter, declining by 330,000 b/d compared with the last week of April (see **Table F**).

Western Europe

Total oil stocks in Eur-16 (EU plus Norway) experienced a moderate draw in April, falling by 8.1m b or 270,000 b/d to stand at 1,099.9m b. This level was 22.6m b or two per cent higher than that registered a year ago. The draw was split almost equally between crude oil and product inventories with the latter showing a mixed trend although draws on middle distillate and gasoline were bigger than the builds in fuel oil and naphtha stocks.

Higher refinery runs, which were at 12.15m b/d or 70,000 b/d above the previous month's level, forced refineries to draw down stocks especially those which returned from maintenance shut-downs. This draw could also be attributed to the fact that transatlantic arbitrage was closed as the WTI price was below that of Brent which encouraged traders to redirect North Sea cargoes to the Asian market to meet strong demand, especially for light and sweet grades. This led to a draw of 3.3m b or 110,000 b/d on crude oil stocks to stand at 470.6m b.

Middle distillate inventories gave up the previous month's build on the back of strong diesel demand and lower imports from Russia. Middle distillate stocks stood at 347.6m b which represented a decline of 6.0m b or about two per cent from the downwardly revised March figure. Despite this significant drop, inventories remained well above last year's level by 15.6m b or about five per cent.

The draw on gasoline stocks of 2.6m b or 90,000 b/d to 144.2m b was not due to healthy demand or slower production, but rather to strong exports mainly to the US market where high gasoline prices due to robust US demand encouraged European producers

Table F: US onland commercial petroleum stocks¹
m b

	Apr 1, 05	Apr 29, 05	Jun 3, 05	Change May/Apr	Jun 3, 04	Jun 10, 05 ²
Crude oil (excl SPR)	317.1	327.0	330.8	3.8	301.8	329.0
Gasoline	212.3	213.5	216.6	3.1	204.7	215.7
Distillate fuel	104.1	102.3	107.7	5.4	107.3	110.2
Residual fuel oil	39.2	37.2	36.5	-0.7	36.2	36.8
Jet fuel	38.8	40.3	40.7	0.4	38.1	41.0
Total	955.9	972.2	998.6	26.4	940.5	1,001.4
SPR	687.5	691.2	693.9	2.7	661.4	694.9

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 stocks¹
m b

	Mar 05	Apr 05	May 05	Change May/Apr	May 04
Crude oil	473.3	467.0	479.2	12.2	470.8
Mogas	147.7	148.4	147.7	-0.8	137.1
Naphtha	27.7	28.2	26.8	-1.3	24.7
Middle distillates	352.6	347.6	347.7	0.1	339.6
Fuel oils	104.8	109.3	109.4	0.1	112.3
Total products	632.8	633.5	631.6	-1.9	613.7
Overall total	1,106.1	1,100.5	1,110.8	10.3	1,084.4

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

Source: Argus, Euroilstock.

Table H: Japan's commercial oil stocks¹
m b

	Feb 05	Mar 05	Apr 05	Change Apr/Mar	Apr 04
Crude oil	109.3	112.8	103.6	-9.2	100.0
Gasoline	15.6	13.9	14.0	0.1	14.5
Middle distillates	27.1	21.7	23.2	1.5	26.4
Residual fuel oil	18.3	17.1	18.7	1.6	19.4
Total products	61.0	52.7	55.9	3.2	60.3
Overall total²	170.3	165.5	159.5	-6.1	160.2

1. At end of month.

2. Includes crude oil and main products only.

Source: MITI, Japan.

to send as much as possible to increase profitability. The y-o-y surplus stood at 8.1m b or six per cent which was quite a comfortable level not only to meet domestic demand but also to satisfy other markets such as the USA (see **Table G**).

Japan

Total commercial oil inventories in Japan experienced a further draw for the fourth consecutive month, falling by 4.8m b or 150,000 b/d to stand at 165.5m b in March. This level of total oil stocks has not been seen since August last year. All main product inventories contributed to this draw especially middle distillates, while a moderate build in crude oil stocks diminished the fall.

The stock-build in crude oil inventories came on the back of a massive drop in refinery utilization which fell by 10.7 per cent to 83.3 per cent in March due to refinery shut-downs for maintenance. Crude oil stocks rose by 3.5m b or 110,000 b/d to 112.8m b. Compared with last year, the surplus rose from less than one per cent to four per cent.

Middle distillate inventories accounted for two thirds of the total draw on refined product stocks, falling by 5.5m b or 170,000 b/d to 21.7m b which was slightly above the mandatory minimum level. A period of lingering cold weather, particularly in the second half of March, stimulated heating fuel consumption coupled with lower output as some refineries were in their scheduled maintenance. The y-o-y deficit widened from 2.5 per cent to six per cent to stand at 1.4m b.

Lower refinery runs also affected gasoline stocks as production was lower, while implied demand continued to improve. Gasoline inventories moved down by 1.7m b or 0.05m b/d to stand at 13.9m b. The y-o-y surplus narrowed to only 400,000 b or about three per cent (see **Table H**).

June

USA

US commercial oil stocks continued their upward trend increasing by 26.4m b or 940,000

b/d to stand at 998.6m b during the period April 29–June 3, 2005. The bulk of this build came from total products, which rose by 22.6m b, while crude oil experienced a moderate build of 3.8m b.

The build in crude oil commercial stocks came as crude oil imports averaged 10.5m b/d in May, an increase of 292,000 b/d from the previous month and 132,000 b/d over the same period last year. Refineries operated at 94.4 per cent of their operable capacity in May having recovered from last month's refinery outages to stand 2.9 per cent above the previous month. This corresponds to crude oil refinery inputs of 15.8m b/d, an increase of 500,000 b/d over the previous month. In the week ending June 3, US crude oil inventories fell by 3.0m b from the previous week, an indication of the start of the driving season.

Traditionally at this period, crude oil stocks are at their yearly peak, and we could see crude beginning to be drawn down again. However, at 330.8m b, US crude oil inventories remained well above the upper end of the average range for this time of the year. Indeed, crude stocks were 28.7m b or nine per cent above a year ago, and 22.4m b or seven per cent more than the last five-year average.

