This month’s cover... shows a rig in Lake Maracaibo, Venezuela. The Latin American country is planning to double its gas production (see Newsline, p14). Photo: Reuters/Jorge Silva

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Membership and aims

OPEC is a permanent, intergovernmental Organization, established in Baghdad, September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

The Organization comprises the five Founding Members and six other Full Members: Qatar (joined in 1961); Indonesia (1962); SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); and Nigeria (1971). Ecuador joined the Organization in 1973 and left in 1992; Gabon joined in 1975 and left in 1995.

Contributions

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

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Any oil traders watching nervously from the safety of their summer holiday destinations as the market edges higher and higher must be rather glad that they are not in the thick of things right now. In recent days, WTI and Brent prices have hit record highs on the New York Mercantile Exchange and London’s International Petroleum Exchange, and the situation shows little sign of easing. All this is happening despite the fact that non-OPEC nations are producing at capacity and the combined output of the eleven OPEC Member Countries is approaching 30 million barrels/day, a level not seen since the mid-1970s. What’s going on?

Turn on your television or computer, and you will find no shortage of industry analysts and commentators eager to explain why prices are so high — and where they might go from here (down to $30/b, up to $100/b, or just about anywhere in between, according to whom you choose to believe). In explanation, the pundits usually cook up a recipe whose ingredients may be any or all of the following, in varying amounts: stronger-than-anticipated demand from China and the US; the security situation in country X, Y or Z; tightness in the US gasoline market; crude and product stock levels; market speculation by hedge funds, and so on. Most recently, the icing on the cake, as it were, has been the legal uncertainty surrounding Russian oil giant Yukos, the outcome of which (and its impact on the company’s oil production) is still unclear.

All these factors have, of course, played some role in influencing the market in the short term, but to focus on them exclusively would be to miss the bigger picture. The fact of the matter is that, over the past two decades or so, global spare capacity, which provides an essential cushion against any possible interruptions in oil supplies, has been gradually shrinking as growth in demand has outpaced capacity additions. The result is that we now have a situation where, although there is still some spare capacity left, any potential disruption to supplies (such as the Yukos affair) could have unforeseeable consequences for an already strained market.

OPEC is, of course, committed to maintaining market stability, and several of the Organization’s Member Countries have capacity expansion projects that are due to come on stream shortly. Nevertheless, it remains possible that if the current high level of oil prices persists, world economic growth could be slowed down. On the other hand, higher prices also mean higher profits for the upstream oil sector, which should have the effect of attracting greater investment into the industry, eventually helping to ease the capacity problem.

Sufficient investment, after all, is the crucial factor in ensuring that the global oil industry is able to meet future demand. The International Energy Agency has estimated that around $6 trillion will need to be invested in the oil and gas sector by 2030, which corresponds to a rate of $200 billion every year. Clearly, this massive amount will only be forthcoming if — as OPEC has often said — investors believe that they can get a fair return on their money. Fair returns are one thing, of course, but market stability is equally important. While today’s high prices may attract inflows of capital into the industry, it must be remembered that nobody wanted to invest in oil during the price slump of 1998 and early 1999. Such radical price swings make financial planning very difficult, discouraging investment.

It is clear that prices need to descend from their current levels if world economic growth is not to be choked off. But it is also clear that if prices come down too far, the industry may not be able to attract the investment it needs, and the spike/slump price cycle may continue. Maintaining the balance will be a difficult challenge, but it is one that all players in the industry must work together to meet. If they succeed, the oil traders may be able to enjoy their holidays in peace.
OPEC responding positively to market situation,

OPEC’s robust production levels should be seen as a positive response by the Organization’s Member Countries to the current market situation, according to the Conference President and Secretary General, HE Dr Purnomo Yusgiantoro.

Although the OPEC-10 (not including Iraq) were, based on assessments by the Secretariat, currently producing some two million barrels/day above the agreed ceiling, this should be viewed in a positive light rather than as a violation of the Organization’s production agreement, he said.

Purnomo, who is also Indonesian Minister of Energy and Mineral Resources, was speaking at a press conference held at the OPEC Secretariat in Vienna on July 22, after the OPEC Meeting originally scheduled for the previous day was cancelled.

The cancellation had been agreed upon, he said, because “consultations among our Oil Ministers on recent market developments and the supply/demand outlook had made it clear to us that market conditions were essentially unchanged since our Meeting in Beirut.”
At the Beirut Conference on June 3, the Organization decided to increase the production ceiling in two stages: by 2.0m b/d from 23.5m b/d to 25.5m b/d, with effect from July 1, and by a further 500,000 b/d to 26.0m b/d, with effect from August 1.

“We took our decision in Beirut in light of the prevailing high, volatile prices. We identified the main reasons for these as being: the robust growth in demand in the US and China, which had not been fully anticipated; geopolitical tensions; and refining and distribution industry bottlenecks in some major consuming regions, coupled with more stringent product specifications,” said Purnomo.

“Combined, these factors led to unwarranted fears about a possible future supply shortage of crude oil, which, in turn, resulted in increased speculation in the futures markets, with substantial upward pressure on prices,” he added.

“Also,” said Purnomo, “let me make it absolutely clear that the Organization does not wish to see prices rise further, despite the weaker US dollar, a fact that was not-
ed by the US Federal Reserve Chairman, Alan Greenspan, a couple of days ago.”

Earlier in the week, Greenspan had said that OPEC Members “essentially have opened up the taps, as best one can judge,” in his regular testimony before the Senate Banking Committee.

International support

“What the problem is, is that supply is increasing but demand overall is increasing more and that’s what the difficulty is. I cannot say to you that I see any evidence that OPEC is constraining production for the purpose of raising prices at this particular time,” said the Fed Chairman.

Purnomo also noted that OPEC’s decisions on oil production required broad-ranging international support if they were to be fully effective.

“Our decisions require the full support of other parties in the market, principally non-OPEC producers, but also, of course, the international oil companies, financial institutions and other important intermediary bodies.

“While welcoming the enormous progress that has been made in this regard in recent years, we nevertheless believe that it is more important than ever in the current situation that comprehensive, effective dialogue and co-operation are forthcoming at all times. We all stand to gain from a stable, orderly oil market,” he said.

Asked how much spare capacity the Organization’s Member Countries
had, Purnomo said that it was currently around 1.5–2.0m b/d. However, he noted that the OPEC Members “are also investing vast resources to increase production capacity by an expected 2.5–3.0m b/d in the short term, depending on the call on OPEC oil.”

With regard to the suggestion that OPEC might raise its price band of $22–28/b, the Conference President pointed out that the current range had been decided on in the year 2000.

OPEC’s long-term strategy team (the Deputy Ministers of Petroleum and Energy) was currently studying the matter and the results of their deliberations would be examined by the Conference at a later date, he added.

Asked about a possible move of the Organization’s headquarters to Beirut, as was recently proposed by the Lebanese Prime Minister, HE Rafic Hariri, Purnomo noted that no official communication had yet been received in this regard, but that in any case, such a decision would have to be unanimous on the part of all eleven Member Countries.

The second part of the press conference consisted of a technical presentation covering recent developments in the oil market, by the Director of OPEC’s Research Division, Dr Adnan Shihab-Eldin.

Shihab-Eldin noted that despite the “responsible decision” by OPEC in Beirut to increase the ceiling to ensure adequate supply, prices had dipped but were now heading back up due to a variety of non-fundamental factors, including tension in the Middle East and so on.

Oil demand would continue to be driven by healthy world economic growth, which was estimated at 4.8 per cent in 2004 and 4.3 per cent in 2005, he said, adding that 2003 had marked the start of a period of higher oil demand growth, which could last another one or two years.

On the supply side, total OPEC production (including Iraq) for the month of June was around 28.9m b/d, noted the Director of Research.

The difference between global demand and non-OPEC supply plus OPEC NGLS was put at 27.0m b/d for 2004 and 27.4m b/d for 2005, said Dr Shihab-Eldin.
The World Energy Council (WEC) recently published Drivers of the Energy Scene, the first report of the 2002–2004 Work Programme leading to the 19th World Energy Congress in Sydney, Australia, in September 2004. This report, focusing primarily on past and current trends in oil and natural gas markets, describes how the energy system has worked in practice, what the dynamics of the energy markets have been and how energy availability and energy acceptability goals could impact on gross domestic product (GDP) growth and energy accessibility in the future.

The 2004 WEC Statement* reviews the key observations of Drivers of the Energy Scene. It points to developments, both qualitative and quantitative, which may run counter to common knowledge or analysis. In the pursuit of sustainable and secure access to energy services in both developed and developing countries, WEC continues to emphasise the importance of keeping all energy options open. A number of questions arise as a basis for debate at the Sydney Congress and for input to the future Work Programme of WEC.

The full set of graphs and tables and the text of Drivers of the Energy Scene may be obtained at www.worldenergy.org.


Statement 2004:
Reflections on the dynamics of oil and natural gas markets

Some important questions and observations

The most important factors in sustainable energy development are the prospects for global economic growth and investment, improved energy accessibility for the poor, security of supply and the local, regional or global emissions resulting from energy production and use. These issues are interlinked, and actions to address them will drive the energy sector for many years to come.

What is the rate of growth in global GDP likely to be, given the institutional barriers within economies and energy markets as well as the possible negative feedback of higher real energy prices? The evolution in energy pricing will be characterised increasingly by ‘stop and go’ episodes, each resulting in a decline in energy prices followed by a significant rise. Such price movements will have positive and negative feedbacks on global GDP growth and on the deployment of new technologies for cleaner production and end-uses.

Taking into account economic trends and feedbacks over the last 30 years, WEC has concluded that global GDP could grow at significantly less than three per cent per annum for the next three decades.

How can real progress be made in providing commercial energy access for the poor and more reliable service for those who do not enjoy it now, and what will this mean for global GDP growth? Any sustained upward adjustment in real primary energy prices would benefit energy availability (including efficiency) and help achieve energy acceptability (including environmental benefits). If higher primary energy prices or other factors translate into higher real final energy service prices, however, this could impact negatively on global GDP and make universal energy accessibility more difficult to attain.

Without clear policies and targeted temporary programmes to offset higher final energy prices, WEC doubts whether it will be possible to deliver sustainable commercial energy access for the world’s poor within the period to 2030. We would miss a significant opportunity to establish a cycle of economic growth and social stability to the benefit of all people in both rich and poor countries.

If the increase in hydrocarbon supplies involves higher costs for environmental or other reasons, what are the new sources of affordable energy services likely to be? Will the balance among oil, natural gas, coal, nuclear power, hydro and other renewables shift their ranking, as they did in 1973?

The outlook for hydrocarbon supplies and their prices, in particular, will continue to impact the level of energy-related greenhouse gas (GHG) emissions and annual GDP growth. Technology development will be critical in determining which new energy options will be available and
when, but it will also be a factor in efficiency improvements within the supply chain, within power plants and in the demand for energy services.

WEC argues that oil will continue to be the dominant marginal fuel in energy markets for many decades to come and that synthetic fuels, such as liquids from coal, will increasingly play a role as a prelude to the hydrogen economy. Without the stimulus of higher real energy prices, efficiency improvements in energy production, transportation, distribution, end-use, cannot be sustained.

Finally, in a world of lower economic growth and higher real energy prices, what is the precise nature of trends in global emissions, and what are the least-cost carbon mitigation strategies, technologies or regulations to address them? A range of carbon mitigation technologies is now available, including clean fossil fuel technologies, and it is possible to foresee the day when CO$_2$ capture and sequestration will be safe and affordable.

It is WEC's view that the number one action simultaneously to meet energy security and emissions goals is to keep all energy options open, including GHG-neutral energy sources such as nuclear and large hydro power.

**Links between drivers and goals**

Energy drivers can be evaluated in three groups:

- The GDP driver, which describes the demographic, institutional and technology feedbacks on GDP growth;
- The energy demand driver, which covers the nature and evolution of energy consumption in stationary, mobility and electricity services and how they impact the environment; and,
- The energy supply driver, which deals...
with the availability and cost of energy and their feedbacks on prices or the prospects for economic growth and energy demand.

These energy drivers play a key role in achieving the WECS mission of sustainable energy development for the greatest benefit of all. Past trends demonstrate that:

- energy accessibility is central to economic development, but improved access and reliability in developing countries seems to have slowed down or stopped in the last 30 years;
- energy acceptability is linked to energy demand. Over time, demand tends to evolve towards cleaner and more sophisticated energy uses, thus driving primary supply in the direction of cleaner and more versatile fuels; and,
- energy availability is the key for the first two drivers, because sustained energy supply shocks or crises hamper economic development and force societies to adapt to a more costly energy world.

The drivers, feedbacks and energy goals are interdependent and may be described using the simplified diagram (see Figure 1). There is no doubt that improved institutional capacity will foster economic growth, but it cannot prevent an economic crisis if energy prices skyrocket. New technology can result in the improved efficiency of energy services or an increased range of supply options, but it may be expensive and require the costly replacement of capital stock. In a similar way, new energy sources may be encouraged, but the full costs could be much greater than existing cheaper and abundant fuels. Last but not least, individual and collective behaviour plays an important role, for example, by favouring energy-intensive uses such as sport utility vehicles, or by opposing the further development of specific energy sources based on public perceptions which may not be well-informed (such as nuclear power in some European countries).

**The GDP driver**

The GDP driver has three key components: demographic trends, institutional capacity and technology. These components interact through primary energy supply, final prices for energy services and the quality and versatility of energy systems.

Between 1850 and 1948, average global GDP growth was about 1.7 per cent per annum, and world population increased from about one billion to 2.5bn people. Democracy, reliable property rights and banking systems were established in many countries. Electrification spread quickly, and technology development was strong. Primary energy (based on coal) was cheap and abundant, but the versatility and quality of energy systems suffered from this dependence and from local and regional pollution resulting from coal extraction and combustion.

From 1949 to 1973, the rapidly growing population reached 4bn people. This, along with international recognition of trade and property rights, a high level of savings and broader technological progress in mobility and electricity use (for example, aircraft and domestic appliances) drove GDP to an exceptional world average of five per cent per annum. The primary energy supply expanded rapidly, and dependence on oil increased dramatically thanks to its low and stable price. Oil’s greater versatility compared with coal fostered a huge expansion of all types of energy-related services. Simultaneously, the gap between domestic oil supply and demand in the USA (which had become a net oil importer at the end of World War II) grew quickly, especially after 1970, when domestic oil production reached its peak and started to decline. This led to a growing reliance on the excess oil capacities in Middle East countries. The first oil shock of 1973 brought the cheap energy era to an end and sent a signal to energy suppliers to find new sources of oil or other competitive forms of energy to meet demand.

Since 1973, because of the large share of oil in the global energy mix (as well as natural gas, which was linked to oil in terms of pricing), each sustained oil price hike was associated with lower global GDP growth and a decline in energy intensity during the two following years. Oil became the energy at the margin, replacing coal, and it is the direct and indirect price-setter for all energy services today.

In the last quarter of the 20th century, a number of other developments are worth noting:

- World population increased from 4 to more than 6bn, and the pace of ageing and urbanisation accelerated, while the rate of overall demographic growth began to slow down, signalling the beginning of a transition;
- With a decline of global GDP growth to about three per cent per annum, serious regional economic crises led to slower progress in terms of institutional or market reforms in both developed and developing countries;
- New technologies and more efficient new equipment were deployed in response to higher energy prices, resulting in a lower level of energy consumption per unit of GDP;
- Progress in providing commercial energy access flattened out and the reliance on traditional biomass has remained a fairly constant 11 per cent of total primary energy supply; and,
- The primary focus of energy policymakers (particularly in OECD countries) shifted from energy availability concerns to those of energy acceptability and the environment.

GDP growth does not depend solely on the behaviour of individual stakeholders — they will always draw the best from their business/institutional environment. Nor is GDP growth beholden solely to the unpre-
dictable vagaries of Mother Nature, with temporary energy imbalances that could affect GDP growth negatively. In our complex societies, GDP growth also depends on governments. Unless they have the courage to push the broad agenda of institutional reforms, ranging from reliable banking systems and secure property rights in the poorest countries to the management of pensions, education, health and infrastructures in the rich economies, the benefits of technology and entrepreneurship will not spread to everyone.

A number of considerations lead WEC to the view that world GDP could grow at significantly less than three per cent per annum over the next three decades. These include demographic trends, the potential for higher real energy prices and the failure adequately to address institutional barriers to energy access in developing countries, but it has also been necessary to make adjustments for anomalies in some GDP methodologies, particularly those used in the USA, China and Russia. If annual global GDP growth proves to be lower than expected, WEC is of the view that the impact on investment in energy supply could be more severe than the impact on energy demand, leading to higher real energy prices.

The energy demand driver

Energy demand is made up of services for electricity, mobility and stationary fuels, each of which has followed different trends both in terms of relative growth and in sensitivity to energy prices. The main changes have occurred since 1974.

Electricity consumption follows a regular growth trend, nearly linear, compared with GDP, in purchasing power parity. There has been no apparent adverse impact on electricity demand from the energy events during the period of the oil shocks. This can be attributed to two features of electricity markets: first, they are ‘captive’ in the sense that there is little room for users to switch back to the direct use of fossil fuels; and, second, electricity prices have been relatively low and stable over a long period of time.

The trend in mobility service demand has been nearly as steady as that of electricity. Mobility is the ‘captive’ sector of oil. With the exception of North America, real final gasoline prices have remained fairly steady in most regions because high fixed costs (such as transportation and refining) as well as taxes (which account for up to 80 per cent of the final price) have cushioned any impact of oil price increases.

The trend in stationary fossil fuel end-uses (such as heating and cooking in buildings and industrial processes) is quite different from those for electricity or mobility. Each oil price shock has led to a drop in this energy service, with the result that stationary end-use today has begun to decline in developed countries and is stable for the world as a whole. This is due in part to improvements in energy efficiency in transformation and industrial processes. The ‘de-location’ of major energy-intensive industries, such as steel, from developed to developing countries is also a significant factor in explaining the decline in stationary fossil fuel end-use in developed countries.

While different fuels may be used for electricity and stationary services, mobility services (with the exception of electric trains) are rigidly linked to the oil sector itself and account for well over 60 per cent of total oil use. Synthetic liquid fuels (or in the more distant future, electric or hydrogen-powered vehicles) are potential competitors for oil in the mobility sector in the years to come.

These contrasting trends reflect the role of final prices and GDP in driving the demand for energy services. Consumers tend to reduce energy consumption when a price increase is sustained at a new level, but if GDP and incomes are growing, they also find new uses for energy services, which result in higher consumption. Thus, energy efficiency can play different but complementary roles, which are tied to technology: reducing energy consumption when prices rise, or increasing the value of a given level of energy service when energy prices decline or remain stable. Energy efficiency and technology are two sides of the same coin, but final prices and GDP are the binding agents.

Demand for mobility and electricity is relatively low in most developing countries but will increase rapidly in the coming decades. Increased energy access (especially the provision of modern energy services to the world’s two billion poor people) will have a relatively small impact on global energy demand but could contribute through

Figure 1: Interdependence between drivers, feedbacks and energy goals
multiplier effects to a better than expected average rate of growth for world GDP.

Many factors, such as market reform, technological breakthroughs, environmental constraints and other policies, will have an important influence on primary energy pricing and on the cost of final energy services to consumers. The WEC continues to believe that energy market reforms which promote competition will help increase efficiency and promote trade, provided that clear, stable regulations maintain high standards of fair pricing, reliability and quality of service. If reforms fail to achieve this, they could have a negative feedback on energy demand growth in the future.

The energy supply driver

The uncertainties in energy markets, emanating from the long lead times for investments in new supplies or capacity to meet new demand or for infrastructure to transport such supplies over long distances or across borders, reinforce the volatility of energy price movements. The dynamic interplay of supply and demand can be quite severe because most energy supplies (in particular, but not exclusively, oil and natural gas) have short run marginal costs much lower than long-term marginal costs. Hence, if market forces were the sole driver, energy prices would be very low as long as excess capacities exist but very high when they have been eliminated. It is the new investments in response to higher prices in times of sustained shortages, which shift the ranking of primary energies.

When there was no dominant actor controlling or managing the market, the dynamics of oil and natural gas supplies explain why their price was very volatile. As long as oil and natural gas — which is priced in lock step with oil — had a small share of the world energy supply, and the energy market was dominated by coal (with its more stable price), oil/gas price volatility had little global, macroeconomic impact. This situation changed during the 1950s and 1960s because of the rapid growth of oil and gas shares in the global energy mix, but it remained unnoticed because the oil price was under the control of the Texas Railroad Commission (TRC) up to 1959, before passing under the control of OPEC in 1960.

The market dominance of the TRC and subsequently, OPEC, was certainly one factor explaining the stability of oil prices prior to 1973, but it is not the only one. The industry was vertically integrated and controlled by a few companies (the majors or ‘Seven Sisters’), which had agreed in 1928 to share the prolific Middle East fields and the growth in downstream markets; these arrangements were the ideal instruments to manage the smooth growth of the oil market. With the nationalisations of the 1970s and the different strategies adopted by large consuming countries, this price control disappeared, leaving OPEC alone to manage a market that had become un-
predictable because of the new swing role of oil and the growing dominance of spot transactions.

A new energy story developed after 1973. The oil price today is managed by OPEC as long as capacity margins exist in order to match demand and supply: if the price of oil is too high, this will lead to lower GDP, economic recession and a shrinkage in demand for oil, coupled with the development of alternatives which ultimately may have an adverse effect on the OPEC Countries that are the swing producers of the swing energy; if the price is too low, as in the early 1970s, the capacity margins for producers will disappear, and they will try to withhold marginal supplies and/or reduce exploration for new supplies, eventually leading to a price rise, again lowering GDP and, in turn, to lower demand than before. Hence, what is important is the production capacity (called the ‘cap’) and not, except in the very long run, the ultimate reserves (often called the ‘tank’). The growth and decline of specific primary energies over time have never resulted in the complete exhaustion of their reserves because, with the right price signals and international collaboration, new, more competitive sources of energy emerge in time to take their place.

Despite new oil production in non-OPEC countries using new exploration and production technology (such as deep water, Caspian oil and the accelerated depletion of Russian fields), it is WEC’s view that oil production outside the Middle East started to decline at the end of the 1990s. It appears that natural gas production in North America has now also peaked, and this could soon be the case in Western Europe as well. There are capacity constraints even within OPEC itself: Iraqi oil production appears to have returned to pre-war levels, but no one can predict when it will achieve its full potential of 4 or 5m b/d; it is hard to determine when the production of the Middle East fields, more than 50 years old on average, will begin to decline.

If cheap and versatile energy supplies were the main source of past productivity gains and higher economic growth at the world level, what are the prospects for the future? In the first years of the 21st century, with OPEC trying to balance producer and consumer interests, oil prices have stabilised in a range around $25/b. This could bring on additional natural gas supplies in the form of LNG, but at a much higher price, thereby moving natural gas to a mid/peak load role in the energy mix. Such price effects are, in WEC’s view, likely to be sustained and will therefore have feedbacks on the economics of alternative supplies and the deployment of new technologies. They would also have positive feedbacks on national or global efficiency and environmental goals.

Other constraints may impede the development of energy supply in timely fashion to meet demand, for example:
- Policies aimed at reducing GHG emissions could lead to additional costs that will affect all fossil fuels. Costs of up to $50/t CO₂, are possible, which would add $20 per barrel of oil.
- The peaking of natural gas production in North America and Europe will increase the demand for additional imports, mainly LNG. The high cost of new gas pipelines from Russia or Central Asia limits their potential for additional exports.
- There are political or technical limits to non-fossil fuel supply, either because of lack of public acceptance for large hydro and nuclear power or because of the intermittent and/or dispersed nature of most modern renewable energies.
- NIMBY (not in my back yard) attitudes may prevent the building of enough LNG re-gasification facilities, high voltage transmission lines and power plants, which could adversely impact the versatility and security of energy systems.

Such energy supply constraints could play an important role as a negative driver of the energy scene in the coming years in spite of the best efforts of governments and energy industry players. They will not generally originate from a lack of energy resources in absolute terms but will be triggered by two fundamental feedbacks working separately or together:
- A sustained shortfall in primary energy production or supply bottlenecks in key markets (such as occurred for oil in the US in 1973, or for coal in China after 1996, and could occur for natural gas in the years to come); and
- A more fundamental shift away from one major energy source because of changes in relative costs or prices, because of external factors (eg, wars or revolutions), because of public opinion or because of stringent environmental policies (eg, precautionary action to address the threat of climate change).

In contrast, while the increase in energy supply to provide affordable energy services to those who now have little or no access to them would be relatively small, such access could prove to have a more general, positive impact on the energy scene. Improved energy access in developing countries will enhance national economies and the flexibility of the global economic system to overcome new challenges, including possible future economic crises. Improved energy access could result in more peace and security in the world and, consequently, more reliable energy supplies.

What about the future?

