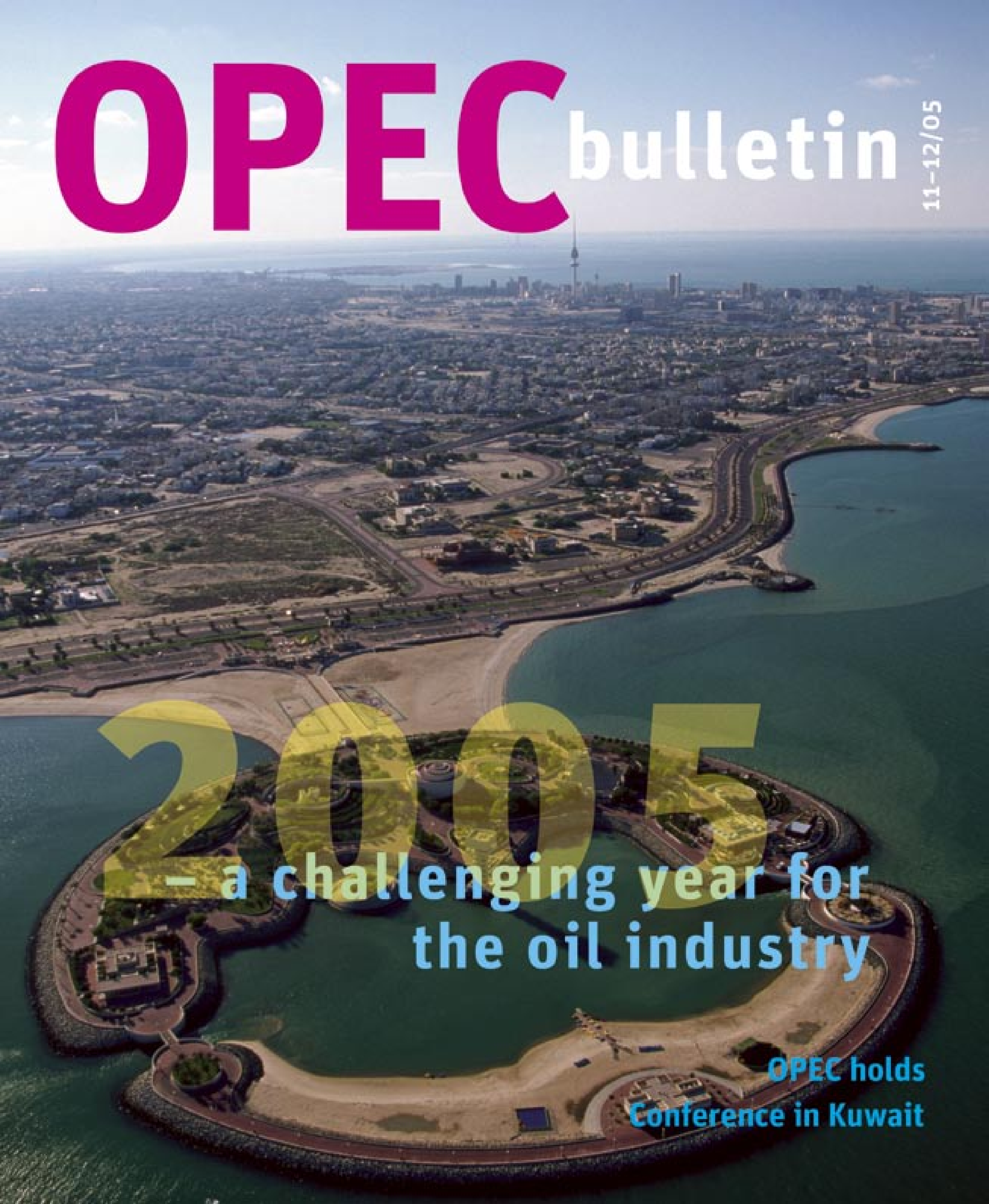
OPEC bulletin

11–12/05



2005 – a challenging year for the oil industry

OPEC holds Conference in Kuwait

institutionalizing dialogue

The Organization of the Petroleum Exporting Countries (OPEC) was set up in September 1960 as an inter-governmental organization to safeguard the interests and sovereign rights of its Member States. But from the outset, the five Founding Members, Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, realized one very important fact — that in order to successfully prosecute their activities the relationship with their clients — the consumers — would need to be professional and candid, yet agreeable and cordial. That is why, since that ground-breaking day in Baghdad over 45 years ago, OPEC has been pursuing the road of co-operation with the principal actors that make up the international oil market.

The Organization, now with 11 Members, remains convinced that only through constructive, meaningful and regular dialogue can the necessary awareness and understanding be reached with the relevant parties on what conditions are necessary for attaining a stable oil market with fair and reasonable prices. And, as we embark on another new year, we can safely say that the foundations for such co-operation are now firmly established. In fact, 2005 might prove to be a landmark year with regard to dialogue between OPEC and other producers, and particularly with the consumers.

The ball started rolling in January with the first roundtable of Asian oil and gas ministers in New Delhi, aimed at promoting producer-consumer relations at the heart of the world's fastest-growing region. In May, the third Joint Workshop between OPEC and the Paris-based International Energy Agency (IEA) was held in Kuwait City. This proved to be a substantive follow-up to the first two workshops held in June 2003 and April 2004. Then, in June 2005, we saw a significant breakthrough in the energy co-operation talks with the first-ever Ministerial-level meeting between OPEC and the European Union (EU). Held in Brussels, the talks were really a means for testing the waters, yet they proved so successful that a second ministerial meeting was held in early December, this time in Vienna. Just before this gathering, the two sides staged their first joint roundtable, which looked at oil market developments.

To cap off an eventful year, OPEC forged a formal energy dialogue with China in Beijing, followed within days by a similar initiative with the Russian Federation in Moscow. Add to all this the inauguration of the official headquarters of the International Energy Forum (IEF) in Riyadh, Saudi Arabia in September, the purpose of which is to promote and expand producer-consumer co-operation, and the choice of Abu Dhabi, the capital of an OPEC Member Country, for the launching of the IEA's World Energy Outlook 2005, and one can fully appreciate the tremendous strides that have been made in enhancing global energy ties in just 12 months.

Obviously, OPEC is keen to build on last year's momentum and 2006 promises to be another busy year of relations-building, especially with the consumers. The Organization will attend the third ministerial meeting of the EU-OPEC Energy Dialogue in Brussels in June. The two sides will also hold a meeting on energy technologies and convene a second roundtable on the impact of energy policies on both supply and demand. There are also proposals for a study on refining, another workshop on the role of the financial markets, while moves will be advanced towards setting up an EU-OPEC technology centre, which Kuwait has already indicated it wants to host and sponsor.

All in all, it really is an exciting time, especially when one considers that just a few years ago this kind of initiative was a mere pipedream, such was the extent of the divide between the two sides. But the success of 2005 is testament to the new awareness that such an approach — sitting down together and talking about each other's needs — is the best way to manage a commodity that is complex, volatile and extremely unpredictable, yet essential for global economic growth.

OPEC, for its part, will continue to pursue the road of co-operation. It is confident that the progress it has been instrumental in bringing about over the past year or so will be sustained and expanded so that the petroleum industry can go from strength to strength and bring stability and prosperity to producers and consumers alike. At the same time, we will finally be able to lay to rest that sense of confrontation and those feelings of mistrust that for so long prevented this kind of initiative from coming to fruition.

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Kuwait City hosts 138th (Extraordinary) Meeting of the OPEC Conference
(see Conference Notes, p4)
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Membership and aims
OPEC is a permanent, intergovernmental Organization, established in Baghdad, September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization now comprises 11 Members: Qatar joined in 1961; Indonesia and SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); and Nigeria (1971). Ecuador joined the Organization in 1973 and left in 1992; Gabon joined in 1975 and left in 1995.

Contributions

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

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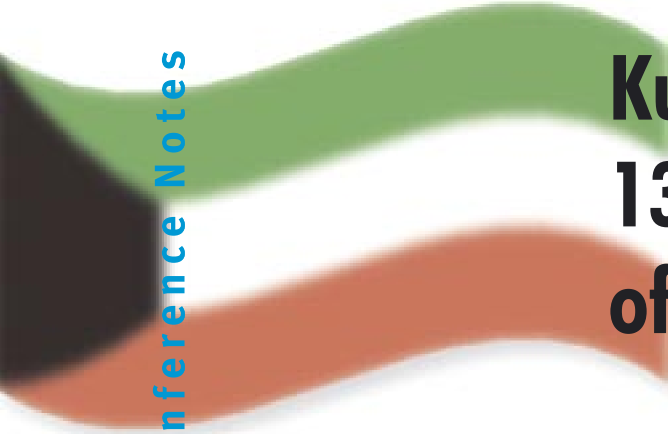


Kuwait provides setting for 138th (Extraordinary) Meeting of the OPEC Conference

OPEC made a welcome return to Kuwait, one of its Founding Members, on December 12, 2005 — almost four decades after the first ministerial visit by the Organization. The first time the Gulf state had the opportunity to host an OPEC Meeting was in December 1966 when the 12th Meeting of the Conference was held there. Kuwait, run as a social welfare state, with an open competitive economy, has succeeded in transforming itself into a modern nation, following the discovery of oil in commercial quantities in 1938. The setting, the beauty, the deep historical traditions all presented a sense of adoration in the eyes of the delegates and visiting international journalists, some of whom were visiting the country for the very first time. And one has to pay tribute to the excellent preparations and arrangements made for the Meeting — from the logistics, to the security, and, on the other side of the coin, the entertainment and accommodation offered. Indeed, no single detail was spared to ensure that the Conference ran smoothly and that a lasting impression of the magnetism of this captivating emirate was left on the minds of all visitors.

In this special feature, **Umar Gbobe Aminu**, Bulletin Editor and Senior Editorial Co-ordinator, reports on the Meeting, while we also look at the country's history, its oil development and its culture.

Above: President of the OPEC Conference, and Kuwaiti Minister of Energy, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah.

Above left: Kuwaiti Prime Minister Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, who officially opened the Conference.

The 138th (Extraordinary) Meeting of the OPEC Conference in Kuwait provided yet another opportunity for international journalists, including those from OPEC Member Countries and from around the Middle East, Africa, and Asia, to meet and rub minds away from the enclave of the OPEC Secretariat in Vienna, where such Meetings usually convene.

The invitation by the government of Kuwait to OPEC to hold the Meeting in the country was the latest in a number of Conference invitations by OPEC Member States. It was also at a time when its Energy Minister, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, held the annual rotational Presidency of the Conference, as well as being Secretary General.

Iran made a similar gesture when it hosted the 135th Meeting of the Conference in the ancient city of Isfahan in March 2005. In February 2004, Algeria hosted the 129th (Extraordinary) Meeting of the Conference, while Qatar staged the 125th (Extraordinary) Conference in June 2003. And the initiative is set to continue with both Venezuela and Nigeria indicating their willingness to host an OPEC Meeting in the coming years.

Closer to the people

Holding such OPEC Meetings in Member Countries has helped in bringing the Organization closer to the people of its Member States. For the period of the Conference, the media of the host country learns a lot about the Organization from both the literature brought by the OPEC Secretariat, as well as interviews and commentaries by ministers and analysts. These are disseminated to the Member Country's public, thus making them better informed about the Organization.

Conference President outlines challenges of 2005

Addressing the opening of the Meeting in Kuwait, Conference President, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, outlined some of the key challenges facing the international oil market and OPEC's efforts at addressing them.

He said that maintaining a stable oil market had been OPEC's key preoccupation for the 45 years of its existence — a resolve

Sheikh Al-Sabah (l) and Dr Daukoru.

UAE Energy Minister, Mohamed Bin Dhaen Al Hamli (l), with Conference Observer, Oman's Undersecretary of the Ministry of Oil and Gas, Nasser bin Khamis Al Jashmi.

Kuwaiti Prime Minister Al Sabah (r), and Saudi Minister of Petroleum and Mineral Resources, Ali I Naimi.

Algerian Minister of Energy and Mines, Dr Chakib Khelil (l), with members of his delegation.

Above: Indonesian Minister of Energy and Mineral Resources, Dr Purnomo Yusgiantoro (l), with Venezuelan Minister of Energy & Petroleum, Rafael Ramirez (c) and Venezuelan OPEC Governor, Iván A Orellana.

Left: Kuwaiti Governor for OPEC, Siham Abdulrazzak Razzouqi (c), with members of the Kuwaiti Delegation.

that today remained unshaken. While appraising some of the difficulties the international oil market had faced in the course of the year, Sheikh Al-Sabah commended the collective resolve of OPEC's Heads of Delegation and the Secretariat in meeting the "enormous" challenges of the past months. He described OPEC's September 2005 decision to offer two million barrels per day of spare capacity to the market, should the need arise for extra supplies, following the devastation caused by the hurricanes in the Americas, as one good example of OPEC's standing commitment to oil market stability.

While acknowledging the need to increase investment in developing additional oil production capacity, as a means to reducing uncertainty in the market, he stressed the importance of promoting co-operation among all oil producers, as well as enhancing institutional co-operation with related specialized agencies, institutions and organizations in the oil-consuming countries.

Sheikh Al-Sabah was quick to state that the rise seen in oil prices of late was a traditional development for this time of the year, especially with the growth in demand for heating oil in the key oil-consuming countries, noting that OPEC had already implemented a series of market-stabilization measures to ensure adequate supplies of oil.

He said one of the major challenges facing the oil market today rested on the need to increase upstream investment in additional capacity. However, he pointed to the fact that such investment options had to be carefully measured in relation to future oil demand.

The present situation, where crude oil stocks' availability outstripped demand, with prices remaining high, could only be best explained by the interactive influence of other market-related distortions, part of which was the constraint in refining capacity in the major oil-consuming countries.

Although OPEC believed that solving these downstream refining constraints was essentially the responsibility of the consumer nations, nonetheless, some of its Member States had already earmarked investment towards helping the refining sector. This was also seen as an integral approach by Members to diversifying their activities towards a much more vertical system, not only as crude producers, but also as providers of finished products.

Below: Qatar's Second Deputy Prime Minister and Minister of Energy and Industry, HE Abdullah bin Hamad Al Attiyah (r), with OPEC Governor for Qatar, Abdulla H Salatt.

Libyan Secretary of the People's Committee for Energy, Dr Fathi Hamed Ben Shatwan (c), with Libyan OPEC Governor, Hammouda M El-Aswad (r).

Iran's Minister of Petroleum, Sayed Kazem Vaziri Hamaneh (l), with the Iranian OPEC Governor, Hossein Kazempour Ardebili (c).

Iraq's Minister of Oil, Dr Ibrahim Bahr Alolom (c), with his delegation and OPEC Governor, Dr Mussab H Al-Dujayli (second right).

Conference decides to leave OPEC output unchanged

The decision by the Conference to leave its output unchanged at 28.0m b/d (excluding Iraq) sent reassuring signals to the market with prices remaining below $60/b. The agreement by the Ministers came a few hours into their official talks and was based on a broad understanding of the need to maintain current output, OPEC's highest in almost 25 years. The Conference cited availability of stocks and the imperative to keep supply steady through the winter months as key drivers behind the Ministers' decision. It however noted that the seasonal demand outlook for the second and third quarters of 2006 would be a source of concern and to this end decided that an (Extraordinary) Meeting of the Conference should be held on January 31, 2006, to review the market situation, with a view to taking further action where necessary. The Ministers pointed out that the OPEC spare capacity that had been offered to the market at the last Conference had not been used in view of the sufficient stock levels.

The Conference reiterated its call for consumers and the industry to join efforts to alleviate the refinery bottlenecks that still existed in the marketplace. In connection with this, the Ministers welcomed the recommendation made by the EU/OPEC Energy Dialogue to undertake joint studies on refining and financial markets in the coming year, in order to fully appreciate their impact on the oil market's environment. The Ministers indicated that as part of OPEC's proactive communication approach, data and information relating to capacity

Sudan's Minister of Energy & Mineral Resources, Dr Awad Ahmed Al Jazz (c), Observer to the Conference, with his delegation.

Fellow Observer, Egypt's Undersecretary & Head of the Technical Office of the Minister of Petroleum, Abdullah Ghorab (l).

Siham Razzouqi with Ali Naimi.

Dr Purnomo Yusgiantoro (l), pictured with Mohamed Bin Dhaen Al Hamli.

L–r: Dr Edmund Maduabebe Daukoru, OAPEC Secretary General, Abdulaziz Al-Turki, Ali I Naimi.

Dr Chakib Khelil with Nigerian OPEC Governor, Ammuna Lawan Ali.

Dr Awad Ahmed Al Jazz with Dr Fathi Hamed Ben Shatwan.

expansion plans and downstream investments were to be made available.

The issue of appointing a new OPEC Secretary General was again deferred. Incoming Conference President, Nigerian Minister of State for Petroleum Resources, Dr Edmund Maduabebe Daukoru, will assume the responsibilities of the Secretary General from January 1, 2006.

Abdullah bin Hamad Al Attiyah (c) with Mohamed Bin Dhaen Al Hamli (r).

Below: Head of the Nigerian Mission in Kuwait, Abdullahi B Gwary (l), and OPEC National Representative, Mohammed Barkindo.

KPC staff members enjoying the festivities.

Kuwaiti Prime Minister reiterates commitment to OPEC policies

Kuwaiti Prime Minister Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, in his opening remarks to the Conference, reiterated the call for joint co-operation between producers and consumers towards ensuring the stability of the oil market "especially that we are in an age in which countries and nations of the world depend on each other for achieving global prosperity."

He cited the establishment of the International Energy Forum (IEF) Secretariat in Riyadh in November 2005 as "the best evidence for the significance of fruitful co-operation and dialogue" in meeting the goals of all players in the oil industry — producers, consumers and the industry.

He said this joint responsibility of co-operation required the governments of consuming countries to help take the burden off their citizens by adopting a fairer tax policy that would reduce prices of fuel products.

Giving an overview of Kuwait's development over the years as one of OPEC's Founding Members, the Kuwaiti Prime

Sheikh Al-Sabah (r) speaking to the press.

Mohamed Bin Dhaen Al Hamli (l) talking to journalists.

Above: Ali I Naimi (r) speaking with the media, with Saudi Arabia's Assistant Minister of Petroleum and Mineral Resources, HRH Prince Abdulaziz Bin Salman Al Saud (c).

Left: Prof Robert Mabro (l), Abdulaziz Al-Turki (c), and Acting for the OPEC Secretary General, Dr Adnan Shihab-Eldin.

Rafael Ramirez (c) answering journalists' questions.

Sheikh Al-Sabah autographs **Oil in the 21st Century: Issues, Challenges and Opportunities,** *edited by the President and former Director of the Oxford Institute for Energy Studies, Professor Robert Mabro, and published by OPEC. Read more about this book in the next edition of the OPEC Bulletin.*

Minister said the country was committed to supporting OPEC and complying with its market development strategies in the overall interest of the international oil market.

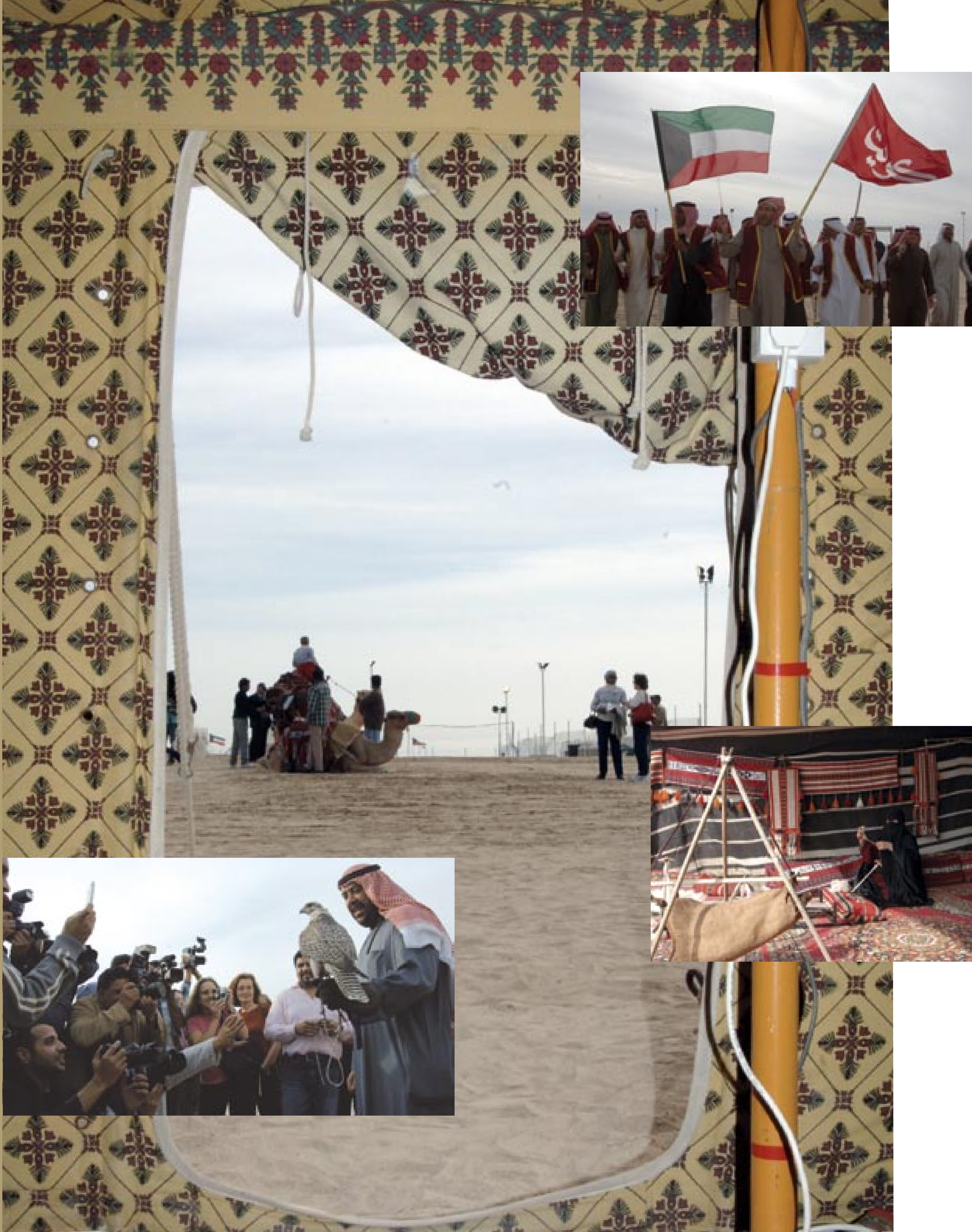
He said Kuwait, driven by a desire to expand its wealth in the oil sector, had embarked on a series of developments, part of which included "implementing measures to build a fourth refinery with a capacity of 1.5m b/d, as well as entering into joint refining projects in key consuming countries, as part of an overall strategy to support oil market stability."

The Prime Minister pointed to his country's policy on conserving the environment and its ratification of the Framework Convention on Climate Change and the Kyoto Protocol, stating that a standing fund to support research in technology for cleaner oil products and reducing emissions had been put in place.

He concluded by saying that his country was prepared to set up a regional centre for energy technology to serve these objectives.

Sheikh Al Sabah with members of the media.

Sheikh Al Sabah pictured here with OPEC and KPC staff.



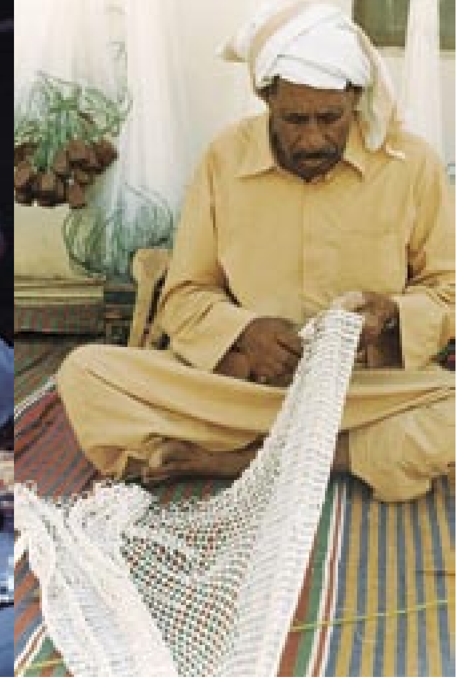
History and culture

Pictures of old Kuwait City.

The birth of Kuwait dates back more than 390 years to 1613. But, initially, it was the sea and not crude oil that fuelled the country's economy. Its strategic location and natural harbour in the Gulf helped it to develop as a major port on several international trading routes. In the late 18th century and early 19th century, the country became an important centre for pearl diving. Hundreds of ships moved to and from the country as the lucrative industry entered and enjoyed a golden era. This also led to thriving shipbuilding activities in Kuwait. Developments inland proved to be equally as successful for the country as Kuwaiti merchants established trading routes for their camel caravans that carried the imported goods delivered to the port to the urban centres in the interior, including Riyadh in Saudi Arabia.

At the same time, Kuwait's population was growing and with it came the first advanced services. A good example of this progress towards modernization was the opening of the first school utilizing a modern educational structure in 1911, which taught merchants' children the basic skills of reading, writing and some arithmetic. Ten years later, a second school materialized marking the true beginning of the country's educational system — with the discovery of oil still nowhere in sight.

Kuwait continued to prosper throughout the 19th century as agreements were signed with influential trading partners and many people arrived to settle in the country,



Falconry is a major pastime in Kuwait. Here a young boy tends to a bird.

A market trader makes some repairs to one of his nets.

attracted by all it had to offer. There was a fall off in trade from the 1920s onwards, due primarily to the Wall Street Crash and the accompanying worldwide recession, which reduced Kuwait's importance as a major link in international trading. Its pearling industry, which once saw 800 ships in service during the height of operations, particularly suffered during this time as global demand for luxury goods slumped. However, Kuwait's fortunes were to take a dramatic turn with the onset of the oil boom, which saw the country transform from a nation of fishermen and traders into one of the richest countries in the world with state-of-the-art amenities, infrastructure and technological know-how.

However, even though the country has seen great change and development over the years, primarily due to the discovery of oil, Kuwaiti traditions remain true to their origins. The people of the country show great pride in their history and heritage and the modernization and advancement of the nation have not affected their cultural links which remain intact and firmly rooted in the past.

The modern state of Kuwait, with Islam as the guiding force, is steeped in Arab culture and traditions. The government has taken steps to ensure that monuments, artifacts and historical documents are all preserved for future generations. The havoc and destruction inflicted on the country by Iraqi troops, when they temporarily occupied Kuwait in 1990–91, was a stern test for the people of the country, but they showed a resilience and determination that helped the country bounce back quickly to reach new heights. Today, the architecture that greets visitors to Kuwait City combines modern design with historical art, but still very much reflects the atmosphere of the traditional Kuwait of old.

Before the advent of oil, pearling was a major industry in Kuwait. Below is a typical old pearling vessel, while above a worker cuts open an oyster shell in his search for pearls.

Profile

Oil history

Housing erected for KOC employees in Ahmadi in 1940.

Kuwait's first production well in the Burgan oil field in 1938.

Oil was discovered in Kuwait in 1938 by the Kuwait Oil Company (KOC), a joint venture of Anglo-Persian Oil (now BP) and Gulf Oil (now Chevron) that was formed in 1934. However, due to World War II, the commercial development of the oil discovery was delayed, which meant that the country's exports did not begin until June 1946. Over the next few decades, extensive developments occurred both in the upstream and downstream sectors of the country's oil industry. Refining operations were started by KOC in 1949. In 1957, the Kuwait Oil Tanker Company (KOTC) became a private-sector firm, while three years later the Kuwait National Petroleum Company (KNPC) was formed as a joint venture between the government and the private sector. Then, in 1963, the Petrochemicals Industries Company (PIC) was set up, also as a joint exercise.

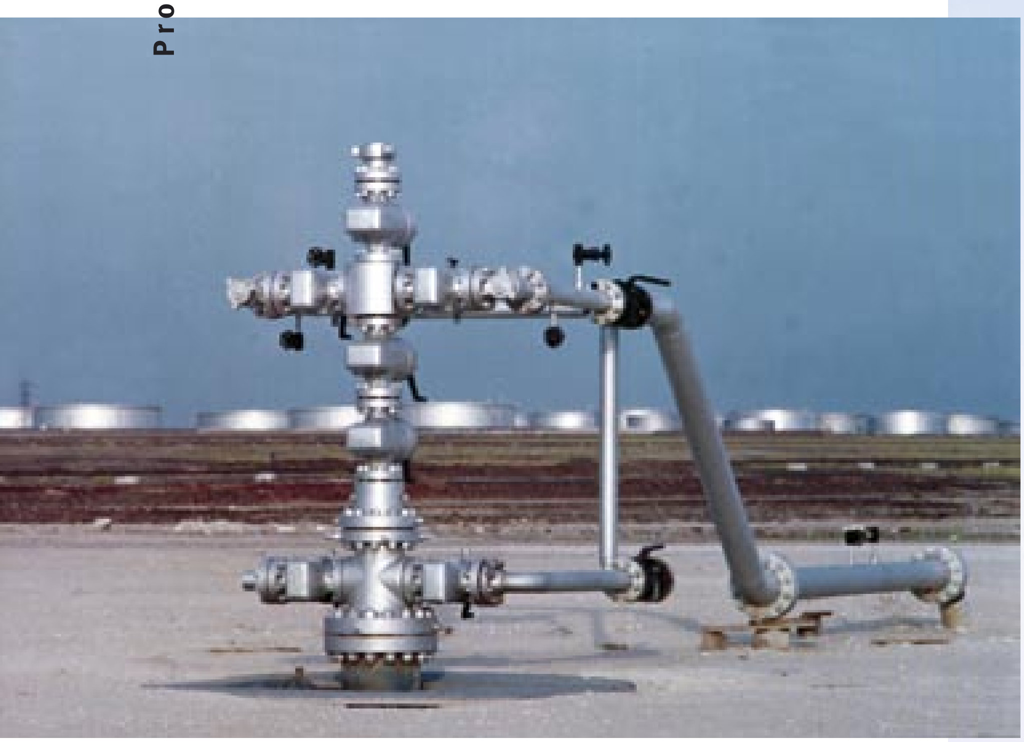
The year 1974 marked a turning point for Kuwait's oil industry when the government acquired 60 per cent

Right: The late Sheikh Ahmad Al Jaber Al Sabah turning the silver wheel to start Kuwait's first crude oil shipment on June 30, 1946.

Left: Another view of Kuwait old city; below: KOC's former main office.

of KOC from BP and Gulf Oil. In addition, the Supreme Petroleum Council (SPC) was formed to oversee the country's oil interests. The following year, the Ministry of Oil was established in its own right and became responsible for the general supervision of all oil operations — exploration, excavation, production, shipment and export.

The private sector's 40 per cent of KNPC was then acquired, followed by the remaining 40 per cent of KOC. In 1976, the government acquired all of PIC and 49 per cent of KOTC. With the acquisition in 1979 of the remaining 51 per cent of KOTC, the four major operating companies — KOC, KNPC, KOTC and PIC — were fully under state control. For the first time in the country's history, the major elements that made up Kuwait's oil industry were in the hands of its people. In 1980, the Kuwait Petroleum Corporation (KPC) was formed, bringing all oil industry operations under one holding company, thus enabling more effective control.

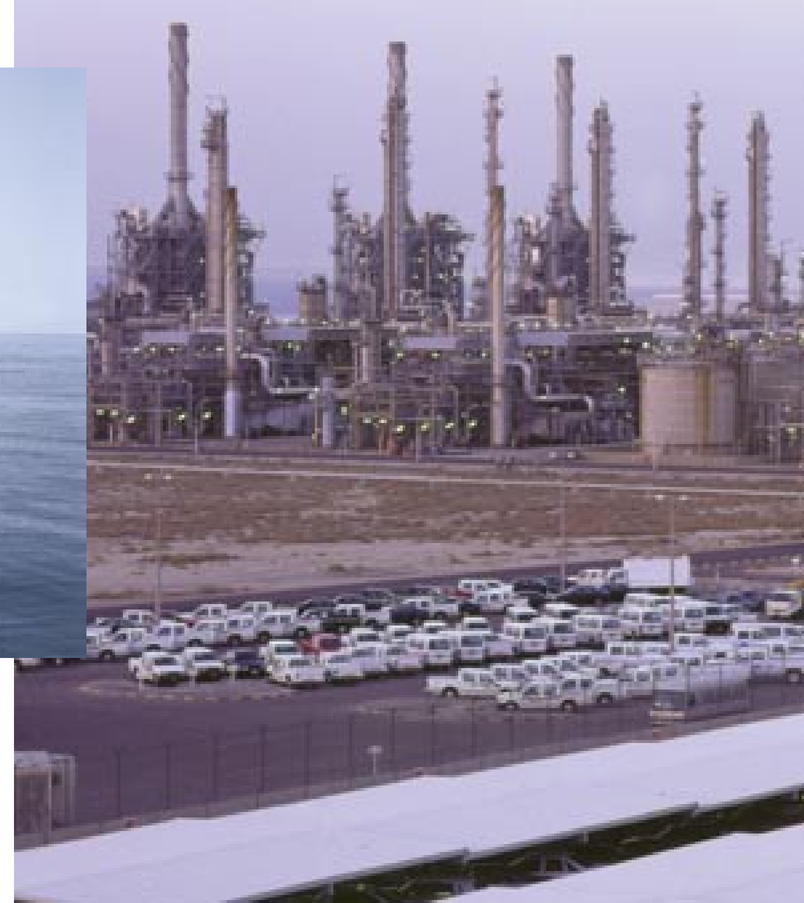


The formation of KPC is regarded as a milestone in the history of the Kuwaiti oil sector. Today, it is one of the world's leading and most reliable suppliers of energy with operations spanning six continents. It operates through a series of specialized subsidiaries, with activities encompassing all aspects of the hydrocarbons industry.

During the 1970s and 1980s, Kuwait moved heavily into downstream activities, including local refining, transport, overseas refining, and distribution of products, through the acquisition of foreign assets. It also embarked on overseas exploration and production.

However, in August 1990 Kuwait suffered a major setback when it was invaded and occupied by its neighbour, Iraq. During this occupation, Kuwait's oil industry suffered extensive damage with several hundred oil wells and gathering stations completely destroyed. However, by mid-1994, nominal crude production capacity was back to around 2.4m b/d, while refinery capacity recovered to pre-crisis levels.

Today, Kuwait has recovered fully from the devastation of the Gulf crisis such has been the level of commitment and determination shown in reviving the oil sector. And the country's oil future is very much secure. Kuwait possesses estimated crude oil reserves of 101.5 billion barrels, around 10 per cent of the global total. These deposits are expected to last more than 100 years at current production levels. In addition, its gas reserves are put at almost 1.6 trillion cubic metres, representing over one per cent of the world total.



Kuwait's economy is still heavily dependent on oil export revenues. But the government is mindful of the dangers of relying solely on its oil wealth for the future. It has always been keen to diversify its economy away from near-complete dependence on oil revenues. Currently, the country relies on oil revenues for around 90–95 per cent of total export earnings. However, around 10 per cent of this is channeled into a 'Future Generations Fund' for the day when the oil income runs out.

Creating jobs for Kuwaitis is a major objective of the government, particularly since around 65 per cent of the population is under the age of 25. The country hopes to attract additional foreign investment and has started a programme to privatize non-oil state-owned businesses.

Kuwait, as one of the five Founding Members of OPEC, is a leading advocate of oil market stability and establishing fair and reasonable prices. It continues to play a leading role — both within and outside OPEC — in supporting all efforts aimed at enhancing co-operation in the oil industry and boosting co-ordination with all relevant parties to achieve that equilibrium.

Photographs on pages 14–19 courtesy of Ministry of Energy, Kuwait.

Feature

EU-OPEC

forge ahead with dynamic co-operation drive

Second Ministerial Meeting stresses need for effective framework for Energy Dialogue


Reuters

United Kingdom Energy Minister and President of the EU Council, Malcolm Wicks (l) and OPEC Conference President and Minister of Energy of Kuwait, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah.

Above from l–r: *European Commissioner for Energy, Andris Piebalgs; Alternate OPEC Conference President and Minister of State for Petroleum Resources of Nigeria, Dr Edmund Maduabebe Daukoru; the UK's Malcolm Wicks; and Sheikh Al-Sabah.*

OPEC's relations with the European Union (EU) took another giant step forward in December 2005 with the Second Ministerial Meeting of the two sides' Energy Dialogue hailed as a great success.

The talks, this time held at the OPEC Secretariat in Vienna, marked the second time in just six months that the two organizations came together at ministerial level, with delegates openly stating that they were keen to capitalize on the momentum already gained in the producer-consumer discussions since the first Ministerial Meeting in Brussels in June.

The OPEC delegation to the Vienna gathering was headed by its Conference President and Minister of Energy of Kuwait, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah. Also in the delegation were the Alternate President and Minister of State for Petroleum Resources of Nigeria, Dr Edmund Maduabebe Daukoru, the OPEC Governor for Kuwait, Siham Abdulrazzak Razzouqi, Acting for the OPEC Secretary General and Director of the Secretariat's Research Division, Dr Adnan Shihab-Eldin, and members of the OPEC Secretariat Management.

