OPEC bulletin

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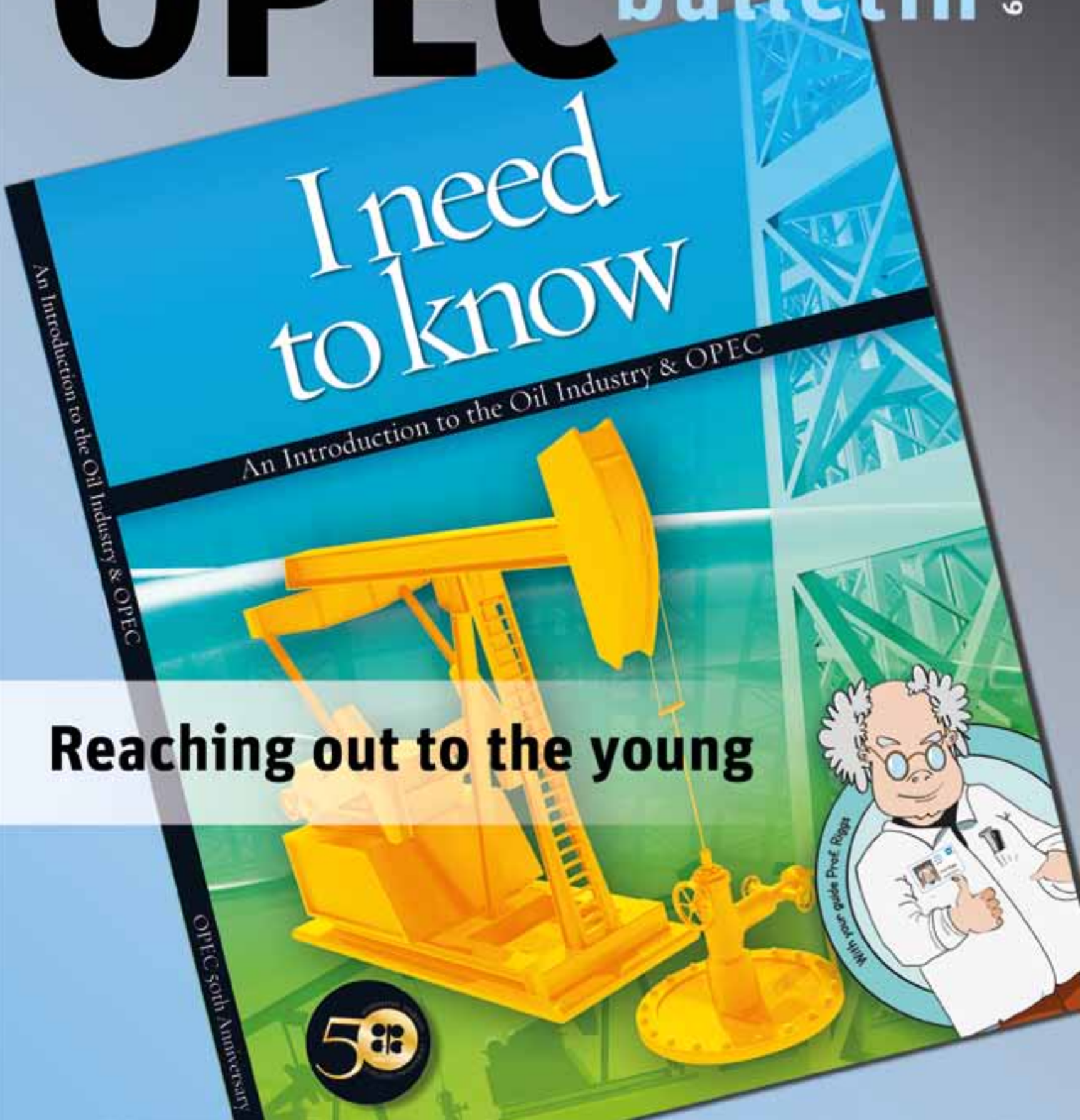

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Understanding OPEC a little better

As summer comes, let us hope for a general easing of tensions across the world.

First and foremost, our thoughts and prayers are with all those people caught up in conflicts that have arisen over the past six months, especially in the Middle East and North Africa. We yearn for an early return to peace and stability in these countries.

We remember too the victims of the triple natural disaster in Japan, which has brought home to us once again the fallibility of mankind to the raw power of the forces of nature, and mankind's need to respect these and to accommodate them at all times.

Both sets of events affect the global energy mix — not just for today, but also, most likely, for tomorrow.

As OPEC sees it, they highlight the difficulties one has when making forecasts for the international oil market and following these up with effective decisions that benefit the market as a whole.

This is not an easy task for any of us.

The industry is still coming to terms with a market where prices can be governed more by speculation than by the fundamental laws of supply and demand which involve physically getting the oil out of the ground and to consumers. Despite everything that has been said since the financial collapse of 2008, the financial services sector still has a disproportionately large impact on oil prices. The consequent volatility is doing nobody any good in the industry, least of all the consumer.

There are also the perennial difficulties created by other types of uncertainty, notably energy policies in consumer countries that discriminate against oil; these can be imposed quickly and unexpectedly and without due consideration of the legitimate interests of producers, which are, after all, their trading partners.

In the light of all this, does it really come as a surprise if, once in a while, the OPEC Conference is unable to reach a decision — as happened at the 159th Ministerial Meeting on June 8? This is not so unusual and occurs in other institutions too. On the few occasions that this has happened to OPEC in the past, we have weathered the storm and emerged the stronger for it.

The fact that OPEC celebrated its 50th anniversary last year underlines the strength and durability of our Organization and our ability to handle the toughest of challenges.

Three years before that, OPEC's Heads of State and Government issued their historic 'Riyadh Declaration'. This broadened the base of OPEC's self-assigned mandate with its three guiding themes: stability of global energy markets; energy for sustainable development; and energy and environment.

In other words, OPEC today stands for more than just oil market stability, important though this is. As the Riyadh Declaration puts it: "Addressing the economic, social and environmental pillars of sustainable development requires a comprehensive approach to international trade, finance, energy and technology issues." Also: "The process of production and consumption of energy resources poses different local, regional and global environmental challenges."

These three challenges — energy stability, sustainable development and environmental harmony — are interlinked and are close to the hearts of developing countries, including our own Members, seeking to modernise and expand their economies.

While none of our Member Countries welcomed the outcome of the 159th OPEC Conference, they nevertheless recognised that this was just a temporary setback in one area of their collective mandate and that their joint commitment to the Organization's broader-based objectives remained as strong as ever.

However, at the present time, they are more concerned about the need for a general easing of tensions across the world.

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Cover
This month's cover shows OPEC's latest publication 'I need to know', which aims to teach young readers about the oil industry (see page 44).

Vol XLII, No 5, June 2011, ISSN 0474–6279

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Visit the OPEC Web site for the latest news and information about the Organization and back issues of the *OPEC Bulletin* which are also available free of charge in PDF format.

Hard copy subscription: $70/year

OPEC Membership and aims
OPEC is a permanent, intergovernmental Organization, established in Baghdad, on September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective — to coordinate and unify petroleum policies among its Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises 12 Members: Qatar joined in 1961; SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); Nigeria (1971); Angola (2007). Ecuador joined OPEC in 1973, suspended its Membership in 1992, and rejoined in 2007. Gabon joined in 1975 and left in 1995. Indonesia joined in 1962 and suspended its Membership on December 31, 2008.

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

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Indexed and abstracted in PAIS International
Printed in Austria by Ueberreuter Print GmbH

Demand for OPEC oil likely to rise in second half of 2011

— market report

OPEC Member Countries are likely to find themselves having to satisfy higher demand for global crude in the second half of this year.

According to the OPEC *Monthly Oil Market Report* for June, the expected supply and demand balance for crude oil in the second half indicates a tightening market.

As a result, global inventories could continue to decline as the market enters a period of high seasonal demand, the Report maintains in its feature article.

In quarterly terms, global consumption is projected to increase by 2.3 million barrels/day in the third quarter and to add a further 200,000 b/d in the last three months of the year.

Higher demand

At the same time, it notes, non-OPEC oil supply and output of OPEC natural gas liquids (NGLs) are only expected to add around 200,000 b/d and 600,000 b/d in the third and fourth quarters, respectively.

"This would result in much higher demand for OPEC crude, reaching a level higher than current OPEC production and implying a draw in inventories," the Report contends.

"Despite the inherent uncertainties in the demand for OPEC crude, stemming from both the supply and demand side, this would leave a sizeable gap between current production and demand for OPEC crude," it notes.

The article says that, in recent weeks, the oil market has been experiencing excessive volatility.

Recent economic data and releases point to a widening slowdown in global manufacturing activity and persistently high levels of unemployment.

"Concerns about the debt burden in the OECD region have also become more pronounced, at a time when major economies are preparing for the inevitable transition to fiscal consolidation with the end of quantitative easing," it observes.

In the emerging economies, contends the Report, continued rapid growth has raised the risk of overheating and inflationary pressures.

Despite these challenges, it says, its forecast for world growth in 2011 remains at 3.9 per cent, driven by strong momentum in the emerging economies and steady growth in the OECD region.

The article says that in the OECD region, the tragic events in Japan continue to impact consumption and it is yet unclear when recovery efforts will result in a rebound.

Additionally, the latest monthly data from the United States shows much weaker-than-expected oil demand, affected by the impact of higher retail prices.

"In contrast, developing countries are expected to

show continued strong growth, accounting for more than 90 per cent of the increment. Moreover, anticipated shortages in power generation this summer in China are likely to boost the use of diesel generators, which could strengthen demand growth over the coming months," the Report maintains.

On the supply side, it states, the current forecast for non-OPEC production is much higher than was expected at the beginning of this year.

The upward adjustment has been supported by North America, Latin America, the Former Soviet Union and China.

The Report points out that, since January this year, US oil production has experienced a considerable upward revision, due to the increasing output of shale oil.

Elsewhere in North America, efforts to slow the decline in production in Mexico have supported the outlook, as has the ramp-up of oil sands production in Canada.

Upward revisions have also been seen in Brazil and Colombia on the back of healthy supply. In China, forecast growth also experienced an upward revision, due to strong output from the new offshore developments.

The article says that, at present, OECD commercial oil stocks remain stable. Despite a decline in the inventory overhang since June last year, crude oil stocks remain above the five-year average.

Additionally, the steady build up in commercial and strategic petroleum reserve (SPR) stocks in non-OECD areas continues.

"China alone has raised its crude stocks by more than 100 million barrels in recent years and a further five million barrels are expected to be added this year," the article observes.

Although falling since April, floating oil storage still stands at around 64m b, providing immediate supply available to the market.

Additionally, OECD commercial stocks in days of forward cover currently stand at around 58 days, which is above the historical norm, it adds.

Meanwhile, looking at some of the main highlights of the Report, world oil demand is forecast to expand by 1.4m b/d in 2011, following growth of 2.1m b/d last year.

"... the tragic events in Japan continue to impact consumption and it is yet unclear when recovery efforts will result in a rebound."

Demand for OPEC crude in 2011 is expected to average 29.9m b/d, representing an increase of 300,000 b/d from the previous year, when it stood at 29.6m b/d. That level, in turn, was around 400,000 b/d higher than the 2009 total.

Non-OPEC oil supply is now projected to increase by 700,000 b/d in 2011, following a minor upward revision from the last OPEC report. Non-OPEC supply growth in 2010 stood at 1.1m b/d.

In May, estimated OPEC crude oil production averaged 28.97m b/d, an increase of 171,000 b/d over the previous month, according to secondary sources.

NB. Comprehensive coverage of the June Monthly Oil Market Report can be found on page 52.

Ministers meet for 159th Meeting of the OPEC Conference

Organization committed to ensuring order, stability in international oil market

Above: Mohammad Aliabadi (c), President of the OPEC Conference and Iran's Acting Minister of Petroleum; with Eng Goni Musa Sheikh (l), Nigerian Governor for OPEC, Chairman of the OPEC Board of Governors; and Abdalla Salem El-Badri (r), OPEC Secretary General.

OPEC pledged its longstanding commitment to order and stability in the international oil market when its Oil and Energy Ministers met for the 159th Meeting of the OPEC Conference in Vienna in early June.

And although some Member Countries tabled a proposal to increase the Organization's overall output ceiling, no formal decision was reached on a new production agreement for the time being.

It was agreed that OPEC's next Ministerial talks — the 160th Meeting of the Conference — will take place in the Austrian capital on December 14. As is customary The Organization's Ministerial Monitoring Sub-Committee will convene the day before.

OPEC Conference President, Mohammad Aliabadi, told a press conference after the one-day Meeting that the Ministers had come to the talks with different views on the market situation, which they attempted to bring closer together, in order to arrive at a common outcome.

Above: Delegates during the 74th Meeting of the Ministerial Monitoring Sub-Committee (MMSC).

Left: Dr Youcef Yousfi (l), Minister of Energy and Mines, Algeria; Hamid Dahmani (r), Algerian Governor for OPEC.

Left: Seated is Eng José Maria Botelho de Vasconcelos, Minister of Petroleum, Angola; with Dr Youcef Yousfi, Minister of Energy and Mines, Algeria.

"Certain Members believed that we should have had a production increase, while other Members considered we should take some time to further assess the situation and then come to a decision," said Aliabadi, who is Iran's Acting Petroleum Minister.

He explained that the final proposal was that they should wait for some time, during which the Organization would assess the market situation, look at demand and after that make any decision deemed necessary.

"Unfortunately, this decision was not agreed to by all Members and on this particular point there was no consensus reached," he told assembled newsmen.

The Conference President stressed that it was important for the Organization to always consider the interests of the producers and

Above: Wilson Pástor-Morris (c), Minister of Non-Renewable Natural Resources, Ecuador; with Eng Diego Armijos-Hidalgo (l), Ecuador's OPEC Governor and National Representative; and Oswaldo Madrid, General Manager of Petroamazonas.

Above: Abdul-Kareem Luaibi Bahedh (c), Minister of Oil, Iraq; with Dr Falah J Alamri (r), Iraq's Governor for OPEC; and Abdulkarim Shwaikh, Minister Plenipotentiary and Chargé d'Affaires at Iraq's Embassy in Vienna.

Left: Dr Mohammad Al-Busairi, Minister of Oil, State Minister of National Assembly Affairs, Kuwait; with Siham Abdulrazzak Razzouqi (background), Kuwait's Governor for OPEC.

Above: Mohammad Aliabadi (front row, second left), President of the OPEC Conference, Acting Minister of Petroleum, Iran; with OPEC Secretary General, Abdalla Salem El-Badri (r); Safar Ali Keramati (l), Iran's OPEC National Representative; and Ehsan Taghavenejad (second right) of the Iranian Mission in Austria admiring a copy of the OPEC Bulletin.

consumers when making decisions and to try and look for solutions that will keep the market calm.

"We came to this meeting with good intentions and to get desirable conclusions," he added.

Also at the press conference, OPEC Secretary General, Abdalla Salem El-Badri, said the main question for the Ministers was whether to increase production in the third and fourth quarters of 2011.

But there were several considerations that needed to be taken into account. These included the current uncertainty over oil demand, the expected level of non-OPEC supply, as well as question marks over the future path of global economic growth.

"There was a debate on this point of economic growth because of inflation, unemployment, sovereign debt and the decline in manufacturing — there is a lot of uncertainty out there and this made a decision very difficult to take," he explained.

El-Badri said the Ministers had discussed many issues at the Meeting, including the environment, relations between the European Union and OPEC, G20 activities concerning the Organization, as well as other important matters.

"We also discussed the market situation, including the Secretariat report, global demand, non-OPEC supply and also world GDP growth. We debated very thoroughly and we had many points of view, but unfortunately we were unable to reach a consensus on whether to increase our production ceiling," he said.

Asked about the atmosphere at the Meeting, the OPEC Secretary General said that sometimes the Ministers had different opinions on subjects, but there were always friendly and cordial relations.

"The atmosphere was good and we had no conflict whatsoever. The reason we were unable to reach a decision is because everybody had his own data and

Left: Eng Goni Musa Sheikh (r), Nigerian Governor for OPEC, Chairman of the OPEC Board of Governors and Head of the Nigerian Delegation; and Suleman Ademola Raji, Nigeria's OPEC National Representative.

information, so we were just unable to agree on the numbers together," he said.

El-Badri stressed that OPEC was not caught up in a crisis. Petroleum stocks were high, in fact well above the five-year average, and there was enough crude supply in the market. "I have no doubt in my mind that if OPEC were to see a crisis in the market, its Members would take a decision," he stated.

Asked about OPEC's spare production capacity, El-Badri said that before the problems in Libya, it stood at 6–6.5m b/d. "But today, it stands at around 4–4.5m b/d."

Below: Dr Mohammed Bin Saleh Al-Sada (c), Minister of Energy and Industry, Qatar; with Mohamed Bin Dhaen Al Hamli (standing), UAE Minister of Energy; Issa Shahin Al Ghanim, Qatar's Governor for OPEC; and Ali Khalfan Al-Mansouri, Qatar's Envoy in Austria. Sitting in the background are Sultan K Al-Binali (l), Qatar's OPEC National Representative; and Mohammed Abdulla Al-Sailani, Director of the Office of Qatar's Minister of Energy and Industry.

Left: Ali I Naimi (c), Minister of Petroleum and Mineral Resources, Saudi Arabia; with HRH Prince Abdulaziz bin Salman bin Abdulaziz Al-Saud (l), Assistant Minister of Petroleum and Mineral Resources; and HH Mansour bin Khalid Al-Farhan (r), Saudi Arabia's Ambassador to Austria.

Right: Mohamed Bin Dhaen Al Hamli (l), Minister of Energy, United Arab Emirates; with Ali Obaid Al Yabhouni, UAE's Governor for OPEC.

Left: Rafael Ramirez, Minister of Energy and Petroleum, Venezuela.

OPEC calls on oil industry stakeholders to help achieve lasting market stability

Other stakeholders associated with the international oil sector must cooperate with OPEC in achieving lasting stability in the marketplace, from which the world community at large will benefit.

That was the view put forward by OPEC Conference President, Mohammad Aliabadi, at the 159th Meeting of the OPEC Conference, held at the Organization's Headquarters in Vienna on June 8.

In an opening address to the Meeting, Aliabadi, Acting Minister of Petroleum of Iran, stressed: "Let me repeat once again OPEC's longstanding message. Oil market stability is the responsibility of all parties — producers and consumers alike.

"We all benefit from stability, and so we must all contribute to it. OPEC plays its part to the full, by ensuring that there is always enough oil to fuel the world economy and support growth."

Aliabadi, in highlighting the importance of such cooperation to the future welfare of the petroleum industry, pointed out that it had been a nervous six months for the oil market.

Throughout, however, market fundamentals had remained sound. Very much due to OPEC's efforts, he said, the world remained well-supplied with oil, with ample spare capacity and adequate stock levels.

"However, it appears that there is not enough effective spare capacity in the downstream sector, which has recently led to a further spread of sweet and sour crudes. Despite that shortage, generally the basics are right for market stability," he affirmed.

Aliabadi noted that since OPEC's last Conference, in Quito in December 2010, the market had witnessed high levels of volatility and an upward trend in prices.

On several occasions in April, the price of the OPEC Reference Basket had topped $120/barrel. Then, early May saw a reverse, with the sharpest weekly price decline on record, as both the American benchmark crude, West Texas Intermediate, and Britain's North Sea Brent, lost almost $17/b.

"All in all, however, while prices have slipped back from their earlier peaks, they are still well above what we saw at our Meeting in Ecuador six months ago," stated Aliabadi.

He pointed out that the story went deeper than this. When one looked at currency movements and inflation, the OPEC Basket rose by only 16 per cent, while, in nominal terms, it had risen by 24 per cent since the start of the year.

The early onset of winter, he said, had an initial impact on the situation. So did forecasts of a quicker-than-expected rise in oil demand and a surge of investment flows into commodity markets, including crude.

"However, the market outlook has been dominated more recently by the political developments in the Middle East and North Africa. There has also been the triple disaster in Japan. Our sympathies go to those affected by all these tragic events, and we look forward to their early solutions."

Aliabadi said there was still much uncertainty about the strength of the world economic recovery.

While the developing economies continued to be the main drivers of growth — particularly China and India — there were still some notable points of concern.

These included the persistently high level of unemployment, the sovereign debt crises in major OECD countries, potential overheating in many emerging economies and rising inflation across the globe.

"These are all important factors, they can interact with each other and they can all influence the return to steady economic growth," he maintained.

"Therefore, when we seek to gain a deeper insight into the recent volatility, our attention turns to the financial sector," he said.

Since OPEC's December 2010 Meeting, speculative activity on the New York Mercantile Exchange had reached record highs. This saw open interest for WTI exceeding 1.5 million futures contracts by mid-March.

"This was an astonishing 18 times higher than the volume of daily traded physical crude," pointed out Aliabadi.

"Excessive speculation in the futures markets increases volatility unrelated to fundamentals and efforts by governing and regulatory bodies in the consuming countries to minimize such speculation remain imperative," he said.

Before the main part of his address, Aliabadi extended a special welcome to three OPEC Ministers who had been appointed since the December talks.

They comprised Abdul-Kareem Luaibi Bahedh, Minister of Oil of Iraq; Dr Mohammad Al-Busairi, Minister of Oil and the State Minister of National Assembly Affairs of Kuwait; and Dr Mohammed Bin Saleh Al-Sada, Minister of Energy and Industry of Qatar.

In addition, the Conference President extended a welcome to Engineer Goni Musa Sheikh, Nigeria's Governor for OPEC, who was leading his Country's Delegation to the Meeting.

He also took the opportunity to record the Organization's appreciation to some immediate past Heads of Delegation — Dr Hussain Al-Shahristani of Iraq; Sheikh Ahmad Al-Abdullah Al-Ahmad Al-Sabah of Kuwait; and Abdullah bin Hamad Al Attiyah of Qatar.

Above: Mohammad Aliabadi (second right), President of the OPEC Conference and Iran's Acting Minister of Petroleum, accompanied by his translator, is Alireza Hamidi Younessi, from Iran's Ministry of Petroleum; Abdalla Salem El-Badri (r), OPEC Secretary General; and Dr Hasan M Qabazard (l), Director of OPEC's Research Division.

Above: Dr Hojatollah Ghanimi Fard (l), Head of OPEC's Petroleum Studies Department; and Alejandro Rodriguez Rivas (r), Head of OPEC's Finance and HR Department and Officer-in-Charge of IT Services Department.

Above (l–r): Ali Nasir, OPEC's Legal Advisor and Officer-in-Charge, Legal Office; Oswaldo Tapia, Head of OPEC's Energy Studies Department; Fuad Al-Zayer, Head of OPEC's Data Services Department; Abdullah Al-Shameri, Head of the Office of the OPEC Secretary General.

Above: Dr Hasan M Qabazard (l), Director of OPEC's Research Division, being interviewed by Alex Lawler, a journalist from Reuters.

Right: Angela Agoawike, Head of OPEC's PR and Information Department.

Ministers agree that uncertainty over global economic recovery still a primary concern

The following interviews were conducted with OPEC Heads of Delegation by the OPEC Secretariat's Webcast team during the 159th Meeting of the Organization's Conference, held in Vienna on June 8.

Eng José Maria Botelho de Vasconcelos

Minister of Petroleum, Angola

Asked about the issues impacting the price of crude oil, Eng José Maria Botelho de Vasconcelos said there were geopolitical problems in North Africa and the Middle East and these had affected oil prices to a certain extent.

The relationship between the euro and the United States dollar had also had some impact, while the continuing uncertainty over the global economic recovery was another issue.

"We then have the problems in Japan, while in Europe, some countries — Portugal and Greece, for example — have had problems over their sovereign debt. All of these variables have had some impact on the price of oil and we are here in OPEC to analyze all of these variables and to take some decisions," he stated.

Questioned over OPEC's actions, de Vasconcelos said the Organization had the primary goal of stabilizing the oil market.

"This is our priority and I think that among all OPEC Member Countries, we need to reach a consensus to send a good signal to the market," he maintained.

The Minister explained that, normally, when there was not enough oil in the market, OPEC would increase production a little bit, but when the market had too much oil, then it reduced output. This was all intended to maintain a balance in the market.

Asked about domestic developments in Angola, de Vasconcelos said Angola was continuing to develop its deepwater offshore oil blocks.

"We are working with our partners to develop two blocks — block 17 and block 31. With these two blocks in activity, we will be able to increase our production capacity a little more," he stated.

The Minister pointed out that Angola was "an open" country and worked very well with its partners.

"We always have opportunities and projects and normally we have dialogue with a lot of companies, big, medium-sized and small, to find the best ways of developing our potential in petroleum exploitation," he said.

During Angola's long civil war, he said, the authorities did not have the opportunities to collect all the data and information necessary for determining and exploiting the oil potential of the country.

"Now our aim is to attract more investments and to find more partners to work with us. This will enable Angola to recover from that period of war. We do have big challenges ahead in order to develop the economy.

"We are working very hard in Angola to achieve our goals because the biggest goal is to improve the human life of our people," he concluded.

"We are working very hard in Angola to achieve our goals because the biggest goal is to improve the human life of our people."

— Eng José Maria Botelho de Vasconcelos

Abdul-Kareem Luaibi Bahedh

Minister of Oil, Iraq, Alternate President of the OPEC Conference

"There is enough oil to fill the gap of lost oil production in the market and OPEC can still increase output further ..."

— Abdul-Kareem Luaibi Bahedh

Speaking about the situation in the international oil market, Abdul-Kareem Luaibi Bahedh said one of the main concerns at the moment was the political developments in certain parts of the world. These had become more important than the rate of oil production.

"There is enough oil to fill the gap of lost oil production in the market and OPEC can still increase output further" at any time there was the need to do so, he stressed.

The Minister, attending his first OPEC Conference as Head of Delegation of his country, agreed that global oil demand could increase in the second half of 2011, adding that this was why OPEC was waiting a few months before making any firm decision on a possible output increase.

Regarding domestic developments in Iraq, Bahedh said the country's current crude oil production stood at 2.7 million barrels/day, which was higher by 250,000 b/d than in 2010.

"We hope we can increase output by the end of this year to 3m b/d," he disclosed.

The Minister said the capacity of the country's refineries currently stood at 500,000 b/d and projects for four new plants were in the pipeline. These, when completed, would have a total added capacity of more than 700,000 b/d.

"There is a large increase in local demand. That is why we are planning these new refineries," he explained.

Bahedh said Iraq had so far signed more than 13 contracts to develop 15 of the country's oil fields, as well as three deals to develop three gas fields.

"Now we are busy preparing for the fourth bidding round of oil exploration," he added.

Dr Mohammad Al-Busairi

Minister of Oil, State Minister of National Assembly Affairs, Kuwait

"We are very concerned about the stability of the global economy and we are very concerned about prices and production."

— Dr Mohammad Al-Busairi

Asked what the big concerns for OPEC were at the moment, Dr Mohammad Al-Busairi said there was concern over the situation in North Africa and in the Middle East, and also the problems being faced by Japan after the earthquake and tsunami in March.

"There are many issues that concern us and we have many ideas over how to go forward," he said.

The Minister, also attending an OPEC Conference as Head of his country's Delegation for the first time, stressed that he thought cooperation between all Member Countries in OPEC would be important for discussing every detail. Demand for oil and the loss of production — all these issues were on the table for discussion.

"We feel that with the present state of the global economy, we are concerned about stability of oil prices and production. We hope we will reach agreement on production and prices," he said.

The Minister said Kuwait was not looking for high crude oil prices.

"It is not a benefit for us, so we are going to study the market and the situation in the world. We are very concerned about the stability of the global economy and we are very concerned about prices and production," he reiterated.

Concerning the problems in OPEC Member Libya, Al-Busairi said the Ministers hoped that everything would be sorted out in the near future. It was very necessary to fill the shortage of production from Libya.

On the level of global oil demand, he said the Ministers were always optimistic it would improve. China and India were the big consumers and growth in both countries was expanding.

"I think we will need more oil production to fuel the growth in India and China. We hope we will be able to increase output in the future to ensure global stability," he affirmed.

Questioned about domestic developments in Kuwait, the Minister said everything was going smoothly. Large projects and developments were planned within the oil sector, which were encompassed in a long-term programme to increase Kuwait's oil production capacity to 4m b/d within the next ten years.

"Today, oil production in Kuwait stands at 2.5m b/d. We also have big plans for refineries and infrastructure. We have many projects and many plans. The economy is good, so we hope everything will work out fine in the next ten years," he concluded.

"We want a situation whereby the producers and consumers are reasonably happy, especially in view of the recent developments in the Arab world."

— Eng Goni Musa Sheikh

Eng Goni Musa Sheikh

Governor for OPEC, Nigeria, Chairman of the OPEC Board of Governors

With regard to the main issues OPEC should be looking at, Eng Goni Musa Sheikh said the primary concern was to ensure that the Organization adopted a responsible position by addressing the needs of the international oil market.

"We want a situation whereby the producers and consumers are reasonably happy, especially in view of the recent developments in the Arab world," he contended.

Sheikh said the Members of OPEC were conversant with their responsibilities to the world community.

"We have carried out extensive studies concerning supply and demand, factors that will really drive the demand, and at our meeting we will take a decision where everybody will be happy," he said.

On the high level of crude oil prices, Sheikh said that extremely high prices were not good for the buyers, meaning the consumers, and also they were not good for the producers because once the buyer did not buy as a result of the economic situation, then oil demand would fall.

"So we in OPEC are mindful of all these points and factors and all these parameters concerning prices

and production are taken into account in the business model.

"Basically, what we are saying is that OPEC is a responsible Organization and would like to produce crude to meet the needs of the market. We are also saying that the price should be at such a level that it does not harm the consumer and it also does not harm the producer.

"If the consumer does not really buy the oil, there would not be sufficient investment in the sector. So we are going to take all these factors into consideration in our meeting," he stated.

Turning to domestic developments in Nigeria, Sheikh said things were looking bright in the country.

"The investment climate in Nigeria is really good and the government has set parameters to encourage investment. Primarily, what the government does is to ensure that the environment is good and attractive to investment capital."

He said the government was aware of the situation and was taking steps to ensure that the conditions were right for investors to bring in their capital.

Sheikh pointed out that there were 150 million people in Nigeria who needed energy supplies and most of the West African market was supplied by his country.

There was increased demand for petroleum products from the average citizen in Nigeria and there was more demand for products in neighbouring countries.

"The government is taking the right steps in making sure that the conditions are right for increased investment, increased production and, of course, increased value addition on the products produced," he concluded.

Dr Mohammed Bin Saleh Al-Sada

Minister of Energy and Industry, Qatar

Asked for his impressions over the current state of the oil market, Dr Mohammed Bin Saleh Al-Sada pointed out that the main concerns of Qatar, like any other country, were the satisfaction of both producers and consumers, the need for sustainable and reliable oil supplies, as well as predictable and reliable demand.

"Stability of prices is also our objective so that we can sustain the development of our countries, who are developing countries," he stated.