Given the far-reaching consequences of the change in the marginal energy supply, which occurred in 1973 after the first oil shock, one might wonder whether similar dramatic changes might occur in the future or whether oil will remain for decades to come the marginal fuel. Some analysts put enormous hope on natural gas, which (without intervention) is not as liquid as oil, while others point to the hydrogen economy. WEC believes the natural gas market today is to some extent mirroring the experience with oil in the 1970s. As for hydrogen, there are major hurdles in the way of its widespread development, such as the capacity to produce hydrogen cheaply, the development of new infrastructure and, ultimately, the availability of fuel cells at a competitive cost.

The gasification of coal, unconventional oil or biomass may provide, thanks to synthetic liquid fuels, a transition towards pure hydrogen. Such synthetic fuels can use existing infrastructure and devices available today, are closer than the hydrogen age and could become the next price-setter in energy markets. Many bifurcations in terms of the role of new technology at both the production and utilisation ends of the energy system exist, but WEC expects oil to retain its place in the global energy supply (largely for mobility’s increasing share of energy requirements worldwide) alongside new synthetic fuels and, later, hydrogen.
Venezuela’s PDVSA announces plans to double gas production to 11 billion cubic feet by 2009

Venezuela has announced plans to almost double its natural gas production from the current level of 6.3 billion cubic feet to around 11bn cu ft by 2009, according to a statement released by state oil and gas firm PDVSA, quoting a senior company official.

The President of PDVSA Gas, Nelson Martinez, made the announcement during a speech at an industry conference in Cartagena de Indias, Colombia.

The projected natural gas production increase would require an investment of some $9.5 billion, which would be funded by PDVSA together with third parties, Martinez was quoted as saying by the OPEC News Agency.

“The largest part will go towards supplying the Venezuelan market in the first place, while the rest will be exported to North America, the Caribbean and South America. We will send the first shipment to the United States in 2009,” Martinez said.

The new volume of natural gas production will come from the development of offshore and onshore projects including the Deltana platform, Mariscal Sucre, CIGMA, ICO, the Anaco project, LGN 250, the Western Cryogenic and Tacata.

A number of international companies including ChevronTexaco and ConocoPhillips of the US, Anglo-Dutch giant Royal Dutch/Shell, Japan’s Mitsubishi and Norway’s Statoil will be partners in some of the projects.

This section is compiled from various sources, including the OPEC News Agency (OPECNA), which transmits three daily bulletins of news, analysis and features from OPEC Member Countries and emerging economies. Those interested in news on oil, energy and economic development issues can e-mail opecna@opec.org for more details.
Expansion plans make Nigeria LNG facility one of world’s largest

London — Shell Gas, a subsidiary of Anglo-Dutch oil giant Royal Dutch/Shell, has announced that a final decision has been taken to go ahead with the construction of a sixth liquefied natural gas (LNG) train at the Nigeria LNG (NLNG) plant on Bonny Island, in Rivers State.

Construction of the sixth train, which is expected to start up in 2007, will make NLNG the largest such facility in the Atlantic basin. The new train will have a capacity of 4.0 million tonnes/year, bringing the total capacity of the NLNG plant to 22m t/y of LNG and around 5.0m t/y of natural gas liquids.

The Shell Petroleum Development Company of Nigeria (SPDC), which is the largest oil and gas producer in Nigeria, will supply 355 million cubic feet/day of gas to train six, bringing the total amount of gas supplied by SPDC to the NLNG plant to 1,940m cu ft/d. French firm Total, which is also one the NLNG partners, will supply another 1.0 billion cu metres/year of gas to the train.

Shell has entered into agreements to purchase 3.0m t/y of LNG from train six, while Total, through its wholly-owned subsidiary Total Gas and Power, will lift 1.2bn cu m/y. Both firms will market the LNG to customers in North America and Europe.

When the expansion is complete, the Bonny Island plant will be one of the largest in the world. Three liquefaction trains are currently in production, while trains four and five are under construction and scheduled to come on stream next year.

The Managing Director of SPDC, Chris Finlayson, commented: “Train six demonstrates Shell’s continued commitment to Nigeria, and we are delighted to be able to support the expansion of what is already the largest investment of any type in sub-Saharan Africa.

‘NLNG is an important customer for SPDC’s gas, helping to increase and diversify revenue for the nation from the country’s hydrocarbons,” said Finlayson.

The Chief Executive Officer of Shell Exploration & Production and Shell Gas & Power, Malcolm Brinded, added that the planned expansion of the Bonny plant would strengthen Shell’s position in the global LNG business.

“Our expertise and the global reach make us a leading player in the LNG business. Shell’s LNG volumes from train six will support our growth strategy in North America, where we have import capacity to meet growing demand,” noted Brinded.

The technical advisor to the train six project will be Shell Global Solutions International, which will be providing support to NLNG for the development of the train, through a construction services agreement and thereafter via an operating services agreement.

The four partners in NLNG are the state-owned Nigerian National Petroleum Corporation with 49 per cent, alongside Shell (25.6 per cent), Total (15 per cent) and Italy’s ENI (10.4 per cent).

In a related development, Shell has announced that Finlayson’s role as Managing Director of SPDC will be taken over by Basil Omiyi with effect from September 1, 2004. Omiyi, who is 58, will be the first Nigerian to hold the post. Finlayson will become Chief Executive Officer of Shell Exploration & Production in Africa with effect from October 1, 2004.

Following his appointment, Omiyi said: “I am delighted to be appointed Managing Director of SPDC and I am honoured to be the first of what I expect will be many Nigerians to hold the post. I look forward to the opportunities and challenges which lie ahead.”

Omiyi is currently Production Director of SPDC. He joined Shell in 1970 as a petroleum engineer and has worked in Nigeria, the UK and the Netherlands. He was appointed to the board of SPDC in 1996, when he took up the position of General Manager, Relations and Environment. In 1999, he was appointed External Affairs Director, before assuming his current role in 2002.

Finlayson began his Shell career in 1977 in the UK, also as a petroleum engineer. He has since worked in Brunei, Turkey and the Netherlands. He was first posted to Nigeria in 1992–95, as SPDC Development Manager. Prior to his appointment in October 2003 as Managing Director of SPDC, he was Managing Director of Brunei Shell Petroleum Company.

Commenting on his new responsibili-
In brief

ExxonMobil announces record results
IRVING, TEXAS — US major ExxonMobil has reported record results for the second quarter of 2004, with net income rising to $5,790 million, an increase of $1,620m (39 per cent) over the second quarter of last year. Revenues and other income for the second quarter of 2004 totalled $70,693m, compared with $57,165m in 2003. Capital and exploration expenditures of $3,617m in the second quarter of 2004 were down $214m compared with last year. Commenting on the results, ExxonMobil’s Chairman, Lee Raymond, said: “Second quarter earnings were a record and improved in all parts of the business. Upstream earnings were $3,846m, an increase of $1,008m from second quarter 2003 results, reflecting higher average crude and natural gas prices.” ExxonMobil’s net income for the first half of 2004 was a record $11,230m, up $20m from the first half of 2003, added Raymond.

Russia’s Yukos gets tax reprieve
MOSCOW — Russian oil giant Yukos has been given one month to settle a $3.4 billion tax bill, according to a report by Russian news agency Interfax, quoted by the BBC. The move temporarily eases fears that Yukos, whose former boss Mikhail Khodorkovsky is currently standing trial on charges of fraud and tax evasion, might soon be broken up. Interfax reported bailiffs as saying the firm had agreed to pay tax arrears for 2000 by the end of August this year, and had already paid 20 per cent of the sum. It had been feared that the authorities would enforce payment within days by selling off key assets, potentially forcing Yukos to file for bankruptcy. Many analysts see the government’s moves against Yukos as a politically motivated campaign by the Kremlin to destroy the company and punish Khodorkovsky for supporting opposition parties.

IEA sees 2005 demand growth easing
PARIS — World oil demand growth is projected to ease to 1.8 million barrels/day in 2005 from a high of 2.5m b/d high in 2004, according to the latest edition of the International Energy Agency’s Oil Market Report, published on July 13. The figure reflects more moderate global economic expansion, with non-OECD economies continue to account for the bulk of the increase. Upward revisions to baseline OECD demand bring the global demand forecast for 2004 to 81.4m b/d and 83.2m b/d in 2005. Non-OPEC oil supply in 2005 is forecast to repeat the 1.2m b/d growth anticipated for 2004, and will average 51.3m b/d. The FSU underpins this growth, adding 585,000 b/d in 2005.

Qatar signs two major GTL agreements with ExxonMobil and Shell
DOHA — Qatar’s plans to develop its gas-to-liquids (GTL) industry are moving ahead with the signing of two major agreements with US giant ExxonMobil and Anglo-Dutch firm Royal Dutch/Shell.

In mid-July, the Qatari government and ExxonMobil subsidiary ExxonMobil Qatar GTL announced that they had signed a framework accord for a $7 billion GTL project which, when completed, would be the largest single fully-integrated facility of its type in the world.

The agreement for the GTL plant, to be built at Ras Laffan Industrial City in Qatar, was signed by Qatar’s Second Deputy Prime Minister and Minister of Energy & Industry, Abdullah bin Hamad Al Attiyah, and ExxonMobil Director and Executive Vice-President, Harry J Longwell.

The accord specifies the principal terms for the project, which will be defined in a development and production-sharing agreement (DPSA). The term of the DPSA will be 25 years from the start of production, which is expected to commence in 2011.

In a statement, ExxonMobil said it would design, construct and perform all petroleum operations in connection with the project. This includes the rights to develop and produce gas, associated liquids and other hydrocarbons in sufficient quantities to meet the 154,000 barrels/day capacity of the GTL plant.

Approximately half of the plant’s production will be for sulphur-free diesel (less than 10–15 ppm), about 20 per cent will be in high-quality lubricant base stocks, with the remainder in naptha and other associated products.

The US firm will drill an appraisal well for the GTL project this year, and will supplement the extensive preliminary front-end engineering and design (FEED) undertaken earlier. The FEED work is expected to begin upon execution of the DPSA.

The plant will adopt ExxonMobil’s patented AGC-21 GTL technology, which is a proprietary three-step process for converting natural gas to high-quality transportation fuel, lubricant base stocks and petrochemical feedstock.

Al Attiyah noted that the GTL agreement with ExxonMobil aimed to ensure the optimal utilization of the country’s hydrocarbon resources by diversifying sources of national income, while creating development opportunities for the welfare and prosperity of Qatar.

“We have enjoyed numerous prior successes in commercializing our substantial gas resources with our valued partner, ExxonMobil, and look forward to developing this world-class GTL project as we aggressively pursue Qatar’s vision to be the world leader for GTL development,” he noted.

Responding, ExxonMobil’s Longwell said: “The project will build upon this strategic partnership that has led to a number of successful LNG and pipeline initiatives. We believe our proprietary technologies and project management expertise will bring competitive advantage to this project for the benefit of both parties,” he added.

Earlier in the month, Qatar Petroleum and Qatar Shell GTL said that they had signed an integrated DPSA covering the fiscal and legal terms for the Pearl GTL project, which was originally announced last October.

The Pearl project comprises the development of upstream gas production facilities, plus an onshore plant that will produce 140,000 barrels/day of GTL products, as well as significant quantities of associated condensate and liquefied petroleum gas.

The project will be developed in two phases. The first phase will be operational in 2009, producing around 70,000 b/d of GTL fuels, while the second phase is to be completed less than two years later. It also includes the development of a block within Qatar’s vast North gas field.

ties, Finlayson said: “Africa is an important area of focus for Shell Exploration & Production and I look forward to working with our thousands of employees across the continent as we further develop our business in this exciting and challenging region.”

Finlayson, who is 48, will continue to be based in Lagos, Nigeria, and will retain the role of Country Chair for Nigeria. He takes over from Brian Ward, who is retiring after more than 36 years of service with various companies in the Shell group.
The Pearl GTL plant will produce a range of products, primarily naphtha and transport fuels, with a smaller quantity of normal paraffins and lubricant base oils. GTL fuel is a clean synthetic product for automotive use. As a transport fuel it can be used in light and heavy-duty diesel vehicles, and its low emissions performance has the potential to reduce pollution in major cities.

Saudi Aramco signs deal to acquire shareholding in Japanese refiner

Dhahran — The Aramco Overseas Company, a subsidiary of state oil company Saudi Aramco, has signed an agreement with Anglo-Dutch oil giant Royal Dutch/Shell for the acquisition of a strategic stake in Japanese refining and marketing firm Showa Shell Sekiyu.

Under the deal, Royal Dutch/Shell, which is Showa Shell’s largest shareholder with a 50 per cent stake in the Japanese firm, will transfer a portion of its holdings (9.96 per cent of the total shares issued) to Saudi Aramco.

The transfer will be effected by Shell Petroleum selling Shell Japan Holdings to Aramco Overseas Company, with the transfer expected to be completed in August this year, subject to obtaining the necessary regulatory approvals. Saudi Aramco has also agreed in principle to acquire an additional 18,840,000 shares in Showa Shell from Royal Dutch/Shell.

A Shell statement noted that the partnership would build on the growing relationship between Royal Dutch/Shell and Saudi Aramco, and would bring global synergies to Showa Shell. These included the generation of solid profits from refined product sales, and the possibility for the Japanese firm to expand its markets steadily.

The Chief Executive Officer of Shell Oil Products, Rob Rout, commented: “Saudi Aramco brings crude supply strength through its scale, crude mix and flexibility and will provide Showa Shell with an affiliate supply relationship which brings benefits of economic value and security.”

“Showa Shell will now have the long term commitment and support of two strong global energy shareholders, Royal Dutch/Shell and Saudi Aramco, from which it draws a combination of crude supply, refining and marketing strengths, to bolster its future opportunities in and contributions to the Japanese industry,” said Routs.

The President and Chief Executive Officer of Saudi Aramco, Abbahlah S Jum’ah, added that his company’s decades of experience back up its lifting, scheduling and delivery of crude oil would translate into reliable supply for Showa Shell refineries and retail outlets.

“Saudi Aramco’s world-class upstream capabilities, as well as our 60 years of refining experience, will generate significant synergy with Showa Shell’s strength as a petroleum refining and marketing company in Japan, one of Saudi Aramco’s historical core markets in its global crude supply chains,” said Jum’ah.

Algeria awards eight blocks to international oil and gas companies

Algiers — Algeria has announced the award of eight blocks to international oil and gas firms, out of a total of ten that were on offer in the country’s fifth licensing round, according to media reports.

Commenting on the awards, Algeria’s Minister of Energy and Mines, Dr Chakib Khelil, described the results as “excellent” and said that the final outcome was the best ever since the introduction of the bidding process.

The stiffest competition was for the Hassi Mouina gas block, which attracted seven bids. Norway’s Statoil was the winning bidder, and was awarded a 75 per cent share of the block, with Algerian state oil and gas company Sonatrach getting the other 25 per cent.

A statement released by Statoil noted that the block covers an area of 22,993 square kilometres in the Timimoum basin. Sonatrach has already drilled one well in the block and made a gas discovery which Statoil will now develop. The work programme in the three-year mandatory exploration phase covers two wells and 400 km of 2D seismic.

Of the remaining blocks, Ksar Hirane went to an Australian consortium of BHP

In brief

Crude prices hit record highs

LONDON — Crude oil prices pushed upward to fresh record highs of over $44/barrel in early August, according reports by news outlets including the BBC and Reuters. The price of US light sweet crude hit $44.24/b in trading on August 3, after the US government had earlier raised the national alert level, saying that it had information about threats to attack financial bodies such as the International Monetary Fund, the World Bank and the New York Stock Exchange.

In London, Brent followed suit, hitting a 14-year high of $40.45/b. Crude prices have been bolstered in recent months by factors including the growing global thirst for oil as the US recovers and China develops, coupled with the situation in Iraq and worries about the possible bankruptcy of Russian producer Yukos. The Chief Executive of UK oil giant BP, Lord Browne, has said that he expects prices to rise further.

Shell posts strong 2Q results

LONDON — Royal Dutch/Shell has reported net income of $4.0 billion for the second quarter of 2004, an increase of 54 per cent on the same period last year. The higher earnings reflect healthy oil and gas prices, higher LNG volumes and strong downstream earnings, which were offset by lower hydrocarbon production and charges in exploration and production. For the first half of 2004, net income increased seven per cent compared to the same period last year, said the company in a statement. The Chairman of Shell’s Committee of Managing Directors, Jeroen van der Veer, commented: “The second quarter results show good progress in our downstream businesses, with operational performance improvement, increasing volumes and strong margins.”

Sechin is new Rosneft Chairman

MOSCOW — Russia’s last state-owned oil major, Rosneft, has announced the appoint- ment of Igor Sechin, the man that analysts have said is behind the government’s assault on rival Yukos, as its new Chairman. A report in the Moscow Times noted that Sechin, who has worked with Russian President, Vladimir Putin, and is now the Deputy Head of his Administration, replaces former Energy Minister, Igor Yusufo. Analysts said that the move was a clear signal from the Kremlin that it intends to further tighten its grip on big business in general and the oil industry in particular. “Sechin’s appointment can mean only one thing — that the state is now officially increasing its influence over business structures,” commented the Head of the Centre for Political Information, Alexei Mukhin.

July/August 2004
In brief

Marathon submits Norway field plan

HOUSTON — US firm Marathon Oil and its partners have submitted a plan for development and operation of the Alvheim field on the Norwegian Continental Shelf to the Norwegian Ministry of Petroleum and Energy. Approval of the plan is anticipated during the fourth quarter of this year and first production from Alvheim, which is estimated to contain resources of approximately 180 million barrels of oil equivalent, is expected in early 2007. Marathon’s Senior Vice-President of Worldwide Production, Steven B Hinchar, described the submission of the plan as “a key milestone” in efforts to develop the field. An agreement has also been reached to tie in Alvheim to the nearby Klegg discovery, which would boost combined output to more than 50,000 b/d. Marathon holds a 65 per cent interest in Alvheim, with ConocoPhillips having 20 per cent and Lundin Norway the remaining 15 per cent.

BP announces good results for 2Q

LONDON — UK oil giant BP has announced that its second quarter pro forma result was $3,908 million, a 23 per cent increase compared with last year’s figure of $3,165 million. For the half year, the result was $8,625 million compared with $7,213 million in 2003, up 20 per cent. Replacement cost profit for the second quarter and half year was $3,434 million and $7,604 million respectively, compared with $2,536 million and $5,956 million a year ago. Commenting on the results, BP’s Chief Executive, Lord Browne, said: “This has been another strong performance against the backdrop of a robust trading environment. We are on track against our targets of controlled investment, increasing the dividend and using additional free cash flow to fund a significant level of share buybacks. The plans to prepare the olefins and derivatives business for disposal are on track.”

Lukoil starts output from new field

MOSCOW — Lukoil-Kaliningradmorneft, a wholly-owned subsidiary of Russian oil giant Lukoil, has started commercial production at the Kravtsovskoye (D-6) field in the Baltic Sea. The Kravtsovskoye field, which was discovered in 1983, is around 22.5 km off the coast of the Russian enclave of Kaliningrad, in water depths averaging 25–35 m. A geological survey by Lukoil-Kaliningradmorneft has confirmed that the field has total reserves amounting to 21.5 million tons, of which 9.1 m t are recoverable. A 47-km underwater pipeline connects the field to the Romanovo oil-gathering unit on the mainland, to convey a mixture of oil and associated gas from the reservoir, and Woodside Petroleum, while El Mezaid was awarded to the Chinese National Petroleum Corporation.

Two blocks, El Hadjira and Guerara, went to Sinopec of China, while the Aghreb block went to US firm Amerada Hess, and Isarene was awarded to Petroceltic of Ireland. The remaining two of the ten blocks on offer failed to receive any bids. All the eight blocks that were awarded require total investment of about $130 million. The signing of the production sharing contracts is scheduled for later in August.

Indonesia’s Tangguh LNG partners sign deal with Korean steelmaker

Bali — UK oil and gas giant BP has announced that the partners in the Tangguh liquefied natural gas project in Indonesia have signed a sales and purchase agreement with the world’s second-largest steelmaker, Posco of South Korea.

The agreement involves the supply of 550,000 tonnes/year of LNG for a period of 20 years. Posco, which is currently building an LNG import terminal at Gwangyang in South Korea that will re-gasify the LNG, has two gas-fired power plants with a total generating capacity of 845 megawatts at its steel mills in Pohang (345 mw) and Gwangyang (500 mw).

At the signing ceremony in Bali, the Vice-President of BP’s Gas, Power and Renewables business, Anne Quinn, said: “This agreement represents the first sale of LNG to the private sector in South Korea and has been achieved with the strong support of BP Migas and the government of Indonesia. It is an important step for the Tangguh project which is making excellent progress towards a final investment decision later this year.”

The Tangguh project’s bid was chosen in competition with five other international LNG supply sources. A second sales and purchase agreement for up to 800,000 t/y of LNG with K-Power of South Korea (a joint venture of SK and BP) is also currently being finalised, following the outcome of the Tangguh bid process.

Since the Tangguh LNG plant will not be operational before 2008, the consortium will initially seek supply for the contract from Indonesia’s two existing LNG plants at Arun in Aceh, or Bontang in East Kalimantan.

The Tangguh project is targeting a two-train start-up development. The project has already secured an LNG sales contract for 2.6 million t/y for the Fujian LNG project in China and is finalising an agreement with Sempra for the supply of 3.7 m t/y to its import terminal in Costa Azul, Mexico.

The Tangguh LNG project is located in the Berau-Bintuni bay region of Teluk Bintuni regency, in the Indonesian province of Papua (formerly Irian Jaya). The project is operated by BP Indonesia, which holds a 37.16 per cent stake in the project, as a PSC contractor to BP Migas.

BP holds a 37.16 per cent stake in the Tangguh project. Its partners are CNOOC of China with 16.96 per cent; MI Berau (16.30 per cent); Nippon Oil Exploration Berau (12.23 per cent); KG Companies (10.0 per cent); and LNG Japan Corporation (7.35 per cent).

The Tangguh gas fields contain 14.4 trillion cubic feet of natural gas reserves certified as proved by DeGolyer and MacNaughton. The planned LNG processing plant will be able to produce over 7.0 m t/y of LNG from two initial processing trains.

Iraq sets up Supreme Oil and Gas Council to manage industry

BAGHDAD — Iraq’s interim government is to set up a Supreme Oil and Gas Council (SOGC) to manage and regulate the country’s hydrocarbon industry, including the approval of contracts with foreign companies, according to a report in the Middle East Economic Survey (MEES).

The SOGC will be headed by the Prime Minister, and will include the Ministers of Oil, Finance, and Planning and International Co-operation, as well as the Governor of the Central Bank and other senior Iraqi officials, said the report.

A MEES translation of a statement issued in July by the Ministry of Oil said: “The Council will draw up public policy for managing the hydrocarbon resources in Iraq and achieving optimum utilization of them, and for the development of the na-
Abu Dhabi’s ADNOC plans to maintain key role in energy sector

Abu Dhabi — The Abu Dhabi National Oil Company (ADNOC) is working on ambitious plans to maintain its role as a key player in the global energy sector, according to a report from the state news agency WAM, carried in the local Khaleej Times.

The moves include the setting up by ADNOC of one of the world’s largest gas production plants, while the Abu Dhabi Company for Onshore Oil Operations (ADCO), is engaged in projects to increase crude oil production from one million barrels/day to 1.4m b/d by 2006, said the report.

ADNOC also has begun a massive onshore gas development project, of which phases one and two have already been completed. As part of phase three, a new gas processing plant with a capacity of 1.2m cu m/d will be constructed. The new facility is set to not only boost production but also increase revenues tremendously.

The expansion of the production facilities will involve other companies of the ADNOC group, including Abu Dhabi Gas Industries (Gasco) and the Abu Dhabi Oil Refining Company (Takreer). Gasco will increase its production of ethane and ethylene, while new pipelines will also be needed to transport natural gas and condensates to Ruwais.

On the refining side, Takreer has said that it will embark on a number of major projects during the current year, including inter-refinery pipelines, a sulphur recovery unit at Ruwais and the expansion of general utilities.

Takreer noted that it had decided to proceed with the inter-refinery pipelines since this option was environmentally safer, with lower life-cycle costs and the advantages of supply to Abu Dhabi International Airport and Al Ain city. The contract for the front-end engineering and design work was awarded to Engineers India Ltd of New Delhi in July 2003.

The latest expansion of Takreer’s general utilities plant at Ruwais involved the addition of four type 13E2 Alstom gas turbines, each with a capacity of 127.5 megawatts, and two water desalination units with a capacity of 15,000 cubic metres/day.

To date more than 1.7m mw of power and 10.6m cu m of water has been produced from the expanded facility. The sulphur recovery unit project is likely to be completed in the third quarter of 2005, followed by the demolition of the existing unit in the first quarter of 2006.

In brief

ConocoPhillips income up in 2Q

Houston — US major ConocoPhillips has reported second quarter net income of $2,075 million, compared with $1,187m for the same quarter in 2003. Total revenues were $31.9 billion, versus $29.6 billion a year ago, the company said in a statement. Income from continuing operations for the second quarter of this year was $2,013m, compared with $1,096m for the same period a year ago.