The EU team was led by UK Energy Minister and President of the EU Council, Malcolm Wicks. It also com-

EU Delegates at the OPEC Secretariat participating in the Second Ministerial Meeting of the EU-OPEC Dialogue on December 2, 2005.

Members of the OPEC team at the meeting.

Above left: Austria's Minister of Economy and Labour, Dr Martin Bartenstein (r) with Sheikh Al-Sabah.

Above right: Jean MacNaughton (l) of the UK delegation with Acting for the OPEC Secretary General, Dr Adnan Shihab-Eldin.

prised the European Commissioner for Energy, Andris Piebalgs, and Austria's Minister of Economy and Labour, Dr Martin Bartenstein.

According to a joint press release issued after the one-day Meeting, the Dialogue was seen by the EU as part of a broader approach to strengthen energy relationships with the main oil and gas suppliers, and by OPEC as a significant further step in its continued efforts to enhance understanding and co-operation among oil producers and consumers.

During their respective presentations, both sides emphasized the importance of maintaining the Dialogue, while recognizing the importance of formulating an effective framework that could enable an exchange of views on energy issues of common interest.

Good progress made

Such a move, said the release, had the potential for contributing to stability, transparency and predictability in the international oil market.

Delegates highlighted the good progress made within the initiative since June and reviewed the two sides' first Joint Roundtable held in Vienna in November, which looked at oil market developments and future prospects.

Two areas of mutual interest for further discussion were pinpointed at the roundtable talks — on the refining sector and financial markets. It was recommended by the Ministers that a study on refining be undertaken and that a workshop on the financial markets be organized.

Turning to the oil market in general, they reiterated the importance of market stability and reasonable prices for both producers and consumers, for the world economy, and especially the economies of the developing countries.

"Extreme prices in either direction over a sustained period are potentially damaging and, therefore, not desirable," said the joint press release.

Delegates confirmed not only the importance of mobilizing investment, both in the upstream and downstream, and ensuring adequate spare capacity and stocks, but also the need to reduce uncertainties associated with the level of future oil demand.

They agreed that publication by OPEC and other producers of information about their investment plans in upstream and downstream activities was welcomed as a further means of contributing to market stability, as would greater clarity in the demand outlook.

The Ministers recognized that the serious tightness in the global refinery system would continue to strain market stability in the next few years, a situation that called for more efforts to create an environment that promoted downstream investment in the major consuming countries and regions.

The Energy Dialogue's work programme for 2006 was discussed, in particular preparations for a meeting on energy technologies, with a focus on carbon capture and storage, in conjunction with enhanced oil recovery, as well as a second roundtable on the impact of energy policies on both demand and supply.

In order to enhance co-operation on technology, the Ministers also explored the possibility of establishing an EU-OPEC technology centre, a proposal that Kuwait said it was ready to move forward with and provide financing for.

The Ministers also took note of the efforts being made to develop the Commission's internal energy market observation system and agreed to explore co-operation possibilities.

Need for dialogue

The Third Ministerial Meeting of the Dialogue will be held in June 2006 in Brussels, with a view to following a cycle of yearly meetings at ministerial level.

At the end of the Vienna Meeting, Nigeria's Daukoru told a press conference that the talks had been most satisfying. He pointed out that the first Ministerial Meeting in Brussels was more or less exploratory — to see whether there was a basis for the Dialogue.

"The fact that the second meeting has been held in the same year shows there is an acceptance from both sides that there is a need for this kind of dialogue.

"We have looked at supply and demand, price levels, and the two sides agree that a lot more needs to be done to ensure there is a sufficient supply cushion, not only to stabilize the market, but also to respond to any future emergencies, such as we have seen with the hurricanes in the US."

Daukoru said they had called for new investment to secure the future, both for upstream and downstream activities, and particularly for the downstream where refining constraints and bottlenecks had been the cause of spikes in oil prices.

"We will look towards the possibility of harmonizing the policies of the EU countries and OPEC States — this is essential," he affirmed.

Daukoru noted that the EU was in the process of formulating a Green Paper on energy issues and OPEC would be very interested to see the outcome of this, in particular regarding increased certainly over future demand levels, against which OPEC had to plan its future capacity expansions.

Dr Edmund Maduabebe Daukoru (r) with Dr Martin Bartenstein.

Malcolm Wicks being interviewed after the meeting for the OPEC Web site live streaming.

"This has been altogether a very useful meeting and we look forward to building on this with an agenda set out for next year and early in 2007, which is an expression of the confidence we have in the Dialogue and the vision under which both sides and the global economy stand to benefit from immensely.

"We hope that in the months and years ahead this Dialogue will help to influence the global oil market and global energy security," he added.

Energy Commissioner Piebalgs told reporters that strengthening co-operation with the main oil suppliers, in particular OPEC, was a key part of EU energy policy.

The main challenge and common objective was to ensure oil market transparency, predictability and stability, he maintained.

"I am particularly pleased with this Dialogue — it has already achieved concrete results. The recent workshop on oil market developments helped to identify areas of further co-operation, such as refining and the financial markets. This is the most dynamic dialogue the EU is having on energy issues right now," he stressed.

Piebalgs said the main reason for the Dialogue was to ascertain the supply and demand balance — for the EU to be able to say more clearly what its demand would be so that suppliers like OPEC could get the supply right.

"We must find the right balance so that the producers will know how much to invest in capacity. We must also do the same for the downstream and refining so that the bottlenecks do not occur," he declared.

UK Energy Minister Wicks, in also endorsing the success of the Dialogue, said the world had recently lived through the devastating impact of the hurricanes in the US which had highlighted the interdependence of the global energy market and the need for better relations between producers and consumers.

"This Dialogue is an important new forum for improving understanding. We had very informative and constructive discussions today," he said.

Wicks stated that continued growing energy demand in countries such as China, where demand could be expanding by as much as 15 per cent a year, India and other countries, highlighted the need for greater investment and transparency. "There are immense challenges for all of us," he stressed.

Greater transparency

The Minister, speaking on behalf of the EU Presidency, which the UK held in the second half of 2005, said he had been encouraged by OPEC's plans to expand production capacity and refining.

"We also welcome OPEC's commitment to work with others to achieve greater transparency.

"What we do need to do is to ensure there is adequate supply of energy sources and I am very pleased with what I have heard from OPEC. This is an important issue. We need a wide-ranging agenda that has to include in the West energy efficiency, new technology, and we have to make sure there is adequate supply," he said.

OPEC Conference President, Sheikh Al-Sabah, speaking to journalists after the press conference.

The Meeting, said Wicks, had seen two very specific and positive developments for pursuing areas of mutual interest between the two sides in the future, referring to the joint study on the refining industry and the workshop on financial markets.

Speaking on the proposal for an EU-OPEC energy technology centre, he said that certainly the time had come to "develop our understanding and our practice of technology that can help us get the balance right between energy supply and the challenge of climate change."

He said carbon capture and storage was one particular area for greater co-operation.

"I have had talks with my Norwegian counterpart to discuss the possibility of creating sub-sea (carbon) storage in the North Sea. I know there is particular interest in OPEC Countries in these new technologies," he noted.

Wicks said preparations were underway for an EU-OPEC meeting in this area during 2006.

"This will be an immensely useful contribution to worldwide efforts in this area. The challenge of climate change is relevant to all countries, be they producers or consumers, and I have been encouraged by the interest shown by OPEC Countries in clean-energy technologies.

"We are into chapter one with the technology question with regards to carbon sequestration, capture, or abatement — there is good practice already internationally, but not enough of it.

"We now need to move ahead in leaps and bounds in terms of larger-scale demonstration. A technology centre could be helpful, particularly if it can attract some of the world's best scientists and engineers and people from the industry to it, or to collaborate with it."

Wicks said there was now a desire to move ahead to see how they could apply the technology. "Time is not on our side and we know where climate change is marching to. We live in a world that is going to use more coal, oil and gas in the future and we must look at ways of supplying that energy without contributing to destroying the planet. This is the greatest challenge facing all of us," he professed.

Wicks said that even though relations between the EU and OPEC had always been good, a few years ago you would not have had this level of dialogue taking place.

"And now we are meeting in a spirit of co-operation and goodwill and what is encouraging is the way all the key players in the EU and OPEC are not only talking about energy policy, but also climate change," he added.

EU-OPEC co-operation a big challenge "but we are up to it"— Al-Sabah

OPEC Conference President, Sheikh Al-Sabah (r) with Alternate President, Dr Daukoru.

"Co-operation and dialogue do not happen by chance. They are the result of inspiration, vision, concern, open-mindedness, flexibility, dedication, hard work and other attributes ..."

Excerpts of the opening statements by OPEC Conference President and Kuwaiti Minister of Energy, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, and the Alternate President of the OPEC Conference and Minister of State for Petroleum Resources of Nigeria, Dr Edmund Maduabebe Daukoru, to the Second Ministerial Meeting of the EU-OPEC Energy Dialogue.

Today's Meeting comes six months after the inaugural event in Brussels in June 2005. That Meeting provided us with the opportunity to set priorities on issues of the greatest mutual concern to our two organizations. We also had the opportunity to learn more about each other and the way we operate. This is very important when establishing a long-term relationship. Since then, much work has been carried out behind the scenes in both Brussels and Vienna, with the intention of moving the Dialogue forward in a timely and effective manner, in accordance with the decisions reached six months ago. The purpose has been to cultivate a dialogue that addresses practical issues in an objective and co-operative manner and, at the same time, is forward-looking in its scope, realistic in its approach and effective in its execution.

The most visible evidence of the hard work undertaken was the holding of the Dialogue's first Joint Roundtable in Vienna, when the assembled experts from both the EU and OPEC, as well as external financial specialists, examined oil market developments in greater depth. They identified two areas of interest, namely the refining sector and financial markets, both of which were seen to influence the volatility that has gripped the market recently. The report on the Roundtable will be reviewed at today's meeting.

Other important advances in producer-consumer dialogue have been taking place elsewhere during this period. Of particular relevance to today's meeting was the formal inauguration of the International Energy Forum's Secretariat in Riyadh, Saudi Arabia. At the same event, the Joint Oil Data Initiative (JODI) database was also launched, and both the OPEC Secretariat and Eurostat, the statistical arm of the EU, together with four other international organizations, have been behind the development of this facility, which provides data on oil, gas and refined product output, stocks and demand from more than 90 countries.

The OPEC Ministerial Conference in September 2005 restated its commitment to producer-consumer dialogue with the adoption of a comprehensive Long-Term Strategy.

Noting that the process of dialogue constituted a crucial element of this strategy, it was recommended that it should be broadened to cover more issues of mutual concern, such as security of demand and supply, market stability, investment, technology and the downstream sector.

Co-operation and dialogue do not happen by chance. They are the result of inspiration, vision, concern, open-

"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."

mindedness, flexibility, dedication, hard work and other attributes that, combined, seek to improve the welfare of mankind generally and, in this particular case, the efficiency and effectiveness of the energy sector — notably the oil market. Thanks is, therefore, due to all those who have contributed to this process over the past 12 months since preparations begun to start this Dialogue.

However, we are only at the beginning of the road, and it is a very long road. Perhaps it is a road with no ending, because our Dialogue has been set up on a permanent basis. A good part of the discussions in the Dialogue — both now and in the future — will concern issues that evolve as the industry evolves and, therefore, have a strong underlying continuity about them, requiring frequent reappraisal as market conditions change. What we have begun now is a big challenge and I believe we are up to it.

I should like to conclude by reaffirming OPEC's continuous commitment to engage in fruitful dialogue with consuming nations, in order to acquire greater understanding of the challenges facing the different parties involved and determine means of meeting such challenges in a constructive and harmonious manner. 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.

Clearly this process is now already well under way. It is being driven by the commitment, enthusiasm and hard work of both the EU and OPEC. This will, without any doubt, serve the best interests of both groups, as well as those of the oil market itself and the global economy at large.

Give-and-take important for success of Energy Dialogue — Daukoru

As Alternate President of the OPEC Conference in 2005, it has been a great privilege for me to have been a part of the EU-OPEC Energy Dialogue process from its inception and thus to share at first hand the over-riding motivation, as well as the particular interests behind the written record of its proceedings.

As the two groups of nations, essentially consumers and producers, engage in this process, it is important that we adopt a pragmatic attitude of give-and-take towards these interests, beyond the shared motivation of market stabilization. I am convinced that this is the only way to ensure that the Dialogue succeeds and endures for the benefit of the participants and the global economy in general.

The EU is already OPEC's main trading partner and the flow of goods and services — oil and non-oil — among the Members of the two groups continues to grow. We want to do everything we can to encourage this and the EU-OPEC Energy Dialogue provides a wonderful broad avenue of opportunity in this respect.

We should like to wish the Federal Republic of Austria every success in taking over the six-month rotational Presidency of the EU on January 1, 2006. We believe that, at the same time, this can only serve for the good of the EU-OPEC Energy Dialogue, due to the longstanding, close relationship that exists between Austria and OPEC.

First EU-OPEC Roundtable looks at oil market developments

From l–r: EC Directorate General for Energy and Transport representatives, Faouzi Bensarsa and Helmut Schmitt von Sydow (Workshop Vice-Chairman); Acting for the OPEC Secretary General, Dr Adnan-Shihab-Eldin (Workshop Chairman); and Head of OPEC's Energy Studies Department, Mohamed Hamel.

OPEC and the EU held their first Joint Roundtable on oil market developments at the OPEC Secretariat in November 2005, just ahead of the Second Ministerial Meeting.

Participants included high-level experts from OPEC and EU Member Countries, as well as officials from the OPEC Secretariat and the European Commission (EC).

In his opening remarks to the Roundtable, Acting for the OPEC Secretary General and Director of the Secretariat's Research Division, Dr Adnan Shihab-Eldin, referred to the gathering as "a significant, further step in OPEC's ongoing efforts to encourage dialogue and co-operation among oil producers and consumers around the world."

This approach, he said, was recently restated through the adoption by OPEC of a comprehensive Long-Term Strategy.

"Dialogue among producers and between producers and consumers constitutes a crucial element of the strategy," he stressed.

Main trading partner

Dr Shihab-Eldin stated that the Long-Term Strategy recommended that dialogue should be widened and deepened to cover more issues of mutual concern, such as security of demand and supply, market stability, investment, technology and downstream operations.

He affirmed that the EU-OPEC Energy Dialogue was a natural extension of the warm relations that had existed for decades in many areas of activity involving members of the two groups. The countries involved already derived much benefit from the flow of goods and services.

The EU was OPEC's main trading partner and accounted for an increasing share of the Organization's total trade.

"We want to build upon this. Dialogue between the two intergovernmental bodies is already playing an important role, and examples include the Euro-Mediterranean dialogue and meetings between the EU and the Gulf Co-operation Council (GCC)," Dr Shihab-Eldin said.

He pointed out that there were some key areas where a close examination of some topical issues was required. OPEC Ministers had identified four themes for enhancing co-operation, in the mutual interest of both the EU and OPEC. These comprised oil market developments, energy policies, energy technologies, and energy-related multilateral issues.

Discussions on these themes would be developed through respective workshops and meetings, which could include other multilateral organizations.

This, said Dr Shihab-Eldin, provided the setting for the first Roundtable, whose specific brief was to examine oil market developments. The objective was to improve understanding of the functioning of the oil market, including, particularly, the effect of trading in futures markets.

A conference on new technologies was planned for the first half of next year, with a particular focus on carbon management, while in the second half of 2006 another roundtable would look at energy policy developments.

Helmut Schmitt von Sydow.

Roundtable sessions

"With the recently expanded EU being the second-largest energy-consuming region in the world — and with its continued pursuit of a single energy market, as well as the fact that oil is the world's leading energy source — clearly the time is ripe for today's Roundtable," Dr Shihab-Eldin told delegates.

The Roundtable consisted of three sessions, focusing on recent oil market developments and the outlook, potential oil market constraints in the short to medium term, and the impact of financial markets.

The sessions were built around presentations and ensuing discussions, eliciting the views of both groups. The third session also featured presentations by outside experts in relation to the impact of financial markets on oil.

The two most senior representatives from the EU were Helmut Schmitt von Sydow, Director of the European Commission's Directorate General for Energy and Transport, and Graham White, senior representative of the United Kingdom's Presidency of the EU, and Director of the Energy Markets Unit of the UK Department of Trade and Industry.

Fuel for thought

Co-operation takes centre stage as EU Commissioner plots future path for EU energy policy

In early 2006, European Energy Commissioner, **Andris Piebalgs,** intends to publish a Green Paper on Security of Energy Supplies within the European Union (EU).

He hopes to have the document ready for the EU Heads of State Summit, due to be held in the spring. With this mandate he faces the daunting challenge of developing a comprehensive and effective pan-European energy policy — something that has not been a real political option in the past. November 2000 was the last time an attempt at clarifying a common stand on this issue was made when a first Green Paper on energy policy was drawn up. That report underlined the region's common challenges — energy security, increasing import dependency, environmental considerations — and paved the way for a greater awareness by member states of the value of a common approach to energy issues. But now, over five years on, the world, the EU, and the energy industry at large have all changed quite considerably. The world continues to adapt to the inevitable effects of globalisation, the EU has expanded beyond all recognition, and global oil demand has grown so rapidly — and so unexpectedly — that the industry now suffers from potential tightness in supply and serious refining bottlenecks. The result — crude oil prices have spiralled to levels not seen before, while doubts have been cast over the industry's ability to cope with the new challenges. There is also wider recognition that fossil fuels are likely to continue to dominate the global energy mix for many years to come. In Europe, there is a growing awareness that more should be done to improve energy efficiency and energy savings. And, the increasing dependency of the EU on imports of energy from third countries has meant that the external dimension of energy policy has become even more important. High on the agenda for action is co-operation between consumers and producers, as epitomised by the joint Energy Dialogue recently launched by the EU and OPEC. This kind of parley would not have even been considered in the not-too-distant past. Today, such an approach is deemed imperative for the future success of the energy industry. In this interview with the *OPEC Bulletin,* Piebalgs, who attended the Second Ministerial Meeting of the EU-OPEC Energy Dialogue in December 2005, looks at the energy situation within the EU and stresses the importance of developing ties with the producers, in order to attain a better understanding of each others' needs.

Reuters

EU Energy Commissioner, Andris Piebalgs.

"Energy security is a two-sided coin: it comprises security of energy supply and security of energy demand."

Question: The European Union (EU) is today one of the world's largest consumers of oil. Given this fact, what do you see as being the main benefits of the Dialogue between the EU and OPEC?

As you correctly recognise, the EU is one of the world's major oil importers and we therefore have a keen interest and stake in developments that take place on the world oil market. The European Commission (EC) is actively engaged in a policy of enhancing relations with the major energy exporters and energy importers, and evidently OPEC is a key player in this framework. I firmly believe that this Dialogue is in the interest of both the EU and OPEC. Energy security is a two-sided coin: it comprises security of energy supply and security of energy demand. For consumers, it is important that the necessary investments are made in due time by the energy-producing companies and it is important for producers and suppliers to have some reasonable idea of the likely future demand patterns, in order to have the confidence to invest. It is also crucial that investments are made along the whole oil chain — exploration, production, transportation, refining and distribution. Regular meetings between the EU and OPEC will enable us to exchange views and hopefully reach a common view on many of the issues that are impacting on the international oil market. Too high prices and too much volatility will not benefit either the producers or the consumers and therefore we have an interest in jointly examining those issues which have a negative influence on the market.

Saudi Arabia recently called on consumer countries to provide a "road map" for oil demand. What steps is the EU taking to ensure that there is more information available about demand and other possible factors likely to affect market developments?

While it is clearly impossible to accurately forecast future demand, as so many factors can come into play, it is important for both producers and consumers to have an idea of how demand trends are likely to develop. Within the EU, for example, the Commission has published over the years a number of "business as usual" forecasts with respect to energy demand at an EU level and also at an individual member state level. More recently, we have published a series of forecasts based on different scenarios, such as a considerably faster penetration of energy efficiency and renewables, higher oil and gas import prices, lower or higher gross domestic product (GDP) growth and higher or lower use of nuclear, as compared to a "business as usual" forecast. However, I believe that the main challenge regarding demand lies outside Europe and while Europe definitely has a role to play, particularly on the possible impact of various policies on future demand, this is an issue that needs to be dealt with in a wider context than our Dialogue. Having said this, within the Commission's services we are currently developing an energy market observation system (EMOS) which will bring more transparency to the situation within Europe.

"It is important for both producers and consumers to have an idea of how demand trends are likely to develop."

You previously expressed concern about high oil prices and the effect they had on economic growth. What is Europe doing to relieve bottlenecks in the downstream sector?

I have and still do express concerns about high oil prices as I believe they are still too high. Prices that are too high do have a negative impact on world economic growth and, in particular, on the oil-importing countries of the developing world. I believe there are a number of issues which are behind these high oil prices, not least the current tightness between supply and demand and the lack of a sufficient level of spare capacity. Refining capacity globally is clearly one of the important issues and one which we have jointly recognised in our discussions. Within the EU, there has been considerable investment in the refining sector over the years to upgrade and expand the capacity of existing refineries. However, we recognise that there is an imbalance within the EU with the changing patterns of demand. This has led to us importing middle distillates from Russia and exporting gasoline to the United States. We therefore intend to examine the situation in some detail next year, bearing in mind that not only is demand for different products evolving at various speeds, it is also the case that crude oil qualities are changing and our product specifications are becoming more stringent in response to environmental concerns.

The EU has been making moves to outline a collective energy policy which, as a component of foreign affairs, was previously left up to member states to decide individually. What challenges does the EU face in coordinating energy policies in 25 countries?

In fact, energy, specifically coal and nuclear, were at the origin of the development of the EU, although it is true that the EU currently does not have a specific competence on energy policy. Clearly, energy policy is a sensitive issue for our member states and one they have, until recently, been most reluctant to raise to a Community level. Indeed, most of our legislation that relates to the energy sector has been based on areas other than energy policy — such as developing the internal market and using the competition rules or the Community's competence on environmental issues, although in recent years a number of common energy objectives have been successfully developed. The Commission has, for many years, been presenting the case for a collective energy policy. Indeed, the Green Paper on the security of energy supplies of November 2000 underlined the common challenges — energy security, increasing import dependency, environmental considerations — and paved the way for a greater awareness by member states of the value of a common approach to energy issues. This has led, most recently, to the initiative by the UK Presidency at the Informal Heads of State Summit at Hampton Court outlining a number of areas that could merit a common European approach. I will be adopting a step-by-step approach in response to the UK initiative. My intention is to publish a Green Paper on energy policy in time for the spring 2006 Heads of State Summit that will form the basis for a wide-ranging debate on this issue. On the basis of this debate, I will then present proposals to translate this new-found political will into a concrete and effective policy that will benefit the competitiveness of Europe, as well as its security and environment.

You have announced plans to present a further Green Paper on security of supply. In your view, what has changed since the 2000 paper was published?

While it was originally my intention to present a new Green Paper on security of energy supply before the end of 2005, a recent request by EU member states for a reflection on a common approach to energy policy has opened up both the scope and objectives of such a paper. Therefore, as I just mentioned, I intend to publish a more wide-ranging paper in the spring 2006 that will face the challenge of developing a real pan-European energy policy — something that was not a real political option in November 2000. Looking back to November 2000, I do believe that the world has moved on quite considerably. Global oil demand, for example, particularly in Asia, has grown more rapidly than was expected and today we have a recognised tightness in the oil market that is the main factor behind the current high prices. There is also a wider recognition that fossil fuels are likely to continue to dominate our energy mix for many years to come and that, therefore, research should include a focus on reducing the environmental impact — for example via the capture and storage of carbon dioxide.

In Europe, there is also an awareness that we can do far more in improving energy efficiency and energy savings. The recent Green Paper on energy efficiency has highlighted that the EU could reduce energy consumption by 20 per cent by 2020 in a cost-effective way and it is important that this objective is fully internalised into other policy areas. In addition, the debate on the role of nuclear power is also being reopened in some of our member states and, in the context of reducing our emissions of carbon dioxide, will need to be examined dispassionately at a European level. Recent reports have also underlined how far we in Europe are still from achieving a fully integrated internal energy market, both in terms of physical energy trade and in real pan-European competition. This fragmentation needs to be addressed and it will be important to develop more effective European energy networks to reinforce the interconnections between the different networks in individual EU member states. Security is another issue of heightened concern. There is an increased awareness of the crucial importance and vulnerability of the energy infrastructure, particularly the energy transportation infrastructure, and the importance, for overland transportation, of facilitating the development of multiple networks. Likewise, for the maritime transportation of oil, there is an increased emphasis on preventive measures, such as double-hull tankers and increased inspection of vessels. Finally, the increasing dependency of the EU on imports of energy from third countries has meant that the external dimension of energy policy has become more important. And a key new initiative in this area has been the launch last June of the EU-OPEC Energy Dialogue.

You have described the next five years as a "watershed period" for energy policy because of increased demand from Asia and growing European dependence on external energy supplies. How do you expect the EU's energy policies to evolve over the coming years?

While I would not like to prejudge the Green Paper, or the outcome of the debate which will follow, I would hope and expect that a clear common European approach will be developed towards energy priorities and policies, and a more distinct European "energy foreign policy" that permits an even better dialogue with important producers such as OPEC, Russia and Norway, but also with other importing countries and regions. I could also anticipate more focus on ensuring that the EU internal energy market really becomes a practical reality, on a reassessment of the role of nuclear, an increased emphasis on energy technology research and development, and on the need to facilitate the development of measures designed to improve energy efficiency and energy savings.

"I would hope and expect that a clear common European approach will be developed towards energy priorities and policies."

What do you think of the proposal to set up an EU-OPEC technology centre, which Kuwait has already offered to host?

Technology co-operation is an area that was identified early on in our Dialogue as an area of mutual interest. It is why we foresaw at our very first ministerial meeting that a conference should be held on this issue in the first half of next year. Key possible areas include:

— Joint co-operation, in line with the Kyoto Protocol, for the reduction of gas-flaring and losses, and carbon dioxide capture and storage, as well as other measures designed to achieve a reduction in greenhouse gas emissions.
— Developing comprehensive industrial co-operation, particularly with respect to modern and efficient technologies in the upstream and downstream sectors.
— Promoting the transfer of know-how and assisting OPEC Countries to prepare their specialised human resources.

Clearly the proposal from Kuwait to host the headquarters of an EU-OPEC technology centre is very welcome and my services are now studying this recent proposal in detail.

Oil market –

"I am particularly pleased that the focus of the EU-OPEC Energy Dialogue has been on improving mutual understanding and in finding areas … where it can add real value to the global dialogue."

UK Energy chief says dialogue and co-operation best way forward for enhancing all three

stability
transparency
understanding

At an informal meeting of European Union (EU) Heads of State in October 2005, it was agreed that deepening relations with OPEC should be a key part of the EU's response to the global energy challenges of the future. In pursuit of that goal, UK Minister of Energy, **Malcolm Wicks,** in his capacity as President of the EU Council, visited the OPEC Secretariat in December 2005 for the Second Ministerial Meeting of the EU-OPEC Energy Dialogue. He spoke to the OPEC Bulletin on the importance he attached to enhancing producer-consumer relations, defended his government's policy on oil product taxation, and hinted just how nuclear energy could make a big comeback in Britain's future energy mix.

Question: How would you describe the Energy Dialogue Forum between the EU and OPEC? Do you see such meetings as being essential in helping to address the many concerns expressed about the oil market?

I have found the two Ministerial Meetings very productive and invaluable as a forum for exchanging views and enhancing mutual understanding. I have been particularly struck by the openness and enthusiasm of both sides and I know that discussions at an official level have been carried out in a similar vein. I am also particularly pleased that the focus of the EU-OPEC Energy Dialogue has been on improving mutual understanding and in finding areas — such as energy technologies — where it can add real value to the global dialogue. Producers and consumers share a joint responsibility and joint interest in promoting greater stability in the international oil market. Both would benefit from less volatile prices. The deepening dialogue — both at bilateral and multilateral level — between oil-producing and oil-consuming nations has been important in promoting greater market stability, transparency and understanding. This was particularly evident in the response we saw to hurricanes Katrina and Rita. It was in recognition of the interdependence between producers and consumers, that developing the EU's relationship with major energy suppliers was one of the conclusions reached at the informal EU Heads of State meeting at Hampton Court in October 2005 that looked at the challenges of globalisation. It was agreed that deepening relations with OPEC should be a key part of the EU's response to the global energy challenges of the future.

The UK is one of few oil-producing nations within the EU. Does it see its approach to energy issues differently to those of other EU members?

Yes and no. Our approach to energy has of course been influenced by our oil-producing status over the last four decades. The North Sea has spawned a vibrant and highly-skilled industry providing essential energy supplies for our industries and homes. The record number of licences awarded this year is testimony to the continued viability of the UK Continental Shelf (UKCS) in the world energy market. But as the UK gradually manages the shift to becoming a net importer of energy, and also as the consensus around the need for action on climate change solidifies, I think we have an increasing amount of common interest with our European partners. Our Presidency of the EU has enabled us to pursue these common goals on a number of important fronts. I recently chaired the Council of EU Energy Ministers. On market liberalisation, there is broad agreement around the need for open, transparent and liberalised markets and for more work on implementing existing legislation in this respect. We need to see more effective unbundling, fair network access and greater integration of national energy markets at a regional level, in order to bring downward pressure on energy prices for consumers across the single market, both domestic and industrial. There have also been significant developments this year in terms of external relations in the shared energy interests of the UK and the EU as a whole — the successful first Permanent Partnership Council on Energy with Russia, the Treaty establishing the Energy Community of South East Europe, and, of course. the establishment of the EU/OPEC Energy Dialogue.

“The UK is likely to become a net importer of oil by around 2010 — and recently became a net importer of gas.”

“Decisions on investments in the oil industry are influenced by medium- to long-term price expectations.”

One key issue that energy consumers, especially in Europe, have shown concern about is the high government tax imposed on fuel? What is the British Government's position on this, or indeed your personal view?

I think there is widespread recognition that recent changes in the prices for petroleum products reflect conditions in the global oil market rather than changes in taxation levels in consuming countries. Tax is a sovereign matter, and in the UK is a decision for the Chancellor. UK Government policy has been that fuel duty should rise at least in line with inflation each year as the Government seeks to meet targets for reducing polluting emissions and for funding public services. However, notwithstanding this, the UK Government recognises the impact that high oil prices can have on various sectors and has acted. In response to the continued volatility in the global oil market, the Chancellor has frozen duty during the last two financial years. In real terms, UK fuel duty rates have fallen by 12 per cent since 2000.

How would you assess the UK's contribution to global energy needs given its position as an oil producer and exporter, and especially in view of the declining productivity of its existing oil fields?

As a maturing province, the UKCS has already produced vast amounts of its hydrocarbons and contributed to meeting both the UK's and global energy needs. However, although we are now over half way through total UK reserves, there are still substantial quantities to be produced — potentially between 22 billion and 28 billion barrels of oil equivalent. This will allow the UK to continue to be a significant oil and gas producer for at least 20 years, and probably longer. But notwithstanding this, the UK is likely to become a net importer of oil by around 2010 — and recently became a net importer of gas. Our challenge is to ensure we make the most of the technology and opportunities available to maximise the economic recovery of hydrocarbons from the UKCS. As the North Sea matures, both Government and industry continue to face new challenges, linked to attracting continued investment and activity.

But we are successfully tackling these via a range of initiatives coming out of PILOT — the oil and gas task force — which I chair. Improvements to our licensing system, in particular, have reaped dividends by generating renewed North Sea interest and attracting new players. The 23rd Offshore Licensing Round was one of the most successful rounds ever, resulting in us awarding the highest number of licences in UK North Sea history — 152 — covering 266 blocks. Of course, awarding acreage is only the start of a process in which I am determined to make sure that prospects are evaluated and taken forward and, crucially, that wells are drilled and developments undertaken. We will continue to work closely with industry to this end.

Do you see the recent increase in the price of oil as likely to spur investment in further development of North Sea oil fields?

Decisions on investments in the oil industry are influenced by medium- to long-term price expectations. Sustained higher prices have undoubtedly been reflected in higher screening prices which, other things being equal, should increase investment in the North Sea. Indeed, capital expenditure this year looks like being significantly higher than the level projected a year ago, at least partially on the back of higher prices. But investment in the UKCS has to compete for funds against projects elsewhere around the world, which will also now be more attractive. So, the effect of higher prices is not likely to be large.

There has been talk recently of increasing the use of nuclear power in the UK. Is this part of a wider approach at ensuring energy security and, indeed, reducing the UK's dependence on fossil fuels?

That's right. The UK is at an important juncture and I have been asked by Prime Minister Tony Blair to lead a review of energy policy to develop proposals for the way forward. By 2020, 30 per cent of our current generating capacity — most of our existing coal-fired and nuclear power stations — will have closed. The result, if we do nothing now, will be a significant increase in our dependence on imported gas for our electricity generation and major difficulties meeting our ambitious target of reducing carbon emissions by 60 per cent on 1990 levels by 2050. So, a review now is therefore the right way forward. Part of this will involve considering whether, as our current stations reach the end of their lives, a new generation of nuclear power stations will be needed to meet our future energy needs. But there are a range of issues associated with nuclear power that raise concerns — most notably cost and waste — and we'll also be looking at other forms of low-carbon energy technologies, such as renewables and carbon capture and storage. There is no foregone conclusion. I want to look at the hard evidence and science behind what all of these have to offer and I want to assess what greater contribution could be made by improving energy efficiency.

AP Photo

Malcolm Wicks and OPEC Conference President Sheikh Ahmad Fahad Al-Ahmad Al-Sabah.

The importance of dialogue

Russia praised for enhancing oil co-operation

The annual Russian Oil and Gas Week is now firmly established as a major addition to the international energy calendar. Its fifth meeting, held in Moscow at the end of October/ beginning of November 2005, again attracted top-level participants from every branch of the oil and gas industry, bringing together expertise of the highest calibre.

The following address to the meeting was made by **Dr Adnan Shihab-Eldin**, Acting for the OPEC Secretary General. In it he outlines OPEC's perspective on the world oil market and pays tribute to Russia for its contribution to enhancing dialogue among oil producers and between producers and consumers. With Russia taking over the Chair of the powerful Group of Eight (G8) industrialized countries in 2006, this is being seen as a golden opportunity for the country to help further the process of co-operation to the benefit of the entire energy industry.

Reuters

Russia takes over the Chair of the G8 industrialized countries in 2006, a move that is seen as a perfect opportunity for the country to help foster energy co-operation among producers and consumers.

Russia holds a key position in the world energy sector, particularly for oil and gas. As the world's second-largest crude oil producer and exporter with the largest proven natural gas reserves, it is also the largest gas producer and exporter. Russia has a big influence on energy developments well beyond its vast borders.

Indeed, this influence is likely to grow, in particular next year as Russia takes over the Chair of the Group of Eight (G8) industrialized countries. As a country whose recent history — in the 20th century — is very different to that of the other members, as well as one which is such a large producer, exporter and consumer of energy, Russia may be in a position to share perspectives which have not previously come to the fore within that august body. This is reinforced by the fact that Russia is described as being one of the 'Brics' countries and, together with Brazil, India and China, is seen as a major new player on the international economic and political landscape.

Over the past decade and a half, OPEC has welcomed the constructive steps Russia has taken in the process of dialogue among oil producers and between producers and consumers, the support it has given to our market-stabilisation measures, and the perspective awareness as major energy exporter it has shown on some of the market realities which may not be so apparent to long-established consumer nations. In an energy world where dialogue and co-operation are already at a more advanced stage than ever before, we believe that Russia, as Chair of the G8, may be in a position to take this process even further, to the benefit of the energy community at large, consumers as well as producers in both developed and developing countries.

Russia's contribution

It would be a good time to do so, in view of the difficulties experienced in the international oil market over the past two years and the many misunderstandings and anxieties that have accompanied this. Notwithstanding this, OPEC is confident about the ability of the market to bring oil to consumers as a when needed, both now and in the future, and it is committed to doing everything it can to bring this about in a timely, effective and sustainable manner. In doing so, OPEC welcomes Russia's contribution in what is, after all, a complex, fast-moving and often-over-reactive international market environment. A healthy oil market is central to the pursuit of sound world economic growth, where the benefits should be shared among mankind as a whole, and not just fortunate — and privileged — sections of it.

Looking at the current market situation, we see that a confluence of factors has been at work over the past couple of years, leading to the persistent price rises and volatility. We have also observed a shift in the focus from the upstream to the downstream.

The spotlight was initially on the upstream, with the unexpectedly high oil demand growth in 2003 and its acceleration to exceptional levels in 2004. This was connected, in particular, to the high level of economic growth of China and the USA. It was exacerbated by a notable development on the supply side, when the growth in non-OPEC supply started to fall behind that of world oil demand, reversing earlier trends of matching or exceeding demand growth. However, during the course of last year, it became steadily apparent that the destabilising forces lay more — and increasingly — in the downstream than in the upstream, and this trend has continued to the present day.

Indeed, this year, while demand growth has remained at healthy, though more modest and sustainable levels, the challenge of providing adequate crude supply is being met successfully. This has been largely due to OPEC's

Russia is the world's second largest crude producer and exporter and the largest oil and gas exporter.

actions, raising its production by more than 4.5 million barrels/day since 2003, as part of its market-stabilisation measures. This has, in turn, led to a steady rise in OECD commercial oil stocks, which are now exceeding their five-year average.