During the period April 29–June 3, 2005, gasoline inventories showed a build of 3.1m b to 216.6m b, mainly due to strong production, increasing by almost 300,000 b/d to average 9.04m b/d. This build occurred although healthy demand reached 9.4m b/d, a rise of 2.4 per cent above the same period last year.

Gasoline stocks were 6.7 per cent above last year's level at this time, registering a five per cent y-o-y surplus. In terms of day coverage, gasoline inventories stood at 23.3 days almost unchanged from last month and could be considered comfortable at the beginning of the driving season. Distillate stocks followed the same pattern as crude and gasoline, building up by 5.4m b to 107.7m b, close to the level observed a year ago at this time and two per cent below the five-year average.

The higher domestic output combined with relatively lower apparent demand, which decreased by 110,000 b/d, contributed to this

build. By the week ending June 3, distillate stocks climbed by 1.3m b compared to the previous week, with all the increase coming from low-sulphur distillate fuel (diesel fuel), while high-sulphur distillate fuel (heavy oil) inventories remained unchanged from the previous week. Despite being the beginning of the summer, the lack of growth in heating oil stocks was seen by many as contributing towards the current strength in the front-month NYMEX heating oil contract.

During the same period, the Strategic Petroleum Reserve (SPR) continued to fill its storage capacity of 700m b, increasing by 2.7m b to 693.9m b, which was 32.5m b above last year's level at this time. The US Department of Energy is still considering whether to boost the stockpile to 727m b.

Total commercial stocks are now just about reaching the 1,000m b mark, a total last seen in the week ending September 20, 2002. Combined with the SPR approaching 700m b, total oil has never been higher at 1,700m b (see **Table F**).

Western Europe

Total oil stocks in Eur-16 (EU plus Norway) reversed the downward trend observed last month, increasing by 10.3m b or 340,000 b/d. Crude oil inventories rose sharply by 12.2m b to 479.2m b, while product stocks fell by 1.9m b to 631.6m b. Total oil stocks are now 26.3m b or 2.4 per cent above this time last year.

The considerable build in crude oil inventories came as major refineries underwent spring maintenance in preparation for heavy summer production schedules. Indeed, crude runs fell 90,000 b/d to 11.85m b/d to stand 350,000 b/d below the previous year. This corresponds to a utilization rate of 90.5 per cent compared to the downwardly revised April utilization rate of 91.2 per cent, which was the lowest since June 2003. Crude oil stocks are now 7.1 per cent higher than the previous five-year average.

On the product side, gasoline inventories fell slightly by 800,000 b to 747.7m b, but remained 10.6m b or 7.7 per cent higher than a year earlier when refineries extended maintenance in preparation for the new product

specifications that came into the market in January 2005. In May, gasoline stocks were at their highest level in six years.

Domestic demand continued to decline, which should encourage gasoline exports, but the US arbitrage was only marginally economical as US gasoline stocks continued to build. Distillate inventories remained almost unchanged from the previous month to stand at 347.7m b, registering a y-o-y surplus of 8.1m b or 2.4 per cent.

Fuel oil stocks were little changed from the end of April to stand 3m b or 2.6 per cent lower than this time last year. Residual fuel oil flows to the European market helped to avoid any drop in residual fuel oil stocks, and consequently exerted downward pressure on prices. Lower prices maintained arbitrage to Asia and reopened export opportunities for more barrels to the USA (see **Table G**).

Japan

At the end of April, total commercial oil stocks continued their downward trend for the previous months, declining by 6.1m b or 0.2m b/d to 159.5m b. This draw resulted in a y-o-y deficit of 0.5 per cent or 800,000 b. The strong 9.2m b draw on crude oil stocks was abated by the 3.2m b build in total products.

The 9.2 per cent draw on crude oil stocks came as a result of a strong 18.3 per cent drop in crude imports from the previous month or 0.7 per cent below a year ago. Supplies from the Middle East accounted for 88.7 per cent of imports in April, with the largest contribution coming from Saudi Arabia followed by UAE, Iran, Qatar and Kuwait. Refinery throughput was 4.03m b/d in April, lower than the 4.32m b/d for the previous month.

Gasoline stocks registered a slight increase of 100,000 b to 14m b, which was 3.8 per cent below this time last year. The negligible change in gasoline stocks occurred despite a strong rise in imports. Indeed, imports by the second largest gasoline consumer in Asia rose almost 32 per cent from the previous month and 37.5 per cent above a year ago.

Domestic sales have showed a decline of 7.4 per cent in April but were still 2.6 per cent

higher than a year earlier. Middle distillate stocks, which comprise jet fuel, kerosene and gasoil, rose by 1.5m b to 23.2m b, but still displayed a 3.2m b or 13 per cent y-o-y deficit. This build was mainly due to the decline in domestic consumption particularly in kerosene and gasoil combined with the rise in production.

Imports for the three products were extremely low. Residual fuel oil inventories also experienced a build of 1.6m b to 18.7m b, which was 700,000 b or 3.6 per cent below the level registered a year ago. The decline in production as well as domestic sales was the main reason behind this build (see **Table H**).

Balance of supply/demand

May

Table I for 2004 remains broadly 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 83.9m b/d, whilst non-OPEC supply (including OPEC NGLs and non-conventional oils) are expected to average 54.8m b/d. This results in an average difference [(a)-(b)] of 29.2m b/d for OPEC production, vs the previous expectation of 29.1m b/d in the April report. The new balance is primarily the result of a downward revision of 100,000 b/d to world oil demand and a downward revision to non-OPEC supply of 190,000 b/d.

The quarterly distribution is expected to be 29.3m b/d in 1Q2005, 27.9m b/d in 2Q, 28.9m b/d in 3Q and 30.5m b/d in 4Q. Based on the latest OPEC production data, OPEC is producing approximately 2m b/d above required production levels for 2Q, and 1m b/d above the requirement for 3Q. We therefore expect inventories to continue to build in both periods.

