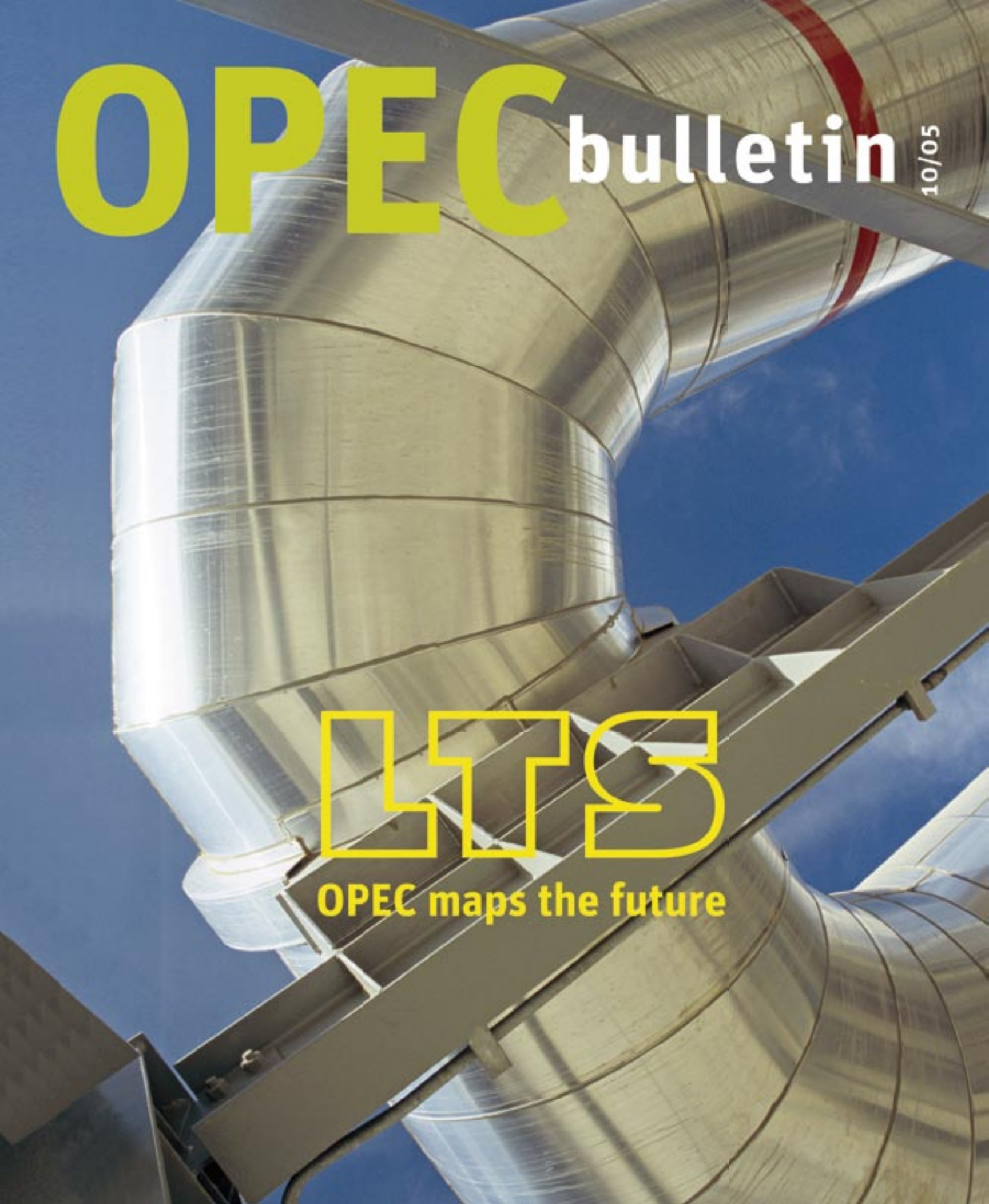
OPEC bulletin

10/05



LTS

OPEC maps the future

Long-Term Strategy: A timely document

When the founding Members of the Organization of the Petroleum Exporting Countries met in Baghdad to formally establish OPEC in September 1960, the international politico-economic system was significantly different from what it is today. It was a bi-polar world, where the cold war between the East and the West, to a large extent, dictated the course of international politics and economics. The international oil industry, back then, was dominated by a few powerful firms from the developed countries of Europe and the USA. The oil producing developing countries themselves had little control over the industry. Although they owned the resources, they had little say in how much of it was produced, and at what price it was sold.