Spare capacity

OPEC has also been acting on a second front. Assuming that the high levels of oil demand growth — of about 1.5m b/d per year — are likely to remain at least in the medium term, our Member Countries have sought to accelerate their plans to bring on-stream new production capacity to meet continued demand growth and to re-establish a comfortable level of capacity and help calm markets during the present troubled period. This spare capacity — which is now at 2.0m b/d — will be more than adequate to cover oil demand growth throughout this winter and in 2006, with the call on OPEC being around the 2005 level. More increases in capacity have been planned — and are being implemented — for the rest of the decade.

> "Concrete measures should be taken on the part of the governments in consuming countries, to create an enabling environment to encourage rapid, sizeable investments in the refining sector."

Also, next year is expected to see non-OPEC oil supply growth recover to 1.6m b/d from the exceptionally low level of 700,000 b/d witnessed this year — this figure includes non-OPEC natural gas liquids and non-conventional oils. On balance, we expect annual average growth of around 1m b/d in non-OPEC supply up to 2010, slowing thereafter. Combined with the planned increase in OPEC capacity from 32.5m b/d to more than 38m b/d by 2010 and an additional 1.5m b/d increase in OPEC natural gas liquids over the same period, this means that cumulative world oil production capacity will rise by around 12m b/d or more, over the next five years. This will be well above the expected cumulative rise in demand of 7–8m b/d over the same period, and thus it will more than cover the forecast growth in demand.

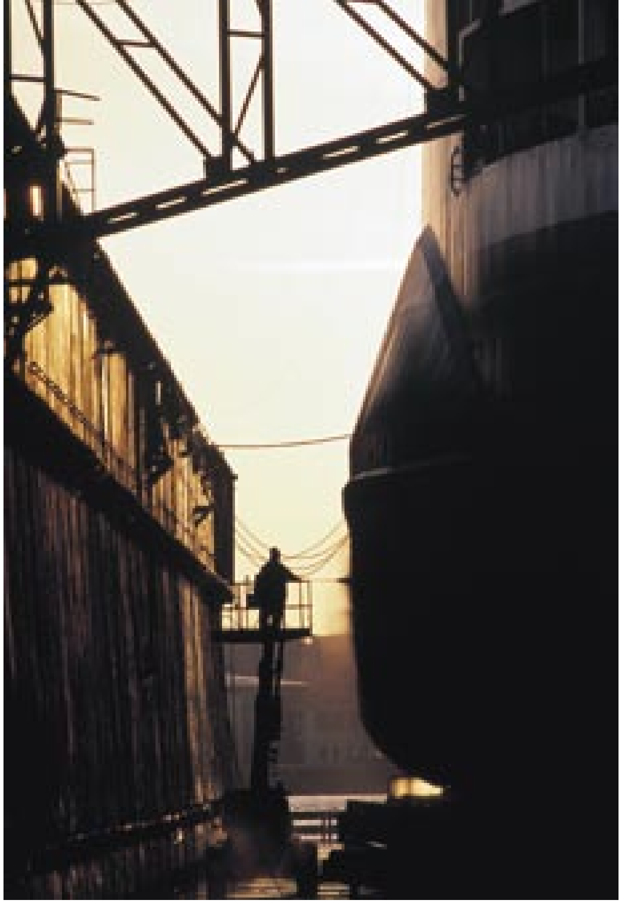
Also, the fact that the market has, over the past two years, experienced and successfully handled a serious spare capacity limitation, together with the fact that the greater revenues generated by the recent higher oil prices have allowed more funds for reinvestment in the industry — compared with the under-investment in new capacity that occurred previously when prices were much lower — is a very positive sign for the assurance of crude oil sufficiency well beyond the opening decade of this century.

Serious bottlenecks

There is a different picture downstream, however.

The continued serious downstream bottlenecks in some major consuming countries — due mainly to a lack of timely investment and to increasingly stringent product specifications motivated by environmental concerns — have seen refineries operating at near capacity to keep pace with rising demand. Not only is this putting pressure on product prices, but its effects are also felt subsequently on crude prices, especially light, sweet blends — as was demonstrated vividly following the disruptions caused by Hurricanes Katrina and Rita to the US Gulf Coast. Clearly, the industry at large must pay more attention to the downstream part of the supply-chain, in the interests of overall market stability. In particular, concrete measures should be taken on the part of the governments in consuming countries, to create an enabling environment to encourage rapid, sizeable investments in the refining sector, especially in conversion capacity, which has persistently lagged behind market requirements. Without adequate and timely measures from that side of the industry, today's high and volatile oil prices are likely to remain a feature of the market.

OPEC's Member Countries, although traditionally associated more with the upstream, have themselves



"Dialogue should be widened and deepened to cover more issues of mutual concern, such as security of demand and supply, market stability, investment, technology and the downstream."

taken the initiative — on their own and in partnership with others — to invest in downstream projects. However, downstream investment is primarily the responsibility of the domestic and international oil companies in consuming countries. In this context, it should be noted that the recent large revenue increases of the international oil companies have not yet been visibly translated into substantial additional investment, and this includes the upstream, as well as the downstream. There are reports of refiners' returns more than tripling over the past 12 months, compared with 45 per cent gains for crude producers. Nevertheless, looking at the overall picture, as it stands now, it does not appear that the growth in refinery capacity will match demand growth before 2007.

On top of all this, there has been widespread concern about possible future supply disruptions that may result from increased geopolitical tensions or other causes. These factors — taken together — have been reflected in increased speculation in futures markets, particularly through a rise in activity by non-commercials, notably pension and trust funds, which has, in turn, resulted in a rise in open commitments; both have correlated strongly with the price increases of the last two years. Without any doubt, due largely to the perceived capacity constraints, the market has become very nervous and over-responsive to external impulses.

Let me at this point make a few additional observations about the present higher prices.

The global economy has so far shown remarkable resilience to the price rises — a fact acknowledged by such financial institutions as the International Monetary Fund. However, we must not be complacent, as signs of an impact on some economies are beginning to appear, especially on emerging economies with large fuel subsidies.

And, while this is a matter of much concern to us, we must nonetheless point out that the situation is very different to what it was several decades ago. First, in real terms, crude oil prices, although high, are still well below levels reached in the early 1980s. And secondly, the world is decreasingly dependant on oil for its economic growth. Globally, oil intensity — the amount of oil required for a pre-defined unit of GDP — has fallen by around 50 per cent since 1970, due to such factors as technology, improved efficiency, government policies and changing consumer behaviour.

Furthermore, it must be stressed once again that OPEC does not welcome prices that remain out of line with market fundamentals as we have seen in recent months. These will contain within themselves the seeds of further volatility, and this will be detrimental to the steady flow of petroleum revenue that is essential for investment in domestic socio-economic development, as well as reinvestment in the industry. This is why OPEC goes to great lengths to promote order and stability in the oil market, with secure supply, steady, predictable demand, reasonable prices and fair returns for investors.

Vision and framework

OPEC's commitment to stability applies equally to the long term. This was underlined once again in Vienna last month, when OPEC's Ministerial Conference adopted a comprehensive long-term strategy, to provide a coherent and consistent vision and framework to guide our future actions.

The strategy explicitly recognises the important role of oil in the world economy at large in the future, recalls and delineates further the objectives of the Organization, identifies the key challenges it faces now and in the future, and explores scenarios for the energy scene. In doing so, it covers such important elements as the oil price, upstream and downstream investment, technology, the role of OPEC national oil companies, multilateral agreements and negotiations related to energy, and the relationships with both producers and consumers, as well as with international organizations and institutions. Regarding oil prices, the strategy builds upon the fundamental recognition that extreme price levels, either too high or too low, are damaging for both producers and consumers, and it points to the need to be proactive under all market conditions. It also re-emphasises OPEC's commitment to support market stability and, in achieving this, stresses the role of other producers, as well as, especially with regard to the downstream sector, consuming countries. Hence, the dialogue among producers, and between producers and consumers, constitutes a crucial element of the strategy, which recommends that such dialogue should be widened and deepened to cover more issues of mutual concern, such as security of demand and supply, market stability, investment, technology and the downstream. OPEC's adoption of such a comprehensive long-term strategy should be highly reassuring for the market at large.

According to our own forecasts at a global level — based on the reference case scenario from the OPEC World Energy Model — world oil demand is expected to continue to rise in the early decades of the 21^{st} century, with annual growth averaging 1.5 per cent up to 2025, when demand will reach 113m b/d. During this period, non-OPEC output is expected to continue to grow and reach a plateau of 55–57m b/d after 2010. This will mean that the call on OPEC oil will increase substantially, with the Organization's output, including natural gas liquids, rising by more than 70 per cent to 57m b/d in 2025, compared with 33m b/d in 2005. By then, according to this scenario, OPEC's market share will have penetrated the 50 per cent barrier, from around 40 per cent now.

Even though the numbers involved are very large, the global resource availability is not a constraint. OPEC itself has the reserves to meet the growing oil requirement, to ensure that the market remains well-supplied with crude at all times, at reasonable prices that are compatible with robust growth in the world economy. However, for geological reasons, OPEC will increasingly be accessing reserves that are on the heavier side, and therefore future refineries will have to be designed and equipped to process these into the more highly demanded lighter products. The Organization is committed to maintaining and developing sound investment strategies, to provide the required production capacity for oil that is cleaner, safer and more efficient than ever before. In pursuing such strategies, Member Countries will choose the models of collaboration with the international oil industry that best suit their particular environments.

But there are many uncertainties which make sound investment planning a hazardous business. Future economic growth rates, consumer government energy and environmental policies, technological advances and the oil price path lie at the heart of these uncertainties.

Over-investment implies heavy costs to be borne by producers, while under-investment will lead to severe price movements. Contrasting scenarios, explored by OPEC to identify the impact of such uncertainties, show differences as large as 10 or 11m b/d in world oil demand within a decade and a half. The implications of such uncertainties for investment requirements are obvious and could translate in over $150 trillion. Thus every effort must be made to reduce uncertainties and share the risks involved.

"Win-win" situation

All of this is more than just a question of quantity, however. Crucially, it also involves quality. It is necessary for producers everywhere to bring the right type of oil to the market, as and when required. This includes, for example, the production and use of cleaner petroleum-based fuels and the development of technologies that address climate change concerns, such as carbon dioxide sequestration in depleting oil and gas fields for which, when combined with enhanced oil recovery, could truly lead to a "win-win" situation.

I began this address by referring to the important — and growing — role Russia plays in the international arena. In the context of this Oil and Gas Week, I noted three points of significance: Russia being a major energy producer and consumer; Russia being a "Brics" country; and, specifically for the near future, Russia holding the Chair of the G8 in 2006. On top of this, through its actions, the Government has been giving a clear message that it considers its oil and gas sector to be a key part of the country's economic development in the years ahead and that the sector's continuing evolution must be in harmony with this.

OPEC is encouraged by this and looks forward to opportunities to expand co-operation and dialogue, so as to help Russia achieve its energy goals in a stable and progressive environment in the years ahead.

Let me conclude by emphasizing that in the 21^{st} century the benefit from oil as most influential fuel for development and economic growth should and could extend to all countries in particular developing countries most of whom missed out in the past.

AP Photo

Today's price of oil:

Is it enough to satisfy both producers and investors?

In this article, **Dr Hussein Abdallah,** a private energy consultant, assesses developments in the oil market in relation to prices and revenue generation. He questions whether oil prices are currently at a level that reflects the true requirements of producers and investors in the modern-day oil industry. Dr Abdallah was formerly Senior Undersecretary at the Egyptian Ministry of Petroleum and its representative at the Executive Bureau of the Organization of Arab Petroleum Exporting Countries (OAPEC) from 1974 to 1992.

Realistic assessment of OPEC oil revenues

Looking at movements in oil prices over the years, one is reminded of leap-frog. The price may linger for some time at a low level, in both nominal and real terms, as it did over the course of 1986–2003. But then suddenly, the world awakes to find that the price has soared to totally unexpected highs. Despite the availability of in-place oil reserves, oil productive capacity is bottlenecked. Oil productive capacity includes all upstream equipment and activities, such as building ground facilities to extract oil from underground reservoirs, storage of crude oil in field tanks, pumping it through pipelines, and shipping it via oil tankers to consumption centres. Oil productive capacity also includes downstream equipment and activities, such as oil refining and processing plants, as well as distribution networks, used to move oil products to the final consumer. Bottlenecks in one or more of these productive capacities may suddenly send oil prices skyrocketing — as is the case at the present time.

A new cycle thereby commences. Higher prices lead to increased supplies, by means of an intensified search for new oil fields, developing already discovered fields, building the required productive capacity, as well as reopening marginal wells, known in the US as 'stripper' wells, which are usually shut down when prices become too low to operate them.

On the other hand, exorbitantly high oil prices could restrain oil demand, if oil consumers have the option and access to alternative energy sources, or if energy conservation programmes are implemented to maximize efficiency. Yet, if higher oil prices are expected to last over an extended time, they may encourage oil exploration and increase the flow of investment directed towards the expansion of oil productive capacity, especially spare capacity, which is usually maintained to meet inevitable emergencies.

The opposite tends to occur if oil prices follow a downward trend over a relatively long period of time. At present, most credible studies acknowledge the fact that nominal and real oil prices have been eroded over the period 1986–2003, thus restraining oil investment, hindering exploration activities, and limiting the expansion of oil productive capacity. A clear example of these events is what the world has been facing since mid-2003. Amid a large adverse outcome is the failure of spare productive capacity to meet an unprecedented growth in world oil demand, estimated at nearly 4.5 million barrels per day throughout 2003–04.

"Oil-exporting countries have been seriously affected by oil price fluctuations."

The OPEC Basket price

The main reason behind this cycle's recurrence is attributed to pressure to keep oil prices low, as exerted by oil importers, particularly Western industrialized countries, which imported around 56 per cent of their oil needs in 2002. The OPEC Basket price, which hovered around $17–18 a barrel from 1986–99 — equivalent to approximately $5/b in 1973 dollars — leapt by $10/b in 2000 to reach $27.60/b, and then declined to $24/b during 2001 and 2002. Increasing slightly to $28/b in 2003, the basket price surged to $36/b in 2004, and will evidently continue to hover around $50/b through the close of 2005. Nonetheless, the price — if valued in 1973 dollars — still fails to match its late 1973 level, which stood at $11.65/b.

Oil-exporting countries have been seriously affected by oil price fluctuations. When these countries held control of their oil production policies in the 1970s, they committed themselves to investing in exploration for new oil resources, in order to replace depleted deposits and expand productive capacity, thus serving oil consumers' interests, as well as their own. The financial resources of these countries, however, have been depleted over time, mainly due to the erosion of oil prices. Not only did these countries fail to replace their depleted oil reserves, they also fell short of building sufficient productive capacity. As a result, the spare production capacity shrank to critical levels, and has been confined to a limited number of oil-producing countries, the most important of which is Saudi Arabia.

These fluctuations basically stemmed from a trend to maintain real prices at a low level over the course of 14 years, thus implicating the oil-importing countries. Keeping in mind the change in the volume of oil imports, the United States' oil bill, for instance, dropped from around $66 billion in 1997 to nearly $42bn in 1998. This represents a gain of $24bn because of the precipitous decline in oil prices. Oil-exporting countries, meanwhile, lost some $120bn, nearly half of which was borne by OPEC. With oil prices recovering to their levels prior to the 1998 crash, the US oil import bill resumed its level of $59bn in 1999, then leapt to $103bn in 2000. Hovering around $91bn in 2001 and $97bn in 2002, the bill leapt to $114bn in 2003 and $157bn in 2004.

Unquestionably, this is not a healthy phenomenon for either oil-exporting or oil-importing countries. It would be much better to leave market forces — without pressure from Western industrialized countries — to gradually and smoothly upgrade oil prices.

On the other hand, certain research institutions tend to overstate OPEC's oil export revenues and portray its Member States as getting rich at the expense of oil-importing countries. All things considered, this is not an accurate assessment. The US Energy Information Administration (EIA) recently conducted an assessment of OPEC revenues based on a constant dollar at the 2005 level and overlooking the quantitative variation of oil export volumes over the years of the study.

The table included summarizes the highlights of the EIA assessment, which overstated OPEC oil export revenues at $338bn for 2004 and $430bn for 2005.

The picture, however, completely changes if we use the constant dollar of 1973, when the price of oil was adjusted from $3 to $11.65/b, and if the volume variation of oil exports is taken into consideration — a factor that was overlooked by the EIA study. In 1983 and 1984, total OPEC oil exports did not exceed 14 million barrels per day, while exports mounted to about 25m b/d in 2004. Simple calculations reveal that OPEC's 2004 revenues, which were realized by exporting 25m b/d, did not exceed $77bn in terms of constant 1973 dollars. These revenues exactly match what OPEC received, valued in the same constant dollars, for exporting 14m b/d in 1983 and 1984.

False conclusions

Therefore, if we further assume that the volume of exports in 2004 was just similar to that in 1983 and 1984 (14m b/d), then OPEC's 2004 revenue would not exceed $44bn (in 1973 dollars) — not $338bn, as exaggerated by the EIA study using 2005 dollars, and neglecting the variation in export volumes.

In conclusion, the EIA's attempt to overstate OPEC's revenues, using an inflated dollar that over the course of 32 years lost the majority of its value, and overlooking the increase in OPEC's export volume — estimated at 79 per cent since the early 1980s — tends to lead to false conclusions. The EIA figures may suggest that OPEC Countries have joined the rich industrialized countries and, therefore, are required to work towards driving down oil prices, as industrialized states do. The indisputable fact is, however, that oil prices, in real terms of the 1973 dollar, have retreated to less than $5/b over the period 1986–2000.

There are factors that deserve comparison between OPEC Countries and the rich industrialized nations. Firstly, for example, OPEC Member States survive on a single natural resource which is fast-depleting, due to fast-growing oil demand — particularly at the behest of the industrialized countries. In other words, the livelihood of oil exporters is guaranteed by the consumption of their wealth and capital, not by renewable income sources generated from sustainable manufacturing industries. Secondly, OPEC's per capita income generated from oil exports, even expressed in low-value 2005 dollars, will not exceed $770 in 2005. In reality, this amount barely exceeds 43 per cent of the same per capita realized in 1980, which amounted to an estimated $1,800 in 2005 dollars. Voluminous debts, government budget deficits and trade balance deficits, as well as a host of other problems, also bear upon most OPEC Member States.

The effect of oil prices

The price of the OPEC crude basket averaged $25/b over the period 2000–02. In 2003, the price slightly increased to $28/b, surged to $36/b in 2004 and averaged $48/b over the year ending August 5, 2005. As it appears, the price is expected to hover around $50/b over the rest of 2005. Fortunately, the oil price surge has been associated with an economic cycle that started an upward trend in mid-2003, leading to an unprecedented leap in global demand for oil. From 2002–2004, demand has grown by nearly 4.5m b/d. Over such a short time, the world's spare oil capacity has been unable to accommodate such precipitous growth.

Several studies have tried to assess the impact of oil prices on the global economy. In April 2004, the International Monetary Fund (IMF) concluded that for every $5/b increase in oil that remains in place for one full year, global growth decreases by 0.3 per cent. However, the IMF adds that since the price increases are because of demand-side pressures and it is growth that is pulling oil prices up, the effect on growth is less of a concern. An IMF representative commended OPEC by affirming its tendency to adopt constructive responses, such as increasing output whenever the oil market experiences supply shortages.

In its September 2004 report, when the oil price increase averaged $8/b over the level seen in 2003, the IMF said: "This increase, if permanent, would likely reduce world output by approximately 0.5 percentage point after one year — a relatively small amount, compared with the 4.3 per cent global growth projection for 2005." Moreover, the IMF added: "The negative impact of the increase appears moderate when compared with the impact of four previous oil price spikes that have occurred since 1973." The IMF also anticipated inflation rates to rise moderately, ranging between 0.3 per cent in the US and across the Euro-zone, 0.6 per cent in South America and 0.7 per cent in Asia, where it is easier to transfer the burden of oil price spikes to local consumer prices.

The IMF admits that the problem is not an unavailability of oil reserves, but the shortage of oil productive capacity, adding that "today's limited spare capacity reflects in part stalled investment in capacity expansion projects by OPEC Members during the 1990s, owing to persistently low real average oil prices during 1985–2000." The IMF further warns that medium-term price volatility, the fragile security situation, fiscal problems, large public debt and high unemployment rates in certain oil-exporting countries, are all challenges ahead that need to be met.

"The world's spare oil capacity has been unable to accommodate such precipitous growth."

In its simulation model published in May 2004, the Paris-based International Energy Agency (IEA) indicates that, while the vulnerability of oil-importing countries to high oil prices varies markedly, according to how much oil they import and the oil intensity of their economies, a sustained increase in oil prices from $25/b to $35/b would result in a reduction of 0.4 per cent of gross domestic product (GDP) for the Organization for Economic Co-operation and Development (OECD) region as a whole in the first and second year of the higher prices. Inflation would rise by 0.5 per cent and unemployment would also increase. The Euro-zone countries, which are highly dependent on oil imports, would suffer most in the short term, with their combined GDP dropping by 0.5 per cent and inflation rising by 0.5 per cent in 2004. The US would suffer the least, with GDP falling by 0.3 per cent, largely because indigenous production meets a bigger share of its oil needs. Japan's GDP would fall 0.4 per cent with its relatively low oil intensity compensating to some extent for its almost total dependence on imported oil.

"In spite of the high oil price, 2004 closed with robust economic growth."

The IEA model

The IEA model shows that the OECD countries imported more than half their oil needs in 2003, (56 per cent of their needs in 2002), at a cost of over $260bn — 20 per cent more than in 2001. Following the first year, the IEA expects Western industrialized economies to overcome these effects as a result of their ability to adapt to high oil prices in the trade of goods and services.

The IEA report also suggests that a loss of 0.5 per cent in global GDP in the year following a $10/b oil price increase would be equivalent to a loss of $255bn. This is because the economic stimulus provided by higher oil export earnings in OPEC and other oil-exporting countries (including Western countries, such as the United Kingdom, Norway, Canada and Denmark) would be more than outweighed by the depressive effect of higher prices on economic activity in the importing countries.

Besides the IMF and IEA forecast models, there are other models that offer varying results. Most, however, agree that the impact of the oil price increase on the global economy does not represent an immediate serious concern.

The Chairman of the US Federal Reserve, Alan Greenspan, said in June 2004, that "the impact by oil prices in modern market-based economies is difficult to infer in a way in which policy is automatically obvious. The findings of the Federal Reserve's macroeconomic models show that, despite the fact that most recent recessions have been preceded by oil price spikes, the actual pattern of price change that has occurred over the last 30 years does not create recessions in the models … which tells us either that those relationships … are spurious, or that there is a non-linearity in the way oil prices impact on market economies."

Likewise, during the June 2004 meeting of EU finance ministers, the European Commission said it expected that the impact of the oil price spike on the Euro-zone's economic growth would be relatively weak. The French Finance Minister suggested that the effect of $40/b oil lasting for one year would only reduce the rate of economic growth in the Euro-zone from 1.7 per cent to 1.5 per cent.

In fact, the Minister said the actual results of 2004 were better than expected. The average price of oil did not exceed $36/b. The Euro-zone economic growth realized a rate of 1.9 per cent, which was well above the anticipated growth rate forecast prior to the price spike.

As for East Asia, Merrill Lynch asserts that the region's economies (excluding Japan) grew at a rate of 8.4 per cent during the first quarter of 2004. Along the same line, the HSBC bank expected the region's growth rate to reach 7.6 per cent over the course of 2004. Meanwhile, the UBS bank indicated that many of the region's countries had large trade and balance-of-payments surpluses which could help alleviate the impact of oil price increases.

Western industrialized economies

The impact is also projected to be light according to a report issued in December 2004 by the OECD. Despite adversely affected incomes anticipated in Western economies, economic growth rates are expected to continue at rates in excess of those realized in previous years. Western industrialized economies, which developed at a rate of 3.6 per cent in 2004, are projected to close in on 2.9 per cent in 2005 and 3.1 per cent in 2006, compared with 1.1 per cent in 2001, when oil prices were within the limits of $25/b.

In fact, the present oil price impact on the global economy is expected to be much weaker than in the 1970s. The real value of $50/b oil today fails to exceed the $12/b realized in 1973. At the same time, advanced industrialized countries have managed to enhance oil efficiency. At

OPEC oil revenues according to EIA's assessment

Unit = billion US dollars, $2005 constant

Country	1980	1998	2004	2005
Algeria	26.1	6.4	22.7	29.8
Indonesia	30.1	3.5	0.6	–0.4
Iran	25.6	11.9	32.2	41.0
Iraq	54.8	7.6	18.2	19.3
Kuwait	38.0	9.1	27.4	36.9
Libya	45.1	6.7	18.2	23.9
Nigeria	48.4	9.9	29.8	37.7
Qatar	10.9	3.9	13.5	17.0
Saudi Arabia	211.7	39.7	115.6	150.1
UAE	38.2	10.9	30.2	39.0
Venezuela	36.8	13.5	29.8	35.5
Total	**566.6**	**123.2**	**338.3**	**429.8**

a constant dollar value, the oil content needed to generate $1,000 of GDP has fallen from an estimated 1.43 barrels in the mid-1970s to approximately 0.74 b at present.

In the Euro-zone, the 28 per cent rise in the price of oil — from $28/b in 2003 to $36/b in 2004 — effectively reflects a drop in euro-based oil imports, since the euro has gained 35 per cent greater leverage against the US dollar, which is used to price oil.

The impact of oil prices on the US economy was also less than initially expected. Fortunately, oil prices rose amid an upward economic trend. This has helped to alleviate the impact and, at the same time, helped foster economic growth. The rise in government and military spending, coupled with a decline in interest rates and the dollar value, were also relieving factors.

Average US per-capita income, in real terms, also increased relative to oil prices. This income, which could secure approximately 500 b of oil over the period 1974–86, became able to acquire nearly 1,000 b over the period 1987–2003, thanks, in part, to the drop in oil prices, both in nominal and real terms.

On the other hand, the brunt of high oil prices is being borne by the transportation sector, which is responsible for nearly two-thirds of US oil consumption. Moreover, the amount of fuel consumption in this sector does not exceed two per cent of US GDP.

In spite of the high oil price, 2004 closed with robust economic growth. The global growth rate reached 5.1 per cent, the highest in 30 years. The growth rate in Western industrialized countries exceeded all expectations made prior to the surge in oil prices, reaching 3.3 per cent in the seven major industrialized countries (G7), 4.4 per cent in the United States, 2.6 per cent in Japan and 1.9 per cent in the Euro-zone.

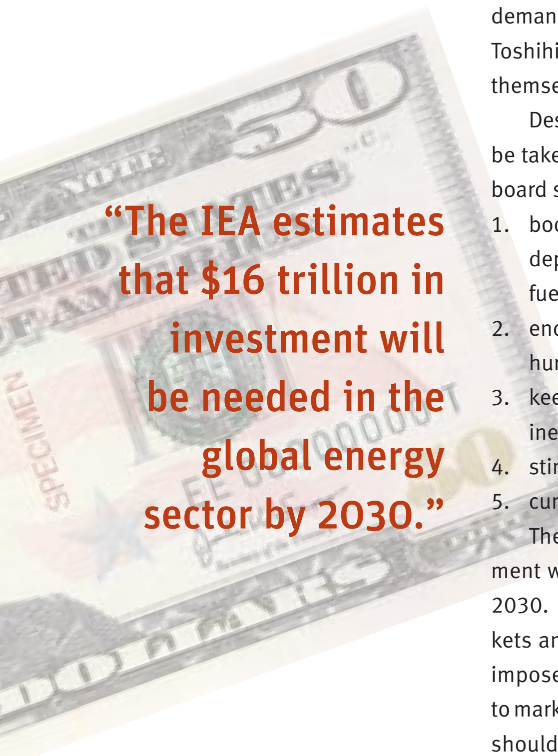
These positive results were reflected in the meeting of finance ministers and central bank governors from G7 countries, held in Washington, DC, in April this year. The meeting statement said: “Since our meeting in February, the global expansion has remained robust and the outlook continues to point to solid growth for 2005. Subdued inflationary pressures, appropriate monetary policies and favorable financing conditions are supporting the outlook. But challenges remain. Higher oil prices are a headwind and the expansion is less balanced than before. We welcome efforts to improve oil market data, increase medium-term energy supply and efficiency.”

AP Photo

Other statements by respected officials offered further reassurance. Also in April, IEA Executive Director, Claude Mandil, said oil markets were well supplied and might even be oversupplied. In May, a Saudi Arabian official said the Kingdom had tried to tender 1.5m b/d of Saudi heavy crude, but found no potential buyer because the market was already saturated with such oil. Again in April, US Treasury Secretary, John Snow, said: “These prices are out of line and I am confident there will be adaptations to these prices, both in terms of the supply side and the demand side.” On the same day, Bank of Japan Governor, Toshihiko Fukui, said economies need to acclimatize themselves to costlier oil.

Despite such optimism, several precautions must still be taken. In its meeting early in May, the IEA governing board stressed the necessity of:

1. boosting energy efficiency, curbing energy import dependence and reducing global reliance on fossil fuels;
2. encouraging investment in energy and removing its hurdles;
3. keeping sufficient stocks to absorb unpredicted yet inevitable surprises;
4. stimulate and diversify energy supplies; and
5. curb energy demand.



“The IEA estimates that $16 trillion in investment will be needed in the global energy sector by 2030.”

The IEA also estimated that $16 trillion in investment would be needed in the global energy sector by 2030. Recognizing that price subsidies distort markets and create barriers to investment, which, in turn, impose capacity restraints, the IEA said it should be left to market forces to determine where energy investments should be directed. *(In the writer’s view, this could be construed as directing oil exploration activities to focus on low-cost areas, such as those in OPEC, particularly the Gulf region).*

In conclusion, the actual results of 2004’s worldwide economic activity serve to prove that rising oil prices were fundamentally motivated by robust economic expansion, reaching 5.1 per cent growth — the highest witnessed in 30 years, which averaged only four per cent. Spare production capacity failed to keep pace and was unable to ease the pressure resulting from the unprecedented rise in global oil demand. This inadequacy stemmed from a lack of investment needed to expand production capacity, due to the erosion of the real price of oil. In the 1990s, the OPEC Basket price did not exceed $4.50/b, valued in 1973 dollars. By contrast, the price of a barrel of oil in 1973 was $12/b.

$50: a fair price for the OPEC Basket

At its meeting in January this year, OPEC declared it was temporarily abandoning the target price range of $22–28/b. So, the search is now on for a new price band that is both fair and acceptable to producers and consumers alike. Despite Western industrialized countries’ traditional opposition to discussing prices in the context of a dialogue between producers and consumers, talks recently shifted to an institutional entity known as the International Energy Forum (IEF). Saudi Arabia volunteered to host an informal discussion of the issue, not in the form of a formal and binding commitment, but rather, in a manner similar to the North-South dialogue held in Paris from January 1976 through June 1977.

In order to forecast where prices are headed, it is necessary to understand where they are coming from. As it is well known, oil prices relaxed in the first half of the 1980s, then collapsed from $28/b to $13/b in 1986. In 1987, prices settled at around $18/b. The prevalent consensus at the time considered this price to be fair and acceptable to both producers and consumers, provided it gradually increased, in order to maintain its real value. But, while the prices of goods and services imported by oil-exporting countries from Western industrialized countries increased between 1987 and 2000, the price of oil remained at around $18/b. This rendered the true price of oil to be valued at nearly $4.50/b, which was a little above its price in 1973, before prices were corrected to $12/b.

While oil prices fell, the taxes imposed by Western industrialized countries on petroleum products increased, feeding their treasuries. In Europe, taxes on petroleum products leapt from $22/b in 1986 to almost $65/b, which is equal to approximately 70 per cent of the retail price for consumers.

In 2000, OPEC adopted a price band mechanism in an attempt to support prices. This resulted in an average price of $25/b over the course of 2000–03. However, events in 2004 revealed the basic deficiencies that plague the oil industry as a result of the decline in the real price of oil, reflecting its falling purchasing power. Consequently, the volume of investments aimed at expanding oil production capacity deteriorated and the unprecedented increase in world oil demand of 4.5m b/d in 2003–04 failed to be met by adequate spare capacity.

According to a Merrill Lynch report, the failure to secure oil investment has been due to the inability of the capitalist expenditure from international oil companies to keep pace with the increased cost of oil exploration, which has snowballed at an average rate of ten per cent annually since the mid-1990s. To stimulate investment in the oil industry, the price of oil had to be raised, in order to preserve the reasonable rate of return at 13 per cent. In the mid-1990s, the investment needed to secure a production capacity equal to one b/d over a period of ten years was estimated to be $14,600. The cost of finding and developing oil, therefore, was approximately $4/b, accommodating the 13 per cent rate of return based on the 1990s prevailing price of $18/b. From 2001 to 2003, the volume of investment required to secure the same production capacity surged to $25,600, raising the capital cost of finding oil to $7/b. This necessitated a price elevation to $28/b, in order to maintain the 13 per cent rate of return.

While global demand for oil is anticipated to escalate from the current 83m b/d to 120m b/d by 2025, the investments needed to expand oil and gas production capacity in the Middle East over the next 25 years is estimated at $750 billion. This prompts the question of what price will suffice to encourage investment in expanding oil production capacity towards serving consumers and guarding against price shocks.

According to our estimates, the reasonable price will likely range around $50/b in 2005 and then gradually increase, according to an annual rate that should be determined with regard to three principles that were previously adopted in international agreements with international oil companies.

The 1971 Tehran Agreement, which was signed between OPEC and the international oil companies (IOCs), endorsed the principle of a gradual 2.5 per cent annual price escalation to cover for inflation. It also endorsed an annual increase of 5¢/b as a special allowance on the basis that oil is a non-renewable resource that will soon be depleted in the light of its heightened demand. In 1971, 5¢/b represented 2.5 per cent of the price of oil, which hovered around $2/b. Accordingly, the annual rate of increase adopted by the Tehran Agreement was approximately five per cent. Though the Tehran Agreement is no longer valid, these two principles are still worthily applied as logical indicators.

The first Geneva Agreement

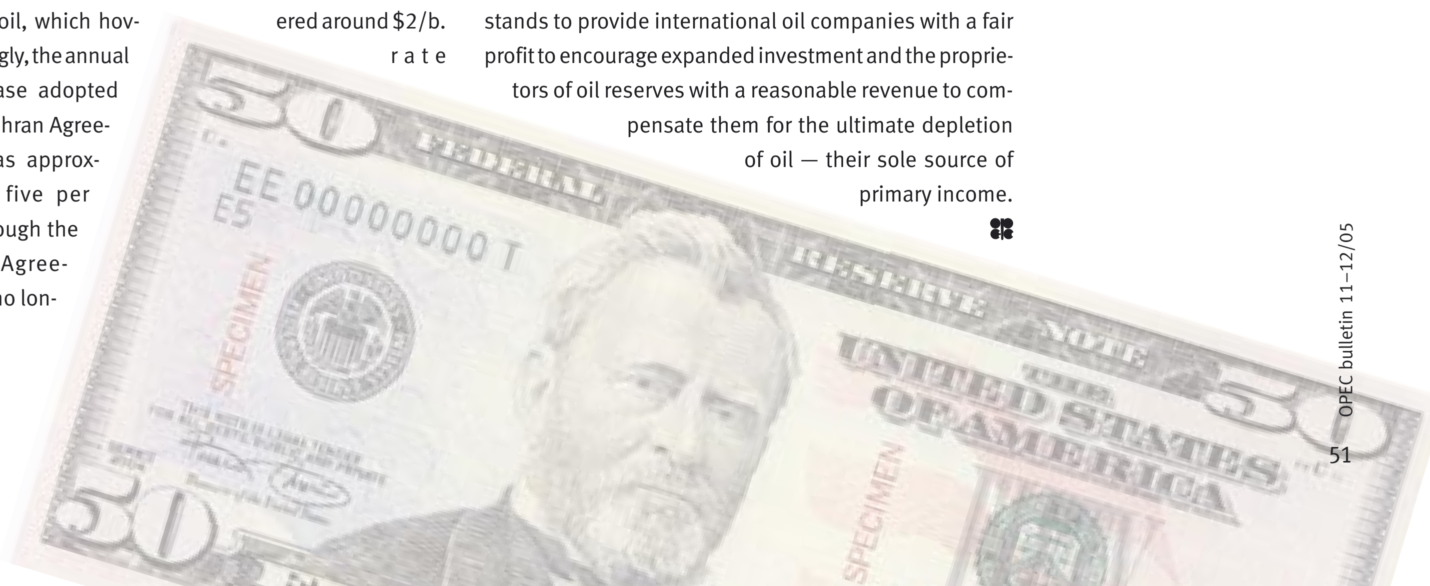
The first Geneva Agreement concluded with the IOCs endorsed a principle of correcting oil prices in accordance with variations in the value of the US dollar, as oil is priced in dollars, vis-à-vis other major currencies. After the decision to float the dollar on August 15, 1971, and its subsequent official devaluation on December 17, 1971, the price of oil rose by nearly 8.5 per cent by January 20, 1972. The dollar was devalued again on February 12, 1973, and the second Geneva Agreement, concluded in June 1973, endorsed an approximate price increase of 11.9 per cent and decided to adjust prices monthly in the light of the currency's fluctuations.