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 around nine per cent in 2005. In 4Q, OPEC's spare capacity is expected to be around ten per cent.

June

Estimate for 2004

Table I for 2004 remains unchanged from last month's report. World oil demand averaged 82.2m b/d, whilst non-OPEC supply (including 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.

Forecast for 2005

World oil demand is expected to average 83.9m b/d in 2005, whilst non-OPEC supply (including OPEC NGLs and non-conventional oils) is expected to average 54.8m b/d. This results in an average difference [(a)-(b)] of 29.2m b/d for OPEC production, vs a previous expectation of 29.1m b/d in last month's report.

However, the quarterly distribution has been revised. In 1Q2005, [(a)-(b)] is expected to be 29.3m b/d, 27.6m b/d in 2Q, 29.1m b/d in 3Q and 30.6m b/d in 4Q. The 2Q was revised down by 300,000 b/d, 3Q was revised up by 200,000 b/d and 4Q was revised up slightly by 100,000 b/d.

Based on the latest OPEC production data for May, OPEC is producing approximately 2m b/d above required production levels for 2Q2005 and 1m b/d above the requirements for 3Q2005. Preliminary data also indicates that global inventories saw a contra-seasonal build in 1Q2005.

Taking into account the supply/demand balance, the resulting required OPEC crude production levels and the projected production capacity, OPEC spare capacity is now estimated to average around seven to eight per cent in 2005, assuming Iraqi production remains at current levels for the rest of 2005.



Table I: World crude oil demand/supply balance													m b/d	
World demand	2000	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD	48.0	48.0	48.0	48.9	50.2	48.2	49.2	50.7	49.6	50.7	48.3	49.4	50.9	49.8
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	15.6	15.8	15.3	15.7	16.2	15.7	15.6	15.3	15.7	16.1	15.7
Pacific	8.7	8.7	8.6	8.8	9.4	8.0	8.3	8.9	8.6	9.6	8.0	8.2	8.8	8.6
Developing countries	19.3	19.7	20.2	20.5	20.8	21.4	21.5	21.8	21.4	21.8	22.2	22.4	22.6	22.2
FSU	3.8	3.9	3.7	3.8	3.6	3.8	3.9	4.1	3.8	3.9	3.8	4.0	4.1	4.0
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	6.5	7.2	7.1	7.4	7.1
(a) Total world demand	76.5	77.2	77.8	79.6	81.8	81.0	81.8	84.1	82.2	83.8	82.3	83.7	85.9	83.9
Non-OPEC supply														
OECD	21.9	21.8	21.9	21.6	21.8	21.5	20.7	21.0	21.3	21.0	21.1	20.6	20.7	20.9
North America	14.2	14.3	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.5	14.5	14.4	14.3	14.4
Western Europe	6.8	6.7	6.6	6.4	6.4	6.3	5.7	6.1	6.1	6.0	6.0	5.7	5.9	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	12.5	12.8	12.5
FSU	7.9	8.5	9.3	10.3	10.8	11.1	11.3	11.4	11.2	11.4	11.5	11.7	11.9	11.6
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	50.1	49.8	50.3	50.6	50.4	51.0	50.6
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	54.2	53.7	54.4	54.7	54.6	55.3	54.8
OPEC crude supply and balance														
OPEC crude oil production¹	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	83.3	84.1	82.8	83.9				
Balance²	0.6	0.0	-1.1	-0.3	0.0	1.1	1.5	0.0	0.6	0.1				
Stocks														
Closing stock level (outside FCPEs) m b														
OECD onland commercial	2534	2630	2476	2525	2468	2546	2589	2562	2562	2559				
OECD SPR	1270	1285	1345	1407	1421	1426	1432	1444	1444	1456				
OECD total	3804	3915	3821	3932	3889	3972	4021	4006	4006	4014				
Oil-on-water	877	830	816	887	909	898	894	910	910	931				
Days of forward consumption in OECD														
Commercial onland stocks	53	55	51	51	51	52	51	51	51	53				
SPR	26	27	27	28	29	29	28	28	29	30				
Total	79	82	78	79	81	81	79	79	80	83				
Memo items														
FSU net exports	4.1	4.6	5.6	6.5	7.2	7.3	7.4	7.4	7.3	7.5	7.6	7.7	7.7	7.6
[(a) – (b)]	27.4	27.2	26.5	27.2	28.2	27.3	28.3	30.0	28.4	29.3	27.6	29.1	30.6	29.2

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 63, while **Graphs One and Two** (on page 64) show the evolution on a weekly basis. **Tables Three to Eight**, and the corresponding graphs on pages 65–66, 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 Country/ Crude (API°)	2004			2005													
	Oct 4Wav	Nov 5Wav	Dec 4Wav	Jan 4Wav	Feb 4Wav	Mar 5Wav	1W	2W	April 3W	4W	4Wav	1W	2W	May			
														3W	4W	5W	5Wav
Algeria																	
Saharan Blend (44.1)	50.48	42.97	39.61	44.39	45.44	52.59	53.92	50.65	50.78	52.55	51.98	50.19	49.40	46.44	47.33	50.07	48.69
Indonesia																	
Minas (33.9)	49.68	37.25	34.76	42.55	44.56	54.30	58.60	55.73	54.26	55.25	55.96	52.18	51.29	48.92	48.50	50.81	50.34
IR Iran																	
Light (33.9)	43.59	37.81	34.77	39.87	40.56	48.50	52.02	46.82	46.58	48.24	48.42	46.09	45.94	43.83	44.75	47.02	45.53
Iraq																	
Kirkuk (36.1)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Kuwait																	
Export (31.4)	38.81	35.87	34.91	38.55	40.09	46.42	50.33	47.46	45.88	47.89	47.89	46.55	46.21	45.22	45.87	47.93	46.36
SP Libyan AJ																	
Brega (40.4)	50.14	43.21	37.98	43.61	44.97	52.11	54.27	50.56	50.13	51.73	51.67	49.32	48.82	46.51	47.62	49.55	48.36
Nigeria																	
Bonny Light (36.7)	49.91	43.60	39.08	44.01	45.43	53.15	55.70	51.91	51.72	53.40	53.18	51.23	50.91	48.20	49.18	51.61	50.23
Saudi Arabia																	
Light (34.2)	39.00	35.56	34.64	38.26	40.10	46.85	50.83	48.35	46.77	48.78	48.68	47.44	46.90	45.91	46.56	48.62	47.09
Heavy (28.0)	33.79	30.17	29.34	33.41	35.62	41.81	45.63	42.95	41.37	43.38	43.33	42.04	42.15	41.16	41.81	43.87	42.21
UAE																	
Dubai (32.5)	37.61	34.87	34.16	37.78	39.35	45.60	49.76	46.76	45.25	47.19	47.24	45.83	45.50	44.53	45.24	47.32	45.68
Venezuela																	
Tia Juana Light ¹ (32.4)	43.55	37.37	32.36	35.75	36.77	43.50	45.80	42.41	41.76	43.11	43.27	41.46	42.13	39.75	41.00	44.01	41.67
OPEC Basket²	45.37	38.96	35.70	40.24	41.68	49.07	52.07	48.86	48.00	49.60	49.63	47.59	47.38	45.24	46.02	48.57	46.96