"I think we are pursuing our goals very responsibly, taking into consideration the developmental concerns of our countries, as well as the sustained economic growth on a world scale," maintained Al-Sada, who was

attending his first OPEC Conference as Head of Qatar's Delegation.

"We are all here to look for the balancing point between supply and demand and it is extremely important to discuss the fundamentals of the market," he said.

Al-Sada pointed out that there were other issues in contention that were basically not within the remit of the ability of OPEC — the non-fundamentals — but OPEC was going to address all issues, focusing on the supply and demand situation and economic growth in detail.

He stressed that Qatar had always been very active in OPEC and other forums, like the gas exporters' forum, which had its headquarters in Doha.

"Qatar was the first country to join OPEC after its foundation and it has always been active," he affirmed.

Speaking about domestic developments in Qatar, Al-Sada said his country's Emir, HH Sheikh Hamad Bin Khalifa Al Thani, had the vision of diversifying the economy and had thus ventured into monetizing its hydrocarbon resources, such as gas.

The gas sector, he said, had reached a very mature level today and the country "very proudly" produced 77 million tonnes of gas, making it by far the biggest producer and exporter in the world.

"Concurrently, Qatar is diversifying its economy by investing in other sectors, both domestically and internationally. Qatar is going to continue along this route, diligently, in the coming years," he concluded.

"I think we are pursuing our goals very responsibly, taking into consideration the developmental concerns of our countries, as well as the sustained economic growth on a world scale."

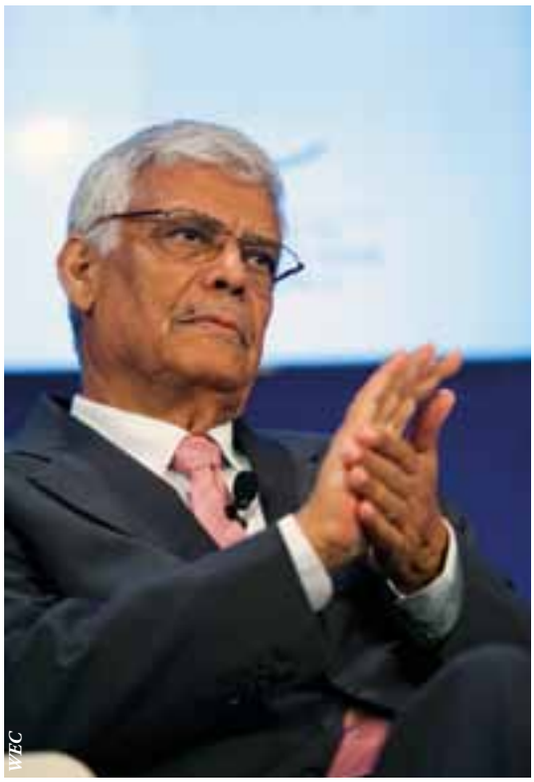
— Dr Mohammed Bin Saleh Al-Sada

Secretary General takes part in WEF debate in Vienna

OPEC Conference sticking point economic, not political — El-Badri


WEC

*OPEC Secretary General, **Abdalla Salem El-Badri** (pictured), attended a televised debate organized by the World Economic Forum (WEF) in Vienna, Austria, in early June. The event took place one day after the Organization's Oil and Energy Ministers attended their mid-year Ministerial talks in the Austrian capital. In this article, the OPEC Bulletin's **Alvino Mario Fantini** looks at what the OPEC Secretariat's chief executive had to say, especially on the outcome of the Meeting, the loss of crude production from one of its Members, and the continuing problems with speculation in the oil market.*



Speaking at the televised debate on energy security, OPEC Secretary General, Abdalla Salem El-Badri, reassured participants that there was no crisis within the Organization.

El-Badri said the 159th Meeting of the Conference had ended on Wednesday without a decision on production allocations strictly because of economic — not political — differences among some Member Countries.

He said the OPEC Secretariat had presented its data on the global oil demand outlook, which saw a jump in demand in the third and fourth quarters of 2011.

Reservations expressed

However, he pointed out, some Member Countries had different views, expressing concerns over such issues as United States unemployment and the possibility of the high-growth Chinese economy overheating.

El-Badri noted that OPEC's own forecasts predicted that oil production in its Member Countries would fall short of demand by two million barrels/day in the third quarter and by 1.5m b/d in the last three months of the year. But not everyone agreed with those figures either.

"That was the whole debate at this meeting," El-Badri explained. "It was not a political issue. It was really an economic issue."

The OPEC Secretary General was keen to clarify that this was not the first time in OPEC's 50-year history that Members of the Organization had held different opinions on certain issues.

OPEC, he stressed, would continue to monitor the market closely in the third quarter and, if necessary, would act to correct any imbalance.

Members of the Organization could pump an additional 2m b/d without a problem, he maintained.

However, for the time being, oil stocks were high — three days above the five-year average -- and there was no shortage of crude in the market.

Addressing the ongoing unrest in the Middle East and North Africa (MENA) region, El-Badri said Saudi Arabia was already trying to fill the 1.3–1.4m b/d gap left by the loss of Libyan crude oil exports.

Libyan crude, he noted, was unique and of very high quality.

Sovereign right

Asked about unilateral moves by some OPEC Member Countries to increase production, the OPEC Secretary General said that if a Member Country wanted to act, it had the sovereign right to do so.

Questioned about recent oil price volatility in the marketplace, El-Badri urged the industrialized countries to make more efforts to regulate speculation in the oil markets.

"We cannot avoid volatility, but there must be some regulation," he professed.

Speculation

El-Badri's comments about the role of speculators in driving up international crude oil prices were echoed by Gerhard Roiss, Chief Executive Officer and Chairman of the Board of the Austrian state oil company, OMV.

The televised debate was part of the WEF's 2011 regional meeting on Europe and Central Asia, held on June 8-9 at the Hofburg Palace in the Austrian capital.

The prime minister of Georgia, Nikoloz Gilauri, and the deputy prime minister of Kazakhstan, Yerbol Orynbayev, also participated in the event.

Secretariat hosts EU-OPEC workshop on oil investments

Important lessons from the global economic crisis

Ioannis Samouilidis (second left), Policy Officer, Coal and Oil Unit of the European Commission; Oswaldo Tapia (second right), Head of the Energy Studies Department at the OPEC Secretariat; James Burkhard (r), Managing Director, Global Oil Group, IHS CERA; and Marcus Lippold (l), Energy Economist, Coal and Oil Unit of the European Commission.

The impact of the recent global economic crisis on oil investments was the subject of a joint workshop attended by officials from the European Union (EU) and OPEC in Vienna in May.

Held under the umbrella of the EU-OPEC Energy Dialogue, the one-day workshop attracted high-level representatives from OPEC Member Countries, as well as participants from the EU and the OPEC Secretariat.

The workshop was presided over from the OPEC side by Oswaldo Tapia, Head of the Energy Studies Department at the Organization's Secretariat, while the EU team was led by Dr Ioannis Samouilidis, Policy Officer, Coal and Oil Unit of the European Commission.

In opening remarks to the gathering, Tapia told assembled delegates that the very important subject of oil investments was first broached at the sixth Ministerial Meeting

of the Energy Dialogue in June 2009, which took place against the backdrop of the financial crisis and the most severe global economic contraction since the 1930s.

He stressed that the economic downturn had a profound impact on the member countries of both the EU and OPEC.

It was for that reason that the two sides, through their Energy Dialogue, decided to hold a workshop to examine the impact of the global financial crisis on the oil sector.

Tapia pointed out that global information consultants, IHS CERA, had been commissioned to undertake a study on the situation to support the workshop's findings.

The study looked at three broad areas, encompassing the impact of the global financial crisis on oil demand and the effects on spare capacity, both upstream and downstream; the oil price effects on the various parts of the oil supply chain, both in the context of the global financial crisis and in terms of lessons learned for the future; and the possible medium-term and long-term scars of the economic crisis, as they related to the oil industry, both upstream and downstream.

The report of the study was formally presented to the workshop by Jim Burkhard, Managing Director, Global Oil, at IHS CERA, who headed the team that produced the study.

Tapia told the meeting that the report contained insights and lessons from the impact of the economic crisis and its aftermath. It also addressed the importance of the EU-OPEC Energy Dialogue in examining such matters.

Samouilidis, in his opening remarks to the meeting, highlighted the importance given to this study from the EU side, as well as to the ongoing cooperation forged between the two organizations as part of the positive and constructive EU-OPEC Energy Dialogue.

He emphasized that the study and workshop were very timely since the economy and oil markets were still fragile.

He reminded delegates that two previous high-level meetings had been held — in Jeddah and London — in response to the recent developments. These gatherings proved that the global community was conscious of the difficult times the oil industry and financial markets were going through.

Both meetings, as well as the International Energy Forum (IEF) talks in Cancun, Mexico, demonstrated that closer cooperation and transparency in oil markets was required by all stakeholders, he stated.

Samouilidis, in observing the reaction of OPEC Member Countries to the financial crisis in cutting oil

Jim Burkhard, Managing Director, Global Oil, at IHS CERA, giving his presentation.

Above (r–l): Dr Falah J Alamri, Iraq's Governor for OPEC, Executive Director General of the State Oil Marketing Organization (SOMO); Eng Diego Armijos-Hidalgo, Ecuador's OPEC Governor and National Representative; and Kuwait's representative to the workshop, Hamad Dakheel Al-Subaie.

Far left: Dr Majid A Al-Moneef, Saudi Arabia's Governor for OPEC.

Left: Mrs Angela Siebenhandl, Fuels Division, Federal Ministry of Economy, Family and Youth, Austria and European Commission representative to the workshop.

Below: Nadir Guerer, Senior Research Analyst at OPEC, with Maciej Bialek, Senior Expert, Department of Oil and Gas, Ministry of Economy, Poland, representing the EC.

production, in order to stabilize crude prices at sustainable levels, stressed that oil markets were sensitive to all sorts of events, as well as oil fundamentals, investment and spare capacity.

In particular, he said, unwanted price volatility had demonstrated that a crisis was needed in order to avoid worse effects in the future.

"As a result, we need to reflect on how to minimize risks in the future and what lessons have been learned from the crisis," he told workshop participants.

Importance of dialogue

In presenting the report of the study — *The 2008–09 economic crisis: impact and lessons for the world oil industry* — to the workshop, Burkhard said that a number of insights and lessons could be derived from the impact of the economic crisis and its aftermath.

"One ... important lesson is the importance of international discussions, such as the EU-OPEC Energy Dialogue," he stated.

"During periods of crisis and extreme uncertainty, emotions, biases, and poor communication can lead to unfortunate outcomes," he observed.

Burkhard said that with dialogue mechanisms already in place, channels of communication and a venue for discussion and cooperation were already developed and did not have to be created suddenly in the wake of unexpected events.

"And the crisis highlighted an important shared interest on the part of both consumers and producers — a healthy and vibrant economy.

"With unexpected developments likely to continue to fuel volatility in oil markets, the EU-OPEC Energy Dialogue can contribute to global cooperation," he maintained.

Pictured above: delegates listen to presentations at the EU-OPEC Workshop.

In his closing remarks, Tapia noted that one important focus of the study had been the impact of a low price environment on oil supply.

History had shown that oil exploration and development activity was very strongly linked to price movements. An immediate impact on such projects was seen in the wake of the fall in oil prices, with active rig counts falling rapidly.

Tapia said that, going forward, the reaction carried with it a signal that persistently low oil prices could have a damaging effect on oil supply potential, especially high-cost non-conventional oil resources. For example, he said, the economics of oil sands was particularly exposed to low prices.

Tapia said the key direct impact of the crisis was the loss in oil demand. For example, compared with pre-crisis projections, expectations for oil demand for the year 2013 had fallen by over five million barrels/day.

OPEC, he noted, had absorbed much of the loss in 2009 by adjusting its crude supply volume. However, this had meant rapidly rising levels of OPEC spare capacity. The concern of investing in unneeded capacity was therefore clearly demonstrated.

Tapia said that, based on recent experiences, a number of issues could be regarded as important outcomes from the study and workshop.

"Firstly, we need to better understand the nature of oil price effects upon the oil industry.

"Secondly, we have focused upon possible permanent scars of the economic crisis as they relate to the oil industry.

"And finally, the recent crisis has demonstrated how investment decisions along the entire supply chain are made much more difficult under such circumstances," he stated.

In his closing comments, Samouilidis stressed that a number of issues still needed to be examined in the years ahead since questions and answers remained open.

He reminded delegates that the EU-OPEC Energy Dialogue was still relatively young, starting in late 2004, a year in which global demand rose strongly.

"No one foresaw this surge in demand. We were all caught by surprise and this was a key factor in initiating the Dialogue," he affirmed.

Samouilidis pointed out that a major aim of the Dialogue was to try and avoid this happening again. That was the driving force behind the launch of the initiative's various studies and discussions.

He emphasized that the EU always appreciated the open, frank and sincere way OPEC behaved and believed that this would continue to be the case in the years to come for a number of sensitive issues that would be important for global wealth and economic health.

"Dialogue is proving its value already, but there is much that can be done in the years to come," he added.

The final findings and recommendations of the workshop were to be presented to the Eighth EU-OPEC Ministerial Meeting on June 27.

Global energy consumption growth last year highest since 1973


BP Statistical Review
of World Energy
June 2011

What's inside?

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6 Oil
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*The OPEC Bulletin's **Steve Hughes** attended BP's Vienna presentation of the findings of its Statistical Review of World Energy of 2011 in early June. He heard that 2010 was quite a year for the global energy industry with the growth rate of all major fuels about doubling against their ten-year average.*

Kevin Goodwin, BP Head of Refining Analysis.

BP's recently released Statistical Review of World Energy's message was clear: 2010 was a year of tremendous energy consumption growth — the highest since 1973.

Presenting the review on a hot June morning in Vienna's air-conditioned Le Meridien hotel, BP Head of Refining Analysis, Kevin Goodwin, explained how the growth rate of all major fuels about doubled against their ten-year average and how consumption growth was above its long-term trend in every region of the world.

Unusual stability

Turning his attention to oil, among other things, Goodwin said that for the most part, 2010 experienced unusual stability.

However, he explained that the fundamentals of demand and supply were setting the stage for prices that started to rise in the fourth quarter of last year as strong consumption out-paced production growth over the latter part of 2010.

Goodwin said that global oil consumption grew by 2.7 million barrels/day, or 3.1 per cent, last year to reach a record of 87.4m b/d.

The growth rate was more than twice the ten-year average. He explained that, as with other fuels, the rebound in global economic activity and the energy-intensive nature of the recovery have been the most important factors behind the strong growth in oil demand.

The Review shows that oil production grew by 1.8m b/d, or 2.2 per cent, and that for crude oil supply growth was split roughly between OPEC and non-OPEC producers.

Goodwin explained that to this, a 13.8 per cent (240,000 b/d) growth in biofuels should be added.

With consumption growth so far outpacing production, Goodwin said that one would expect a large decline in inventories during 2010.

However, OECD inventories fell by only a very modest 30,000 b/d. The explanation, he said, lies in floating storage: In 2009, when the oil market was well supplied, large volumes were stored at sea and therefore did not enter official OECD inventory statistics. As the market tightened in 2010, floating storage was withdrawn first, because it is more expensive.

"In other words," Goodwin said, "the relatively modest movement of inventories onshore masked a much larger overall inventory correction over the course of 2010."

In respect to gas, Goodwin said that global natural gas production and consumption both increased exceptionally last year and that demand was driven by the economy, the continued shift towards non-OECD consumption and weather conditions.

Global consumption was up 7.4 per cent and production rose by 7.3 per cent. He added also that the shale gas revolution in the US and massive changes in LNG markets are reshaping the world of natural gas.

Again, like other fuels, Goodwin explained how coal production and consumption grew above average in 2010 — by 6.3 per cent and 7.6 per cent respectively — adding that, among all the fossil fuels, coal consumption grew the fastest.

In addition, he explained, hydroelectricity and nuclear power both grew above their ten-year trend.

"Unsurprisingly," said Goodwin, "the general picture of strong energy growth translates into bad news for carbon emissions."

With coal consumption growing at the highest rate among fossil fuels, he explained, global CO_2 emissions from energy — measured by standard conversion rates — expanded by 5.8 per cent in 2010, faster than total energy consumption, and the fastest rate of growth since 1969.

Emissions increase

In line with this, Goodwin said that global emissions intensity — the amount of CO_2 released per unity of energy consumed — also increased in 2010.

Not wanting to end on a depressing note, Goodwin said that renewables are finally "clawing their way into the statistics on global energy consumption."

They still have far to go, he added, but the limitations and prospects are becoming clearer along the way.

Together, renewables accounted for 1.8 per cent of global primary energy last year (1.3 per cent from renewables and 0.5 per cent from biofuels).

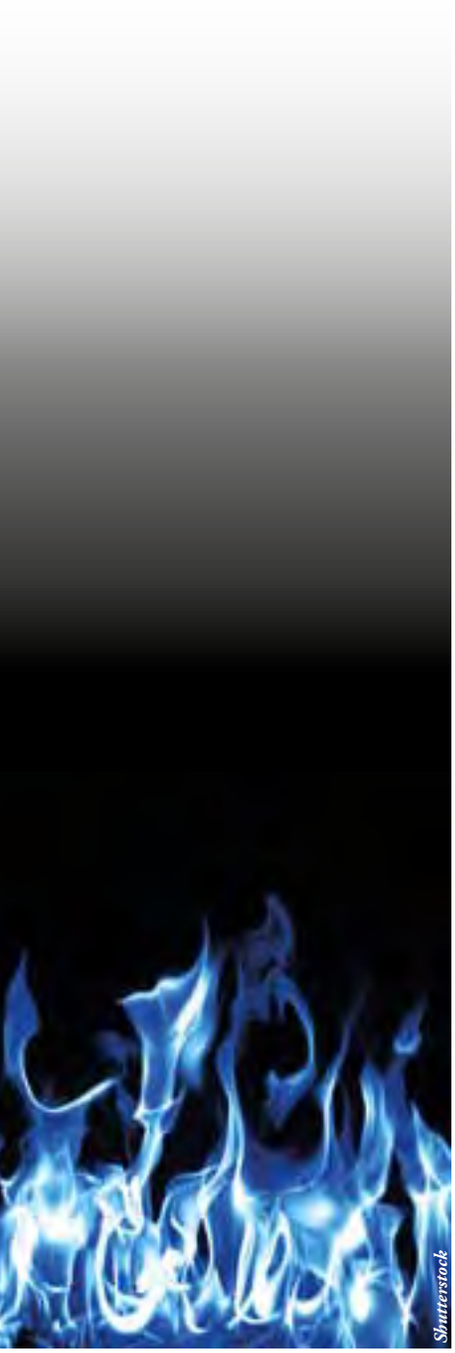
In his conclusion, Goodwin reiterated that 2010 was a year of exceptionally strong demand growth for all fuels — but he added that it was a return to trend, not a break with the past.

This trend, he said, is now increasingly shaped by the rapid ascent of industrializing economies and their rising share in global GDP.

"This ascent," he added, "inevitably makes it harder to translate gains in energy intensity — or for that matter in emissions intensity — into slower global energy or emissions growth."

12th Ministerial Meeting of Gas Exporters Forum meets in Cairo

Gas demand set to rise as nuclear option stalls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The importance of dialogue between producers and consumers for achieving stable world gas markets was stressed at the 12th Ministerial Meeting of the Gas Exporting Countries Forum (GECF), held in Cairo, Egypt, at the beginning of June.

GECF President, Abdulla Ghorab, Egypt's Minister of Petroleum, also highlighted the importance of establishing a mechanism to achieve balanced and fair gas prices for both consumers and producers.

Ghorab, who chaired the latest GECF meeting, stressed that cooperation between producers and consumers was required to support and sustain the required investments needed to develop global gas reserves in the producing countries and to step up the exchange of know-how and technologies associated with the expanding industry.

New capacity needed

Meeting local demand for natural gas in the producing countries was also a priority, he told assembled delegates from the grouping in his opening speech.

"The expected increase in global gas demand (in the years ahead) means that considerable new gas production capacity will have to be added," he said.

Ghorab maintained that gas exporters could not be expected to invest many billions of dollars on providing new infrastructure without some commitment on demand coming from the consumers.

"Flexible pricing formulas and contractual mechanisms that allow frequent review are required to keep a continuous balance among all concerned parties that will allow maintaining a fair and sustainable relationship between the two sides," he was quoted as saying.

His sentiments were echoed by GECF Secretary General, Leonid Bokhanovsky, who pointed out that member countries of the Forum were working to ensure that there was a secure, predictable, and fair market for natural gas, regardless of the political climate in any one producing country.

He pointed out that GECF Member Countries together possessed 70 per cent of global natural gas reserves and accounted for 42 per cent of production.

The GECF, which was established in 2001, represents and promotes the interests of global gas producers.

Registered as an international multinational organization, it exchanges expertise in gas exploration and transportation. One of its overriding aims is to draw up a framework for international gas markets.

The Forum has made considerable progress since it was formed. It became a legal entity with the signing of the Gas Exporting Forum Functioning Agreement; it set up its permanent Secretariat in Qatar; and it appointed its first Secretary General, Leonid Bokhanovskiy, Vice-President of the Russian energy services firm, Stroytransgaz.

Its membership, which is already significant in representing around 70 per cent of global gas reserves, also looks set to expand in the near future.

The GECF currently has 11 full signatories - Algeria, Bolivia, Egypt, Equatorial Guinea, IR Iran, SP Libyan AJ, Nigeria, Qatar, Russia, Trinidad and Tobago and Venezuela. It regularly has observers attending its meetings.

The Cairo meeting recognized the growing consolidation of the Forum and its importance as a means for exchanging views and establishing coordination among its Member Countries.

Delegates underlined their determination to intensify

the rapprochement of the world's gas-exporting nations through the Forum for the benefit of all parties.

The Ministers took note of the key conclusions of the GECF Secretariat's report on short-term gas market developments and discussed the challenges facing the natural gas industry, as well as the current economic and political world scenarios.

In the light of their analysis, participants underlined the role of the GECF as a factor of stability and cooperation among its Member Countries and the consumer nations.

Global energy mix

Delegates also emphasized the important role of natural gas in the global energy mix, considering the advantages of the fuel for enhancing energy security.

The Ministers stressed the importance of long-term contracts and fair pricing for natural gas, at levels reflecting market fundamentals and parity with oil prices.

The meeting expressed appreciation for the growing role the GECF is playing in the international community and acknowledged the efforts of the Executive Board and Secretariat of the Forum in enhancing institutional building and the research capability of the grouping.

The next Ministerial Meeting of the GECF is planned to take place at GECF Headquarters, in Doha, Qatar, on November 13.

The GECF will hold its first ever Summit of Heads of State and Government in Qatar on that occasion.

Bohanovsky said the aim of the November conference would be to guarantee the supply of natural gas to all countries in the world, as well as reach a fair price based on global indicators.

Other delegates at the Cairo meeting agreed that natural gas producers would need to expand their production capacity to satisfy an increasingly gas-hungry world. But it was imperative that they secured reliable long-term contracts to do that with.

They recognized that a situation of global oversupply of gas, which had caused prices to fall, would change as a result of Japan's nuclear power crisis, coupled with high demand from markets such as India and South America, which had sparked a resurgence in the call on gas, meaning that supplies were tightening.

Delegates were also unanimous in saying that in the years ahead consumers must commit to buying gas over the long term if they wanted costly infrastructure to be provided.

It would appear that the face of global gas supply and demand is about to change.

According to analysts at the Bank of America Merrill Lynch, the global gas glut would soon vanish because of rising opposition to nuclear power in the aftermath of the Fukushima crisis and a dearth of new supply.

Figures released by the International Energy Agency (IEA) late last year showed that the world's gas supply capacity was set to rise above 200 billion cubic metres in 2011, meaning that capacity should exceed demand for a decade.

But that had not reckoned on the Japanese situation. The shutdown of some of the country's nuclear power plants after Fukushima had turned the global gas market around, with supplies looking like getting much scarcer sooner.

"The global LNG market is tightening rapidly. In our view, the global gas glut is set to disappear quickly," the investment bank was quoted as saying in a research note.

"Rising Japanese LNG demand is accelerating a progressive market tightening that had already been ongoing, due to the strength in emerging market demand growth," it added.

The report said that even though the gas market was well supplied now, there was the worry that supplies could become a constraining factor on demand from 2012 onwards as there were no major supply additions planned until 2015.

The IEA has since announced that with increasing gas supplies expected to come from unconventional sources in the future, it could encourage gas demand to increase to levels above coal by 2030 and even coming close to oil by 2035.

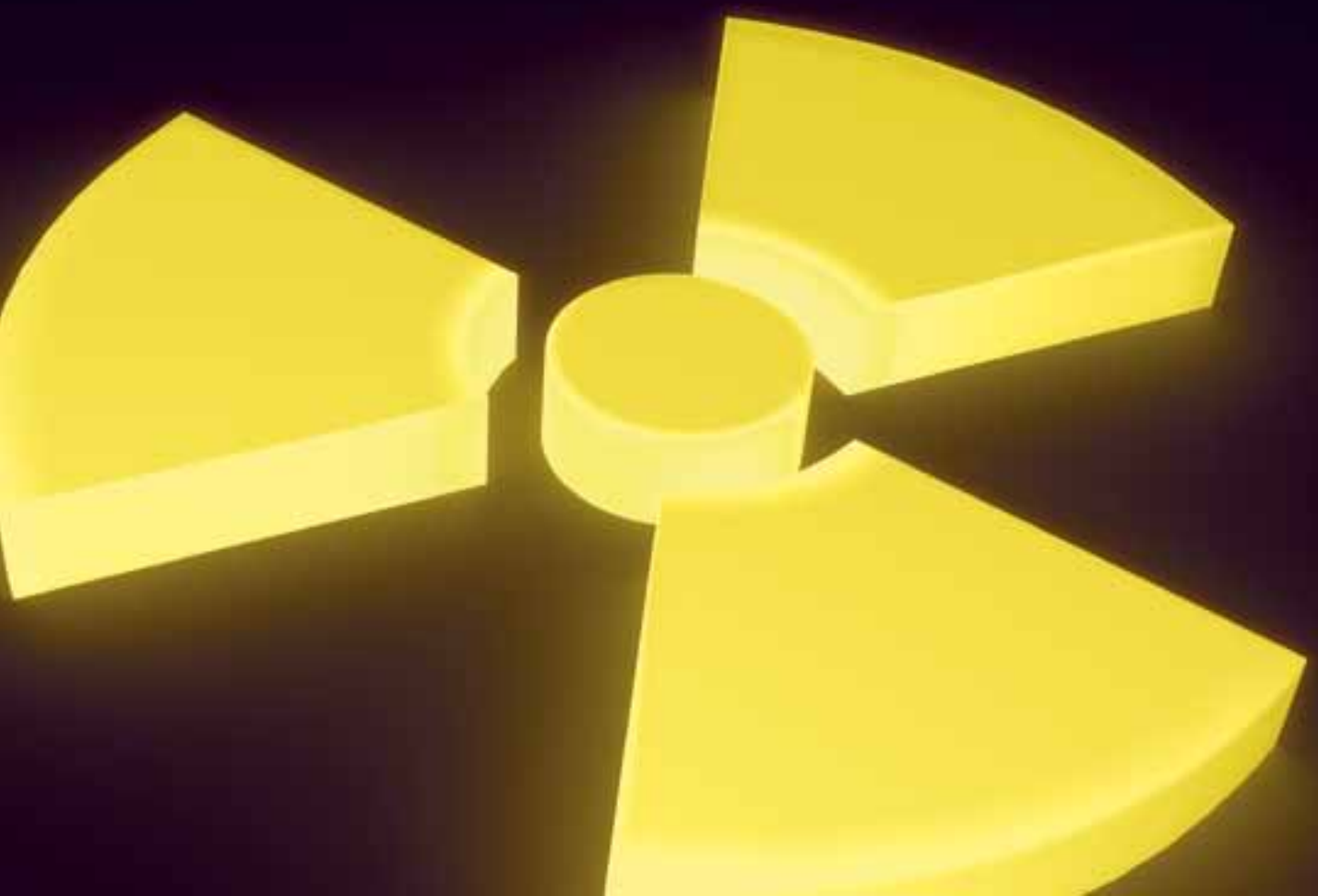
It forecast that if governments applied sound environmental regulation and companies introduced what the Agency called 'golden standards of practice' around unconventional production, gas could become so important that the world could enter a "golden age of gas".

Under the right conditions, the IEA said, it expected global gas demand to expand by an average of two per cent annually, compared with 1.2 per cent growth in annual total energy demand.

The fate of nuclear electricity after the Fukushima disaster

The tragic earthquake, tsunami and nuclear catastrophe that hit the western coast of Japan in March this year has put the future of nuclear power firmly under the spotlight.

Immediate reactions to the Fukushima incident were for nuclear plans to be scrapped and for existing plants to be closed. However, as the dust has settled and governments have taken a more detailed and pragmatic look at their energy futures, a different picture appears to be emerging, one with varied and mixed reactions. **Saadallah Al Fathi**, former Head of the Energy Studies Department (1986–94) at the OPEC Secretariat, in Vienna, looks at the current situation and assesses whether the production of electricity from nuclear generation still has a future.



The massive earthquake and tsunami that hit the western coast of Japan in March this year, with its mounting casualties, has put the future of nuclear energy worldwide in doubt, although reactions may differ between countries.The most serious damage occurred at the Fukushima nuclear power station, which affected all six reactors on site to varying degrees, causing a radiation leak and a widespread population evacuation.

At the beginning, the incident was classified at level five on a scale of seven and was described as the second-worst nuclear disaster after the famous Chernobyl in the Ukraine in 1986. The meltdown in Chernobyl caused over 4,000 deaths and the evacuation of 300,000 people from the most severely contaminated areas.

Since that time, world growth in nuclear energy has fallen. In fact, it has not recovered to this day, even though, in absolute terms, consumption has been increasing with the greater utilization of existing reactors.

People were — and continue to be — apprehensive about nuclear energy and many opposition groups have been successful in forcing governments to slow down, or even abandon, their quest for it.

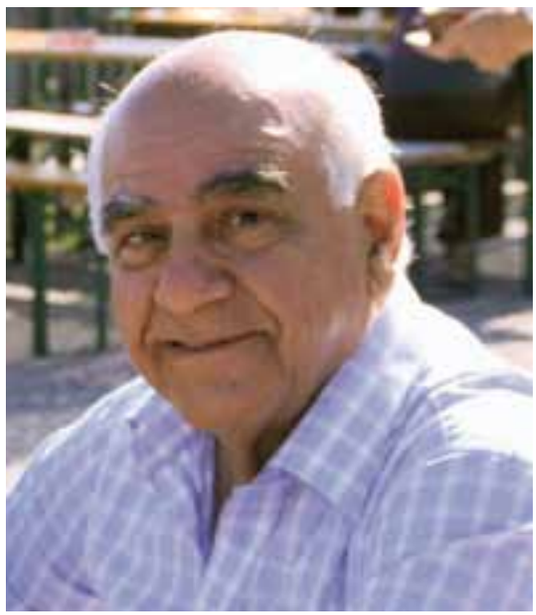
Debate raging on

Although the end result of the Fukushima disaster is yet to come, the debate is raging on in the aftermath, such that the future of nuclear energy is now uncertain, especially since the incident has now been classified at level seven, making it the equivalent of Chernobyl. And the longer time expected to resolve the crisis is not helping the advocates of nuclear energy.