“Overall, our operating performance for the quarter was good, but there were opportunities to do better,” commented the company’s President and Chief Executive Officer, Jim Mulva. “We made further progress in strengthening our balance sheet, with our debt-to-capital ratio declining from 32 per cent to 29 per cent during the quarter. In addition to operating cash flows of $2.3bn, we received proceeds of $905m from asset sales. This brings the company’s total proceeds realized from all asset dispositions since the merger to approximately $4.7bn,” he added.

EnCana to sell natural gas assets

Calgary, Alberta — Canada’s EnCana has announced that it has reached an agreement to sell conventional natural gas assets producing approximately 7,250 barrels/day of oil equivalent after royalties (9,400 b/d before royalties) to an unnamed Calgary-based oil and gas producer for approximately $219 million before adjustments. The assets are comprised of natural gas properties in northeast Alberta with proved reserves estimated to be approximately 66 billion cubic feet after royalties. EnCana said that the move was part of its divestiture programme, announced alongside its acquisition of Tom Brown Inc in April. Since then, the company has reached agreements to sell close to $900m in assets, producing approximately 28,000 boe/d. Including all 2004 acquisitions and divestitures, EnCana expects its production to rise by around 15 per cent this year to between 725,000 and 765,000 boe/d.

Australian LNG project expands

Perth — Australia’s Woodside Energy and its partners in the North West Shelf Venture have announced that gas has begun flowing into the project’s new, fourth LNG train where it will be liquefied for export from the Burrup peninsula in Western Australia. Woodside, which is the operator of the Venture, is commissioning the new train in readiness for meeting expanded production commitments later this year. The additional facilities will boost LNG production capacity at the Venture’s onshore gas plant from the current 7.5 million tonnes/year to 11.7m t/y.

Iran’s oil industry needs massive investment, says Minister of Petroleum

Tehran — Iran will need massive amounts of investment for the future development of its oil, gas and petrochemical sectors, the official Islamic Republic News Agency (IRNA) has quoted the Minister of Petroleum, Bijan Namdar Zangeneh, as saying.

Speaking at the opening ceremony of an industry conference and exhibition in Tehran, Zangeneh said: “If we work properly, we would be able to address domestic demand, while partially meeting the demand of the Gulf littoral states and the countries north of Iran.”

However, in order to meet this target, the country would be required to raise its contracting and building capacity three-fold through investment in the managerial and software sectors, he said, adding that there were few contractors in Iran able to undertake projects on such a scale.

Cautious estimates put the amount of investment required to be made in the national petroleum industry at $100 bil-
lution in the next decade, said Zangeneh. Committing 60 per cent of the investment would mean the creation of at least $6bn worth of jobs for Iranians, he underlined.

The total amount of investment in Iran's buy-back projects was put by the Minister at about $20bn in the oil and gas sector, and $15bn in the refining and distribution of domestic resources. About $10–12bn had been committed to the country's petrochemical industry, he added.

Some 40 to 45 per cent of the capital investment has been generated from domestic resources, noted Zangeneh. He stressed that close contacts between Iranian and foreign contractors would help promote the national oil, gas and petrochemical industries.

Kuwait's Q8 to sell petrol station chain in United Kingdom

London — Kuwait Petroleum International (KPI) is planning to sell its chain of Q8 petrol stations in the UK, according to a report in British newspaper The Times.

Accountancy firm Ernst and Young has been appointed to handle the package of assets, which include petrol forecourts and two storage terminals, at Grangemouth and Kings Lynn, which supply Q8's UK network of petrol stations.

The newspaper noted that the sale has attracted interest from big operators, which are believed to include French oil giant Total. UK major BP was interested in some sites but is no longer in the running.

Kuwait entered the British market in 1986, with its headquarters at Staines opened by the then Transport Secretary, Cecil Parkinson. Q8 expanded in subsequent years with the acquisitions of Hays Petroleum Services, British marketing company Ultrimar and Carles Lubricants.

The move gave Q8 a two per cent share of the British retail petrol market, with a network of 1,000 filling stations in the UK and another 3,000 in continental Europe. It also set up a chain of diesel stations that served truckers which also spread across Europe.

However, in recent years the UK petrol retail market has become extremely competitive, with many supermarket chains also setting up outlets selling cheap fuel. The competition has squeezed margins so much that selling petrol to motorists has become uneconomic for all but the biggest players.

Hundreds of filling stations in the UK have already been closed by the oil giants where the retail sites are too small to be turned into convenience stores that can sell higher-margin goods such as drinks, sandwiches and magazines, noted the Times report.

Total executive stresses OPEC's role as friend and reliable supplier

Vienna — A senior executive of French oil and gas giant Total has said that OPEC has proven its goodwill by producing at capacity in the past two years and should be regarded as a friend by the consuming nations.

In an interview with the Middle East Economic Survey (MEES), Total's President of Exploration and Production, Christophe de Margerie, said that despite the current high prices, the market situation would be much worse if OPEC did not exist.

"Those people who consider OPEC as the enemy ought to know by now that OPEC is a real friend. OPEC member states have come forward and acted collectively.

If there were no OPEC, or if the Member States had acted individually and considered their narrow self-interest and simply let prices go up to the roof, the situation would be much worse today", he said.

Nonetheless, however much oil the OPEC Member Countries produce, they are still being called upon to produce more in order to balance global supply and demand, even if it is contrary to their own short-term economic interests, noted de Margerie.

The Total official went on to note that they see no reason for higher production and large investments in increasing capacity.

"They ask, why should we help the West if the West doesn't like us? Why
should we invest in developing additional reserves if it is not recognized as a move on our part to enhance co-operation?” he told MEES.

Some countries in the Middle East are being asked to produce more while they have financial surpluses, de Margerie continued, adding that if these countries were acting in their own self-interest, they would not be pursuing such policies.

De Margerie also noted that since the beginning of the year, all oil-producing countries, with the sole exception of Saudi Arabia, have been pumping at full capacity in order to meet rising world demand.

On the issue of oil production capacity, the current debate in the West on whether the Middle East possesses enough oil reserves to meet future demand is addressing the wrong question, he added.

“The real issue,” de Margerie said, “is whether it is in the interest of the producing countries to use future resources to meet current demand, as well as how to manage their reservoirs and production capacity in the midst of the current political mayhem in the region.”

US major ChevronTexaco mulls returns to Libya after US lifts sanctions

San Ramon, California — Senior officials from US major ChevronTexaco officials have met with their Libyan counterparts several times in Tripoli recently to discuss the possibility of investing in the North African country’s oil and gas industry, according to newswire reports.

ChevronTexaco, which is the second-largest US oil company, is “very interested” in a possible return to Libya now that the US has lifted sanctions, noted an Associated Press story. However, a spokesman for the San Ramon, California-based company described the talks as “preliminary.”

Chevron had been active in Libya for several decades before its joint venture operations with Texaco were taken over by a unit of Libya’s National Oil Corporation in the late 1970s.

US oil industry executives have welcomed the lifting of US government barriers to doing business in Libya earlier this year, but have yet to sign any deals.

BP announces first gas sales from Algeria’s In Salah development

London — UK oil and gas giant BP has announced the commencement of gas sales from the In Salah gas project in Algeria, which is a joint development with the North African country’s state oil firm Sonatrach.

The In Salah gas project is the largest dry gas joint development project in Algeria and one of the largest joint investment energy projects ever undertaken in co-operation with Sonatrach, according to a statement released by BP.

The project initially entails the development of three proven gas fields at Krechba, Tegentour, and Reg, located in the remote Saharan desert of southern Algeria. The gas is transported along a series of infield pipelines to the project’s central processing facility at Krechba, and then along a 500-kilometre export pipeline to Sonatrach’s gas hub and collection point at Hassi R’MEL.

BP estimates that by the end of this year, gas deliveries will plateau at around nine billion cubic metres/year of gas, increasing Algerian gas exports by about 15 per cent.

The President and CEO of BP Algeria, David Nagel, stated: “We are extremely pleased to begin sales from In Salah. This will contribute significantly to Algeria’s gas exports portfolio, and marks a significant step in growing our business in Algeria.”

The In Salah gas development is located in the south-central area of Algeria, some 1,500 km from the capital Algiers. The project area is spread over 800 km from Hassi R’MEL in the north to Gour Mahmoud in the south.

First gas is expected from Sonatrach and BP’s other joint development project, In Amenas, by early 2006. Together, the In Amenas and In Salah fields will produce a total of 18bn cu m/y of gas.

Sonatrach subsidiary Enafor drilled a total of 24 development wells for the In Salah project. Bechtel of the US constructed the 48-inch export pipeline, which runs over a distance of 500 km, from Sonatrach’s main gas collection point at Hassi R’MEL to the northern-most gas field at Krechba.

In brief

ExxonMobil in new Caspian discovery

IRVING, Texas — US major ExxonMobil has announced that its subsidiary, ExxonMobil Kazakhstan Inc, has participated in a new discovery in the north Caspian production sharing agreement (NCPSA) contract area. The first exploration well on the Kairan prospect was completed successfully and encountered hydrocarbon bearing intervals. Additional evaluation will be required to determine if the hydrocarbon accumulation is commercially viable. Kairan is the fifth discovered field on the NCPSA following Kashagan, Kalamkas, Kashagan south-west, and Aktore. The giant Kashagan discovery was announced in 2000 and declared commercial in June 2002 with estimated resources of 13 billion barrels of oil.

BP makes Egyptian gas find

LONDON — BP Egypt has announced a new gas discovery in the western Nile Delta. The Polaris 1 exploratory well is the second discovery in the West Mediterranean Deep Water concession, following the Ruby discovery, which was made in 2002 and successfully appraised in 2003. The well is located north-west of Alexandria, 75 km off the coast of Egypt in water depths of 1,162 metres. The Polaris 1 well successfully tested and flowed gas at a rate of 26.5 million cubic feet/day from a mid Pliocene age slope channel play at a depth of 2,178m. The drill stem test was performed over a zone 42m thick containing approximately 19m of high quality net gas pay. The President of BP Egypt, Hesham Mekawi, said: “We are very pleased with the outcome of the well. With Polaris, in addition to Ruby and Raven, we continue our strong track record in new discoveries and gain more confidence in the great exploration potential of the Nile Delta.”

Healthy earnings for Petro-Canada

CALGARY, Alberta — Petro-Canada has announced second quarter earnings from its operations adjusted for one-time and unusual items of $484 million, up 36 per cent from $355m in the same quarter in 2003. Second quarter 2004 cash flow was $885m, compared with $874m in the second quarter of last year. Net earnings in the second quarter of 2004 were $393m, compared with $384m in the same period last year. Petro-Canada’s second quarter production of crude oil, natural gas liquids and natural gas averaged 455,200 barrels/day of oil equivalent, in line with expectations. “We made big strides this quarter on our longer term growth initiatives, with two strategic acquisitions,” said the firm’s President and Chief Executive Officer, Ron Brennenan.
The expansion of the Zeebrugge terminal is underway, including one of the terminal facilities for the extension of the LNG storage tank of 3.4 million cubic meters/day, including as a feedstock for gas production at the Quiriquire block of Repsol YPF. The principal engineering, procurement and construction contractor is JGC/KBR, which is a joint venture between the Japanese Gas Corporation of Yokahama, Japan, and Kellogg, Brown and Root, a subsidiary of Halliburton based in Dallas, Texas. JGC/KBR was responsible for the gas treating facilities and infrastructure, and constructed the intra-field pipelines, totalling 100 km of 6–12-inch pipe.

In June 2003, BP announced the sale of 49 per cent of its equity stake in the In Salah gas project (BP holds 65 per cent and Sonatrach 35 per cent) to the Norwegian company Statoil in a $740 million deal that included 50 per cent of BP’s stake in the In Amenas project.

Repsol YPF gas project inaugurated by President Chávez of Venezuela

Madrid — The President of Venezuela, Hugo Chávez, and the Chairman & CEO of Repsol YPF, Alfonso Cortina, have inaugurated the first well in the Barrancas project in Venezuela, according to a statement from the Spanish oil and gas giant. The ceremony was also attended by top Venezuelan officials including the Minister of Energy and Mines, Rafael Ramírez; the Chairman of state oil firm PDVSA, Ali Rodríguez Araque; the Chairman of Ente Nacional del Gas, José Luis Sánchez; and the Deputy Minister for Hydrocarbons, Luis Vierma.

Representing Repsol YPF were the company’s Chief Operating Officer, Ramón Blanco; and the Executive Vice-President for the upstream sector, Miguel Angel Remón.

At the same ceremony, the Venezuelan officials authorised an increase in current gas production at the Quiriquire block of 3.4 million cubic meters/day, including associated liquids, thus making Repsol YPF the principal private gas producer in the country. Repsol YPF was awarded the Barrancas block concession in 2001 for the exploration and exploitation of non-associated gasous hydrocarbons. The block is located in the south-west of Venezuela, spanning the states of Barinas, Portuguesa and Trujillo.

There are five potential fields in the Barrancas block, for which Repsol YPF has a 100 per cent stake: Sipororo, Guaracurú, Guaracurú Sur, Barrancas and La Yuca. In the first exploration phase, now under way, a discovery well called Sipororo 2X will be drilled, and the Sipororo 1X well drilled in the 1990s by PDVSA will be recovered.

If these wells test positive, 3D seismic will be acquired to define drilling of the wells necessary for the project’s full development. Discovery drilling at the Guaracurú site will be undertaken in a second exploration phase. Gas production from the block will begin in the first half of 2005, and by 2006 it is expected to reach 2 m cu m/d.

The gas is earmarked as feedstock for a thermoelectric power station to be installed in the Obispos municipality, in the state of Barinas. The project will help resolve electricity generation problems in this region of Venezuela, said the Repsol YPF statement.

The Spanish company added that it was committed to strengthening neighbouring communities by setting up projects that stimulate the use of the region’s natural resources and social co-responsibility, and encourage a capacity for work and self-management. The venture is expected to give direct employment to 100 workers, and create 1,000 indirect jobs.

Repsol YPF currently produces 220,000 b/d of oil equivalent in the Caribbean, 100,000 b/d of which come from the Quiriquire, Quiamare-La Ceiba, Curacao Occidental and Mene Grande fields in Venezuela. The other 120,000 boe/d are produced at its gas and oil fields in Trinidad & Tobago.

OPEC Members place highly in new ventures survey by Robertson

Llandudno, Wales — Several OPEC Member Countries feature strongly in the latest international new ventures survey by UK-based oil and gas consultants Fugro Robertson.

Fugro Robertson’s new ventures sur-
Survey polls oil companies that are involved in exploration and production ventures outside North America, and asks them to rate their level of interest in new ventures in 147 countries. Country ratings are prepared and analysed to determine the factors that influence movements up or down the rankings.

In the latest edition of the survey for 2004, the United Kingdom remains in first place for the second year running but is closely followed by Libya, just one point behind in second place, Iraq in joint third position together with Trinidad & Tobago, and Algeria in fourth.

On a regional basis, the Middle East remains the most popular region, not surprisingly since it contains the bulk of the world's reserves. Africa moves up from fifth to second position, with strong interest continuing in both north and west African countries.

The other countries ranked in the top ten are Egypt in fifth place; Australia in sixth; Brazil in seventh; Kazakhstan in eighth; Iran and Equatorial Guinea in joint ninth spot; and Angola, Morocco and Russia tied for tenth.

**Saudi Aramco to work together with SAGIA to promote investment**

*Dhabran* — Senior executives from Saudi Aramco met recently with officials of the Saudi Arabian General Investment Authority (SAGIA) to discuss economic development through local and foreign investments, according to a statement from the state oil and gas firm.

Heading the SAGIA delegation was the Authority's Governor, Amr Abdullah Al-Dabbagh. They were welcomed by Saudi Aramco's President and Chief Executive Officer, Abdullah S Jum'ah, who expressed his enthusiasm about the potential for cooperation.

"Saudi Aramco has a sector for new business development which is responsible for co-ordination with SAGIA to achieve common objectives. We agree with SAGIA that our objectives shall be directed to attract foreign and local investments, as well as creating a suitable environment for such investments," Jum'ah said.

“Saudi Aramco will always support SAGIA's goals to attract local and foreign investors; create job opportunities; businesses and investments; and sustain economic growth,” he added.

Responding, Al-Dabbagh said: “Since Saudi Aramco is considered the backbone of both the Saudi Arabian and world economies, it is natural for SAGIA to commence its business with Saudi Aramco, to benefit from its capabilities and expertise and co-ordinate with its investments in the hydrocarbon industry. Saudi Aramco has shown full co-operation and support in this regard.

“SAGIA is preparing its strategy and business plan, which will be finished during the month of Sha’ban. A significant part of this strategy and business plan will concentrate on the hydrocarbon sector.

“That is why Saudi Aramco's participation is important for us in forming our strategy and business plan, especially in relation to the hydrocarbon industry. We should benefit from all Saudi Aramco's successful experiments and circulate them to the private sector to utilize and apply some of them,” he noted.

The Vice-President of New Business Development, Isam A Al-Bayat, said the administrative area was formed in February 2003 to create new job opportunities and support the oil and gas sectors. Saudi Aramco would work closely with SAGIA, he went on.

Jum’ah also spoke about the $4.3 billion refining and petrochemical project signed by Saudi Aramco and Sumitomo Chemical Co of Japan, saying that attracting such foreign investment projects would create job opportunities for Saudis.

During their visit to Saudi Aramco, the SAGIA delegates toured the Operations Co-ordination Centre of Oil Supply Planning and Scheduling, where engineers Abdullah M Al-Mansour and Marwan S Sendi explained the centre's functions to them. The delegation concluded its visit with a tour of the Saudi Aramco Exhibit, where they were received by the Manager of Public Relations, Abdulla I Al-Isa.

Saudi Aramco currently has allocated gas quantities for 12 petrochemical mega-projects and industrial complexes to be implemented from 2004 to 2008. The total investment in these projects is approximately 75 billion Saudi riyals.

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**In brief**

**PetroChina performs well in 1H**

*Beijing* — PetroChina has announced that the company has reached all its production and operational targets for the first half of 2004. The company's total oil and gas output for the first half of 2004 amounted to 456.7 million barrels of oil equivalent, representing an increase of 2.7 per cent compared to the same period in 2003. Crude oil output for the first half of 2004 was 388.3m b, an increase of 0.5 per cent compared to the same period in 2003. Production rose at eight of PetroChina's oil fields, including Changqing, Daqing, Xinjiang and Jilin. Of these, Changqing increased production by 525,000 tons and Daqing produced 23,435t of crude oil, 410,000 t higher than planned. The company produced 410.3 billion cubic feet of marketable natural gas in the first half of 2004, an increase of 17.4 per cent compared to the same period in 2003.

**Rosneft unit boosts output sharply**

*Moscow* — Rosneft subsidiary Severnaya Neft is easily fulfilling its production plan, with output rising by more than 45 per cent for the first five months of 2004, the Russian company has announced. Severnaya Neft, which operates in the Timan-Pechora oil and gas province, produced 1,169,000 tons of oil in the first five months of this year. The operating stock of wells increased by 21 per cent, and the number of wells put into operation rose by 77 per cent. The scope of drilling increased by 3.5 times to 66,000 metres, while the time spent for the underground repair of wells decreased. The development of wild tundra areas in the Komi Republic and the Nenets Autonomous District continues, said Rosneft in a statement.

**Anadarko begins Marco Polo output**

*Houston* — Anadarko Petroleum has announced that it has begun production from three wells at its Marco Polo field in the Gulf of Mexico. The first two wells have produced a combined flow rate of 15,300 barrels/day of oil equivalent and are continuing to ramp up. The remaining three wells are scheduled to be on-line by early 2005. Anadarko made the Marco Polo deep-water discovery on Green Canyon Block 608 in April 2000 and holds a 100 per cent working interest. The company expects the field to reach peak daily production of 50,000 boe/d once all six wells are on line. “Clearly, we’re excited to achieve first production at Marco Polo, and we look forward to continuing our commitment to deep-water exploration and the development of new energy sources,” said Anadarko’s President and Chief Executive Officer, Jim Hackett.
ENVIRONMENT NOTEBOOK

Agreement signed concluding bilateral negotiations for Russia’s accession to the WTO

The OPEC Secretariat established its own Environmental Task Force (ETF) in 1994 to monitor developments in the field of energy use and the environment. Its principal objective is to keep OPEC’s Ministers continuously informed about the status of the energy/environmental debate, as it affects the Organization and its Member Countries. The ETF’s work is also seen as adding impetus and authority to the discussions at high-level meetings involving OPEC.

A Quarterly Environmental Report (QER) is circulated to Member Countries, in which the ETF reviews recent activities in the various international environmental fora, monitors changes in energy taxation, and provides background information on relevant forthcoming events, etc. Although this is an internal OPEC document, selected extracts from the publication appear regularly in the OPEC Bulletin for the benefit of a wider readership.

This month’s selection comes from the QER published at the end of the second quarter of 2004. It features the highlights of the issue, including the latest on Kyoto ratification and a calendar of events.

Issue highlights

EU Commissioner Pascal Lamy and Russian Economic Development and Trade Minister German Gref have signed an agreement in Moscow concluding bilateral negotiations for Russia’s accession to the World Trade Organization (WTO). Russian President Vladimir Putin explicitly linked the successful talks to the ratification process of the Kyoto Protocol, saying: “The fact that the EU has met us half-way in negotiations on the WTO could not but have helped Moscow’s positive attitude to the question of ratifying the Kyoto Protocol.”

● There are no changes on the status of ratifications of Annex I countries of the Kyoto Protocol, with those countries that have ratified accounting for 44.4 per cent of 1990 emissions levels, and the three that have not ratified (the US, Russia and Australia) accounting for the other 55.6 per cent.
● Germany’s Environment Ministry said it was still talking to the European Commission about its proposal for cutting carbon dioxide emissions but would take the issue to the European Court if the plan were to be rejected. The German plan was approved by parliament at the end of May after much political wrangling over the quotas, but share analysts said it was lenient and good news for coal-fired power generators.
● Ireland’s independent Commission for Energy Regulation (CER) has outlined its plans for dealing with carbon dioxide costs arising from the EU emissions trading scheme, the three-year pilot phase of which starts on January 1, 2005. In March, the CER raised its concerns with the government on the scheme’s potential impact on the electricity sector.
● London’s International Petroleum Exchange (IPE) and the Chicago Climate Exchange (CCX) are to work together to provide a marketplace for EU emissions trading. As part of the deal, the CCX will grant the IPE a license to list and market its EU products on an electronic trading platform, known as the Interchange.
● The European Parliament has voted to adopt the draft directive linking the European Union’s emissions trading scheme to the flexible mechanisms of the Kyoto
Protocol. Once law, companies will be able to use credits from emission reduction projects in other countries in the EU scheme from when it starts on January 1, 2005.

- The US Department of Energy is currently working on six sequestration field tests. Experts are gauging whether carbon dioxide will shift or escape after it is injected into depleted oil and gas reservoirs, coal seams that cannot be mined, saline formations and other potential storage sites.
- The UK’s Department of Trade and Industry (DTI) has said that a proposal to inject carbon dioxide to prolong the life of maturing North Sea oil fields, while simultaneously reducing greenhouse gas levels, would be too costly for oil firms. “This study has confirmed that carbon dioxide-based EOR is not currently an attractive investment to North Sea oil producers,” the report said.
- Oil field flaring of natural gas has been cut by 70 per cent in the oil-rich Canadian province of Alberta in the last seven years. The Senior Production Engineer with the Alberta Energy and Utilities Board, Michael Brown, said that he expected cuts in gas flaring would continue to be made each year.
- Japan’s Sumitomo and British firm Ineos Fluor Holdings have secured a deal with Indian firm Gujarat Fluorochemicals that will give them a total of 5 million tons of carbon dioxide emission rights a year from 2005, according to a report in the Nihon Keizai Shimbun. Total investment in the project is estimated at roughly 300 million yen.
- The London Authority Pension Fund Forum (LAPFF) is challenging a number of leading FTSE 100 companies about their environmental records in a bid to force them to adhere to the government’s guidelines on disclosure. The LAPFF’s Chairman, Bob Bowman, said that almost a quarter of FTSE 100 companies were unable to quantify and disclose their carbon emissions.
- Geographical factors play an important role in determining the carbon dioxide emissions of a nation, according to Eric Neumayer from the London School of Economics and Political Science. For example, countries with colder climates require greater energy use for heating, resulting in higher carbon dioxide emissions.
- Europe’s largest steel manufacturer, Luxembourg-based Arcelor, has lodged a legal case addressed to the European Parliament, claiming that the steel industry is unfairly treated with regard to greenhouse gas emission reductions. Arcelor is seeking to partially annul the law underpinning the emissions trading system.
- British Prime Minister Tony Blair has recently declared that the UK may have to build a new generation of nuclear power stations to meet the challenge of climate change. Appearing before a committee of senior MPs, he said that America was pressing Britain to look again at the nuclear option, including a new generation of stations that some claim will be safer and cheaper.