These three principles should be taken into account in the estimation of nominal oil prices' annual rate of increase. Even if the US dollar fluctuations vis-à-vis other major currencies eventually equalize in the long term, according to the two principles of the Tehran Agreement, the annual rate of increase was still not less than five per cent annually over the past 30 years.

The increase in the nominal price of oil should be logical and fair to all parties of the international oil market, particularly oil-exporting developing countries, which are wholly dependant upon one source of income — a depleting, non-renewable, natural resource.

The price that was adjusted under the umbrella of the October 1973 War and went into effect in 1974 — $11.65 — is thereby contended to be a fair price and suitable to serve as a basis for the gradual escalation, as well as a means to compensate for the erosion of the real price of oil. On the basis of applying the above three principles for estimating the composite annual rate of increase — five per cent — over the past 30 years, the nominal price of oil should therefore currently reach $50/b.

This new price — $50/b upgradeable over time — stands to provide international oil companies with a fair profit to encourage expanded investment and the proprietors of oil reserves with a reasonable revenue to compensate them for the ultimate depletion of oil — their sole source of primary income.



Sowing the seeds for future producer-consumer co-operation

Saudi Arabia launches permanent headquarters for IEF

Global co-operation between oil producers and consumers received a major boost in November 2005 with the launch of the International Energy Forum (IEF) Secretariat in Riyadh, Saudi Arabia.

The IEF headquarters, formally inaugurated by Saudi Arabia's King Abdullah, sets the stage for future interaction and constructive dialogue between oil producers and consumers, a movement that began in Paris way back in 1991.

The Secretariat will assist in furthering and strengthening ties among producers and consumers as they address a widening spectrum of common concerns relating to the international oil market, principal of which are ensuring long-term security of supply and demand and mobilising the necessary investment the industry will require in the challenging years ahead when global energy use is set to rise considerably.

In this article, Bulletin Editor-in-Chief, **Dr Omar Farouk Ibrahim**, who attended the opening ceremony of the IEF Secretariat, reflects on another landmark achievement in the ongoing process to bring producers and consumer together under one umbrella.

All photographs IEFS.

It was a wish fulfilled — a dream come true — for Saudi Arabia's King Abdullah as he arrived to formally declare open the new permanent Secretariat of the International Energy Forum (IEF), an impressive building located in the diplomatic quarter of the Kingdom's capital, Riyadh. Exactly five years earlier, on November 19, 2000, the then Crown Prince had, in an address to the Seventh IEF in Riyadh, noted the invaluable contribution the Forum had made in its nearly ten years of existence towards creating a conducive environment for frank exchanges of views among energy-producing and consuming nations. He also expressed the view that the Forum, which up until that time did not have any permanent structure, either in terms of an office or staff, should consider having a permanent Secretariat with staff who would be dedicated to the pursuit of the objectives of the Forum.

Having made the suggestion, Crown Prince Abdullah went further and announced Saudi Arabia's preparedness to host such a Secretariat, should member countries of the Forum endorse the suggestion.

The Eighth IEF, held in September 2002, in Osaka, Japan, endorsed his suggestion and offer and immediately formed an Executive Board consisting of 13 IEF participating countries and the Secretariats of the International Energy Agency (IEA) and OPEC. Within three months of the Osaka decision, the IEF Secretariat was operational, courtesy of the Saudi Arabian authorities, who promptly provided temporary office accommodation and other logistics support for its take-off. At the same time, work began in earnest on the construction of a befitting permanent Secretariat, on a 9,000 square metre piece of land. The roll-call of those who graced the launching of the new edifice in November 2005 was a testimony to the increasing acceptance by world leaders of the importance of sustained dialogue on energy issues among producing and consuming countries, as well as key private sector energy stakeholders. Among the high-level representations from the consuming countries were United States Secretary of Energy, Samuel Bodman, Britain's Chancellor of the Exchequer, Gordon Brown, France's Finance Minister Thierry Breton, Italy's Minister of Productive Activity, Claudio Scajola, Japan's Chief Cabinet Secretary, Hiroyuki Hosoda, India's Petroleum Minister, Mani Shankar Aiyar, China's State Development and Reform Commission Vice Minister, Zhang Guobao, and Germany's Administrative State Secretary, Georg Wilhelm Adamowitsch.

Also present were the Deputy Managing Director of the International Monetary Fund (IMF), Takatoshi Kato, European Energy Commissioner Andris Piebalgs, and high-level representations from the IEA, OPEC, The Latin American Energy Organization (OLADE), the Asia-Pacific Economic Forum (APEC), Eurostat, the United Nations Statistics Division (UNSD), and others.

At the private sector level, the chief executives of such important international oil companies as Royal Dutch/Shell, Jeroen van der Veer, TOTAL, Thierry Desmarest, Conocophillips, James Mulva, and Nippon Oil, Fumiaki Watari, were present. High-level representations also came from BP, Chevron and other leading firms.

Unflinching commitment

From the producers' side were Ali I Naimi, Saudi Arabian Minister of Petroleum and Mineral Resources, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, who was wearing two hats — as Kuwaiti Minister of Energy and as President of the OPEC Conference — and Abdullah Bin Hamad Al Attiyah, Second Deputy Prime Minister and Minister of Energy and Industry of Qatar. Also on the role call of ministerial-level representations from producing countries were Mexican Minister of the Economy, Fernando Canales, Executive Vice President, Corporate Communications, Statoil, Elizabeth Berge, UAE Energy Minister, Mohamed Bin Dhaen Al Hamli, and the incoming President of the OPEC Conference, Nigeria's Minister of State for Petroleum Resources, Dr Edmund Maduabebe Daukoru. A number of national oil companies were also represented.

The launching attracted more than just political heavyweights. Some foremost commentators on energy matters were also in attendance, among them Daniel Yergin, Kenneth Rogoff, Olivier Appert, Walid Khadduri, as well as Acting for the OPEC Secretary General, Dr Adnan Shihab-Eldin.

In his address on the occasion, the Custodian of the Two Holy Mosques (the official title of the King of Saudi Arabia), King Abdullah, assured the world energy community of Saudi Arabia's unflinching commitment to working towards continued stability of the world oil market. "The oil policy of Saudi Arabia is based on two main factors: achieving a reasonable and fair price for oil; and ensuring enough supplies to all consumers," he said. King Abdullah noted, however, that "all the efforts of the producing countries will not bear fruit if they are not met with positive steps by the main consumer states."

Speaking specifically on the impact of high oil prices on final customers in the key consumer countries, he called on these governments to complement the efforts of producing countries towards stabilizing oil prices at fair and reasonable levels by cutting petroleum product taxes whenever the price of oil rose beyond the dictates of market fundamentals.

The occasion also witnessed the formal launching of the Joint Oil Data Initiative (JODI) world database, whose aim is to enhance transparency in the word oil market through the provision of timely and reliable data. JODI was started in 2001 by six international organizations, whose membership comes from both oil-producing and consuming nations, as well as developed and developing nations, namely the Asia Pacific's APEC, Europe's Eurostat, the Organization for Economic Co-operation and Development (OECD)'s IEA, Latin America's OLADE, the developing countries' OPEC and the United Nations' UNSD.

It was set up in response to the volatility that characterized the world oil market in the late 1990s. Although a number of stakeholders had individually expressed concern about the negative impact of the absence of timely and reliable data on the international oil market, it was not until the Seventh IEF had called for a worldwide initiative to deal with the existing problem that the six organizations came together to begin to address the challenge of oil data transparency.

The JODI world database has comprehensive data on crude oil, liquefied petroleum gas, gasoline, kerosene, diesel, fuel oil and total oil from all 92 of the initiative's participating countries. It also has data on production, demand, closing stock levels and changes. These data are available in three different units — barrels, tons and litres.

The launching of the JODI world database on the same day and at the same venue as the inauguration of

King Abdullah with some of the dignatories at the ceremony.

Saudi Arabia's Minister of Petroleum & Mineral Resources, HE Ali I Naimi, at the inauguration ceremony.

the headquarters of the IEF once again underscores the significance of the decisions of the Seventh IEF, when Crown Prince Abdullah first suggested the establishment of a permanent Secretariat for the Forum. It was also the same Forum that threw the first formal challenge to its members and their organizations to work together to address the important issue of oil data transparency.

The communiqué of the Seventh IEF had called for co-operation among the relevant international organizations, as well as participating countries, in order to improve timely access to energy data and thereby enhance transparency. The launching of the JODI world database has been rightly described as a concrete manifestation of the positive result of the producer-consumer dialogue.

Saudi Arabia's King Abdullah, and pictured right, the official inauguration stone.

OPEC Conference President and Minister of Energy of Kuwait, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah.

... the dialogue continues in Abu Dhabi

While Riyadh was busy launching the IEF Secretariat and the JODI world database, Abu Dhabi, the capital of the United Arab Emirates (UAE), a major oil and gas-producing nation and a Member of OPEC, was pursuing a similar objective as it prepared to host the OECD's energy watchdog, the International Energy Agency (IEA), for the public presentation of its 2005 World Energy Outlook. The IEA Outlook for 2005 focused on the Middle East and North Africa (MENA) region.

In his remarks on the occasion, UAE Minister of Energy, Mohamed Bin Dhaen Al Hamli, noted the symbolism of the day's event, namely the choice of an oil-producing country for the launching of a product by the energy watchdog of the major oil-consuming nations.

He observed that it was a clear indication of the strong co-operation that now existed between producers and consumers, which was in huge contrast with what was obtained in the 1970s and to some extent the 1980s.

In those days, as Ambassador William Ramsay of the IEA observed earlier, the relationship between producers and consumers was characterized by mistrust.

Interests were perceived as mutually exclusive. What producers saw as their interests were perceived by consumers as against their interests, and *vice versa*. In that situation, there was hardly any room for constructive engagement.

But both sides also knew that in an increasingly interdependent world, each stood to lose if one did not co-operate with the other, in order to know the requirements, needs, expectations and fears, so that the proper planning could be made.

Commenting on the current oil market situation, Al Hamli noted the paradox of persistent high oil prices in a market that was consistently well-supplied, and argued that bottlenecks in the supply chain, particularly in the refining sector, were largely responsible for the relatively high prices of oil.

He noted that the UAE held the fourth largest oil reserves in the world, currently estimated at 98 billion barrels, and the fifth biggest global natural gas reserves, put at 6.1 trillion cubic metres.

On oil production, Al Hamli said the UAE now produced 2.5 million barrels per day and by the end of 2005 to early 2006 would add an additional 200,000 b/d. The country expected to boost its production to more than 3.5m b/d in the next few years, as a result of the massive investments being made in the upstream sector.

The presentation by Ambassador Ramsay highlighted the importance of the MENA region, its hydrocarbons potential and its role in supplying world oil markets with their future needs.

The IEA Outlook notes that while the region currently holds about 65 per cent of total world proven reserves and 35 per cent of all global natural gas deposits, its production is only 30 per cent and seven per cent of both, respectively.

With these statistics, the MENA region appeared poised to be the major supplier of world hydrocarbons in the future, it observed.

UAE Minister of Energy, Mohamed Bin Dhaen Al Hamli (l) with Ambassador William Ramsay of the IEA.

Saudi Arabia
joins World Trade Organization

WTO Director-General, Pascal Lamy, and Saudi Arabian Minister of Commerce and Industry, HE Dr Hashim Abdullah Yamani.

Kingdom becomes seventh WTO member from OPEC after 12 years of negotiations

After more than 12 years of negotiations, Saudi Arabia has been formally accepted as the 149th member of the World Trade Organization (WTO), setting the stage for the Kingdom to play a significant role in global commerce.

"This is a historic event for the WTO," said WTO Director-General Pascal Lamy, commenting on the confirmation of Saudi Arabia's membership, which came on December 11, 2005, just one month after the Kingdom's formal accession to the global body.

Lamy stressed that Riyadh's membership would pave the way for a stronger multilateral trading system.

"It's been a long process and I firmly believe that it's good for Saudi Arabia, it's good for the trading partners of Saudi Arabia, and it's good for the organization."

However, Saudi Arabian authorities had little time to reflect on, or even celebrate, the key development. Just two days after its membership was endorsed, a high-level team of officials from the Kingdom, led by Commerce and Industry Minister Dr Hashim Abdullah Yamani, flew to Hong Kong to attend their first WTO summit — the Sixth Ministerial Conference, held on December 13–18.

Now, as Saudi Arabia takes stock of that first official meeting, the OPEC Bulletin takes a look at what the membership will bring for the world's largest oil producer and exporter, as well as the broader implications.

WTO

Signing the protocol of accession Pascal Lamy (l) and Dr Yamani.

Saudi Arabia initially began its accession talks with the General Agreement on Trade and Tariffs (GATT), which was subsequently replaced by the WTO over ten years ago. Unlike its predecessor GATT, which dealt solely with the trading of goods, the WTO has a wider mandate, covering a broad scope of global trade and governance issues, which includes services and intellectual property rights.

It has indeed been a long road of negotiation for Saudi Arabia. The process took the Kingdom's 50-member delegation to 57 countries, during which 38 bilateral accords were signed, 3,000 questions answered and more than 7,000 documents presented. The terms of accession were submitted to a meeting of the Working Party on October 28, 2005, and were approved two weeks later by the General Council of the WTO, paving the way for the Kingdom's full membership 30 days later.

"The accession will enhance the business environment in Saudi Arabia by adding more transparency and predictability."

With its induction, Saudi Arabia has become the seventh OPEC Member Country to join the organization. Indonesia, Kuwait, Nigeria and Venezuela, who where already in GATT, joined the WTO at its inception, in January 1995. They were followed one year later by Qatar and the United Arab Emirates (UAE). Other Member States of OPEC that are at various stages of negotiation for WTO membership are Algeria, Iran, Iraq and Libya. While Saudi Arabia will have to undertake reforms to further liberalize its trade and lower tariffs, the Kingdom's negotiating team was able to attain key concessions, securing exemptions from 59 of 319 clauses in the WTO working team report. The agreement foresees a ten-year grace period for subsidies on agricultural products. Exemptions were also granted regarding the import of products, such as alcohol and pork, which are contrary to Islamic law.

In addition, the Kingdom has agreed to review various fees charged for the authentication of businesses and other related trading documents and to bring such charges in line with WTO rules. It also acceded to eliminate any non-tariff measures that are contrary to WTO rules.

Vital window

As a clear manifestation of its commitment to economic reforms and liberalization, the Kingdom has agreed to allow foreign insurance companies to open branches in the country. Also, foreign banks will be allowed to operate on a commercial basis, but as a form of a local joint-stock operating company, or as a branch of a foreign bank. In addition, Saudi Arabia plans to allow up to 70 per cent foreign equity participation in the ownership and control of the telecommunications sector, a vital window for the promotion of global trade and development. It is hoped that within three years of its accession, the telecommunications sector will be liberalized.

According to Dr Yamani, who headed the Kingdom's delegation to the WTO negotiations, its membership would help to merge the Saudi Arabian economy with the rest of the world, create new jobs and improve access for Saudi products and services in international markets. "The accession will enhance the business environment in Saudi Arabia by adding more transparency and predictability," he said. "This we expect to lead to more investment and job creation," he added.

Dr Yamani, while acknowledging the significance of the Kingdom's accomplishment of the accession process, said: "The Kingdom of Saudi Arabia looks forward to working with other members to strengthen and reinforce the WTO."

WTO status enhanced

The positive effect of the WTO/Saudi move became apparent almost immediately. Prices on the Kingdom's stock market climbed to all-time highs after news broke that the negotiations had proved successful.

It is hoped that an increase in foreign investment will help diversify the Saudi economy and ultimately reduce its dependence on the oil sector.

But just as Saudi Arabia stands to benefit greatly from its WTO association, as the world's leading oil producer and exporter, the Kingdom's membership will also enhance the WTO's status, making it more representative and giving it a more global outlook. As the WTO's Lamy, put it: "One more heavyweight around the table is good news."

He continued: "There is no doubt that the accession of Saudi Arabia strengthens the WTO. The WTO truly becomes a, quote-unquote, 'World Trade Organization'. After all, Saudi Arabia's importance on the world stage cannot be underestimated. It is the world's 13th largest merchandise exporter and the 23rd largest importer. It is also an important services trader."

WTO membership will also provide the Kingdom with a new platform through which to pursue OPEC's goal of

The delegation of Saudi Arabia.

achieving more equitable trading conditions for poorer nations.

Over the years, the proliferation of various multilateral and bilateral agreements on trade, with their wider implications on individual states and trading blocks, has informed OPEC, as an Organization, to closely monitor ongoing developments. In particular, OPEC has sought to clearly define the implications of a broader trading system and what this could imply for nations' sovereign obligations in determining their rights to freely trade goods and services without contradicting WTO rules.

Of course, OPEC clearly recognizes the impact of a liberalized trading system on the general development of the oil industry, in terms of investment growth and the potential for technology transfer. Nonetheless, the Organization has concerns over the interpretation of the various trade rules. Of particular interest, is the right of oil-exporting countries to maintain control over the production and export of their natural resources and the recognition of their sovereign rights over the use of these resources.

With regard to the negotiations concerning services, and more specifically energy services and the issue of the classification of what constitute energy services within the WTO framework, these are issues that are naturally of particular interest to OPEC, especially in the light of the implications for its Member States. Obviously, the outcome of these energy services negotiations will be of immense significance for the medium and long-term economic reform policies of individual OPEC Member States, especially in relation to the liberalization and diversification of their oil-dominant economies.

A study by the OPEC Secretariat on this subject indicates that a preliminary attempt at measuring the impact of a liberalized energy market on OPEC Member States shows a significant opportunity for economic growth and development, but it very much depends on individual Countries' specific economic reform programmes and the pace of liberalization.

Dr Yamani said: "We look forward to working with developing countries to ensure that they secure an increasing share in international trade, commensurate with the needs of their economic development. We will work alongside other countries, especially developing countries, to strive for a more fair and equitable multilateral trading system. The Kingdom will join hands with other WTO members for the early successful conclusion of multilateral trading negotiations under the Doha Development Agenda."

It is, therefore, hoped that as more OPEC Member States join the WTO, their combined voices will be heard in defining a common front to address issues of concern that will not only benefit OPEC Members, but the developing community at large.

Powering global economic development

Energy set to become major topic on UNIDO agenda

The United Nations Industrial Development Organization (UNIDO) is a specialized agency that focuses on relieving poverty by fostering growth in productivity. It helps developing countries and countries with economies in transition in their fight against marginalization in today's globalized world. **Kandeh K Yumkella**, a former Minister for Trade, Industry and State Enterprises of Sierra Leone, has just been appointed its new Director-General. In this interview with Bulletin Editor and Senior Editorial Co-ordinator, **Umar Gbobe Aminu**, Yumkella, who first joined UNIDO in 1996, speaks about his coming four-year term at the head of the 171-member organization and the level of importance he attaches to energy as a key requisite for economic development.

You have emphasized the importance of energy as a key economic driver for global development, especially for poor developing countries. How do you envisage the role of UNIDO progressing in this respect?

Well, in the past, our organization has emphasized a lot on the use of renewable energy and energy resources, particularly biomass. It has learned lessons from other developing countries where they have used these resources. At the moment, what I am doing, in terms of preparing my new vision, is to be a partner with other major agencies. We are still in discussion and, as yet, I cannot relate now as to how we will put this energy issue on the agenda. For a number of reasons, as I have said, without sustainable and reliable energy supplies, you cannot talk about economic modernization. You cannot talk about attracting investment in manufacturing; and you cannot talk about digital demand if you don't have reliable power supplies.

What we plan to do, first of all, is to help countries look at energy planning. What will their energy needs be if they really want to modernize their economies over the next 20, 30 or 40 years? How can they fulfill these energy needs using renewables and other sources? If you look at the Chinese and Indian models, they have used all kinds of energy sources — bio-mass in the villages, solar, mini-hydro, wind etc. Then, as they modernize, they phase out some of the sources and extend the national rights. In fact, in some cases, they are even connected. But we don't have to wait for 30–40 years before a village gets an electricity supply to enable it to store its vaccines. We can use local resources to make sure that they have the energy they require. The impact of an additional three hours of energy supply in a village can make a major difference in what they produce in that community. It can have a major impact on education, so we plan in the next year, starting from January, to make energy a major development topic on the UNIDO agenda. But let me give you another example.

Off our coast, the Gulf of Guinea, we are sitting on oil and gas reserves. I don't hear any discussion of how we are going to use those reserves to power our economy. What I hear is talk about how we are going to export them. Okay, it is good to trade, but when I look at the Niger Delta in Nigeria, where I used to work for three years, it is the major producer of the country's oil resources. But the gas extracted from this area is flared 24 hours a day. We need to address these issues — and we also need to make sure that these local economies are benefiting from the power supplies. So, when you look at the Gulf of Guinea coast, you can learn a lot from other regions - how we can use these natural resources for trade, but also to make sure that we also have a reliable energy supply. Nigeria is leading the effort for the African gas pipeline initiative. Ghana sells power to some of its neighbours — we need to build on this rich example. South Africa also has a lot of experience in terms of power and energy development. But again, the same applies to other regions. I gave those examples in Asia — in other Asian developing economies we can learn a lot about how to solve the problem of energy supply from the sources of energy available.

What do you see as the main challenge facing UNIDO in its efforts at promoting industrial development in the poor countries?

One major challenge is that we, UNIDO, first of all have to ensure that discussions continue in private-sector development. We should also be realistic in our intentions globally, and recognize that countries that have made the most significant impact on poverty alleviation, such as Malaysia, India, and China, over the last 20 years, have done it by modernizing their economies, by diversifying their higher-value products, but with a good link to rural economies, and engaging in export trade, which means a good link to effective economic management. So, when

"My vision is basically to make sure that UNIDO becomes an even more valuable partner in promoting economic transformation in poor countries."

we talk about poverty alleviation in Africa, we must help to put on the economic agenda that it is not just humanitarian assistance that is required, but enhancing the productive capacity, particularly through modernization techniques. We have been commodity exporters and commodity producers for I don't know how many centuries. Yet, over the last 20 years we see poverty has deepened, while commodity prices are falling. We must be open-minded in our bid to alleviate the effects of poverty and we should look to the best practices utilized in other countries. You cannot alleviate poverty without wealth creation and you cannot create jobs faster in the agricultural sector, as you can do in the modernized sector. But it is not an either or proposition, it is a linkage of industry and agriculture through infrastructure development, good marketing services and enhancing the role of the private sector to take risks in the rural communities, or in the poverty centres, to create more jobs for the people.

Given UNIDO's core operational responsibility, which is promoting industrial development in Africa and the developing world, and specifically its activities in Nigeria, where you have worked as the organization's national representative for some time, what advice can you offer the country in the light of its current development initiative?

If I could give advice to Nigeria, where I worked for three years as a UNIDO executive, first of all I would say it should strive to maintain and deepen the reforms that were started by the current administration. Without proper economic reforms and effective economic management you cannot really promote or sustain economic growth, or fight poverty. The recent recognition given to Nigeria by the international community regarding its massive debt relief shows that some of these reforms are working well. Now it is important to deepen this thrust. Secondly, Nigeria must tackle the problems related to its energy industry. Energy is a driver of economic growth. Nigeria must diversify its production, particularly in the non-oil sector, as well as in manufacturing and agricultural production as a productive base. Generally, private-sector development will be significant in taking Nigeria to the next level. I also believe that Nigeria should seriously consider investing in the private sector, particularly in the downstream petrochemical industry.

Nigeria, like most African countries, still needs to enhance productivity in that regard. It needs inorganic fertilizers, chemical inputs for movement and greater commercialization for the agricultural sector, linking the rural areas to markets.

Nigeria should look upon itself as a producer for the rest of the world and for its sovereignty to be more outward oriented, which means it has to be more competitive in industrial production. The country has to be a reliable supplier of quality products. For me, this is the kind of vision I see resulting from the economic reforms. It is working well, but the next push has to be in the private sector. The country has to think global, which will make it more competitive.

Kandeh K Yumkella

received his nomination as the new Director-General of UNIDO after a secret ballot by the 53 members of the Organization's Industrial Development Board (IDB), which reviews the implementation of the UNIDO work programme, the regular and operational budgets and — every four years — recommends a candidate for Director-General to the General Conference for appointment. Yumkella has been a Senior Advisor to the current Director-General, Carlos Magariños, since 2003. He joined UNIDO in 1996 as Special Advisor to the previous Director-General, Mauricio de Maria y Campos. Afterwards, he became Director of the Africa and Least Developed Countries Regional Bureau until 2000 when he was appointed UNIDO Representative and Director of the Regional Industrial Development Centre in Nigeria, a position he held until 2003. Between 1994 and 1995, he was Minister for Trade, Industry and State Enterprises of Sierra Leone. During his earlier career, he occupied several academic and research positions in the United States. Yumkella has also co-authored numerous articles, books and staff papers on international trade and development issues. He holds a PhD in Agricultural Economics from the University of Illinois.

How does one go about promoting private-sector growth where financing options are barely available for small-scale and micro-enterprises, for instance?

To support the private sector, you need a unit approach. Financing is important. The situation in Nigeria today, with its very high interest rates, affects the country's financial standing and performance. Reviewing the financial sector is going to be a very important task for the country's authorities. Consistency is another vital matter — making sure that government policies do not change every year, or with every new regime. The private sector, especially, needs to be confident that incentives will be provided for operators, and that proper fiscal management and other kinds of micro policies are sustainable at all times. This will give them more confidence. Thirdly, it is very important that we recognize the need to support small and medium-sized enterprises (SMEs). We need to do micro enterprising to ensure that we have a sustainable livelihood for the poorest of the poor. But at the same time, with the medium- and larger-sized companies, we also need to to help them engage in global trade and to have global partners for job creation, innovation and to enhance a system of modernized central production.

Yes, we should promote micro-enterprises, but we should not do this at the expense of others that are a little larger, because they too have great potential of becoming global players. I guess the final point is that we should not underplay the role of science and technology. Science and technology and local innovation systems have been critical to helping our industries and our institutions gain knowledge from other areas, and to learn from other regions — Asia for example. So, how we structure our educational system and how we encourage this culture of innovation in science and technology, I think, is important. To give you an example, Nigeria became a leading exporter of oil products some 30 years ago. The Malaysians then studied the country's plans in West Africa, but also applied science and technology and a modern management system to their activities. They are now number one. They have about 35 products from oil alone. Admittedly, some of them are not yet commercially developed, but they can do it with time. So, we need to apply science and technology to all the natural and resource-based industries, so that we can create jobs and enhance poverty alleviation.

You assumed the position of UNIDO Director-General in December 2005. Can you give us some insight into your vision for the Organization during your term of office?

My vision is basically to make sure that UNIDO becomes an even more valuable partner in promoting economic transformation in poor countries. Today's benefits of globalization go to countries that have been able to establish sound management in liberal policies, develop skills locally, build infrastructure and to be valuable trading partners in value-market products. I hope I can help poor countries tap into this global knowledge system to enhance their own abilities for engaging in trade activities. When they engage in trade, and their neighbours are also engaged in trade, probably there will be a bit more stability in the world because then your neighbours' economic stability becomes important to your own economic stability. The UNIDO I see in the future will be playing a big role in enhancing trade in manufacturing products, helping these countries acquire the skills, the knowledge, and the partnerships that are needed to attract investment in their localities.

I don't plan to do that alone — I am planning to see major companies. I will be talking to your own CEO, as well — I mean OPEC and the OPEC Fund for international Development to consider the kind of assistance they can give to poorer countries that, in fact, will lead to some degree of economic modernization, and at the same time strengthen the private sector to invest in productive activities that will help their economies. So, we will be in partnership with other agencies; we will be in partnership with leading global companies as well.

Yumkella (r), with OPEC Bulletin Editor and Senior Editorial Co-ordinator, Umar Gbobe Aminu.

OPEC Acting Secretary General

Dr Shihab-Eldin honoured for commitment to energy co-operation

AP Photo

Dr Shihab-Eldin receiving the award from the Representative of the Italian Government, Minister for Production Activities, Claudio Scajola.

receives major Italian award

Dr Adnan Shihab-Eldin,

Acting for the OPEC Secretary General, has been awarded the Medal of the President of the Italian Republic for his commitment to enhancing co-operation in the international oil sector.

The award was made at the 31st Pio Manzù Conference in Rimini, Italy, at the end of October 2005, in recognition of "the unparalleled and highly prestigious international impact of his dedicated strategic commitment to scientific and energy matters, to which the major part of his professional career has been devoted."

The citation of the award remarked: "The most demanding responsibility facing the world today, that of governing the oil market, is, to a large part, in the hands of OPEC,'' adding that as "Secretary General (Acting) of OPEC, Dr Adnan Shihab-Eldin is currently responsible for the complex and delicate task of directing the work of the OPEC Secretariat in shaping the policies of the Organization and its oil-exporting Member Countries.''

Dr Shihab-Eldin speaking at the Award ceremony, here pictured with the actress Sharon Stone, who also received an award at the 31st Pio Manzù Conference in Rimini.

Dr Shihab-Eldin joined OPEC's Vienna-based Secretariat as Director of its Research Division in 2001, and this year has been Acting for the Secretary General, a mantle held by OPEC Conference President Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, who is Kuwait's Energy Minister.

In 1999–2001, Dr Shihab-Eldin was Director of the Division for Africa, East Asia and the Pacific, Department of Technical Co-operation, at the International Atomic Energy Agency (IAEA).

Before that — from 1991 to 1999 — he was Director of the Regional Office for Science and Technology at the United Nations Educational, Scientific and Cultural Organization (UNESCO). He was also UNESCO's Representative in Egypt, Sudan and Yemen.

An earlier post Dr Shihab-Eldin held for ten years was Director General of the Kuwait Institute for Scientific Research.

Born in 1943, Dr Shihab-Eldin, a Kuwaiti physicist and nuclear engineer, is a member of numerous professional associations and has served as a board member of, and advisor to, many international organizations, foundations and companies around the world.

The Scientific Committee of the Pio Manzù International Research Centre, whose members are leading international scientists, selected him for the award because of his "commitment to encouraging a co-operative approach and to finding solutions of mutual benefit and of wide value to the international community to successfully meet future energy needs."

The Centre, whose General Secretariat is in Verucchio, Italy, is a non-governmental organization in general consultative status with the United Nations. It has been operating since 1969 as an institute for the in-depth study of the main economic and scientific aspects of the relationship between man and the environment.

OPEC Fund highlights

For the majority of the population of Papua New Guinea travel by boat is the only way to get to work, market or school.

Fund working with Papua New Guinea to improve water transport

Many of Papua New Guinea's more remote islands are poorly serviced when it comes to water transport.

Located off the northern extremity of Australia and to the east of Indonesia, Papua New Guinea is an archipelago of some 600 islands strung across the South Pacific Ocean. For a large portion of the population, travel by boat is an inherent and necessary part of daily life, whether for going to work, to market or to school.

However, despite the country's dependence on water transport, the availability, frequency and quality of maritime services vary significantly, with access severely lacking on many of the more remote islands. As this situation has continued — and indeed gradually worsened over the years — the impact on the islands' socio-economic development has been considerable.

Papua New Guinea ranks bottom among all Pacific developing countries on the human development index of the United Nations Development Programme. Social indicators are particularly telling, revealing low life expectancy, poor adult literacy and constantly declining levels of maternal, infant and child health. Many of these problems are exacerbated by the fragmented physical distribution of the population, with thousands of people in remote areas cut off from vital social services and employment because of inadequate transport provision. Indeed, a direct correlation exists between lack of access to affordable and reliable water transport and poverty levels in isolated, water-transport dependent communities.

Papua New Guinea's maritime transport sector is beset with difficulties. Marine infrastructure is deficient in many coastal and river areas, where wharves and jetties are non-existent, or are in poor condition. Cost and safety issues are also of concern, with transport services reliant on small craft that are expensive and dangerous to operate. Safety is further compromised by an absence of navigational aids and communications equipment, as well as by overloading. This *laissez-faire* attitude on the part of both users and operators of water transport has led to frequent loss of life at sea, together with substantial material losses.

A Fund-sponsored project, which is being co-financed by the Asian Development Bank and the government of Papua New Guinea, will support an extensive reform programme that aims to reorganize and strengthen the country's maritime services sector and enable it to deliver shipping services that are cost-effective, safe and accessible even to those in the most marginalized communities.

The project will specifically target towns and villages that suffer extreme social and economic isolation, due to the deficient marine transport system. Such areas are the poorest in the country and home to an estimated 500,000 people, half of whom subsist on less than $1 a day. Because the availability of transport is so limited, a great number of these people are unable to access basic services, such as healthcare, clean water and education. Many also suffer from poor nutrition as the constrained movement of farm inputs and produce makes a varied diet an unaffordable luxury.

Key to the project is the establishment of a community water transport fund, which will help subsidize the operating costs of franchised transport providers. Franchise schemes will focus initially on priority routes that serve remote communities and have a strong potential to reduce poverty and expand local economic activity. To support the franchise services, the project will also carry out improvements to the transport infrastructure by restoring 40 selected piers, pontoons, jetties, landing ramps and small wharves. In addition, safety standards will be improved through the introduction of a formal marine accident reporting and investigation system, the preparation of safety guidelines, the development of a boat licensing system, and the setting up of a country-wide marine radio network.

Also envisaged under the project is an outreach campaign to help people in the target areas identify and take advantage of opportunities created by the improved transport services. Extension workers will assist and encourage vulnerable communities to develop innovative schemes to improve access to health and education, and boost incomes through micro-enterprise opportunities. To ensure the sustainability of these schemes, all small-scale projects will be developed in collaboration with community stakeholders and village councils.

Fund supports mobile telephone firm in Tunisia with €10 million loan

Tunisiana

Tunisiana's headquarters in Tunis. The loan will help expand the company's network capacity and finance the final license fee installment.

As the worldwide information and networking revolution continues to gather pace, developing regions face some tough challenges. A yawning digital divide separates them from the fast-evolving global "information highway", thwarting integration efforts and perpetuating marginalization. Information and communications technologies (ICTs) pervade every aspect of modern life, affecting all sectors of social and economic activity. For developing countries, investment in ICT infrastructure has become a priority, not just to facilitate communication, or to make information more accessible, but also to allow participation in the burgeoning global e-commerce industry. For the majority, however, especially the lower income nations, the task remains daunting.

Few developing countries have made much headway in the past five years in widening access to even the most basic telecommunications services. In some cases, tele-density (the number of telephone lines per 100 people) has actually dropped as population growth has outstripped telecom growth. Mobile telephones offer an alternative to fixed line services, but have traditionally been largely unaffordable to the general population. While Internet access is booming in the rest of the world, in developing regions it remains patchy, unreliable and slow, forcing the information gap wider still.

The North African republic of Tunisia is one developing country that is determined not to be left behind by the ICT revolution. And the OPEC Fund is doing its bit to help, through a private sector loan to the country's first private mobile phone provider, Tunisiana.

Tunisia's telecommunications sector, traditionally a weak link in the country's infrastructure, has received substantial government investment in recent years. As a result, the number of fixed-line customers grew from just 220,000 in 1987 to over one million in 2001. Although tele-density remains low in relation to developed countries and those at a similar income level, at 12 fixed lines per 100 inhabitants it is far higher, for instance, than neighboring Morocco's ratio of five per 100. Steps have also been taken to upgrade the quality of the service. As part of Tunisia's ninth Telecommunications Development Scheme, some 3,000 km of fiber optic cable system was laid between 1998 and 2001, providing support for both voice and data services, including Internet, which has since been made more accessible with the introduction of high-speed connections such as ADSL.

But it is the country's mobile telephone network that has shown the fastest growth. Originally launched in 1998 by the state telecom company Tunisie Télécom, the service

Technicians install a new GSM transmitter mast in Tunisia. By December 31, 2004, Tunisiana, the country's first private mobile phone provider, had signed up more than one million subscribers to its network.

had attracted almost 600,000 subscribers by the end of 2002, with an additional 700,000 prospective customers waiting to sign up. To help satisfy the demand and to make the market more competitive, the government awarded a second Global System Mobile (GSM) license to private operator, Orascom Telecom Tunisia (Tunisiana), the same year.

Backed by a number of experienced operators, including ORASCOM Telecom, which is one of the largest GSM providers in the Middle East, Africa and the Indian sub-continent, and by Watinya Telecom, the biggest operator in Kuwait, Tunisiana launched its network in December 2002. With only four per cent of Tunisians enjoying access to mobile services at the time, its aim was to fill the gap in supply and demand and provide potential customers with a competitive alternative to the state run service.

The OPEC Fund's involvement with Tunisiana was sealed with the extension of a €10 million loan. The resources will be drawn from the Fund's Private Sector Facility and used to help finance the final licence fee installment, as well as capital investment to expand the network capacity.

Since its launch, Tunisiana has enjoyed rapid expansion, signing up more than 100,000 clients in its first month of operations alone. In May 2003, when network coverage was extended from Bizerte on the northern coast, to the southern cities of Djerba and Kairouan, effectively reaching more then 70 per cent of the population, a surge in subscriptions saw the client base increase to 500,000 by the end of that year. By December 2004, this number had doubled to over one million.