The Tokyo Electric Power Company (TEPCO), owner of the Fukushima reactors, plans to stabilize the situation within the next six to nine months "by bringing the reactors and spent fuel pools to a stable cooling condition and mitigating the release of radioactive materials."

This is for "evacuees to return to their homes" and others to "secure a sound life".

It remains to be seen whether this effort will succeed for the process of dismantling the reactors to be started.



Saadallah Al Fathi.

This will take ten to 30 years, according to Toshiba and Hitachi, who will do the job.

As the damage is more severe than TEPCO had previously reported, the plan is already becoming doubtful.

But there are some important developments in Japan that may reflect on the rest of the world.

In spite of thousands demonstrating against nuclear power and blaming the situation on the silence of politicians, some surveys still find the public partly supportive, or at least tolerant, of this form of energy.

A survey of over 1,000 people conducted by NHK recently found that 42 per cent of those polled felt that nuclear power reactors should remain as they were, while seven per cent called for more to be built.

Only 32 per cent of those questioned said the government should reduce its dependency on nuclear power, while 12 per cent said all nuclear power stations should be abolished.

The reason for this attitude lies in the fact that the immediate abandonment of nuclear power would have catastrophic economic consequences, as alternatives are

not immediately available for the 54 reactors in Japan and their considerable 30 per cent contribution to domestic electricity generation.

As the crisis continued, Japan's Prime Minster, Naoto Kan, suddenly delivered a green energy plan where he admitted that the concentration of nuclear facilities in certain areas had turned out to be a big mistake.

He said: "Japan will abandon plans to build new reactors" and that the country needs to "start from scratch" to fashion a new energy policy, thereby reversing previous plans to build 14 reactors by 2030 and increase the share of nuclear power in supply to 50 per cent.

He also advocated a drive towards renewable energy and conservation.

At the same time, he has ordered the temporary closure of the Hamaoka station, which sits on an active fault line, amid warnings that it could be crippled by another huge earthquake, a decision that was said to be late in coming.

Under the pressure of events, a Diet (Japan's parliament) group was formed in April to study "ways to build a new Japan without nuclear power plants."

The group, in a statement, said: "We need a remake, including a switch in direction, rather than 'a review' of the country's nuclear power policy."

The group, calling itself 'Energy Shift Japan', is planning to discuss a change in lifestyle and the risks involved in nuclear power generation.

Although it is difficult to see a major shift in the positions of the traditional parties in the government, or opposition, since many of their members have been backed in elections and given political donations by companies and labour unions in the nuclear industry, the extent of the catastrophe in Fukushima cannot be ignored, especially that, as Reuters reported, TEPCO is likely to file a net loss close to $12.5 billion in fiscal 2010.

In addition, JP Morgan has estimated its compensation losses at $24.7bn, while Bank of America-Merrill Lynch said the losses could reach $130bn if the crisis continues.

Reverse trend difficult

To reverse the trend of more than 40 years (Japan's first reactor was installed in 1970) of a continued drive towards increasing dependence on nuclear energy is difficult, but not impossible, considering the country's technological and financial resources.

Conservation is possible and it is said that a ten per cent reduction in power consumption would amount to a saving of the equivalent of electricity generated by 13 reactors of 1,000 megawatts each.

Japan's ability to quickly develop wind and solar power systems, starting by what is available in other countries, is likely to generate employment and a new export venue to other countries, thereby compensating for the once-expected nuclear systems exports that may be difficult to realize after Fukushima.

Considering all the above, Japan is likely to debate the subject further, but the long-term outcome may not be in doubt.

If Japan stops building new reactors some observers believe it may become nuclear-free by 2050 as existing reactors go out of service and no loss of power, or adverse impact on consumers, can be expected.

Academics, such as Katsuhiko Ishibashi, a seismology expert at Kobe University, previously warned of the dangers of nuclear power plants in earthquake-prone Japan. He said: "There are no grounds for mankind to make such a dangerous technology part of our daily lives. Atoms for peace is a contradictory term."

The Fukushima disaster and the memories of Chernobyl undoubtedly put people and governments on the move.

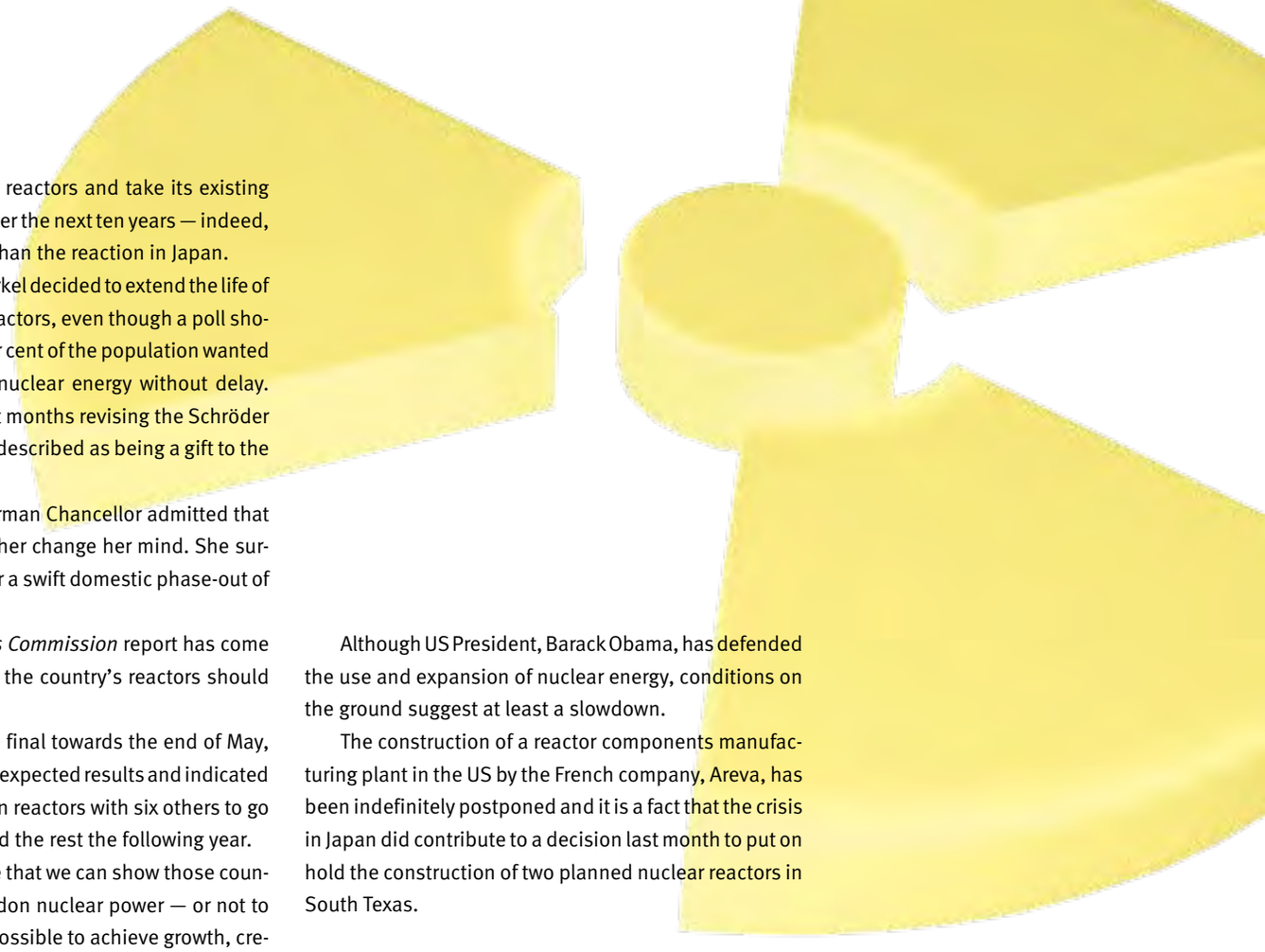
The most radical reaction to the nuclear disaster has been in Germany, where opposition to nuclear energy is historical. The Germans decided a long time ago to abandon nuclear energy, but politics reversed that decision later in a poll.

However, recently renewed public demonstrations were immediately answered by the government's decision to temporarily close seven of the country's 17 reactors and to order safety reviews of all installations.

The safety review is now concluded and while it "emphasized the fact that no safety concern has been found in regard to the nuclear reactors stress safety test," observers believe that the oldest seven reactors are unlikely to operate again, especially since their closure has resulted in no shortage of electricity.

German Environment Minister, Norbert Roettgen, admitted that the plants were not as "robust" as other newer facilities. Of course, no sudden retreat was acceptable, due to the fact that over 22 per cent of German electricity is nuclear and time is needed to establish alternatives.

But the most profound "change of mind" in Germany is that of the Chancellor, Angela Merkel, who appointed an *Ethics Commission* to study the future of electricity generation and concluded that Germany should abandon



all plans to build nuclear reactors and take its existing 17 power plants offline over the next ten years — indeed, much more radical even than the reaction in Japan.

Only last year, Mrs Merkel decided to extend the life of the 17 German nuclear reactors, even though a poll showed that more than 60 per cent of the population wanted their country to give up nuclear energy without delay.

Mrs Merkel had spent months revising the Schröder policy, in what her critics described as being a gift to the nuclear lobby.

But suddenly, the German Chancellor admitted that the Japan disaster made her change her mind. She surprised voters by calling for a swift domestic phase-out of nuclear power.

The draft of the *Ethics Commission* report has come to the conclusion that all the country's reactors should be shut down by 2022.

As the report became final towards the end of May, Mrs Merkel announced its expected results and indicated the shutdown of the seven reactors with six others to go out of service by 2021 and the rest the following year.

She said: "We believe that we can show those countries who decide to abandon nuclear power — or not to start using it — how it is possible to achieve growth, creating jobs and economic prosperity, while shifting the energy supply toward renewable energies."

There is no doubt that the German economy could benefit from the reduction of energy use by conservation and efficiency improvement measures and the development of alternative power sources, the very elements that are supposed to substitute nuclear power.

It is to be noted that wind and solar energy already supply 16.5 per cent of German electricity, from a level of only five per cent in 2000. And the country has one of the fastest-growing renewable energy markets in the world.

The previous target of 30 per cent renewable electricity by 2020 is expected to rise to 35 per cent, as a result of the policy shift.

In the United States, where 104 reactors provide 20 per cent of the nation's electricity, as memories of Chernobyl and Three Mile Island faded, the climate for nuclear power became favourable, due to the rising prices of fossil fuels and concerns over global warming, thereby prompting talk about a "nuclear renaissance".

In 2010, Washington promised to guarantee more than $8bn in loans to help build the first new US nuclear plant since the Three Mile Island disaster in 1979.

However, in the wake of recent events, the "nuclear renaissance" may now be turning to "nuclear retreat".

Although US President, Barack Obama, has defended the use and expansion of nuclear energy, conditions on the ground suggest at least a slowdown.

The construction of a reactor components manufacturing plant in the US by the French company, Areva, has been indefinitely postponed and it is a fact that the crisis in Japan did contribute to a decision last month to put on hold the construction of two planned nuclear reactors in South Texas.

Tide in US changing

The US Nuclear Regulatory Commission (NRC) described the construction of Calvert Cliff's new 1,500 MW reactor as "ineligible" because of French ownership that is prohibited by federal law, although no environmental impacts have been found against the project.

Illinois lawmakers are no longer pushing for an end to a 24-year ban on nuclear power.

There are opponents and fears in California and Indiana that could trigger a backing off from nuclear energy, due to the position of both states on earthquake fault lines.

Merrill Goozner, writing in the *Fiscal Times* on May 9, suggested that it was not only the impact of Fukushima but "the heavy subsidies needed to build new nuclear plants and the increased costs from tougher safety standards" which made "nuclear a less competitive option for producing electricity than a mix of cheap natural gas, wind and even solar power, which is rapidly declining in cost."

The NRC has recently been criticized in the House of Representatives for a number of issues related to the industry where representatives from states with operating plants near major cities and seismic faults wanted them shut down, states with new plants on the drawing board

wanted faster reviews, while states with large quantities of nuclear waste wanted a long-term storage facility.

The NRC has 12 licence applications under review as the first hearing on a new reactor application since the mid-1970s to be conducted this summer is likely to be slow.

On another front, the NRC granted Oyster Creek, a 645 MW nuclear power plant in New Jersey and built in 1969, a new 20-year licence in April 2009, rejecting criticism from a coalition of residents and environmental groups that the plant was too old and degraded to operate safely for another two decades.

After Fukushima, the objecting groups took the case to the courts, but failed to get a result as a federal appeals court on May 18 upheld the NRC decision. This is likely to intensify future opposition and get it to be more popular and more organized.

Proponents of nuclear energy still cite its sustainability, its contribution to reducing carbon emissions and energy security by reducing energy imports as attributes for going ahead with nuclear expansion.

In France, the biggest user of nuclear energy in Europe with 58 reactors and a 75 per cent share for nuclear electricity, President Nicolas Sarkozy has still come out in support of nuclear energy on account of independence and the struggle against greenhouse gases.

When asked about a moratorium, he said that this is "a choice of the past, of the Middle Ages." He even visited a nuclear power station to stress the point and said "France's confidence is in you, in nuclear technology and the know-how of EDF."

But to ameliorate his stand, he also said that France would invest "massively" in renewable energy technologies and that an LNG terminal would be built at Dunkirk.

He also promised to allow the independent French auditors to look at the real cost of nuclear power, including decommissioning and waste management.

Bruno Tertrais, a senior research fellow at the Foundation for Strategic Research in France, recently said that "while nuclear power is, of course, dangerous, a major accident would be no reason to condemn a whole industry, as many did after Chernobyl" especially that "catastrophic human and environmental consequences seem non-existent."

However, opposition groups described Sarkozy's comments as "scandalous" and called for the immediate closure of 16 reactors that have been in service for more than 30 years, as well as a longer-term plan to abandon nuclear power.

In next year's presidential and legislative elections, therefore, the Socialist Party is likely to join with the environmentalist coalition (Europe Ecologie — Les Verts EELV), the greens party of France, to wrest power from Sarkozy's party.

Future uncertain

But the socialists are split on whether to back the phase-out of nuclear power and when. EELV members are calling for a phase-out as soon as possible, and by 2050 at the latest. Some socialists are proposing to reduce the share of nuclear power to 50 per cent.

The environmentalists may also ask for a yes or no referendum once the real costs are determined.

Considering all the above, nuclear power is unlikely to have an easy ride in France.

As expected, the United Kingdom is going ahead with its nuclear building plans and has let existing reactors run as normal, on account of the country's attempt to reduce carbon emissions, although the country is making advancements in wind energy.

But the issue of subsidies has come to the forefront and Chris Huhne, the Energy Minister, is in support provided there is "no public subsidy", a position taken by the coalition government as a whole, while the Energy and Climate Change Committee accuses the government of hiding the subsidy in a long-term contract which benefits low-carbon sources discriminately.

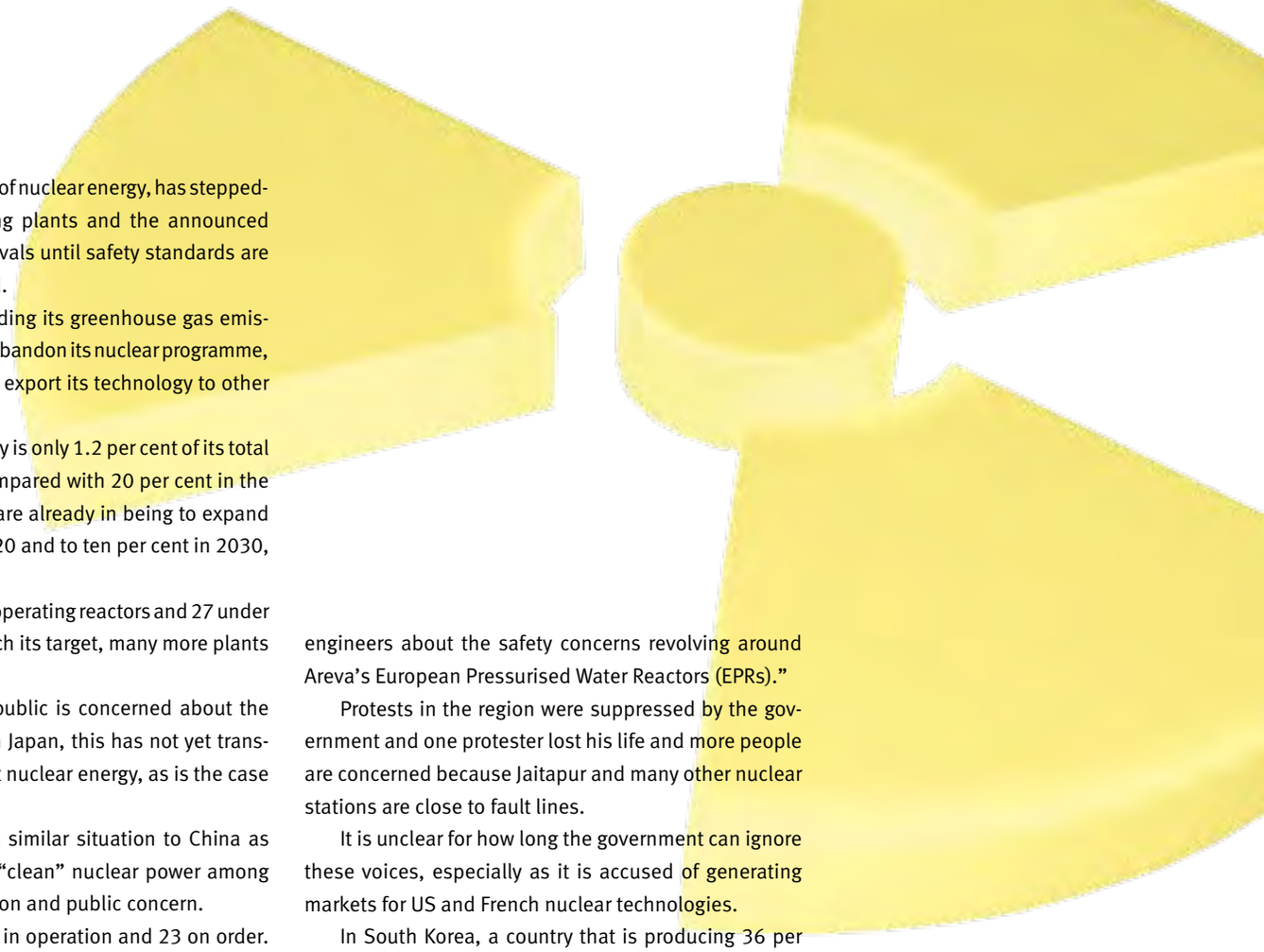
Against all opinion, Richard Black, environment correspondent of the BBC, insisted that "nuclear power will remain the cheapest way for the UK to grow its low-carbon energy supply for at least a decade, according to government advisers."

At the same time, Connie Hedegaard, EU Climate Change Commissioner, said: "Some people tend to believe that nuclear is very, very cheap, but offshore wind is cheaper than nuclear. People should believe that this is very, very cheap."

Bjorn Lomberg, author of the 'Skeptical Environmentalist', said: "The total cost of nuclear power is significantly higher than the cheapest fossil-fuel source. And society must bear significant additional costs in terms of the risks of spent fuel storage and large-scale accidents."

Eight sites in the UK have been identified for new plants and the first is expected to be built by EDF by 2018.

The government's climate advisory panel envisions more than doubling Britain's dependence on nuclear energy to 40 per cent and has played down risks of a Fukushima-like crisis.



China, a great favorite of nuclear energy, has stepped-up inspections at existing plants and the announced suspension of new approvals until safety standards are revised and strengthened.

Under pressure regarding its greenhouse gas emissions, China is unlikely to abandon its nuclear programme, especially as it aspires to export its technology to other countries.

China's nuclear energy is only 1.2 per cent of its total electricity generation, compared with 20 per cent in the United States, but plans are already in being to expand this to five per cent in 2020 and to ten per cent in 2030, or to 70 gigawatts.

China already has 13 operating reactors and 27 under construction. For it to reach its target, many more plants have to come.

Though the general public is concerned about the dangers of radiation from Japan, this has not yet translated to any move against nuclear energy, as is the case in neighboring Taiwan.

India finds itself in a similar situation to China as it seeks dependence on "clean" nuclear power among newly generated opposition and public concern.

India has 20 reactors in operation and 23 on order. Considering its thirst for energy, many more reactors may be planned.

However, Jaswant Singh, at different times Indian finance minister, foreign minister and defence minister, recently said in an article published in the *Malta Independent* that 50 eminent Indians at the end of March demanded a "radical review" of the country's entire nuclear-power policy for "appropriateness, safety, costs, and public acceptance." And until then, there should be "a moratorium on all nuclear activity" and "revocation of recent clearances."

He also said that "the cost of energy from the country's coal-based plants [is] about one-third lower than nuclear power, with gas 50 per cent cheaper." Therefore, he questioned the policy of the government to almost double nuclear generation by importing fuel, technology and reactors.

Other sources suggest India is aiming to increase the domestic share of nuclear energy from three per cent currently to 13 per cent by 2030.

E A S Sarma, a former Union power secretary, said in an article published on May 16 in the *New Indian Express* that there is "widespread public opposition to the proposed 9,600 MW nuclear complex at Jaitapur, amidst the genuine fears expressed by many nuclear scientists and engineers about the safety concerns revolving around Areva's European Pressurised Water Reactors (EPRs)."

Protests in the region were suppressed by the government and one protester lost his life and more people are concerned because Jaitapur and many other nuclear stations are close to fault lines.

It is unclear for how long the government can ignore these voices, especially as it is accused of generating markets for US and French nuclear technologies.

In South Korea, a country that is producing 36 per cent of its electricity from 21 nuclear reactors, the government reacted after Fukushima by ordering the immediate inspection of reactors to assure the public of their safety.

It confirmed its commitment to nuclear power and announced a programme, costing almost $1 billion over the next five years, to bolster safety systems, including doubling the height of a tsunami wall around its oldest plant at Gori.

Nuclear option

Eleven more reactors are under construction, on order or planned and the country is aiming to raise the share of nuclear electricity to more than 50 per cent by 2030.

South Korea is a country with very limited energy resources and, therefore, it sees nuclear energy as a strategic option. It is also encouraged by its aspiration to become a world class supplier of know-how and equipment.

However, opposition groups, including lawmakers, are getting stronger by demanding the closure of the oldest reactor and phasing out the rest.

In one town, where last year the population voted 97 per cent in favour of a new power plant, the situation is

now reversed with demonstrations and vigils retracting the old vote.

After Fukushima, some polls estimate that opposition to nuclear power has increased from 27 per cent to 42 per cent.

South Korea is also faced with rising nuclear waste stocks where no reprocessing facilities are available, or agreed upon with the US.

Already, several countries that had been considering nuclear power stations, such as Switzerland, Venezuela, Chile and others, are having second thoughts, or abandoning such plans.

The Philippines even turned its completed, but never operated, nuclear power plant into a tourist site.

In Ontario and Quebec in Canada, the governments are under pressure to abandon the expansion of nuclear energy, or the renovation of existing reactors.

Spain and Portugal are reported to have publicly called for a gradual phase-out of nuclear energy in Europe and Spain is reassessing the safety of its eight nuclear reactors which provide a sizable 21 per cent of the country's electricity.

The majority of Spaniards, as indicated by polls, are opposed to nuclear power.

In mid-May this year, a Spanish earthquake, which killed nine people and left thousands homeless, concentrated the minds about its impact on the nuclear debate, even though it was far away from any nuclear plant.

However, much will depend on the next election where the ruling Socialist Party and many others are opposed to nuclear power to the extent that the Conservatives find it difficult to be openly and strongly for it.

National referendum

In Italy, voters in Sardinia recently rejected the use of nuclear power as some 98 per cent opposed an atomic power plant being built there. The country announced a one-year moratorium on plans to revive nuclear development after the Fukushima disaster in Japan and will announce a new energy strategy after the summer.

But the move is interpreted to avoid a High Court of Appeal resolution on a national referendum to be held in mid-June. Even the Northern League political party, a

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Berlusconi ally, has challenged the possible construction of nuclear plants in northern Italy.

In 1987, the Italian public voted to reject nuclear energy after Chernobyl and work stopped on nuclear plants that were under construction and two reactors were finally stopped in 1990.

Berlusconi's government wanted to reverse all this and move ahead with the nuclear option, but environmental groups and several opposition politicians have called on the public to oppose this in earthquake prone Italy.

Four reactors were to be built with France's EDF, starting by 2013.

Meanwhile, European Union (EU) member states have resolved to investigate the safety at their 143 nuclear reactors.

The so-called "stress-tests" should lead to the closure of plants that fail them, though there is wide discussion and disagreement about the extent of such tests.

EU Energy Commissioner, Guenther Oettinger, said: "We must also raise the question if we in Europe, in the foreseeable future, can secure our energy needs without nuclear energy."

But despite the renewed fears, Indonesia, Lithuania, Poland and other countries in Eastern Europe may go ahead with their nuclear programmes, if they can finance them.

Especially in Eastern Europe, countries there are more preoccupied with securing energy independence, or diversity, after depending for a long time on the Soviet Union and now Russia.

The Czech Republic wants to build two more units at its Temelin nuclear power station in Prague and the situation is similar in neighboring Slovakia where two new reactors are being built at Mochovce.

Russia is already making large-scale loans available to Belorussia to encourage the construction of its first nuclear power plant. Russia itself, with its 32 nuclear power stations and vast industry and export potential, is unlikely to turn against nuclear power.

Fukushima or not, the problems of nuclear waste are far from being solved and the US, for instance, has accumulated more than 50,000 tons of spent fuel.

The *New York Times* reported on May 24 that "the threat of a catastrophic release of radioactive materials from a spent fuel pool at the Fukushima Daiichi plant is dwarfed by the risk posed by such pools in the US," according to a report by the Institute for Policy Studies.

The proposed repository at Yucca Mountain was cancelled last year by President Obama and the removal of the waste and storage in steel casks, an interim solution, would cost between $3.5bn and $7bn and would take ten years to complete.

Reprocessing is not allowed in the US and some of the waste was transferred to the Marshal Islands where people complained and there have many problems as a result.

France and Russia have reprocessing facilities, but some waste is stored in the reactors' buildings and there are hundreds of sites around the world which add to the concern.

The cost of nuclear power stations is extremely high, due the limited number of suppliers, the long time to completion and the unavoidable cost overruns.

The US Department of Energy has compared nuclear construction cost estimates to the actual final costs for 75 reactors.

Nuclear costs high

The original cost estimate was $45bn, while the actual cost was $145bn and there is more to come with new regulations.

A 2009 MIT study estimated the cost of producing nuclear energy (including construction, maintenance and fuel) to be about 30 per cent higher than that of coal or gas.

In 2008, world consumption of nuclear energy was estimated at about 712 million tons of oil equivalent (mtoe), or six per cent of total energy consumption and 15 per cent of electricity generation.

The average of International Energy Agency (IEA) estimates suggest that nuclear's contribution by 2035 may rise to 1,343 mtoe, or eight per cent of the total.

It will be interesting to see when such estimates will be revised in the light of current sentiments.

In capacity terms, the IEA projected that 360 GW of nuclear generating capacity would be added worldwide by 2035, on top of the 390 GW already in use.

However, Fatih Birol, the IEA's Chief Economist, recently said that these projections could be reduced to 180 GW only.

It is fair to say that support for nuclear energy has been dealt a blow by what happened in Fukushima. That incident, more than anything else, is likely to shape the future of nuclear energy.

The age-old debate about the dangers of nuclear energy is back to the forefront and may, in time, regain the strength it had in the 1970s and 1980s.

In addition to Fukushima, there have been many dangerous and costly nuclear accidents, among which are Chernobyl, Three Mile Island, Greifswald in Germany, Bohunice in the former Czechoslovakia and many others, including in submarine reactors.

For some, the nuclear "renaissance" of recent years may have gone with the winds and flames of Fukushima — at least for now.

Ecuador's Yasuni-ITT Initiative facing hurdles

Ecuador's environmental initiative to forego the development of valuable petroleum deposits in one of its national parks, in return for partial compensation from international sources, is facing difficulties, although those in charge of the unique scheme are still confident of its success.

Known as the Yasuni-ITT Initiative, the project entails leaving the Ishpingo-Tambococha-Tiputini (ITT) oil reserves in Ecuador's Yasuni National Park in the ground, in return for 50 per cent of the projected revenue the country would have earned, had the deposits been exploited commercially.

Bio-diversity

The project is expected to net Ecuador around $3.6 billion and, at the same time, leave one of the most significant bio-diverse areas in the world untouched. The special fund would be overseen by the United Nations Development Programme.

However, as Ivonne Baki, the Heritage Ministry official in charge of the project, pointed out, the authorities in Ecuador had not reckoned on the global financial crisis and the credit crunch, which had particularly hit economies in Europe.

Political turmoil in the Arab world was also another factor they did not foresee, but which had contributed to the limited availability of the resources required.

"There has been a delay, but that does not mean there is no willingness to endorse the initiative," she was quoted as saying in a Reuters interview.

Located deep in the Amazon Basin, the Yasuni National Park is an ecological reserve consisting of more than 2.4 million acres of tropical rainforest.

Reuters

It is home to over 400 species of plant, 173 species of mammal and 610 species of bird.

In fact, Yasuni is said to be home to as many species of native trees and shrubs as there are in all of North America.

In recognition of the immense bio-diversity of the region, the United Nations Educational, Cultural and Scientific Organization (UNESCO) in 1989 designated Yasuni National Park a 'World Biosphere Reserve'.

The Yasuni-ITT block has an estimated one billion barrels of 14.7° API heavy crude oil reserves, representing more than 20 per cent of the country's total oil deposits.

If exploited, the reserve would add at least 100,000 b/d to Ecuador's crude oil production capability initially, which would translate into an annual profit of about $720 million for the country.

Commercial revenue

At full capacity, projected to be in about 13 years' time, the block has the potential to produce 107,000 b/d.

At today's crude oil prices, the entire reserve would be worth around $14bn in commercial revenue.

But most importantly, by not extracting the oil, an estimated 400 million tonnes of carbon dioxide would not be released into the atmosphere, meaning that the whole area would remain protected.

Fully launched in 2010, the Yasuni scheme was praised by governments and environmental groups the world over as a novel way to combat global warming.

Ms Baki noted that there were ongoing talks with several countries, including France and Norway, adding that "tough" negotiations with the German government, which helped design the project, had not yet yielded an agreement.

"The global economic crisis is part of the problem, and in Europe things are worse ... especially in Germany, which has to help out Greece, Portugal and Ireland," she said.