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

\$/b

Country/ Crude (API°)	2004			2005													
	Oct 4Wav	Nov 5Wav	Dec 4Wav	Jan 4Wav	Feb 4Wav	Mar 5Wav	1W	2W	April 3W	4W	4Wav	1W	2W	May			
														3W	4W	5W	5Wav
Gulf Area																	
Oman Blend (34.0)	39.81	36.65	35.40	39.04	40.54	46.95	50.59	47.84	46.19	48.27	48.22	46.95	46.60	45.58	46.17	48.21	46.70
Mediterranean																	
Suez Mix (Egypt, 33.0)	39.56	35.34	32.48	36.37	36.98	44.58	46.72	43.21	43.75	45.56	44.81	43.15	43.50	41.02	42.16	45.73	43.11
North Sea																	
Brent (UK, 38.0)	49.74	42.80	39.43	44.01	44.87	52.60	54.47	50.76	50.33	51.93	51.87	49.81	49.32	47.01	48.11	50.25	48.90
Ekofisk (Norway, 43.0)	49.75	42.23	39.26	43.92	44.70	52.34	53.82	50.46	50.23	52.20	51.68	50.12	49.55	46.81	47.53	50.23	48.85
Latin America																	
Isthmus (Mexico, 32.8)	47.40	41.10	35.315	38.89	40.08	47.52	49.89	46.19	45.49	46.95	47.13	44.82	45.55	42.97	44.32	47.58	45.05
North America																	
WTI (US, 40.0)	53.32	48.22	43.12	46.64	47.69	54.09	56.05	52.04	51.59	52.69	53.09	50.06	50.82	48.01	49.50	52.88	50.25
Others																	
Urals (Russia, 36.1)	42.12	37.52	35.52	38.89	40.46	47.16	49.82	46.30	46.77	48.65	47.89	46.44	46.82	44.33	45.14	48.64	46.27

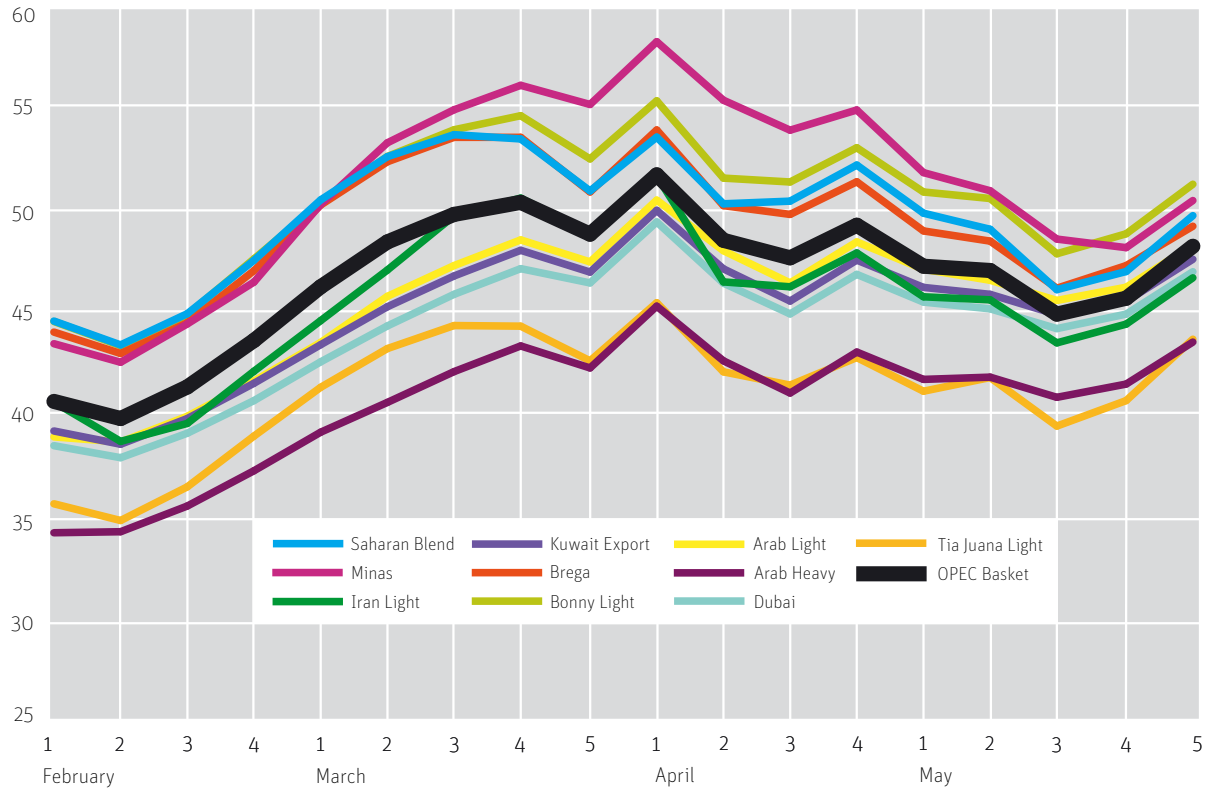
1. Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.