Like providers in developed countries, Tunisiana offers a full range of mobile services, from text messaging and voice mail, to email and data and info services. The company also has roaming agreements with more than 65 operators in some 50 countries. This is good news for the tourist industry, as well as a boon to business and commerce, and positions Tunisia well for competing more effectively in the world economy.

Articles courtesy of the OPEC Fund Newsletter.

Fund launches scholarship award

The OPEC Fund has launched an annual scholarship award programme to assist students pursue development-related careers.

The successful candidate, who should be a mid-career professional from a developing country, will receive a scholarship of up to $100,000, spread over a maximum of two years.

This will go towards the completion of a Master's degree, or its equivalent, at an accredited educational institution, starting from the academic year 2006/07.

Commenting on the move, OPEC Fund Director General, Suleiman J Al-Herbish, said: "The scholarship award aspires to contribute to the continued efforts undertaken by other global aid agencies toward creating a new cadre of highly-qualified and skilled human resources in the eligible countries. It also recognizes distinguished and promising candidates with a great potential to make a positive change in their own countries. Furthermore, the Fund has the intention of making this scholarship one of the highly prestigious awards by identifying and nurturing outstanding students and young employees."

Full details of the programme can be found at either www.opecfund.org, or scholarship@opecfund.org.

November/December

This section includes the OPEC Monthly Oil Market Reports (MOMR) for November and December 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

November

OPEC Reference Basket[1]

The OPEC Reference Basket in October sustained the downward trend that has prevailed since late September. While the Asian market soaked up more sweet crude, which widened the sweet/sour spread amid ample Mideast supply, the western market focused on arbitrage opportunities, due to growing uncertainty over oil demand with several refineries remaining closed. The bearish sentiment persisted into the first week with the US administration stating that it would tap its SPR for crude and heating oil if necessary. The Basket closed the first week at $56.55/barrel, a loss of nearly two per cent, or $1.08/b. This downward movement was triggered by the continued widened sweet/sour spread in the east. However, the bulls revived early in the second week on emerging winter fuel demand in Asia, while a refinery strike in France suspended potential buying interest. Prices were supported by International Energy Agency (IEA) estimates of lower non-OPEC supply this year and growing global demand well into next year. This momentum was furthered by an EIA report echoing the IEA's forecast of healthy demand and lower supply. In the second week, the Basket closed $2/b, or 3.5 per cent, lower at $54.55/b. The downward movement carried over from the previous week, supported by ample OPEC supply amid weakening gasoline demand in the USA. The sentiment reversed with the formation of Hurricane Wilma; however, this was short-lived as the storm changed its path away from oil operations in the Gulf of Mexico. A hefty build in US crude oil stocks supported the downtrend, while higher prices were said to be eroding demand amid a slow recovery in US Gulf Coast production. A larger-than-anticipated build in natural gas storage also supported the bears. Consequently, the Basket edged lower in the third week, down a slight 45¢/b, or less than one per cent, to close at $54.10/b.

Although the Basket experienced some bullish momentum in the fourth week, ample supply continued to ease the market. The Basket surged on concern over winter fuel supplies and stockpiling amid Total's resumed operations in France, which prompted buying interest. Sentiment was furthered by bullish US stock data. In the final week of October, the Basket shed a further 78¢/b, or 1.4 per cent, to settle at $53.32/b (see **Table A**).

After a volatile month, the Basket's monthly average dropped a hefty 5.6 per cent, or $3.25/b, to settle at $54.63/b. The widening sweet/sour spread in Asia pressured Mideast crude amid uncertainty about demand, due to refinery outages in the west. Moreover, the lingering possibility of a further tapping of strategic reserves only added to the downward momentum. Nevertheless, prices changed direction on the prospect of higher demand and lower non-OPEC supply. However, ample OPEC supply, evidenced by higher US crude oil stocks, kept the bearish trend alive. The Basket moved further downward into the first half of November on healthy crude oil stock-builds amid slower demand for gasoline and lower heating fuel requirements, due to unseasonably warm weather in the Northern hemisphere. The Basket slipped well below the $55/b level to close at $50.01/b on November 15.

US market

The market emerged on a weaker note in October with nearly 20 per cent of US refining capacity out of operation and all of US Gulf crude output shut following Hurricane Rita.

1. An average of Saharan Blend (Algeria), Minas (Indonesia), Iran Heavy (IR Iran), Basra Light (Iraq), Es Sider (SP Libyan AJ), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (United Arab Emirates) and BCF-17 (Bachaquero, Venezuela).

The West Texas Intermediate/West Texas Sour (WTI/WTS) spread widened by 63¢ to $5.72/b in the first week, while WTI closed at an average of $63.93/b, or 2.7 per cent lower. Moreover, additional barrels of Colombian sour grade were available for November delivery amid the continued slow recovery of the US Gulf Coast refining system. The lower refinery demand resulted in rising crude oil stocks, which helped push WTI down 1.7 per cent in the second week, while the WTI/WTS spread widened a further 36¢ to $6.08/b.

The closing of arbitrage opportunities across the Atlantic amid the development of Hurricane Wilma kept pressure on sour grades. However, US Gulf Coast refineries began to recover, preventing differentials from widening further to some extent. In the third week, the WTI/WTS spread expanded to $6.32/b for a gain of 24¢/b over the previous week, with the WTI weekly average closing 0.5 per cent lower at $62.51/b. The spread continued to widen into the final week of October on larger-than-expected crude oil supplies and as Hurricane Wilma avoided energy facilities in the Gulf of Mexico. WTI closed the fourth weekly period at $61.38/b for a drop of 1.8 per cent, with the WTI/WTS spread widening by 29¢ to $6.61/b, after peaking at $7.71/b on October 25, due to concerns over winter fuels. However, during the final two days of the month, the spread narrowed to $5.50/b as refineries and oil output recovered from hurricane damage. October WTI averaged $62.67/b, or four per cent lower, with the WTI/WTS spread widening by $1.11 to $6.18/b.

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

	Oct 05	Nov 05	2004	2005
OPEC Reference Basket	**54.63**	**51.29**	**36.07**	**50.47**
Arab Light[1]	54.65	51.55	34.52	49.99
Basrah Light	51.39	48.07	34.27	48.26
BCF-17	47.51	41.33	*na*	40.35
Bonny Light[1]	60.74	57.18	38.20	55.49
Es Sider	58.25	54.92	36.45	52.24
Iran Heavy	51.73	49.28	33.18	47.75
Kuwait Export	51.76	49.19	34.01	48.48
Marine	55.80	53.17	33.98	50.13
Minas[1]	58.64	53.87	37.02	53.97
Murban	59.30	56.13	36.46	53.81
Saharan Blend[1]	59.48	56.15	38.24	54.39
Other crudes				
Dubai[1]	54.20	51.63	33.61	49.04
Isthmus[1]	55.64	51.57	37.15	50.14
Tia Juana Light[1]	51.48	48.77	33.77	46.14
Brent	58.75	55.41	38.13	54.22
West Texas Intermediate	62.67	58.42	41.30	56.27
Differentials				
WTI/Brent	3.93	3.01	3.16	2.05
Brent/Dubai	4.55	3.78	4.52	5.18

Note: As of the third week of June, the price is calculated according to the current basket methodology that came into effect as of June 16, 2005. BCF-17 data available as of March 1, 2005.
1. Old Basket components: Arab Light, Bonny Light, Dubai, Isthmus, Minas, Saharan Blend and T J Light.
na not available
Source: Platt's, direct communication and Secretariat's assessments.

European market

The market in Europe was subdued by the uncertainty of the arbitrage barrels across the Atlantic amid refinery closures in the US Gulf Coast amid unsold October barrels. The bearishness was furthered by a strike at France's Total refinery. Dated Brent averaged 3.7 per cent lower in the first week at $59.97/b, as the weekly average slipped below the $60/b level for the first time since July. This sentiment firmed as all October loading cargoes cleared ahead of the release of the November loading programme on the prospect of lower volumes. Nonetheless, a fall in gasoline and distillate demand in the Northern hemisphere pressured North Sea grades. Dated Brent slipped another $1.58/b, or 2.6 per cent, to average $58.39/b for the second week. Spot differentials continued to slip as prompt November cargoes remained unsold at the time of a continued rise in US crude oil stocks. Dated Brent edged 4¢/b lower in the third week. The bears continued amid rising concern over higher freight rates. However, the resumption of oil operations at France's largest refinery supported emerging demand, which was then undercut by yet another strike, this time at a Rotterdam refinery. Hence, Brent continued to slide. Brent's monthly average in October closed $4/b, or six per cent, lower at $58.75/b.

Lower refinery intakes of light grades amid relatively strong refining margins for the sour grades supported firmer trade of Russian Urals.

The market in the Mediterranean emerged on a strong note amid tight supply, which boosted demand, due to relatively attractive refining margins. Brent/Urals first weekly period spread narrowed by 71¢ to $3.08/b. Furthermore, with Total's strike pressuring the light crude market, the Brent/Urals spread narrowed a further $1.29 to $1.79/b in the second week. However, as Urals became less lucrative, sellers lowered their offers in order to prevent refiners from switching to alternative grades. Refiners halted buying interest in the hope that price differentials would drop further. Thus, in the third week, the average Brent/Urals spread surged by $1.12 to $2.91/b. The bearish sentiment continued into the fourth week as sellers continued to offer lingering October barrels. Yet, plentiful supply amid high freight rates out of the Black Sea kept the pressure on. The Brent/Urals spread widened by another $1.10 to $4/b. Urals closed the month at $55.80/b for a drop of $2.43/b, or four per cent. However, the Brent/Urals spread closed the month at an average of $2.95/b compared to $4.52/b for the previous month, the narrowest since June.

Far East market

The market for Mideast crude began on a bearish note in October on higher official selling prices (OSPs). Oman raised the September OSP by 3¢/b to a record-high $57/b. The record level came as Oman raised its premium to Dubai to 46¢/b for September, up from 37¢/b in August. Hence, in the first week, December Oman was on bid at parity, down from a 6¢/b premium to the MOG at the end of September. Moreover, Abu Dhabi's Murban was also under pressure, due to lack of interest for the kerosene-rich grade amid overlying November barrels. The November Murban assessment slipped to a 50¢/b discount to the OSP. In the second week, healthy heating oil stocks in Japan amid ample supply from the Middle East pressured the market, yet the emergence of refiner buying interest supported the differential, preventing it from slipping further.

While November Murban traded at a discount of 30–35¢/b on ample supplies, December Oman was steady at a 3–7¢/b premium to the MOG on the improved fuel oil crack spread. Due to continued healthy kerosene stocks amid sellers' lowering their offers, December Murban emerged with offers at a 10¢/b discount versus a 10¢/b premium to the OSP, yet Oman remained at a 3–5¢/b premium to the MOG.

However, as sellers rushed to clear December barrels, buyers remained on the sidelines, given the ample incremental supplies. December Oman flipped into negative territory to trade at –7¢/b to the MOG, yet December Murban remained at a 10¢/b premium following a buying spree for winter stockpiling amid seasonal demand for naphtha and middle distillates. The widened Brent/Dubai spread also contributed to the firming of differentials. Nevertheless, extra supply amid the bearish demand sentiment pushed the market lower towards the end of the month. Oman traded at a 10¢/b discount, while Murban was valued at minus 20–30¢/b.

Asian market

Asia/Pacific crudes emerged on a bullish note on strong demand for sweet grades amid placed November loading barrels and Thailand's TPI buy-tender. In the first week, Indonesia's November Minas was assessed at a premium of 95¢–$1.00/b to Indonesian Crude Pricing (ICP), while November Tapis was sold at 50¢/b to the Asian Petroleum Price Index (APPI), compared to the previous level of a $1/b premium. Moreover, utilization rates at nuclear plants were low as Japan's TEPCO plans to buy more oil for thermal power generation than it originally intended. Hence, Minas was assessed at $1.10/b to the ICP in the second week amid higher domestic refinery utilization rates. The bullish momentum was halted by a 60 per cent decrease in buying interest from Indonesia's Pertamina, which sparked concern of an overhang of Asia/Pacific crude for December loading. Nevertheless, strong margins helped the bulls to revive as December Tapis was sold at $1.10/b to the APPI in the third week, with Minas at $1.45/b to the ICP. Sentiment strengthened further on continued stockpiling of winter fuels amid seasonal naphtha demand for petrochemical plant feedstock. Minas was assessed at a higher level of around $1.70/b to the ICP. The tightly supplied market continued to exert upward pressure on regional crude. Malaysia's December Mutineer Exeter crude was sold at a premium of around $1.70–2.00/b to APPI. The Brent/Dubai Exchange For Swap (EFS) widened towards month-end diminishing the flow of slower rival grades bound eastward.

December

OPEC Reference Basket

In November, the Basket continued the downward movement seen over the past two months. The weekly movement of the Basket was stimulated by expectations of a warmer winter in the northern hemisphere and healthy crude oil stock-builds. However, a short-lived strike at Shell's Netherlands refinery revived demand for crude oil. Hence, the Basket closed the first week at $53.19/b for a marginal drop of 13¢/b. In the second week, the Basket's weekly average price sustained the downward trend for the sixth week, dropping a moderate 61¢, or over one per cent, to settle at $52.58/b. Concern over winter fuels continued to ease following warmer weather in the north-eastern hemisphere amid some progress in the recovery of oil operations in the Gulf of Mexico, strengthening the bullish trend in the market. The weaker sentiment was furthered by the downward revision of the IEA's global demand forecast amid rising spare OPEC capacity. In the third week, the prospect of an opening in the arbitrage opportunity for western crude to flow eastward exerted pressure on the Asian market. The bearish trend gathered momentum over the week, due to poor refining margins, amid indisposed cargoes in Europe. Profit-taking in the futures market also pressured the market. Nonetheless, an unexpected drop in US crude oil stocks, along with higher demand for gasoline, helped curb some of the losses later in the week. While high freight rates kept regional markets under pressure, forecasts of low temperatures in the northern hemisphere halted any further decline. The Basket's weekly average price saw a downtrend entering the eighth week, plunging by a hefty $2.47/b, or nearly five per cent, to settle at $50.11/b.

In the fourth week, the average Basket price moved upward for the first time in nine weeks, rising by 35¢ to settle at $50.46/b. The week started on a bearish note on healthy seasonal supply in the western hemisphere amid high freight rates, which dampened regional markets. Nevertheless, concern over a winter snap in the northern hemisphere revived the bulls on demand for heating fuels. The bulls survived most of the week until US weekly petroleum data revealed a healthy build in distillate stocks, including heating oil, which revived the bears. However, the prospect of persistently lower temperatures kept traders alert.

The OPEC Basket continued the downward movement on a monthly basis in November, closing $3.34/b, or over six per cent, lower at $51.29/b. A recovery in US Gulf Coast oil operations amid the start of a warmer winter kept the energy market calm amid an outlook for lower global demand by the IEA at a time of rising OPEC supply. Hence, the downward trend continued throughout the last week as the Basket occasionally slipped below the $50/b level. However, a cold snap in the northern hemisphere kept prices from declining further. The Basket rose for the first time in nine weeks, gaining less than one per cent. In December, the prospect of a cold winter pushed demand for winter fuels higher and caused natural gas prices to soar, all of which helped lift the Basket to $54.44/b on December 15.

US market

The cash crude market eased on the recovery of oil operations in the US Gulf of Mexico. The sweet/sour spread widened in the first days on the week. However, this was short-lived amid weakening refining margins and the lack of West African crude flows to the US Gulf market. The WTI/WTS spread narrowed by $1.14/b to $5.47/b in the first week of November. Furthermore, as the arbitrage opportunity to move West African crude across the Atlantic remained uneconomical, differentials were pressured to narrow further amid rising crude oil stocks. The WTI/WTS spread narrowed by a marginal 16¢ to $5.31/b in the second week. The cold snap in the US north-east, amid a healthy build in crude oil stocks and persistently weak refining margins, pressured the differential to widen in the third week, gaining 28¢ to $5.59/b. The weak sentiment continued in the fourth week amid lingering lack of arbitrage barrels, narrowing the WTI/WTS spread by a significant 34¢ to $5.25/b. Trade against the new futures contract in the final week of November caused the spread to narrow a further 20¢/b as refiners sought to deplete inventories before the end of the year for tax reasons. On a monthly basis, the WTI/WTS spread dropped to $5.33/b in November from $6.18/b the previous month, which represented a narrowing of 45¢/b over the same period last year. WTI averaged $58.47/b in November, down $4.20/b, or nearly seven per cent lower than in October.

European market

The month emerged on a weaker note amid unsold third-week November cargoes. A decline in refinery margins also added to the market bearishness. However, an end to the strike at Europe's largest refinery helped demand. The sentiment was further depressed by lingering November stems. The weaker buying interest, in an attempt to pressure the market amid the prospect of keeping year-end inventories lower, kept the pressure on price differentials intact. High freight rates added to the regional market's weakness. Price differentials improved in the third week as November cargoes cleared and December buying interest emerged. Improved refining margins helped the grade to remain firm as December barrels cleared. Dated Brent's monthly average in November was $3.34/b, or nearly six per cent lower at $55.41/b.

The market in the Mediterranean was under pressure as refiners looked for cheaper alternative grades than Urals. In the first week, Dated Brent's spread over Urals averaged $3.95/b. The sentiment was furthered by weak refining margins amid ample supply in the last week of November. Hence, the Brent/Urals spread widened to $4.40/b in the second week. However, as the arbitrage opportunity to the east was perceived as opening, it kept Urals crude differentials from dipping further. Hence, in the third week, refining margins improved, sending Urals below Dated Brent to firm at $3.28/b amid limited supply. The price differential improved further as delays at the Turkish Strait lengthened. Thus, the grade was only $2.48/b below Brent in the fourth week. The spread improved further by the set of buy-tender results amid strong bids. Brent Urals closed the final week above the $2/b level. The monthly spread below Dated Brent was a marginal 8¢ above October, at $3.03/b.

Far East market

Healthy supply of distillates in Japan kept the price differentials for Middle Eastern crudes under pressure. December Oman was traded at a 7¢/b discount to the MOG with January Murban valued at a 20–30¢/b discount to ADNOC's OSP. As the January loading programmes emerged, the overhang of December Murban pressured Mideast grades. January Oman fetched a 4–9¢/b premium as refiners shifted to cheaper grades on the wide Brent/Dubai EFS. As EFS narrowed, increasing the possibility of western crude to move eastward, Murban crude continued to weaken, falling further into discount when January loading barrels were assessed at 50–70¢/b to the OSP amid indisposed cargoes. The pressure continued into the third week with January Oman at a 7–14¢/b discount to MOG as the opportunity to move Urals eastward became economical. The bearish sentiment was furthered by the rising supply of West African crude and weak refining margins, which cut into demand. In the fourth week, higher fuel demand supported differentials for Mideast crudes. Murban firmed trading at a 40¢/b discount with Oman at a 5–7¢/b discount to the respective January OSP. Covering for winter demand spurred buying interest amid recovering refining margins. The bullish sentiment was sustained on emerging demand from Thailand and Japan. January Oman traded at a 3–10¢/b premium, while Abu Dhabi's Murban attracted a lower discount of around 20–25¢/b to ADNOC's OSP as refiners stockpiled for winter fuel demand.

A wave of warmer weather in early November pushed the oil price lower.

Asian market

The Asia/ Pacific Rim market emerged on a tightly supplied market amid emerging demand from Japan and Vietnam. The sentiment furthered into the second week on higher refinery demand from China to produce diesel. Japanese demand for power units supported Indonesia's Duri when a December cargo was traded at $1.80/b to the ICP. The market calmed in the third week on heavy kerosene stocks in

Japan amid an inflow of West African crude. Malaysia's January Tapis was assessed at 75–85¢/b to the APPI, off from $1.00–1.10/b for December liftings. Nonetheless, higher demand from Indonesia on improved consumption of light sweet crude supported the price differentials. Duri rebounded to firm at around $1.50-1.70/b to the ICP.

Robust demand for naphtha and the forecast of colder weather underpinned grades rich in heating fuels. Hence, Malaysia's Tapis was traded at a $1.90/b premium to the APPI on tight supply. The final week saw support with high freight rates hindering the flow of West African crude.

Product markets and refinery operations

November

Positive developments in the US refining industry and natural gas output, combined with the resolution of a strike at Europe's biggest refinery and slowing Asian demand over the last couple of weeks, triggered bearish sentiment in the product markets. Recently, this situation has been further exacerbated by the mild winter, particularly in the US Northeast, which resulted in a significant drop in product prices and refinery margins across the globe from the previous month (see **Table B**).

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

		Sep 05	Oct 05	Nov 05	Change Nov/Oct
US Gulf (cargoes)					
Naphtha		85.48	67.53	59.84	-7.69
Premium gasoline	*(unleaded 93)*	107.88	83.30	64.38	-18.92
Regular gasoline	*(unleaded 87)*	98.68	76.01	61.02	-14.99
Jet/Kerosene		94.17	100.45	71.23	-29.22
Gasoil	*(0.05% S)*	91.41	95.20	71.14	-24.06
Fuel oil	*(1.0% S)*	57.04	55.02	52.99	-2.03
Fuel oil	*(3.0% S)*	43.86	42.64	38.42	-4.22
Rotterdam (barges fob)					
Naphtha		74.77	71.56	62.65	-8.91
Premium gasoline	*(unleaded 50 ppm)*	92.35	77.64	67.03	-10.61
Premium gasoline	*(unleaded 95)*	82.82	69.44	60.02	-9.42
Jet/Kerosene		83.78	81.27	69.50	-11.77
Gasoil/Diesel	*(50 ppm)*	83.28	81.54	71.05	-10.49
Fuel oil	*(1.0% S)*	46.70	46.94	42.01	-4.93
Fuel oil	*(3.5% S)*	41.86	39.98	37.50	-2.48
Mediterranean (cargoes)					
Naphtha		62.01	58.43	51.20	-7.23
Premium gasoline	*(unleaded 95)*	88.35	75.86	64.69	-11.17
Jet/Kerosene		81.90	78.81	67.90	-10.91
Gasoil/Diesel	*(50 ppm)*	84.73	81.66	69.80	-11.86
Fuel oil	*(1.0% S)*	48.43	45.39	41.91	-3.48
Fuel oil	*(3.5% S)*	41.43	39.15	35.57	-3.58
Singapore (cargoes)					
Naphtha		61.73	57.80	53.19	-4.61
Premium gasoline	*(unleaded 95)*	79.40	69.10	60.87	-8.23
Regular gasoline	*(unleaded 92)*	78.39	67.91	59.48	-8.43
Jet/Kerosene		79.16	75.71	64.78	-10.93
Gasoil/Diesel	*(50 ppm)*	80.77	77.28	66.50	-10.78
Fuel oil	*(180 cst 2.0% S)*	47.35	45.42	43.80	-1.62
Fuel oil	*(380 cst 3.5% S)*	46.68	45.78	42.91	-2.87

Refinery margins for Brent benchmark crude oil in Rotterdam plummeted by $3.18/b, or 25 per cent, in October compared to the previous month. Asia experienced the same trend as the Dubai benchmark margin in Singapore dropped by about $2/b, or 16 per cent. In the US Gulf Coast, despite the earlier strength of product prices against crude, the WTI benchmark margin plummeted by $7.07/b, or 34.5 per cent, to stand at $13.40/b in October. More recently, lower prices for various products have caused refinery margins in the USA to decline further, in tandem with other markets. Despite the recent declines, refinery margins still look healthy and could lend support to crude demand.

Furthermore, as the US market remains short of middle distillates, a cold snap could reverse the current bearish sentiment and provide support for both product and crude prices.

Apart from the product market movements mentioned above, there were some positive developments in the US refining industry as a major part of the hurricane-affected capacity has recovered, although some 850,000 b/d of capacity remains offline. While utilization rates surged to 78.9 per cent from below 70.0 per cent in late September, this is still low in historical terms for this time of the year.

The utilization rates in Japan rose by five per cent in October from the previous month to reach 83.8 per cent. In Europe, utilization rates remained at around 90 per cent (see **Table C**).

US market

Following Hurricane Katrina, most market players and analysts focused their attention on low gasoline stocks in the USA, which raised fears of a gasoline shortfall. This concern was reflected in gasoline prices, which diverged sharply from crude prices early in the month following Hurricane Katrina. But with the recovery of the US refining industry and the maximization of gasoline output, as well as high imports and a relative slowdown in US

Table C: Refinery operations in selected OECD countries

	Refinery throughput *m b/d*				Refinery utilization *per cent*			
	Sep 05	Oct 05	Nov 05	Nov/Oct	Sep 05	Oct 05	Nov 05	Nov/Oct
USA	13.78	13.23	14.70	1.47	82.1	78.9	87.6	8.70
France	1.75R	1.67	1.83	0.16	89.9R	85.7	93.5	7.80
Germany	2.44R	2.31	2.39	0.08	105.2R	99.3	102.7	3.40
Italy	2.02R	1.94R	1.95	0.01	87.1R	83.7R	83.9	0.20
UK	1.71R	1.65	1.61	–0.04	93.8R	90.3	88.0	–2.30
Eur-16	12.72R	12.46R	12.72	0.26	91.6R	89.8R	91.7	1.90
Japan	4.18R	4.15R	4.21	0.06	88.8R	88.2R	89.4	1.20

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

R Revised since last issue.

gasoline demand, market sentiment changed, with the earlier strength of gasoline diminishing significantly. Market participants consequently switched their attention to developments in the heating oil market.

The gasoline crack spread in the US Gulf Coast against WTI crude oil has dropped from above $60/b to around $15/b in late October. Gasoline demand in the USA recently soared to over 9 million b/d (m b/d), but has failed to lift prices, due to improving inventory levels.

In the USA, middle distillates have taken over the driver's seat of the market since early October as a contra-seasonal stock-draw over the last few weeks has heightened supply fears for the coming winter and lent support to heating oil prices. The recent warm weather in the US Northeast has put pressure on crude and product prices, but due to rising demand and a possible shortage of natural gas, a cold snap could trigger a new upward trend for distillate prices over the next months. As of the end of October, natural gas storage in the USA has been four per cent below last year, while about 50 per cent of US Gulf Coast gas output has remained shut in. Similarly, low sulphur fuel oil prices have been supported by the impact of Hurricane Wilma, which forced the closure of a key storage and blending hub in the Bahamas, as well as higher demand from utility plants.

European market

The resumption of operations following temporary strikes at Total and Shell refineries, the completion of autumn maintenance, and the flow of Baltic and Asian export barrels to Europe, have combined with the lack of export arbitrage opportunities to the USA, due to high freight rates, to put pressure on various product prices in Europe. The crack spread for the barrel complex cut against the Brent benchmark has slid since the middle of October. This situation was worse for gasoline, as the end of seasonal demand caused its spread to fall even further.

Similarly, unseasonably mild weather depressed heating oil demand across Europe amid ample supplies. The diesel market was also very sluggish, both in North-West Europe and the Mediterranean area. With regard to jet/kerosene, the market is facing the same bearish momentum, due to ample supplies from the Middle East. However, with the emergence of cold weather and the improvement of westbound arbitrage opportunities, the middle distillate market should recapture part of its recent losses.

The European fuel oil market was also supported by export opportunities to the USA in early October, but warm weather in Southern Europe, along with reduced arbitrage opportunities to the USA and the Asia-Pacific, have recently dampened both the low- and high-sulphur fuel oil market in Europe and widened the discounted crack spread between the bottom of the barrel complex and benchmark Brent.

Asian market

In early October, the Asian market was supported by favourable arbitrage opportunities to the west. However, since then, these opportunities have disappeared, due to high freight rates for clean product carriers. Additionally, high stocks of jet/kerosene in Japan and South Korea further deteriorated the bullish sentiment of the middle distillate market and reduced earlier gains for the middle of the barrel complex. Likewise, as mentioned previously, the trimming of demand in Indonesia, due to the removal of a major part of the subsidy by the government, has fuelled the bearish sentiment of the middle distillate market in Asia.

Apart from middle distillates, gasoline has also lost ground in Asia, due to lack of exports to the USA and falling regional demand. But the market for naphtha was relatively firm because of tighter supplies from the Middle East and stronger demand from northern Asia.

As far as high sulphur fuel oil is concerned, market sentiment in Singapore remained strong, due to persistent market tightness and high demand for bunkers. The crack spread of high-sulphur fuel oil against the Dubai benchmark narrowed to around –$7/b in late October from nearly –$10/b in late September. However, due to increasing arbitrage cargoes to Asia, the spread may lose its current strength in the coming months.

December

Relatively mild weather, along with higher imports and refinery runs, caused contra-seasonal middle distillate stock-builds in the US and resulted in a further drop in the prices of various products in November, relative to crude prices.

The same trend also persisted in Europe and Asia, with refinery margins returning to their historical levels. WTI benchmark crude refinery margins on the US Gulf Coast plummeted by more than $10/b, or 79 per cent, in November, compared with October, to reach $2.86/b. In north-west Europe, Brent benchmark crude margins fell by 75 per cent to register $2.26/b. In Asia, Dubai benchmark crude margins in Singapore plunged by $6.16/b, or 67 per cent, compared to the previous month.

Due to the sharp decline in refinery margins, some Japanese and South Korean refiners cut throughput, which might be reflected in physical demand and crude prices later on. Despite these bearish developments in the product markets, and the easing of supply fears concerning middle distillates, these trends would reverse if markets faced a prolonged cold snap over the next few months, which would support crude and product prices.

Refinery utilization rate increased all over the globe in November

The refinery utilization rate in the US rose by 9.7 per cent to reach 87.6 per cent in November from 78.9 per cent in October. However, part of the US refinery capacity on the US Gulf Coast is still offline. In Japan and Europe, the refinery utilization rate has also risen by 1.2 per cent and 1.9 per cent, respectively, in November, compared to the previous month.

US market

The middle distillate market failed to gain in the US during last month as higher imports and improved refinery operations on the US Gulf Coast caused distillate stocks to rise, and the middle of the barrel complex fell further, compared to the beginning of last month. The gasoil crack spread on the US Gulf Coast against the WTI benchmark crude slid to $10.16/b in early December from $19.64/b in late October.

In November, the gasoline market was also very bearish. However, due to the recent prolonged outage of fluid catalytic crackers (FCCs) in two Atlantic Coast refineries, declining imports, lower domestic production at the expense of higher middle distillate production and recovering demand, gasoline prices surged and its crack spread versus WTI rose to $12.82/b on December 8 from $5.82/b in late November.

With regard to the other part of the barrel complex, particularly concerning the bottom of it, the US market faced more pressure as ample supplies from Brazil and Venezuela and sluggish utility plant demand undermined low-sulphur fuel oil prices and its crack spread against WTI widened from minus $4.56/b in early November to minus $10.03/b on December 8.

European market

A steady flow of imports from Asia and lack of arbitrage opportunity to the US weighed on the European market. These bearish factors have made the European product markets lose further ground against their corresponding Brent benchmark crude oil, and all product crack spreads fell significantly in November. Among the middle distillate pool, the jet fuel price decreased the most on lacklustre regional demand, coupled with arbitrage cargoes from the Middle East and the Baltic area.

The jet/kerosene crack spread against Brent crude slid to $13.74/b on December 8 from $20.39/b in late October. The diesel oil market also continued to be dragged down by oversupply and prices plummeted further. Likewise, the gasoline and naphtha markets were affected by slackening spot demand and lack of arbitrage opportunity to the US. The gasoline crack spread against the Brent benchmark crude plunged to about $12/b in late November from $16.30/b the previous month. The recent improvement in the US gasoline market may lend some support to the European gasoline market in the next few weeks.

The European low-sulphur fuel oil market remained weak as local utility demand decreased after heavy rainfall and the increased supply of hydroelectricity. High-sulphur fuel oil is still chronically oversupplied and the lack of storage capacity in both Rotterdam and the Baltic ports put more pressure on the product.

Asian market

Regional sluggish demand amid a lack of favourable arbitrage opportunity to the west dampened Asian product markets. The gasoline crack spread against the Dubai benchmark crude slumped significantly over the last weeks and reached about $5/b on December 8 from nearly $23/b in early September. This situation may deteriorate further in the next months as a result of lower seasonal demand and higher supply by India, particularly from the Reliance refinery, following the completion of their FCC unit maintenance schedule.

Apart from gasoline, the spread of naphtha against the Dubai benchmark crude also narrowed, resulting from ample Indian supplies and the increasingly bearish outlook for the next months. This situation was compounded by the relatively heavy maintenance of Asian ethylene crackers.

Similarly, the performance of the Asian middle distillate market in November was poor, causing some Japanese and Korean refiners to cut throughputs, which is quite unusual during winter time. However, a recent cold snap in north Asia gave some support to the middle of the barrel complex, and the jet/kerosene crack spread recovered part of its earlier losses. Looking ahead, demand for middle distillates is expected to surge in the months to come as seasonal heating oil demand rises further.

With regard to the bottom of the barrel complex, the Asian market was relatively strong in November, and the crack spread of high-sulphur fuel oil against Dubai crude remained at around minus $7/b. But sluggish Japanese demand and steep freight costs from Indonesia led to a plunge in low-sulphur waxy residue prices.

The oil futures market

November

The oil futures market in October continued the previous month's downward trend on the continued availability of crude from emergency stockpiles and the easing of gasoline demand, which was 2.6 per cent lower in September compared to the previous year's level. The weak sentiment was also inspired by the slow recovery of oil operations in the Gulf of Mexico and a refinery strike in France, which helped to ease sentiment for demand. The New York Mercantile Exchange (NYMEX) WTI front-month contract closed $3.17/b, or nearly five per cent, lower than the pervious week. As a result, non-commercials continued to increase their short positions at a much faster rate than their longs, increasing the net short position to 27,250 contracts. At the same time, open interest saw a healthy build of nearly 15,000 lots to close at 866,000 contracts. The bearishness continued due to the strike in France amid slower demand from US refiners, which triggered profit-taking as investors saw the market trending lower, due to high gasoline pump prices. At the same time, prices received some support from the IEA report, which revised down expected non-OPEC supply for the fourth quarter, while revising upward its global demand growth for the coming year. This kept some floor for the futures market. NYMEX front-month contract prices for the second week slipped a marginal 37¢ to $63.53/b. The Commodity Feature Trading Commission (CFTC) report for the second week revealed that the non-commercials increased shorts by a marginal 1,700 lots, while reducing longs by a substantial 12,000 contracts. As a result, net shorts rose to 40,500 lots, the highest level since September 2003. Open interest was down by a hefty 14,000 lots to 852,000.

In the third week, the EIA echoed the bullish revisions to global demand and non-OPEC supplies. However the upward momentum was short-lived, due to continued crude oil supply in the US market amid a higher-than-anticipated build in natural gas underground storage and the improved prospects for recovery in oil operations in the US Gulf Coast as Hurricane Wilma spared the oil installations. NYMEX WTI prompt month futures prices edged 33¢/b lower. The CFTC's weekly data revealed that non-commercials increased longs by a considerable 17,000 lots, while the shorts saw a moderate build of 2,500 lots. As a result, net short positions narrowed to 26,000 lots, while open interest saw a healthy build of some 14,500 lots to 860,000.

The market was calmed by the IEA's announcement that it would complete its emergency stockpile release amid continuously rising natural gas stocks. Moreover, the perception that high oil prices would erode global energy demand kept the bears alive in the final week. Although concern over winter fuels ignited the bulls in the marketplace, another strong build in US crude oil stocks helped to counter any further upward trend. The NYMEX prompt month closed 76¢ lower at $62.44/b. The CFTC's report for the final week showed that non-commercials reduced longs by a marginal 3,200, while increasing shorts by a moderate 8,700 lots to 158,700, the widest level so far. Hence, the net short positions widened to 38,000, while open interest plunged a hefty 43,000 lots to 817,000 contracts. On a monthly basis, open interest averaged 134,000 contracts higher than the same period last year at 849,000 contracts, which was still 18,000 lots lower than in September. The NYMEX front-month contract averaged $62.27/b, representing a drop of $3.25/b, or five per cent, from September.

The forward structure fell into backwardation for the first/second month with October's monthly average at plus 19¢/b compared to minus 36¢/b in September. Moreover, the second/third and third/fourth spreads also moved momentarily into backwardation in mid-month, with the first/second month spread flipping back into contango in the last several days of the month with the emergence of the new prompt month. Crude oil stocks in the USA averaged 313.5m b in October, nearly 5m b over September, amid higher imports and lower refinery utilization rates, due to the hurricanes. Hence, the first/sixth and first/12th month spreads remained in a contango of 50¢/b and 33¢/b, representing a respective drop of $1.09/b and 73¢/b from September. As a comparison, in the forward structure for the same period last year, the first/second month spread was in wide backwardation of 46¢/b, with the first/sixth month spread at $2.97/b, while the crude oil inventory average stood at 281m b for the month.