Ecuador's President, Rafael Correa, who has expressed disappointment with the response to the project, stated that if the compensation was not forthcoming, his country would be forced to exploit the reserves to get much-needed development funds.


Reuters

Ivonne Baki, the Heritage Ministry official in charge of the project.

"At current oil prices, that's worth $14bn. We need those resources to develop the country, but we are also responsible people who want to protect Yasuni," he said.

Ecuador has established a deadline of the end of 2011 to raise $100m in commitments, in order to proceed with the scheme. The government aims to have the full $3.6bn earmarked by 2024.

However, up to now, only around $40m has been pledged by foreign governments, individuals and foundations.

Ms Baki is in discussions with several Arab countries, but the unrest in the region has prevented her from travelling there.

She was quoted as saying that getting donors to make long-term commitments was a great challenge.

"It is not about the $100m ... it is about the $3.6bn. For that we need annual contributions."

Ms Baki pointed out that if the initiative fails, it would show that the industrialized nations were not serious about combating global warming.

"If this fails it will not be our fault because even though we need the resources we are doing all we can," she added.

Once in place, the special fund would be used to fight poverty in the Amazon region, as well as develop the country's renewable energy schemes and help with conservation and reforestation efforts.

Iran announces increase in oil and gas reserves

Iran has recorded an increase in its crude oil and gas reserves, although full details of the discoveries that have boosted the overall deposits will not be available until the end of 2011.

Mahmoud Mohaddes, Head of the Exploration Office at the National Iranian Oil Company (NIOC), was quoted as saying that Iran's crude oil reserves had risen by 500 million barrels, while gas deposits had expanded by five trillion cubic feet.

New discoveries

He told the *Kayhan* daily newspaper that the new figures had come following the discovery of new onshore oil and gas fields in the south and west of the country. It was not clarified as to whether the new reserves were recoverable, or just in place.

Mohaddes disclosed that the new discoveries pertained to five fields in Fars province and the western region of the country.

"Altogether, the volume of crude oil in these fields has been estimated at more than half a billion barrels," he was quoted as saying.

"Details on the discovery of oil and gas in these fields will be announced officially by the end of the year," he added.

Mohaddes pointed out that the gas reserves pinpointed, although initially estimated at five trillion cu ft, were likely to be increased when further exploratory work was completed.

According to the OPEC *Annual Statistical Bulletin* (ASB), Iran's proven crude oil reserves in 2009 stood at 137 billion b, but reports have suggested that they rose considerably last year, some estimates putting the new figure at 150bn b.

The ASB's estimate of Iran's proven natural gas reserves in 2009 was put at just under 30 trillion cu m, although, as with crude, 2010 estimates have put them nearer 33tr cu m.

During Iran's fifth five-year development programme, which runs until 2015, the government is aiming to add 2.5bn b of recoverable crude oil and 23tr cu ft of gas to the nation's overall petroleum reserves.

Iran already possesses the world's second-largest natural gas reserves after Russia, but is still in the early stages of developing its gas export industry.

Meanwhile, Iran has announced that it plans to export up to 3.5m litres of gasoline a day by March 2012.

Gasoline exports

Energy official, Jalil Salari, was quoted by the official Islamic Republic News Agency (IRNA) as saying: "We plan to export three to 3.5m l of gasoline per day by the end of the current Iranian year (which ends on March 19, 2012)."

He added: "In regard to ... the conditions of supply and demand in the market, we plan to increase our gasoline exports."

Iran long depended on imported gasoline for a large part of its domestic consumption. But last year it announced a surge in local production, bringing self-sufficiency and a surplus to enable it to start exports of the fuel.

Iraq planning to increase oil capacity by up to 1m b/d in 2012


Dr Hussain Al-Shahristani.

Iraq is aiming to add another 500,000 barrels/day to one million b/d of new capacity to its total oil production in 2012 after reaching a target of 3m b/d at the end of this year, according to the country's Deputy Prime Minister for Energy Affairs, Dr Hussain Al-Shahristani.

He put current Iraqi output at around 2.7–2.8m b/d Exports in May averaged 2.2m b/d.

Al-Shahristani said earlier that development work in Iraq's oilfields by foreign oil companies was going ahead faster than contracted.

After years of turmoil, Iraq is currently developing its oil sector. In signing agreements with several international oil companies, its overall aim is to attain a production capacity of 12m b/d by 2017.

Iraq also expects its crude oil output capability to reach 3.3m b/d in 2012 and 6.5m b/d in 2014.

Foreign oil companies are expected to invest more than $150 billion in developing the fields they have taken shares in.

Speaking to reporters during a tour of Iraq's southern oilfields and export installations, Al-Shahristani, formerly the country's Oil Minister, pointed out that the provision of export terminals and pipelines would not be an obstacle in reaching the targets set.

He said he was happy with the development progress being made at the country's massive Rumaila oilfield, stating that production there was expected to rise from the current level of 1.25m b/d to up to 1.5m b/d by the end of 2011.

In addition, he said, production from the phase one development of the West Qurna oil field was expected to rise by 50,000 b/d to hit 400,000 b/d by the end of this year.

At Rumaila, he said, steps had been taken to reduce gas flaring, while at West Qurna, a multi-billion dollar water injection project was being implemented to improve crude output in the country's southern oil fields.

Al-Shahristani disclosed that a $12bn gas deal with Shell, aimed at harnessing associated gas in the same fields, was in its final stages.

He made it clear that Iraq's plan to increase its oil production capacity to 12m b/d would be accompanied by the provision of sufficient export facilities.

He was quoted as saying: "Until now, the obstacle to raising production has been not having enough of an export outlet to cope with the amount of crude produced.

"The export plans cope with the increase in crude production. We hope our oil contracts will boost production to around 12m b/d and we have to have an export capacity that goes along with this production capacity."

Al-Shahristani has been quoted as saying that Iraq's production targets for the future have been set in line with expectations that global oil demand would expand by 20m b/d over the next two decades.

"We expect market demand for oil to increase by 1m b/d from now into the next 20 years and Iraq's production will be the main source meeting this demand," he maintained.

Iraq does not have a production quota within the overall OPEC output ceiling and Al-Sharistani said that this would not become a consideration and discussed by the Organization until his country reached a production capacity of 4m b/d.

Meanwhile, he has also said that, despite the country moving ahead with its oil development plans, the government must overhaul the draft of its long-delayed new oil legislation.

The draft law was approved by the cabinet in 2007, but has faced opposition. "Frankly, the hydrocarbons draft approved by the cabinet in 2007 is not fitting to become law. It requires major changes," Al-Shahristani was quoted as saying.

Work began on the law in 2005, but it has remained bogged down by differences over revenue-sharing and control among the ethnic groups.

The law, once instigated, promises to provide a more solid legal framework for attracting foreign investment, as well as determining who controls what concerning the country's vast oil reserves. The establishment of a new national oil company to oversee the industry nationwide is also expected.

Qatar to set new milestone in LNG output at end of 2011

Gulf state Qatar is on course this year to reach another milestone in its development as one of the world's most important suppliers of petroleum.

At the end of 2011, the OPEC Member Country will see full export capacity reached in its liquefied natural gas (LNG) industry.

According to Saad Abdullah Al-Kuwari, Chief Executive Officer of the Qatar International Petroleum Marketing Company (Tasweeq), the country's LNG output capability would hit a new record of 77 million tonnes annually.

Leading LNG exporter

This will further consolidate the position of Qatar as the world's leading exporter of the super-chilled gas.

The country is in the process of ramping up output at its seventh LNG production train, which made its first shipment in February. When that has reached its targeted output, the new overall production level will be achieved.

The seventh train is the last in the existing expansion programme for Qatar's LNG sector.

Reuters quoted Al-Kuwari as saying that: "Train seven is almost stabilized and now it is ramping up. By the end of this year we will be producing 77m t."

The latest train has the capacity to export 7.8m t of LNG a year. It is run by Qatargas, one of two firms in the country responsible for LNG operations. The other company is Rasgas. The national oil company, Qatar Petroleum, has the majority share in each of these concerns.

Of Qatargas and Rasgas, the former is the largest, controlling LNG production amounting to 42m t a year, while Rasgas has the remainder.

Royal Dutch Shell, which has a 30 per cent share of the seventh LNG train, is also partnered with Qatar Petroleum in the Pearl gas-to-liquids project, which will be the world's largest GTL plant.

Al-Kuwari said the 140,000 barrels/day Pearl plant, estimated to cost up to $19 billion, should be on line by the end of 2011. Full capacity should be reached in the first quarter of 2012.

Natural gas is taking on an ever-growing importance in the global energy mix and demand is set to rise significantly in the years ahead, especially for use in power generation.

According to ExxonMobil's latest energy outlook, the environmentally friendly fuel will overtake coal as the second-largest energy source for global markets in 20 years' time, behind crude oil.

This was in line with governments the world over seeking reliable, affordable and cleaner ways to meet their growing energy needs.

According to a recent report by the Facts Global Energy (FGE) consultancy, Asia's demand for gas, which grew by 12 per cent to 55bn cubic feet/day last year, is forecast to more than double to 113bn cu ft/d


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by 2030, based on average growth of four per cent annually.

The power sector, which accounted for 42 per cent of gas use in 2010, is slated to remain the main source of gas demand in the region.

However, by 2030, its share in the global energy mix is expected to slide to just below 40 per cent, due to competition from alternative sources, including coal, nuclear, hydro, solar, wind and geothermal.

Driven by industrial demand, gas for urban consumption is expected to emerge as the main growth market and will constitute almost 34 per cent of Asia's gas demand by 2030, followed by the residential and commercial sector (17 per cent).

The report stated that Asia's biggest gas consumer, China, which saw its gas demand reach 10bn cu ft/d last year, would see its demand surge in the years ahead. By 2030, the country would account for more than one-third of the region's gas demand, with India overtaking Japan in second place.

For LNG, the consultancy said it sees Asia's total imports of the fuel expanding to some 152m t in 2011, compared with around 130m t last year.

This, it said, is due to increased demand from Japan, following the devastating earthquake and tsunami that struck the country in March, causing also a nuclear crisis, in addition to more demand from China, India, South Korea and Taiwan.

It said it expects Japan alone to import an additional 9m t of LNG this year, with total imports rising to more than 85m t by 2020. Japan purchased 70m t of LNG in 2010.

Japan's gas imports rising

By 2030, Asia's LNG demand is expected to be more than 290m t, with Japan keeping the top importer spot, followed by China, South Korea and India.

Concerning Japan, Al-Kuwari noted that the country had purchased more LNG and liquefied petroleum gas (LPG) from Qatar after the March catastrophe. Qatargas said in April it would supply 60 extra cargoes of LNG per year to the stricken country.

He maintained that Japan's demand would return to more typical levels by August, adding that the crisis would continue to boost demand for LNG and LPG into 2012.

Al-Kuwari was quoted as saying that Qatar sold around half of its crude oil to Japan, while some 90 per cent of its oil products were destined for Asian states.

There was particularly strong demand for gas from China, India and also smaller consumers, such as Vietnam, which was putting a floor under prices, which had suffered from a declining trend, while crude oil prices increased.

"There is still strong demand out there. Any crude will find a home in Asia," he affirmed.

Al-Kuwari pointed out that, as part of its expansion scheme, Qatar was also able to boost its exports of condensate and naphtha. Condensate production would reach around 400,000 b/d at the end of 2011, up from 340,000 b/d in 2010.

Naphtha sales would rise to 7.5m t a year by the end of 2012, following the government's green light for Tasweeq to sell some 1m t a year of naphtha from the country's Oryx and Pearl GTL plants.

Meanwhile, the President of Shell Netherlands, Dick Benschop, has said that the Pearl GTL plant in Qatar could start commercial production within a matter of weeks.

"It is ready now to make the first refined product," he was quoted as saying in June, adding that output would be ramped up over time.

Shell expected the Ras Laffan-based plant to reach full output capacity next year, when it would account for nearly ten per cent of the company's global upstream production.

Pearl is designed to convert 1.6bn cu ft/d of gas from Qatar's giant North Field into 120,000 b/d of condensate and natural gas liquids, and 140,000 b/d of transport fuels, lubricants, detergents and chemical feedstock.

Global spending on petroleum E&P set to hit new record in 2011

Global spending on oil and gas exploration and production (E&P) is forecast to exceed $500 billion this year, the first time it will have reached such an amount.

According to Barclays Capital, world E&P spending this year is in line to exceed $529bn, a new record for the industry, and a 16 per cent increase over the $458bn recorded in 2010.

A previous study, carried out by the firm in December last year, forecast a 10.8 per cent rise in total spending to $489.5bn.

Inflated oil prices

The updated report said that the latest estimate was based on the inflated level of international oil prices, which were up by around $30/barrel since the end of last year.

This was the main reason for the forecast rise in E&P spending, working on the basis that oil companies would have more funds for investment avail-able, due to the higher sustained prices in the marketplace.

Barclays said it expects the high oil prices to continue over the next several years.

Other factors dictating the strong rise in spending, said Barclays, included inflated engineering and construction costs on LNG schemes, higher spending in Iraq, as well as increased deepwater drilling activity, especially in West Africa and Brazil.

"We continue to be bullish on oil service and drilling stocks," said Barclays, in a note to its clients.

Looking at a breakdown of the likely E&P spending, the United States is set to attract the largest investment with 21 per cent of the total.

The 2011 figure of $110.7bn represents an 18 per cent rise over last year's spending. In December, Barclays only forecast an 8.1 per cent increase in this year's US spending.

However, the report points to a 16 per cent drop in E&P spending in Africa to $25.3bn, following the geopolitical problems in the region, especially Libya and Egypt, which were previously allocated spending increases of 25 per cent and 13 per cent, respectively.

Overall, said Barclays, international activity will be the true growth vehicle for capital spending in oil and gas E&P in the years ahead, with investment looking set to double over the next four years. By 2015, global spending levels could be as much as $800bn.

Largest spending

The company said that international E&P spending is forecast to rise by 15.5 per cent to $381bn in 2011.

Latin America is the region set to have the largest spending, rising by 26 per cent, while India, Asia and Australia will attract the biggest share of capital outside the US, with a total amount of $79.4bn.

China's demand for oil, gas continues unabated


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China's demand for petroleum is maintaining its strong growth, in line with the country's burgeoning economy.

Crude oil imports in May surged by over 20 per cent from the same month last year to reach 5.07 million barrels/day. This was the fifth consecutive month that the 5m b/d level was breached.

Official figures from China's General Administration of Customs showed that the world's second-largest crude consumer imported a total of 21.55 million tonnes of crude oil in May, marginally higher than the 21.54m t recorded in April, but showing that the strong growth was being maintained in 2011.

Refinery boost

The country's oil product imports increased by 5.3 per cent from April to 3.39m t in May, while exports of oil products rose by 20 per cent to 2.46m t.

China's refineries were slated to have boosted their crude oil throughput in May by some one per cent from April.

Official General Administration of Customs figures for April showed that China's crude oil imports stood at the third-highest level on record.

The country imported an average of 5.24m b/d of crude in April, higher by 1.7 per cent from the same month a year earlier. The other two higher rates were recorded in September and June last year.

However, imports of oil products declined by 17 per cent from a month earlier to 3.22m t, while exports were down by 20.5 per cent to 2.05m t.

In gross terms, China's oil imports in April amounted to 21.54m t, 0.6 per cent down from the previous month's 21.67m t.

The country's refineries were again said to be producing at full capacity, with throughput estimated at two per cent more than in March.

According to *International Oil Daily* calculations, China's oil demand in the first four months of 2011 expanded by 11.2 per cent year-on-year to 9.53m b/d.

But it is not only China's crude oil imports that are swelling in tune with economic activity.

In May, the country's imports of natural gas hit a monthly record as power generation demand increased significantly.

According to the Nat-ional Development and Reform Commission, China imported 2.6bn cu m of gas in the month, up by 130 per cent from a year earlier and 0.6 per cent higher than in April.

Analysts have observed that the country is set to see its domestic gas consumption surge in the years ahead as it strives to move away from coal use in its power generation, to be replaced by more environmentally friendly fuels, such as gas, hydro, nuclear and wind power.

The nation's imports of liquefied natural gas (LNG) increased to 1.3bn cu m in May from 1.2bn cu m in April.

The analysts observed that, in 2004, China hardly imported any natural gas. Its first LNG receiving terminal was established at Dapeng in 2006. Today it is among the world's top ten importers of the super-chilled fuel.

Figures show that in the first five months of 2011, Chain's gas imports have virtually doubled from last year to around 11.4bn cu m.

New OPEC book

When OPEC celebrated its 50th anniversary last September, it marked the occasion with a variety of events, including the issue of special postage stamps by Member Countries and an exhibition in Vienna that showcased their rich, diverse cultures.

The Organization also embarked on the publication of an illustrated primer for young readers entitled *I Need to Know: An Introduction to the Oil Industry and OPEC*. The culmination of more than a year's work, this colourful, large-format, hardcover book marks OPEC's first effort to educate and inform young readers about the importance of the oil industry, and to provide a better understanding of the Organization's role.

Achieve stability

The 66-page book has chapters on *'Oil Basics'*, *'Finding Oil'* and *'Refining Oil'*, while the last chapter focuses on OPEC's origins and history. This chapter also explains how the Organization's Member Countries work together to achieve stability in the oil markets.

I Need to Know: An Introduction to the Oil Industry and OPEC provides basic information about the oil industry — such as the nature, composition and different grades of crude

for young readers

oil, the fundamentals of exploration and production methods, and the meaning of the upstream and downstream sectors. It also includes a glossary of terms of frequently used technical words and expressions — like *'Christmas tree', 'distillate yields'* and *'permeability'*.

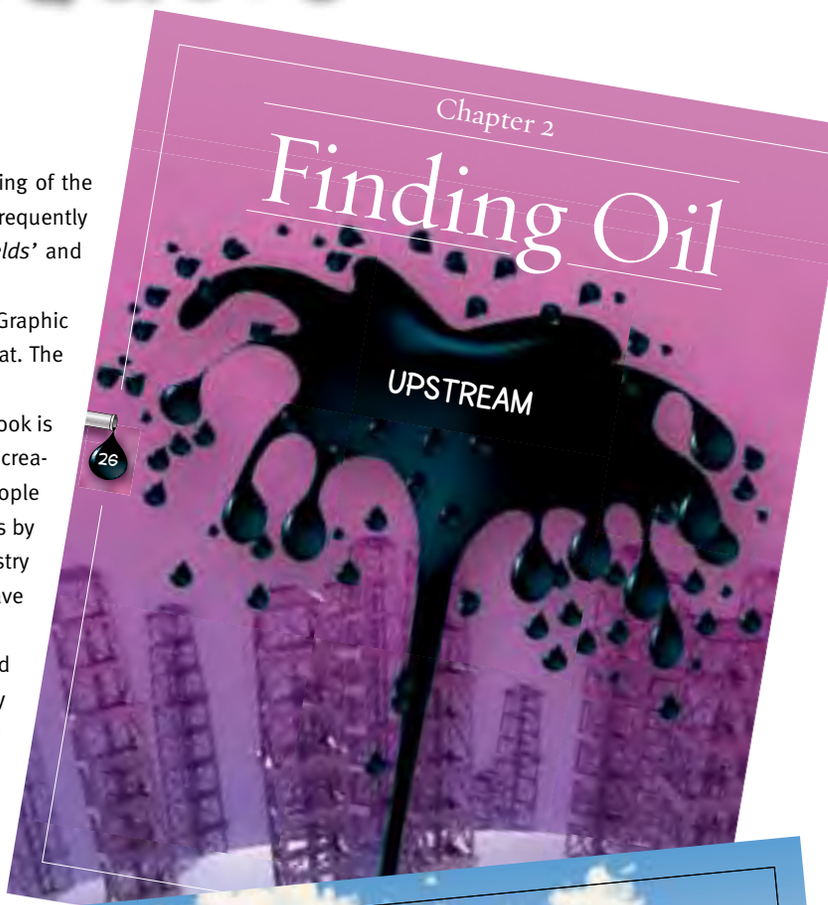
The colourful illustrations and designs were carried out by a Vienna-based Graphic Designer/Illustrator, Michael Haderer, in collaboration with the OPEC Secretariat. The book itself was printed by Ueberreuter Print GmbH.

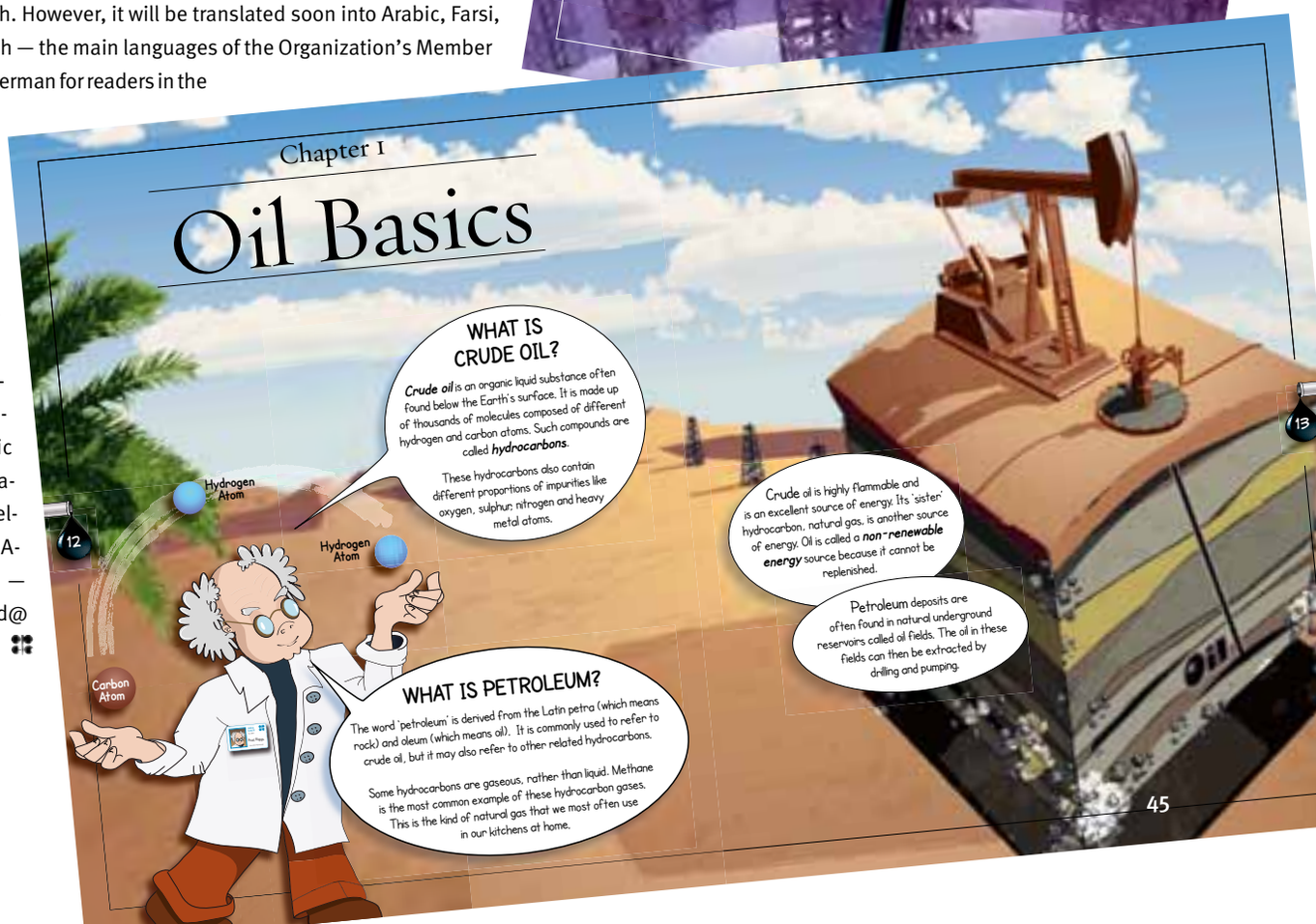
In his Foreword, Secretary General, Abdalla Salem El-Badri, says that the book is "not only about an industry that is central to the way we live today — and to the creation of economic opportunities around the world — (but also) it addresses people who will become the business and political leaders of tomorrow." He continues by expressing his hope that the young people who read the book will find the industry as "compelling ... as it has been for me and the many men and women who have worked in it for many years."

Although the objective of the book is primarily to teach young readers and students about the oil industry, it will also profit mature readers with no industry knowledge. Even young readers with no interest in energy matters will find the book informative and visually appealing.

I Need to Know: An Introduction to the Oil Industry and OPEC is currently available only in English. However, it will be translated soon into Arabic, Farsi, Portuguese and Spanish — the main languages of the Organization's Member Countries — as well as German for readers in the Organization's host country of Austria. OPEC will then distribute the book across its Member Countries, as well as at schools and international organizations.

For more information on the book, please contact the Public Relations and Information Department at Helferstorferstrasse 17, A-1010 Vienna, Austria — or send an email to prid@opec.org.





In the course of his official duties, OPEC Secretary General, Abdalla Salem El-Badri, visits, receives and holds talks with numerous dignitaries.

This page is dedicated to capturing those visits in pictures.

Above: OPEC Secretary General, Abdalla Salem El-Badri (r), during a meeting with the Chairman of the Commission on Oil and Energy, Iraqi Council of Representatives, Adnan Abdulmunem Al-Janabi, on May 20, 2011.

Above: OPEC Secretary General, Abdalla Salem El-Badri (r), received Chris Huhne, British Secretary of State for Energy and Climate Change of the UK, on June 20, 2011.

Left: OPEC Secretary General, Abdalla Salem El-Badri (r), received Dr Subroto, former OPEC Secretary General, on June 20, 2011.

Students and professional groups wanting to know more about OPEC visit the Secretariat regularly, in order to receive briefings from the Public Relations and Information Department.

This page captures such visits pictorially.

Students from the University of Illinois at Urbana-Champaign, USA, visited the Secretariat on May 18.

Students from the Texas Tech University, USA, visited the Secretariat on May 30.

Students from the University of Maribor, Slovenia, visited the Secretariat on May 31.

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OFID

THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT

Uniting against Poverty

OFID supports quality health care for children, young people in Jordan

OPEC Fund for International Development (OFID)

OFID projects and programmes around the world remain a source of pride for the Vienna-based institution, which this year is celebrating 35 years of existence. Over the last few months, we have been serializing some of the Fund's invaluable work.

Across Africa, Asia, Latin America, the Caribbean and the Middle East, OFID is an active supporter of socio-economic advancement in a considerable number of countries. In this third and final chapter of the series, Tamana Bhatia, who writes for the OFID Quarterly, looks at how the Fund is helping Jordan.

Recognizing the need for specialized health care for children and young people, the King Hussein Medical City (KHMC) in Jordan, with funding from OFID and other organizations, set up a children's hospital in 2009.

Within a year of opening its doors, the hospital had catered to the medical needs of over 10,000 children.

The hospital, set up on an area of 27,000 square metres, and providing 200 beds, has been significantly contributing to improving health services for children.

Although children up to 14 years constitute almost 40 per cent of the population in Jordan, the proportion of paediatric beds in public hospitals has only been around 20 per cent of the total number of beds available.

Rather than increasing the number of beds within the general tertiary hospitals, it was decided to establish a separate children's hospital because children have

Left: The King Hussein Medical City (KHMC) in Jordan.

Their Majesties King Abdullah and Queen Rania inaugurate the Queen Rania Al Abdullah Hospital for Children.

different needs than those of adults and require different attention, with regard to both nursing care and medical treatment.

The hospital aims to meet the current and future health care needs of children and young people. Its goal is to advance the practice of paediatric care so that children and families can receive the best care locally in an environment that promotes better healing.

"There have been more than 14,000 complicated cases documented," commented Turki Al-Muaikil, the OFID Officer backstopping the project.

"Parents from the capital city Amman and other parts of the country would have had to go to the United States or the United Kingdom, or a Gulf state (like Saudi Arabia, the United Arab Emirates or Kuwait) in order to get the appropriate treatment for their children," he explained.

The new children's hospital offers a comprehensive range of paediatric specialty care services in a child-focused environment, noted Al-Muaikil.

The hospital is equipped to handle even delicate procedures, such as open heart surgery and the treatment of diseases related to kidney, liver, etc and cancer.

Better care provided

Patients with severe conditions are able to get treatment on time and the waiting time for non-emergency surgical cases has been reduced because a larger number of beds and operation theatres are now available at the hospital.

Early treatment of diseases has also helped in saving costs and reducing human suffering.

The hospital is fitted out with state-of the-art equipment and ranks among the top ten establishments of its kind in the world. The design firms responsible for its construction, who were selected after an international tender, have combined local knowledge with profound experience of health facility design.

That the planning and design was implemented in collaboration with user representatives further enhanced their ability to come up with a well-functioning hospital.

Since the hospital became fully operational, it has operated on over 5,500 patients, handled a near 90,000 emergencies and catered to over 106,600 outpatients.

More cases can now receive treatment in the country itself due to increased capacity and more equipment. This has also reduced government expenditure in arranging the treatment of patients abroad.

All Jordanian nationals and residents with low incomes are able to get their children treated at the hospital as do similarly poor nationals of Yemen, the Sudan, Palestine and Somalia.

Turki Al-Muaikil (c), OFID Project Officer, pictured with staff and officials at the children's hospital.

Since the hospital is located adjacent to the existing Al Hussein Hospital and is within the KHMC, it helps in avoiding duplication of technical services and ensures that hazardous waste is handled with the same appropriate effectiveness as those from existing facilities in the KHMC.

Being part of the KHMC, the hospital has access to medical research and KHMC's complicated disease treatment unit.

Cooperation agreement

The hospital and KHMC management have signed an agreement for cooperation, exchange of information on treatment of patients, training, and doctors' skills improvement programmes, as well as consultation programmes for extremely complicated cases with the best hospitals in the US, such as the Mayo Clinic, the Houston Cancer Centre, the Johns Hopkins University Hospital and the Cleveland Ohio Medical Centre.

The hospital hires specialized doctors from the US, the UK, Germany and France to train local and Jordanian doctors, as well as technical nurses.

Widely acknowledged nationally and internationally, the children's hospital is committed to providing personalized care to patients. It strives to provide the highest standard of medical and service excellence, patient care, scientific knowledge and medical education.

OFID's Al-Muaikil pointed out that the expectation is that the high technical standards combined with available skills will attract patients and students not only from Jordan, but also from neighbouring Middle Eastern countries.

The hospital will be able to play an important role in maintaining and promoting child health services at both national and regional levels.

The ability to attract fee-paying patients (maximum 20 per cent of the beds) can contribute to financing the operational costs, and thus contribute to the sustainability of the world-class health care facility.

This section includes highlights from the OPEC Monthly Oil Market Report (MOMR) for June 2011, published by the Petroleum Studies Department of the Secretariat, with additional graphs and tables. The publication may be downloaded in PDF format from our Website (www.opec.org), provided OPEC is credited as the source for any usage.