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, February to May 2005



Graph 2: Evolution of spot prices for selected non-OPEC crudes, February to May 2005

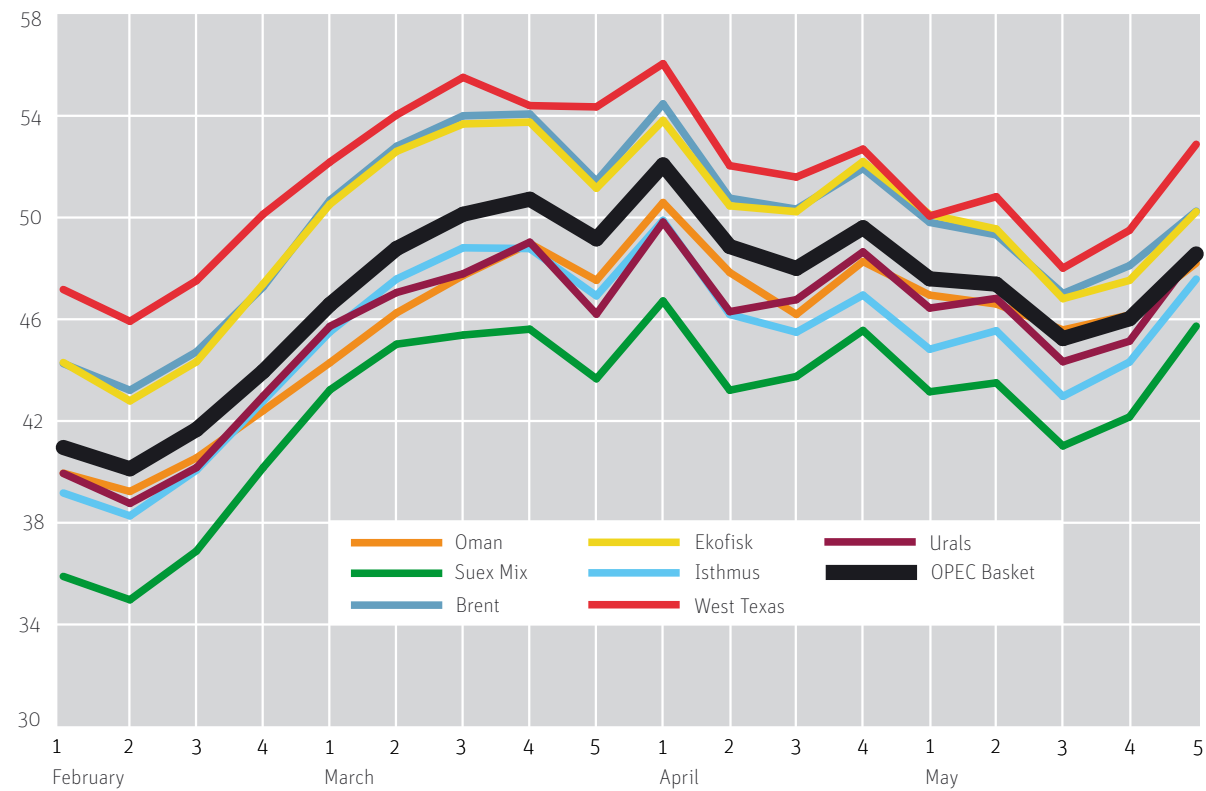


Table and graph 3: North European market – spot barges, fob Rotterdam \$/b

	naphtha	regular gasoline unleaded	premium gasoline 50ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2004							
May	48.99	53.08	58.97	46.86	47.81	25.70	25.10
June	45.70	45.79	50.95	44.31	45.26	24.21	23.39
July	48.87	52.01	57.43	49.51	49.88	24.28	24.44
August	54.96	51.06	55.95	55.88	55.74	23.73	24.62
September	54.88	50.73	56.15	58.04	58.49	23.40	24.12
October	61.21	55.81	61.90	66.82	65.91	28.10	25.88
November	56.49	50.64	56.00	63.76	60.31	25.23	21.49
December	50.20	42.42	46.52	60.36	54.05	24.96	20.93
2005							
January	51.32	47.72	52.89	55.54	55.05	26.68	23.54
February	54.49	49.69	55.53	58.33	58.05	27.78	25.48
March	62.33	55.94	62.03	69.30	68.81	34.06	30.09
April	61.62	61.29	68.55	70.38	71.67	35.59	34.53
May	54.65	56.14	62.85	64.51	64.90	34.56	33.79

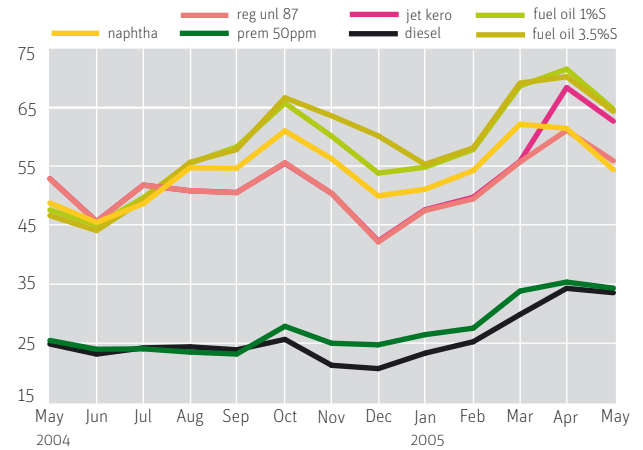


Table and graph 4: South European market – spot cargoes, fob Italy \$/b

	naphtha	premium gasoline unl 95	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
2004						
May	40.52	52.16	na	na	27.66	23.69
June	37.48	44.64	na	na	26.54	21.07
July	40.37	49.37	57.28	50.30	26.47	23.03
August	45.94	48.76	56.30	56.17	25.47	23.59
September	45.90	49.84	57.04	58.93	25.66	22.81
October	50.76	54.43	62.14	67.84	29.03	24.20
November	45.68	48.70	55.83	64.72	26.72	18.65
December	39.98	39.72	46.58	62.29	25.65	18.62
2005						
January	41.69	45.72	53.17	58.75	28.69	21.80
February	44.26	48.28	56.09	59.29	29.59	24.79
March	51.34	54.23	62.87	73.26	35.31	29.07
April	51.05	59.51	68.88	71.44	38.31	33.67
May	44.97	53.58	61.99	64.90	35.99	32.20