December

The downward price trend continued in November from October for the futures market. The prospect of adequate supply and comfortable stock levels amid a forecast for mild temperatures weakened demand for heating fuels and pushed WTI prices on the NYMEX to $59.85/b for a loss of $2.59/b, or over four per cent, in the final week of October. As a result, non-commercials continued to increase short positions, widening the spread of net shorts by another 4,000 contracts to 42,000 contracts. Nevertheless, open interest saw a build of 4,400 lots to close at 822,000 contracts. In the second week, the NYMEX WTI prompt-month futures contract edged 14¢ lower to $59.71/b on continued bearish US inventory data amid the recovery of oil operations in the Gulf of Mexico. The market bearishness was also supported by a hefty build in natural gas underground storage. A downward revision to the IEA global demand forecast added to the weaker sentiment. Non-commercials continued to increase net short positions by another 6,000 contracts to 48,000 contracts, while open interest rose by a moderate 9,000 lots to 831,000 lots. In the third week, the NYMEX WTI prompt-month slipped by $2.73/b, or nearly five per cent, to $56.98/b, the lowest level in four months. A further build in natural gas stocks, amid a comfortable crude oil stock level, tempted fund sell-offs for profit-taking. Non-commercial short contracts were the highest within the last three years, contributing to a further 8,300 gain in net shorts to 56,000 lots, the widest level since April 1, 2003. Yet, open interest saw a healthy build of 14,000 lots to 845,000 contracts.

The arrival of cold weather in the US northeast, which was perceived to increase demand, pushed the new front-month contract higher in the first few days of trade. The NYMEX contact closed the fourth week at $58.84/b, with net short positions narrowing a considerable 13,000 lots to 43,000 lots. Moreover, open interest was reduced by 39,500 contracts to 805,500 contracts. In the final week, the forecast for warmer weather in the US north-east region amid a comfortable level of winter fuels stocks, with OPEC signalling that it would not cut output at its Kuwait Meeting of the Conference, pushed the WTI contract $2.34/b, or four per cent lower, to close at $56.50/b. Nevertheless, net short positions increased a slight 700 lots

Non-commercials increased net short positions on plentiful supply amid OPEC signals that output would remain unchanged.

to 43,700 lots, while open interest reversed the previous week's movement to gain 31,400 lots to nearly 837,000 lots. When comparing the same period on a monthly basis, the open interest monthly average stood at 828,000 contracts, 21,000 contracts lower than in October, but a gain of 124,000 contracts over the same period last year. The front-month average for NYMEX WTI in November was $58.34/b, down $3.93/b, or more than six per cent, from October.

In November, the contango in the forward structure returned for the $1^{st}/2^{nd}$ month spread to average 80¢/b, compared to the 19¢ backwardation seen in October. The contango also steepened for the $1^{st}/6^{th}$, $1^{st}/12^{th}$, and $1^{st}/18^{th}$ month spreads to $1.92/b, $2.12/b, and $1.64/b, respectively. Crude oil stocks averaged 321m b in November, representing a 7.5m b rise over October amid a recovery in US Gulf oil production with a near 600,000 b/d gain in imports. This can be compared with the same period last year when the contango emerged for the 1st/2nd month spread to average 11¢/b with the 1st/6th, 1st/12th, and 1st/18th month spreads still in steep backwardation at $1.09/b, $3.54/b, and $5.23/b, respectively. It is worth noting that the weekly average of US crude oil stocks in November last year was 292.4m b.

The tanker market

November

OPEC spot fixtures continued to increase in October for the second consecutive month to average 15.82m b/d, which corresponds to growth of 1.35m b/d, or nine per cent, from September, and 700,000 b/d from a year earlier. In the last two months, OPEC spot fixtures have displayed substantial cumulative growth of nearly 3.3m b/d. Despite the increase, OPEC's share of total spot fixtures stood at 64 per cent compared to 66 per cent in the previous month and 68 per cent the year before. Contrary to September, Member Countries outside the Middle East were the main contributors to the growth in OPEC spot fixtures, adding 1.26m b/d, while Middle Eastern countries contributed only 100,000 b/d. In the Middle East, eastbound long-haul fixtures increased by 120,000 b/d to 5.89m b/d, while westbound fixtures showed a minor decline of one per cent to average 2.14m b/d. Total Middle Eastern east/westbound fixtures averaged 8m b/d, almost 500,000 b/d lower than a year earlier, compared to 7.8m b/d from the rest of OPEC, the highest level since December 2004. The significant growth in non-Middle East fixtures reflects the increasing trade of light and sweet crudes, especially from Africa. It also indicates that the share of spot fixtures is lower in Middle Eastern global fixtures.

This leaves the Middle East east and westbound share of OPEC fixtures at 51 per cent in October, compared to 55 per cent in the previous month and a year earlier. However, non-OPEC spot fixtures increased more rapidly, showing growth of 1.46m b/d, or 19 per cent, to average 9m b/d, which corresponds to 1.8m b/d more than a year earlier. Following this significant growth, the non-OPEC share in total spot chartering moved up to 36 per cent, as against 34 per cent in the previous month and 32 per cent a year earlier. Consequently, total OPEC and non-OPEC spot fixtures displayed a combined increase of 2.81m b/d, the highest growth in the last nine months, to average 24.87m b/d. Compared to the same month last year, total spot fixtures were almost 2.5m b/d higher. Estimated sailings from OPEC Countries showed a slight increase of 90,000 b/d, reversing the drop of the two previous months, to settle at 25.32m b/d, which was 2.4m b/d higher than a year earlier.

Sailings from Middle Eastern countries increased sharply by 710,000 b/d to reach a level of 19.28m b/d, which was almost 2m b/d higher than the October 2004 level, reflecting, to some extent, the spike in Middle Eastern fixtures during the previous month. Preliminary data of arrivals at the main consuming regions displayed a significant increase to the US Gulf and Euro Mediterranean region. Arrivals at the US Gulf and US East Coasts, as well as the Caribbean, surged by 950,000 b/d, the highest level since February, to average 10.71m b/d. The large growth in this region was spurred by high imports from the USA, especially of products in the aftermath of the hurricanes that hit the US Gulf Coast, in order to compensate for the loss in refining capacity. It is estimated that product imports doubled to 1.8m b/d in October, with gasoline imports averaging 400,000 b/d, as against 100,000 b/d in August. Similarly, arrivals in the Euromed soared by 830,000 b/d, or 20 per cent, to average 5.27m b/d, the highest level since March 2003. However, arrivals in North-West Europe remained almost stable at 8.34m b/d, while arrivals in Japan fell by 570,000 b/d to average 3.88m b/d. Arrivals in the main consuming regions were all higher, except for Japan where they dropped 220,000 b/d, compared to a year earlier.

The strong upward trend in the crude oil tanker market continued, driven by the lack of tonnage availability, especially in the Suezmax and Aframax sectors, which saw spot freight rates almost double between August and October. The limited number of available vessels was largely due to a brisk surge in US imports following the hurricanes in the US Gulf Coast. In addition, congestion in US ports and imports from faraway sources put more pressure on the availability of tonnage by tying-up vessels for longer voyages.

In the very large crude carriers (VLCC) sector, freight rates on the Middle East eastbound and westbound long-haul routes gained 18 and 16 points, or 20 per cent, to reach monthly averages of Worldscale 107 and W99, respectively. Except for 2004, October freight rates were the highest for the month since 2000. Consequently, modern VLCC owners enjoyed spot rates of more than $60,000 per day on average in October, as against $41,000 per day in the previous month and $29,000 per day in August.

Freight rates for VLCCs moving from the Middle East continued to increase in the beginning of November and approached the extremely high level of W180 on the eastbound route and W160 for cargoes moving to the US West Coast, reflecting the strong activity of trade from Asian countries to the USA. The Suezmax sector displayed higher gains compared to the VLCC sector in October, with spot rates jumping by almost 60 per cent. Both routes — West Africa/US Gulf Coast and NW Europe/US East and Gulf Coasts — improved by more than 70 points to average W198 and W193, respectively, their highest levels so far this year. This significant increase is due to high US imports of light sweet crude from Africa and NW Europe to compensate for the loss of US Gulf of Mexico output, following the hurricanes. In term of dollars per day, modern Suezmax spot rates averaged more than $61,000 per day in October, compared to $32,000 per day in September and $24,000 a day in August. Similarly, in the Aframax sector, freight rates firmed further, especially for tankers moving from the Mediterranean to NW Europe and from the Caribbean to the US West Coast, where they surged by more than 75 per cent, or 173 and 109 points, respectively, to settle at monthly averages of W391 and W255, their highest levels so far this year. In the Caribbean, freight rates were even higher, gaining 54 points, or 16 per cent, over the previous October, which reflects the substantial increase in activity ahead of the winter season in the Northern hemisphere.

On the Indonesia/US West Coast route, freight rates saw the fourth consecutive steady gain surging sharply by 62 points, or 40 per cent, to settle at a monthly average of W221. On the routes within the Mediterranean, freight rates recovered from their previous low levels by gaining 48 points to settle at an average of W233, the highest level since January. The surge on the routes within the Mediterranean was spurred by the short strike in the port of Lavera in France and delays in the Dardanelles/Bosporus straits, due to bad weather.

The product tanker market remained very bullish with freight rates rising significantly to reach extremely high levels on the back of healthy activity, spurred by strong US imports as more than 800,000 b/d of refining capacity remaining shut in the Gulf Coast, due to hurricane damage. In addition, growing demand from Asia has also helped freight rates to move up rapidly. Freight rates for shipments of 30,000–50,000 dwt on the Middle East/East route rose by 180 points, or 60 per cent, to average W490, due to large naphtha cargoes moving from the Middle East to the East.

Similarly, in the Far East, the Singapore/East route saw freight rates gaining 119 points to settle at a monthly average of W559, while freight rates for cargoes trading in the Caribbean and in the Atlantic Basin displayed moderate increases of around 10 per cent after having increased by more than 80 per cent in the previous month. Rates on the Caribbean/US Gulf Coast route gained 37 points to average W403, whilst on the NW Europe/US East and US Gulf Coast routes, rates increased by 30 points to a monthly average of W428. However, freight rates within the Mediterranean and from there to NW Europe moved further upward, gaining 118 and 129 points to average W377 and W385, respectively, due to a shortage of tonnage, which was exacerbated by the strike in Lavera. With these significant increases, freight rates were between 33 per cent and 68 per cent higher than the previous October levels, depending on the route.

December

OPEC spot fixtures moved down 820,000 b/d to average 13.68m b/d in November. The drop in spot fixtures resulted from the slowdown in activity usually observed at the end of the year, due to the holidays. Compared to last year, spot fixtures were 2.75m b/d lower than the all-time high level of November 2004. Consequently, OPEC's share of total spot fixtures fell further to hit 61 per cent, the lowest level in the last seven months. Almost 90 per cent of the drop in OPEC spot fixtures is attributed to Middle Eastern countries, which saw their fixtures moving down from 8.0m b/d to almost 7.3m b/d with eastbound long-haul fixtures falling by 550,000 b/d and westbound by 180,000 b/d. With this significant decline, the Middle East/east and westbound share in OPEC fixtures lost two percentage points compared to the previous month and the corresponding month of last year to stand at 53 per cent. In contrast, non-OPEC spot fixtures continued their upward trend, rising 400,000 b/d to reach 8.9m b/d, the highest level since late 2003, which corresponds to a share of more than 39 per cent in total spot chartering, the highest level so far this year. Due to the weight of OPEC's share, global spot fixtures declined by 430,000 b/d to stand at a monthly average of almost 22.6m b/d, but remained higher than the September 2005 level.

Preliminary data shows that sailings from OPEC Countries fell by more than 1.6m b/d to 23.4m b/d, which was still nearly 500,000 b/d higher than a year earlier. Sailings from Middle Eastern countries dropped by 350,000 b/d, whereas countries outside the Middle East saw their sailings fall by almost 1.3m b/d. However, arrivals at the main consuming regions increased, except for the Euro Mediterranean region. Arrivals at the US Gulf and East Coasts and the Caribbean showed significant growth for the second consecutive month to hit a record of 11.5m b/d, an increase of 900,000 b/d from the previous month, driven by the return of refineries hit by the hurricanes on the US Gulf Coast. Arrivals in north-west Europe reversed the drop of the previous month to move up by 230,000 b/d to average 8.4m b/d, while arrivals in Japan displayed substantial growth of nearly 500,000 b/d, the highest level since mid-2004, to hit 4.5m b/d. In contrast, arrivals at Euromed dropped by more than 300,000 b/d to less than 4.8m b/d. Compared to the same month last year, arrivals were higher in all regions, particularly in the US and the Caribbean, which saw gains of 1.4m b/d and in north-west Europe, which rose 1m b/d.

In November, crude oil spot freight rates continued to increase for all vessel categories on all routes to reach their highest level so far this year, with the exception of the Caribbean. The sharp increase in rates was driven by healthy activity, which was spurred by tightness in tanker supply as US Gulf Coast refineries returned steadily from shutdowns following hurricanes Katrina and Rita, as well as by revived trade to Asia ahead of winter peak demand. Owners of VLCCs enjoyed significant earnings during the month, with freight rates for shipping crude oil from the Middle East eastbound surging by 80 points, or 75 per cent, to average Worldscale 187 on the back of increasing activity from Chinese buyers ahead of the winter peak, resulting in a lack of sufficient double-hull vessels. At the same time, growing activity between the Middle East and the US Gulf Coast by refiners to meet winter demand pushed freight rates on the Middle East/westbound route to a monthly average of W142 for a gain of 43 points over the previous month. In the Suezmax sector, freight rates continued to improve, although at a lower pace compared to the VLCC sector. However, rates for tankers moving from West Africa to the US Gulf Coast, as well as for those trading on the transatlantic route, displayed moderate growth of 26 points and 14 points, respectively, to settle at monthly averages of W224 and W207, due to continuously rising demand from US refiners for light sweet crudes from West Africa to compensate for the remaining shut-in production on the US Gulf Coast. According to secondary sources, the number of West Africa spot fixtures moved up from 61 in October to 69 in November. Consequently, owners of Suezmax tankers trading between West Africa and the US Gulf Coast secured, on average, a daily time charter of more than \$87,000 in November, compared to \$61,000 the previous month.

In all regions except the Caribbean, freight rates for crude oil reached their highest level so far in 2005.

Following the same trend, the Aframax sector displayed robust increases, except in the Caribbean. Freight rates for ships trading between Indonesia and the US West Coast continued to increase for the fifth consecutive month, jumping by 105 points, or 47 per cent, to stand at W326. However, in addition to higher activity and because of increasing transit time delays in the Turkish Straits, which went from five days in October to 14 days throughout November, freight rates in the Mediterranean basin increased by 64 points, or 28 per cent, to average W297, while from the Mediterranean to north-west Europe they rose 38 points to settle at W292. In terms of time charter equivalent, tankers making business across the Mediterranean enjoyed more than \$110,000/day, compared to \$20,000/day in the beginning of September. In contrast, the Caribbean saw freight rates decline by 77 points, or 20 per cent, to W314. This drop is to some extent considered a correction for the extremely high increase of 173 points experienced in the previous month. Compared to last year, spot freight rates for all routes were lower than the record-high levels seen in November 2004, but remained higher than historical averages.

After reaching exceptionally high levels in October following the hurricanes, spot freight rates for products showed some weakness in November, especially at the end of the month. The ease in rates is attributed essentially to a slowdown in imports from the US, due to a decline in product prices in the US market and the recovery of refineries from hurricane damage. Freight rates in the east declined by around 20 per cent, compared to the previous month, with shipments of 30,000–50,000 dwt on the Middle East/east route lower by almost 100 points to average W391, while rates on the Singapore/East route dropped by 110 points to settle at W449 on the back of high stock levels and reduced demand.

Despite this significant drop, freight rates on these two routes remained higher than the averages of the corresponding month of last year. However, the decline was more pronounced for cargoes moving from north-west Europe to the US East and Gulf Coast, which fell by 122 points, or nearly 30 per cent, in one month to W306. The huge decline in freight rates on this route is due to the limited transatlantic arbitrage after the tightness in product supplies eased as US refinery output increased and the US East Coast enjoyed unseasonably warm weather. It is estimated that in November, refinery throughputs reached more than 15m b/d, the highest level before Hurricane Rita hit the US Gulf Coast in late September. Compared to the previous month, this corresponds to an increase of more than 1m b/d. Similarly, due to limited activity, freight rates for cargoes moving between the Caribbean and US Gulf Coast lost 72 points to stand at a monthly average of W331, while rates within the Mediterranean basin and from there to north-west Europe lost about 40 points, or ten per cent, each to average W337 and W347, respectively. Except for ships trading in the east, freight rates were lower than the November 2004 levels.

World oil demand

November

Forecast for 2005

Following six consecutive monthly downward revisions, world oil demand has shown signs of recovery in the last couple of months. According to the latest data available for the first three quarters of the year and projections for the remaining three months, world oil demand is projected to grow by 1.18m b/d, or 1.4 per cent, to average 83.3m b/d for the whole of 2005. The slightly higher figures, which, for now, indicate that we were right to refute last month's presumption of "demand destruction" are supported by vigorous preliminary growth data from developing countries, a brighter outlook for the world economy, particularly for the USA and OECD Pacific countries, and a rebound in Chinese apparent demand.

According to the data at hand for the first two quarters of the year, developing countries oil demand rose by 880,000 b/d and 680,000 b/d, respectively, and third-quarter growth, although slightly lower, points to a rise in oil demand of around 600,000 b/d. In simple terms, if these figures — which are subject to further revisions — materialize and demand does not drop substantially in the last quarter of the year, the contribution by developing countries would make up two-thirds of projected world oil demand growth for 2005. Nonetheless, past experience shows that by now, with the approach of the end of the year, first-semester figures are relatively stable, while third-quarter data might still be subject to sizeable revisions in either direction.

Recent policy changes in some developing countries, especially in Asia, which are designed to alleviate the enormous burden on national budgets and trade balances from high international oil prices, might have a considerable impact on demand growth, similar to the sharp decline in Indonesia's domestic demand during October, following the huge rise in domestic product prices. The present outlook for the world economy paints a more optimistic picture. World gross domestic product (GDP) is projected to rise by 4.3 per cent in 2005, an upward revision of 0.1 per cent from the previous estimate. GDP figures were revised up in many regions, including North America, OECD Pacific, non-OECD Asia, the Middle East and China, where the latest forecast calls for a 9.1 per cent GDP rise, compared to 8.8 per cent last month. Finally, there are indications that Chinese demand has started to pick up. Following several months of inventory draws, the Chinese government has ordered refiners to increase runs and replenish inventories to at least 10–15 days of forward coverage — in some provinces stocks have been run down to just above three days of forward consumption. At the same time, effective September 1, the government suspended an 11 per cent export rebate for gasoline and naphtha shipments.

All these measures are designed to avoid a repetition of the fuel shortages that spread in some areas, especially in the south, during August. The combination of lower exports, the need for inventory replenishment, the end of the year, when China ramps up imports ahead of the Chinese New Year, and a healthier economic outlook, signal a recovery in China's apparent demand.

OECD

Oil demand in OECD countries is projected to rise by 330,000 b/d, or 0.7 per cent, to average 49.8m b/d in 2005. This growth is very similar to the oil requirements observed for the period January-August for which fairly good data is available. According to the latest figures at hand, OECD total oil requirements for the first eight months of the year rose by 360,000 b/d, which translates into a y-o-y change of 0.8 per cent and a period average of 45.8m b/d. Not surprisingly gasoil/diesel requirements rose by 270,000 b/d, or 2.2 per cent, during the eight-month period, with most of the increase originating in Western Europe followed by North America. Kerosene and naphtha requirements grew by 100,000 b/d, or 2.3 per cent, and 80,000 b/d, or 2.8 per cent, respectively, during the period. Gasoline requirements show almost no growth as the modest rise in North American consumption was offset by the continued decline in demand in Western Europe. LPG consumption shrank by 90,000 b/d, or 1.8 per cent, as high gas prices induced substitution wherever possible. Liquefied petroleum gas (LPG) consumption suffered the biggest relative decline in Western Europe, falling 5.2 per cent, although consumption also dropped 1.2 per cent in North America. Residual fuel oil requirements for the period January–August increased a marginal 0.02 per cent, underpinned by a rise in consumption in North America, while consumption fell by 0.5 per cent in Western Europe and by two per cent in the OECD Pacific.

Developing countries

Developing countries demand is forecast to rise by 700,000 b/d, or 3.2 per cent, to average 22.1m b/d for the whole of 2005. Developing countries contribution to total world oil demand growth is estimated to be approximately 60 per cent, higher in relative terms than the 34 per cent share in 2004, but lower compared to the nearly 1m b/d growth seen in the group last year. This is the reason why it is so important that the assessment of developing countries captures as much as possible real demand patterns, despite the difficulties posed by the reliability, timeliness and availability of the data. On a regional basis, Other Asia demand is estimated to rise by 280,000 b/d, or 3.4 per cent, to 8.64m b/d. The growth in this region was revised down slightly from last month's estimate, in order to capture the impact of the latest policy changes implemented in several countries, including Indonesia. On a positive note, GDP data for the region came out stronger, according to the latest figures. Based on upward revisions to Middle Eastern GDP data, oil demand growth has been revised slightly up to 230,000 b/d, or 4.2 per cent, to total 5.67m b/d. The combined growth in these two regions constitutes more than 70 per cent of the expected increase in demand in the developing countries. The remaining 30 per cent is made up by Latin America with 100,000 b/d and Africa where demand is forecast to rise by 80,000 b/d in 2005.

In India, a country which should be monitored closely due to its emergence as a leading oil consumer, oil demand for the period January–September 2005 grew by 70,000 b/d, or 2.5 per cent, compared to the same period last year. On a monthly basis, demand growth has been erratic.

Following a good start in January and February this year, demand growth became negative in April and July when it contracted by

130,000 b/d y-o-y. The latest data shows a 5.3 per cent rise in August, followed by flat growth in September. On the trade side, India continues to be a net LPG importer, but in November the country reverted to its status as a jet kerosene exporter, resulting in a net rise in exports of petroleum products for the month. On the crude side, the country's imports topped the 2m b/d mark in August and September, which was considerably lower than the record-high imports of nearly 2.8m b/d registered in May this year.

Other regions

Other regions apparent demand forecast remains almost unchanged from our last estimate. Apparent demand is projected to rise by 160,000 b/d, or 1.5 per cent, to a yearly average of 11.4m b/d. The FSU, which registered an eight per cent y-o-y rise during the first quarter of the year, showed a reversal in the second quarter when demand fell by 0.6 per cent y-o-y. Preliminary trade and production statistics point to a further 3.7 per cent contraction in the third quarter of the year, and projections for the last quarter call for another y-o-y decline. Apparent consumption in the Other Europe region, which comprises several central European states, is projected to rise by 20,000 b/d, or 2,5 per cent, to average 900,000 b/d. In China, which makes up nearly 70 per cent of the group's consumption, apparent demand is estimated to rise by 130,000 b/d, or two per cent, to average 6.7m b/d. This disappointing growth when compared to the nearly 1m b/d of 2004, or the projected growth of more than 600,000 b/d estimated for 2005 late last year, is corroborated by the hard trade and production data at hand. As mentioned previously, Chinese apparent demand grew by only 4.6 per cent in the first quarter of the year, followed by an unexpected 2.8 per cent contraction in the second quarter. Third-quarter preliminary apparent demand figures show signs of a recovery, although the hard data on production and trade does not look as optimistic as some commentators have recently stated. Apparent demand rose by 140,000 b/d in July, before falling by 60,000 b/d in August, only to recover in September when it grew by 120,000 b/d y-o-y. For the period January-September this year, apparent demand shows a minor 10,000 b/d, or 0.2 per cent, contraction. Therefore, the 130,000 b/d rise projected for the whole of 2005 is supported by the assumption that demand will pick up in the last three months of the year and there are reasons for being optimistic.

On the one hand, the Chinese economy continues to grow at a strong pace — even by Chinese standards — with the latest data pointing to a GDP growth rate of 9.1 per cent, much higher than previously estimated. On the other hand, in an attempt to resolve the shortages that spread through the country in August, the government has suspended an export rebate on gasoline and naphtha, effective September 1 to the end of the year, and will probably have it extended. As a result, gasoline exports dropped to 70,000 b/d in September, compared to an average of 170,000 b/d from January to August. The government has instructed Chinese refiners to replenish exhausted inventories to 15 days of forward coverage and refiners have started to increase refinery runs. Crude imports picked up in September to 2.52m b/d, a level not seen since April this year. Last, but not least, the Chinese are bound to raise purchases late in the year ahead of the Chinese New Year.

Forecast for 2006

Average world oil demand is projected to grow by 1.52m b/d, or 1.8 per cent, to average 84.8m b/d for 2006, a slight upward revision from the last report. The upward revision is due to a more optimistic view of the world economy for the coming year. The world's GDP growth is now projected to rise by 4.1 per cent next year, with developing economies, North America and OECD Europe showing better-than-previously projected rates of economic expansion.

Oil consumption is expected to rise in all major regions with the sole exception of Other Europe, where demand will remain almost flat. North America, especially the USA, will contribute four-fifths of demand within the OECD countries, but some growth is expected in Western Europe and the OECD Pacific. Developing countries demand is projected to rise by 600,000 b/d, or 2.8 per cent, to account for approximately 40 per cent of total estimated world oil demand growth. China will make up about one-fourth of total world oil demand growth in 2006. Demand is projected to rise in each single quarter on a y-o-y basis, although typical seasonality is expected to remain to some extent. Thus, absolute demand of 83.51m b/d in the second quarter of 2006 will drop by 1.8m b/d with respect to the first three months of the year, which showed 85.31m b/d. Total world oil demand will then recover to average 83.9m b/d in the third quarter and by a further 2.6m b/d to average 86.5m b/d in the fourth quarter of next year. This preliminary assessment is subject to further adjustments as new information becomes available on key factors, such as the economic growth outlook, weather conditions, unforeseen social and geopolitical events, and variations in crude and product prices.

December

Forecast for 2005

With preliminary data at hand for the first three quarters of 2005 and a healthier outlook for the world, as well as regional economies for the reminder of 2005 and 2006, world oil demand is projected to rise by 1.2m b/d, or 1.5 per cent, to a yearly average of 83.3m b/d. It is not surprising that oil demand growth is coming from countries with high rates of economic growth — developing countries — and oil-producing states which have benefited from international oil prices. Incoming data from developing countries seems to corroborate earlier demand growth figures. According to the latest information, first-quarter oil demand growth was around 900,000 b/d with the second quarter rise hovering around 700,000 b/d. Preliminary figures suggest another 600,000 b/d gain in demand for the third quarter and, based on GDP data for the last quarter of this year, developing countries demand is projected to grow by 650,000 b/d during the last three months of 2005. All this means that combined oil demand in developing countries will average around 700,000 b/d, which represents approximately three-fifths of the expected total growth in oil demand for the current year.

OECD countries' oil demand is projected to rise by 330,000 b/d, or 0.7 per cent, to average 49.8m b/d. The promising growth seen in the first two quarters of 400,000 b/d and 600,000 b/d fell back in the third quarter when y-o-y growth was merely 100,000 b/d. The low figure can be attributed partly to a contraction in third-quarter oil consumption in OECD Pacific countries, but primarily to a disappointing 100,000 b/d rise in North American demand, with most of the growth coming from Mexico and Canada. As expected, the hurricane disruptions affected petroleum product consumption during September and October. Secondary and tertiary inventories, wholesale and consumer stocks, were probably drawn down to make up for disruptions to the US supply chain. Replenishing these stocks will likely show up in additional demand in the months to come. Thus, we project that demand will rise by 300,000 b/d in North America for the last quarter of the year with the lion's share coming from the US. Western Europe's oil demand is projected to finish the year with a slight decline, following an increase in the second and third quarters of 2005. The surprising growth seen in the OECD Pacific for the first two quarters came to a halt during the third quarter when preliminary figures indicated a 0.7 per cent y-o-y contraction. As for the year as a whole, and based on a more positive economic outlook, the forecast indicates growth of approximately 100,000 b/d, or 1.2 per cent, to average 8.6m b/d. In China, following an unexpected contraction in apparent demand growth in the second quarter of 2005, preliminary trade and production data indicates a recovery in apparent demand in August of 60,000 b/d, followed by a 340,000 b/d rise in September. Based on a positive economic outlook for 2005 — now revised up to 9.2 per cent — the need to replenish drawn down product stocks, the suspension of export rebates on petroleum products (gasoline and naphtha), the need to comply with import quotas, and the usual spur in buying ahead of the Chinese holidays, apparent oil demand in China is projected to grow by 340,000 b/d, or 5.1 per cent, during the fourth quarter, resulting in a yearly rise of 130,000 b/d, or two per cent.

OECD

Oil demand in OECD countries is projected to rise by 330,000 b/d, or 0.7 per cent, to a yearly average of 49.82m b/d. North America will contribute three-quarters of the total growth. Nevertheless, it is important to highlight that the 1.2 per cent y-o-y rise seen in the first two quarters of the year decelerated considerably in the third quarter to just 0.4 per cent. Moreover, for the third quarter, all the growth originated in Mexico and Canada, with the US showing a marginal 0.2 per cent contraction. According to the latest EIA monthly data, petroleum product supply for the period January–October 2005 fell by 0.3 per cent, compared with the first ten months of 2004.

A breakdown of major product categories shows gasoline supply up by 0.2 per cent in the first ten months of 2005, with distillates and fuel oil rising by 1.2 per cent and 4.4 per cent, respectively. Thus, the contraction can be traced back to other product categories, as well as jet fuel. It is important to note the weakening relation observed this year between GDP growth and oil demand in the US. This year, solid economic growth for the first three quarters of the year does not correlate to the actual contraction in demand seen in the first ten months. This divergent trend can in part be attributed to the sizable drop in demand seen during September and October, as a result of the hurricanes. However, record pump prices, especially in the third quarter, may also have played a role.

According to the latest information, OECD oil demand rose by 300,000 b/d, or 0.6 per cent, for the first three quarters of the year to a total of 49.39m b/d. The breakdown of total OECD oil requirements by products for this period shows that inland deliveries of gasoil/diesel experienced the bulk of this growth, increasing by 260,000 b/d, or 2.1 per cent, followed by kerosene and naphtha, which rose by 90,000 b/d and 80,000 b/d, respectively. LPG consumption continued to decline, dropping by almost 130,000 b/d, or 2.7 per cent, for the first nine months of the year, due to high natural gas prices.

Developing countries

Developing countries' oil demand is projected to rise by 700,000 b/d, or 3.2 per cent, to average 22.1m b/d, representing approximately three-fifths of total world demand growth. The lion's share of demand growth in this group will originate in non-OECD Asia and the Middle East, where consumption is projected to rise by 270,000 b/d and 280,000 b/d, respectively. In south-east Asia, reductions in subsidies have slashed consumption in several countries, e.g. Indonesia, where gasoline and kerosene prices more than doubled recently. The extent to which the higher domestic product prices have impacted on consumption is still uncertain. Indonesia's oil demand contracted abruptly in October by as much as 40 per cent after the government sharply raised domestic fuel prices during the month. However, local officials indicated that demand rebounded in November and in early December, recovering much of the initial loss. According to the latest figures for the second week of November, product consumption stood at around 1.1m b/d, recovering from levels as low as 800,000 b/d, when prices were first increased.

World oil demand in 2005 forecast to grow by 1.22m b/d or 1.5 per cent to average 83.3m b/d.

Pertamina officials expect product consumption to reach its normal level of 1.1–1.2m b/d in the months to come. Demand in Thailand, where the removal of subsidies in July resulted in a rise by almost a third in domestic product prices, is up by more than 3.5 per cent for the first ten months of the year. Malaysia also steadily phased out subsidies on domestic product prices. However, demand is estimated to rise by around three per cent for the year. Oil demand in Latin America and Africa is projected to increase by around 80,000 b/d each.

Other regions

Other regions' total oil demand growth is projected at 160,000 b/d, or 1.5 per cent, to average 11.4m b/d for the year. Despite the disappointing expected growth in Chinese apparent demand for this year, it accounts for more than three-fourths of the total growth in this group. China's apparent demand derived from trade and production figures is projected to rise by 130,000 b/d, or two per cent, in sharp contrast to the astonishing near 1m b/d registered last year.

Following a modest start this year, Chinese demand rose by 4.6 per cent during the first quarter, but then registered a sudden 2.8 per cent drop in the second quarter. Preliminary data and estimates for the third quarter indicate a minor 1.3 per cent y-o-y rise. From the latest figures, apparent product demand in China for the first nine months of the year shows a 70,000 b/d, or 1.1 per cent, rise with respect to the same period last year. The good news is that, according to the August and September data, apparent demand seems to have started to recover. Although at 60,000 b/d the rise during August was modest, in September the recovery appears to be robust with demand rising by 340,000 b/d y-o-y.

As mentioned earlier, apparent oil demand in China is projected to grow by 340,000 b/d, or 5.1 per cent, during the fourth quarter which results in a y-o-y rise of 130,000 b/d, or two per cent. The FSU's apparent demand is projected to remain flat from last year following declines in the second and third quarters of the year. In contrast, the oil demand estimate for Other Europe (a group consisting of several central European states) has been revised slightly up as data from the first two quarters of the year indicates that demand rose more than previously estimated.

Forecast for 2006

Average world oil demand is now projected to grow by 1.6m b/d, or 1.9 per cent, to average 84.9m b/d for 2006, slightly higher than the estimate presented in last month's report. The upward revision is due to a more optimistic view of the world economy for the coming year. The world's GDP growth is now projected to rise by 4.2 per cent next year with the OECD and some developing economies in Asia and Latin America showing better than previously projected rates of economic expansion. Oil consumption is expected to rise in all major regions with the sole exception of Other Europe (Central European states) where demand will remain almost flat. North America, especially the US, will contribute the bulk of demand growth within the OECD countries, but some growth is expected in Western Europe and the OECD Pacific. As has been the case in the last ten years, oil demand growth from developing economies — of 700,000 b/d — is projected to contribute a significant portion to total growth. China will make up more than one-fifth of total world oil demand growth in 2006. Demand is projected to rise in each single quarter on a y-o-y basis. Thus, absolute demand of 83.57m b/d in the second quarter of 2006 will drop by 1.9m b/d with respect to the first three months of 2006 (85.42m b/d). Total world oil demand will then recover by 600,000 b/d to average 84.16m b/d in the third quarter and further by 2.4m b/d to average 86.5m b/d in the fourth quarter. This preliminary assessment is subject to further adjustments as new information becomes available on key factors such as the economic growth outlook, weather conditions, unforeseen social and geopolitical events, and variations in crude and product prices.

World oil supply

November

Non-OPEC

Forecast for 2005

Non-OPEC supply in 2005 is expected to average 50.21m b/d, representing an increase of 350,000 b/d over the previous year, following a downward revision of 94,000 b/d to last month's figures. Non-OPEC supply, including OPEC NGLs and non-conventional oils, is expected to average 54.50m b/d, an increase of 500,000 b/d. On a quarterly basis, non-OPEC supply has been revised down in the third and fourth quarters by 195,000 b/d and 191,000 b/d, respectively, following downward revisions for Brazil, Kazakhstan, Norway and Sudan, which have been partially offset by upward revisions in Russia and Azerbaijan. Material baseline revisions have also been implemented in Argentina, Chad, and Gabon going back to 2004. Regarding the US Gulf of Mexico, there is no new information, or compelling reasons, to modify last month's assumptions for expected losses. Consequently, the 2005 production forecast for the US remains unchanged.

OECD

OECD oil supply is expected to average 20.49m b/d, which represents a decline of 780,000 b/d versus the previous year and a downward revision of 72,000 b/d. Minor adjustments to third-quarter data and significant downward revisions in Norway in the third and fourth quarters provide the basis for the adjustments in the OECD. However, it should be emphasized again that the impact of shutdowns in the Gulf of Mexico, combined with underperformance in the North Sea, continues to be the major drag for non-OPEC supply and this uncertainty has been carried over from 2005 into 2006. A full recovery for the OECD to pre-Katrina levels is not expected until the third quarter of 2006 as can be seen in Graph 23 and this assumes that there are no major hurricanes for that year 2006.

USA

Total US oil supply is expected to average 7.34m b/d in 2005, which represents a drop of 310,000 b/d versus 2004. In the fourth quarter, total US oil supply is expected to average 6.8m b/d — the lowest level in 47 years — due to losses in the Gulf of Mexico. In the absence of new material information, last month's assumptions for hurricane-related losses have not been revised. At the time of writing, approximately 800,000 b/d remained shut in the Gulf of Mexico, most of which is in the New Orleans/Houma offshore production area, which was the hardest hit by Katrina and never fully covered before Rita arrived, and is therefore expected to see a slow return. Hurricane losses for the remainder of this year are assumed to be 1m b/d in October, 750,000 b/d in November and 400,000 b/d in December. In 2006, losses should drop to 300,000 b/d in the first quarter and 200,000 b/d in the second quarter, while permanent losses are expected to amount to 50,000 b/d. Average losses in October were 1.1m b/d. Looking forward to the rest of November, we expect to see a continuing improvement in production as evidenced in the most recent statistics and encouraging reports from operators. At the time of publication, average losses for the month of November stood at 790,000 b/d. It should be noted that the sharp recovery in early November was due to the restart, following three months of repairs, of the Empire terminal, which handles up to 500,000 b/d of crude produced in the Gulf of Mexico. However, the overall outlook depends on many factors, and therefore remains subject to revisions in either direction.