Crude oil price movements

The upward trend of the OPEC Reference Basket – which started last summer – came to an end in May. After nine consecutive monthly gains, the Basket fell sharply in the month under review to average $109.94/barrel, down by $8.15/b, or 6.9 per cent, from April. That was the largest percentage drop since the 9.5 per cent decline recorded in May 2010. Compared with a year earlier, the Basket was $35.46/b, or 47.6 per cent, higher than in May 2011.

The Basket lost $15.50/b in the first five trading days of May as futures prices tumbled amid speculative sell-offs, triggered by bearish expectations for United States economic growth, following disappointing macroeconomic data. However, continued unrest in the Middle East and North Africa (MENA) region maintained a risk premium in prices.

All Basket components declined in May, but remained well above levels seen a year ago. Compared with a year earlier, African grades showed increases ranging from 52.1 per cent to 54.8 per cent. Ecuadorean crude, Oriente, also rose by more than 52 per cent.

African crudes rose sharply in the first five months of the year, supported by a lack of light sweet crudes, due to the absence of Libyan crude because of the unrest in the country.

In May, Saharan Blend showed the largest decline of $9.77/b, or 7.7 per cent, from the previous month. Basrah Light also fell by more than $9/b, followed by other light crudes.

The strong decline in light crudes came as a correction from the high levels of the previous month and increasing supply, while refining throughput remained weak, unable to absorb all available crude within Europe.

Ecuador's Oriente lost almost $8.20/b, or 7.3 per cent, due to abundant supply, with particularly heavy crudes coming from Colombia.

Venezuela's crude, Merey, showed the lowest loss of $6/b to fall back below $100/b, ending the month at an average of $98.44/b.

The Middle East crude oil market weakened in May on higher supplies and lower demand, due to poor refining margins. Heavy to medium sweet grades were the most affected.

The OPEC Basket continued to hover around $100/b in the first trading days of June as uncertainties kept futures prices moving up and down. The Basket stood at $113.43/b on June 9, resulting in a year-to-date average of $106.55/b, compared with $76.31/b for the same period a year ago.

Meanwhile, on the New York Mercantile Exchange (NYMEX), US benchmark crude WTI fell by $8.68/b, or 7.9 per cent, to average $101.36/b for the front-month contract. That was the lowest monthly average since the $89.74/b of last February. The drop in May was the first since the $1.12/b fall of September 2010.

In early June, the WTI front-month contract continued to hover around $100/b, due to ongoing uncertainties regarding global economic growth and thus on global oil demand.

In London, ICE Brent also declined sharply in May, but remained above $100/b during the whole month to average $114.42/b, down by $8.67/b, or seven per cent, from the previous month.

The decline was the first since last July and the largest since the $8.76/b of May 2010.

Commodity markets

Commodity market prices declined sharply in May. The World Bank energy commodity price index (crude oil, natural gas and coal) dropped by 6.5 per cent month-on-month in May, reversing the gains seen a month earlier and driven by a hefty decline in crude oil.

Henry Hub natural gas prices increased by 1.6 per cent m-o-m in May, compared with 6.8 per cent in April. Prices were boosted by near

OPEC Reference Basket: An average of Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (IR Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (SP Libyan AJ), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).

term demand arising from continued refueling and maintenance outage at US nuclear and coal power plants.

The World Bank non-energy commodity price index decreased by 4.7 per cent m-o-m in May, compared with growth of two per cent in the previous month. The price drop took place across this group of markets with the exception being gold, which still increased by 2.2 per cent m-o-m in May.

Base metal prices sank by 5.9 per cent m-o-m in May, compared with a slight 0.9 per cent rise in April on fundamental weakness and as prices reacted to the sell-off.

Aluminium prices dropped by three per cent m-o-m in May, compared with a 4.8 per cent gain the previous month, while lead prices plummeted by ten per cent as a result of a large sell-off on exchanges, due to the fears that the price rally was at its end, news that Japanese lead demand could be weaker than the market has anticipated and the offsetting effect of lower Japanese demand. All major observers agree on the existence of a market surplus in 2011.

Nickel prices were severely hit in the month, declining by 8.2 per cent, due mostly to lower demand from China and higher supply. Nickel imports from China grew slower in April than exports, showing that demand is slowing.

Zinc prices edged down by 8.2 per cent m-o-m in May, due mainly to high inventories which soared by 124 per cent to a new all-time high of 1,252 kt at the LME.

Copper prices dropped by 5.6 per cent m-o-m in May, mainly on concern about lower Chinese copper demand, while tin prices plummeted by 11.4 per cent, mainly on an increase in Indonesian supply to the market.

Gold prices posted another rise – by two per cent m-o-m in May – compared with a 3.9 per cent gain in April, while silver sank by 13 per cent m-o-m.

The Agriculture World Bank price index declined by 5.5 per cent m-o-m in May on falling food prices, including the grain complex, except for wheat, which rose on poor weather in several European countries and the US.

Corn prices were hit by the bearish mood in other commodity markets and the recovery of the US dollar versus the euro.

Highlights of the world economy

Economic indicators show that the slowing pace in the US economic recovery continues. While the government-led support was the main driver for the expansion since the economy's trough levels in the first half of 2009, consumption has picked up over the past months.

This has marked an important improvement in the recovery. However, it seems that some of this rebound in private household consumption stemmed from the stimulus initiatives – monetary and fiscal.

With the current weakening situation, it remains to be seen whether this positive development continues at just a lower expansion rate, or whether it will decelerate more significantly with the fading ability to stimulate the economy by monetary or fiscal means.

The most important evidence for the deceleration came from the confirmation of the Bureau of Economic Analysis that the economy has indeed declined by 1.8 per cent in the first quarter of 2011. While this was lower than expected, it is a backward-looking indicator.

Personal consumption grew at a healthy 2.2 per cent from the previous quarter, but was lower than in the previous two quarters. While this is not dramatic, the again weakening labour market situation is raising concern about the ability of consumers to continue to increase spending at a significant rate.

While it should not be expected that consumption will strongly decelerate at this time, however, it will not act as a big growth-engine in the near future as long as the labour market situation does not improve much.

Unemployment rates have increased again and stood at 9.1 per cent in May, compared with nine per cent in April and back from the March level of 8.8 per cent, the lowest rate in the past two years.

The ISM indices from May underline that the economy – while still expanding – is slowing down in its growth rate. The ISM for the manufacturing sector moved to 53.6 from 53.7, after a steep decline in April from the March level of 59.7 and February level of 66.9.

"After nine consecutive monthly gains, the Basket fell sharply in the month under review to average $109.94/b, down by $8.15/b, or 6.9 per cent, from April."

This weakening situation of the economy has been addressed by the Federal Reserve Board chairman at the beginning of June, when he highlighted that this year's growth level was lower than expected, but highlighted the fact that this might also be affected by supply disruptions associated with the situation in Japan, but it remains to be seen whether this will be the case.

So, while the economy is recovering, the momentum has clearly slowed down. The relevant risk has increased and the economic situation needs close monitoring.

The GDP growth forecast remains at 2.6 per cent for 2011, but the danger of a further deceleration has increased.

The Japanese economy is still suffering from the March disaster and while an improvement in the second half of 2011 is expected, the situation still seems challenging.

The recently released fall in first-quarter GDP was higher than expected at 3.5 per cent from the pervious quarter. This implies a decline of GDP of around 20 per cent in the last 20 days of the first quarter, a significant drop and much more than the actual damage.

The assumption of the Japanese government is that capital stock of around six per cent of GDP has been affected. Most probably

the after-shock effect has added another one per cent negative GDP impact, so the fall in only the last days of the first quarter has been unexpectedly strong.

Furthermore, this demonstrates the severe consequences of much a larger magnitude than the consequences of the Kobe earthquake in 1995. At that time, the impact was around two per cent of Japanese GDP and the economy managed to still grow by almost two per cent.

This time the magnitude and consequences of the events are of a much bigger dimension and, on the other side, the available funds of the government to amend the situation are very limited, due to a much higher debt burden that limits the option for a further fiscal policy response.

The monetary stimulus options seem limited with key policy rates at almost nil per cent, when at the time of the Kobe earthquake interest rates were above two per cent and offered more room to maneuver, which today is limited to extraordinary policy tools only.

"The Euro-zone has demonstrated a more-than-expected resilient recovery so far in the first half of 2011."

While until the last month the impact of the March disaster was only partially reflected in most of the economic data releases, as they were capturing only data up to April, the situation seems clearer now.

The big decline in the first quarter was followed by some more data-sets that provide an overview of the expected development.

The scenario of this year's development of the economy implies that after the steep decline in the first three months of the year, there will be continuation of falling GDP in the second quarter and then positive growth in the second half of 2011.

This implies that while the economic development will be still negative in the second quarter, OPEC is expecting a turnaround and the trough levels of the economy should have been reached in about the second half of March to April.

This is based on the observation of the latest industrial production numbers. They have been positive in January and February, before the March disaster, when they grew by almost three per cent year-on-year in both months.

In March, production fell by 13.1 per cent y-o-y and in April by 12.8 per cent y-o-y. The same observation applies to the activity in the retail sector as a proxy to private household demand.

Retail sales, which started to fall already in the fourth quarter of last year after the end of the consumption stimulus, were almost flat in January and February. They fell by 8.3 per cent y-o-y in March and by 4.8 per cent y-o-y in April.

The biggest drop that has a close correlation to industrial activity was observed in motor vehicle sales, down by 32.8 per cent y-o-y in March and by 38 per cent y-o-y in April.

Vehicle registration is one of the signs pointing to an improvement as well. The numbers improved from a decline of 47.3 per cent y-o-y in April to 33.4 per cent y-o-y in May, better than the March number of minus 35.1 per cent.

This positive momentum has been reflected in the most recent PMI numbers published by Markit, pointing at an expansion in the manufacturing sector at an index-level of 51.3 in May, compared with 45.7 in April and 46.4 in March.

The services sector, which makes up the majority of the economy, is still weighing on the expansion and indicates a decline in the second quarter, but improved at an index level of 43.8 in May, compared with 35 in April and 35.3 in March.

Still, the economy is suffering from a shock in the supply chain and this is not only affecting the domestic side of the business, but also the important exports, which have been the main leveraging factor for the economy in the previous year.

Exports in April fell by 12.5 per cent y-o-y and by 2.3 per cent y-o-y in March, but should be expected to return into positive territory once the supply problems have been resolved.

Much uncertainty remains and with Japan's parliament last month having approved around $50 billion, or around one per cent of GDP, to stimulate the economy and repair the most urgent damage, it is obvious that more money needs to be provided, considering the magnitude of the damage.

By taking the more-than-expected decline of the economy in March and April into consideration, the GDP forecast has been revised from minus 0.1 per cent to minus 0.5 per cent.

It is obvious that many uncertainties remain, but currently it seems the shortfall from the first half of 2011 cannot be entirely compensated in the second half of the year.

The Euro-zone has demonstrated a more-than-expected resilient recovery so far in the first half of 2011. This positive momentum was market by a two-tier development in the Euro-zone, supported by mainly Germany and France versus the ailing peripheral countries.

While this momentum is now slowing down, the challenges regarding the sovereign debt crisis – particularly in Greece – are becoming much more severe.

The next €12bn tranche of the current €110bn bailout package for Greece should be disbursed in early July, after the financing details of additional aid for the country are concluded.

The International Monetary Fund (IMF) highlighted that it would not pay its €3.3bn share of the tranche until all of Greece's funding needs are guaranteed for at least one year. Because Greece is not expected to regain market access next year, or perhaps even in 2013, officials have calculated that it may need additional support of more than €60bn above the original bailout figure.

Aside from these very serious issues, the growth momentum in the Euro-zone is holding up well and is only slightly decelerating.

GDP growth for the first quarter was confirmed at 0.8 per cent from the previous three

months, which translates to 3.2 per cent annualized quarterly growth, compared with the 1.8 per cent that the US posted in the first quarter and the decline of 3.5 per cent in Japan.

Not given the sovereign debt crisis and some clouds on the side of exporting markets, this level would qualify to upgrade growth expectations.

Another positive sign is that retail trade improved by one per cent y-o-y, after a decline of 1.3 per cent y-o-y in March, the first decrease in one year, which raised concerns about losing momentum in domestic consumption.

This comes at a time when unemployment is still high at 9.9 per cent and has not moved down significantly since September 2009.

Some slight positive support came from the inflation side, which fell from a 2.8 per cent y-o-y increase in April to stand at 2.7 per cent y-o-y in May. The ECB has indicated a possible rate increase in its next meeting in July.

Deceleration in production seems to be evident for the coming months as industrial new orders have slowed down from growth of 22.7 per cent y-o-y in January to 14.1 per cent y-o-y in March.

The PMI numbers also point to a slowing expansion. The May number for the manufacturing PMI moved back to 54.7 from 58 previously and the index for the services sector is at 56 in May, back from 56.7. However, both indicators are still at healthy levels.

Despite this positive momentum, it seems too early to further lift the forecast of this year's growth, which now stands at 1.8 per cent.

The main risks are the austerity measures that are being implemented across the Eurozone and could have more negative impact on second-half growth.

The largest uncertainty with a potentially significant negative impact is the still unsolved debt issue in Greece and the danger of contagion to other peripheral countries.

Developing countries (including emerging markets) constitute about 48 per cent of global GDP on purchasing power parity terms.

China, with 13.6 per cent of world GDP, is the largest emerging market by far, followed by India, Russia and Brazil with 5.4 per cent, three per cent and 2.9 per cent of world GDP, respectively.

The rapid expansion of the emerging economies is particularly interesting for commodity and energy-exporting countries as the main portion of incremental increase in demand for commodity and oil stems from the growth of these developing economies.

Currently, in many emerging and developing countries, economies are growing above pre-crisis levels. Inflation, however, emerges as the main concern in some developing countries as there have been signs of overheating in some economies.

In developing countries, headline inflation is now at around six per cent, which is 25 basis points more than the inflation rate of 5.75 per cent seen in January 2010.

In some major emerging markets, such as India and Brazil, inflation is running close to, or above, the authorities' targets.

In many developing countries, budget deficit-to-GDP ratios have exceeded prudential levels and in some emerging markets credit growth has been seen at between ten per cent and 20 per cent per year, doubling real per capita credit in the last five years.

Since the second half of 2010, accelerating food and energy prices have contributed to a rising CPI. Curbing inflation is deemed particularly important in those developing countries where the share of food and fuel costs in household expenditure is significant.

The main challenges facing developing and emerging countries under current circumstances range from accelerating inflationary pressures, particularly in food and energy prices, as well as capital inflows in emerging markets with open financial systems and a subsequent appreciation of exchange rates.

Unemployment also is still high in some developing countries, especially among young adults.

The Commonwealth of Independent States (CIS) economy is expected to expand at a moderate pace of five per cent GDP growth in 2011.

Having suffered from the worst recession in a decade in 2009, the region began to recover steadily in 2010 by a rate of around 4.5 per cent, although the growth rate varied substantially across the countries of the region.

High oil and commodity prices, together with Russian and Chinese economic growth, have been effective in the region's economic recovery.

"Turkmenistan, in particular, is expected to see high growth of about 8.5 per cent in 2011, on the back of favourable natural gas prices."

The region has strong economic links with the Russian Federation and it is expected that the Russian economy will continue to grow in 2011 by a moderate rate of 4.1 per cent.

The CIS has ties with China, which also have been growing fast. Net energy exporters of the region are projected to grow faster than net energy importers, as oil and gas prices are expected to remain high for the foreseeable future.

Turkmenistan, in particular, is expected to see high growth of about 8.5 per cent in 2011, on the back of favourable natural gas prices. Uzbekistan's growth also is projected to remain high.

Inflation remains the single most important threat to economic stability in CIS countries. Unfavourable weather conditions in 2010 reduced grain yields and contributed to price inflation of foodstuffs.

Food comprises a large share of the consumer price basket in these countries and, given the expansionary monetary policies in the region, there is a possibility of inflation feeding into further wage increases, which would create even more inflationary pressures in the near future.

The Russian economy is forecast to grow by 4.1 per cent in 2011 following a moderate expansion of four per cent in 2010. Last year,

the Russian economy experienced a swift recovery, pulling out of a deep recession which began in 2009, when real GDP contracted by –7.2 per cent, arguably the deepest economic downturn since 1991.

A review of the Russian economy suggests that the recovery in 2011 is expected to remain moderate. While growth in the first quarter of 2011 accelerated to 3.5 per cent y-o-y from 3.1 per cent in the last quarter of 2010, it is generally expected to reach 3.6 per cent y-o-y in the second quarter of the year and 4.1 per cent for 2011 as a whole.

The economy and the government budget both remain dependent on oil price developments. Income from oil and gas account for about 25 per cent of GDP and every $1 rise in the oil price translates into about $2bn in revenues, according to official estimates.

Apart from this factor, the fragility of the banking sector, burdened with bad loan problems and substantial under-employment in the economy may limit improvements in both investments and private consumption.

"Asia is expected to continue expanding this year and next, although by a slower pace when compared with 2010. "

The Russian economy grew by four per cent in 2010, faster than what was expected. The greatest contribution to GDP growth came from a build-up in stocks, as these were run down in 2009.

Growth in external demand also contributed to GDP growth as exports grew by 11 per cent in 2010. In addition to these two components of aggregate demand, domestic consumption and investments also recovered in 2010.

Some observers believe that the Russian economy is approaching its potential and there are reasons that in the second half of 2011, this gap will narrow further.

Among recent important observations are shrinking unemployment rates and growing capital utilization rates in the industrial sector, which are approaching peak levels seen recently – levels characteristic of an overheated situation.

Survey data compiled by Markit for HSBC suggests that the Russian manufacturing sector will continue to build on its positive start to 2011. Output continued to grow as new orders increased at their strongest pace in three years.

According to HSBC Manufacturing PMI, the growth momentum in Russian manufacturing reached a 4.5-year high in March this year. While export demand growth has eased marginally, domestic demand has picked up strongly, prompting manufacturers to continue active hiring.

Although cost pressures declined sharply in March, they are at historically high levels. Output price growth has accelerated, apparently reflecting the rising ability of producers to pass on still fast-rising costs to their customers amid stronger customer demand.

These developments – amid the changes of the composition of inflation towards a demand-pulled inflation – require appropriate tightening monetary policies to dampen aggregate demand.

Operating close to its potential level, together with low interest rates and monetary expansion, exposes the economy to inflationary pressures. This has strong implications for upward revisions in wage-setting, particularly in the private sector.

Despite this general pattern of economic growth, some sectors still remain weak. It is worth noting that much of the rise in manufacturing output comes from recovery of the Russian car industry which came close to a collapse in 2009.

Domestic car output increased 115 per cent on an annual basis and machinery and equipment expanded as much as 24 per cent in February, compared with January.

Retail sales, however, grew by just 1.9 per cent on an annual basis and the construction sector contracted by 0.3 per cent in the first quarter of 2011.

Contractions in investment also seem contradictory with significant expansion of the manufacturing sector. According to RosSat estimates, investment spending fell by 0.4 per cent on a yearly basis in February and by 4.7 per cent in January.

Further doubts about investment data stem from discrepancies in the reported data for 2010. The national accounts suggest that investments grew by 3.5 per cent last year.

Capital outflow is another sign of weakening sentiment in investment spending. According to the Central Bank of Russia (RCB), net private capital outflow reached around $11bn in the first two months of 2011, bringing the total net outflow to $44bn since September 2010.

On economic policy, the Russian government has started preparing the budget for 2012. The outline of the budget will be ready in late June, following its first draft in August and its final version to be submitted to parliament in October.

It is most likely that social spending will be increased as the national parliamentary elections are due in December. The government is keen to increase its public support, given the fact that in regional parliamentary elections held in March (in 12 regions) the ruling party – "United Russia" – share of the vote shrank, in many cases by 15-20 per cent.

The plan for 2012, reflected in the three-year budget planning process, calls for a deficit of 2.8 per cent of GDP, calculated on the basis of an oil price of $78/b. This may prove quite conservative and could leave some room for more spending approaching the end of the year.

Asia is expected to continue expanding this year and next, although by a slower pace when compared with 2010.

Asia is gaining market share in the global economy and its impact on the world economy is increasing, accordingly.

Integration of regional trade and the emergence of China as a regional growth engine have offset the weakness of demand from advanced economies.

Signs of overheating have been reported in

a number of economies and inflation is becoming a major concern for monetary authorities in these economies.

Capital flows to the region and robust growth in private demand remain two distinguishing features of the developing Asian economies.

Autonomous private consumption is expected to remain strong in 2011 and beyond, supported by rich asset valuations and labour market conditions.

After growing by 10.3 per cent in 2010, China's economic expansion is projected to remain firm at nine per cent this year.

For 2012, it is believed that there could be more moderation in economic growth as the official target of GDP growth, reflected in the 12th five-year economic plan, finalized in March 2011 by the National People's Congress (NPC).

The government hopes to achieve an average of seven per cent GDP growth per year in 2011–15 and has taken measures, in monetary and fiscal policies, to curb inflation and prevent the economy from overheating.

At the same time, should the policy measures to dampen growth prove too severe, which presently appears unlikely, the government has the means to boost activity by expanding its fiscal spending, particularly in infrastructure and social welfare sections.

The new five-year plan was the most important aspect of this year's NPC meeting. Achieving inclusive economic growth to create a more "harmonious society" has been a prominent theme of the plan.

In this sprit, boosting rural income and improving social provisions are among the main social themes of the plan, which implies organizing fiscal and monetary policies for the difficult task of rebalancing the economy towards private consumption as a key policy target.

The Chinese government realizes that the current economic growth path is not sustainable and, therefore, finding a way for less resource-intensive growth has become crucial for China's sustainable development.

Also, the government has outlined ambitious plans for lower energy-intensive growth. According to reports, China will aim to cut energy intensity by 16 per cent in the 2011-15 time period.

A corresponding carbon intensity target, with a 17 per cent reduction in carbon intensity during the same period, is viewed as being in line with China's existing goal of slashing carbon intensity by 40–45 per cent from 2005 levels by 2020.

Another aim is to ensure that 15 per cent of the energy mix should come from non-fossil sources by 2020.

In 2010, China recorded a budget deficit equivalent to 1.6 per cent of GDP. The deficit will remain below two per cent of GDP in the forecast period. Spending on stimulus-related infrastructure projects (which rose sharply in 2009–10) will come to an end.

However, this will be offset by a substantial rise in expenditures on education, health care and pensions, in line with the government's "harmonious society" programme.

In general, in China's 2011 budget, an attempt has been made to rebalance expenditures from infrastructure towards social spending. Expenditure on the agricultural sector will be increased by 16 per cent in the 2011 budget.

Further help for both low-income rural and urban households is to come in the form of increased social security coverage. Spending on social welfare is expected to grow by 14 per cent in 2011.

The current policy-tightening cycle has focused on restricting purchases of housing, limiting growth in bank credit, and draining liquidity from the money supply through bond issuance and increased bank reserve requirements. Interest rates have also been raised.

Tightening is likely to continue into the second half of 2011, even after economic activity begins to slow, as inflationary pressures will persist.

So far, government policies to prevent the economy from overheating have been met with mixed success. Growth in the broad money supply was down to 15.7 per cent in February y-o-y, below the government's full year target of 16 per cent growth.

The HSBC Purchasing Managers Index slowed to 51.7 per cent in February. April Markit Manufacturing PMI was almost unchanged at 51.8.

However, according to the China Federation and Logistics Purchasing, the country's MPI for its services sector rose to an 11-month high of 62.5 in April from 50.2 in March.

"After growing by 10.3 per cent in 2010, China's economic expansion is projected to remain firm at nine per cent this year."

It is expected that its export sector will show modest growth in the near term as the total new orders component in April's Markit Manufacturing PMI was recorded at 52.7 per cent, compared with the first-quarter average of 54 and a fourth quarter 2010 average of 57.7.

The adjusted retail sales growth in volume terms slowed to a seasonally adjusted rate of 2.7 per cent in March.

China's current-account surplus rose to $305bn in 2010. As a proportion of GDP, at 5.2 per cent, this was well below the peak of 10.1 per cent reached in 2007.

The surplus is forecast to continue to shrink relative to GDP in the forecast period, falling to 1.5 per cent by 2015. A large proportion of China's imports consist of components that are assembled in the country before being shipped abroad again, and its imports and exports therefore tend to expand at similar rates.

However, a growing proportion of imports will be consumed domestically in 2011–15 and, at an average of 15.1 per cent a year, import growth will outpace export expansion. As a result, the trade surplus is expected to fall in the coming years.

Indian economic growth has been robust

in the first quarter of 2011 and is expected to remain above the trend, albeit with some moderation compared with last year.

The rate of GDP growth in India for 2011 is forecast to be around eight per cent, slowing marginally to 7.5 per cent in 2012.

As there has been some moderation in economic activities and industrial production in the first quarter of 2011, it is expected that the economy expanded by 7.8 per cent in the first quarter, compared with a year ago.

Considering the stronger-than-expected performance of foreign trade and particularly manufactured exports in recent months, economic expansion is projected to pick up further in the second quarter of the year.

Exports in February rose by almost 50 per cent on an annual basis, which was continued by another 1.3 per cent increase in March.

Industrial production was 3.6 per cent up in February, compared with the same month last year.

"The rate of GDP growth in India for 2011 is forecast to be around eight per cent, slowing marginally to 7.5 per cent in 2012. "

Economic growth is expected to pick up further in the second quarter and continue to expand at around eight per cent, which is close to the potential of the economy.

Growth in the industrial sector has decelerated, with the exception of the automotive sector. However, given the strong demand by a burgeoning middle class, policymakers consider real growth close to eight per cent, although there is still no sign of the accelerating economic growth rate of ten per cent as stated by the Government and Planning Commission in its 12th five-year plan (2013–17).

HSBC's Purchasing Managing Index (PMI) for the manufacturing sector in March was at 57.9, unchanged from February.

The rate of growth in new orders was at a 31-month high, justifying the claims by policymakers that the slowdown in industrial sector expansion would not affect GDP in the short-term.

The government target is to reduce the federal deficit to 4.6 per cent of GDP in fiscal 2011, but this seems ambitious. The Deputy Chairman of the Planning Commission (a leading federal government policy-making body) has been quoted as saying that this fiscal target is achievable if oil prices remain at around $100/b.

Nevertheless, the Consensus Forecast (May 2011) envisages a seven per cent and 6.9 per cent federal budget deficit for fiscal 2011 and 2012, respectively.

The Indian government has introduced in parliament a bill for a nationwide goods and services tax (GST) on March 22. Its objective is to create a "common market" for goods and services by replacing various state-level taxes with a single national GST. The bill needs the approval of two-thirds of parliament and one-half of India's 28 states to become law.

However, it is clear that the government's fiscal position will depend on food and fuel prices.

It has been discussed that state-owned energy companies would lose significantly if international fuel prices remain higher than officially determined energy prices in India.

If the circumstances are such that headline inflation is positively affected by a surge in food and energy prices, the government may find it difficult to allow further increases in energy prices, although this may delay improvements of its fiscal stance.

Rising output in the agricultural sector could help ease inflationary pressures, particularly for lower-income groups, where food consists of a significant part of the household expenditure.

According to government estimates, Indian's food-grain output reached a record 236 million tonnes in fiscal 2010. This is important not only for damping price inflation, but also for the reduction of India's trade deficit.

Accelerating inflation has been a problem for the Indian economy since 2009 and, despite a slowing down of the pace of economic expansion, inflation remains elevated and has spread to manufacturing and wages.

Monetary policy is likely to tighten further in the short-run in response to stubbornly high inflation. There have been eight increases in the interest rate since March 2010.

In its latest decision, the monetary policy review meeting of the Central Bank (RBI) raised interest rates on May 3 by a sharper-than-expected 50 basis points and its benchmark interest rate now stands at 7.25 per cent. This could be enough to turn real interest rates positive.

The government might consider raising its policy rates further, even at the expense of economic growth, if inflation does not decelerate. The Consensus Forecasts (April 2011 edition) envisaged a CPI close to 7.8 per cent for 2011 and 6.8 per cent for the next fiscal year.

The wholesale price index stood at nine per cent y-o-y in March, up from 8.3 per cent in February. This has been higher than the RBI's target of eight per cent and far from its comfort zone of 5–5.5 per cent.

While food prices fell by less than one per cent in March, they increased by 1.4 per centin the manufacturing sector.

Latin America emerged from the recession in promising conditions. However, countries of the region now face two challenges, namely inflation, triggered by commodity prices increases, and capital inflows that are mainly invested in short-term financial assets and, therefore, could be quite volatile.

Real activity expanded by about 5.5 per cent last year after contracting by 0.2 per cent in 2009.

Growing external demand and rising commodity prices have underpinned their economic prosperity in recent years. Strong capital inflows are currently a distinguishing feature of many countries in the region.

Robust economic expansion on the one hand and monetary policies in advanced economies (where the cost of borrowing is low and economies expand at a lower pace compared

to developing countries) on the other are the main reasons behind the capital inflows.

Strong domestic demand has caused widening current account deficits that, in turn, encourage borrowing abroad and capital inflows.

The region's GDP growth is projected to moderate to 3.8 per cent in 2011 on average after growing by 5.4 per cent in 2010.

However, the rates of economic expansion will differ widely within the region. Peru continues to enjoy strong economic growth, as seen in recent years. Its economic growth for 2011 is expected to reach 5.3 per cent following 7.5 per cent last year.

Some economies in the region, however, may even face economic contraction in 2011, due to a variety of reasons. The outlook for commodity exporters in the region is generally positive. There are, however, signs of potential overheating and currency appreciations in some of these countries, notably Brazil.

Brazil's case is particularly important considering the size of its economy and its close links to other economies of the region, as well as its growing trade with China.

Brazil like other commodity exporters of the region has benefited both from favourable terms of trade and from growing capital inflows, as well as easy external financing conditions.

However, it is projected that Brazil's economic growth will moderate in 2011 to 4.1 per cent after an exceptionally strong performance in 2010, during which it expanded by more than 7.2 per cent, its highest economic growth in a decade.

With continued strong growth and output already around its potential level, inflation has become a major concern, as in many other countries of the region.

Headline inflation is affected by both demand factors, and high food and energy prices. Therefore, tightening monetary expansion and fiscal spending have been in order since the second half of 2010.

Robust private demand has led to a widening current account deficit as an appreciation of the country's currency, the real, due to favourable terms of trade, has encouraged growing imports.

This, in turn, has reduced the market share of domestic producers who have been facing stiff competition from abroad. Although there has been greater diversity in foreign trade, at the same time, this has come with greater dependency on commodities.

Strong final demand growth and underperformance of the industry have been two distinguishing characteristics of Brazil's economy over the past year.

The economy seems to have continued in the same vein in the immediate past months. In the fourth quarter of 2010, the growth rate of GDP, on a y-o-y basis, was three per cent. This was less than expected earlier, but was more than third quarter economic growth of 1.6 per cent.

Nevertheless, the strong performance of the economy in the first half of 2010 assured full-year economic growth of 7.2 per cent in 2010.