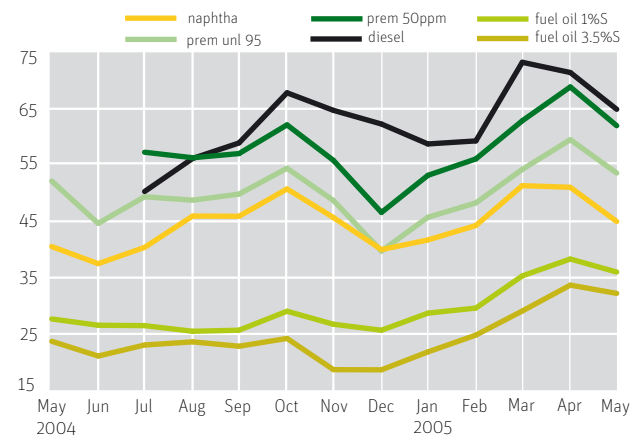
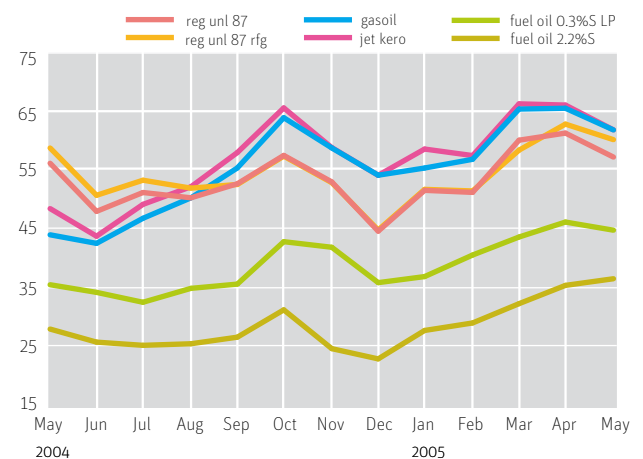


Table and graph 5: US East Coast market – spot cargoes, New York \$/b, duties and fees included

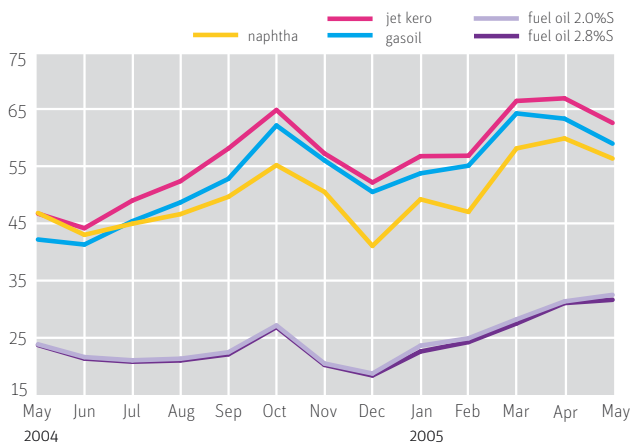
	regular gasoline unleaded 87	regular gasoline unl 87rfg	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
2004						
May	56.32	58.94	44.04	48.54	35.47	27.86
June	48.06	50.82	42.57	43.80	34.16	25.62
July	51.30	53.41	46.87	49.26	32.46	25.07
August	50.39	52.05	50.39	52.29	34.85	25.34
September	52.80	52.68	55.52	58.16	35.58	26.47
October	57.67	57.54	64.14	65.82	42.86	31.16
November	53.12	52.99	58.95	59.01	41.90	24.50
December	44.66	44.87	54.27	54.25	35.83	22.74
2005						
January	51.67	51.84	55.50	58.76	36.87	27.62
February	51.32	51.57	57.00	57.64	40.57	28.91
March	60.28	58.57	65.62	66.52	43.66	32.22
April	61.50	63.04	65.76	66.31	46.23	35.36
May	57.38	60.37	62.04	62.05	44.83	36.50



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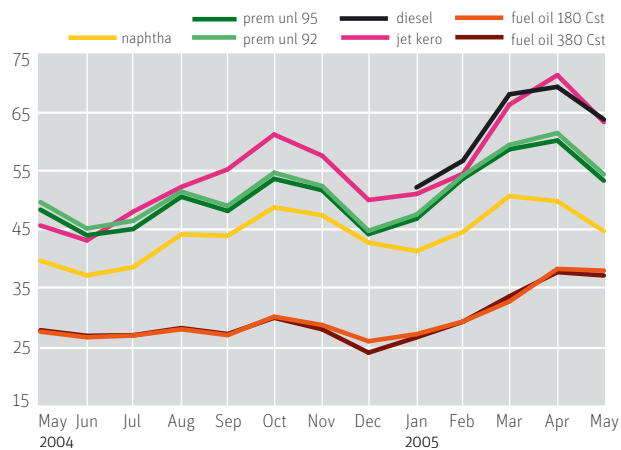
Source: Platts. Prices are average of available days.