Mexico and Canada

The supply forecast for Mexico and Canada remains unchanged, but Mexico's production may under-perform in the fourth quarter. Mexican oil supply is expected to average 3.77m b/d in 2005, which represents a drop of 70,000 b/d versus the previous year. However, it now appears (as anticipated last month) that between 50,000 b/d to 100,000 b/d of production has been deferred in recent weeks, following damage to US refinery customers, many of which will remain out of the market until the end of the year, as well as limited crude storage facilities at home and a lack of opportunities for placing heavy crude outside the USA. The forecast for the fourth quarter reflects a level that is slightly below September production of 3.79m b/d. Taking this as a reference, and considering the complexity of the issue, it is difficult to see Mexican production improving in the fourth quarter, compared to our expectations, or even versus September production. Looking ahead, yearly production in 2006 is expected at the same level as in 2005.

The outlook for Canada remains unchanged, with oil supply expected to average 3.05m b/d in 2005, representing a drop of 30,000 b/d versus 2004. For a long time, we have been forecasting an increase in Canadian oil supply in the fourth quarter to 3.17m b/d from an average of 3m b/d in the third quarter, and this appears to be on track. Year-to-date conventional crude production has performed slightly better than expectations, up just 0.6 per cent compared to last year. Bitumen production has been the main source of production fluctuation in 2005, although this is now on track for recovery. Conventional crude production is up, despite the fact that the large Terra Nova field, which produces 125,000 b/d, has had several problems and was offline in July and from September to October.

Western Europe

Following significant revisions to Norwegian oil production, total oil supply in OECD Europe is expected to average 5.75m b/d in 2005, a drop of 390,000 b/d versus last year and a negative adjustment of 72,000 b/d. Norwegian oil supply is expected to average 3m b/d in 2005, a drop of 200,000 b/d versus 2004 and a revision of 78,000 b/d. The cumulative impact of prolonged unplanned shutdowns, deeper maintenance (which is ongoing), and production restrictions in several facilities, provides the basis for this revision. Last month, we indicated that the rebound in production in September may not be sufficient to arrive at the expected third-quarter average, much less the average for the full year.

This has now turned out to be the case, resulting in a downward revision of 100,000 b/d for the third quarter. In addition, recent accidents at Asgard, Sleipner and Mikkel have led to a downward revision in the fourth quarter of 209,000 b/d and for the coming year. The potential for recovery remains, but this would only take place in 2007, or 2008. On the positive side, the large Kristin gas condensate field and the Urd development are both now onstream and are expected to reach a plateau by the middle of next year. In addition, the Visund field, which was shut down four months ago to undergo an upgrade in the gas-processing facilities, is also now onstream.

The forecast for the UK remains unchanged. UK oil supply is expected to average 1.90m b/d, which represents a drop of 190,000 b/d versus 2004. The current forecast still has some room for surprises, but the potential volume impact is expected to be immaterial. As in the case of Norway, a deeper and prolonged maintenance, combined with field deliverability issues, particularly at the largest fields, are behind the drop in production in 2005. This loss is larger than expected, compared to the first forecast, but is still lower than the 240,000 b/d seen in 2004.

Asia Pacific

Oil supply in the Asia Pacific region is now expected to average 590,000 b/d in 2005, slightly higher than in 2004. A revision in Australian production provides the basis for the adjustment. Australian production has been revised up for the third and fourth quarters by 11,000 b/d and 25,000 b/d, respectively, to reflect better-than-expected production in the third quarter. Arguably, the recent performance of Australian fields has been much better than anticipated. We now believe that this trend, underpinned by the start-up of some projects, will continue in 2006 and therefore the full-year forecast for 2006 has also been revised up.

Developing countries

The outlook for the developing countries has been revised down slightly. Total oil supply is expected to average 12.50m b/d in 2005, which represents an increase of 540,000 b/d over 2004, but a downward adjustment of 33,000 b/d. The revision reflects the impact of project delays in Brazil and Sudan, baseline revisions in Argentina, Chad, Gabon, and the inclusion of the latest data in several countries for the third quarter (India, Ecuador, Cuba, Yemen, Congo, Egypt, and Equatorial Guinea).

The forecast for Brazil has been revised down, due to delays in the start-up of the giant P-50 (Albacore Leste field — 180,000 b/d) from late in the fourth quarter this year to February 2006. Brazilian oil supply is likely to average 1.97m b/d in 2005, which represents an increase of 170,000 b/d versus 2004, but a negative revision of 17,000 b/d from last month's estimate. Such delays are not uncommon in the industry and whilst the impact on production is clear, assessing the extent of the delay for many projects is not always straight forward. This is the second project in Brazil which has seen its start-up delayed from 2005 to early 2006.

In Sudan, there is also a delay in the start-up of the giant Adar Yel project (200,000 b/d), located in the Melut Basin. This project was originally expected to begin at the end of the third quarter, then in the middle of the fourth quarter, and now, in December 2005, resulting in very little contribution to the full year average production. Sudan's oil output is expected to average between 350,000 b/d and 360,000 b/d in 2005, an increase of 40,000 b/d versus 2004, but a negative revision of 57,000 b/d. The bulk of the revisions took place in the third and fourth quarters. The new start date of this important project is based on recent guidance from the operator and commissioning status of construction activities at the main loading and storage terminal at the Port of Sudan Area. However, once online, production and exports are still expected to increase fairly rapidly, building up total Sudanese oil output to around 490,000 b/d in early 2006.

Baseline revisions have been implemented in Argentina, Chad, and Gabon. The most recent data for Argentina shows a higher level of production than previously thought going back to 2004. This has resulted in an upward revision to the base, which has been carried through to 2006. However, Argentinean production is still expected to drop 20,000 b/d in 2005 versus 2004 and again in 2006. In Chad, the production level has been revised down for 2004, 2005, and 2006, based on confirmation that production at the Doba project (see last month's report) settled in the third quarter of 2004 at a level that is 45,000 b/d less than previously estimated. We expect Chadian production to remain at around 180,000 b/d in 2005 and 2006, due to a lack of projects and reservoir limitations. Finally, the latest assessment for Gabon shows that oil production in 2004 was higher than estimated and continues to be higher today. Revisions of 13,000 b/d in 2004 and 24,000 b/d in 2005 have been implemented. As a result, Gabon's 2005 oil production is expected to average between 250,000 b/d and 260,000 b/d. The forecast for 2006 has also been revised up, and there are indications that it could even show modest growth by the end of next year.

Other regions

The outlook for the FSU remains unchanged. FSU oil supply is expected to average 11.57m b/d, an increase of 410,000 b/d versus 2004. The forecast for Other regions (Other Europe and China) remains unchanged, with total oil supply expected to average 3.79m b/d in 2005, representing an increase of 150,000 b/d from 2004.

Russian oil supply is expected to average 9.42m b/d in 2005, an increase of 230,000 b/d versus 2004 and an upward revision of 28,000 b/d. After revising down the growth outlook during much of the first half of the year, Russian supply has seen three consecutive small upward adjustments in each of the last three months to reflect a better-than-expected performance, albeit slightly. However, we have not changed our view that Russian production growth is likely to grow marginally this year and next, given that year-to-date growth is sharply down from 2004, the industry continues to struggle and face uncertainties, and some companies are likely to see production decline further. In the near term, we expect no material incremental growth on the assumption that production increases slightly in October (as appears to have been the case) before dropping from November through to April 2006. Crude export tariffs have increased from October 1 to \$24.6/b and will stay at this level until December 1. It is unlikely that tariffs will increase further for the next period.

On the fiscal side, government initiatives designed to stimulate the development of new areas (tax holidays for green-field projects, etc) are positive from an oil supply perspective, but the impact of these will only be seen in the long term. Changes to export duties (for crude and products) are also being considered/proposed by the Minister of Economic Development, the Central Bank, and the Minister of Industry and Trade, although it is unclear how these will evolve and what impact they will have on oil production growth. Finally, the shape and timing of the planned subsoil law remains uncertain. To sum up, on the positive side discussions are being held, the wheels are in motion, but the complexity of the issues under discussion suggests that it will take more than a few months before any reforms can be fully implemented and longer before these translate into incremental oil supply to keep Russian output growing at a reasonable pace. In the meantime, and as expressed by different high-ranking officials, Russia is going through a transition period which could result in production going either way. In 2006, Russian growth is expected to average 120,000 b/d, or half the growth in 2005, while the risks remain on the downside.

In the Caspian region, the outlook for Azerbaijan has been revised up, but the outlook for Kazakhstan has been revised down. Total Azeri oil production is expected to average 440,000 b/d in 2005, an increase of 130,000 b/d from 2004 and an upward revision of 9,000 b/d. Azeri oil production averaged 16,000 b/d less in the third quarter, than estimated, and this has been taken into account. However, the most recent data indicates that the giant ACG project is likely to perform above earlier estimates in the fourth quarter. Production from the Central Azeri field (Phase I) came onstream this year and is currently around 240,000 b/d, more than doubling ACG's production. As a result, the forecast for the fourth quarter has been revised up by 50,000 b/d. ACG will continue to increase its production in phases until it reaches 1m b/d by the end of 2008. In January next year, the West Azeri field comes onstream, taking total ACG production to 500,000 b/d and total Azeri production to 680,000 b/d by the end of 2006.

The BTC pipeline, which will carry most ACG crude, is expected to be filled by year-end, allowing exports from the port of Ceyhan to start shortly thereafter. In addition, the Shah

Deniz field is also expected to start pumping gas and condensate from mid-2006.

Kazakh oil production is expected to average 1.22m b/d in 2005, 40,000 b/d more than last year, but a downward revision of 34,000 b/d from last month. We have made a downward revision of 80,000 b/d in the third quarter and 56,000 b/d in the fourth quarter. The underperformance in the third quarter is mainly attributed to the Karachaganak field, which has seen its production drop from 248,000 b/d in May 2005 to 131,000 b/d in September 2005, due to gas-flaring restrictions, technical faults, and, more recently, maintenance, among other reasons. We remain in doubt as to how soon production can be restored to capacity and what needs to happen, and therefore have taken a conservative view for this field for the rest of the year.

Forecast for 2006

Non-OPEC oil supply in 2006 is expected to average 51.61m b/d, an increase of 1.4m b/d over 2005, an upward revision of 34,000 b/d from last month's report. Non-OPEC supply, including OPEC NGLs and non-conventional oils, is expected to average 56.23m b/d, an increase of 1.7m b/d. On a regional basis, the largest contributor is expected to be the African region at 540,000 b/d, followed by the FSU at 390,000 b/d, North America at 350,000 b/d (mainly because of the unwinding of US Gulf of Mexico production), and Latin America at 130,000 b/d, whilst OECD Europe and the Middle East are expected to show a drop of 130,000 b/d, and 90,000 b/d, respectively. Oil production growth is underpinned by the start-up of over 35 green-field projects located in deep water, bitumen extraction and syncrude projects in Canada, as well as the continuing expansion of the Caspian and African region. Deep water is expected to account for approximately 50 per cent of net growth.

Revisions to the 2006 forecast

On a quarterly basis, the forecast for non-OPEC supply for 1Q, 2Q, 3Q and 4Q have been revised down 31,000 b/d, up 116,000 b/d, up 127,000 b/d, and down 78,000 b/d, respectively, resulting in a full year positive adjustment of 34,000 b/d. The outlook for the OECD has been revised down by 83,000 b/d. For Latin America, Middle East, Africa and the FSU, the outlook has been revised up by 11,000 b/d, 7,000 b/d, 46,000 b/d and 58,000 b/d, respectively. Excluding the unwinding of the US Gulf of Mexico, which is an important feature of the forecast next year, non-OPEC supply growth would still be around 1.1m b/d, or broadly unchanged from our first assessment in July 2005.

The bulk of changes are derived from revisions to the base and 2005 forecast of several countries (Australia, Gabon, Egypt, Sudan and Russia) discussed in the previous section, and due to changes in the schedule of some important projects. In particular, in the USA we have revised the start date of the Constitution field (65,000 b/d) from early to mid-2006. In the UK, we have revised down production in the fourth quarter to reflect a slower ramp up of the Buzzard field (190,000 b/d). In Brazil, we have revised the start date of the giant Albacora Leste field from late 2005 to early 2006 and the ramp up period. There are now three important fields starting up next year in Brazil: Albacora Leste (previously 2005), Jubarte (previously 2005), and Golfinho. The Golfinho field is expected to start in the second quarter, but could face some delays, pushing the start-up to the fourth quarter. In Azerbaijan, the start date and build-up of the West Azeri field (ACG Phase II) have been revised, resulting in a positive revision for total Azeri oil production growth. The field is expected to start early next year, instead of mid-year.

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	7.17	7.30	7.38	7.37	7.31
2005[1]	**7.49**	**7.73**	**7.81**	**7.82**	**7.71**
2006[2]	**7.75**	**8.20**	**8.18**	**7.93**	**8.01**

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

Table E: OPEC NGL production, 2002–06 *m b/d*

2002	**2003**	**2004**	**04/03**
3.62	3.71	4.09	0.38
1Q05	**2Q05**	**3Q05**	**4Q05**
4.22	4.27	4.32	4.37
2005	**05/04**	**2006**	**06/05**
4.30	0.20	4.62	0.33

Elsewhere, we have revised down the outlook for Kazakhstan, primarily due to the impact of the underperformance in 2005. However, there is a new uncertainty regarding the timing of the expansion of the Tengiz field next year, given that the CPC pipeline will not be ready until 2007 versus earlier expectations of mid-2006. The field operators could use available space in the BTC pipeline (or perhaps the new Kazakh-China pipeline. expected to be ready by the end of 2005/early 2006) to go ahead with the expansion of the field, if some operational modifications are undertaken. The expansion of the Tengiz field is expected to be between 130,000 b/d and 200,000 b/d and is scheduled for mid-2006.

FSU net oil export (crude and products)

In 2005, FSU net oil exports are expected to average 7.71m b/d. On a quarterly basis, net oil exports are expected to average 7.82m b/d in the third quarter and 7.80m b/d in the fourth quarter. The latest available data (September) shows Russian net oil exports averaging 6.5m b/d, which represents a y-o-y increase of 300,000 b/d, based on data available for rail and pipeline exports. We would highlight that rail exports have been reduced significantly since March, from 700,000 b/d to 291,000 b/d in July, recovered somewhat in August to 380,000 b/d, before falling again in September to 316,000 b/d, due to hikes in crude export duties.

The forecast for 2006 shows FSU net oil exports averaging 8.03m b/d, which represents an increase of 320,000 b/d over 2005 (see **Table D**).

OPEC NGLs and non-conventional oils

The growth forecast for OPEC NGL production in 2005 and 2006 remains unchanged at 200,000 b/d and 330,000 b/d, respectively. This increase should result in average production in 2005 and 2006 of 4.3m b/d and 4.62m b/d, respectively (see **Table E**).

OPEC crude oil production

Total OPEC crude production averaged 30.05m b/d in October, 216,000 b/d less than the previous month, according to secondary sources. Production increased in Iran, Kuwait, and Nigeria. Iraqi oil production averaged 1.8m b/d, 251,000 b/d less than in September. The production figure for Iraq is taken net of re-injection by most secondary sources and closely matches export developments, which were affected by bad weather during the month of October (see **Table F**).

December

Non-OPEC

Forecast for 2005

Non-OPEC supply in 2005 is expected to average 50.2m b/d, representing an increase of 370,000 b/d over the previous year and a downward revision of around 1m b/d since it was first made in July 2004. Non-OPEC supply, including OPEC NGLs and non-conventional oils, is expected to average 54.5m b/d, an increase of 500,000 b/d. No material revisions have been implemented in this month's report.

OECD

OECD oil supply is expected to average 20.48m b/d, which represents a decline of 790,000 b/d versus the previous year, unchanged from last month's report. Improvements in US Gulf of Mexico oil production during November came close to our assumptions, whilst preliminary data for Mexico and the North Sea for the months of October and November came close to our estimates. As highlighted in last month's report, the OECD, in particular the North Sea and the US, has been a major drag on non-OPEC supply growth this year, with both regions accounting for the bulk of the revisions in non-OPEC data. A full recovery for the OECD to pre-Katrina levels is still not expected until the third quarter of 2006.

US

Total US oil supply is expected to average 7.34m b/d in 2005, which represents a drop of 310,000 b/d versus 2004. US Gulf of Mexico oil production partially began to recover in the latter part of November. Actual losses for November are estimated at 710,000 b/d, compared to our assumption of 750,000 b/d. At the time of writing, average losses for December are estimated at 470,000 b/d versus our assumption of 400,000 b/d for the entire month. The recovery in November was primarily due to the restart of several oilfields connected to the now-operational Empire terminal, which handles up to 500,000 b/d of crude and which was damaged during the Katrina/Rita hurricanes. Looking ahead, the recovery of the Gulf of Mexico is still dependent on many factors, including the repair of significant amounts of infrastructure under tight market conditions, and therefore remains subject to uncertainty. Even then, two important fields (Mars and Typhoon) will not return before the middle of next year, limiting the full recovery of the area until then. In addition to the affected oil production, there are also significant gas field shutdowns and damaged onshore infrastructure affecting the production of natural gas and natural gas liquids. In contrast to the improving trend in the recovery of oil production, the recovery for these hydrocarbons has been much slower than expected.

Mexico and Canada

Mexican oil supply is expected to average 3.77m b/d this year, which represents a drop of 70,000 b/d versus 2004. The forecast for Mexico remains unchanged, despite the recent underperformance. Our forecast for the fourth quarter of the current year is 3.72m b/d, similar to the third, but preliminary production data for October and November indicates that production averaged around 100,000 b/d below this estimate. Mexican production has dropped for three consecutive months since August following damage to US refinery customers, as well as limited crude storage facilities and a lack of opportunities for placing heavy crude outside the US. Whilst some of these issues seem to be improving, a full recovery of US Gulf of Mexico refineries is not expected until early 2006. Considering the complexity of the issue, it is difficult to see actual Mexican production exceeding our expectations for the quarter. Thus, the combination of hurricane-related shutdowns in the summer, natural field declines and virtually no new production has resulted in a bad year for Mexican oil production.

The outlook for Canada remains unchanged, with oil supply expected to average 3.05m b/d in 2005, representing a drop of 30,000 b/d versus 2004. Year-to-date conventional crude production has performed better than original expectations, and a continuation of this positive trend is expected in 2006.

Western Europe

Total oil supply in OECD Europe is expected to average 5.75m b/d in 2005, a drop of 390,000 b/d versus last year and unchanged from last month. Norwegian oil supply is expected to average 3m b/d in 2005, a drop of 200,000 b/d versus 2004. UK oil supply is expected to average 1.90m b/d, which represents a drop of 190,000 b/d versus 2004. Following months of underperformance in Norway and the UK, preliminary data for the months of October and November show positive trends in crude oil production that are in line with the estimates. In Denmark, oil supply is expected to average 390,000 b/d in 2005, unchanged from 2004.

Asia Pacific

Oil supply in the Asia Pacific region is expected to average 590,000 b/d in 2005, 10,000 b/d higher than in 2004, to remain broadly unchanged from last month's report. This month we have made a minor downward adjustment to Australian data for the third quarter of 2005 with no material impact on the full-year outlook. However, it is worth pointing out that the outlook for Australian production has been revised up before to reflect better-than-expected production and this has resulted in a stronger outlook for the entire region. Arguably, the performance of Australian fields has been much better than anticipated and we believe that this trend, compounded by the start-up of projects, will continue in 2006. In fact, it is worth noting that of the OECD regions, the Asia Pacific shows the most significant improvement in the outlook for this year and next when compared to initial expectations, and even to the last few years.

Developing countries

The outlook for the developing countries remains broadly unchanged. Total oil supply is expected to average 12.52m b/d in 2005, which represents an increase of 540,000 b/d over 2004 and a revision of just 17,000 b/d. All revisions took place in Latin America, particularly in Colombia and Ecuador.

In Colombia, we revised the first quarter of 2005 down by 6,0000 b/d, the second and the third quarters up by 18,000 b/d and 36,000 b/d, respectively. Colombian oil production, which has been on the decline since 1998, has more or less stabilized since 2004 at around 510,000–540,000 b/d. Our forecast for 2005 has been revised up slightly in the past and we now expect Colombian oil supply to average 520,000 b/d in 2005, 10,000 b/d less than in 2004. In Ecuador, we revised the first, second and third quarters of 2005 up by 6,000 b/d, 7,000 b/d and 26,000 b/d, respectively. Ecuadorian production appears to have recovered faster than previously thought after the strike earlier this year. Elsewhere in Latin America, we are not making any changes, but it is worth noting that preliminary data in Argentina for September shows crude oil production hitting a 12-year low of 650,000 b/d, which would imply that total oil supply may have underperformed by 60,000 b/d versus our estimated third-quarter average. Final data should provide confirmation of this trend.

Elsewhere, the forecast for all developing countries remains unchanged. With the year now ending, it is important to emphasize that the performance of developing countries has remained solid, despite various project delays throughout the year. Several important counties stand out, such as Angola, Brazil, Malaysia and Sudan, all of which are likely to show above-average growth rates in 2005 and 2006. In addition, at the time of writing, at least four important projects were expected to come on-stream at the end of the fourth quarter of 2005 that have not yet done so. These include BBLT Phase 1 in Angola, Adar Yale in Sudan, Ruby Phase I in Vietnam, and Acis South in Malaysia. Some of these may eventually start in early 2006.

Other regions

The outlook for the FSU remains unchanged. FSU oil supply is expected to average 11.56m b/d in 2005, an increase of 410,000 b/d over the previous year. The forecast for other regions (which includes other Europe and China) remains unchanged, with total oil supply expected to average 3.79m b/d in 2005, representing an increase of 150,000 b/d from 2004.

Russian oil supply is expected to average 9.42m b/d in 2005, an increase of 230,000 b/d versus 2004. The latest data shows flat oil production in November versus October at around 9.58m b/d. We have now seen all the growth that Russian companies can deliver in 2005, and from here to around April 2006 we should see a seasonal drop due to the impact of winter on operations and water transport. Looking ahead, the industry continues to struggle and face uncertainties. However, the worst may be over in terms of the impact generated from capital restraint on production from the part of Yukos, Sibneft, and others. As detailed in several MOMR reports, the Russian industry is expected to grow at a more measured pace in the next few years, but in the short term the industry is still responding to a new environment, as seen by the abrupt slowdown in the rate of growth from eight to ten per cent per year in 2000 to 2004 to below three per cent in 2005. In 2006, Russian growth is expected to average 120,000 b/d, and while the risks remain on the down side, recently we have seen some indicators that could reverse this picture to a higher growth rate for 2006.

In the Caspian region, Azeri oil production is still expected to average 440,000 b/d in 2005, an increase of 130,000 b/d from 2004. The latest data shows Azeri oil production at 500,000 b/d, which is in line with our fourth quarter 2005 estimates. Kazak oil production is expected to average 1.22m b/d in 2005, an increase of 40,000 b/d over the previous year. Last month, we made a downward revision to the full-year outlook, primarily due to underperformance at the Karachaganak field between May and September, due to gas-flaring restrictions, technical faults and, more recently, maintenance, among other reasons. Karachaganak is now reported to have returned to more normal levels of production during October, resulting in a rebound in Kazak oil production to around 1.27m b/d, just above our estimate for the quarter.

Forecast for 2006

Non-OPEC oil supply in 2006 is expected to average 51.6m b/d, an increase of 1.4m b/d over 2005 and broadly unchanged from last month. Non-OPEC supply, including OPEC NGLs and non-conventional oils, is expected to average 56.2m b/d, an increase of 1.7m b/d. On a regional basis, the largest contributor is expected to be the African region with growth of 540,000 b/d, followed by the FSU with 370,000 b/d, North America with 350,000 b/d (mainly because of the unwinding of US Gulf of Mexico production), and Latin America with 110,000 b/d. OECD Europe and the Middle East are expected to show a drop of 130,000 b/d and 90,000 b/d, respectively. Oil production growth is underpinned by the start-up of over 35 greenfield projects.

Revisions to the 2006 forecast

On a quarterly basis, the forecasts for the first and second quarters have been revised up by 24,000 b/d and 44,000 b/d, respectively, while the forecasts for the third and fourth quarters have been revised down by 6,000 b/d and 136,000 b/d, respectively, resulting in a full-year negative adjustment of 19,000 b/d. The adjustment is entirely the result of a downward revision in the outlook for Kazakhstan. On a full-

Table F: OPEC crude oil production, based on secondary sources									1,000 b/d
	2003	2004	4Q04	1Q05	2Q05	3Q05	Oct 05	Nov 05	Nov/Oct
Algeria	1,134	1,228	1,285	1,313	1,343	1,366	1,372	1,372	0.3
Indonesia	1,027	968	963	951	944	933	930	928	–2.0
IR Iran	3,751	3,920	3,947	3,900	3,946	3,940	3,931	3,914	–16.7
Iraq	1,321	2,015	1,960	1,834	1,841	1,968	1,754	1,732	–22.0
Kuwait	2,172	2,344	2,448	2,438	2,506	2,530	2,573	2,554	–19.1
SP Libyan AJ	1,422	1,537	1,608	1,613	1,634	1,654	1,661	1,668	7.0
Nigeria	2,131	2,352	2,344	2,332	2,423	2,424	2,458	2,466	8.5
Qatar	748	777	791	784	793	796	801	809	8.2
Saudi Arabia	8,709	8,982	9,450	9,220	9,456	9,498	9,426	9,458	32.2
UAE	2,243	2,360	2,486	2,396	2,399	2,473	2,502	2,488	–13.7
Venezuela	2,305	2,577	2,605	2,699	2,639	2,611	2,587	2,576	–11.7
OPEC-10	**25,642**	**27,043**	**27,927**	**27,647**	**28,084**	**28,225**	**28,240**	**28,233**	**–7.0**
Total OPEC	**26,964**	**29,059**	**29,888**	**29,481**	**29,925**	**30,192**	**29,994**	**29,965**	**–29.0**

Totals may not add, due to independent rounding.

year basis, the estimate for Kazak oil production in 2006 has been revised down by 25,000 b/d to 1.28m b/d for growth of just 60,000 b/d, under the assumption that the expansion of the Tengiz field is likely to start in early 2007, instead of mid-2006. Construction of the main compressors and related infrastructure is due to be completed by the end of 2006. This expansion is now expected to add another 200,000 b/d to the current field production of around 250,000 b/d by the end of 2007.

FSU net oil exports (crude and products)

In 2005, FSU net oil exports are expected to average 7.71m b/d. The forecast for 2006 shows net exports averaging 8.01m b/d, which represents an increase of 300,000 b/d over 2005 (see **Table D**).

OPEC NGL and non-conventional oils

The growth forecast for OPEC NGL production in 2005 and 2006 remains unchanged at 200,000 b/d and 330,000 b/d, respectively. This increase should result in average production in 2005 and 2006 of 4.3m b/d and 4.62m b/d, respectively (see **Table E**).

OPEC crude oil production

Total OPEC crude production averaged 30m b/d in November, broadly unchanged from last month, according to secondary sources. Production increased in Nigeria, Qatar, and Saudi Arabia, while Iraqi output averaged 1.7m b/d (see **Table F**).

Rig count

November

Non-OPEC

The non-OPEC rig count stood at 2,625 rigs in October, which represents an increase of 67 rigs compared to the previous month. Of the total, 289 rigs were operating offshore and 2,336 onshore. In terms of the oil and gas split, there were 637 oil rigs and 1,972 gas rigs. The number of oil rigs declined by 138 over the previous month. Regionally, North America gained 57 rigs, while Western Europe gained three rigs and the OECD Pacific lost two rigs. The Middle East, Africa, Latin America and the rest of Asia gained eight rigs.

OPEC

The OPEC rig count was 279 in October, unchanged from last month. Increases took place in Kuwait (three), Saudi Arabia (four), and Venezuela (one). These gains were partly offset by declines in other OPEC Countries. Of the total, 210 rigs were operating onshore and 69 rigs offshore. In terms of the oil and gas split, there were 227 oil rigs, whilst the remainder was gas and other rigs.

December

Non-OPEC

The non-OPEC rig count stood at 2,710 rigs in November, which represents an increase of 85 rigs compared to the previous month. Of the total, 263 rigs were operating offshore and 2,447 onshore. In terms of the oil and gas split, there were 865 oil rigs and 1,830 gas rigs. The number of oil rigs increased 228 over the previous month. Regionally, North America gained 66 rigs, while Western Europe gained six rigs and the OECD Pacific lost two. The Middle East, Africa, Latin America and the rest of Asia gained a total of 16 rigs.

OPEC

The OPEC rig count was 292 in November, representing an increase of 13 rigs. Increases took place in Indonesia (three), Libya (two), Nigeria (two), Qatar (one), Saudi Arabia (one) and Venezuela (seven). These gains were partly offset by declines in other OPEC Countries. Of the total, 218 rigs were operating onshore and 74 rigs offshore. In terms of the oil and gas split, there were 240 oil rigs, while the remainder was gas and other rigs. By the end of December, the number of rigs operating in Saudi Arabia is expected to see a significant increase, which should boost total rigs in OPEC to above 300.

Stock movements

November

USA

US commercial oil stocks, which represent total crude and petroleum products, excluding the Strategic Petroleum Reserve (SPR), moved up slightly, adding 700,000 b, or about 30,000 b/d, to stand at 1,005.60m b during the period September 30 to October 28, 2005. The significant build in crude oil inventories was mostly balanced by draws in distillate and Other Oil stocks. This small gain moved the y-o-y surplus up to four per cent from the three per cent registered in the previous period, while the five-year average excess widened to three per cent, one per cent higher than in the previous month (see **Table G**).

Crude oil stocks regained the previous month's losses, increasing by 13.7m b, or 490,000 b/d, to 319.1m b on the back of recovering production after the shutdown of crude oil facilities, due to the hurricanes. US crude oil production rose by 260,000 b/d to 4.07m b/d in October. Crude oil imports also contributed to the strong build in crude oil inventories, rising by 1.94m b/d to stand at 10.06m b/d. Some of the increases in production and imports have been absorbed by refineries, which accelerated refinery runs to 82.49 per cent, 12.70 per cent higher than the level registered in the previous period.

Crude oil forward cover improved by 2.3 days to 24.5 days, five days above last year, and the five-year average. The y-o-y surplus hovered around ten per cent, while the five-year average excess widened to nine per cent from the seven per cent registered last month.

On the product side, distillates showed the most significant change among the main refined product inventories, decreasing by 7.1m b, or 250,000 b/d, to stand at 120.9m b. Both components of distillates — heating oil and diesel — contributed to this draw, declining by 3.53m b to 57.57m b and by 3.57m b to 66.89m b, respectively. Higher implied demand, which rose by 40,000 b/d to 4.07m b/d, was the main reason behind the strong draw on distillates. Increasing distillate output, due to improved refinery runs and a stable level of distillate imports, which remained above 3m b/d, prevented distillate inventories from falling further.

Distillate forward cover plunged below 30 days from the 32.7 days registered last month to stand at 29.9 days. The y-o-y surplus stood at five per cent, while the last report's five-year average surplus turned into a deficit of two per cent. Gasoline inventories improved a slight 1.4m b, or 50,000 b/d, to stand at 196.9m b, mainly due to recovering production, which rose by 1.22m b/d to stand at 8.73m b/d. Part of the rise in gasoline output served higher implied demand, which showed an increase of 210,000 b/d to 9.05m b/d. Gasoline forward cover remained mostly at the previous month's level of 22 days. The y-o-y shortage remained at two per cent, while a slight build left gasoline inventories in line with the five-year average.

During the same period, the SPR fell by 8.1m b, or 290,000 b/d, to stand at 685.2m b. This draw is part of the 30m b which the IEA decided to release from the SPR in September to counter any draw-downs in stocks, due to hurricane disruption. The SPR is projected to show further draws in the coming months until all crude oil production facilities resume full operations.

In the week ending November 4, total US commercial oil stocks continued to show builds, rising by 11.55m b to stand at 1,017.15m b compared to the previous week. Most of the build occurred in crude oil and gasoline inventories, which rose by 4.42m b to 323.56m b and by 4.22m b to 201.13m b, respectively. Distillate inventories displayed a minor draw of 80,000 b to stand at 120.85m b.

Western Europe

Total oil stocks in Eur-16 (EU plus Norway) during October maintained its upward trend for the fourth consecutive month, rising by 3.6m b, or 120,000 b/d, to stand at 1147.7m b, the highest level in six years. This build left the y-o-y surplus at five per cent from the three per cent registered in the last report. Most main product inventories, with the exception of fuel oil, contributed to the increase (see **Table H**).

Crude oil inventories lost part of the previous month's gain, declining by 2.9m b, or 90,000 b/d, to stand at 486.6m b. It was mainly slower exports to the US market which kept crude oil inventories high in Eur-16, as some US refineries were still struggling to cope with the massive damages caused by the hurricanes. High refinery runs were also behind such draw as European refineries maintained high runs to benefit from the relatively high refining margins. Despite this draw, the y-o-y surplus remained at the previous month's level of five per cent.

Main product inventories, especially distillates and gasoline, showed increases with the first rising by 5m b, or 160,000 b/d, to 382.9m b, while the latter moved up a slight 1m b, or 30,000 b/d, to 141.8m b. These increases came on the back of closed transatlantic arbitrage, due to very high freight rates, especially for clean tankers, because of tight tonnage supply. Mild weather pressed the consumption of middle distillates, especially heating fuel oil, while the ending of the holiday season slowed gasoline consumption in Eur-16. A moderate build in distillate stocks moved the y-o-y surplus from three per cent to six per cent, while, for gasoline, it remained at the previous month's level of five per cent.

Japan

Total oil inventories in Japan showed little change during September, remaining close to the previous month's level of 191m b. A moderate draw on crude oil stocks was balanced by an almost equal build in products, especially middle distillates. However, the y-o-y surplus narrowed to four per cent from 13 per cent in the previous month (see **Table I**).

Crude oil inventories showed a moderate draw of 5m b, or 170,000 b/d, to stand at 112.5m b, which was exactly the same level as that registered a year ago. Lower imports were the main reason behind the draw, while lower refinery runs prevented further losses.

Gasoline inventories added a slight volume, increasing by 300,000 b to 12.6m b on the back of slower implied demand and relatively higher production. Despite this small build, the previous month's surplus of seven per cent turned into a deficit of about two per cent. Middle distillates performed better than gasoline, adding 5.1m b, or 170,000 b/d, to stand at 45.4m b, which was 14 per cent higher than the level observed in the previous month. Residual fuel oil stocks did not show major changes, declining a slight 400,000 b to stand at 20.5m b, about 12 per cent higher than the level seen last year.

December

USA

US commercial oil inventories (excluding the Strategic Petroleum Reserve) during the period October 28–December 2, 2005 stood at 1,025.7m b which was 20.1m b, or 570,000 b/d, above the level observed at the end of the previous period. This is the highest level for this period since 2001 where commercial oil stocks ended at 1,024.8m b in the week ending December 7, 2001. All segments of inventories contributed to this build, products in general and distillates in particular, while the incremental share of crude oil was very modest. Despite the significant stock-build, the y-o-y surplus remained at four per cent, while the five-year average improved to five per cent from the three per cent registered last month (see **Table G**).

Crude oil inventories continued to rise for the second consecutive month, although with only very modest gains over the month before. Crude oil stocks stood at 320.3m b which was 1.2m b, or 30,000 b/d, higher than that seen in the previous period. Minor stock-builds could be justified by higher refinery runs, which continued to recover after the significant drop caused by the hurricanes in September and October. Refinery runs at the end of this period stood at 90 per cent, which was about eight per cent above the preceding period. The y-o-y surplus improved by a slight one per cent to stand at 11 per cent, while the five-year average remained nine per cent higher. In terms of days of forward demand, crude oil inventories covered 21.5 days, or about three days (14 per cent) above last year, and two days (ten per cent) above the five-year average.

As a result of improving refinery runs, product output rose to meet seasonal demand, especially for heating oil, and to compensate for losses due to hurricane damage. This led to significant stock-builds in all main product inventories with distillates observing the highest increment, rising by 9.7m b, or 280,000 b/d, to stand at 130.6m b. The two components of distillates — heating oil and diesel — regained the previous month's losses, increasing by 3.8m b to 57.8m b, respectively, and above the five-year average. As was mentioned earlier, the build was attributed mainly to high production, which moved up from 3.80m b/d to 4.18m b/d.

Imports also contributed to this build, increasing to 400,000 b/d from 320,000 b/d. Distillates forward cover improved further by almost one day to stand at 3.5 days, or 12 per cent above last year, while the five-year average for days of cover turned into a surplus of one per cent after dropping into negative territory in the last period. Gasoline inventories behaved similarly, but to a lesser degree, rising by 5.7m b, or 170,000 b/d, to stand at 202.6m b, which was four per cent below a year ago. Compared with the five-year average, gasoline stocks were only slightly higher, showing a very modest increment of 100,000 b. Days of forward demand of gasoline stood at 22.1 days, or about one day less compared to last year and the five-year average.

During the same period, the SPR improved slightly after two months of decline following the US Gulf Coast hurricanes, rising by 400,000 b to 685.6m b. The sustained recovery in crude oil production should be reflected in a further increase of the SPR in the coming months as US refiners, who benefited from the release of the SPR during the last two months, start to return the quantities they had drawn.