Calendar of meetings

September 19–22, 2004
Emissions Marketing Association’s (EMA) 8th Annual Fall Meeting and Conference.
Toronto, Canada. EMA’s 8th Annual Fall Meeting and International Conference will consider a range of topics, including new initiatives on renewable energy, the EU’s emissions trading scheme and other regional initiatives, and the prospects for trading in a non-Kyoto world. For more information contact: David Feldner, EMA Executive Director. Tel: +1 414 276 3819; fax: +1 414 276 3349; e-mail: dfeldner@emissions.org; Web site: www.emissions.org.

October 11–13, 2004
Gas AustralAsia Pacific Exhibition and Conference 2004: Expanding horizons and developing opportunities.
Perth, Australia. Gas AustralAsia Pacific Exhibition and Conference — GAAP 2004 — is organised in recognition of the investment opportunities in the gas sector throughout the region. Key issues to be covered: Western Australia and an international perspective; the Asia-Pacific LNG market; gas utilisation and commercialisation; technology, environmental regulatory and safety; developing infrastructure and trade links. For more information, contact: Estelle Bourguignon. Tel: +44 (0)20 7089 4209; e-mail: ebourgignon@thecwcgroup.com; Web site: www.gaap2004.com.

November 3–5, 2004
Climate Change and Business Conference and Expo 2004.
Auckland, New Zealand. This international conference will consider the linkages between business and climate change. Based on the assumption that ‘climate change is big business and will remain so whether or not the Kyoto Protocol enters into force,’ the meeting will include discussions on business opportunities and on improving companies’ bottom line performance by reducing energy costs and emissions. The conference is supported by the Australian and New Zealand governments, and is being co-organized by business and union groups, as well as the Pew Centre on Global Climate Change. Details: The Conference Company Limited. Tel: +64 9 360 1240; fax: +64 9 360 1242; e-mail: secretariat@climateandbusiness.com; Web site: www.climateandbusiness.com.

December 6–17, 2004
UNFCCC 8th Session of the Conference of the Parties (COP-10) and 21st Session of the Subsidiary Bodies.
Buenos Aires, Argentina. For more information, contact the FCCC Secretariat. Tel: +54 228 815 1000; fax: +54 228 815 1999; e-mail: secretariat@unfccc.de; Web site: www.unfccc.de.
Crude oil price movements

May

Since its adoption in 1987, the OPEC Reference Basket has never come close to the level reached this May — neither before the first Gulf crisis in 1990–91 or further back in the early 1980s. With a gain of almost $4/barrel, or more than 12 per cent, the Basket’s May average reached an all-time high of $36.27/b. Moreover, the daily average for May 17 even approached the $38/b mark. Soaring oil prices this year, together with the sharp fall that followed the invasion of Iraq last year, resulted in a huge difference in the year-to-date average. By the end of May, the year-to-date average stood at $32.11/b, which, compared to the same period in 2003, shows a rise of $3.76/b, or more than 13 per cent. The Basket started the month with a five per cent gain to average $34.90/b, followed by another 3.5 per cent rise, which took the weekly average to $36.15/b during the week ending May 13. The upward trend extended to the third week of May when the Basket added another 3.2 per cent to register $37.31/b, before dropping 0.6 per cent to average $36.70/b during the last week of the month. In the first week of June, the Basket decreased by 21¢/b to $36.49/b, while in the second week of the month it lost $1.94/b to register $34.55/b, mainly due to OPEC’s decision on June 3 to raise output, which calmed supply concerns.

May was a month that saw many records broken as major benchmark crudes and products moved into uncharted waters. The Atlantic basin benchmarks West Texas Intermediate (WTI) and Brent hovered around the $42/b and $39/b marks, while gasoline futures on the NYMEX rose to a record $1.47/gal. The picture is not much different from that presented in the April report; however, new elements have come into play. Crude oil prices continue to be driven by tight gasoline markets, especially in the USA, where new and more stringent specifications have created operational bottlenecks. On the demand side, gasoline consumption has been running approximately 4.5 per cent higher this year at 9.17 million b/d, compared to last year’s 8.77 m b/d. It is important to note that this year’s strong gasoline demand has taken place ahead of the driving season, which only comes into full swing following the US Memorial Day holiday during the last week of May. Fears of a supply disruption following the latest terrorist acts on oil industry personnel in major producing nations have raised eyebrows and given new reasons for speculators to further bid up prices. Understated world oil demand growth for the present year, which has been revised up as much as 1 m b/d according to many market analysts, has caught just about everybody by surprise, including OPEC. Having seen the retrenchment in US gasoline prices, market pundits are now beginning to question the ability of supply to meet demand during the final months of the year, when seasonal demand rises ahead of winter in the northern hemisphere. The important factor now after the US driving season, the perception is that demand in the last quarter of 2004, which will rise by a hefty 4.2 m b/d to 82.5 m b/d over 2Q, will be approaching levels close to the world’s total production capacity. It is argued that at such a high level of demand any disruption for whatever reason (political, social unrest, terrorism) could have severe consequences. We do not subscribe to this argument since according to our supply/demand balance there will be a stock build of 1.3 m b/d during 4Q and there is still around 2.0 m b/d of spare production capacity within OPEC. Spare downstream capacity, on the other hand, is becoming increasingly tight all over the world following years of underinvestment and consolidation. Spare downstream capacity used to exist mainly in Asia Pacific, but with regional demand surging, especially in China, this region too is facing tight supplies in key products despite high refinery utilization rates. Once again OPEC has stepped in to try to cool soaring oil prices by increasing its output level to 25.5 m b/d, effective from July 1, followed by another 500,000 b/d rise in August. According to the latest estimates, OPEC-10 combined June production will be approaching 27 m b/d and with Iraq the Organization will be supplying around 29.4 m b/d. Even though the market is well

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<th>Table A: Monthly average spot quotations for OPEC’s Reference Basket and selected crudes including differentials</th>
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<td>Arabian Light</td>
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1. An average of Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana Light and Isthmus.
supplied with crude and the current high oil prices are rooted in speculation on the futures market on perceptions of possible supply disruptions, OPEC has again shown its strong commitment to stable and fair oil prices, even at the risk of a sudden oil glut in the months to come. After all, at the present production level, the world supply/demand balance seems to indicate a rapid build in global oil stocks later this year.

**US and European markets**

Gasoline crack spreads in Europe surged to $17/b as regional refiners ramped up production. Regional gasoline-rich grades in turn disappeared as soon as they were available with gasoline-rich Forties trading at premiums of more than $1/b to BFO (Brent, Forcados and Oseberg) and over 50¢/b above other grades. Gasoline supply jitters in the USA boosted premiums to north-west Europe gasoline. By the end of May, New York harbour gasoline was commanding a premium of 50–60¢/gal above NWE gasoline. More than half a million barrels of European gasoline is scheduled to sail west in early June. However, the US thirst for gasoline has soaked up cargoes from other regions as well. During May and June, some 3.2m b of Asia-Pacific gasoline will arrive in the USA. As might be expected, this has pushed Asian prices to record highs as US demand competes with other countries in the region (especially China) for limited supplies. By the end of May, sentiment for both light sweet as well as sour grades weakened. Gasoline-rich North Sea and Nigerian grades were readily available but interest in Europe and the US Gulf Coast slackened. Sour grades were under pressure by the flood of barrels coming from Saudi Arabia following the kingdom’s decision to ramp up supplies in order to cool down runaway oil prices.

**Far East market**

Crude oil continued to flow east from West Africa but in lower quantities than the previous month. Trade of West African crude to the Asia Pacific region fell to about one third of what it has been since earlier this year. Deliveries for May stood at around 1 m b/d compared with the 1.5 m b/d during 1Q2004. The reduction mainly reflects the fall in Chinese demand and high freight rates, which, together with the large BFO (Brent, Forcados and Oseberg) premium to Dubai, have shut the arbitrage window. The closed arbitrage for West African crude has underpinned regional grades. Further support for light sweet grades came on the back of strong demand for gasoline, gasoil and jet fuel. By the end of the month, trading for July loadings started on a strong note given high end-users’ expectations for firm product demand. However, regional refiners were still waiting for indications of term supplies and OPEC’s decision to raise output levels could push down premiums.

**June**

Following the all-time monthly high of $36.27/b registered for May, the OPEC Reference Basket fell in June by $1.66/b, or 4.6 per cent. Nevertheless, the June average of $34.61/b is the highest average for that month in the last 22 years, while the year-to-date average for 2004 of $32.59/b exceeds the 2003 yearly average by almost 16 per cent, or $4.48/b. The combined effect of higher crude oil prices so far this year and the hike in OPEC production to meet the increase in world oil demand should have a positive impact on the Members’ revenue. In the first week of June, the Basket lost 21¢/b, or 0.6 per cent, to average $36.49/b, followed by a more pronounced fall of $1.94/b, or 5.3 per cent, to $34.55/b in the second week. The pace of the fall decelerated by the third week, but the Basket still shed another 30¢/b, or 0.9 per cent, to average $34.25/b. By the end of June, the Basket began to show some signs of recovery, gaining 30¢/b, or 0.9 per cent, to average $34.54/b. Then it retraced $1.28/b to average $33.26/b in the week ending July 1. However, this was more than offset by the strong gain of more than $2/b in the week ending July 8 when the Basket averaged $35.35/b.

On the last trading day of May, the US benchmark crude WTI closed just a notch below $40/b. However, by June 1, following a long holiday weekend, it had jumped to $42.33/b, its highest closing price since the contract was introduced in 1983. On the other side on the Atlantic, the BFO prompt contract also surged above the $39/b mark, reaching an intraday high of $39.12/b. The surge in prices was partly attributed to terrorist attacks on Saudi Arabia’s oil industry, which raised concerns over supply security from the only country with significant spare capacity.

Crude oil markets reacted positively to OPEC’s announcement of a 2.5 m b/d increase in Beirut, with prices correcting to more moderate levels. It goes without saying that OPEC has once again acted in a responsible manner to supply the market with the necessary crude, but it does raise the question as to whether OPEC has overdone it in its latest move. Will the Organization find itself with a glut of oil in the coming quarters? One might argue that US commercial crude oil stocks have been rapidly recovering since the beginning of the year and now stand above the 300 m b mark. Atlantic basin spot markets, especially the US Gulf area, were awash with crude early in June, prior to the arrival of additional OPEC supplies. Late in June, sweet West African crudes were under enormous selling pressure due to a lack of demand in the US Gulf Coast, despite the production of gasoline being at its peak. On the other hand, the gasoline supply crunch in the US market seems to be receding following the ramping up of refinery runs to fresh long-term highs and strong imports. Institutions and analysts continue to make hefty revisions to global oil demand estimates for the present year, setting total demand growth well above 2.0 m b/d. However, there is always a question about the reliability of these figures — after all, just a few months ago they were telling us that world oil demand growth for the present year would be around 1 m b/d. While strong Chinese demand, especially for distillates, has supported a rally in the Asian region, the bullish market that was pushing up prices on the other side of the world is losing pace. In the end, the market finds itself in a tug of war between market fundamentals, which have lost some shine, and security of supply concerns driven by the perceived violence, social unrest and political instability in oil-producing nations.

Recent events like the complete halt in Iraqi exports after saboteurs attacked pipelines in the southern part of the country and the oil workers’ strike in Norway highlight the vulnerability of the supply side of the equation. Meanwhile, speculators in the oil and product futures markets continue to magnify the impact these events have on crude oil prices, to the detriment of both consumers and producers.
US and European markets

A rise in commercial crude oil stocks in the US, which surged well over the 300m b level at mid-month, dampened buying interest by US refiners, especially for sweet crudes. High freight rates, combined with a narrowing of transatlantic arbitrage, resulted in a weakening of demand for North Sea as well as West African crudes. The price of light sweet West African crudes plummeted against BFO, with Nigeria’s Bonny Light retreating by more than 50¢/b against BFO between the end of May and mid-June. On the European front, prompt BFO flattened against the first futures month contract, reflecting a lack of prompt demand in the North Sea and the difficulties of shipping volumes across the Atlantic to the US Gulf and East Coast markets. Towards the end of the month, July supplies were facing problems from the overhang of June cargoes. Despite high refinery runs and crude oil imports, US commercial crude oil supplies have consistently recovered since early this year. There are indications that the Atlantic basin is awashed in sweet as well as sour supplies, while the North Sea and the West African regions are struggling to dispose of an overhang of cargoes. Therefore, it is possible that despite strong demand, crude supplies in the Atlantic basin are outpacing the region’s capacity to absorb such huge inflows of crude. This state of affairs might lead to a sudden rise in regional commercial stocks and an overhang of unsold oil which could spark a considerable fall in crude oil prices.

Far East market

West African crude oil continued to head east despite the widening of BFO/Dubai arbitrage. The volume of crude moving to the Asia Pacific region has slowed from the 1.4–1.5mb/d seen earlier this year. However, in June, strong Chinese, Indian and South Korean demand has drawn 1.3mb/d of West African crude while 1.2mb/d has been sold for loading in July. The shape of the Dubai crude market, where prompt prices are higher than in the forward month, is an indication of firm Asia Pacific demand. Middle East crudes have been underpinned by Japanese demand for distillate-rich crudes to ramp up kerosene inventories for winter heating, as premiums to the official selling price have reached their highest level for the year. Firm end-user demand has also supported regional Australian and Malaysian light distillate-rich grades.

Product markets and refinery operations

May

Due to the impending robust demand of the US driving season, average gasoline prices outperformed their marker crude counterparts, both domestically and in the world oil markets in May. This pushed refining margins to new record highs in the three main refining centres.

US Gulf market

Average May spot product prices enjoyed further solid gains in the US Gulf market. Gasoline fared the best, soaring 16 per cent to mark a new high of $56.45/b. Gasoil and high sulphur fuel oil (HSFO) followed with respective rises of 11 per cent and 10 per cent above their corresponding April values. These gains outpaced the nine per cent increase in the average price of the marker crude, WTI, for the same period. Nevertheless, the preliminary four-week average, representing the bulk of US May refinery and product activities, as published by the Energy Information Administration, indicated the following developments. US gasoil demand rose a further 100,000 b/d or one per cent above the preceding month to reach 9.2mb/d, representing a three per cent increase over May 2003. Meanwhile, following the completion of a prolonged maintenance period, refinery gasoil output moved up an additional 2.5 per cent to register 8.9mb/d. Gasoline imports also surged by 5.6 per cent to 930,000 b/d, thereby keeping the US gasoil market in May balanced with an almost unchanged gasoil stock level of 204mb. During the same time, distillate demand maintained the previous month’s rising trend, registering nearly 4mb/d. This translated into an impressive increase of 7.6 per cent above the corresponding month of last year. Distillate refinery output, however, dropped to 3.8mb/d as a consequence of refiners’ efforts favouring gasoil over distillate products. Heavy fuel oil consumption, on the other hand, fell a considerable 12 per cent below last month’s level to 720,000 b/d amid lower utility demand due to mild weather, coupled with improving economics of refining crude runs, which reduced the utilization of fuel oil feedstock.

Average WTI refining margins in the US Gulf Coast in May exceeded $10/b, bolstered by a prevailing strong rise in most product prices, which overwhelmed the increased cost of processing crude.

US refinery throughput rose roughly 380,000 b/d to close at 15.86mb/d in May, reflecting a spate of refinery restarts following the ending of maintenance programmes. Despite an increase of 2.3 per cent to 95 per cent on the month, the US refinery rate fell by one per cent from the previous year’s figure.

Rotterdam market

The average spot gasoline price led Rotterdam’s product price rises in May, improving a hefty 17 per cent to average $53.11/b. This outperformed the 13 per cent rise in the marker crude, Brent, for the same period. However, the middle and the heavy ends of the barrel lagged behind the average in the Brent price, as gasoil increased 11 per cent and HSFO rose 10 per cent. However, a number of developments generally shaped European product markets. The first was the tight gasoline market, which resulted in another decline in gasoline exports to the US. Secondly, the gasoil market strengthened further in north-west Europe, receiving support from the tight Mediterranean market in the first part of the month, coupled with European refiners focusing on boosting gasoline output. Thirdly, low sulphur fuel oil shipments to the US market, together with continuous heavy sulphur fuel oil exports to the Asian market, firmed fuel oil fundamentals.

Strong gross product worth, shaped largely by exceptional gasoline price rises, outperformed the relative price strength of Brent. As result, refining margins made enormous gains of over $7/bin Rotterdam in May.

Hindered by planned and unplanned refinery outages, Eur-16’s refinery throughput fell 225,000 b/d to 12.15mb/d in May. The equivalent refinery utilization rate was 88 per cent, nearly on a par with last year’s figure for the same period.

Singapore market

Average product price gains differed in magnitude with respect to the increase
in the price of their marker crude, Dubai, which rose nine per cent in May. With a 13 per cent rise, the average gasoline price outpaced its corresponding marker crude price, though average prices for gasoil and HSFO showed lower increases of eight per cent and six per cent, respectively. Nonetheless, an overall analysis of Asian product markets sheds light on a number of factors. China’s product fundamentals continued to be the main contributor in shaping Asian product markets. Increased domestic gasoline demand in China slashed gasoline exports from the largest Asian gasoline exporter at a time when global demand was booming. Indonesia bought a monthly record 2.8m b for May delivery. Australian requirements for gasoline surged, following the closure of ExxonMobil’s 72,000 b/d Port Stanvac refinery in South Australia. Furthermore, strong US gasoline prices attracted considerable volumes from South Korea, thereby exacerbating regional supply. Likewise, a strong appetite for gasoil turned China from a net exporter into a net importer. In addition, the prevailing strength in the country’s air travel supported other distillate products like jet fuel. However, the fishing ban in the China Sea during June and July is expected to slash gasoil demand. Asian fuel oil saw rising supply, caused by prevailing high refinery runs in China and Singapore, as well as continuous arrivals of foreign fuel oil cargoes, although the anticipation of strong renewed demand from China during the summer months provided considerable support to the Asian fuel oil price.

Twin big rises in gasoline and fuel oil prices pushed Dubai’s refining margins to an average of $5/b in Singapore in May.

In Japan, the ongoing maintenance season cut refinery throughput further to 3.48m b/d, a drop of around 560,000 b/d from the previous month. The refinery utilization rate fell to 74.1 per cent, or eight per cent lower than in the corresponding period a year earlier.

June

Concerns about a sustained gasoline shortage in the US, which have driven the upward trend in petroleum products over the last few months, have eased recently, resulting in a significant gasoline price fall in June. This shift has made market players more bearish and led them to liquidate long positions. Following these developments, product prices fell across the board in June, matching the downward trend in crude prices and reducing refinery margins in all major markets.

**US market**

Slowing gasoline demand growth and a 3.6m b stock-build in the first month of the driving season have dispelled fears that the US would struggle to keep up with gasoline demand throughout the peak summer season. Gasoline prices dropped 13 per cent in June, more than WTI, which fell five per cent. But in the same month, strong economic growth has bolstered middle distillate demand, allowing a gain against its falling benchmark, despite higher inventory levels compared to June 2003. Similarly, demand for low sulphur fuel oil rose over ten per cent y-o-y as high natural gas prices and some nuclear reactor outages supported consumption growth. In contrast, growth in the HSFO market is still lacklustre, with crack margins showing large discounts to WTI.

Strong demand for all major products and relatively high refinery margins have encouraged US refiners to increase throughput as much as operationally possible. This allowed the US refinery utilization rate to reach a record high of 96.5 per cent for a rise of 1.5 per cent versus 2004.

**European market**

Prompt cargo oversupply in Europe in early June, along with poor arbitrage economics for exports to the US, caused the reforming crack level to fall sharply. These losses were offset later on as north-west European spot product prices rose, led by gasoline, following a jetty fire that halted barge loading from BP’s Nerefco refinery in Rotterdam. Mediterranean margins were also supported by extended maintenance work at refineries, which led to supply tightness in the region.

Meanwhile, middle distillate prices were relatively stronger due to lower stock levels and increased demand, especially from the east of the Mediterranean area. This cushioned some of the fall in middle distillate prices against benchmark Brent crude. On average, European gasoil spot prices declined three per cent in June versus the six per cent drop in Brent values. The latest available data shows that middle distillate stock levels for the Eur-16 are 1.3m b less than in June 2003. However, despite a 2m b stock-draw on HSFO stocks in June compared with the month before, fuel oil inventories across Europe are still 8.5 per cent higher than in the same month last year. Poor opportunities for exports to the US or Asian markets, along with slack regional demand, weighed on the HSFO market. In the future, this situation may aggravate the over $12/b product discount against Brent.

In June, refinery throughput inch ed up marginally in the Eur-16 due to the extended maintenance schedule, while the utilization rate rose just 0.8 per cent versus the previous month to 89.1 per cent.

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### Table B: Selected refined product prices

<table>
<thead>
<tr>
<th></th>
<th>Apr 04</th>
<th>May 04</th>
<th>June 04</th>
<th>Change Jun/May</th>
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<tbody>
<tr>
<td><strong>US Gulf</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular gasoline (unleaded)</td>
<td>48.57</td>
<td>56.45</td>
<td>49.39</td>
<td>−7.06</td>
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<tr>
<td>Gasoil (0.2% S)</td>
<td>37.76</td>
<td>41.76</td>
<td>40.88</td>
<td>−0.88</td>
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<td>Fuel oil (3.0% S)</td>
<td>24.78</td>
<td>27.28</td>
<td>24.99</td>
<td>−2.29</td>
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<tr>
<td><strong>Rotterdam</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Premium gasoline (unleaded)</td>
<td>45.58</td>
<td>53.11</td>
<td>45.85</td>
<td>−7.26</td>
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<tr>
<td>Gasoil (0.2% S)</td>
<td>38.74</td>
<td>42.83</td>
<td>41.86</td>
<td>−1.15</td>
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<tr>
<td>Fuel oil (3.5% S)</td>
<td>22.77</td>
<td>25.10</td>
<td>23.39</td>
<td>−1.71</td>
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<td><strong>Singapore</strong></td>
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<td></td>
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<tr>
<td>Premium gasoline (unleaded)</td>
<td>44.09</td>
<td>49.71</td>
<td>45.19</td>
<td>−4.52</td>
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<tr>
<td>Gasoil (0.5% S)</td>
<td>42.82</td>
<td>44.62</td>
<td>42.84</td>
<td>−1.78</td>
</tr>
<tr>
<td>Fuel oil (380 cst)</td>
<td>25.54</td>
<td>27.83</td>
<td>26.87</td>
<td>−0.96</td>
</tr>
</tbody>
</table>
Asian market

Singapore’s residual fuel oil stocks remained nearly 30 per cent above year-ago levels, depressing the fuel oil crack spread versus Dubai crude oil. Ample supply and lack of regional demand, particularly from China, have exacerbated a situation that might get worse in the future despite the closed arbitrage window, given continued supplies from Caribbean areas.

Singapore’s naphtha margins have also deteriorated since the beginning of June. However, petrochemical demand for naphtha is not the cause of this decline. Indeed, with the end of the ethylene cracker maintenance season, refineries were running at their full operational rate to take advantage of $440/t cracker margins. Instead, naphtha’s recent decline has accelerated due to a weaker gasoline market, which has depressed reforming margins as well as rising supply from India and the Middle East.

So far this year, Indian refiners have been showing significantly more export cargoes versus a year ago as local petrochemical plants shift to using more natural gas as feedstock instead of naphtha. Gasoline crack margins in Singapore slid sharply in June, as gasoline prices dropped in line with other markets, due to diminished opportunities to move supply across the Pacific. Gasoline values slipped about nine per cent versus the three per cent fall in the Dubai benchmark crude. However, the market for middle distillates was steady to weaker, as low kerosene stock levels in Japan and relatively strong gasoil demand from China due to power shortages and thin domestic stocks have prevented a sharp decline in middle distillate prices.

In Asia, all but Japanese refineries are running with higher throughput compared to last year. In contrast, due to a heavier maintenance schedule and lower margins, Japanese refineries are running at lower capacity, resulting in a drop of 0.3 per cent in June from the previous month to 73.6 per cent.

The oil futures market

May

The NYMEX light sweet crude contract finally managed to break through the psychological $40/b barrier on May 11. According to the Commodity Futures Trading Commission’s Commitments (CFTC) of Traders report for that week, non-commercials increased their long positions by 2.0m b/d on July 1 and decreasing their long holdings in the days before the June 3 Meeting in Lebanon. The OPEC decision to raise its official ceiling by 2m b/d effective July 1, 2004 and by a further 500,000 b/d on August 1 appears to have had the desired effect on crude oil markets. Following this announcement, the NYMEX front month sweet crude contract fell as much as $4/b from an all-time high of $42.45/b.

June

While the OPEC decision in June to increase output by 2.0m b/d on July 1 and 500,000 b/d on August 1 was intended to bring market fundamentals into check, in reality it served to do more much than that. Although OPEC never acts to calm market speculation, judging from the weekly CFTC statistics, OPEC’s June 3 decision appears to have brought a jolt of reason to the minds of oil futures speculators. In the run-up to the June 3 Meeting, non-commercials (or speculators) increased their long positions by 10,000 contracts, according to the CFTC’s Commitments of Traders report for the week ending June 1, while at the same time increasing their shorts by 2,000 lots in a clearly bearish move. Speculators prepared for a possible decision by OPEC to raise production by decreasing their long holdings in the days before the June 3 Meeting.