It was against this background that OPEC was founded, with the following modest objectives: the co-ordination and unification of the petroleum policies of its Member Countries and the determination of the best means for safeguarding their interest, individually and collectively; devising ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations; and giving due regard at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

For 45 years OPEC has remained faithful to these founding objectives and has pursued them with all diligence. But the international politico-economic system has not remained the same. Neither has the oil industry. Major changes have taken place on the world political scene as well as in the oil industry. New and powerful non-state international actors have emerged on the world scene, bringing to the fore of international political discourse issues that some 45 years ago, were non-existent. Similarly, the balance of economic power has not remained the same since 1960. The world is no more bi-polar. The developing economies of Asia, particularly China, Japan and India, are poised to undergo the same phenomenal growth that today's developed economies underwent especially in the last century, assisted by abundant supplies of oil. At the industry level, many national oil companies that did not exist in 1960, have today become huge success stories with international operations in both the upstream and downstream sectors of the industry.

These changes have brought with them new challenges, and new opportunities. It is to clearly identify these new challenges with a view to addressing them, as well as to explore the new opportunities with a view to effectively exploiting them, that the OPEC Ministerial Conference assigned the deputy ministers of petroleum/energy of its Member Countries to produce a comprehensive Long-Term Strategy for the Organization in early 2003.

The adoption of the LTS by the 137th Meeting of the Conference could not have come at a more opportune time. While remaining faithful to the statutory objectives of the Organization, the LTS reflects on the changes that have taken place in the international oil industry, and the challenges they pose now and in the future, as well as the opportunities they provide to the oil industry, the global economy and OPEC Member Countries.

The comprehensive document outlines steps Member Countries should actively pursue with a view to achieving agreed objectives. The Strategy defines specific objectives, identifies key challenges that the Organization faces now and in the future, and explores scenarios for the energy scene. It is designed to be robust and adaptive throughout the various possible futures. The adoption of this document at this critical time is testimony of OPEC's determination to play its part in addressing the challenges of the oil industry in the 21st century. The challenge before OPEC now is to ensure that the recommendations in the document that has been unanimously adopted are implemented faithfully.

Contents

OPEC bulletin

Cover
Building for the future — OPEC draws up long-term strategy *(see Conference Notes on p4)*.

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

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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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OPEC offers additional 2m b/d — if market needs it

137th Meeting of the Conference looks to calm prices by guaranteeing extra supplies

OPEC Conference President, Kuwait's Minister of Energy and Chairman of the Kuwait Petroleum Corporation, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah (r); with the Chairman of the OPEC Board of Governors, Hamid Dahmani of Algeria.

*OPEC Bulletin Editor-in-Chief, **Dr Omar Farouk Ibrahim**, reports on the outcome of the 137th OPEC Ministerial Conference in Vienna, as well as activities organized to mark the Organization's 40th anniversary in Vienna.*

As they flew into Vienna for the 137th Meeting of the OPEC Conference on September 19–20, OPEC Ministers knew that the whole world was looking up to them to take decisions that would calm the oil market and not only stop crude prices from rising further, but indeed bring them down to some level lower than the high fifties (between $55.82 and $58.30/b for the OPEC Reference Basket) where they stood in the week preceding the Conference. In fact, a few of them had indicated the previous week that they would propose a hike in the total production ceiling of the Organization's Member Countries, as a means to check the rising price of oil. One or two did not favour any output hike, although they had also indicated that they would not oppose it if it was proposed. One fact about which all the Ministers were in agreement, even as they left their respective capitals, was that the oil market was well-supplied — indeed, oversupplied. Yet the price of oil, which began a steady rise since 2004, was not showing any signs of abating.

It was against this background that the Ministers met in the OPEC Secretariat, Monday and Tuesday, to address what was becoming an intractable problem for the international oil industry, the solution to which, some leaders of the major consuming countries looked to OPEC to provide.

Stable oil market

In his opening address to the Meeting, Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, President of the Conference, reviewed the oil market, touching on the losses resulting from Hurricane Katrina. He noted that OPEC had always recognized the importance of a stable and orderly oil market to world economic growth and the advancement of global prosperity, adding that the achievement of stability had always been a priority of the Organization. He further noted OPEC's success at providing adequate and timely supplies of oil to a world that had, since 2004, come to demand more oil to meet the new pace of economic growth, especially in the US, China and India. Sheikh Al-Sabah furthermore noted that, in line with its commitment to stabilizing the oil market, OPEC had, within one year, raised its production ceiling several times by a total of 4.5 million barrels a day. He said that Member Countries of the Organization had also accelerated their plans to bring new production capacity onstream, stressing that for 2005, surplus capacity was expected to rise to more than ten per cent above the call on OPEC oil.

Sheikh Al-Sabah spoke about the need for joint efforts among all producers — OPEC and non-OPEC — in the search for a stable international oil market. He commended Angola, Egypt, Mexico, Oman, Sudan and Syria, whose Ministers attended the Conference as observers, for their continued support for the Organization's efforts at bringing and maintaining oil market stability.