Industrial production fell in late 2010 on a relatively broad base from capital and consumer goods, as well as electronics and communications equipment.

The main factors contributing to this stalled growth in industrial production are believed to be supply bottlenecks, as well as external competition, underpinned by the real.

Growing domestic demand looks to have continued into the start of 2011, despite the authorities' tightening measures, such as raising banks' reserve requirement and increasing the capital requirements on consumer loans.

Robust domestic demand has been supported by improving labour market conditions. Economic data released in recent weeks indicate that manufacturing is finally moving after a long period of stagnation.

Capital goods and durable goods production led industrial production to rise at the end of the first quarter. This strong performance of the economy during the first quarter of 2011 reinforces the supportive growth outlook.

March inflation rose by 6.3 per cent from a year ago. This is close to the upper limit of the central bank's target range. The policy rate is currently 12 per cent, after a 25 basis point rise on April 20.

There is a possibility that the rate will be increased again in June to curb accelerating inflation. The authorities have announced a policy of increasing the tax on consumer loans (excluding mortgage loans), from 1.5 per cent to three per cent to control inflationary pressures.

"It is projected that Brazil's economic growth will moderate in 2011 to 4.1 per cent after an exceptionally strong performance in 2010."

On the fiscal side, after the announcement for a 50bn real budget cut, the government tried to reassure the market that the adjustment was being made through greater control over expenditures.

The central government's primary balance showed a surplus of 9.1bn reals (around $5.4bn) in March. With this result, the 12-month primary surplus of the central government reached 2.5 per cent of GDP from 2.2 per cent in February.

Looking at OPEC Member Countries, GDP growth in 2009 for the MENA region was around 2.1 per cent, less than half the rate seen during the previous year, but very few countries in the region experienced negative growth.

Economic growth recovered to 3.9 per cent in 2010 and is forecast to stabilize at around 3.5 per cent this year. Growth will continue to be supported by loose domestic policies and the moderate global recovery; however, spreading social unrest, rising sovereign risk premiums and elevated inflation will constrain growth prospects in several countries of the region.

Higher commodity prices and external

demand are boosting production and exports in the region. In addition, government spending, particularly in oil-exporting countries, is fostering economic recovery.

However, political uncertainties, unemployment (particularly among youths) and inflationary pressures marked by rising food prices are negatively affecting economic developments.

In the group of oil exporters, economic growth is expected to be higher compared with the region's average. Among energy exporters, Qatar and Saudi Arabia are particularly expected to perform well on the back of a continued expansion of natural gas projects and government investments in infrastructure, respectively.

In oil-importing countries, the economies of Egypt and Tunisia are prone to slower growth, due to political turmoil and the impact of these events on their leading economic sectors, finance and tourism.

"Among energy exporters, Qatar and Saudi Arabia are particularly expected to perform well ..."

Inflation is high in most countries of the MENA region, being elevated by rising commodity and food prices. In most countries, food constitutes a significant share of household expenditures.

According to the IMF, inflation across the region could be projected as high as ten per cent. Inflationary pressures in energy-exporting counties of the region are mainly due to expansion of the monetary base of these economies induced by oil dollars earned by governments and the significant increase in public sector spending.

The overall regional current account surplus is now projected to rise over 12 per cent of GDP, compared with 15 per cent in 2008.

Should the global economic recovery prove to be slower than expected, export earnings of the region and the prospects of regional economic growth could be adversely affected.

Fiscal policy has played a critical role in cushioning the impact of the global economic crisis on the MENA region.

Public sector spending on infrastructure and the support of lower-income groups will continue to boost domestic demand in the near-term in many oil-exporting countries.

To shield their populations from surging food and fuel prices, many governments in the region have increased social transfers and fuel and food subsides.

However, high unemployment, particularly among young and educated population groups, remains the main economic challenge of the region.

According to the IMF's Regional Economic Outlook (2011), unemployment rates range from around ten per cent to more than 30 per cent in the region. The fact that unemployment has remained so high for so long suggests that the problem is largely structural.

The industrial production index, which serves as a proxy for economic activity, indicates that in most economies of the sample group, industrial production has been almost stagnant for the last several years and has only started to pick up in recent months.

A lasting solution to the region's unemployment problem will require a combination of permanently higher and inclusive economic growth and reforms to improve the responsiveness of labour markets.

World oil demand

Demand for OPEC crude in 2010 has been revised up by 100,000 b/d to currently stand at 29.6m b/d.

The revision reflects mainly the upward adjustment in world oil demand as non-OPEC supply and OPEC NGLs remained almost unchanged.

All quarters saw an upward revision with the bulk of the adjustment occurring in the first quarter, which was up by 200,000 b/d, reflecting the revision of the baseline. With this adjustment, demand for OPEC crude stood 400,000 b/d above the 2009 level.

The first quarter of last year is still showing a drop of 700,000 b/d, while the second quarter has estimated growth of 300,000 b/d. The third quarter has estimated growth of 1.4m b/d, while the fourth quarter has growth of 600,000 b/d, compared with the same period the previous year.

In 2011, demand for OPEC crude is projected to average 29.9m b/d, a slight change from the previous report.

Within the quarters, the first quarter experienced an upward revision of 140,000 b/d, while the other quarters remained almost unchanged.

Required OPEC crude is forecast to increase by 300,000 b/d over last year. The first quarter is estimated to see the bulk of growth, increasing by 700,000 b/d, while the second and third quarters are forecast to see lower growth of 100,000 b/d and 200,000 b/d, respectively. The fourth quarter is expected to see an increase in growth of 300,000 b/d, compared with a year ago at the same time.

Meanwhile, a volatile oil market is making future oil demand estimates hard to manage. Many variables have been affecting oil demand worldwide.

The Japanese earthquake and economic uncertainty in the US are keeping oil demand estimates continually in an adjustment mode and are imposing a downside risk for the year's forecasts.

Japan's natural disaster caused the country's oil demand to plunge by 250,000 b/d in March and April and it is forecast to have worsened in May and June.

The latest monthly US oil consumption data showed much weaker oil consumption than anticipated. The transportation sector has already started showing some indications that retail prices have reduced mileage driven.

China's economy, on the other hand, is roaring ahead of all expectations. Anticipated electricity shortage in the upcoming summer

months might trigger more operation of diesel generators. This will, of course, have an implication on the country's future oil demand growth.

That said, it is too early to alter the existing forecast for world oil demand as the risks are nearly balanced with regard to upward and downward movements.

However, should higher international oil prices persist, then this might impose a stronger reverse elasticity on oil demand, putting more weight on the downward risk. This risk might be translated into a reduction of current growth by 200,000 b/d.

World oil demand is estimated to have grown by 2.1m b/d in 2010 and is expected to expand by 1.4m b/d in 2011, averaging 88.1m b/d.

In the wake of the Fukushima nuclear incident, Germany has already decided to exit the nuclear power business by 2021. The country's assessment of the dangers and possible environmental disasters outweigh the benefits of nuclear power plants. Germany will pursue other renewable strategies to offset the nuclear deficit.

Malaysia is embarking on introducing biodiesel blend into its system in the second half of this year. The new blend will consist of five per cent biodiesel, which, at full-scale, accounts for around 10,000 b/d.

This move, of course, will complicate the environmental burden from which Asia is already suffering. Among other oils used in biofuels, palm oil is the main cause of deforestation on the continent.

The pessimistic picture of US oil consumption during 2011 seems to be continuing. The latest monthly US oil consumption data showed small yearly growth of 0.9 per cent for March.

This minor growth is almost solely attributed to distillate fuel oil, residual fuel oil and propane/propylene. The consumption of motor gasoline has been constantly in the negative during 2011, as fuel prices and gloomy economic expectations influenced driving behavior and, hence, reduced driving mileage.

Moreover, part of the growth in distillates consumption could be sourced in the low base of consumption during March 2010. In addition, cold weather during March caused some minor increases in fuel oil consumption.

Preliminary weekly data for April display a similar picture, with the consumption of transportation fuels in the negative and demand for industrial fuels in the positive.

May's preliminary weekly data imply the first decrease in US oil consumption since January 2010. The development of the US driving season is certainly a challenge for the development of US oil consumption during the third quarter – unfortunately up-to-date indications call for a rather strong downward risk momentum.

Nevertheless, some economic indicators aim for some strength in the county's future economic activities. Hence, total US oil demand is forecast to show y-o-y growth of 1.2 per cent for 2011.

This picture is pending semi-normal usage of gasoline in the summer driving season and normal weather in the fourth quarter.

Mexico's April oil consumption was up by 1.3 per cent, compared with last year, due to increasing gasoline and fuel oil consumption. However, lower industrial activity is causing stagnation in industrial fuel usage, while fuel oil use increased by 13 per cent in April y-o-y, adding another 25,000 b/d to the country's total oil demand.

Overall, Mexico is expected to consume 2.07m b/d of oil by the end of 2011.

The latest available data indicates that Canadian oil demand was weaker in March, compared with January and February – both months were basically driven up by cold weather – due to less consumption in transportation fuels.

Nevertheless, consumption of industrial fuels was strong during the same month. Given the low seasonality of the second quarter, Canadian oil demand growth is forecast to show only one-third of the growth that was seen in the first quarter.

For the whole of 2010, North American oil demand grew by 600,000 b/d, while in 2011 it is expected to expand by only 200,000 b/d.

US car sales fell by 3.7 per cent in May, the lowest rate since September 2010. This low level is much lower than expected as higher vehicle prices led consumers to put off purchases in the face of a weakening economy.

"In 2011, demand for OPEC crude is projected to average 29.9m b/d, a slight change from the previous report."

Furthermore, tightening supplies of vehicles after the Japan earthquake forced many companies to raise car and truck prices.

Automakers usually use the warmer months to cut deals and clear out old inventory to make way for new models in the fall. But this year, as a result of the Japanese earthquake, stocks are significantly lower.

Automakers have also raised prices to make up for the rising price of steel and other commodities. As was the case for the last two years, small, compact and mid-size car sales increased, while truck sales decreased.

Auto sales in Canada fell by 3.8 per cent in May as high gasoline prices influenced truck sales; moreover, fuel-efficient cars remained popular among Canadian consumers.

According to the Mexican Automobile Industry Association, Mexico's auto sales and exports continued to grow in April by eight per cent and 5.9 per cent, respectively, while production fell by 10.4 per cent as a result of manufacturers having reduced production during the Easter holidays and the negative impact of the Japanese earthquake.

The Ford motor company will be building a three-cylinder car engine in the next two years. It is the smallest engine ever made by them. The company is forecasting that by 2020, more than half of vehicles sold will be those with small engines.

Also, they are estimating that the Asia-Pacific and Africa regions will account for one-third of total Ford sales worldwide by 2020.

European April oil consumption fell by 200,000 b/d, with the biggest declines occurring in France, Germany and Italy.

As the effect of cold weather ended, oil consumption declines were dominated by lower demand for transportation fuels. However, industrial fuel consumption grew only marginally.

European oil consumption during 2011 will be most affected by the continuing debt problems in several European economies, particularly Greece, Ireland and Portugal. In all three countries concerned with debt issues, oil consumption has fallen significantly during the first three months of the year.

Oil demand in the European 'Big Four' decreased by 120,000 b/d in April, compared with April 2010. Furthermore, German, French and Italian oil consumption was down by one per cent, five per cent and one per cent, respectively, while oil consumption in the UK increased by one per cent.

"European oil consumption during 2011 will be most affected by the continuing debt problems in several European economies ..."

The region's total contraction in oil demand stood at 200,000 b/d in 2010. In 2011, oil consumption is expected to shrink again, but at a lower rate of 50,000 b/d.

Given unstable economic activities, a substantial downward risk in the second half of the year exists. Furthermore, oil prices play a factor in the oil consumption trend prediction for the rest of the year.

According to the latest information by ACEA, European demand for new passenger cars in April contracted by 4.1 per cent y-o-y and fell by 2.7 per cent during the first four months of 2011, compared with the same period last year.

During April, all major markets contracted with the only exception being Germany, which showed a moderate increase of 2.6 per cent.

Demand for new cars was down by 2.2 per cent in Italy, 7.4 per cent in the UK, 11.1 per cent in France and 23.3 per cent in Spain.

The largest percentage increases during April were observed in Lithuania and Estonia, while the sharpest decreases occurred in Romania, Spain and Greece.

In Japan, the impact of the catastrophic earthquake continued to show in the latest monthly data for April, implying deep decreasing oil consumption of 380,000 b/d y-o-y.

All product categories (with the exception of direct crude burning) have been affected, especially fuels used in aviation, but also those used for transportation and industrial activities.

Hydrocarbons (natural gas and crude) seem to be the alternatives to nuclear power reduction for the production of electricity, with natural gas continuing to take the largest share.

Further development of Japanese oil consumption for the rest of the year is heavily dependent upon the speed of resolving the ongoing nuclear crisis at the Fukushima plant. Unfortunately, there is no concrete information as to how long it will take until the nuclear crisis is resolved.

In South Korea, March oil data indicated increases in the consumption of all products, with the exception of LPG and fuel oil, as both products have been impacted by fuel switching.

The country's oil demand inched up by 3.2 per cent in March, adding another 72,000 b/d to total demand. It is forecast that South Korea's oil demand will grow this year by 300,000 b/d y-o-y.

OECD Pacific oil demand showed minor growth of 100,000 b/d in 2010, averaging 7.8m b/d. However, during 2011, OECD Pacific oil consumption is expected to fall by 400,000 b/d, while projections are heavily dependent upon the speed of recovery in Japan.

Japan's auto sales continued to fall by 33 per cent in May y-o-y with standard cars, trucks and buses denoting the most severely affected segments. The earthquake impact was huge as sales of new cars dropped by more than half in April.

Indian oil demand is picking up its usual momentum which was last seen in 2009. The country's oil demand grew strongly in April by 4.2 per cent, or 146,000 b/d y-o-y.

The increased use of energy came as a result of not only industrial activities, but also the agricultural season start-up and transportation summer demand.

As seen in the first quarter, second-quarter oil demand is forecast to grow by 135,000 b/d y-o-y. The same rate and trend are expected to last till year-end.

Indian April data indicated an increase in the country's use of gasoline by 7.1 per cent and by 1.5 per cent in diesel. It is forecast that India will consume 3.4m b/d of oil. India raised retail petroleum prices by 8.6 per cent in mid-May; such a move will worsen inflation. This increase was the second this year. India's oil demand for the year is not expected to be highly affected by the price increase.

In India, domestic auto sales in April grew by 22.8 per cent over the same period last year. Passenger vehicle sales grew by 14per cent, while utility vehicles and vans were up by 6.3 per cent and 37.4 per cent, respectively.

Given the recent strength in India's oil demand, Other Asia oil demand growth is forecast at 230,000 b/d in 2011, averaging 10.3m b/d.

Ahead of the summer season, Saudi Arabia's April oil demand increased moderately by one per cent y-o-y. Gasoline was the largest contributor, adding another 24,000 b/d to the demand pool. Diesel demand grew sharply in the same month by 3.7 per cent y-o-y.

It is expected that Saudi oil demand will show usual growth in the upcoming summer months. It is forecast to rise by 6.2 per cent in the third quarter y-o-y.

Middle East oil demand growth is forecast at 200,000 b/d in 2011, averaging 7.4m b/d.

The gasoline hike pushed Brazilian oil demand up in the third quarter by 3.8 per cent

to an average of 1.97m b/d. Brazil's gasoline consumption already passed the 500,000 b/d level and is expected to keep growing.

Developing Countries' oil demand growth is forecast at 600,000 b/d y-o-y, averaging 27.4m b/d.

Chinese oil consumption growth slowed in April following very strong March oil demand, which was estimated at 930,000 b/d, or 10.3 per cent, y-o-y growth.

April's growth stood at 640,000 b/d, or 7.1 per cent, with diesel and its usage in electricity generators having the largest share.

Strong demand for electricity might create shortages in diesel and the Chinese government already imposed restrictions on electricity in the country's central, southern, southwestern and eastern provinces.

Transportation fuel demand is expected to moderate during the remainder of the year as governmental incentives towards new vehicle purchases expire, in combination with the introduction of additional taxes.

Naphtha usage in petrochemical industries is skyrocketing. During the first four months of 2011, Chinese oil consumption showed remarkable growth of 730,000 b/d, or 8.4 per cent, despite government announcements to limit energy consumption.

The further development of Chinese oil consumption is undoubtedly the major challenge for the world's total oil consumption in 2011.

Another factor which could influence oil consumption is fuel prices. Although the Chinese government is aiming to close the gap between domestic and international oil prices, it remains unclear as to what extent the government will ease price controls.

Inflation is a big concern in the country's economy which might worsen the current inflation level. Furthermore, state-owned oil companies are facing strong pressure to maintain product supplies, while, at the same time, refiners are facing negative margins.

Resulting from strong economic growth, China's energy demand is expected to grow by 600,000 b/d in 2011, averaging 9.6m b/d.

Data from the China Association of Automobile Manufacturers (CAAM) show that China's automobile sales dropped by 14 per cent m-o-m (a 29.7 per cent increase from May 2010) for the second month in a row during May 2011.

This resulted from the Chinese government introducing limits on new car purchases, stopping incentives and imposing a new ten per cent tax on new car sales.

The Chinese auto industry has also been significantly influenced by the Japanese earthquake.

World oil supply

Preliminary figures indicate that global oil supply averaged 86.77m b/d in May, 140,000 b/d higher than in the previous month.

OPEC crude is estimated to have a 33.4 per cent share in global supply, slightly higher than in the previous month, due to the increase in OPEC crude production and slightly lower non-OPEC supply.

The estimate is based on preliminary data from non-OPEC supply. Estimates for OPEC NGLs and OPEC production are derived from secondary sources.

Meanwhile, non-OPEC oil supply is estimated to have averaged 52.26m b/d in 2010, an increase of 1.12m b/d over the previous year.

Compared with last month's estimate, non-OPEC supply remained unchanged. Among non-OPEC suppliers, the OECD displayed growth of 210,000 b/d in 2010 over the previous year.

OECD supply growth was supported by an increase in US oil supply, estimated at 460,000 b/d in 2010, the highest among all non-OPEC countries. Canada's oil supply experienced healthy growth of 150,000 b/d in 2010.

The rest of the OECD countries' supply varied between declining and stagnant, with more weight on the decline.

On a quarterly basis, non-OPEC supply last year is estimated to have averaged 52.12m b/d, 52.11m b/d, 51.93m b/d and 52.87m b/d, respectively.

In 2011, non-OPEC oil supply is expected to average 52.92m b/d, representing growth of 660,000 b/d and an upward revision of 10,000 b/d compared with the last report.

Despite the minor revision, there were various upward and downward revisions that offset each other. First quarter oil supply encountered a downward revision, while the rest of the quarters saw upward revisions.

The OECD oil supply forecast experienced an upward revision, compared with the previous month's assessment, while developing countries' supply projection encountered a downward revision.

The first quarter supply forecast encountered a downward revision of 63,000 b/d over the previous month, with North America experiencing the bulk of the revision. The rest of the year's quarters encountered upward revisions, mainly from the OECD.

It is worth highlighting that the associated risk and uncertainties in the forecast are on the high side, given the current global market situation, as well as other factors influencing supply.

On a quarterly basis, non-OPEC supply this year is expected to average 52.81m b/d, 52.71m b/d, 52.78m b/d and 53.37m b/d, respectively.

Total OECD supply is forecast to average 19.97m b/d in 2011, representing an increase of 30,000 b/d and an upward revision of 25,000 b/d from the previous month.

The OECD supply forecast remains on the positive side in 2011, compared with the previous year, as anticipated growth in North America is projected to offset the decline forecast in OECD Western Europe and OECD Pacific supply.

Yet risk and uncertainties remain high, especially in North America, which requires careful monitoring over the coming period.

On a quarterly basis, OECD oil supply in 2011 is forecast to average 20.07m b/d, 19.91m b/d, 19.81m b/d and 20.08m b/d, respectively.

North America oil supply is projected to increase by 240,000 b/d to average 15.19m b/d in 2011, representing a downward revision of 10,000 b/d from the previous month.

The US oil supply forecast experienced

an upward revision, while Canada's forecast encountered a downward revision on an annual basis. The anticipated growth in North America is seen to be supported by the US and Canada, while Mexico is expected to experience a minor decline.

On a quarterly basis, North America's oil supply in 2011 is foreseen to stand at 15.22m b/d, 15.16m b/d, 15.13m b/d and 15.25m b/d, respectively.

US oil supply is expected to average 8.72m b/d in 2011, representing growth of 120,000 b/d over 2010 and an upward revision of 6,000 b/d from the previous report.

On a quarterly basis, US oil supply this year is seen to average at 8.69m b/d 8.75m b/d, 8.72m b/d and 8.74m b/d, respectively.

Canadian oil supply is foreseen to increase by 140,000 b/d over 2010 to average 3.53m b/d in 2011, indicating a downward revision of 10,000 b/d compared with the previous report.

"Total Developing Countries' oil supply is projected to increase by 360,000 b/d over 2010 to average 13.10m b/d in 2011."

On a quarterly basis, Canada's oil supply this year is seen to average 3.56m b/d, 3.48m b/d, 3.51m b/d and 3.60m b/d, respectively.

Mexico's oil supply is projected to decline by 30,000 b/d over 2010 to average 2.93m b/d in 2011, unchanged from the previous assessment.

On a quarterly basis, Mexico's oil supply in 2011 is expected to average 2.97m b/d, 2.94m b/d, 2.90m b/d and 2.92m b/d, respectively.

According to preliminary data, Mexico's oil supply remained steady in April, compared with the previous month.

Total OECD Western Europe oil supply is seen to average 4.20m b/d in 2011, representing a decline of 180,000 b/d over 2010 and an upward revision of 30,000 b/d from the previous month.

On a quarterly basis, OECD Western Europe oil supply in 2011 is seen to average 4.33m b/d, 4.15m b/d, 4.09m b/d and 4.24m b/d, respectively.

Norway's oil supply is predicted to drop by 110,000 b/d to average 2.02m b/d in 2011, indicating an upward revision of 15,000 b/d compared with the previous month.

On a quarterly basis, Norway's oil supply this year is anticipated to average 2.14m b/d, 1.96m b/d, 1.95m b/d and 2.05m b/d, respectively.

The UK's oil supply is slated to average 1.30m b/d in 2011, representing a drop of 70,000 b/d over 2010 and a downward revision of 10,000 b/d, compared with the previous assessment.

On a quarterly basis, the UK's oil supply in 2011 is expected to stand at 1.29m b/d, 1.31m b/d, 1.28m b/d and 1.32m b/d, respectively.

Other Western Europe oil supply is foreseen to average 660,000 b/d in 2011, representing an increase of 20,000 b/d over 2010 and an upward revision of 30,000 b/d from the previous month.

OECD Asia Pacific oil supply is foreseen to average 580,000 b/d in 2011, a decrease of 20,000 b/d over 2010 and flat from a month earlier. Australia and New Zealand oil supply are expected to experience a minor decline.

On a quarterly basis, OECD Pacific oil supply this year is seen to average 520,000 b/d, 600,000 b/d, 600,000 b/d and 580,000 b/d, respectively.

Oil supply from Australia is expected to average 490,000 b/d in 2011, a decline of 20,000 b/d over 2010 and broadly unchanged from the previous month.

On a quarterly basis, Australia's oil supply in 2011 is seen to average 420,000 b/d, 500,000 b/d, 510,000 b/d and 500,000 b/d, respectively.

Total Developing Countries' oil supply is projected to increase by 360,000 b/d over 2010 to average 13.10m b/d in 2011, indicating a downward revision of 20,000 b/d, compared with the previous month.

On a quarterly basis, developing countries' total oil supply this year is seen to stand at 12.93m b/d, 12.96m b/d, 13.16m b/d and 13.35m b/d, respectively.

Other Asia oil supply is estimated to remain relatively flat from the previous year, with a minor increase of 10,000 b/d, to average 3.70m b/d in 2011, unchanged from the previous assessment.

On a quarterly basis, Other Asia oil supply this year is seen to stand at 3.70m b/d, 3.67m b/d, 3.71m b/d and 3.73m b/d, respectively.

Preliminary data indicates that Other Asia oil supply in the first quarter indicated y-o-y growth of 20,000 b/d.

Indonesia's oil supply is forecast to decline by 40,000 b/d in 2011 to average 990,000 b/d, unchanged from the previous month.

Malaysia's oil supply is in the same position, with output expected to decline by 30,000 b/d over 2010, to average 670,000 b/d in 2011.

Vietnam's oil supply is expected to remain relatively steady in 2011, compared with the previous year, and is expected to average 370,000 b/d.

Latin America's oil supply is anticipated to increase by 290,000 b/d over 2010 to average 4.95m b/d in 2011, flat from the previous assessment.

Argentina's oil supply is expected to remain flat in 2011, with a minor decline of 10,000 b/d over 2010, to average 740,000 b/d.

Colombia's oil supply is expected to increase by 110,000 b/d in 2011 to average 910,000 b/d, unchanged from the previous assessment.

On a quarterly basis, Latin America's oil supply this year is seen to stand at 4.80m b/d, 4.92m b/d, 4.98m b/d and 5.11m b/d, respectively.

Brazil's oil supply is expected to increase by 190,000 b/d over 2010, to average 2.85m b/d in 2011, the highest anticipated growth among all non-OPEC countries.

Growth is supported by various projects, as well as by biofuels production. On a quarterly basis, Brazil's oil supply this year is expected to stand at 2.72m b/d, 2.84m b/d, 2.87m b/d and 2.96m b/d, respectively.

Middle East oil supply is estimated to average 1.77m b/d in 2011, a decrease of 20,000 b/d over 2010, indicating a downward revision of 20,000 b/d compared to the previous month.

On a quarterly basis, Middle East oil supply this year is foreseen to average 1.80m b/d, 1.73m b/d, 1.77m b/d and 1.78m b/d, respectively.

Africa's oil supply is foreseen to average 2.68m b/d in 2011, an increase of 80,000 b/d over 2010, and flat from the previous assessment.

Ghana is the main contributor to growth in 2011, supported by the Jubilee project. Supply from Equatorial Guinea and Sudan is expected to slightly decline in 2011, while Gabon and Congo oil supply is expected to slightly increase.

On a quarterly basis, Africa's oil supply in 2011 is forecast to average, 2.64m b/d, 2.65m b/d, 2.70m b/d and 2.74m b/d, respectively.

FSU oil supply is projected to average 13.37m b/d in 2011, representing growth of 140,000 b/d over 2010 and a downward revision of 30,000 b/d from the previous month.

In terms of volume, the FSU region remains the region with the second-highest supply after North America. The expected growth in 2011 FSU supply also shows the third-highest growth after Latin America and North America. The growth is supported by Kazakhstan and Russia.

On a quarterly basis, total oil supply from the FSU in 2011 is expected to stand at 13.34m b/d, 13.37m b/d, 13.33m b/d and 13.42m b/d, respectively.

Other Europe's oil supply is expected to remain steady over 2010 to average 140,000 b/d in 2011.

Oil supply from Russia is forecast to average 10.19m b/d in 2011, an increase of 50,000 b/d over 2010, unchanged from the previous month.

Russia's oil supply is projected to slow in 2011, compared with the previous year, mainly on limited new developments and a lessening decline rate.

On a quarterly basis, Russia's oil supply is estimated to average 10.21m b/d, 10.20m b/d, 10.16m b/d and 10.18m b/d, respectively.

According to preliminary data, Russian oil supply averaged 10.25m b/d in May, slightly higher than the previous month and close to the record high. Russia's oil supply during January–May indicated growth of 120,000 b/d compared with the same period of 2010.

Kazakh oil supply is expected to increase by 70,000 b/d over 2010 to average 1.67m b/d in 2011, unchanged from the previous month.

On a quarterly basis, Kazakhstan's oil supply this year is seen to stand at 1.66m b/d, 1.65m b/d, 1.65m b/d and 1.71m b/d, respectively.

Oil supply from Azerbaijan is anticipated to remain steady in 2011, compared with the previous year, with a minor increase of 10,000 b/d, representing a downward revision of 30,000 b/d, compared with the previous month.

On a quarterly basis, Azerbaijan's oil supply in 2011 is estimated to average 1.03m b/d, 1.09m b/d, 1.10m b/d and 1.11m b/d, respectively.

China's oil supply is foreseen to average 4.23m b/d in 2011, an increase of 90,000 b/d over 2010, and indicating an upward revision of less than 10,000 b/d compared with the previous assessment.

On a quarterly basis, China's oil supply this year is projected to average 4.22m b/d, 4.21m b/d, 4.23m b/d and 4.26m b/d, respectively.

OPEC oil production

Total OPEC crude oil production averaged 28.97m b/d in May, representing growth of 171,000 b/d over the previous month, according to secondary sources.

The increase came mainly from Saudi Arabia, Nigeria, Angola, Venezuela and Iraq, while crude production from Libya experienced a decline.

OPEC crude oil production, not including Iraq, stood at 26.32m b/d in May, up 146,000 b/d from the previous month.

Output of OPEC NGLs and non-conventional oils averaged 4.90m b/d in 2010, an increase of 550,000 b/d over the previous year.

In 2011, production of OPEC NGLs and non-conventional oils is forecast to grow by 400,000 b/d over the previous year to average 5.30m b/d.

"According to preliminary data, Russian oil supply averaged 10.25m b/d in May, slightly higher than the previous month and close to the record high."

Downstream activity

Oil product markets have been impacted since the middle of May by a reversed trend in Atlantic gasoline performance as a consequence of weaker-than-expected demand at the start of the driving season and a stock-build in US gasoline after several weeks of inventory draws.

However, this disappointing situation at the top of the barrel was partially offset in some regions by gains at the bottom of the barrel, allowing margins to remain on the healthy side.

The expected higher gasoil demand for power generation will lend support to product markets; however, higher runs after the maintenance season (to satisfy the expected driving season demand) and heavier crudes being processed could exert pressure on the bottom of the barrel in the coming months.

US refining margins continued their healthy rise in May on the back of support coming from the bottom of the barrel and stable positive levels of middle distillate cracks, which managed to maintain healthy levels

amid bullish sentiment, due to the draw in gasoil inventories.

The top of the barrel meanwhile did not see the expected increase in demand at the start of the driving season. The margin for WTI crude on the US Gulf Coast showed an increase of $2.5/b to stand at over $25/b.

However, this high margin has been artificially inflated by the relatively low benchmark WTI price, which has disconnected from other benchmark grades. The margin for Arab Heavy crude on the US Gulf Coast was around $13/b, an increase of almost $4/b over the previous month.

In Europe, product market performance was mixed and volatile, with the top of the barrel remaining strong – although partially affected by bearish sentiment in the Atlantic – while middle distillates and fuel oil continued to weaken.

However, on average, product cracks were able to surpass Brent crude gains and the refinery margin showed a recovery of 70¢/b to reach $2.5/b

"Total OPEC crude oil production averaged 28.97m b/d in May, representing growth of 171,000 b/d over the previous month ..."