Table C: Refinery operations in selected OECD countries

<table>
<thead>
<tr>
<th>Refinery throughput (m b/d)</th>
<th>Refinery utilization (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 04</td>
<td>May 04</td>
</tr>
<tr>
<td>USA</td>
<td>15.48</td>
</tr>
<tr>
<td>France</td>
<td>1.83</td>
</tr>
<tr>
<td>Germany</td>
<td>2.19</td>
</tr>
<tr>
<td>Italy</td>
<td>1.80</td>
</tr>
<tr>
<td>UK</td>
<td>1.70</td>
</tr>
<tr>
<td>Eur-16</td>
<td>12.34</td>
</tr>
<tr>
<td>Japan</td>
<td>4.04</td>
</tr>
</tbody>
</table>

1. Refinery capacities used are in barrels per calendar day.
R Revised since last issue.
Sources: OPEC statistics, Argus, Eurolist Inventory Report/IEA.
non-commercial long positions, with net long positions falling by 45 per cent or 29,400 lots to 35,800. Clearly, speculators understood that $40/b–plus crude prices were not going to be tolerable by anybody. The following week saw a new bearish, or at least less bullish, market mood by non-commercials following OPEC’s output agreement. Speculators cut their long holdings by almost 7,000 lots while raising their shorts by 2,100 lots, resulting in a further decline in net long positions, which stood at 26,700 lots in the week ending June 15. Meanwhile the front month sweet crude contract shed more than $5/b from its all-time high closing price of $42.33/b on June 1. Open interest — a measure of market depth — was 699,000 lots, falling from a record 735,377 lots reached on June 1.

In the subsequent weeks, speculators continued to dispose of their long positions while at the same time adding length to their short holdings, a sign that short to mid-term market fundamentals were replacing fears of supply disruptions amid rampant demand growth. The mode by speculators was clearly bearish judging by the CFTC report for the week ending June 29. Non-commercial continued to trim long positions and net-long holdings, which were decreased from 65,000 lots on June 1 to 14,600 lots by June 29. Meanwhile, the front month sweet crude contract fell further towards the end of June before recovering in early July on sabotage of a key pipeline in southern Iraq which cut Basrah exports by half. There were also fears that troubles at the Russian oil major Yukos, which accounts for one-fifth of the country’s overall crude output, might force the firm to reduce production.

**Tanker markets**

OPEC area spot-chartering regained the previous month’s losses, increasing by about 26 per cent, or 4.23m b/d, to 16.10m b/d in May, which was about 2m b/d higher than the level observed a year ago. The rise in OPEC spot fixtures, of which Middle East chartering contributed about half, was mainly due to the increase in OPEC oil production over the previous month, as most OPEC Member Countries exceeded their quotas in an attempt to cool record high oil prices at the end of May. Early June fixtures also added to this high level as charterers sought to secure tonnage at current freight rates, expecting that rates will continue to move upwards, especially after some OPEC Member Countries announced that they would increase oil production in June. OPEC’s share of global spot fixtures rose by about five per cent to 65 per cent, which was six per cent above the same time in 2003. As mentioned earlier, half of the increment occurred on the outbound Middle East routes, with Middle East eastbound long-haul fixtures accounting for two thirds of this increase, rising by 1.54m b/d to 6.05m b/d, or 740,000 b/d higher than the year ago level. Middle East westbound long-haul fixtures moved up 670,000 b/d to stand at 2.90m b/d, exceeding last year’s level by 1.25m b/d. Together, they accounted for about 56 per cent of total OPEC fixtures, exactly the same percentage as in May 2003. Non-OPEC spot chartering moved in the same direction but much less than that seen in the OPEC area, increasing slightly by 770,000 b/d to 8.60m b/d, or 1.08m b/d below last year’s figure. Despite this rise, non-OPEC’s share of global spot fixtures lost about five per cent to stand at 35 per cent, or six per cent less than that registered a year earlier. Accordingly, total global spot-chartering rose 5m b/d to 24.70m b/d, which was about 1m b/d above May 2003. Estimated sailings from the OPEC area during May declined by 1.15m b/d to stand at 24.27m b/d, mostly on a drop in non-Middle East sailings, while sailings from the Middle East remained almost steady, declining marginally by 50,000 b/d to 15.88m b/d. Despite this minor change, the share of Middle Eastern sailings in the OPEC area managed to rise by about three per cent to 65 per cent, or seven per cent less than last year’s level. Preliminary estimates of long-haul arrivals in the US Gulf, East Coast and Caribbean displayed an increase of 960,000 b/d to 11.80m b/d. Arrivals in NW Europe rose by 200,000 b/d to 7.27m b/d, while arrivals in Euromed declined by 200,000 b/d to 4.12m b/d. In Japan, arrivals remained unchanged at last month’s level.

Crude oil freight rates across all main routes and for all sectors benefited noticeably from high spot fixtures during May, especially from very large crude carriers (VLCCs) on the Middle East eastbound long-haul route and Aframax within the Mediterranean and from there to NW Europe. Soaring oil supply, particularly from OPEC producers and increasing demand from Asian consumers, especially China and India, with the addition of ongoing healthy demand from the US, encouraged owners to seek higher rates, gaining support from relatively tight tonnage supply. On the Middle East eastbound long-haul route, VLCC freight rates gained 17 points to stand on average at Worldscale 108, while rates on the Middle East westbound long-haul route moved up a marginal two points for a monthly average of W85, due to a drop in shipments of heavy sour Middle Eastern grades as Atlantic basin refineries were more interested in light, sweet grades to meet soaring gasoline demand. High demand for light, sweet crudes, especially West African grades, pushed Suezmax freight rates up on the West Africa/US Gulf route by eight points to a monthly average of W131, while steady movement from NW Europe to the US East Coast added only two points to that route’s rates, closing the month at W145. Aframax freight rates were the biggest beneficiary in May, surging 40 points to W166 on the Mediterranean/NW Europe route and 20 points to W210 within the Mediterranean basin. High activity, especially in the second half of the month, helped Aframax freight rates on these two routes to head upward again after stagnating early in the month. In the Caribbean, freight rates gained ten points on average to stand at W164, benefiting from high rates early in the month before suffering a drop in the second half on dull trade. The smallest gain was registered for tankers on the Indonesia/US West Coast route due to steady activity. Rates on this route moved up by one point to a monthly average of W146.

The product tanker market enjoyed a very good month as rates regained part of the heavy losses of the previous month. Buoyant business, especially for cargoes for tankers of 30,000–50,000 dwt on the Middle East/Far East route, lifted rates on average by 16 points to W179, while short-haul voyages from Singapore to the east gained only four points to W278, as activity was not as good as on the long-haul route from the Middle East. Within the
Mediterranean basin and from there to NW Europe, freight rates also showed small increases, rising by eight points to W230 and by five points to W280, respectively. Rates along the NW Europe/US East Coast route enjoyed the highest increment compared with other routes, increasing by 25 points to W250 on very good activity, especially for gasoline cargoes, as the US market remains very attractive for European products. Continuously strong gasoline demand in the US also pushed freight rates up on the Caribbean/US Gulf route by ten points to W275.

June

Increased OPEC oil production in June 2004 was not reflected in estimated OPEC area spot fixtures, which have shown a drop of 2.78m b/d to 13.14m b/d. This decrease could be due to a downward revision later on to reflect more accurately extra capacity from the OPEC area, especially from Middle Eastern producers. However, this figure is still 2.69m b/d above last year’s level. High tanker demand, confirmed by soaring freight rates, should have lifted OPEC area spot fixtures rather than pushed them down. One can hardly justify such a perception as most of the early expectations were assuming an upward trend. OPEC’s share of global spot-chartering declined by about two per cent to stand at 63 per cent, an increase of 14 per cent from a year ago. Middle Eastern westbound and eastbound long-haul fixtures contributed about 68 per cent to the fall in OPEC area spot fixtures, with westbound long-hauls decreasing by 1.03m b/d to 1.81m b/d and eastbound long-hauls declining by 870,000 b/d to 5.10m b/d to represent about 14 per cent and 39 per cent of total OPEC area chartering. Together, they accounted for 53 per cent of total OPEC area spot fixtures, a drop of one per cent from a year ago. Non-OPEC spot chartering experienced a pattern similar to the OPEC area, declining by 920,000 b/d to 7.80m b/d to represent about 37 per cent of global chartering, or one per cent above last month and 14 per cent below year-ago levels. Overall, global spot fixtures fell by 3.70m b/d to 21.00m b/d, a drop of 610,000 b/d from a year ago. Estimated sailings from the OPEC area in June rose 2.30m b/d to 28.34m b/d. Middle Eastern sailings were up by 1.70m b/d to 17.88m b/d, lifting their share of OPEC area sailings by about one per cent. Arrivals in all main consuming areas experienced marginal declines except in Europe, which saw a minor increase of 30,000 b/d to 4.27m b/d. Arrivals in Japan declined 650,000 b/d to 3.37m b/d, while arrivals in the US Gulf, US East Coast and Caribbean moved down by 240,000 b/d to 11.33m b/d. A slight decline occurred in NW Europe’s arrivals, which lost 80,000 b/d to stand at 7.3m b/d.

The unexpected decline in global spot fixtures did little to constrain crude oil freight rates in June, which sustained the previous month’s gains on the back of tight tonnage availability and high tanker demand. Pledges from some OPEC Member Countries, especially Middle Eastern producers, to pump more oil as of June 1, to curb soaring oil prices as well as OPEC’s decision to increase the crude oil production ceiling, encouraged owners to seek high rates, especially at the beginning of the month. The monthly average freight rates for VLCC cargoes on Middle Eastern eastbound and westbound long-haul routes rose 17 and 19 points to W125 and W104, respectively. Suezmax freight rates behaved similarly on the West Africa/US Gulf route on high oil exports from West African producers and healthy demand from US refineries, while rates on the NW Europe/US East and US Gulf Coast remained mostly steady due to lower North Sea exports. Thus, Suezmax freight rates soared on the former route by 18 points to W149, while on the latter they moved up a marginal three points for a monthly average of W148. Increasing activity, especially at the end of June, lifted the monthly average for Aframax freight rates within the Mediterranean and from there to NW Europe by 49 and 44 points to W259 and W210, respectively. On the Caribbean/US Gulf route, lower trade in the last week of June managed to reduce the high level of W225 earlier in June to a monthly average of W205, 41 points above the May level. Rates on Aframax tankers from Indonesia to the US West Coast gained 20 points to an average of W166.

The product tanker market moved differently from the crude oil market as some routes were not likely to satisfy owners, especially the route from Singapore to the East, where the monthly average lost 14 points to stand at W264, mainly due to a lack of business early in the month. The picture was brighter at the end of June, when rates managed to touch W300 and even higher in some transactions on the back of tight tonnage supply. On the long-haul route from the Middle East to the East, rates gained 41 points to stand at an average of W220, due to limited tonnage availability and increasing demand. Freight rates within the Mediterranean and from there to NW Europe suffered from a lack of business, particularly in the second half of the month, due to lower demand. However, rates still managed to finish the month at average levels of W259 and W289, respectively, showing increases of 29 and nine points compared with the previous month. Unattractive arbitrage economics did not show in the monthly average of rates on the NW Europe/US East and US Gulf Coast route, which rose 58 points to W308, due to the month’s strong start. On the Caribbean/US Gulf Coast route, rates experienced a similar pattern, gaining 25 points to a monthly average of W300 as a slowdown at the month’s end pushed rates lower.

World oil demand

May

Estimates for 2003

World

Compared with the 78.60m b/d given in the last report, the average 2003 world oil demand estimate has been revised up by 80,000 b/d to 78.68m b/d, due to upward revisions in the actual historical consumption data of 100,000 b/d in the second and 250,000 b/d in 3Q, partly offset by a minor downward adjustment of 30,000 b/d in 1Q data. Nearly the whole of the upward revision originated in North America, where the actual consumption data was 70,000 b/d higher than the previous estimate. The oil consumption estimate was also raised marginally by 10,000 b/d in Other Asia. As a result, the yearly increment, ie, the difference between the 2002 and the 2003 averages, has likewise been adjusted upwards by 80,000 b/d to read 1.67m b/d, equivalent to 2.17 per cent.

On a regional basis, OECD demand in 2003 is now estimated to have risen
820,000 b/d or 1.71 per cent, higher than the 1.56 per cent given in the last report, following a minor drop of 70,000 b/d in 2002. The growth rates in the other major consuming groups remain unchanged. The estimated 270,000 b/d or 1.39 per cent rise in developing countries consumption for 2003 is well above the 210,000 b/d or 1.1 per cent growth for 2002. Apparent demand in Other Regions, which comprise the FSU, China and former Eastern Europe, is estimated to have grown considerably by 580,000 b/d or 6.06 per cent, more than two-and-a-half times in volume and growth rate compared with the 210,000 b/d or 2.21 per cent growth of 2002.

Compared with the exceptionally weak 1Q2002, world demand is estimated to have grown a significant 2.83 per cent, or 2.18 m b/d, to average 79.05 m b/d in 1Q2003. This is the net effect of the much colder-than-normal weather in most parts of the northern hemisphere, fuel substitution in Japan as a result of nuclear power reactor maintenance, stockpiling ahead of the Iraq war, and record high natural gas prices in the USA. The 2Q2003 consumption is estimated to have risen by 1.64 per cent or 1.23 m b/d compared to the exceptionally weak 2Q2002, thanks to robust economic growth in China and due to the continuation of fuel substitution in Japan. The 3Q consumption is assumed to have grown slightly more at 1.53 m b/d or 1.99 per cent. The 4Q increment is estimated at 1.74 m b/d or 2.21 per cent, representing the second largest quarterly rise in 2003.

**OECD**

The estimated OECD consumption of 48.58 m b/d constitutes 62 per cent of the total world demand in 2003, as indicated in the previous report. Out of the forecast 1.67 m b/d world oil consumption increment in 2003, about 820,000 b/d or nearly a half is expected to be accounted for by the OECD. Within the group, North America ranks first in estimated demand growth with 550,000 b/d, close to 68 per cent of the group demand increment. OECD Pacific and Western Europe rank second with 130,000 b/d each, equivalent to 16 per cent.

The comparison of actual 2003 and 2002 consumption data suggests that during 2003, the leading volume and percentage gainer product was gasoil/diesel with a 340,000 b/d or 2.85 per cent rise in consumption. This is because of fuel switching in the USA and across Europe. The second volume and percentage gainer product was naphtha which experienced 80,000 b/d or 2.68 per cent growth thanks to healthy margins in the petrochemical sector. Direct use also underwent exceptionally high growth at 42.15 per cent due to nuclear reactor maintenance in Japan.

The only product whose consumption lost percentage growth at 230,000 b/d, or 3.08 per cent, followed by the Middle East and Africa at 100,000 b/d, or 2.03 per cent, and 40,000 b/d, or 1.39 per cent, respectively.

**Developing countries**

In developing countries, oil demand is estimated to have grown at 270,000 b/d or 1.39 per cent, to 19.98 m b/d. Consumption in Latin America is estimated to have contracted by 90,000 b/d or 1.95 per cent to average 4.65 m b/d, similar to the year 2002 when demand weakened by 120,000 b/d, indicating continued economic and financial problems. Other Asia is estimated to have registered the highest volume and percentage growth at 230,000 b/d, or 3.08 per cent, followed by the Middle East and Africa at 100,000 b/d, or 2.03 per cent, and 40,000 b/d, or 1.39 per cent, respectively.

**Other regions**

Apparent demand in the Other Regions in 2003 is estimated at 10.13 m b/d, similar to the level mentioned in the last report. Their share of the world oil consumption also remains unchanged at 13 per cent. China’s demand growth estimate remains unchanged at 530,000 b/d or 10.50 per cent, equivalent to 32 per cent of the total world demand increment, and more than double the country’s consumption growth in 2002. Within the group, China’s apparent demand of 5.56 m b/d is expected to have registered the highest volume and percentage growth. The FSU, with a demand growth average of 3.80 m b/d, is estimated to have experienced a negligible demand rise of 20,000 b/d or 0.62 per cent. Apparent demand in the Other Europe is estimated to have grown relatively substantially at 30,000 b/d or 3.65 per cent.

**Forecast for 2004**

The unexpected strength in 2004 oil demand has taken many analysts by surprise. Evidence of actual consumption in 1Q, and part of 2Q, point to unexpectedly strong demand in North America, Western Europe, Other Asia and the Middle East. Based on this evidence and on higher prospects for economic growth and continued strength in China’s demand as well as those of the OECD and developing countries, the average world oil demand forecast for 2004 has been revised up by 170,000 b/d to 80.58 m b/d, compared with the 80.40 m b/d presented in the last report. This indicates substantial growth of 2.41 per cent, representing a seven-year high and the highest rate since the 3.12 per cent growth registered in 1997. However, the anticipated oil demand growth for 2004 has only been raised by 90,000 b/d to 1.90 m b/d to reflect the simultaneous upward revision in average 2003 oil demand estimate. All the quarterly averages have been revised up, along with two of the regional averages, reflecting in part upward revisions in their corresponding 2003 averages.

On a regional basis, oil demand is forecast to register solid growth in all three major country groups. Demand in the OECD is now expected to grow at the lowest rate of 1.03 per cent or 500,000 b/d, due to lower consumption prospects in the OECD Pacific. Demand growth in the Other Regions is forecast to rank first with 790,000 b/d, or 7.77 per cent, growth, equivalent to 41 per cent of the total world demand increment. The second highest volume and percentage growth at 610,000 b/d, or 3.05 per cent, is attributable to the developing countries. Their share of the world demand growth also ranks second at 32 per cent.

Every single 2004 quarter is forecast to share in the oil demand growth. The 1Q and 3Q are expected to account for the lowest growth rates at 1.84 m b/d, or 2.32 per cent, and 1.81 m b/d, or 2.30 per cent, respectively. The 2Q is forecast to enjoy the highest rise at 2.02 m b/d, or 2.64 per cent. The second highest growth at 1.93 m b/d, or 2.39 per cent, is expected in 4Q.

**OECD**

The forecast OECD consumption of 49.08 m b/d constitutes 61 per cent of the total world demand in 2004. Out of the forecast 1.90 m b/d world oil consumption increment in 2004, about 500,000
b/d, or nearly 26 per cent, is attributable to the OECD, substantially less than is proportional to its weight in total world consumption. Within the group, North America ranks first in forecast demand growth with 440,000 b/d, close to 87 per cent of the group demand increment, while Western Europe ranks second with 170,000 b/d. OECD Pacific, however, is expected to register a fall in oil demand of 110,000 b/d, or 1.25 per cent.

The comparison of actual January-March 2004 consumption to that in the corresponding quarter in 2003 suggests that during the period, OECD consumption rose by 490,000 b/d or 1.00 per cent. The leading volume and percentage loser product was residual fuel oil with a 260,000 b/d, or 7.77 per cent, drop in consumption. The largest portion of this drop is attributable to the restart of most of Japan’s nuclear power generators. Direct use also underwent an exceptionally deep decline at 43.46 per cent to reverse its exceptional gain in the previous year, due to the nuclear reactor maintenance in Japan. The product whose consumption gained ground considerably at 340,000 b/d, or 2.43 per cent, was gasoline, due mostly to robust transport-related demand in North America.

**Developing countries**

In developing countries, oil demand is forecast to grow at 610,000 b/d, or 3.05 per cent, to 20.59m b/d in 2004, more than twice the growth rate of the year before. Consumption in Latin America is forecast to rise by 100,000 b/d, or 2.08 per cent, to average 4.75m b/d, reversing the downward trend of previous years. Other Asia is forecast to register the highest volume and percentage growth at 290,000 b/d, or 3.75 per cent, followed by the Middle East at 170,000 b/d, or 3.42 per cent. Latin America and Africa are next with 100,000 b/d and 50,000 b/d, respectively.

**Other regions**

Apparent demand in the Other Regions in 2004 is forecast at 10.91m b/d, the same level as given in the last report. Their share of the world oil consumption remains unchanged at 14 per cent. The group’s demand increment is now forecast at 41 per cent of the world increment or 770,000 b/d, of which 720,000 b/d is attributable to China. The consumption growth forecast in China is 12.92 per cent, even higher than the significant 10.50 per cent rise estimated for the previous year. The FSU, with 3.83m b/d average consumption, is forecast to register a negligible demand rise at 20,000 b/d, or 0.59 per cent. Apparent demand in Other Europe is expected to grow relatively substantially at 50,000 b/d or 6.03 per cent.

**June**

**Revisions to historical figures (2002-03)**

Average world oil demand for the year 2002 has been revised up by 210,000 b/d to 77.22m b/d from the last report. This slight upward revision was due to higher consumption data from OECD countries. For the year 2003, the latest figures also indicate an upward revision of 120,000 b/d, with total world oil demand for the year estimated at 78.80m b/d. On a quarterly basis, first-quarter oil demand was revised up 290,000 b/d, followed by another 90,000 b/d upward revision in 2Q. The 3Q oil demand was revised down a marginal 70,000 b/d, while the last quarter figure is now 160,000 b/d higher. Again the bulk of the upward revisions were concentrated in OECD countries, especially in Western Europe, where the new higher consumption data outpaced lower consumption figures in the North American region.

**Estimates for 2004**

**World**

Based on slightly higher projected global economic growth for the remainder of the present year and persistent strength in some non-OECD countries, estimated world oil demand has once again been revised up. With a projected 4.8 per cent expansion in the world economy, total oil demand is now estimated to grow by 2.1m b/d, or 2.67 per cent, to average 80.9m b/d, representing an upward revision of 200,000 b/d with respect to the figure presented in the previous report.

On a quarterly basis, preliminary data, which is subject to further revisions, shows that oil demand in OECD countries will gain 420,000 b/d in 1Q2004 to average 50m b/d. The lion’s share of the growth will be focused in North America with the fall in the OECD Pacific region offsetting the rise in Western Europe. Developing countries’ demand is expected to gain 740,000 b/d/y-o-y with apparent demand in Other Regions rising by 510,000 b/d, led by the astonishing growth in Chinese demand of close to 20 per cent, which was partially offset by the huge drop in FSU apparent demand. Northern hemisphere spring seasonality was almost non-existent during this year as Chinese demand, together with strong growth in Asia diminished the typical second quarter dip. According to the latest estimates, total world oil demand will rise by 2.51 m b/d, or 3.28 per cent, to average 79.03 during 2Q2004. Oil demand for the remaining two quarters of the year is projected to grow by more than 2.0m b/d with two-thirds of the rise coming from non-OECD countries.

**OECD**

With almost two thirds of total world oil demand originating from OECD countries, this group’s expected share of growth in total world oil demand is projected to reach a little more than one quarter of the 2.1m b/d total. This clearly indicates the lower energy intensity in these economies, where the trend of using less energy to produce a unit of output is seemingly continuing. The forecast for OECD consumption implies a rate of growth slightly higher than one per cent, or 530,000 b/d, in 2004 with the lion’s share coming from the North American region. As usual, and judging from the demand figures for 1Q, the USA will account for more than three quarters of the region’s total demand growth, with the remaining quarter divided more or less equally between Mexico and Canada. Oil demand growth in the energy-mature European market shows a rise of 1.14 per cent, or 170,000 b/d, while OECD Pacific oil consumption will shrink by 1.21 per cent, or 110,000 b/d, in part due to the restart of almost all the nuclear plants in Japan that were closed down in 2003 on safety concerns.

For the period January-April 2004, OECD oil requirements increased by 570,000 b/d, or 1.15 per cent, versus January-April 2003. Gasoline demand rose 2.24 per cent, or 320,000 b/d, to 14.54m b/d, followed by 1.4 per cent, or 180,000 b/d, growth in gasoil and diesel consumption. LPG demand increased by two per cent during the four-month period while marine
bunkers (not considered an item of inland consumption) showed growth of 6.7 per cent, or 100,000 b/d. Residual fuel oil showed the largest consumption drop of almost nine per cent, or 300,000 b/d, within the four-month period. Crude oil for direct burning, an almost exclusively Japanese phenomenon (and also excluded from inland consumption) decreased by 37 per cent due to the restart of almost all 17 of TEPCO’s nuclear reactors.

**Developing countries**

Developing countries’ oil demand is estimated to grow by 3.73 per cent or 740,000 b/d to average 20.73m b/d, which is more than two-and-a-half times the growth registered during 2003. Improvements in road infrastructure in India are likely to influence local diesel and gasoline demand. A significant increase in oil product consumption is also anticipated in oil-producing nations in the Middle East on the back of higher oil price revenues and large subsidies to the domestic products market. Latin America is also expected to show some growth in demand after several years of contraction. More than 40 per cent of total developing countries’ demand will come from the Other Asia group of countries, followed by the Middle East where demand is projected to rise by 5.14 per cent, or 260,000 b/d. Latin America is expected to reverse the trend of the previous years to grow by 2.26 per cent, or 100,000 b/d, while African demand will rise by 2.17 per cent, or 60,000 b/d.