US commercial oil stocks in the week ending December 9 witnessed a further build of 1.2m b to stand at 1,026.9m b. Crude oil and gasoline inventories continued to contribute to this build as the first rose by 900,000 b to 321.2m b, and the second moved up by 1.8m b to 204.4m b. The increase in crude oil stocks is mainly due to healthy imports of 10.4m b/d, and they are about ten per cent higher than a year ago and the last five-year average. Regarding gasoline, stocks are still in line with the five-year average, but 2.5 per cent below last year's level. Distillate stocks, however, showed a minor draw of 100,000 b to 130.5m b, but they are still at a healthy level as they are nine per cent above this time last year, or four per cent above the last five-year average.

Western Europe

After four consecutive months of build, total oil inventories in Eur-16 (EU plus Norway) showed a considerable draw of 13.8m b, or 460,000 b/d, to stand at 1,130.9m b in November. The main reason for such a big draw was crude oil and, to a lesser degree, middle distillates and gasoline. This stock-draw depressed the y-o-y surplus, pushing it down to 22.5m b, or two per cent, from five per cent observed in the last report (see **Table H**).

Crude oil inventories contributed massively to the draw on total oil stocks in Eur-16. High refinery runs, which rose to 12.7m b/d, the highest level since December 2004, pushed crude oil stocks down by 14.1m b, or 470,000 b/d, to 470.0m b, the lowest level since August 2004. Most of the draw occurred in France and the Netherlands and to a lesser degree in Germany. This massive draw turned the last report's y-o-y surplus into a five per cent deficit.

Gasoline and distillate inventories showed a marginal draw of 1.3m b, or 40,000 b/d, to 140.0m b and 2.4m b, or 80,000 b/d, to 380.5m b, respectively. The draw on gasoline stocks was attributed to healthy demand in the UK, Denmark and the Mediterranean basin. Exports to the Middle East added to this draw. Despite this minor draw, gasoline's y-o-y surplus stood at the previous month's level of five per cent. Improved demand, due to cold

Table G: US onland commercial petroleum stocks[1] *m b*

	Sep 30, 05	Oct 28, 05	Dec 2, 05	Change Nov/Oct	Dec 2, 04	Dec 9, 05[2]
Crude oil (excl SPR)	**305.4**	**319.1**	**320.3**	**1.2**	**288.2**	**321.2**
Gasoline	195.5	196.9	202.6	5.7	211.8	204.4
Distillate fuel	128.0	120.9	130.6	9.7	123.3	130.5
Residual fuel oil	33.5	34.3	39.6	5.3	42.4	39.0
Jet fuel	37.2	36.6	42.8	6.2	40.9	43.9
Total	**1,004.9**	**1,005.6**	**1,025.7**	**20.1**	**983.0**	**1,026.9**
SPR	693.3	685.2	685.6	0.4	672.9	685.6

1. *At end of month, unless otherwise stated.*
2. *Latest available data at time of report's release.*

Source: US/DoE-EIA.

Table H: Western Europe onland commercial petroleum stocks[1] *m b*

	Sep 05	Oct 05	Nov 05	Change Nov 05/Oct 05	Nov 04
Crude oil	**488.1**	**484.1**	**470.0**	**–14.1**	**492.0**
Mogas	136.3	141.3	140.0	–1.3	133.5
Naphtha	24.2	26.0	26.8	0.9	26.6
Middle distillates	385.7	382.9	380.5	–2.4	346.6
Fuel oils	116.1	110.5	113.6	3.1	109.8
Total products	**638.1**	**634.7**	**634.0**	**–0.6**	**589.8**
Overall total	**1,150.4**	**1,144.7**	**1,130.9**	**–13.8**	**1,108.4**

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

Source: Argus, Euroilstock.

Table I: Japan's commercial oil stocks[1] *m b*

	Aug 05	Sep 05	Oct 05	Change Oct 05/Sep 05	Oct 04
Crude oil	**117.5**	**114.5**	**114.0**	**–0.5**	**124.5**
Gasoline	12.3	12.6	14.2	1.6	12.6
Middle distillates	40.3	45.3	49.5	4.2	39.8
Residual fuel oil	21.0	20.5	21.2	0.7	17.9
Total products	**73.5**	**78.3**	**84.9**	**6.6**	**70.3**
Overall total[2]	**191.0**	**192.8**	**198.9**	**6.1**	**194.8**

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

Source: MITI, Japan.

weather, was behind the slight draw on middle distillates, especially heating oil. Despite this slight draw, the y-o-y surplus improved further to ten per cent from six per cent in the previous month.

Japan

In October, total oil stocks in Japan continued to display a further build for the fourth consecutive month, increasing by 6.1m b, or 200,000 b/d, to stand at 198.9m b, the highest level since November 2004. Product inventories contributed to the increase, especially middle distillates, which accounted for almost half the build, while crude oil stocks slipped slightly. The significant rise failed to improve the y-o-y surplus, which narrowed to two per cent from the four per cent registered in the previous month (see **Table I**).

Increasing refinery runs, which rose by nearly four per cent to stand at 93.8 per cent in October, were behind the marginal draw on crude oil inventories, which declined by 500,000 b, or 20,000 b/d, to stand at 114.0m b from September's downwardly revised level of 114.5m b. Compared to the previous year, crude oil inventories have fallen to a deficit of eight per cent.

Higher product output, due to improved refinery utilization, helped product inventories to show moderate builds, especially middle distillates, which rose by 4.2m b, or 140,000 b/d, to stand at 49.5m b, a level not seen since November 1999. This moderate stock-build put distillates at a y-o-y surplus of 24 per cent. Gasoline stocks behaved similarly, but to a lesser degree, rising by 1.6m b, or 50,000 b/d, to 14.2m b. This build managed to put the y-o-y surplus at about 13 per cent.

Balance of supply/demand

November

Forecast for 2005

The supply/demand balance for 2005 has been revised up slightly to reflect lower supply expectations (see **Table J**). Demand for OPEC crude in 2005 (a–b) is now forecast at 28.8m b/d, an increase of 620,000 b/d from 2004 and an upward revision of 110,000 b/d from earlier projections. On a quarterly basis, demand for OPEC crude is estimated at 29.1m b/d, 27.3m b/d, 28.3m b/d and 30.3m b/d for the first, second, third and fourth quarters, respectively. However, required crude for the fourth quarter is now estimated to be 276,000 b/d higher than previously, and is higher than current OPEC crude production at 30.0m b/d.

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude output levels and projected production capacity, OPEC's spare capacity is now estimated to average around 8.1 per cent in the fourth quarter, compared to 5.3 per cent in the same period of 2004.

Forecast for 2006

For 2006, demand for OPEC crude is expected to average 28.6m b/d, a downward revision of around 40,000 b/d from last month's report. The quarterly distribution shows that demand for OPEC crude is now expected at 29.8m b/d, 27.7m b/d, 27.8m b/d and 29.0m b/d in the first, second, third and fourth quarters, respectively.

In terms of OPEC capacity, in 2006 OPEC capacity is expected to average around 33.5m b/d. Taking into account the supply/demand balance for 2006, the resulting required OPEC crude output levels and the projected production capacity, OPEC's spare capacity next year is estimated to average around 15 per cent, assuming there is no significant improvement in output from Iraq compared to 2005.

December

Forecast for 2005

The demand for OPEC crude in 2005 (a–b) is forecast at 28.8m b/d, an increase of 620,000 b/d from 2004 to remain unchanged from earlier projections. On a quarterly basis the demand for OPEC crude is estimated at 29.1m b/d, 27.3m b/d, 28.4m b/d and 30.3m b/d for the first, second, third, and fourth quarters, respectively.

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting demand for OPEC crude and projected production capacity, OPEC's spare capacity is now estimated to average around eight per cent in the fourth quarter, compared to 4.9 per cent in the same period of 2004.

Forecast for 2006

For 2006, demand for OPEC crude is expected to average 28.7m b/d, representing an upward revision of 134,000 b/d from last month's report. The quarterly distribution shows that demand for OPEC crude is now expected at 29.9m b/d in the first quarter, 27.7m b/d in the second, 28.1m b/d in the third and 29.2m b/d in the fourth.

OPEC capacity in 2006 is expected to average around 33.5m b/d, ending the year at around 33.9m b/d. This level is expected to be sufficient to cover demand needs for OPEC crude.

Table J: World crude oil demand/supply balance														m b/d
World demand	**2001**	**2002**	**2003**	**2004**	**1Q05**	**2Q05**	**3Q05**	**4Q05**	**2005**	**1Q06**	**2Q06**	**3Q06**	**4Q06**	**2006**
OECD	48.0	48.0	48.6	49.5	50.6	48.7	49.3	50.7	49.8	51.0	49.2	49.8	51.2	50.3
North America	24.0	24.1	24.5	25.3	25.5	25.3	25.5	26.0	25.6	25.9	25.7	25.8	26.3	25.9
Western Europe	15.3	15.3	15.4	15.6	15.6	15.3	15.7	15.9	15.6	15.6	15.4	15.9	15.9	15.7
Pacific	8.6	8.6	8.7	8.5	9.5	8.1	8.1	8.8	8.6	9.4	8.2	8.1	9.0	8.7
Developing countries	19.7	20.2	20.4	21.4	21.8	22.2	22.1	22.4	22.1	22.5	22.8	23.0	23.1	22.8
FSU	3.9	3.7	3.8	3.8	3.9	3.7	3.8	4.0	3.8	4.0	3.7	3.8	4.1	3.9
Other Europe	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9
China	4.7	5.0	5.6	6.5	6.5	6.6	6.4	7.1	6.6	7.0	7.0	6.7	7.3	7.0
(a) Total world demand	77.1	77.7	79.2	82.1	83.7	82.1	82.6	84.9	83.3	85.4	83.6	84.2	86.5	84.9
Non-OPEC supply														
OECD	21.8	21.9	21.6	21.3	21.0	21.0	20.0	20.0	20.5	20.6	20.6	20.4	21.3	20.7
North America	14.3	14.5	14.6	14.6	14.5	14.6	13.8	13.7	14.2	14.2	14.4	14.5	15.0	14.5
Western Europe	6.7	6.6	6.4	6.1	6.0	5.7	5.6	5.7	5.7	5.8	5.7	5.3	5.7	5.6
Pacific	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.7	0.6
Developing countries	10.9	11.3	11.5	12.0	12.3	12.5	12.5	12.8	12.5	13.0	13.0	13.2	13.4	13.2
FSU	8.5	9.3	10.3	11.2	11.4	11.5	11.6	11.8	11.6	11.8	11.9	12.0	12.0	11.9
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	3.3	3.4	3.4	3.5	3.6	3.6	3.7	3.6	3.6	3.7	3.7	3.7	3.7	3.7
Processing gains	1.7	1.7	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	46.4	47.8	48.8	49.9	50.3	50.5	49.8	50.2	50.2	51.1	51.2	51.4	52.6	51.6
OPEC NGLS and non-conventionals	3.6	3.6	3.7	4.1	4.2	4.3	4.3	4.4	4.3	4.5	4.6	4.7	4.8	4.6
(b) Total non-OPEC supply and OPEC NGLS	50.0	51.5	52.5	53.9	54.5	54.8	54.1	54.6	54.5	55.6	55.8	56.1	57.4	56.2
OPEC crude supply and balance														
OPEC crude oil production[1]	27.2	25.3	27.0	29.1	29.5	29.9	30.2							
Total supply	77.2	76.8	79.4	83.0	84.0	84.7	84.3							
Balance[2]	0.2	–0.9	0.2	0.9	0.3	2.6	1.7							
Stocks														
Closing stock level (outside FCPEs)m *b*														
OECD onland commercial	2630	2476	2517	2558	2546	2626	2626							
OECD SPR	1288	1347	1411	1450	1462	1494	1494							
OECD total	3918	3823	3928	4008	4009	4120	4121							
Oil-on-water	830	816	883	904	927	928	917							
Days of forward consumption in OECD														
Commercial onland stocks	55	51	51	51	52	53	52							
SPR	27	28	29	29	30	30	29							
Total	82	79	79	80	82	84	81							
Memo items														
FSU net exports	4.6	5.6	6.5	7.3	7.5	7.7	7.8	7.8	7.7	7.7	8.2	8.2	7.9	8.0
[(a) — (b)]	27.1	26.3	26.8	28.1	29.1	27.3	28.4	30.3	28.8	29.9	27.7	28.1	29.2	28.7

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

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

Table J *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 98, while* ***Graphs One and Two*** *(on page 99) show the evolution on a weekly basis.* ***Tables Three to Eight****, and the corresponding graphs on pages 100–101, 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 Reference Basket crude oil prices, 2005 — $/b

									November					
Crude/Member Country	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	1W	2W	3W	4W	5W	5Wav
Arab Light – Saudi Arabia	46.85	48.68	47.09	52.47	53.46	58.24	57.63	54.65	53.09	52.93	50.47	50.84	50.43	51.55
Basrah Light – Iraq	46.21	45.74	44.57	50.59	52.24	57.10	55.68	51.39	50.20	49.40	46.59	47.09	47.06	48.07
BCF-17 – Venezuela	32.86	32.73	32.39	37.48	44.07	46.15	50.79	47.51	45.17	42.42	39.43	39.68	39.97	41.33
Bonny Light – Nigeria	53.15	53.18	50.23	55.93	58.40	65.49	65.60	60.74	59.62	58.57	56.09	55.99	55.61	57.18
Es Sider – SP Libyan AJ	49.71	49.67	47.90	53.15	55.71	60.27	60.39	58.25	57.61	55.62	53.37	54.28	53.74	54.92
Iran Heavy – IR Iran	46.50	46.06	43.25	49.60	51.07	55.69	55.10	51.73	50.49	50.46	48.42	48.76	48.29	49.28
Kuwait Export – Kuwait	46.42	47.89	46.36	51.15	51.31	55.18	54.60	51.76	50.24	50.31	48.40	48.71	48.31	49.19
Marine – Qatar	46.53	48.23	46.66	52.27	53.57	57.49	58.37	55.80	54.45	54.77	52.18	52.44	51.99	53.17
Minas – Indonesia	54.30	55.96	50.34	55.01	56.17	61.07	60.27	58.64	57.13	56.12	52.39	52.23	51.49	53.87
Murban – UAE	49.90	52.35	51.03	55.16	57.05	61.78	62.68	59.30	57.49	57.54	55.06	55.51	55.05	56.13
Saharan Blend – Algeria	52.59	51.98	48.69	54.41	57.30	63.67	63.30	59.48	58.95	57.76	54.88	54.67	54.50	56.15
OPEC Reference Basket	**49.07**	**49.63**	**46.96**	**52.04**	**53.13**	**57.82**	**57.88**	**54.63**	**53.19**	**52.58**	**50.11**	**50.46**	**50.13**	**51.29**

Table 2: Selected OPEC and non-OPEC spot crude oil prices, 2005 — $/b

									November					
Crude/Member Country	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	1W	2W	3W	4W	5W	5Wav
Arab Heavy – Saudi Arabia	41.81	43.33	42.21	48.34	48.83	52.02	51.57	49.03	47.67	49.22	46.66	46.92	46.52	47.40
Brega – SP Libyan AJ	52.11	51.67	48.36	54.03	56.77	63.72	62.57	58.75	59.05	57.56	54.05	0.00	53.38	56.01
Brent – North Sea	52.60	51.87	48.90	54.73	57.47	64.06	62.75	58.75	58.95	57.46	53.95	53.39	53.28	55.41
Dubai – UAE	45.60	47.24	45.68	51.37	52.78	56.55	56.41	54.20	52.90	53.16	50.67	50.91	50.50	51.63
Ekofisk – North Sea	52.34	51.68	48.85	55.03	57.59	63.92	62.55	59.22	58.84	57.26	54.20	54.19	54.32	55.76
Iran Light – IR Iran	48.50	48.42	45.53	52.37	53.86	60.41	58.74	54.38	53.24	52.60	50.38	50.27	50.05	51.31
Isthmus – Mexico	47.52	47.13	45.05	51.48	53.85	59.66	59.92	55.64	54.26	52.61	49.97	50.75	50.26	51.57
Oman -Oman	46.95	48.22	46.70	52.20	53.42	57.46	58.24	55.52	54.14	54.38	51.75	52.02	51.63	52.78
Suez Mix – Egypt	44.58	44.81	43.11	48.88	51.64	56.01	55.91	52.83	51.83	49.96	47.80	48.58	48.28	49.29
Tia Juana Light[1] – Venez.	43.50	43.27	41.67	48.19	49.10	54.22	53.87	51.48	51.31	49.75	47.25	47.99	47.53	48.77
Urals – Russia	47.92	47.89	46.27	51.87	54.95	58.64	58.23	55.80	55.00	53.07	50.85	51.71	51.27	52.38
WTI – North America	54.09	53.09	50.25	56.60	58.66	64.96	65.28	62.67	60.44	59.19	57.31	57.85	57.31	58.42

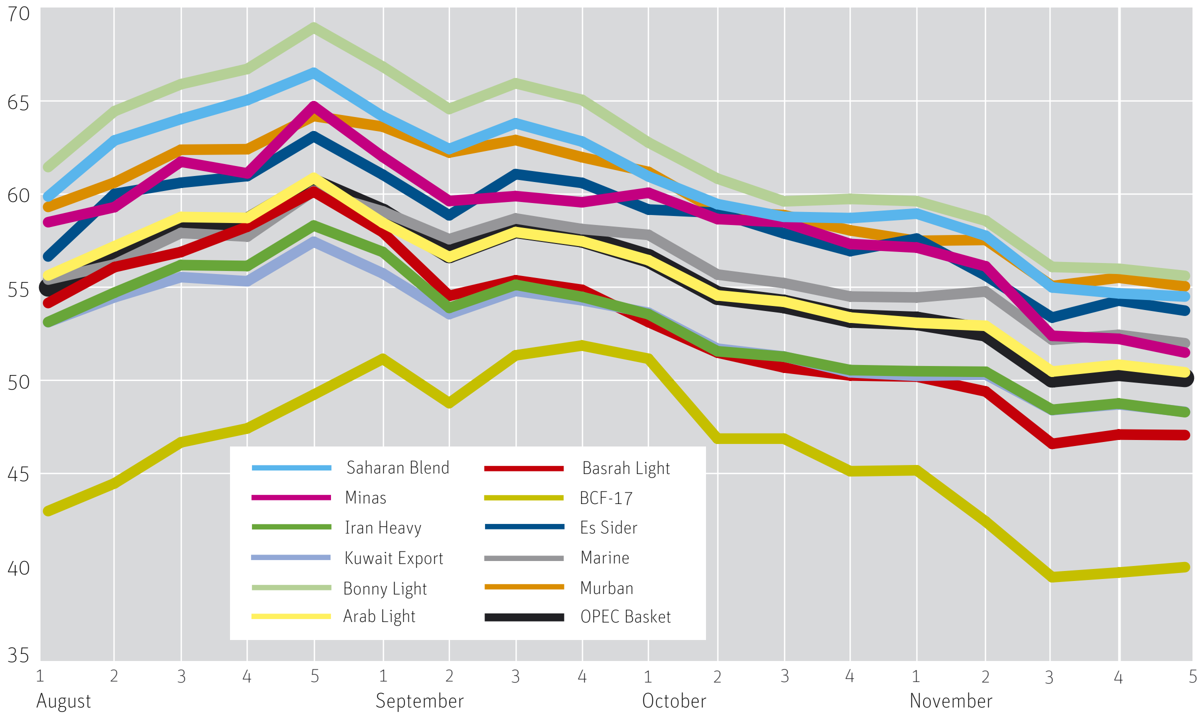
Note: As of June 16, 2005 (ie 3W June), the OPEC Reference Basket has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference.

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

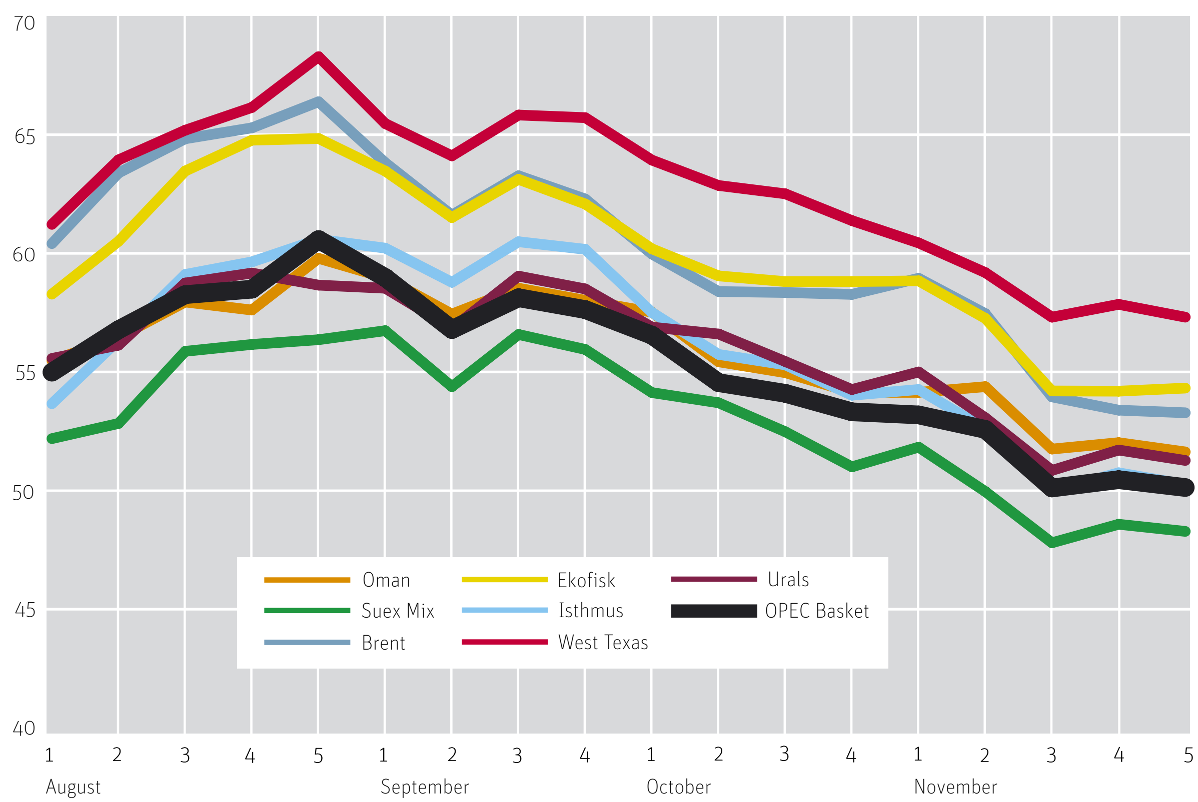
Kirkuk ex Ceyhan; Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

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 the OPEC Reference Basket crudes, August to November 2005 $/b

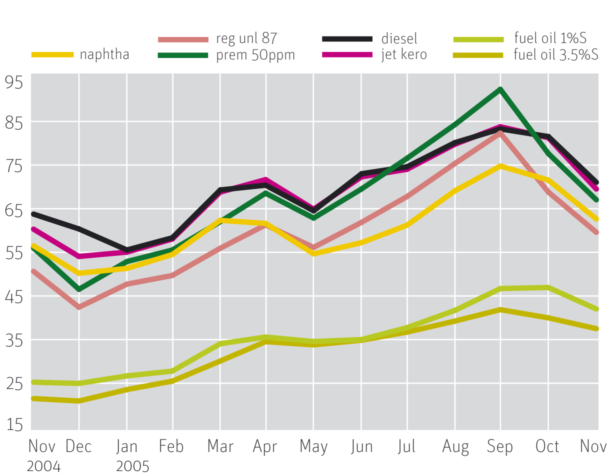


Graph 2: Evolution of spot prices for selected non-OPEC crudes, August to November 2005 $/b



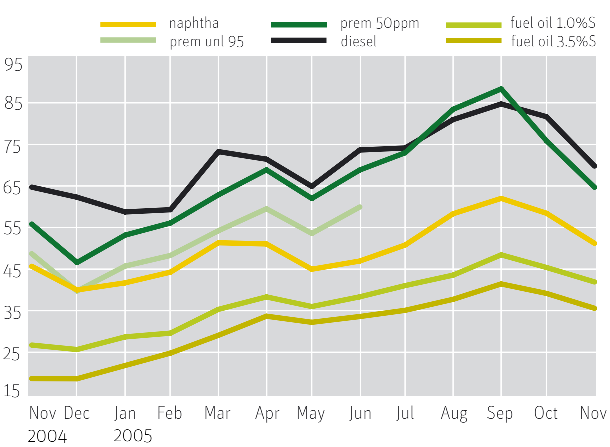
Note: As of June 16, 2005 (ie 3W June), the OPEC Reference Basket has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference.

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



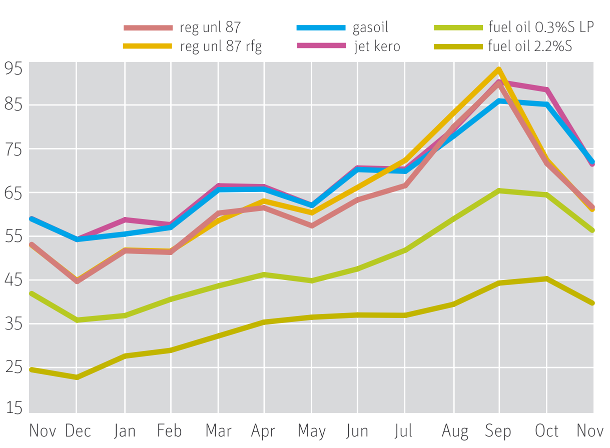
		naphtha	regular gasoline unleaded	premium gasoline 50ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2004	November	56.49	50.64	56.00	63.76	60.31	25.23	21.49
	December	50.20	42.42	46.52	60.36	54.05	24.96	20.93
2005	January	51.32	47.72	52.89	55.54	55.05	26.68	23.54
	February	54.49	49.69	55.53	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
	June	57.23	61.88	69.54	73.02	72.32	35.01	34.86
	July	61.22	67.78	76.54	74.60	74.02	37.74	36.71
	August	69.12	75.37	84.28	80.15	79.78	41.70	39.25
	September	74.77	82.32	92.35	83.28	83.78	46.70	41.86
	October	71.56	68.81	77.64	81.54	81.27	46.94	39.98
	November	62.65	59.58	67.03	71.05	69.50	42.01	37.50

Graph and Table 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	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
	June	46.94	59.95	68.85	73.65	38.33	33.59
	July	50.79	*na*	72.99	74.14	41.03	35.08
	August	58.32	*na*	83.45	80.97	43.55	37.73
	September	62.01	*na*	88.35	84.73	48.43	41.43
	October	58.43	*na*	75.86	81.66	45.39	39.15
	November	51.20	*na*	64.69	69.80	41.91	35.57

Graph and Table 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	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
	June	63.29	66.13	70.25	70.60	47.52	37.00
	July	66.58	72.37	69.84	70.32	51.82	36.92
	August	79.97	83.13	77.86	79.41	58.94	39.44
	September	89.92	93.13	85.92	90.26	65.40	44.29
	October	71.63	72.41	85.13	88.48	64.45	45.28
	November	61.67	61.14	72.03	71.47	56.36	39.73

na not available.
Source: Platts. Prices are average of available days.

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

		naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
2004	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	27.50
	March	58.11	64.23	66.41	28.22	27.50
	April	63.31	63.31	66.87	31.36	31.07
	May	56.34	58.95	62.57	32.50	31.64
	June	57.06	67.54	70.32	33.00	32.58
	July	61.63	68.93	70.60	32.92	32.54
	August	74.08	76.21	79.54	35.44	33.76
	September	83.80	86.35	94.80	40.29	39.47
	October	65.85	87.54	101.92	41.28	39.37
	November	58.23	70.47	71.86	35.73	33.49

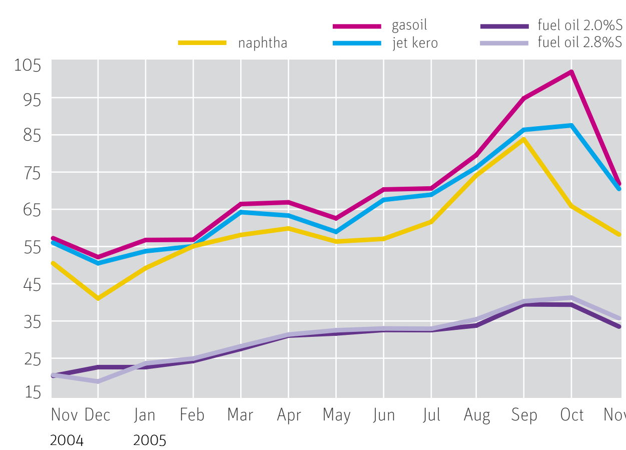


Table and Graph 7: Singapore market — spot cargoes, fob $/b

		naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 2%S	fuel oil 3.5%S
2004	November	47.46	52.45	51.74	–	57.64	29.40	27.99
	December	42.79	44.81	44.24	–	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	56.72	66.33	30.35	29.28
	March	50.74	59.47	58.72	68.34	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
	June	45.71	59.65	58.38	72.42	68.93	39.34	38.11
	July	49.62	64.70	63.43	72.48	70.07	40.27	38.76
	August	58.17	73.19	72.52	74.92	75.84	42.39	41.35
	September	61.73	79.40	78.39	80.77	79.16	47.35	46.68
	October	57.80	69.10	67.91	77.28	75.71	45.42	45.78
	November	53.19	60.87	59.48	66.50	64.78	43.80	42.91

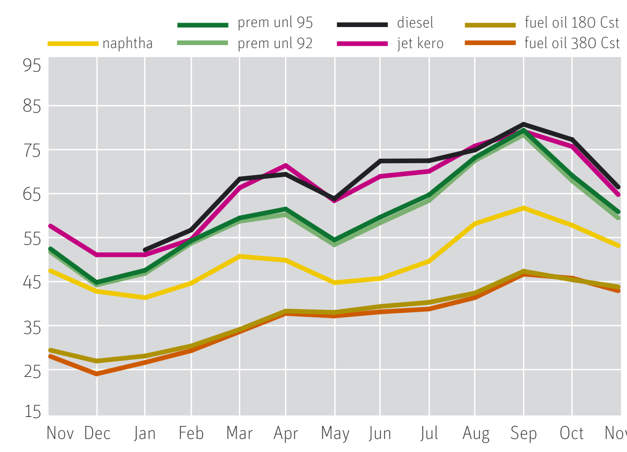
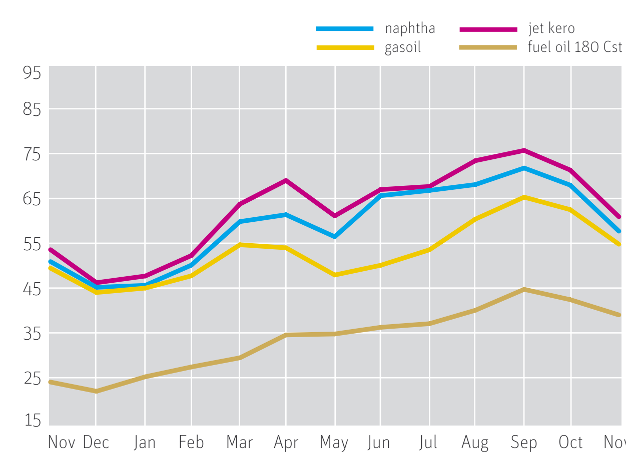


Table and Graph 8: Middle East Gulf market — spot cargoes, fob $/b

		naphtha	gasoil	jet kero	fuel oil 180 Cst
2004	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
	June	50.08	65.62	66.98	36.24
	July	53.53	66.78	67.66	37.05
	August	60.39	68.09	73.42	40.05
	September	65.28	71.78	75.70	44.71
	October	62.50	67.97	71.33	42.41
	November	54.78	57.69	60.91	39.00



na not available.
Source: Platts. Prices are average of available days.

Forthcoming events

Pipelines Middle East, January 16–17, 2006, Abu Dhabi, UAE. Details: IQPC, Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 207 368 9300; fax: +44 207 368 9301; e-mail: enquire@iqpc.co.uk; Web site: www.iqpc.co.uk.

8th Vietnam & Mekong OGP Summit 2006, January 16–17, 2006, Hanoi, Vietnam. Details: Centre for Management Technology, 80 Marine Parade Rd, #13–02 Parkway Parade, 449269 Singapore. Tel: +65 6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; Web site: www.cmtevents.com.

5th Middle East refining and petrochemicals conference and exhibition, January 16–18, 2006, Bahrain. Details: Overseas Exhibition Services, 12th floor, Westminster Tower, 3 Albert Embankment, London SE1 7SP, UK. Tel: +44 207 840 2137; fax:+44 207 840 2119; e-mail: mep@oesallworld.com; Web site: www.allworldexhibitions.com.

Enhancing procurement and supply chain strategies in oil and gas, January 17–18, 2006, Jakarta, Indonesia. Details: IQPC Wordlwide Pte, 1 Shenton Way #13–07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6224 2515; e-mail: enquiry@iqpc.com.sg; Web site: www.iqpc.co.uk.

Financing the LNG supply chain 2006, January 17–18, 2006, London, UK. Details: IQPC, Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 207 368 9300; fax: +44 207 368 9301; e-mail: enquire@iqpc.co.uk; Web site: www.iqpc.co.uk.

Joint committee on oil and gas pipeline welding practices, January 18–20, 2006, Savannah, GA, USA. Details: American Petroleum Institute, 1220 L Street NW, Washington DC 20005, USA. Tel: +1 202 682 8000; fax: +1 202 682 8223; e-mail: smitha@api.org; Web site: www.api.org.

Elecrama 2006, January 18–22, 2006, Mumbai, India. Details: IEEMA, 501, Kakad Chambers 132, Dr Annie Besant Road, Worli, Mumbai 400018, India. Tel: +91 22 2493 0532 / 6528 / 6529; fax: +91 22 2493 2705; e-mail: mumbai@ieema.org; Web site: www.elecrama.com.

Asia oil trade and supply, January 19–20, 2006, Singapore. Details: Centre for Management Technology, 80 Marine Parade Rd, #13–02 Parkway Parade, 449269 Singapore. Tel: +65 6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; Web site: www.cmtevents.com.

Capability development and skill pool management in Middle Eastern oil and gas, January 22–23, 2006, Dubai, UAE. Details: IQPC Wordlwide Pte, 1 Shenton Way #13–07, 068803 Singapore. Tel: +65 6722 9388; fax: +65 6224 2515; e-mail: enquiry@iqpc.com.sg; Web site: www.iqpc.co.uk.

Essential developments in Europe's gas supply chain, January 24–25, 2006, London, UK. Details: IIR, 29 Bressenden Place, London SW1E 5DR, UK. Tel: +44 20 7 915 5055; fax: +44 20 7 915 5001; e-mail: registration@iir-conferences.com; Web site: www.iir-conference.com.

4th Petroleum breakfast, January 25, 2006, London, UK. Details: Global Pacific & Partners, Suite 27, 78 Marylebone High Street, Marylebone, London W1U 5AP, UK. Tel: +44 207 487 3173; fax: +44 207 487 5611; e-mail: duncan@glopac.com; Web site: www.petro21.com.

Production optimization in horizontal, high-angle and multi lateral wells, January 25–26, 2006, Aberdeen, Scotland, UK. Details: IQPC, Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 207 368 9300; fax: +44 207 368 9301; e-mail: enquire@iqpc.co.uk; Web site: www.iqpc.co.uk.

Russian-Norwegian oil and gas conference, January 25–27, 2006, Moscow, Russia. Details: INTSOK/Norwegian Oil & Gas Partners, Hoffsveien 1 A, 4th floor, PO Box 631, Skøyen, Oslo 0214, Norway. Tel: +47 22 06 14 80; fax: +47 22 06 14 90. e-mail: intsok@intsok.com; mariann.marthinussen@intsok.no; Web site: www.intsok.com.

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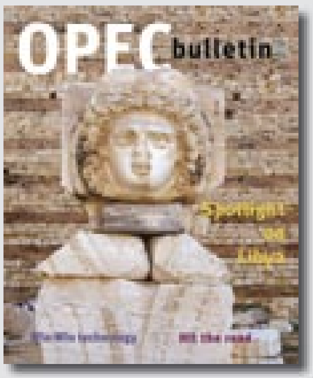

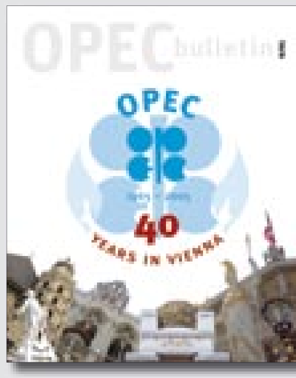

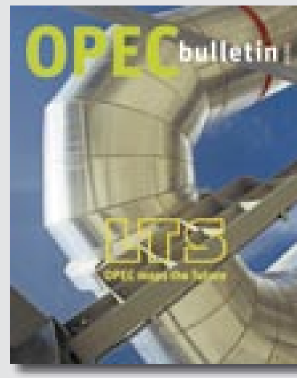

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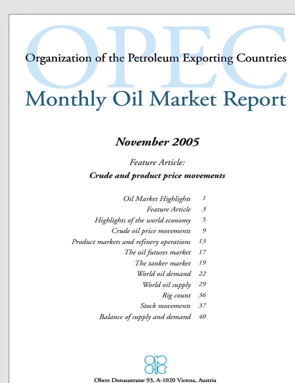

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