Asian refining margins failed to keep the level attained over the last several months, due to the notable decline suffered by the middle distillate crack in May. The refinery margin for Dubai crude oil in Singapore showed a loss of 60¢/b to drop to $3.6/b.

American refiners started to increase their runs as they returned from maintenance to face the expected increase in demand of the driving season and to capture the positive economics, due to healthy refining margins.

Refinery runs increased to average 84.3 per cent in May from 82.8 per cent a month earlier.

Gasoline demand disappointed in the second half of the month, standing lower than a year ago and causing inventories to build in the US.

However, gasoil managed to remain strong, which – along with gains at the bottom of the barrel, operational limitations in several units and worries about the impact of the Mississippi flooding on the system – helped refining margins to continue to rise in the US.

European refiners continued at low throughputs – below 80 per cent – on the back of low refinery margins and weaker middle distillate demand.

In addition, some refineries with low complexity started to become affected by the shortage of sweet and light crude.

Asian refiners coming back from maintenance continued increasing their runs in May to satisfy the growing gasoil demand in the region, with Chinese and Indian refineries running at around 90 per cent, while in Japan, after the natural disaster, most of the refineries are back on-line and have been able to recover refinery throughputs with run-rates of around 78 per cent.

Looking ahead, demand is expected to improve with the start of the driving season and the end of maintenance, which will encourage an increase in refinery runs across the world, adding support to the crude market.

US gasoline demand remained at around 9.08m b/d in May, according to the EIA, similar to the previous month, although 135,000 b/d below the same month last year.

The gasoline market continued to strengthen on the back of the tight situation, reaching the highest crack spread in the second week of May. However, the situation has changed dramatically since the middle of the month, when news about gasoline stock builds after eleven weeks of decline, causing gasoline to lose the uptick gained in the last two months.

Another bearish factor was the increase in refinery runs and the less-than-expected impact from flooding along the Mississippi river on refinery operations in the region. All these bearish factors turned the gasoline market from backwardation to contango.

Middle distillate demand remained relatively strong in the US at 3.81m b/d in May, a gain of 170,000 b/d over the same month last year, although 80,000 b/d lower than in the previous month.

Product market sentiment in Europe continued to be mixed and volatile as gasoline remained strong, though partially affected by bearish sentiment in the Atlantic, while middle distillates and fuel oil continued weakening.

The European gasoline market managed to continue increasing margins on average, though exhibiting an erratic performance during the month.

The European naphtha market remained relatively strong on the back of higher reforming margins and concerns about unrest in Syria.

However, lately the sentiment has turned bearish, due to the behaviour of the gasoline market and negative factors on the supply side, such as LPG competing in the petrochemical sector amid higher inflows, due to increased exports from Russia, as a consequence of the upcoming raising of export duties.

Middle distillates continued their weakening trend in an environment of ample supply and lower seasonal demand in the region, which worsened as the dry weather across Europe limited gasoil demand for farming activity.

The European fuel oil market continued losing ground because of weaker demand, amid ample supplies, due to expectations of an upcoming rise in summer utility demand.

Additional pressure came from increasing Russian exports from refineries returning from maintenance.

The Asian naphtha market continued gaining ground last month, supported by the petrochemical sector, after returning from maintenance.

The gasoline market continued receiving support from the demand side in the region and the crack spread kept increasing, on the back of expectations of higher consumption ahead of the driving season, to surpass $16/b in the second week of the month.

However, the trend reversed after mid-May as a consequence of higher refinery runs in the region amid the closing of westbound

arbitrage, due to weak demand and stocks rising in the US.

The middle distillate market weakened as gasoil supply from refineries returning online from maintenance outpaced higher demand from China, due to rising diesel demand for power generators, and Vietnam, due to higher requirements resulting from the Dung Quat refinery shutdown.

The increase in Singapore gasoil inventories and diminishing jet arbitrage opportunities to Northwest Europe fuelled additional bearish sentiments in the middle distillates market.

Oil trade

US crude oil imports rose by 374,000 b/d in May to average 9.07m b/d, the highest level so far this year and the largest amount since the 9.2m b/d recorded last September.

However, compared with a year ago, crude oil imports in May were 550,000 b/d, or 5.7 per cent, lower than in May 2011.

For the period January-May, the US imported 8.8m b/d of crude on average, down by 370,000 b/d, or four per cent, from a year ago.

The decline in crude oil imports this year is attributed to weaker demand from refineries, which continued to operate below seasonal levels and resulted in lower product inventories.

US oil product imports also declined in May, but only slightly, to average 2.72m b, down by 38,000 b/d, or 1.4 per cent, from the previous month.

The drop in product imports was attributed to distillates and fuel oil, while gasoline imports rose by almost 200,000 b/d.

However, despite the decline, product imports stood at their second-highest level so far this year and showed y-o-y growth of 238,000 b/d, or 9.6 per cent.

Product imports averaged 2.65m b/d over the first five months of 2011, compared with 2.56m b/d in the same period a year earlier.

On the supply side, the US exported 53,000 b/d, or 2.4 per cent, fewer products in May than in the previous month. At 2.16m b/d, US product exports were the lowest since March 2010.

Nevertheless, considering the first five months, US product exports were at 2.36m b/d on average in 2011, some 250,000 b/d higher than a year earlier.

As a result, US net oil imports increased by 390,000 b/d, or 4.3 per cent, to average 9.59m b/d in May, but were 138,000 b/d, or 1.4 per cent, lower than a year ago.

Crude oil net imports accounted for 9.04m b/d, up by 374,000 b/d and product net imports for 550,000 b/d, just 16,000 b/d more than in the previous month.

The US imported 4.74m b/d of crude oil from OPEC Member Countries in March, up by 69,000 b/d, or 1.7 per cent, from February.

However, despite this marginal increase, the share of OPEC in US crude oil imports fell to below 46 per cent, compared with almost 51 per cent in February.

Canada remained the main supplier of US crude oil, even though its share fell from 27.4 per cent to 23.8 per cent. Saudi Arabia lost its second position to Mexico, which saw its share rise from 12.5 per cent to 13.1 per cent. Saudi Arabia's share dropped from 13.9 per cent in February to 12.3 per cent.

On the oil product side, the US imported 326,000 b/d from OPEC in March, which corresponded to a share of 17.3 per cent of total US product imports.

Canada and Russia remained the main suppliers with 20.1 per cent and 14.7 per cent, respectively. Algeria exported some 180,000 b/d of products to the US in March, representing a share of 9.1 per cent of total US product imports.

Japan's crude oil imports fell for the fourth consecutive month in April to average 3.45m b/d, down by 331,000 b/d, or 8.7 per cent, from the previous month.

At 3.45m b/d, Japanese crude oil imports were at their lowest level since last October. Compared with a year ago, Japan's crude oil imports were 382,000 b/d, or ten per cent, lower in April 2011.

In contrast to crude, Japan's oil product imports increased by 161,000 b/d to average 1.14m b/d, the highest so far this year. The rise came to compensate for the decline in weaker production from refineries as production fell because of lower utilization rates, due to damaged plants.

Product imports in April were even much higher compared with a year ago – by 38 per cent. All products saw imports increase, except LPG and to some extent kerosene, which fell slightly. Fuel oil imports more than doubled.

Japan's oil product exports fell by 150,000 b/d, or 36 per cent, to a low level of 263,000 b/d as refineries remained affected by the March earthquake and tsunami. Product exports were half the level of April 2010.

It meant that Japan's net oil imports dropped by a marginal 18,000 b/d, or 0.4 per cent, in April to average 4.33m b/d, the lowest level since last October, but still higher by 190,000 b/d, or 4.6 per cent, than in April 2010

Saudi Arabia remained the largest supplier of crude oil to Japan with 1.14m b/d, or 27.4 per cent of Japan's total crude oil imports. The United Arab Emirates (UAE) kept its second position with 970,000 b/d, or 23.4 per cent, followed by Qatar with 360,000 b/d and Iran with 290,000 b/d.

Imports from non-OPEC countries accounted for 19.2 per cent of Japan's total crude oil imports in April, compared with 13 per cent a year ago.

On the product side, Saudi Arabia remained the main supplier with 290,000 b/d, or 25.6 per cent, followed by the FSU with 240,000 b/d, or 20.9 per cent, and Qatar with 200,000 b/d, or 17.2 per cent.

Qatar's share in Japan's oil product imports rose sharply from April 2010, when they stood at just nine per cent, compared with 17.2 per cent this year.

China's crude oil imports recovered in April to offset the decline of the previous month, averaging 5.26m b/d, up by 140,000 b/d, or 2.7 per cent.

At 5.26m b/d, China's crude oil imports were at their highest level since the record

high of 5.69m b/d seen last September and the third-highest on record on a daily basis. Imports were still higher than a year ago by 91,000 b/d, or 1.8 per cent.

Chinese crude oil imports averaged 5.19m b/d in the first four months of 2011, compared with 4.76m b/d for the same period last year.

The growth of more than nine per cent from a year ago was attributed to strong demand from refiners, where throughputs rose by more than nine per cent in the first four months of 2011.

The strong increase in China's crude oil imports was also reflected in growing crude oil inventories. China's crude oil imports will likely remain strong in the coming months as demand for diesel as a fuel for power generation might increase because of expected power shortages, due to drought.

China's oil product imports saw an opposite trend, dropping by 114,000 b/d, or 9.5 per cent, to stand at nearly 1.1m b/d, the lowest so far this year.

"Chinese crude oil imports averaged 5.19m b/d in the first four months of 2011, compared with 4.76m b/d for the same period last year."

The decline in product imports was attributed to fuel oil because of lower demand and growing production from refineries where many were operating at nearly full capacity.

Exports of oil products fell by 120,000 b/d, or 16 per cent, to around 630,000 b/d, resulting in net fuel imports of 450,000 b/d.

Nevertheless, when considering the first four months of the year, China's net oil product imports averaged 540,000 b/d, compared with 290,000 b/d in the same period the previous year, implying y-o-y growth of 88 per cent.

However, China's total net oil trade rose to 5.65m b/d in April, implying an increase of around 150,000 b/d, or 2.8 per cent, from the previous month and a year earlier.

This growth is much higher if we consider the period of the first four months of the year. It shows that China's net oil imports averaged almost 5.7m b/d, compared with less than 5.0m b/d in the same 2010 period, implying y-o-y growth of 13.6 per cent.

Saudi Arabia remained the main supplier of Chinese foreign crude oil with 940,000 b/d, representing a share of 17.8 per cent, compared with 20 per cent in March. Imports from Angola, the second-largest supplier, dropped to 650,000 b/d, resulting in a share of 12.4 per cent, versus 13.4 per cent a month earlier.

India's crude oil imports jumped by 482,000 b/d, or 14.2 per cent, in April to a record high of almost 3.9m b/d. Crude oil imports also showed y-o-y growth of 215,000 b/d, or six per cent.

The jump in crude oil imports over the previous month was driven by higher requirements from refineries, which increased their throughputs.

India's oil product imports followed the opposite trend, decreasing by 14,000 b/d, or 3.4 per cent, from the previous month to 400,000 b/d.

Fuel oil and gasoline were the main contributors to the slight decline, while imports of diesel oil, naphtha and kerosene rose by 12.9 per cent, 10.2 per cent and 3.3 per cent, respectively.

When compared with a year earlier, the country's oil product imports displayed a jump of around 45 per cent, which was mainly attributed to the increased imports of diesel and fuel oil.

India has imported 13 per cent more crude oil and 35 per cent more products in the past four months, compared with the same period the previous year.

The rise in imports reflects increasing domestic sales which showed y-o-y growth of almost 4.2 per cent in April, according to government data.

On the export side, oil products declined by 138,000 b/d, or 11 per cent, in April to average 1.13m b/d, the lowest level so far this year.

On an annual basis, exports increased by ten per cent in April. India exported 1.22m b/d of oil products on average in the first four months of the current year, up by 382,000 b/d, or 45 per cent, from the same period a year ago.

As a result, India's net oil imports averaged 3.13m b/d in April, up by 606,000 b/d, or 24 per cent, from the previous month and 7.5 per cent more than a year earlier.

Total FSU crude oil exports rose from 6.83m b/d in March to nearly 6.91m b/d in April, implying growth of 80,000 b/d, or 1.1 per cent, as Russian producers maximized their loadings ahead of the May 1 duty hike, which includes higher contributions from Azeri and Kazakh supplies.

This came in addition to a substantial increase of around 305,000 b/d in the previous month. Thus, in two months, FSU crude oil exports jumped by almost 400,000 b/d. Compared with a year earlier, FSU exports in April showed y-o-y growth of 84,000 b/d, or 1.2 per cent.

Stock movements

At the end of May, US commercial oil inventories reversed the downward trend observed over the previous months and increased substantially – by 20.4m b – to end the month at 1,061.5m b.

The build was divided between products and crude, which increased by 13.1m b and 7.3m b, respectively.

Despite the build, total US commercial oil inventories remained at 35.4m b, 3.2 per cent below last year in the same period, while the surplus with the five-year average widened to 12.5m b, or 1.2 per cent, in May from 9.7m b, or 0.9 per cent, a month earlier.

US commercial crude oil stocks continued their climb seen since the beginning of this year and reached the highest level in May since 1990.

At 373.8m b, US crude oil stocks stood 7.3m b, or 15.4 per cent, above a year ago and 30.7m b, or 9.0 per cent, more than the seasonal norm.

The build came on the back of higher

crude oil imports, which increased by almost 400,000 b/d to average 9.0m b/d, but still remained lower than a year ago over the same period.

During the week ending May 27, US crude oil imports reached 9.5m b/d, pushing US crude oil stocks to rise by almost 3.0m b. This build came despite a strong rise in refinery runs, which jumped by 500,000 b/d to reach 14.5m b/d.

At the end of May, refiners were running at 84.3 per cent, 1.5 per cent above the previous month, but remained 3.6 per cent below last year at the same time.

Relatively weak US oil product demand, compared with the previous year, is still keeping a brake on crude runs. Cushing crude stocks at the end of May stood at around 40.0m b, but during the last week of the month, they saw a small drop, caused by the shut-in of the Keystone pipeline.

US oil product stocks reversed the continuous drop they have seen since August 2010 and experienced a strong build of 13.1m b to end the month at 687.7m b.

Despite the build, US product inventories remained at 51m b, 6.9 per cent below a year ago over the same period, and 18.2m b, or 2.6 per cent, less than the five-year average.

With the exception of distillates and residual fuel, all other products experienced a build, with the bulk coming from gasoline, followed by other product stocks.

Gasoline inventories reversed three months of decline and increased by 7.7m b to 212.3m b. With this build, the US gasoline deficit with last year narrowed to 1.6 per cent, from 6.8 per cent a month earlier, while the deficit with the five-year average switched to a surplus of 3.3m b, or 1.6 per cent.

As gasoline demand in May remains almost at the same level as in April, averaging 9.1m b/d, the rise in gasoline production supported the build in gasoline stocks.

In fact, gasoline output rose by 350,000 b/d to a total of 9.2m b/d. Drawn by strong price arbitrage, imports remained high, well over 1.2m b/d, which also helped to boost gasoline stocks.

In the coming weeks, refiners will likely keep crude runs at higher levels, which could contribute to a further build in gasoline inventories.

In contrast to gasoline, distillate stocks continued their downward trend for the last five months and declined by 5.0m b to stand at 140.1m b.

However, despite the draw, distillate inventories remained at 6.1m b, or 4.6 per cent, above the historical average, but showed a deficit with a year ago at 10.2m b, or 6.8 per cent.

The decline in US distillate stocks could be attributed to higher exports and lower imports as production remained overall stable at 4.2m b/d. Distillate demand also remained almost at the previous month's level, slipping slightly to 3.8m b/d, but stood 200,000 b/d lower than the same period in the previous year.

The distillate market will remain in neutral territory as current higher prices suppress industrial demand and refiners are switching to increasing gasoline yield amid the driving season.

Residual fuel oil and jet fuel oil saw a mixed picture as residual fuel oil stocks declined by 300,000 b, while jet fuel inventories rose by 300,000 b.

Residual fuel stocks ended April at 38.0m b, a shortage from a year ago and the five-year average of 16.7 per cent and 5.8 per cent, respectively.

At 40.1m b, jet fuel oil stocks stood ten per cent below last year at the same period and indicated a deficit of 5.4 per cent with the seasonal norm.

In Japan in April, commercial oil stocks continued their upward trend for the second consecutive month, rising by 18.2m b to stand at 181.1m b, the highest level since February 2009.

With the strong build, Japanese oil inventories widened the surplus with a year ago to 8.6 per cent, from 2.1 per cent a month earlier.

At the same time, the deficit with the five-year average seen in previous months switched to a surplus of 6.5m b, or 3.7 per cent.

The build in total commercial oil stocks has been driven by both crude and products, which rose by 7.1m b and 11.0m b, respectively.

Japanese crude oil stocks rose in April for the second consecutive month to stand at 105.0m b, the highest in nine months. At this level, Japanese crude oil stocks stood at 5.0m b, or 5.0 per cent, above a year ago and showed a surplus with the five-year average of 1.4m b, or 1.3 per cent.

The build in crude oil stocks in April came mainly from very low refinery utilization rates, which stood at 70.6 per cent, or 5.5 per cent, lower than the previous month and 5.6 per cent lower from a year ago.

This corresponded to crude throughput of 3.3m b/d, which is around 100,000 b/d, or 3.1 per cent, lower than the previous month and 10.8 per cent below last year over the same period.

The fall in crude oil imports limited the build in crude oil stocks. Indeed, crude oil imports in April fell by 215,000 b/d to average 3.6m b/d and were seven per cent less than a year ago as some refineries halted imports, due to damage from the earthquake in March.

The outlook for crude oil imports remains cloudy as there is a mix of factors, such as reconstruction and rising demand for crude burning for power generation pushing for higher crude imports, while ongoing refinery shutdowns after the quake could lead to fewer crude imports.

Japan's total oil product stocks also rose in April, reversing the slight drop seen in March. At 76.0m b, total products stood at their highest level since November 2010. The strong build in product stocks left them at 14 per cent above a year ago for a deficit of 2.3 per cent a month earlier.

The deficit with the five-year average incurred last month also switched to a surplus of 7.3 per cent, indicating healthy product stocks at the end of April.

The build in product stocks could be attributed to the decline in Japanese oil product sales, which fell by 13.5 per cent from a month earlier and 11.9 per cent from a year ago.

This marked the steepest decline since May 2009 as demand plunged and refinery

operations were disrupted after the tragic events seen in the country.

All products saw a build with the bulk coming from distillates, which increased by 4.5m b, followed by residual fuel with a build of 2.7m b, while residual gasoline and naphtha expanded by 2.2m b and 1.5m b, respectively.

Distillate inventories rose to end the month at 29.6m b, leaving them at 4.9m b, or 20.1 per cent, above a year ago at the same time and 2.7m b, or 10.2 per cent, above the five-year average.

Within the components of distillates, kerosene rose by 25.5 per cent, while jet fuel and gasoil stocks rose by 15.8 per cent and 11.7 per cent, respectively. The build in kerosene stocks could be attributed to the decline of domestic sales by almost half, combined with higher production, which rose by 15.8 per cent.

The increase in jet fuel stocks came mainly on the back of the decline in domestic sales by 15.7 per cent. The rise in gasoil stocks also came as domestic sales went down by 6.1 per cent.

"At the end of May, US commercial oil inventories ... increased substantially — by 20.4m b — to end the month at 1,061.5m b."

The build in residual fuel oil was driven by the increase in fuel oil BC and fuel oil A, which went up by 14.3 per cent and 19.9 per cent, respectively. The build in fuel oil BC could be attributed to lower domestic sales, which declined by 6.8 per cent, combined with the jump in imports, which more than doubled.

The build in fuel oil A came on the back of a 9.8 per cent decrease in domestic sales. At 18.1m b, residual fuel oil stocks stood at 1.6m b, or 9.7 per cent, above a year ago, almost in line with the five-year average.

The rise in gasoline stocks is attributed to the decline in domestic sales, which dropped by 9.6 per cent, combined with higher imports. At 14.9m b, gasoline stocks stood at their highest level since the end of last year and showed a surplus of 1.8 per cent, compared with a year ago. They were also 0.7 per cent higher than the five-year average.

Naphtha stocks also saw a build to end the month at 13.4m b, remaining at 2.6m b above a year ago over the same period.

In Singapore at the end of April, oil product stocks continued to build for the third consecutive month, increasing by 300,000 b to end the month at 44.4m b.

Despite the build, product stocks remained at 4.9m b, or ten per cent, below a year ago at the same time.

Within products, the picture was mixed. Fuel oil stocks saw a build of 3.7m b, while distillate components abated the build as light distillates dropped by 900,000 b, while middle distillates fell by 2.5m b.

At 22.6m b, fuel oil stocks rose to their highest level since August 2010, but remained at 1.8m b, or 7.3 per cent, below a year ago at the same time. This build could be attributed to higher Western arbitrage arrivals, totaling around 4.5 million tonnes.

Middle distillate stocks were down to 10.7m b and stood at their lowest level in over a year. At this level, middle distillate stocks last month reversed the surplus with a year ago to a deficit of 2.8m b, or 20 per cent.

This drop was due to higher exports to India, Australia and Indonesia. Lower imports, especially from China and Japan, also contributed to the decline.

China's refineries are reducing diesel exports in an effort to meet increasing domestic demand.

Light distillate inventories also declined to end the month at 11.1m b, remaining slightly below a year ago at the same period.

The fall in stocks was partly attributed to reduced gasoline exports to China. Inventories in the coming months could fall further as India and South Korea could redirect their imports to the US, due to expected higher demand.

In the Amsterdam-Rotterdam-Antwerp area, oil product stocks in April reversed the build incurred the previous month to decline by 800,000 b and end the month at 39.3m b.

At this level, they were still 400,000 b, or 1.0 per cent, above a year ago at the same time.

Within products, the picture was mixed. Fuel oil and gasoil saw a build, while gasoline, jet oil and naphtha indicated a drop.

Gasoline stocks went down by 900,000 b to 6.4m b, representing a 2.3m b, or 26 per cent, deficit with a year ago. However, during the week ending April 28, gasoline stocks rose as many cargoes that were in floating storage in the North Sea were moved into ARA tanks.

Jet fuel stocks fell by 600,000 b to 5.1m b and stood at 1.1m b, or 18 per cent, below a year ago at the same time. The drop in imports from the Middle East and India was behind this stock-draw.

In contrast, fuel oil stocks rose by 300,000 b to 5.4m b, but still remained 700,000 b, or 11.6 per cent, below a year earlier. The build in fuel oil stocks could be attributed to higher imports, especially from the UAE, which outpaced exports.

However, the weakness in regional fundamentals is likely to pressure absolute prices enough to re-open an arbitrage window to Asia and prevent a continued build in ARA fuel oil stocks.

Gasoil stocks rose by 500,000 b to 22.0m b, representing a surplus of 4.6m b, or 27 per cent, with a year earlier in the same period.

Table A: World crude oil demand/supply balance															*m b/d*
World demand	**2005**	**2006**	**2007**	**2008**	**2009**	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**2010**	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**2011**
OECD	49.9	49.6	49.3	47.6	45.6	45.9	45.2	46.7	46.8	46.1	46.4	45.1	46.7	46.9	46.3
North America	25.6	25.4	25.5	24.2	23.3	23.6	23.8	24.3	24.0	23.9	23.9	23.9	24.4	24.3	24.1
Western Europe	15.7	15.7	15.4	15.3	14.7	14.2	14.1	14.8	14.7	14.5	14.2	14.0	14.7	14.6	14.4
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.3	7.6	8.0	7.8	8.3	7.2	7.5	8.0	7.7
Developing countries	22.8	23.6	24.7	25.5	26.1	26.5	26.8	27.0	27.1	26.8	27.1	27.4	27.6	27.7	27.4
FSU	3.9	4.0	4.0	4.1	4.0	4.0	3.9	4.3	4.4	4.1	4.1	3.9	4.4	4.5	4.2
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.8	0.7	0.7	0.6	0.7	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.4	9.1	9.2	9.1	9.0	9.1	9.8	9.8	9.6	9.6
(a) Total world demand	**84.1**	**85.2**	**86.4**	**85.9**	**84.7**	**85.5**	**85.6**	**87.8**	**88.1**	**86.8**	**87.4**	**86.8**	**89.1**	**89.3**	**88.1**
Non-OPEC supply															
OECD	20.4	20.1	20.0	19.5	19.7	20.0	19.9	19.5	20.3	19.9	20.1	19.9	19.8	20.1	20.0
North America	14.1	14.2	14.3	13.9	14.4	14.7	14.9	14.9	15.3	15.0	15.2	15.2	15.1	15.3	15.2
Western Europe	5.7	5.3	5.2	4.9	4.7	4.7	4.4	4.0	4.4	4.4	4.3	4.2	4.1	4.2	4.2
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Developing countries	11.9	11.9	11.9	12.2	12.5	12.7	12.7	12.8	12.8	12.7	12.9	13.0	13.2	13.4	13.1
FSU	11.5	12.0	12.5	12.6	13.0	13.2	13.2	13.2	13.3	13.2	13.3	13.4	13.3	13.4	13.4
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.2	4.3	4.2
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	49.9	50.4	50.3	51.1	52.1	52.1	51.9	52.9	52.3	52.8	52.7	52.8	53.4	52.9
OPEC NGLS and non-conventionals	3.9	3.9	3.9	4.1	4.3	4.7	4.8	5.2	5.0	4.9	5.1	5.3	5.4	5.4	5.3
(b) Total non-OPEC supply and OPEC NGLS	**53.4**	**53.8**	**54.4**	**54.4**	**55.5**	**56.8**	**56.9**	**57.1**	**57.9**	**57.2**	**57.9**	**58.0**	**58.2**	**58.8**	**58.2**
OPEC crude supply and balance															
OPEC crude oil production[1]	30.7	30.5	30.2	31.2	28.7	29.1	29.1	29.3	29.3	29.2	29.6				
Total supply	84.1	84.3	84.5	85.6	84.2	85.9	86.0	86.4	87.2	86.4	87.5				
Balance[2]	0.0	-0.9	-1.9	-0.3	-0.5	0.4	0.4	-1.5	-0.9	-0.4	0.1				
Stocks															
OECD closing stock level *m b*															
Commercial	2576	2656	2555	2679	2641	2658	2751	2735	2654	2654	2643				
SPR	1487	1499	1524	1527	1564	1567	1562	1549	1561	1561	1558				
Total	4063	4154	4079	4206	4205	4225	4313	4285	4215	4215	4201				
Oil-on-water	954	919	948	969	919	919	897	926	871	871	891				
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	57	59	59	59	57	57	59				
SPR	30	30	32	33	34	35	33	33	34	34	35				
Total	82	84	86	92	91	93	92	92	91	91	93				
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.1	9.3	8.9	8.9	9.1	9.2	9.4	9.0	9.0	9.1
[(a) – (b)]	**30.7**	**31.4**	**32.0**	**31.5**	**29.2**	**28.7**	**28.7**	**30.8**	**30.2**	**29.6**	**29.4**	**28.8**	**30.9**	**30.5**	**29.9**

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

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

Table 1 *above, prepared by the Secretariat's Petroleum 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 1 and 2*** *on page 72, while* ***Graphs 1 and 2*** *on page 73 show the evolution on a weekly basis.* ***Tables 3 to 8*** *and the corresponding graphs on pages 74–75 show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided courtesy of Platt's Energy Services.)*

Table 1: OPEC Reference Basket crude oil prices

$/b

Crude/Member Country	2010 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011 Jan	Feb	Mar	Apr	May	Weeks 17–21 (week ending) Apr 29	May 6	May 13	May 20	May 27
Arab Light – Saudi Arabia	75.50	73.84	72.63	74.21	74.55	79.93	83.32	89.24	93.59	101.21	110.37	118.27	110.08	119.98	114.57	109.46	107.66	108.39
Basrah Light – Iraq	73.15	72.09	72.14	73.39	73.70	79.36	82.14	88.09	92.33	99.52	109.16	117.05	107.93	118.54	112.24	107.35	105.29	106.45
Bonny Light – Nigeria	76.87	76.00	77.04	78.82	79.65	84.35	86.83	93.08	98.10	105.66	116.75	127.12	118.88	128.92	123.82	118.58	115.78	117.10
Es Sider – SP Libyan AJ	74.87	73.65	74.84	76.27	77.15	82.60	84.93	91.13	96.10	103.51	114.35	124.52	115.90	126.32	120.90	115.58	112.78	114.10
Girassol – Angola	75.53	74.85	74.78	76.55	77.25	82.55	85.80	91.36	96.18	104.42	115.35	123.74	114.91	125.44	120.09	114.37	111.60	113.23
Iran Heavy – IR Iran	74.09	71.83	71.07	73.20	73.58	78.99	82.24	87.81	92.22	99.29	108.05	116.27	108.28	118.28	113.16	107.70	105.89	106.30
Kuwait Export – Kuwait	74.23	72.03	70.69	72.42	72.92	78.10	81.59	87.25	91.45	98.75	107.66	115.64	107.59	117.58	112.35	106.98	105.33	105.64
Marine – Qatar	76.58	73.97	72.54	74.48	75.26	80.31	83.41	88.98	92.69	100.18	108.87	116.41	109.10	118.46	113.98	108.48	107.05	106.94
Merey* – Venezuela	65.86	65.10	65.99	67.19	66.91	71.21	73.07	77.30	80.09	87.51	96.22	104.44	98.44	105.60	101.83	97.79	96.30	97.35
Murban – UAE	78.57	75.90	74.42	76.12	76.93	82.20	85.36	91.06	95.04	102.75	111.93	119.95	113.37	122.49	118.07	112.72	111.32	111.41
Oriente – Ecuador	68.62	69.19	68.72	69.27	70.69	76.42	77.45	82.99	84.80	90.14	105.04	112.82	104.63	115.84	110.28	105.18	101.50	102.01
Saharan Blend – Algeria	75.67	75.05	76.49	78.22	78.95	83.90	86.28	92.46	97.50	105.01	115.95	126.57	116.80	128.37	121.80	116.48	113.68	115.00
OPEC Reference Basket	**74.48**	**72.95**	**72.51**	**74.15**	**74.63**	**79.86**	**82.83**	**88.56**	**92.83**	**100.29**	**109.84**	**118.09**	**109.94**	**119.79**	**114.56**	**109.41**	**107.42**	**108.17**

Table 2: Selected OPEC and non-OPEC spot crude oil prices

$/b

Crude/country	2010 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011 Jan	Feb	Mar	Apr	May	Weeks 17–21 (week ending) Apr 29	May 6	May 13	May 20	May 27
Minas – Indonesia[1]	82.47	78.87	75.59	77.93	79.47	83.35	85.96	94.98	99.74	105.29	114.62	127.19	119.69	129.55	124.60	119.33	117.11	117.45
Arab Heavy – Saudi Arabia	73.72	71.19	69.59	71.42	71.88	76.98	80.62	86.11	90.26	97.20	105.80	113.74	105.56	115.83	110.50	104.96	103.40	103.45
Brega – SP Libyan AJ	75.37	74.35	75.49	77.12	77.95	83.00	85.58	91.78	96.75	104.16	115.00	125.62	117.00	127.42	122.00	116.68	113.88	115.20
Brent – North Sea	75.57	74.85	75.64	77.07	77.80	82.75	85.33	91.53	96.35	103.76	114.60	123.72	115.10	125.52	120.10	114.78	111.98	113.30
Dubai – UAE	76.49	73.99	72.49	74.28	75.13	80.22	83.72	89.17	92.33	99.93	108.71	116.01	108.76	118.25	113.80	108.13	106.53	106.60
Ekofisk – North Sea	75.96	76.15	76.75	78.22	78.87	83.68	86.33	92.72	97.54	104.65	116.27	124.98	116.34	126.72	120.00	116.21	113.84	115.48
Iran Light – IR Iran	73.21	73.13	73.39	75.06	76.82	82.32	84.38	90.60	94.90	100.91	111.44	118.93	109.86	120.60	113.93	109.70	107.17	108.86
Isthmus – Mexico	73.73	73.41	74.30	75.50	74.16	79.58	82.03	88.17	90.46	94.56	107.97	117.90	109.62	119.95	114.08	109.43	106.58	108.05
Oman – Oman	76.75	74.18	72.59	74.57	75.43	80.44	83.91	89.24	92.49	100.27	109.00	116.56	109.25	118.50	114.09	108.67	107.16	107.19
Suez Mix – Egypt	70.42	71.47	70.91	72.58	74.63	78.76	81.97	86.88	90.87	98.64	108.40	116.50	108.06	118.19	111.34	107.98	105.58	107.35
Tia Juana Light[2] – Venez.	72.04	71.65	72.74	74.07	72.60	77.91	80.14	85.97	88.37	92.85	105.60	115.31	107.97	117.31	112.37	107.79	104.98	106.43
Urals – Russia	74.10	74.37	73.80	75.45	77.39	81.53	84.74	89.74	93.56	101.49	111.50	119.60	111.50	121.24	115.76	110.79	108.54	110.36
WTI – North America	73.65	75.29	76.11	76.62	75.14	81.89	84.08	89.15	89.49	89.40	102.99	109.89	101.19	112.69	105.98	100.71	98.38	99.54

Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the ORB has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia).