**Other regions**

Apparent demand in Other Regions is projected to grow by more than eight per cent, or 830,000 b/d, to average 10.95m b/d. Total apparent demand growth for this group will account for almost 40 per cent of the total oil demand increment, while the group’s share of global demand is expected at just above 13 per cent. The major share of consumption growth will take place in China where the continued astonishing rate of economic expansion, together with a surge in automobile sales, have allowed oil demand to rise by nearly 20 per cent in 1Q of the year. For the current year, Chinese apparent demand is projected to grow by 13.6 per cent, or 760,000 b/d, which represents more than one third of global demand growth. The FSU’s apparent demand growth is expected to remain flat, or in the best case, show a marginal increment, but we remain very pessimistic about any rise in demand judging by the contraction of more than 14 per cent, or 580,000 b/d, observed during 1Q2004.

**World oil supply**

**May**

**Non–OPEC**

**Estimate for 2003**

The 2003 non-OPEC supply figure remains almost unchanged at 48.66m b/d. The quarterly distribution stands at 48.64m b/d, 47.95m b/d, 48.55m b/d and 49.50m b/d, respectively, while the yearly average increase is 900,000 b/d, compared with the 2002 figure.

**Forecast for 2004**

Non–OPEC supply for 2004 is forecast to rise 1.34m b/d. North America is expected to witness an increase of 140,000 b/d, solely from Canada and Mexico (210,000 b/d and 90,000 b/d), partially offset by an expected 160,000 b/d decline in the US. Western Europe is expected to see a sharp decline as UK output should fall 280,000 b/d. This, combined with a drop in OECD Pacific, should leave total OECD supply down by 210,000 b/d. Total Developing Countries are expected to rise 570,000 b/d, mainly from Other Asia, with India and Malaysia showing a rise of 70,000 b/d and 50,000 b/d, and Africa, with Angola, Chad and Equatorial Guinea adding 100,000 b/d, 160,000 b/d and 150,000 b/d. The FSU is expected to be the major contributor to the rise in non-OPEC supply, mainly on Russia’s 820,000 b/d and Kazakhstan’s 110,000 b/d increases. The redistributed quarterly figures, augmented by new data, now stand at 49.65m b/d, 49.54m b/d, 49.88m b/d and 50.94m b/d, respectively. The yearly average is forecast at 50.00m b/d.

The FSU’s net oil exports for 2004 are expected at 7.37m b/d, while the figures for 2000–2003 remain unchanged from the last report.

**OPEC NGLs and non–conventional oils**

The OPEC NGL+NCO figure for 2004 is forecast at 3.84m b/d, an increase of 190,000 b/d over the 2003 figure. Figures for 2000–2002 remain unchanged at 3.54m b/d, 3.58m b/d and 3.62m b/d, respectively, compared with those in the last report.

**OPEC crude oil production**

Available secondary sources indicate
that OPEC output for May was 28.28 m b/d, an increase of 240,000 b/d over the revised April figure. Table E shows OPEC production, as reported by selected secondary sources.

**June**

**Non-OPEC**

**Forecast for 2004**

The 2004 non-OPEC supply figure remains almost unchanged at 50.02 m b/d. The redistributed quarterly figures now stand at 49.69 m b/d, 49.60 m b/d, 49.89 m b/d and 50.87 m b/d, respectively. The yearly average increase stands at 1.36 m b/d, compared with the 2003 figure.

**Forecast for 2005**

Non-OPEC supply for 2005 is forecast to rise 1.34 m b/d. North America is expected to witness a gain of 160,000 b/d, mainly on an 80,000 b/d increase from Canada. OECD Pacific is likely to slip by 30,000 b/d, while Western Europe will decline 90,000 b/d, and the UK forecast to fall 80,000 b/d. Total OECD is expected to stay unchanged at 21.5 m b/d. Total developing countries will show an increase of 570,000 b/d, mainly contributed by Latin America, on gains of 120,000 b/d and 50,000 b/d from Brazil and Trinidad, and Africa with Angola, Sudan and Chad rising 190,000 b/d, 60,000 b/d and 40,000 b/d. The FSU is expected to be the major contributor to the increase in non-OPEC production, mainly pushed up by Russia’s rise of 450,000 b/d and a 60,000 b/d increase by both Kazakhstan and Azerbaijan. The quarterly figures stand at 50.91 m b/d, 50.79 m b/d, 51.07 m b/d and 52.07 m b/d, respectively. The yearly average is forecast at 51.21 m b/d.

The FSU’s net oil exports for 2005 are expected at 7.88 m b/d, 500,000 b/d over the 2004 forecast figure. The figures for 2001–2003 remain unchanged from the last report.

**OPEC NGLS and non-conventional oils**

The OPEC NGL+NCO figure for 2005 is forecast at 3.99 m b/d, an increase of 130,000 b/d over 2004. Figures for 2001–2002 remain unchanged at 3.58 m b/d and 3.62 m b/d, respectively, while the 2003 figure has been revised up by 50,000 b/d since the last report.

**Rig count**

**May**

**Non-OPEC**

Non-OPEC rig activity was higher in May. North America gained 51 rigs to reach 1,467 compared with the April figure, while Western Europe lost nine rigs to 65. Rig activity in Developing Countries rose three rigs to 374, mainly contributed by Africa.

**OPEC**

OPEC’s rig count stood at 245 in May, an increase of nine rigs compared with the April figure. The rise in rig activity was mainly contributed by Algeria, Indonesia, Iran and Venezuela.

**June**

**Non-OPEC**

Rig activity rose higher in June compared with the May figures. North America gained 86 rigs mainly in Canada. Western Europe’s activity also increased by six rigs to 71. Rig activity in developing countries jumped by ten rigs to 384, mainly contributed by Latin America.

**OPEC**

OPEC’s rig count was 236 in June, a decline of nine rigs compared with the May figure. The loss in rig activity was mainly attributable to Algeria and Venezuela.
Stock movements

May

US

United States commercial onland oil stocks continued the upward trend observed in the last three months, rising a seasonable 16.5 m b/d or 600,000 b/d to 943.6 m b during the period April 30–May 28, 2004. This build widened the year-on-year (y-o-y) surplus to 17.3 m b, or 5.1 per cent. Although imports exceeded 10 m b/d for the last four weeks, reaching 10.7 m b/d in the week ending May 28 and representing the second largest weekly average ever, crude oil stocks rose only slightly by 2.8 m b to 301.7 m b. This was due to US refining activity, which hit a new high of almost 16 m b/d at the end of the month, about 700,000 b/d more than last month, which showed that refineries were focused on producing more products. The level of crude oil stocks of 301.7 m b observed in the week ending May 28 was the highest level since the week ending August 23, 2002.

This is due to the jump in crude oil imports as OPEC continued to send more oil to the market. With the OPEC decision to increase the ceiling, crude oil imports are expected to remain at hefty levels in the coming weeks. On the product side, gasoline stocks showed a slight build of 300,000 b to 204.3 m b, lifting the y-o-y deficit to 3.9 m b, or 1.3 per cent. The week ending May 28 saw an increase of 1.3 m b compared to the previous week, mainly due to the increase in production combined with higher imports. Gasoline imports were around 30 per cent above a year ago and up 47 per cent compared to the five-year average. At the cusp of the peak demand summer driving season, which began in the last weekend in May, demand for gasoline remained strong, averaging 9.2 m b/d over the last four weeks or 1.5 per cent above the same period last year. The question is now whether the US refining industry will be able to process enough crude into gasoline to satisfy soaring demand in the summer. Meanwhile, distillate stocks increased by 1.7 m b to 108.9 m b, which was 3.9 m b or 3.7 per cent ahead of last year’s level. This build came despite strong apparent demand of around 4.0 m b/d over the last four-week period.

The SPR continued to rise in the same period, increasing 2.7 m b to 660.3 m b, widening the y-o-y surplus to around 58 m b.

In the week ending June 4, US commercial stocks showed an increase of 3.4 m b to 947.0 m b, leaving the y-o-y surplus at around 18 m b, or two per cent. Crude oil inventories rose slightly by 400,000 b to 302.1 m b and are now 18.5 m b, or 6.1 per cent, above this time last year. Even with the 220,000 b/d decline, crude oil input remained high at around 10.4 m b/d, while crude runs reached 16.0 m b/d, up 200,000 b/d from the previous week. Refineries operated at 96 per cent in order to build more product stocks to cope with summer demand. Gasoline inventories, which increased by 2.1 m b to 206.4 m b, are currently 1.6 m b, or 0.8 per cent less than a year ago. This build came as demand fell by 210,000 b/d to 9.1 m b/d amid destocking by retailers, but remained at a healthy 500,000 b/d above this time last year as well as over the five-year average. Distillate stocks registered a contra-seasonal draw of 610,000 b to 108.3 m b on strong demand which surpassed 4 m b/d and is now 500,000 b/d above last year at this time and 600,000 b/d over the five-year average.

Western Europe

At the end of May, total oil stocks in the Euro-16 (EU plus Norway) saw a reversal in the trend of the previous two months, increasing 3.2 m b to 1,065 m b, which was around 7.7 m b or 0.7 per cent above last year’s figure at this time. Total major products were the main contributor to the build, rising 11.6 m b to 616.4 m b, while crude oil stocks provided a cap dropping 8.4 m b to 449.2 m b. At this level, crude oil inventories represent a y-o-y deficit of 2.3 m b, or 0.5 per cent. The draw on crude oil stocks occurred despite a drop in European crude runs, which fell 230,000 b/d to 11.9 m b, but were still up 1.8 per cent from May 2003. Gasoline stocks rose 1.9 m b to 141.7 m b after three months of draws, mainly due to high European prices combined with rising freight rates that closed the transatlantic arbitrage for the latter part of the month. With this build, gasoline stocks now stand at around 1.0 m b, or an increase of 0.7 per cent from a year ago.

Distillate stocks also continued their upward build for the third consecutive month, increasing 5.9 m b to 335.5 m b, a rise of 3.4 m b, or one per cent, from the previous year. This build came on the back of hefty exports from Russia, although growing Russian demand at the beginning of the main agricultural season is expected to restrict gasoil exports. Fuel oil inventories reversed the trend observed in the last three months, increasing 3.0 m b to 114.1 m b, leaving the y-o-y surplus at a comfortable level of 6.4 m b, or 5.9 per cent.

Japan

Commercial onland stocks continued their down-trend at the end of April, decreasing 2.8 m b at a rate of 90,000 b/d to 160.2 m b. This was solely on an 8.2 m b decline in crude oil stocks to 100.0 m b, while total product inventories partially offset this draw with an increase of 5.4 m b to 60.3 m b. The fall in commercial oil stocks widened the y-o-y shortage to 11.3 m b, or 6.6 per cent. The considerable draw on crude oil stocks left them at the lowest level since November 2002. This draw came on the back of low crude imports, which fell by almost 16 per cent compared to the previous month and by 15 per cent versus this time last year.

With a very heavy refinery maintenance schedule for this year, Japanese crude oil throughput dropped by ten per cent versus last month and about four per cent less than a year earlier. Gasoline stocks rose 1.0 m b to 14.5 m b, but remained at the same level as this time last year. This build came due to strong gasoline imports, which rose 9.7 per cent, despite the fact that Japan normally does not begin to import gasoline until the May-June period.

While Japanese gasoline imports have begun earlier than normal, April imports were more than twice as high compared to the previous year at this time. Middle distillate inventories also rose 3.3 m b to 26.4 m b, reducing the y-o-y deficit by 1.7 m b, or 5.9 per cent. Kerosene, which is the main component of middle distillates, registered a seasonable build of 15.3 per cent amid low domestic sales. Residual fuel stocks saw an increase of 1.1 m b to 19.4 m b, but still remained 1.5 m b, or 7.3 per cent less than a year ago. Both fuel oil A and fuel oil B.C showed a build of 2.6 per cent and 8.6 per cent, respectively as a consequence of decreased consumption.
June

US

US commercial onland stocks continued to increase, adding 22.8 m b to reach 966.4 m b at a rate of 0.8 m b/d during the period May 28–July 2, 2004. The bulk of this build came from product inventories which increased by 19.5 m b, while crude oil stocks rose only 3.3 m b. This build widened the y-o-y surplus to 54.6 m b, or nine per cent. At 305 m b, crude oil stocks were high, but roughly in line with the five-year average, and around 22 m b or eight per cent above last year’s level at the same time. Strong crude imports, which reached 10.38 m b/d in June, or 600,000 b/d above the previous month, have contributed to a stock-build that has reached comfortable levels. In the week ending July 2, US crude oil inputs averaged 10.1 m b/d. This was the seventh consecutive week that crude oil imports have averaged more than 10.0 m b/d, the longest period ever for such a streak. On the product side, gasoline stocks registered a build of 1.8 m b to 206.1 m b and are now in line with the level of a year ago. This build came despite low gasoline yields, which have risen four per cent in the last three months. In contrast, gasoline imports have increased and the week ending July 2 saw the second highest weekly average ever at 1.26 m b/d. Venezuela’s PDVSA contributed to this strong level of imports, sending a total of 720,000 b/d of required blending gasoline to New York Harbour. Apparent demand for gasoline was not as high as expected during the summer driving season. Indeed, implied demand was around 9.30 m b/d during the month of June, only 0.9 per cent above the same period last year. Distillate fuel inventories moved up a substantial 5.1 m b to 114.0 m b. This build calmed market participants, who were worried that heating fuel stocks were not rebuilding sufficiently ahead of the upcoming winter season. Distillate fuel stocks are now 2.0 m b, or 1.8 per cent, above last year’s level at this time. This build is mainly due to a higher distillate yield. Crude oil inputs averaged nearly 16.7 m b/d during the month of June, almost 450,000 b/d above the previous month. In the week ending July 2, crude oil inputs were around 16.1 m b/d, unchanged from the previous week, but with refineries operating at a strong rate of 96.7 per cent of their operable capacity, up 0.6 per cent from the previous week (see Table F).

During the same period, the SPR continued to grow, increasing 2.1 m b to 662.4 m b, widening the y-o-y surplus to 53.7 m b. In the week ending July 9, US commercial stocks rose just 400,000 b to 966.8 m b, lifting the y-o-y surplus to 16 m b, or 1.7 per cent. Crude oil stocks fell 2.1 m b to 302.9, contrary to analysts’ expectations that they would grow around 1.4 m b. This draw occurred despite crude oil inputs moving 220,000 b/d lower to average 15.8 m b/d. Crude oil imports were around 10.1 m b/d, slightly down from the previous week, but still high by historical standards. Even with this draw, crude oil inventories are still 20 m b, or seven per cent, above the same period last year and in the middle of the average range. Gasoline stocks experienced a marginal draw of 200,000 b to 205.9 m b and are now about 1 m b higher compared to the same time last year. Gasoline demand registered a decline of 100,000 b to average 9.3 m b, but is six per cent higher than the previous year. Distillate stocks rose 2.7 m b to 116.7 m b, on top of the previous week’s 3.1 m b increase. Heating oil accounted for more than half the rise, increasing 1.4 m b. Distillate imports were key to this build, although distillate output was down from last week. The gasoil yield remained high for this time of the year. Despite losing 80,000 b/d to 3.85 m b/d, implied demand was still exceptionally high compared to the previous year, registering an increase of 27 per cent. Distillate stocks are now around 3 per cent above the same time a year ago. The SPR rose a marginal 500,000 b to 662.9 m b, registering a y-o-y surplus of 53.7 m b.

Western Europe

Total oil stocks reversed the upward trend observed over the last two months falling 8.6 m b to 1,066.9 m b at a rate of 300,000 b/d. The bulk of this draw came from total products, which decreased 8.8 m b to 609.4 m b, while crude oil stocks remained almost steady, increasing just 200,000 b to 475.4 m b. Total oil stocks are now around 14 m b above a year ago at this time. Crude oil stocks saw a minor build despite the rise in crude runs by 110,000 b/d to 12.3 m b/d, as late refinery maintenance finally ended. This corresponds to a refinery utilization of 93.9 per cent, an increase of 0.8 percentage points. Crude oil inventories remained around 7 m b above the same period last year. On the product side, gasoline stocks fell seasonally by 5.4 m b to 137.2 m b, lifting the y-o-y surplus to 0.3 per cent. This substantial draw on gasoline came on the back of high exports to the US combined with stronger driving demand. With increased refinery runs in the next months, gasoline stocks should remain adequate this summer. Distillate stocks also slipped 600,000 b to 334.9 m b to stand for the first time in eight months below year-ago levels. Distillate inventories are now 1.3 m b below this time a year ago. Strong diesel demand due to the switch to diesel-powered vehicles, as well as a fall in Russian gasoil exports, were behind the draw. Rising refinery throughput should boost distillate production in the coming two months, allowing a build in distillate inventories. Fuel oil stocks experienced a draw of 2.0 m b to 113.2 m b, but remained at a comfortable y-o-y surplus of 8.5 per cent (see Table G).

Japan

At the end of May, commercial oil stocks reversed the downward trend observed last month, increasing seasonally by 8.1 m b to 168.4 m b at a rate of 300,000 b/d. Crude oil stocks were mainly responsible for this build, increasing 10.8 m b to 110.8 m b, while total major products provided a cap, decreasing 2.7 m b to 57.6 m b. The build in commercial oil stocks narrowed the y-o-y deficit to 9.5 m b or 5.3 per cent. Lower refinery runs due to scheduled plant maintenance were behind the build in crude oil inventories, assisted by an increase in crude oil imports. Indeed, crude flows to Japan moved up 4.9 per cent in May, with the top crude supplier being the United Arab Emirates, followed by Saudi Arabia. Crude oil stocks now stand at around 2.4 m b or 2.2 per cent ahead of this time a year ago. Gasoline stocks edged seasonally lower by 1.9 m b to 12.6 m b on reduced output, combined with a decrease in domestic sales. This draw left the y-o-y deficit at 1.6 m b. Middle distillate inventories remained almost unchanged at 26.2 m b, a drop of 7 m b from the same time last year. Kerosene inventories fell a slight 0.8 per cent due to the start of seasonal refinery maintenance, which postponed the stock-build of this
Table F: US onland commercial petroleum stocks

<table>
<thead>
<tr>
<th></th>
<th>Apr 30, 04</th>
<th>May 28, 04</th>
<th>Jul 2, 04</th>
<th>Change</th>
<th>Jul 2, 03</th>
<th>Jul 9, 04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (excl SPR)</td>
<td>298.9</td>
<td>301.7</td>
<td>305.0</td>
<td>3.3</td>
<td>283.2</td>
<td>302.9</td>
</tr>
<tr>
<td>Gasoline</td>
<td>204.0</td>
<td>204.3</td>
<td>206.1</td>
<td>1.8</td>
<td>205.8</td>
<td>205.9</td>
</tr>
<tr>
<td>Distillate fuel</td>
<td>107.2</td>
<td>108.9</td>
<td>114.0</td>
<td>5.1</td>
<td>112.0</td>
<td>116.7</td>
</tr>
<tr>
<td>Residual fuel oil</td>
<td>37.3</td>
<td>36.5</td>
<td>37.0</td>
<td>0.5</td>
<td>35.4</td>
<td>36.4</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>35.6</td>
<td>37.1</td>
<td>38.2</td>
<td>1.1</td>
<td>38.4</td>
<td>38.3</td>
</tr>
<tr>
<td>Unfinished oils</td>
<td>88.8</td>
<td>89.2</td>
<td>88.9</td>
<td>–0.3</td>
<td>88.0</td>
<td>86.3</td>
</tr>
<tr>
<td>Other oils</td>
<td>156.3</td>
<td>165.9</td>
<td>177.2</td>
<td>11.3</td>
<td>187.2</td>
<td>135.9</td>
</tr>
<tr>
<td>Total</td>
<td>927.1</td>
<td>943.6</td>
<td>966.4</td>
<td>22.8</td>
<td>950.0</td>
<td>966.8</td>
</tr>
<tr>
<td>SPR</td>
<td>657.6</td>
<td>660.3</td>
<td>662.4</td>
<td>3.0</td>
<td>608.7</td>
<td>662.9</td>
</tr>
</tbody>
</table>

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

Source: US/DoE-EIA.

Product, which is also used as a heating fuel. Fuel oil stocks also fell 600,000 b to 18.8m b on the back of reduced demand by utilities for C grade fuel oil as Japan’s biggest utility TEPCO brought more nuclear reactors back on line, reducing fuel oil purchases. Fuel oil stocks were 3.2m b less than the same time last year (see Table H).

Balance of supply/demand

May

Table I shows a minor downward revision for 2003, to total non-OPEC supply of 10,000 b/d to 52.32m b/d and an upward revision to world oil demand of 80,000 b/d to 78.68m b/d, resulting in an estimated annual difference of around 26.36m b/d. The quarterly distribution stands at 26.89m b/d, 24.81m b/d, 26.40m b/d and 27.34m b/d, respectively. The quarterly balance shows –120,000 b/d, 1.66m b/d, 440,000 b/d and 370,000 b/d. The annual average balance now stands at 590,000 b/d.

Table I expects world oil demand to reach 80.58m b/d for 2004 and total non-OPEC supply likely to hit 53.85m b/d. This has resulted in an expected difference of around 27.73m b/d, with a quarterly distribution of 27.42m b/d, 25.05m b/d, 26.76m b/d and 27.68m b/d, respectively. The balance for 1Q2004 was revised downward significantly by 300,000 b/d and now stands at 750,000 b/d.

June

Table I shows a minor upward revision for 2004 to total non-OPEC supply of 30,000 b/d to 53.88m b/d and a significant upward revision to world oil demand of 320,000 b/d to 80.90m b/d, resulting in an estimated annual difference of around 27.02m b/d. The quarterly distribution stands at 27.44m b/d, 25.53m b/d, 26.93m b/d and 28.17m b/d, respectively. The balance for 1Q2004 has been revised downward slightly by 20,000 b/d to stand at 700,000 b/d, while the initial 2Q estimate shows 2.86m b/d.

Table I shows world oil demand expected at 82.56m b/d for 2005 and total non-OPEC supply forecast at 55.20m b/d. This has resulted in an expected difference of around 27.36m b/d, with a quarterly distribution of 27.81m b/d, 25.89m b/d, 27.22m b/d and 28.51m b/d, respectively.

Table G: Western Europe onland commercial petroleum stocks

<table>
<thead>
<tr>
<th></th>
<th>Apr 04</th>
<th>May 04</th>
<th>Jun 04</th>
<th>Change</th>
<th>Jun 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>464.9</td>
<td>457.3</td>
<td>457.4</td>
<td>0.2</td>
<td>450.2</td>
</tr>
<tr>
<td>Mogas</td>
<td>140.7</td>
<td>142.6</td>
<td>137.2</td>
<td>–5.4</td>
<td>136.8</td>
</tr>
<tr>
<td>Naphtha</td>
<td>24.2</td>
<td>25.1</td>
<td>24.2</td>
<td>–0.9</td>
<td>25.8</td>
</tr>
<tr>
<td>Middle distillates</td>
<td>331.1</td>
<td>335.5</td>
<td>334.9</td>
<td>–0.6</td>
<td>336.2</td>
</tr>
<tr>
<td>Fuel oils</td>
<td>111.5</td>
<td>115.1</td>
<td>113.2</td>
<td>–2.0</td>
<td>104.3</td>
</tr>
<tr>
<td>Total products</td>
<td>607.5</td>
<td>618.2</td>
<td>609.4</td>
<td>–8.8</td>
<td>603.0</td>
</tr>
<tr>
<td>Overall total</td>
<td>1,072.4</td>
<td>1,075.5</td>
<td>1,066.9</td>
<td>–8.6</td>
<td>1,053.2</td>
</tr>
</tbody>
</table>

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

Source: Argus, Eurolistock.