Graph and table 6: Caribbean market – spot cargoes, fob \$/b



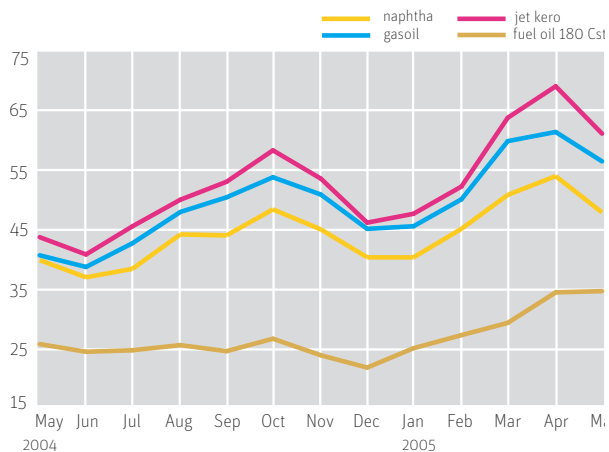
		naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S	
2004	May	46.82	42.18	46.71	23.86	23.73	
	June	43.00	41.30	44.16	21.62	21.37	
	July	44.95	45.39	49.00	21.06	21.04	
	August	46.62	48.67	52.38	21.34	21.04	
	September	52.80	52.80	58.10	22.47	22.11	
	October	55.18	62.12	64.83	27.16	26.87	
	November	50.51	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
		April	59.86	63.31	66.87	31.36	31.07
May		56.34	58.95	62.57	32.50	31.64	

Graph and table 7: Singapore market – spot cargoes, fob \$/b



		naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 2%S	fuel oil 3.5%S	
2004	May	39.69	49.71	48.41	na	45.71	28.28	27.83	
	June	37.19	45.19	44.04	na	43.17	27.43	26.87	
	July	38.60	46.52	45.12	na	52.29	27.64	26.98	
	August	44.19	51.50	50.62	na	52.29	28.82	28.19	
	September	43.95	49.06	48.20	na	55.30	27.84	27.18	
	October	48.81	54.73	53.68	na	61.25	30.96	29.95	
	November	47.46	52.45	51.74	na	57.64	29.40	27.99	
	December	42.79	44.81	44.24	na	50.07	26.93	24.00	
	2005	January	41.34	47.57	46.87	52.21	51.10	28.08	26.61
		February	44.61	54.27	53.70	56.78	54.54	30.35	29.28
		March	50.74	59.47	58.72	68.11	66.33	34.13	33.61
		April	49.85	61.50	60.23	69.39	71.40	38.30	37.75
May		44.76	54.46	53.37	63.83	63.39	38.00	37.18	

Graph and table 8: Middle East Gulf market – spot cargoes, fob \$/b



		naphtha	gasoil	jet kero	fuel oil 180 Cst	
2004	May	42.93	40.74	43.77	25.89	
	June	40.08	38.79	40.88	24.61	
	July	42.83	42.75	45.58	24.86	
	August	48.11	47.98	50.03	25.72	
	September	48.04	50.44	53.04	24.71	
	October	53.53	53.79	58.29	26.79	
	November	49.44	50.90	53.56	24.02	
	December	44.01	45.16	46.20	21.97	
	2005	January	44.99	45.60	47.68	25.20
		February	47.71	50.10	52.24	27.39
		March	54.66	59.83	63.74	29.44
		April	53.98	61.36	69.00	34.54
May		47.91	56.45	61.09	34.75	

na not available.

Source: Platts. Prices are average of available days.

OPEC names new head of data



Fuad Al-Zayer

has been appointed the new head of OPEC's Data Services Department. He replaces Dr Muhammed Al-Tayyeb who has come to the end of his five-year term of office. Al-Zayer officially assumed his new responsibilities on July 4, 2005.

Al-Zayer joins OPEC from Saudi Aramco where he has worked for the last 20 years providing IT and Data Services Solutions to the company. Fuad has extensive management experience and prior to that worked as an Information Technology (IT) engineer for the Arabian Bechtel Company in Saudi Arabia.

During his career at Saudi Aramco, Al-Zayer worked in several departments in the IT and Data Services area – most recently as IT Senior Consultant in the IT Planning Division where he was leading a corporate team to develop the Saudi Aramco Master Plan for IT. He also worked in the Corporate Planning Department as part of a corporate team to develop Saudi Aramco's Five-Year Business Plan and was part of the corporate initiative to strengthen the Strategic Planning element at Saudi Aramco.

Fuad has extensive experience in provid-

ing IT Technology and Data Services in the Oil Business. He also worked briefly in the United Kingdom where he was responsible for the engineering of a portion of a multi-billion dollar refinery project. Fuad also worked at Aramco Services Company in the United States, providing technical support to the IT organization as a technology link to the North American IT products and services marketplace. Al-Zayer holds a Bachelor of Science degree in Electrical Engineering received in 1981 from Bradley University in the US and a Masters in Industrial Management received in 1982 from the Central Michigan University also in the US.

He is a senior member of the Institute of Electrical and Electronic Engineers and has given different presentations on IT, Data Services and on the subject of Strategic Planning at various international forums.

Married with three children, aged 17, 16 and nine, Al-Zayer enjoys reading, writing, classical music and sports and is looking forward to a productive and dynamic assignment at the OPEC Secretariat and an enriching cultural experience living in Austria. ❀

Forthcoming events

Introduction to the natural gas industry ... from wellhead to burner-tip, July 18–19, 2005, Calgary, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street, NW Calgary T2L 2A6, Canada. Tel: +1 403 220 2357; fax: +1 403 284 181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca.

Corrosion monitoring, prevention and control, July 18–19, 2005, Kuala Lumpur, Malaysia. Details: Centre for Management Technology, Lot 7.03, 7th Floor, North Block, The Ampwalk, 218 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel: +60 3 2162 7322; fax: +60 3 2162 6393; e-mail: admin@cmtkl.com.my; Web site: www.cmtevents.com.

Contract risk management in upstream oil and gas, July 19–20, 2005, Houston, TX, USA. Details: IQPC Worldwide Ltd, 555 Route 1 South Iselin, NJ 08830 USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: enquire@oilandgasIQ.com; Web site: www.oilandgasIQ.com/2476a.

Multilateral wells, July 24–27, 2005, Bangkok, Thailand. Details: Society of Petroleum Engineers, Suite B–11–11, Level 11, Block B, Plaza Mont'Kiara, Jalan Bukit Kiara, Mont'Kiara, Kuala Lumpur 50480, Malaysia. Tel: +60 3 6201 2330; fax: +60 3 6201 3220; e-mail: spekl@spe.org; Web site: www.spe.org.