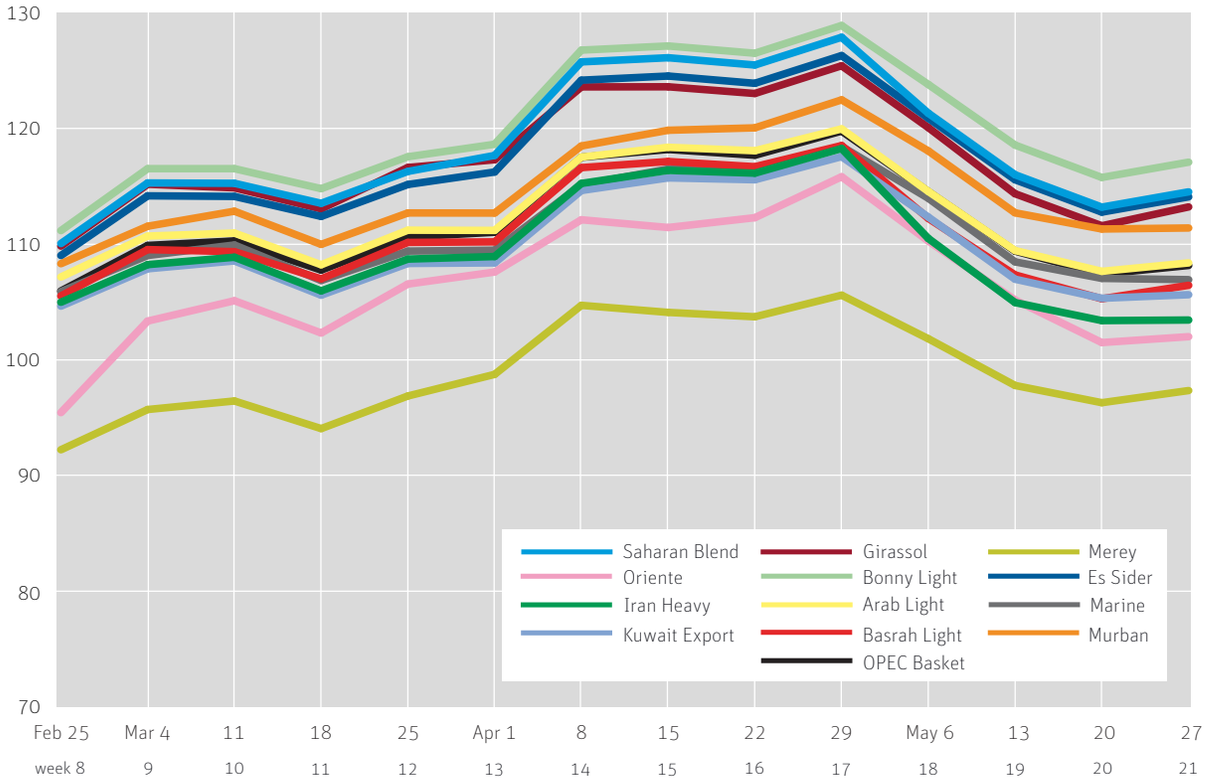
* *Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.*

1. *Indonesia suspended its OPEC Membership on December 31, 2008.*
2. *Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.*

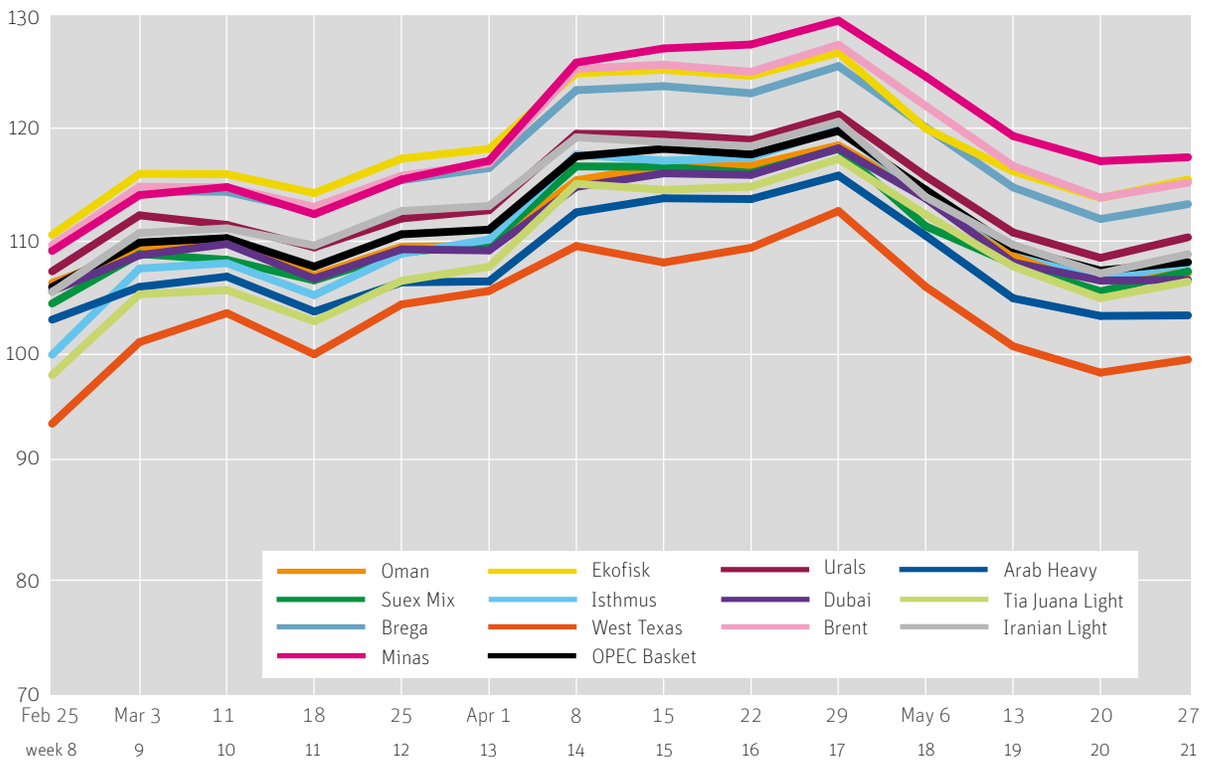
Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

Sources: The netback values for TJL price calculations are taken from RVM; Platt's; Secretariat's assessments.

Graph 1: Evolution of the OPEC Reference Basket crudes, 2011 *$/b*



Graph 2: Evolution of spot prices for selected non-OPEC crudes, 2011 *$/b*

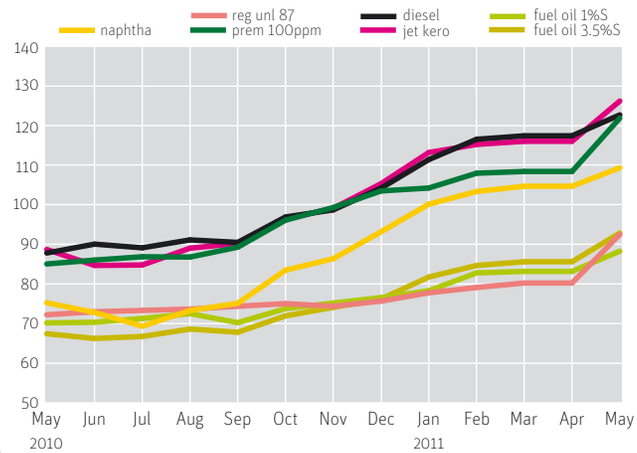


Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the basket has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia).
Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.

Table and Graph 3: North European market — spot barges, fob Rotterdam

$/b

		naphtha	regular gasoline unleaded	premium gasoline 50ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2010	May	75.25	71.87	85.03	87.79	88.68	73.25	70.47
	June	72.81	71.29	85.50	87.03	84.66	76.70	73.31
	July	69.33	72.22	85.63	89.10	84.77	70.16	67.44
	August	73.29	72.97	86.77	88.21	89.01	70.33	66.24
	September	75.12	73.31	89.26	90.47	90.19	71.28	66.74
	October	83.47	73.65	96.08	96.88	96.35	72.50	68.62
	November	86.37	74.36	99.26	98.67	99.07	75.18	74.09
	December	93.15	75.66	103.44	104.15	105.26	76.54	76.19
2011	January	100.10	77.75	104.18	111.35	113.13	78.28	81.73
	February	103.29	79.10	107.91	116.47	115.17	82.77	84.65
	March	104.63	80.22	108.35	117.35	115.96	83.16	85.59
	April	108.74	84.22	112.96	121.62	118.96	85.36	87.66
	May	109.28	92.48	121.80	122.62	126.12	88.25	92.83



Note: Prices of premium gasoline and diesel from January 1, 2008, are with 10 ppm sulphur content.

Table and Graph 4: South European market — spot cargoes, fob Italy

$/b

		naphtha	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
2010	May	73.26	59.76	59.76	69.78	66.58
	June	70.99	59.98	60.01	68.04	65.99
	July	66.56	59.99	60.23	70.62	65.61
	August	71.39	59.99	60.23	71.80	68.87
	September	73.69	60.19	60.26	70.21	66.78
	October	81.91	60.22	60.40	72.90	71.76
	November	84.55	61.15	60.52	74.36	72.38
	December	90.81	61.60	60.55	75.98	73.77
2011	January	93.16	64.63	67.86	78.79	75.93
	February	95.86	69.33	70.41	83.19	80.26
	March	96.09	69.49	71.14	84.82	81.40
	April	98.85	75.51	75.15	89.81	83.56
	May	105.53	85.08	82.59	96.46	92.40

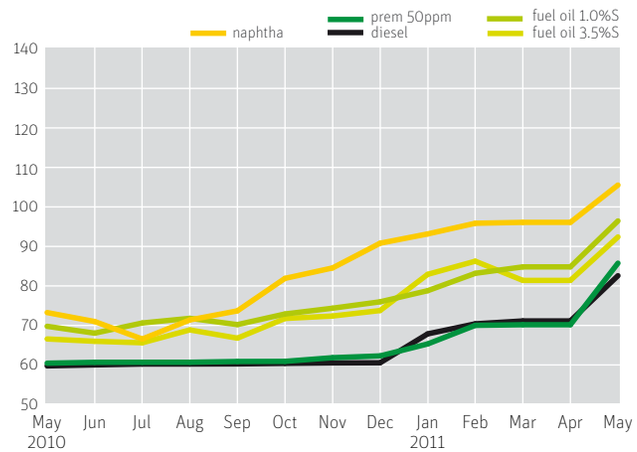
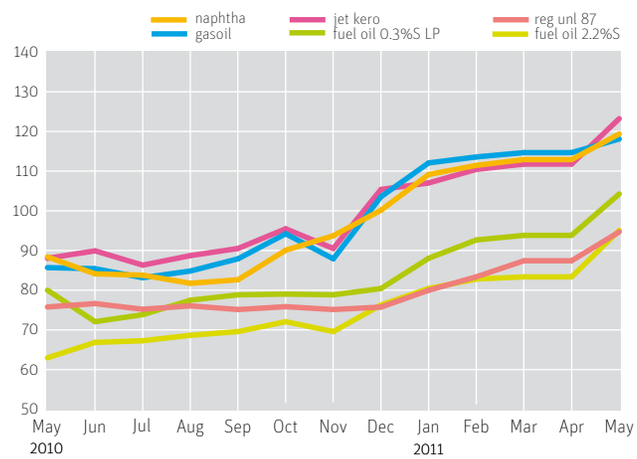


Table and Graph 5: US East Coast market — spot cargoes, New York

$/b, duties and fees included

		naphtha	regular gasoline unleaded 87	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
2010	May	77.27	88.39	87.63	90.51	77.38	62.16
	June	76.76	84.12	92.79	95.13	79.53	62.63
	July	75.77	83.78	85.69	88.03	80.00	62.95
	August	76.62	81.74	85.41	89.91	72.06	66.84
	September	75.19	82.62	83.14	86.31	73.83	67.26
	October	76.05	90.07	84.83	88.71	77.47	68.63
	November	75.12	93.72	87.90	90.51	78.83	69.56
	December	75.74	100.15	103.55	105.38	80.41	76.28
2011	January	79.97	109.14	112.07	107.02	88.04	80.43
	February	83.36	111.45	113.57	110.43	92.65	82.80
	March	87.41	112.90	114.66	111.77	93.82	83.35
	April	89.00	114.02	116.86	114.98	98.72	86.93
	May	94.69	119.37	118.09	123.22	104.25	95.07



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
2010	May	81.08	57.03	88.07	70.78	69.65
	June	81.67	56.93	87.77	70.14	68.99
	July	79.60	56.29	86.41	70.51	69.36
	August	77.25	57.07	89.08	71.88	70.80
	September	79.04	57.72	89.93	68.79	67.39
	October	83.85	59.70	95.56	68.95	67.49
	November	86.27	60.57	98.63	70.47	69.02
	December	93.71	62.32	104.16	73.13	71.68
2011	January	98.29	62.38	104.78	82.79	77.74
	February	99.77	67.77	106.59	87.31	79.43
	March	100.55	69.12	107.04	88.24	81.57
	April	104.76	74.09	109.96	90.90	83.48
	May	107.65	77.26	117.36	95.93	86.48

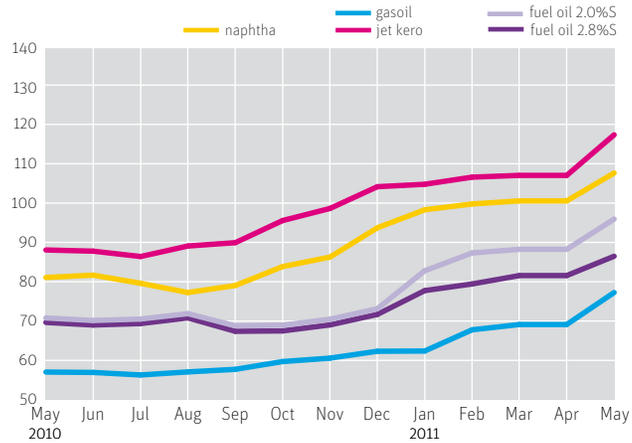


Table and Graph 7: Singapore market — spot cargoes, fob

$/b

		naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 180 Cst	fuel oil 380 Cst
2010	May	77.43	85.12	88.30	89.24	88.12	71.10	71.15
	June	72.42	83.26	81.54	87.36	86.64	71.45	68.31
	July	68.57	82.42	81.99	86.32	85.32	69.68	68.46
	August	73.31	82.52	80.83	88.10	87.23	71.32	69.58
	September	74.52	82.55	80.58	88.53	87.81	70.07	68.92
	October	82.97	89.71	87.66	94.97	94.30	74.42	73.05
	November	87.26	93.21	91.15	98.59	97.87	77.71	75.85
	December	93.83	102.09	100.02	104.40	103.53	80.20	78.57
2011	January	96.87	110.17	108.52	108.17	110.43	82.59	82.95
	February	97.39	112.20	110.97	111.46	112.29	84.69	86.62
	March	98.13	113.95	111.25	112.94	113.07	85.17	87.14
	April	100.83	118.36	113.13	115.79	115.55	87.09	89.71
	May	104.41	120.14	113.49	122.91	117.39	94.34	91.92

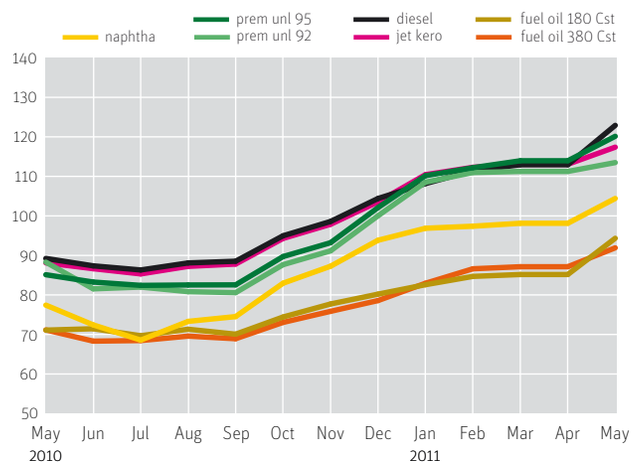
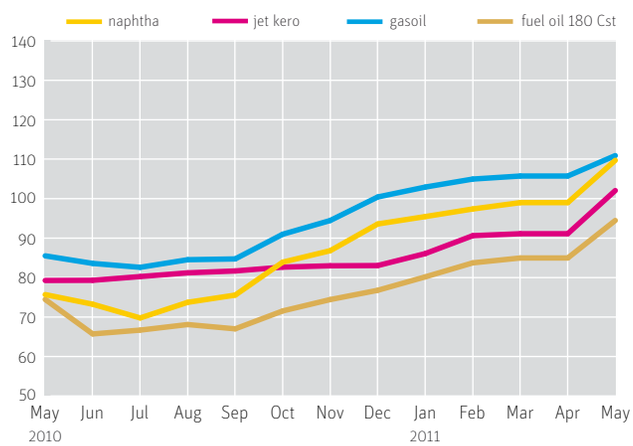


Table and Graph 8: Middle East Gulf market — spot cargoes, fob

$/b

		naphtha	gasoil	jet kero	fuel oil 180 Cst
2010	May	75.69	85.51	79.27	74.46
	June	73.25	83.59	79.31	65.72
	July	69.77	82.60	80.26	66.69
	August	73.73	84.53	81.20	68.10
	September	75.56	84.73	81.68	67.01
	October	83.91	90.99	82.65	71.55
	November	86.82	94.47	82.99	74.43
	December	93.59	100.43	83.05	76.78
2011	January	95.46	102.94	86.08	80.18
	February	97.39	104.97	90.62	83.73
	March	99.00	105.74	91.12	84.97
	April	102.29	110.09	94.49	87.10
	May	109.72	110.92	102.06	94.48



Source: Platts. Prices are average of available days.

The OPEC Award for Research 2012

Call for nominations

The call for nominations for the 2012 OPEC Award for Research has begun. The OPEC Award for Research recognizes past efforts and encourages future endeavours. In this regard, it honours individuals who have made outstanding contributions to knowledge of the petroleum industry and oil-related issues. Instituted in 2004, the Award is conferred by the President of the OPEC Conference on the occasion of the biennial OPEC International Seminar.

The presentation of the fourth prestigious OPEC Award for Research will take place in Vienna, Austria, in June 2012. Organizations and institutions are invited to nominate qualified candidates to be considered for this Award.

Objective of the Award

The OPEC Award for Research recognises past efforts and encourages future endeavours. In this regard, it honours individuals who have made outstanding contributions to knowledge of the petroleum industry and oil-related issues.

Frequency of the Award

Instituted in 2004, the OPEC Award for Research is conferred by the President of the OPEC Conference on the occasion of the biennial OPEC International Seminar.

Eligibility

To be eligible for the OPEC Award for Research, the recipient must:

i. Be well-known in the energy industry and/or academia;
ii. Have consistently maintained high achievement levels over many years, including the production of a substantial record of publications;
iii. Have shown dedication to research and analysis of important oil-related issues;
iv. Have contributed to an improved understanding of key determinants that support oil market stability;
v. Have played a role in enhancing dialogue between producers and consumers;
vi. Have demonstrated a high level of objectivity and integrity in his/her work;
vii. Have consistently presented a critical, yet impartial view on oil-related issues in public debates and discourse;
viii. Have furthered knowledge in the oil industry by encouraging and promoting young researchers within OPEC Member Countries and the developing world;
ix. Have demonstrated innovative thinking throughout his/her career.

Nominations

Candidates for the OPEC Award for Research can be nominated by individuals, institutions and/or organizations by filling out the nomination form. This can also be downloaded from the OPEC Website www.opec.org. Completed nomination forms, accompanied by a 500-word biography of the candidate and a list of some of his/her publications, should be sent either by e-mail to prid@opec.org or by post to:

The Chairman
The OPEC Award for Research
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17, A-1010 Vienna, Austria

Deadline for nominations is Wednesday, August 31, 2011.

Winner

The recipient of the OPEC Award for Research will be chosen by a panel of professionals in the industry from within and outside OPEC Member Countries and the OPEC Secretariat.

Presentation of the Award

The OPEC Award for Research will be presented at the close of the Fifth OPEC International Seminar in Vienna, Austria, on June 13–14, 2012

Nomination form for Research Award 2012

Name of the nominee: _____

Position: _____

Company/Organization: _____

Street address: _____

_____

City: _____ Country: _____

Telephone: _____ E-mail: _____

Nominating Institution: _____

Address: _____

City: _____ Country: _____

Telephone: _____ E-mail: _____

Please send completed nomination forms and samples of published work by e-mail to prid@opec.org or by post:

The Chairman
The OPEC Award for Research
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17
A-1010 Vienna
Austria

All material should be received by August 31, 2011.

Forthcoming events

Challenges in conventional and unconventional gas development, July 14, 2011, Sapporo, Japan. Details: Society of Petroleum Engineers, Suite B-11-11, Level 11, Block B, Plaza Mont'Kiara, Jalan Bukit Kiara, Mont'Kiara, 50480 Kuala Lumpur, Malaysia. Tel: +60 36201 2330; fax: +60 36201 3220; e-mail: spekl@spe.org; website: www.spe.org.

Economics of refining and oil quality, July 14–15, 2011, Singapore. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07–02, The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

Semantics in oil and gas, July 18, 2011, London, UK. Details: SMi Group Ltd, Unit 122, Great Guildford Business Square, 30 Great Guildford Street, London SE1 OHS, UK. Tel: +44 207 827 6000; fax: +44 207 827 6001; e-mail: client_services@smi-online.co.uk; website: www.smi-online.co.uk.

Geopolitics, risk and opportunity in the oil and gas industry, July 18–21, 2011, London, UK. Details: Energy Institute, 61 New Cavendish Street, London W1G 7AR, UK. Tel: +44 207 467 7116; fax: +44 207 580 2230; e-mail: jwarner@energyinst.org.uk; website: www.energyinst.org.uk.

Enhanced oil recovery conference, July 19–21, 2011, Kuala Lumpur, Malaysia. Details: Society of Petroleum Engineers, Suite B-11-11, Level 11, Block B, Plaza Mont'Kiara, Jalan Bukit Kiara, Mont'Kiara, 50480 Kuala Lumpur, Malaysia. Tel: +60 36201 2330; fax: +60 36201 3220; e-mail: spekl@spe.org; website: www.spe.org.

IET Chennai 2nd international conference SEISCON 2011, Sustainable energy and intelligent system conference, July 20–22, 2011, Chennai, Tamil Nadu, India. Details: SEISCON 2011, IETMGR OFFICE (A208), Dr MGR University, Periyar EVR High Road, Maduravoyal, Chennai-600095, Tamil Nadu, India. Tel: +91 44 237 82176/2186/2085; fax: +91 44 237 83165; e-mail: ietseiscon@ietypschennai.org; website: http://seiscon.ietypschennai.org/index.html.

Communication and automation in oil and gas, July 26–28, 2011, Perth, Australia. Details: IQPC Ltd, 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; website: www.iqpc.co.uk.

Offshore drilling rigs 2011, July 27–28, 2011, Singapore. Details: IBC Global Conferences, The Bookings Department, Informa UK Ltd, PO Box 406, West Byfleet KT14 6WL UK. Tel: +44 207 017 55 18; fax: +44 207 017 47 15; e-mail: energycustserv@informa.com; website: www.ibcenergy.com.

Global crisis management for oil and gas, July 28–29, 2011, Singapore. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07–02, The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

Nigeria annual international conference and exhibition, July 30–August 3, 2011, Abuja, Nigeria. Details: Society of Petroleum Engineers, Dubai Knowledge Village, Block 17, Offices S07-S09, PO Box 502217, Dubai, UAE. Tel: +971 4 390 3540; fax: +971 4 366 4648; e-mail: spedub@spe.org; website: www.spe.org.

5th Renewable energy India, August 10–12, 2011, New Delhi, India. Details: Exhibitions India Group Pvt Ltd, 217-B, Okhla Industrial Area, Phase–III, New Delhi 110020, India. Tel: +91 11 4279 5000; fax: +91 11 4279 5098; e-mail: exhibitionsindia@vsnl.com; www.exhibitionsindia.com.

Algae world Australia, August 16–17, 2011, Townsville, Australia. Details: Centre for Management Technology, 80 Marine Parade Road #13–02, Parkway Parade, 449269 Singapore. Tel: +65 6345 7322/6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; website: www.cmtevents.com.

Queensland gas conference and exhibition (QGCE), August 16–17, 2011, Brisbane, Australia. Details: Reed Exhibitions Australia, Tower 2, 475 Victoria Avenue, Chatswood, NSW 2067, Australia. Tel: +61 2 942 2250 0; fax: +61 2 942 22 555; e-mail: inquiry@reedexhibitions.com.au; website: www.queenslandgasconference.com.au.

Nigeria economic forum, August 17–18, 2011, Johannesburg, South Africa. Details: Global Pacific Partners, Suite 7, 4 Montpelier Street, Knightsbridge, London SW7 1EE, UK. Tel: +44 207 589 7804; fax: +44 207 589 7814; e-mail: babette@glopac.com; website: www.petro21.com.

Shale gas world Australia 2011, August 22–24, 2011, Adelaide, Australia. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Western energy policy research conference, August 25–26, 2011, Boise, ID, USA. Details: Energy Policy Institute, Boise State University, 1910 University Drive, Boise, ID 83725-1014, USA. Tel: +1 208 426 4018; fax: +1 208 426 1830; e-mail: LisaWennstrom@boisestate.edu; website: http://epi.boisestate.edu/conference.

Canadian oil sands infrastructure summit, August 29–31, 2011, Calgary, AB, Canada. Details: IQPC Ltd, 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; website: www.iqpc.co.uk.

Carbon capture and storage world Australia, August 30–September 1, 2011, Melbourne, Australia. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Marine drilling, September 1, 2011, London, UK. Details: IBC Global Conferences, The Bookings Department, Informa UK Ltd, PO Box 406, West Byfleet KT14 6WL UK. Tel: +44 207 017 55 18; fax: +44 207 017 47 15; e-mail: energycustserv@informa.com; website: www.ibcenergy.com.

Subsea engineering, September 1, 2011, London, UK. Details: IBC Global Conferences, The Bookings Department, Informa UK Ltd, PO Box 406, West Byfleet KT14 6WL UK. Tel: +44 207 017 55 18; fax: +44 207 017 47 15; e-mail: energycustserv@informa.com; website: www.ibcenergy.com.

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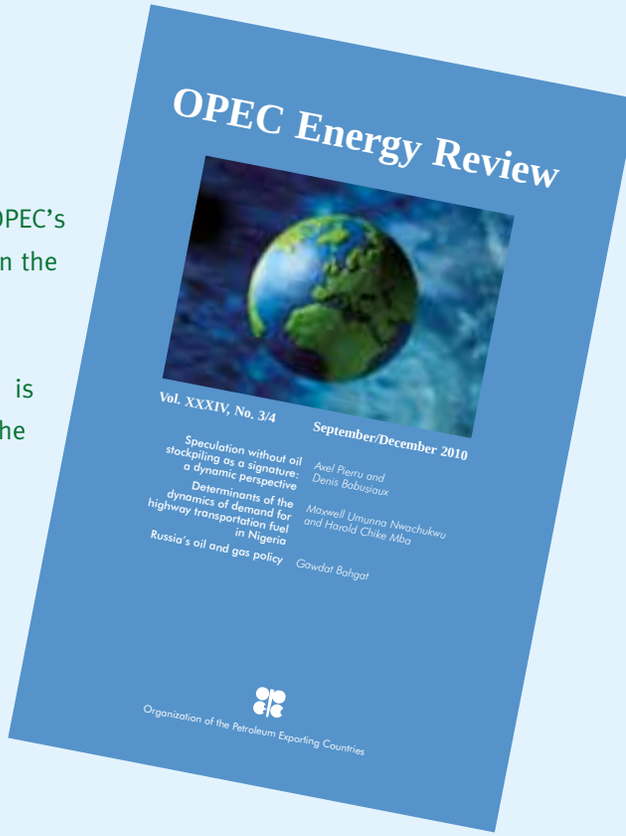

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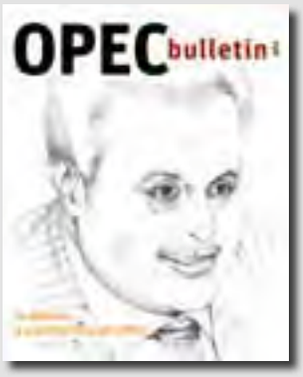

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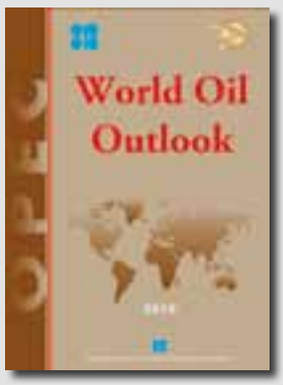

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