Table H: Japan’s commercial oil stocks

<table>
<thead>
<tr>
<th></th>
<th>Mar 04</th>
<th>Apr 04</th>
<th>May 04</th>
<th>Change</th>
<th>May/Apr</th>
<th>May 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>108.2</td>
<td>100.0</td>
<td>110.8</td>
<td>10.8</td>
<td>108.4</td>
<td></td>
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<tr>
<td>Gasoline</td>
<td>13.5</td>
<td>14.5</td>
<td>12.6</td>
<td>–1.9</td>
<td>14.3</td>
<td></td>
</tr>
<tr>
<td>Middle distillates</td>
<td>23.1</td>
<td>26.4</td>
<td>26.2</td>
<td>–0.2</td>
<td>33.2</td>
<td></td>
</tr>
<tr>
<td>Residual fuel oil</td>
<td>18.2</td>
<td>19.4</td>
<td>18.8</td>
<td>–0.6</td>
<td>22.0</td>
<td></td>
</tr>
<tr>
<td>Total products</td>
<td>54.8</td>
<td>60.3</td>
<td>57.6</td>
<td>–2.7</td>
<td>69.5</td>
<td></td>
</tr>
<tr>
<td>Overall total</td>
<td>163.0</td>
<td>160.2</td>
<td>168.4</td>
<td>8.1</td>
<td>177.9</td>
<td></td>
</tr>
</tbody>
</table>

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

Source: MITI, Japan.
### Table I: World crude oil demand/supply balance  \( \text{m b/d} \)

<table>
<thead>
<tr>
<th>World demand</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>1Q04</th>
<th>2Q04</th>
<th>3Q04</th>
<th>4Q04</th>
<th>2004</th>
<th>1Q05</th>
<th>2Q05</th>
<th>3Q05</th>
<th>4Q05</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>47.9</td>
<td>47.9</td>
<td>48.0</td>
<td>48.7</td>
<td>50.0</td>
<td>48.0</td>
<td>48.7</td>
<td>50.1</td>
<td>49.2</td>
<td>50.3</td>
<td>48.2</td>
<td>49.3</td>
<td>50.8</td>
<td>49.6</td>
</tr>
<tr>
<td>North America</td>
<td>24.1</td>
<td>24.0</td>
<td>24.1</td>
<td>24.6</td>
<td>25.0</td>
<td>24.6</td>
<td>25.2</td>
<td>25.3</td>
<td>25.0</td>
<td>25.3</td>
<td>25.0</td>
<td>25.5</td>
<td>25.7</td>
<td>25.4</td>
</tr>
<tr>
<td>Western Europe</td>
<td>15.1</td>
<td>15.3</td>
<td>15.2</td>
<td>15.3</td>
<td>15.6</td>
<td>15.2</td>
<td>15.4</td>
<td>15.7</td>
<td>15.5</td>
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<td>15.2</td>
<td>15.6</td>
<td>16.0</td>
<td>15.7</td>
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<tr>
<td>Pacific</td>
<td>8.7</td>
<td>8.7</td>
<td>8.6</td>
<td>8.8</td>
<td>9.4</td>
<td>8.1</td>
<td>8.1</td>
<td>9.1</td>
<td>8.7</td>
<td>9.3</td>
<td>8.0</td>
<td>8.2</td>
<td>9.1</td>
<td>8.6</td>
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<tr>
<td>Developing countries</td>
<td>19.2</td>
<td>19.5</td>
<td>19.7</td>
<td>20.0</td>
<td>20.3</td>
<td>20.3</td>
<td>20.9</td>
<td>21.3</td>
<td>20.7</td>
<td>20.9</td>
<td>21.1</td>
<td>21.6</td>
<td>21.9</td>
<td>21.4</td>
</tr>
<tr>
<td>FSU</td>
<td>3.8</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
<td>3.4</td>
<td>3.6</td>
<td>3.9</td>
<td>4.4</td>
<td>3.8</td>
<td>3.7</td>
<td>3.7</td>
<td>3.8</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Other Europe</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>China</td>
<td>4.7</td>
<td>4.7</td>
<td>5.0</td>
<td>5.6</td>
<td>6.4</td>
<td>6.3</td>
<td>6.3</td>
<td>6.2</td>
<td>6.3</td>
<td>6.8</td>
<td>6.9</td>
<td>6.8</td>
<td>6.6</td>
<td>6.8</td>
</tr>
<tr>
<td>(a) Total world demand</td>
<td>76.3</td>
<td>76.8</td>
<td>77.2</td>
<td>78.8</td>
<td>81.0</td>
<td>79.0</td>
<td>80.6</td>
<td>82.9</td>
<td>80.9</td>
<td>82.7</td>
<td>80.7</td>
<td>82.2</td>
<td>84.6</td>
<td>82.6</td>
</tr>
</tbody>
</table>

#### Non-OPEC supply

| Western Europe        | 6.8  | 6.7  | 6.7  | 6.4  | 6.4  | 6.2  | 5.8  | 6.2  | 6.1  | 6.3  | 6.1  | 5.7  | 6.1  | 6.1  |
| Pacific               | 0.8  | 0.8  | 0.8  | 0.6  | 0.6  | 0.5  | 0.6  | 0.5  | 0.5  | 0.5  | 0.5  | 0.5  | 0.5  | 0.5  |
| Developing countries  | 10.7 | 10.9 | 11.2 | 11.3 | 11.7 | 11.7 | 12.0 | 12.2 | 11.9 | 12.3 | 12.3 | 12.5 | 12.8 | 12.5 |
| FSU                   | 7.9  | 8.5  | 9.3  | 10.3 | 10.8 | 11.0 | 11.4 | 11.6 | 11.2 | 11.3 | 11.6 | 11.9 | 12.2 | 11.8 |
| Other Europe          | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  |
| China                 | 3.2  | 3.3  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  | 3.4  |
| Processing gains      | 1.7  | 1.7  | 1.7  | 1.8  | 1.8  | 1.9  | 1.8  | 1.9  | 1.8  | 1.9  | 1.8  | 1.9  | 1.8  | 1.8  |
| Total non-OPEC supply | 45.6 | 46.4 | 47.8 | 48.7 | 49.7 | 49.6 | 49.9 | 50.9 | 50.0 | 50.9 | 50.8 | 51.1 | 52.1 | 51.2 |
| OPEC NGLS and non-conventionals | 3.3 | 3.6 | 3.6 | 3.7 | 3.9 | 3.9 | 3.8 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| (b) Total non-OPEC supply and OPEC NGLS | 48.9 | 50.0 | 51.4 | 52.4 | 53.6 | 53.5 | 53.7 | 54.7 | 53.9 | 54.9 | 54.8 | 55.0 | 56.0 | 55.2 |

#### OPEC crude supply and balance

| OPEC crude oil production\(^1\) | 28.0 | 27.2 | 25.3 | 27.0 | 28.1 | 28.4 |
| Total supply                   | 76.9 | 77.2 | 76.7 | 79.3 | 81.7 | 81.9 |
| Balance\(^2\)                  | 0.6  | 0.4  | -0.5 | 0.5  | 0.7  | 2.8  |

#### Stocks

<table>
<thead>
<tr>
<th>Closing stock level (outside FCPEs) ( \text{m b} )</th>
<th>OECD onland commercial</th>
<th>OECD SPR</th>
<th>OECD total</th>
<th>Other onland</th>
<th>Oil-on-water</th>
<th>Total stock</th>
<th>Days of forward consumption in OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial onland stocks</td>
<td>53</td>
<td>55</td>
<td>51</td>
<td>50</td>
<td>51</td>
<td>5691</td>
<td>5789</td>
</tr>
<tr>
<td>SPR</td>
<td>26</td>
<td>27</td>
<td>28</td>
<td>28</td>
<td>30</td>
<td>78</td>
<td>82</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
<td>82</td>
<td>78</td>
<td>79</td>
<td>81</td>
<td>5691</td>
<td>5789</td>
</tr>
</tbody>
</table>

#### Memo items

| FSU net exports | 4.1 | 4.6 | 5.6 | 6.5 | 7.3 | 7.5 | 7.5 | 7.2 | 7.4 | 7.6 | 7.9 | 8.1 | 7.9 | 7.9 |
| (a) — (b)       | 27.4 | 26.8 | 25.8 | 26.4 | 27.4 | 25.5 | 26.9 | 28.2 | 27.0 | 27.8 | 25.9 | 27.2 | 28.5 | 27.4 |

---

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

The monthly evolution of spot prices for selected OPEC and non-OPEC crudes is presented in Tables One and Two on page 42, while Graphs One and Two (on pages 41 and 43) show the evolution on a weekly basis. Tables Three to Eight, and the corresponding graphs on pages 44–49, show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided by courtesy of Platt’s Energy Services.)
Graph 1:
Evolution of spot prices for selected OPEC crudes
March to June 2004
**Market Review**

### Table 1: OPEC spot crude oil prices, 2003–04

<table>
<thead>
<tr>
<th>Country/Member</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude (API°)</td>
<td>Nov</td>
<td>Dec</td>
</tr>
<tr>
<td>Algeria</td>
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</tr>
<tr>
<td>Sahara Blend</td>
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<td>27.77</td>
</tr>
<tr>
<td>Minas (33.9)</td>
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</tr>
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<td>Iraq</td>
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</tr>
<tr>
<td>Kirkuk (36.1)</td>
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<tr>
<td>Kuwait</td>
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<td>28.25</td>
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<tr>
<td>SP Libyan AJ</td>
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<td></td>
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<tr>
<td>Brega (40.4)</td>
<td>28.98</td>
<td>30.02</td>
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<tr>
<td>Nigeria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonny Light  (36.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
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<td></td>
</tr>
<tr>
<td>Light (34.2)</td>
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<tr>
<td>Heavy (28.0)</td>
<td>26.88</td>
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<td></td>
</tr>
<tr>
<td>Dubai (32.5)</td>
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<tr>
<td>Venezuela</td>
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<td></td>
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<td>Tia Juana Light  (32.4)</td>
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<tr>
<td>OPEC Basket²</td>
<td>28.45</td>
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*na = not available.*

### Table 2: Selected non-OPEC spot crude oil prices, 2003–04

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<tr>
<td>Latin America</td>
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<tr>
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</tr>
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<td>Urals (Russia, 36.1)</td>
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<td>27.90</td>
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1. Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.
2. OPEC Basket: an average of Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana Light and Isthmus.

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

*Sources: The netback values for TJL price calculations are taken from RVM, Platt’s Oilgram Price Report, Reuters; Secretariat’s calculations.*
Graph 2:
Evolution of spot prices for selected non-OPEC crudes
March to June 2004

$/barrel

March
April
May
June

1 2 3 4 5

1 2 3 4 5

1 2 3 4 5

1 2 3 4 5

1 2 3 4 5

1 2 3 4 5

Oman
Isthmus
Suex Mix
West Texas
Brent
Urals
Ekofisk
OPEC Basket
Table 3: North European market — spot barges, fob Rotterdam

<table>
<thead>
<tr>
<th></th>
<th>naphtha</th>
<th>regular gasoline unleaded</th>
<th>premium gasoline unleaded 95</th>
<th>gasoil</th>
<th>jet kero 1%S</th>
<th>fuel oil 3.5%S</th>
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</table>

Source: Platts. Prices are average of available days.

Graph 3: North European market — spot barges, fob Rotterdam

[$/barrel$]

- naphtha
- regular gasoline unleaded
- premium gasoline unleaded 95
- gasoil
- jet kero 1%S
- fuel oil 3.5%S
- fuel oil 1%S
- premium
- regular

OPEC Bulletin
Table 4: South European market — spot cargoes, fob Italy

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<th>gasoline premium</th>
<th>0.15g/l</th>
<th>gasoil</th>
<th>fuel oil 1%S</th>
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<td>32.02</td>
<td>24.07</td>
<td>18.32</td>
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| 2003   |         |                  |         |        |              |               |
| January | 33.02   | 34.20            | 34.44   | 35.05  | 29.15        | 23.71         |
| February | 35.86   | 38.05            | 38.22   | 40.11  | 31.05        | 24.65         |
| March   | 32.05   | 33.75            | 33.99   | 39.45  | 28.10        | 20.94         |
| April   | 22.88   | 29.69            | 29.96   | 29.69  | 21.14        | 18.18         |
| May     | 22.24   | 28.97            | 29.28   | 26.72  | 21.57        | 18.46         |
| June    | 26.31   | 31.51            | 31.78   | 29.88  | 25.01        | 20.94         |
| July    | 26.84   | 34.10            | 34.33   | 29.50  | 27.39        | 23.29         |
| August  | 28.57   | 37.21            | 37.40   | 31.49  | 27.66        | 22.64         |
| September | 26.76   | 32.33            | 32.59   | 29.46  | 22.91        | 20.49         |
| October | 29.45   | 33.18            | 33.43   | 34.99  | 24.81        | 21.48         |
| November | 30.43   | 32.79            | 33.05   | 33.79  | 23.93        | 20.33         |
| December | 31.90   | 33.08            | 33.33   | 33.87  | 21.60        | 16.68         |

| 2004   |         |                  |         |        |              |               |
| January | 34.41   | 37.04            | 37.24   | 35.80  | 23.16        | 19.39         |
| February | 32.03   | 37.91            | 38.10   | 32.98  | 21.40        | 19.56         |
| March   | 34.24   | 40.92            | 41.07   | 36.94  | 23.63        | 20.02         |
| April   | 35.78   | 44.55            | 44.65   | 38.31  | 24.32        | 21.01         |
| May     | 40.52   | 52.16            | 52.15   | 43.41  | 27.66        | 23.69         |
| June    | 37.48   | 44.64            | 44.74   | 41.92  | 26.54        | 21.07         |

Source: Platts. Prices are average of available days.

Graph 4: South European market — spot cargoes, fob Italy
Table 5: US East Coast market — spot cargoes, New York
($/b, duties and fees included)

<table>
<thead>
<tr>
<th></th>
<th>regular gasoline</th>
<th>gasoil</th>
<th>jet kero</th>
<th>fuel oil 0.3%S</th>
<th>fuel oil 1%S</th>
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<td>24.30</td>
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</table>

|       |                  |        |          |                |              |               |
| 2003  |                  |        |          |                |              |               |
| January| 36.60            | 37.78  | 38.17    | 37.87          | 31.53        | 30.04         |
| February| 41.65         | 47.11  | 48.11    | 46.52          | 35.06        | 30.61         |
| March  | 39.86            | 40.82  | 40.92    | 38.71          | 31.71        | 27.13         |
| April  | 33.37            | 32.66  | 32.88    | 27.29          | 23.98        | 20.51         |
| May    | 31.65            | 30.79  | 31.66    | 29.58          | 24.51        | 21.79         |
| June   | 33.58            | 31.69  | 32.21    | 28.40          | 25.18        | 22.46         |
| July   | 36.45            | 32.76  | 33.71    | 30.45          | 27.53        | 26.26         |
| August | 41.92            | 33.96  | 35.36    | 30.97          | 27.74        | 26.43         |
| September| 37.51        | 30.52  | 31.67    | 28.53          | 24.88        | 23.15         |
| October| 36.24            | 34.10  | 35.21    | 29.94          | 25.93        | 24.22         |
| November| 36.52           | 34.75  | 35.94    | 30.01          | 26.14        | 24.65         |
| December| 36.97           | 37.06  | 38.28    | 31.28          | 25.76        | 22.91         |

|       |                  |        |          |                |              |               |
| 2004  |                  |        |          |                |              |               |
| January| 41.77            | 40.88  | 42.93    | 34.39          | 28.05        | 23.99         |
| February| 43.76          | 38.05  | 42.04    | 34.25          | 26.26        | 23.02         |
| March  | 45.56            | 37.87  | 40.47    | 28.90          | 24.67        | 23.11         |
| April  | 46.94            | 38.33  | 42.10    | 29.85          | 25.65        | 24.62         |
| May    | 56.32            | 42.45  | 48.54    | 34.22          | 30.33        | 27.86         |
| June   | 48.06            | 41.40  | 43.80    | 32.71          | 29.64        | 25.62         |

Source: Platts. Prices are average of available days.

Graph 5: US East Coast market — spot cargoes, New York
### Table 6: Caribbean market — spot cargoes, fob ($/b)

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<th>Year</th>
<th>Month</th>
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<th>jet kero</th>
<th>fuel oil 2%S</th>
<th>fuel oil 2.8%S</th>
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Source: Platts. Prices are average of available days.

### Graph 6: Caribbean market — spot cargoes, fob

![Graph showing Caribbean market spot cargoes, fob prices from January 2002 to June 2004, with specific highlights for naphtha, gasoil, jet kero, fuel oil 2% S, and fuel oil 2.8% S.](chart)
### Table 7: Singapore market — spot cargoes, fob ($/b)

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Source: Platts. Prices are average of available days.
Table 8: Middle East Gulf market — spot cargoes, fob

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Source: Platts. Prices are average of available days.

Graph 8: Middle East Gulf market — spot cargoes, fob
The World Health Organization (WHO) and its partners in the Global Polio Eradication Initiative have welcomed the resumption of the polio immunization campaign in the northern Nigerian state of Kano.

“The Initiative reaffirms its commitment to support Kano’s state, traditional and religious leaders, as well as Nigeria’s Federal Ministry of Health, to ensure the country reaches its goal of stopping polio virus transmission by end-2004,” said the WHO.
Polio immunization was halted in the summer of 2003 in several northern states in Nigeria, including Kano, after local religious leaders expressed concerns that the oral polio vaccine was not safe.

The Governor of Kano, Ibrahim Shekarau, suspended the vaccination campaign, saying he wanted scientists to investigate the local leaders’ claims that the vaccine was contaminated. However, he has now reopened the vaccination drive, assuring parents that the vaccines were harmless.

“I appeal to people to ensure that they participate in this programme, to stop the death and paralysis of children,” Shekarau was quoted as saying by the Associated Press, during a ceremony in which two young children were immunized.

A spokesman for the UN Children’s Fund (UNICEF) in Nigeria, Gerrit Berger, described the resumption of the immunization programme as “the beginning of the very final push to eradicate polio from Nigeria and the world. Now UNICEF is very confident that polio has no hiding place any more.”

According to the WHO, Kano’s decision to resume the vaccination of children comes at a critical time in the polio eradication programme, as sub-Saharan Africa is on the verge of the largest polio epidemic in recent history. Cases in the region are currently five times higher than they were in 2003 (483 compared to 95), due to the outbreak originating from Kano and surrounding states.

The resumption of immunization activities in Kano, the first round of which began on July 31, is just one of several measures needed to stop polio transmission in Nigeria and to halt the international spread of the virus, said the WHO, adding that the key to success would be rebuilding community confidence in the safety of the oral polio vaccine to ensure that all children are reached.

Thirty of Nigeria’s 37 states are affected by the virus. Immunization campaigns across the country, particularly in Kano and the surrounding states in the coming months will be central to broader efforts to prevent the further spread of polio. As of August 3, Nigeria had reported 430 cases of polio and poses the highest risk to the end-2004 target for the global eradication of the disease, said the WHO.

The polio virus is now endemic in only six countries, down from over 125 when the Global Polio Eradication Initiative was launched in 1988. Apart from Nigeria, the other five countries with indigenous wild polio virus are Afghanistan, Egypt, India, Niger and Pakistan.

The Global Polio Eradication Initiative is spearheaded by the WHO, Rotary International, the US Centers for Disease Control and Prevention and UNICEF. The polio eradication coalition includes governments of countries affected by polio; private sector foundations; development finance institutions such as the World Bank; donor governments; the European Commission; humanitarian and non-governmental organizations and corporate partners.

Volunteers in developing countries also play a key role in efforts to eradicate the disease, with more than 20 million having participated in mass immunization campaigns in various countries.

In a related development, Japan has donated another $4.5 million through UNICEF to Nigeria to fund its polio eradication campaign. The donation comes on top of the more than $17m that Japan has already given to Nigeria through UNICEF to fight polio since 2000, according to a report in the Daily Times of Nigeria.

The announcement was made at a ceremony attended by Japan’s Ambassador to Nigeria, Akira Matsui; the West African country’s Minister of Health, Professor Eyitayo Lambo; and UNICEF Senior Programme Officer, Stanley Ita.
Matsui said that the money would be used by UNICEF for the purchase of 500 million doses of oral polio vaccine and the mobilisation of trained personnel for the immunisation campaign across the country.

He expressed regret that the suspension of the immunisation programme had not only led to a large increase in polio cases in Nigeria, but that the virus had also spread to Chad, Niger, Sudan, Botswana and other neighbouring countries.

Responding, Professor Lambo thanked Japan and UNICEF for their assistance in the effort to eradicate the disease and requested their continued help.

Polio is a water-borne disease that usually infects young children, attacking the nervous system and causing paralysis, deformation and sometimes death. A global campaign aims to stamp out the disease worldwide by the end of 2005.

Libya given green light to negotiate WTO membership

Geneva — The members of the World Trade Organization (WTO) agreed in July to start talks with Libya on its bid to join the body, the WTO said in a statement.

The decision, which brings the number of countries applying to join the WTO to 25, was taken by the Organization’s General Council on July 27. Following the normal procedure for negotiating membership, the General Council agreed to set up a working party to examine Libya’s application, the first step in the accession process.

The working party, whose participation is open to all WTO members, will start its work as soon as a chairperson is appointed by the chairman of the General Council, in consultation with representatives of WTO members and Libya.

As an applicant country, Libya, which first applied to become a WTO member in December 2001, will also be an observer to the WTO during the period of membership negotiations.

Libya’s Ambassador and Permanent Representative to the WTO, HE Najat Mehdi Al-Hajjaji, addressed the General Council immediately after the decision, saying that her country was looking forward to WTO membership.

Joining the WTO would help Libya to achieve its aims of boosting economic development, diversifying its sources of income, attaining other economic benefits and consolidating good trade and economic relations with WTO member states, she said.

Six OPEC Member Countries — Indonesia, Kuwait, Nigeria, Qatar, the United Arab Emirates and Venezuela — are members of the WTO. Four others — Algeria, Iraq, Libya and Saudi Arabia — have observer status.

Earlier this year, the WTO’s Director General, Dr Supachai Panitchpakdi, told the Jeddah Economic Forum there was a good chance that Saudi Arabia would be able to join the WTO before the end of 2004.

“This is to the very great credit of the Minister of Commerce and Industry, Dr Hashim Yamani, for the energy and determination he has invested in driving this process forward, and to the government of Saudi Arabia for the high priority it has attached to achieving WTO membership,” he added.

Qatari banks are urged to assess risk exposure

Doha — A directive issued by the Qatari Central Bank has asked all banks in the country to seek global expertise to assess their risk exposure, according to a report in local newspaper The Peninsula.

Such a move would enable the local banks to manage their risk in future based on recommendations in line with global standards, the paper reported, adding that the banks have been given six months to comply.

The instructions were issued by the Central Bank’s Governor, Abdullah bin Khalid Al Attiyah. The aim was to ensure that local banks practise according to international standards, the Head of the Banking Control Department at the Central Bank, Muajeb Turki Al Turki, was quoted as saying.

The directives have been sent to all banks in Qatar, including both commercial and Islamic ones, as well as local branches of foreign banks, added the report.
Megawati, Yudhoyono to contest run-off in Indonesian election

Jakarta — Indonesia’s General Elections Commission, the KPU, has announced that former General Susilo Bambang Yudhoyono (pictured above right) has won the first round of the country’s first-ever direct presidential election.

Susilo, who is also a former Minister of Energy and Mines, will now face incumbent Megawati Soekarnoputri (pictured above left) in a run-off on September 20, according to a report in the Jakarta Post.

The former General, who rose from rank outsider to hot favourite after resigning from Megawati’s Cabinet earlier this year, picked up the most votes, but still got less than the 50 per cent needed to prevent a run-off, KPU officials said.

According to the official election commission figures, Susilo won 33.5 per cent or 39,838,184 of valid votes cast in the July 5 polls, well ahead of Megawati with 26.6 per cent or 31,569,104 votes.

Of the three other candidates, another former army General, Wiranto, came in third with 22.2 per cent. Amien Rais got 14.7 per cent, while Vice-President Hamzah Haz came last with just three per cent.

The elections marked the first time that Indonesia’s 210 million people have voted directly for their President. Foreign election monitors said that the voting process was free and fair.

Despite this, the Golkar party’s defeated candidate, Wiranto, has alleged that there was widespread election fraud, and has said that he will challenge the validity of the vote in court. However, analysts say he has virtually no chance of winning any court case.

Iraq’s national conference must be as inclusive as possible, Annan says

New York — Iraq’s upcoming national conference must be as inclusive as possible, the United Nations Secretary General, Kofi Annan, has told reporters in New York.

Pledging the organization’s support in reaching this goal, Annan commented: “Every attempt should be made to bring into the tent some of those outside the tent,” according to a report by the UN news agency.

The Secretary General went on to say that the UN had discussions with various Iraqi officials, and had encouraged the government to delay the conference in order to bring in more participants.

“We felt it was more important to have a well-organized and inclusive process rather than organizing it on time, because you may organize it on time but get it all wrong,” he explained, adding: “And we are continuing the efforts, working with them to expand the participation.”

Asked whether the UN had received pledges of troops to protect its workers in the country, Annan said that while there had been no firm offers, the organization had “been in negotiations with about half a dozen countries.”

Noting that a Saudi proposal to deploy an Islamic force to protect UN staff and eventually take over from the multinational
force and work with the Iraqis was also under discussion, the Secretary General added: “But even if that is going to happen, I think it is going to take some time.”

In a related development, the Head of the UN’s Electoral Assistance Division, Carina Perelli, has replied to press questions about possible delays in Iraq’s elections by stating that planning is being undertaken on the assumption that the polling will take place by January next year.

**UAE invests $11.8 billion in industry in year 2003**

**Dubai** — The United Arab Emirates (UAE) invested $11.8 billion in industry in 2003, up $3.63bn from the previous year, according to a report in the local paper *Gulf News*.

The petroleum products and food industries were the main recipients of the fresh capital, said the report, quoting official figures from the UAE Ministry of Finance and Industry.