Continuous distillation in the refining and petrochemical industry, July 25–26, 2005, Kuala Lumpur, Malaysia. Details: Centre for Management Technology, Lot 7.03, 7th Floor, North Block, The Ampwalk, 218 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel: +60 3 2162 7322; fax: +60 3 2162 6393; e-mail: admin@cmtkl.com.my; Web site: www.cmtevents.com.

Oil and gas mini MBA, July 25–August 5, 2005, London, UK. Details: CWC School for Energy Ltd, 3 Tyers Gate, London SE1 3HX, UK. Tel: +44 20 7089 4200; fax: +44 20 7089 4201; e-mail: bookings@thecwcgroup.com; Web site: www.thecwcgroup.com.

LNG terminals China, July 26–27, 2005, Guangzhou City, China. Details: IQPC Worldwide Pte Ltd, 1 Shenton Way #13-07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6720 3804; e-mail: enquiry@iqpc.com.sg; Web site: www.iqpc.com.sg/AS-3105.

Drilling fluids and cuttings management, July 26–27, 2005, Houston, TX, USA. Details: IQPC Worldwide Ltd, 555 Route 1 South Iselin, NJ 08830, USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: enquire@oilandgasIQ.com; Web site: www.oilandgasIQ.com.

Sand control and management US 2005, July 26–27, 2005, Houston, TX, USA. Details: IQPC Worldwide Ltd, 150 Clove Road, PO Box 401, Little Falls, 07424-0401, USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: enquire@oilandgasIQ.com; Web site: www.oilandgasIQ.com/2446a.

Unconventional gas, July 26–27, 2005, Houston, TX, USA. Details: IQPC Worldwide Ltd, 555 Route 1 South Iselin, NJ 08830, USA. Tel: +1

973 256 0211; fax: +1 973 256 0205; e-mail: enquire@oilandgasIQ.com; Web site: www.oilandgasIQ.com.

Strategic asset management, July 26–27, 2005, Kuala Lumpur, Malaysia. Details: Centre for Management Technology, Lot 7.03, 7th Floor, North Block, The Ampwalk, 218 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel: +60 3 2162 7322; fax: +60 3 2162 6393; e-mail: admin@cmtkl.com.my; Web site: www.cmtevents.com.

Drilling safety management in oil and gas, July 26–27, 2005, Kuala Lumpur, Malaysia. Details: IQPC Worldwide Pte Ltd, 1 Shenton Way #13-07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6720 3804; e-mail: enquiry@iqpc.com.sg; Web site: www.iqpc.com.

Reducing exploratory uncertainty through effective basin analysis, July 26–27, 2005, Kuala Lumpur, Malaysia. Details: IQPC Worldwide Pte Ltd, 1 Shenton Way #13-07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6720 3804; e-mail: enquiry@iqpc.com.sg; Web site: www.iqpc.com.sg/AS-3095.

Wellbore stability in challenging reservoirs, July 28–29, 2005, Aberdeen, UK. Details: IQPC Worldwide Ltd, Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 20 7368 9300; fax: +44 20 7368 9301; e-mail: enquire@oilandgasIQ.com; Web site: www.oilandgasIQ.com/2494a.

Upstream government petroleum contracts, August 1–2, 2005, Rio de Janeiro, Brazil. Details: The Conference Connection Inc, PO Box 1736, Raffles City, 911758 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: psc@cconnection.org; Web site: www.cconnection.org.

Production sharing contracts and international petroleum fiscal systems, August 3–5, 2005, Rio de Janeiro, Brazil. Details: The Conference Connection Inc, PO Box 1736, Raffles City, 911758 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: psc@cconnection.org.

Natural gas market fundamentals, August 8–9, 2005, Calgary, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street, NW Calgary T2L 2A6, Canada. Tel: +1 403 220 2357; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca/Training.

Petrochemicals – from economics to markets, August 10–11, 2005, Singapore. Details: Centre for Management Technology, 80 Marine Parade Rd, #13-02 Parkway Parade, 449269 Singapore. Tel: +65 6345 7322; fax: +65 6345 5928; e-mail: nancy@cmtsp.com.sg; Web site: www.cmtevents.com.

Call for papers

2nd Kuwait international petroleum conference and exhibition, KIPCE 2005, December 10–12, 2005, Kuwait City, Kuwait. Details: Department of Petroleum Engineering, Kuwait University, PO Box 5969, Safat 13060, Kuwait. Tel: +965 481 1188-5212; fax: +965 484 9558; e-mail: algharaib@kuc01.kuniv.edu.kw; Web site: www.kipce.net. 

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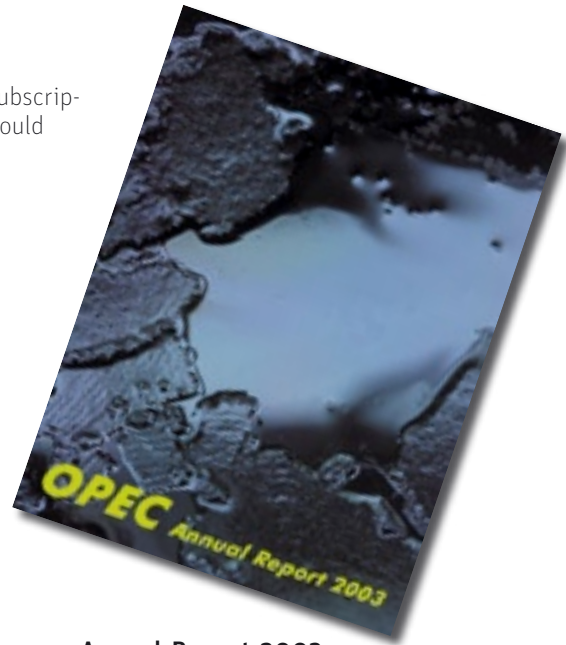
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