The figures showed that the bulk of the new investment was pumped into projects involving refined petroleum products, which leaped from just $135.4 million in 2002 to $2.11bn in 2003. Investment in food and beverage ventures also soared from $1.0bn to $2.4bn year-on-year.

New ventures in various sectors will expand industrial investment in the UAE to more than $13.66bn at the end of 2004, the paper added, noting that the additional investment would allow the country to maintain its position as the second biggest industrial power in the Gulf Co-operation Council after Saudi Arabia.

Given the UAE’s limited tourism and farming potential, the country’s industrial sector has been the focus of its drive to ease its dependence on oil sales and reduce its vulnerability to the volatility of crude prices.

Such investments have expanded the manufacturing sector to become the second largest component of the country’s gross domestic product (GDP) after oil. The manufacturing sector’s share of GDP stood at nearly 13.6 per cent, with a value of $10.9bn last year, according to the official figures.

**Iranian President calls for closer economic ties with Azerbaijan**

**Baku** — The President of Iran, Mohammad Khatami, met with senior government officials during a three-day visit to Azerbaijan in early August, according to reports by the Azeri state news agency *Azer Tag*.

Speaking after a meeting with the President of Azerbaijan, Ilham Aliyev, Khatami called for closer bilateral ties and said that history and geography had brought the fates of the two countries together.

“The border between the Islamic Republic of Iran and the Republic of Azerbaijan is a border of peace, friendship, and brotherhood,” the Iranian President said.

Aliyev noted that the implementation of bilateral agreements “will create thousands of jobs in Azerbaijan, and agreements on energy and gas swaps will allow us to provide Nakichevan, which is an integral part of Azerbaijan, with electricity and gas.”

Khatami also visited Azerbaijan’s parliament, the Milli Majlis, where he was met by Chairman Murtuz Alasgarov, First Deputy Chairman Arif Rahimzadeh and other Azeri officials.

The Speaker of the Azeri parliament, Murtuz Alasgarov, noted that the historically friendly relations between Azerbaijan and Iran had become stronger since Azerbaijan gained its independence from the Soviet Union in 1991.

Pointing out the special role of the two heads of state in strengthening ties, Alasgarov said that the numerous documents signed by former Presidents Heydar Aliyev of Azerbaijan and Ali Akbar Hashemi Rafsanjani of Iran had created a solid legal basis for the development of bilateral relations.

Khatami stressed that his country was very interested in further boosting its relations with Azerbaijan, and had always stood by its northern neighbour since the country gained its independence.

The Iranian President also expressed the hope that the accord with his Azeri counterpart would bring further benefits. Iran, he added, was very pleased with the level of stability established in Azerbaijan, as this meant stability in Iran too.

**Kuwait agrees to resume full diplomatic relations with Iraq**

**Kuwait City** — Kuwait and Iraq have agreed to resume full diplomatic relations, according to a report by the official *Kuwait News Agency* (KUNA).

A joint statement issued on the occasion of the visit of the Iraqi Prime Minister, Iyad Allawi, to Kuwait, said that the two sides had discussed ways and means to boost co-operation in all fields.

It was agreed that trade and commerce co-operation in particular would be enhanced through the establishment of a higher joint committee, which would be chaired by the prime ministers of the two countries, said the statement.

The committee would hold annual meetings and the concerned ministers may represent the chairmen if necessary, noted the KUNA report, adding that the two sides had also agreed to set up technical committees to handle all co-operation issues in all sectors.

The Kuwaiti Foreign Ministry and the Iraqi Ministry of Planning and Development are to follow up and co-ordinate on the affairs of the higher joint committee, according to the statement.

Prime Minister Allawi was in Kuwait for a three-day visit that coincided with the fourteenth anniversary of Iraqi invasion of Kuwait on August 2, 1990.

The two countries resumed diplomatic ties on June 28 this year, the day when the US-led Coalition Provisional Authority transferred sovereignty to the interim Iraqi government headed by Allawi.
Khatami went on to say that the Iranian parliament was expected to ratify the agreement on the legal status of the Caspian Sea, which is disputed by the five littoral states of Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan.

“We hope this convention will play an important role in protection of the Caspian ecology and health of the people in the littoral states,” Khatami said during his visit to Azerbaijan’s capital.

France pledges €2 billion finance package to Algeria

Algiers — France has pledged to give Algeria a €2 billion finance package to deliver a major boost to the latter’s economy, the French Minister of Economy, Finance and Industry, Nicolas Sarkozy, said during a visit to the North African country.

The finance package, to be delivered as part of a new partnership for growth and development, will include reconverted debt, loans on favourable conditions and loans to underwrite trade, Sarkozy and his Algerian counterpart, Abdelatif Benachenhou, said in a statement.

During Sarkozy’s visit, the French Minister and Benachenhou signed an accord on the development and growth partnership between France and Algeria, which is a former French colony that gained its independence in 1962.

Of the €2bn, about half will be granted in trade loans, €750 million will be low-interest loans and €288m will be foreign debt converted into investment.

“This initiative is based on the shared conviction that it is in the interest of Algeria and France to make the best use of the complementary nature of the two economies to accompany current changes in the Algerian economy and society, boost trade and multiply the shared business interests,” the statement said.

France “has decided to put at Algeria’s disposal the whole of the amount allowed for the conversion of debt into invest-

The French Minister of Economy, Finance and Industry, Nicolas Sarkozy (left) met with the the Algerian President, Abdelaziz Bouteflika, during his visit to Algeria.
ment under the current rules of the Paris Club (of foreign creditor nations), which is €288m. France will go to the Paris Club to support a request for the ceiling for debt conversion into investment to 30 per cent from the current ten per cent,” it added.

As well as the measures to promote French business investment, the Agence Française de Développement (AFD) has allocated €55m that will be used for helping the development of small and medium-sized companies in Algeria.

The two countries also reached agreement on bilateral co-operation in the domains of transport, water management, habitat and urbanism. About two thirds of the trade loans announced in the statement will go towards financing equipment for a new underground railway system in Algiers, which will eventually cost some €350m, and rolling stock on existing rail lines in the suburbs of the capital.

France also plans to help modernize the water supply networks in Algiers and other big Mediterranean coastal cities such as Oran and Constantine. Low-interest loans released via the AFD, amounting to €75m, will be used to rehabilitate decrepit urban housing and to rebuild in areas which were ravaged by a devastating earthquake in the Algiers region in May last year.

After the financial discussions, Sarkozy had talks with the Algerian President, Abdelaziz Bouteflika, who hosted a lunch in honour of the French Minister.

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**Saudi Arabia briefs UN team on preparations for elections**

**Washington** — Saudi Arabia has briefed a team of visiting UN experts on preparations by the Ministry of Municipal and Rural Affairs for the upcoming municipal council elections later this year, according to a statement released by the Saudi Embassy in Washington.

The UN team held meetings with members of committees supervising the election and with international experts contracted by the Ministry to discuss details, including the timetable for the elections.

The election process has been divided into three phases: the first covering Riyadh Province; the second covering the provinces of Makkah, Madinah, Qassim, Jouf, Tabuk, Hail, and the Northern Borders; and the third covering the Eastern Province and the provinces of Asir, Baha, Jizan and Najran.

A number of amendments have been made to the original schedule. The elections in Riyadh Province were planned to take place in September–October 2004, but have now been moved to November, to avoid coinciding with the Holy Month of Ramadan.

For the second group of provinces, elections will be held in January 2005, after the annual Hajj pilgrimage season, because of the heavy involvement of the cities of Makkah, Madinah and Jeddah in the Hajj. Elections in the third group of provinces will therefore take place before those in the second, in December 2004.

Earlier, Saudi Arabia announced that it had established the basic regulations and systematic procedures for the election process and had drafted the necessary regulations and resolutions for holding elections.

Committees had worked through the details for the establishment of election centres, the process for voter registration, the registration of candidates, the deadline for the nomination and the process of electing members in 178 municipal councils across all cities and villages in the 13 provinces, said the Kingdom in a statement.

Commenting on the elections, the Saudi Ambassador to Washington, Prince Bandar bin Sultan, said: “Saudi Arabia is moving on a path of political and economic reform. Municipal elections are part of that process and will help Saudi Arabia broaden political participation and give our people a greater role in government decision-making.

“This is one element of our comprehensive agenda for political and economic reform. Saudi Arabia is undergoing dramatic change as we continue to work toward the modernization and growth of our society, but at the same time remaining rooted in our Islamic traditions and values,” the Ambassador added.

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**Venezuela’s inflation rate slows to 1.4 per cent in July**

**Caracas** — Venezuela’s inflation slowed in July as increased dollar sales by the government at the fixed exchange rate kept the price of imports in check, according to a statement from the central bank quoted by Bloomberg.

Consumer prices rose 1.4 per cent in July after rising 1.9 per cent in June, the statement said. Consumer prices rose 12.6 per cent in the first seven months of the year, down from a 17.4 per cent rise in the same period a year ago.

The Venezuelan government has kept the official exchange rate at 1,917.6 bolivars to the dollar since February and boosted dollar sales to $5.3 billion during the first half of this year.

The current rate is almost the same as the one at which the government was selling dollars before imposing restrictions on currency trading 18 months ago.

Those sales are within 12 per cent of the $6bn the bank sold in the first half of 2002 and more than the $5bn it sold last year.

Inflation is slowing as President Hugo Chávez campaigns to stay in power in a recall vote that is due to take place on August 15. The economy grew by 30 per cent in the first quarter of 2004 after contracting about nine per cent in both 2002 and 2003.

Venezuela imports about 60 per cent of its food, clothes, medicine and electronic goods and many companies rely on imported raw materials and parts to operate, noted the Bloomberg report.

The government imposed restrictions on foreign currency sales in January 2003 to stem the fall of international reserves. Prices rose 1.2 per cent in May and 1.3 per cent in April.  

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OPEC Meetings

The 49th Meeting of the Ministerial Monitoring Sub-Committee took place in Beirut, Lebanon, June 2–3, 2004.

The 131st (Extraordinary) Meeting of the Conference was held in Beirut, Lebanon, June 3, 2004.

The 4th Meeting of Deputy Ministers of Petroleum/Energy on Long-Term Strategy was held in Beirut, Lebanon, June 4, 2004.

A WPC and OPEC workshop was held at the OPEC Secretariat in Vienna, Austria, June 8–9, 2004.

Secretary General’s diary

The 9th annual Asia oil and gas conference was organized by Petronas and took place in Kuala Lumpur, Malaysia, June 13–15, 2004.

A High-level meeting between OPEC, UNCTAD (United Nations Conference on Trade and Development) and UNDP (United Nations Development Programme) was held in Geneva, Switzerland, July 7, 2004.


Secretariat missions

An International conference for renewable energies was organized by the Government of Germany and took place in Bonn, Germany, June 1–4, 2004.

The Mediterranean Energy Observatory (OME) workshop on the State of Art of the ‘Dialogue’ consumer/producer countries was organized by the OME and held in Ankara, Turkey, June 11, 2004.

Forthcoming OPEC Meetings

A seminar on World legal systems and contracts for oil and gas was organized by CWC and held in London, UK, June 14–18, 2004.


The 20th Session of the Subsidiary Bodies (SBSTA and SBA) was organized by the United Nations Framework Convention on Climate Change (UNFCCC), and held in Bonn, Germany, June 16–25, 2004.

The 6th Meeting of the International Energy Forum (IEF) Executive Board was held in Riyadh, Saudi Arabia, June 30, 2004.

The 24th International Symposium on Forecasting was organized by the International Institute of Forecasters and took place in Sydney, Australia, July 4–7, 2004.

The Third annual conference on the Geopolitics of energy was organized by the European University Institute, Florence, and took place in Florence, Italy, July 8–9, 2004.

An IEA/CSLF workshop on Legal aspects of storing carbon dioxide was organized by the International Energy Agency (IEA) and held in London, UK, July 12–13, 2004.

The 50th Meeting of the Ministerial Monitoring Sub-Committee will take place in Vienna, Austria, September 14, 2004.

The 132nd Meeting of the Conference will take place in Vienna, Austria, September 15, 2004.

Pooling skills and resources to scale up the battle against HIV/AIDS

The XV International AIDS Conference (IAS) was held in Bangkok, Thailand, from July 11–16, 2004, with close to 15,000 delegates in attendance; among them inter- and non-governmental organizations, business and banking institutions, community- and civil society groups, as well as development finance institutions involved in the global campaign against HIV/AIDS, including the OPEC Fund for International Development. The Fund delegation was representing the Director-General, Suleiman Jasir Al-Herbish. The delegation was led by Dr Edwin Gutierrez, Acting Director, Information and Economic Services Department.

The Bangkok conference, with its theme, Access for All, focused on how to advance access to science, prevention, treatment and resources for all people around the world. Below is the text of the OPEC Fund statement submitted by Al-Herbish.

Nelson Mandela pictured at the closing ceremony of the 15th International AIDS Conference in Bangkok.

It is well over two decades now that the international community has faced the scourge of HIV/AIDS. Over this time, much as been said; and some important work has been done, both in the areas of research and in direct intervention to the benefit of the millions already infected and affected.

This International AIDS Conference is one of the most important fora for the exchange of ideas in the global campaign against the disease. Institutions, such as ours, the OPEC Fund, are actually mainely here to listen to the experts, the lead institutions and the non-governmental organizations (NGOs) at the vanguard of the campaign. The OPEC Fund for International Development got involved in HIV/AIDS interventions beginning in June, 2001, following a major decision of the policymaking Ministerial Council of the institution. For the OPEC Fund, it was humanitarian considerations which led to the involvement.

As many here are probably aware, the Fund is a development finance agency which works in close co-operation with developing countries to help accelerate their social and economic advancement. The OPEC Fund finances projects and programmes and initiatives of various kinds, building infrastructure, scaling up health systems, providing education and assisting agricultural development. In more than 28 years, the Fund has been constructing bridges of understanding and co-operation between countries.
Apart from lending programmes and support to private sector initiatives, the OPEC Fund also operates a grants programme, under which the Fund provides technical, research and humanitarian and emergency assistance to nations, peoples, institutions and societies to work on important schemes which cannot be financed with loan resources.

The OPEC Fund and similar inter-governmental organizations (IGOs) learned early that a concerted battle against HIV/AIDS was necessary if the world was to avert irreparable damage to decades of development. HIV/AIDS was eroding the very basis of societies, killing hundreds and thousands of those whom society depended upon for development. Thus, the OPEC Fund’s decision to devote grant resources to support the campaign against the disease.

Accordingly, a special grant account for HIV/AIDS operations was set up in 2001 and endowed with a total $15 million. This amount was replenished in 2003 with an additional $15m. Indeed, only a few weeks ago, at the June, 2004 Annual Session of the Fund’s Ministerial Council, Honorable Ministers again determined to top up this first replenishment, adding an additional $5m to the amount. To date, the OPEC Fund has a cumulative $35m, committed to financing HIV/AIDS interventions, worldwide.

In implementing its HIV/AIDS programme, the OPEC Fund is working in close co-operation with such lead agencies as UNAIDS, the World Health Organization (WHO), the United Nations Population Fund and the International Federation of Red Cross and Red Crescent Societies. Yet others include the United Nations Economic Commission for Africa and AMICAALL, the Association of Mayors and Municipal Leaders in Africa.

The OPEC Fund is pleased to note that the international community is beginning to devote considerable resources to the campaign against HIV/AIDS. The battle against the disease is approaching a critical moment; and informed sources speak of more money, greater political will and attention in evidence. Yet, many people are still dying of AIDS and becoming infected with HIV.

Certainly, the heightened global awareness does bring welcome and overdue improvement in the prospects for controlling this disease; perhaps the worst global epidemic in several centuries. The challenge now, the OPEC Fund agrees, is to coordinate efforts and ensure that the increased resources benefit the people who need it most.

The long-term economic and social costs of HIV/AIDS had hitherto been grossly underestimated in many countries. Projections now suggest that some countries will eventually face grave economic consequences, unless the epidemic is effectively brought under control, mainly because HIV/AIDS weakens and kills adults in their prime, depriving communities of doctors, teachers and lawyers, as well as farmers, miners and service providers, among others. It deprives children of their parents.

The OPEC Fund is pleased that the United Nations system, under the leadership of the UNAIDS, has managed to raise critical awareness and bring the global community to truly focus on this deadly disease.

More than two decades into the epidemic, 22 million people have died of AIDS and an estimated 36-46m are living with HIV. The disease remains the leading cause of death and lost years of productive life for adults aged 15–59 years, worldwide.

According to the experts, the evidence is that a comprehensive package of interventions can prevent and reverse the epidemic: educating people, setting up training programmes for AIDS workers and making voluntary counselling and testing centres available to those who need them. More would need to be done to tear down the resilient walls of silence, stigma and discrimination. Denial, ignorance, myths and misinformation create barriers; they undermine efforts to encourage people to take advantage of available therapy.

But the next steps, perhaps, will be to focus on healing. Urging prevention, education and regulation has helped. But there now is a need to integrate prevention programmes with treatment of the disease. The call is for a focus on the provision of low-cost, generic antiretroviral drugs to AIDS patients. With WHO in the lead, an initial thrust, via the initiative three-by-five (3x5), is being made to acquire antiretroviral drugs at affordable prices to help sufferers especially in the poorer countries. Antiretroviral drugs arrest the progress of this degenerative disease and keep the infected alive for years.

**Antiretroviral therapy**

The drawback, thus far, had been the exorbitant cost of the antiretrovirals. Now that the generics have been proven equally effective and are becoming affordable, it is perhaps time to look to them for relief. In Haiti, local care-delivery groups speak of “little white pills that have brought neighbours, wasted by the disease, back to life.” The Geneva-based Global Fund asserts that “bringing antiretroviral therapy to all who need it [will be] the most medically challenging task that the world has ever taken on.”

“Gone, it seems, are the (early) years when HIV/AIDS was considered lethal. With antiretroviral drugs, patients recover quickly; they regain strength; and, for a change, put on weight. Until now, antiretrovirals came in a confusing cocktail. Now, there are generic ‘fixed-dose combination drugs’, which combine active substances from multiple sources into single pills that are taken twice daily.

In most developing countries, sadly, contracting HIV/AIDS is still dangerous. It needs not be, anymore. The poorer countries require funding to build clinics, laboratories and drug warehouses.

In conclusion, I should reiterate that the OPEC Fund remains committed to the global campaign against HIV/AIDS. The Fund is pleased to count itself among the partnership of international organizations jointly working on HIV/AIDS interventions, worldwide. It is the Fund’s intention to embark soon, with UNAIDS, on a global initiative against the disease, delivering additional interventions in the Middle East, North Africa, Asia-Pacific, Latin America and the Caribbean. Fourteen countries of these regions are directly earmarked, with regional activities benefitting several neighbouring countries. At the close of the initiative, several outcomes are expected. These would include reduced transmission of HIV within project areas; greater access to prevention, care and support mechanisms; increased involvement of the leadership; and strengthened national AIDS response. It is expected that implementation of the initiative will take two years (June, 2004, through July, 2006).
OPEC Fund Director-General meets with Jamaican PM

OPEC Fund Director-General, Suleiman J Al-Herbish, has rounded off his mission to the Caribbean with a courtesy call on Jamaican Prime Minister, P J Patterson, to review the country’s development needs and discuss the future thrust of OPEC Fund operations in Jamaica.

Prime Minister Patterson is a long-time supporter of the OPEC Fund having been a leading proponent of the North-South dialogue for over three decades.

In wide-ranging talks, Patterson and Al-Herbish discussed the success of Jamaica’s macro-economic policies, as well as the country’s strategies for continued growth. The Prime Minister highlighted, in particular, the need to foster development of Jamaica’s rapidly growing tourist industry. Greater investment was needed, he said, in infrastructure development, especially water supply and sanitation. The agriculture sector too needed more support to diversify and accommodate the needs of tourists.

Both the Prime Minister and Director-General expressed their mutual satisfaction with the progress of OPEC Fund operations in Jamaica and agreed to work closely together to help the country achieve its development goals. The meeting concluded with Patterson encouraging the Fund to remain true to its mandate.

July 2004

Grants approved

Fund extends debt relief to Nicaragua under HIPC II

The OPEC Fund signed an agreement with the Republic of Nicaragua for the provision of debt relief within the framework of the Enhanced Heavily Indebted Poor Countries (HIPC II) Initiative. Endorsed by the Interim and Development Committees of the World Bank and the International Monetary Fund in September 1996, the Initiative represents a united effort by the international community to address the external debt problems of the world’s heavily indebted poor countries. Specifically, it aims to reduce the debt of eligible countries to sustainable levels, subject to satisfactory policy performance, in order to ensure that adjustment and reform efforts are not put at risk by continued high debt and debt service burdens. As the initiative requires participation by all relevant creditors, debt relief efforts entail co-ordinated actions by the international finance community, including multilateral institutions.

In January 2004, Nicaragua attained its completion point under the initiative, ie, the time at which it is decided that the country has met the conditions for assistance. Over time, total relief from all of Nicaragua’s creditors will amount to approximately $4.5 billion, or $3.3bn in net present value terms, which represents 73 per cent of total debt obligations. Resources made available by debt relief under the initiative will be allocated to fund Nicaragua’s key pro-poor programmes. Under the agreement, financing in the amount of $10 million will be made available to ease the country’s debt burden. In May 2002, The Fund extended a $10m loan to Nicaragua, which was also within the framework of the Enhanced HIPC Initiative.

Afghanistan gets Fund grant to cover CFC subscription

The OPEC Fund and the Islamic State of Afghanistan signed an agreement for a grant of $1.07m to cover the country’s subscription to the Common Fund for Commodities (CFC).

Welcoming Dr Nezam, Ambassador and Permanent Representative of Afghanistan to the UN and other International Organizations in Vienna, to the institution’s headquarters, Suleiman J Al-Herbish, Director-General of the OPEC Fund, declared that the well-being of the people of Afghanistan was never far from the thoughts of the Fund. He went on to reaffirm the Fund’s readiness to continue supporting Afghanistan’s development efforts.

OPEC Fund and Bahrain sign investment encouragement and protection agreement

An agreement for the encouragement and protection of investment was signed between the OPEC Fund for International Development and the Kingdom of Bahrain. Drawn up within the framework of the Fund’s Private Sector Facility, the agreement was initialed by Minister of Finance and National Economy of the Kingdom of Bahrain, HE Abdulla Hassan Saif, and by the Director-General of the OPEC Fund, Suleiman J Al-Herbish.

Conclusion of the agreement paves the way for the Fund to commence support to the private sector in the Kingdom and represents the first step towards a development co-operation partnership.

Al-Herbish expressed his pleasure at inaugurating relations between the Fund and Bahrain and emphasized the Fund’s readiness to aid the Kingdom’s social and economic development.

With a population of just 698,000, Bahrain’s prosperity rests on its ability to diversify its economy away from hydro-carbons and into its services sector. Concerted efforts have been made over the past decade to maintain a stable monetary environment so as to attract foreign investment in key service industries.

Simultaneously, measures have been taken to restore competitiveness and improve infrastructure in order to create favourable conditions for private sector development.

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OPEC Secretariat

Oil price movements and globalisation: is there a connection? — Robert Looney

“The principal objective of the OPEC Review is to broaden awareness of (energy and related) issues, enhancing scholarship in universities, research institutes and other centres of learning.”
Forthcoming events

Charleston, West Virginia, US, September 15–17, 2004. Eastern regional meeting of the Society of Petroleum Engineers. Details: Society of Petroleum Engineers, PO Box 833836, Richardson, TX 75083-3836, US. Tel: +1 972 952 9393; fax: +1 972 952 9435; e-mail: spedal@spe.org; Web site: www.spe.org.

London, UK, September 15–17, 2004. Cost-effective solutions for the upstream oil and gas industry. Details: Petroleum Economist Ltd, 15/17 St Cross Street, London EC1N 8UW, UK. Tel: +44 (0)20 7831 5588; fax: +44 (0)20 7831 4567/5313; e-mail: Andrea Pearson, Customer Service & Sales Executive, apearson@petroleum-economist.com; Web site: www.petroleum-economist.com.

Singapore, September 16–17, 2004. Pacific petroleum insiders. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07-02 The Octagon, Singapore 069534. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; Web site: www.cconnection.org.

London, UK, September 16–18, 2004. Production sharing contracts and international petroleum fiscal systems. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07-02 The Octagon, Singapore 069534. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; Web site: www.cconnection.org.

St Maxime, France, September 19–24, 2004. Tight gas development — Forum series. Details: Society of Petroleum Engineers, PO Box 833836, Richardson, TX 75083-3836, USA. Tel: +1 972 952 9393; fax: +1 972 952 9435; e-mail: spedal@spe.org; Web site: www.spe.org.

London, UK, September 20–21, 2004. Reserves valuation, management and accounting. Details: IBC Energy Conferences, Lorraine Ward, Informa House 30-32 Mortimer Street London W1W 7RE, UK. Tel: +44 (20) 7017 4581; Fax: +44 (0)1932 893893; E-mail: lorraine.ward@informa.com; Web site: www.ibcenergy.com.

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