Turning to the main causes of the price volatility in recent times, the Conference President noted that crude oil supply had exceeded demand, leading to a continuing build-up in inventory levels, which, at the time of the Conference, stood well above the five-year average, both in absolute terms and in days of forward cover. This fact, he added, was acknowledged by both consumers and producers. With supply exceeding demand, producers could not be rightly blamed for the rising price of oil and petroleum products, he argued. The causes of the problems should be sought elsewhere. Analyzing the whole supply chain from crude to product, Sheikh Al-Sabah noted that, while the situation for the upstream sector was under control, there was a very different picture downstream, where capacity had lagged far behind demand. He said the Conference would thoroughly examine all the possible causes of the current situation with a view to finding a lasting solution. Messages of goodwill were read by the Ministers from the observer countries and the Meeting went into the serious business of identifying the real causes of the problem at hand and deciding what course of action to take, or recommend, in order to instill calm in the market.

Conference conclusions

After two days of exhaustive deliberations, with research and logistics support from the OPEC Secretariat, the Ministers came to a conclusion on the causes of the

"OPEC had always recognized the importance of a stable and orderly oil market to world economic growth and the advancement of global prosperity," — Al-Sabah.

"Concrete measures are needed to encourage rapid and sizeable investments in the refining sector, especially in conversion capacity."

problem and the solutions, both in the short and long term. The Conference noted that the main causes of the problem were tightness in downstream capacity and concerns over availability of adequate future supplies. To deal with the first problem, the Conference called on industry and consumer country governments to urgently address the pressing issue of refining shortages and to take prompt action to facilitate and speed up refinery capacity expansion. At the same time, the Conference noted that its Member Countries had taken the initiative, on their own and in partnership with others, to pursue and invest in downstream projects, even though this responsibility was primarily that of the main consuming countries. The Conference had posited that the industry today was paying the price for not investing adequately — and in a timely manner — in the downstream sector of the industry. Although the Conference did not specifically name any country, analysts were quick to argue that the newest refinery in the US, for example, was about 30 years old. Stated differently, for about 30 years, no new refinery had been built in the US, the world's major oil-consuming country, even though demand for oil products has been on a steady rise there and worldwide.

Another contributory factor to the bottlenecks in the downstream sector identified was the increasingly stringent product specifications being introduced in major consumer countries. Indeed, the problem was not with how stringent the specifications were, as everyone wanted to live in an environmentally harmonious world. It was the fact that these specifications sometimes differed widely among regional, state and provincial governments within the same country. This situation created a barrier to the free movement of products from areas where they were plentiful to areas that needed them. And that, in turn, affected prices.

On the second problem, namely, concerns about the availability of adequate future supplies, it was agreed that there were two angles to it — the immediate and the future. On the immediate, where Gordon Brown, for example, had called on the Organization to increase its production by 500,000 b/d, implying that there was a physical short-

Acting Iranian Petroleum Minister, HE S Kazem Vaziri Hamaneh (c), with the OPEC Governor, HE Hossein Kazempour Ardebili (r), and OPEC's Iranian National Representative, Javad Yarjani.

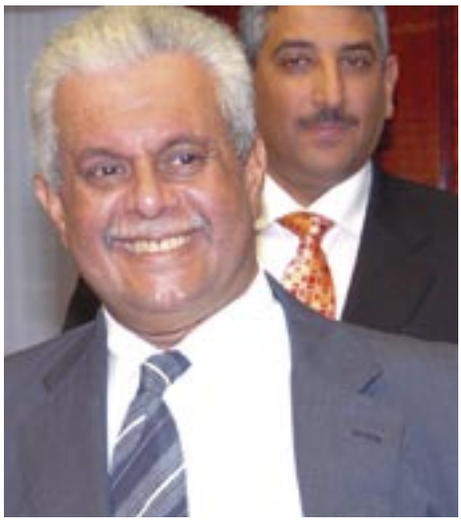
Algerian Minister of Energy and Mines, HE Dr Chakib Khelil.

Nigeria's Minister of State for Petroleum, HE Dr Edmund Maduabebe Daukoru (r) with Nigeria's OPEC Governor, Ms Ammuna Lawan Ali.

Left top: The Secretary of the People's Committee for Energy of the Socialist People's Libyan Arab Jamahiriya, HE Dr Fathi Hamed Ben Shatwan (l), with the Venezuelan Minister of Energy & Petroleum, HE Rafael Ramirez.

Left centre: United Arab Emirates Minister of Energy, HE Mohamed Bin Dhaen Al Hamli (r), with the UAE Ambassador to Austria, Ahmed Fahad Al-Dosari.

Left bottom: Iraq's Ambassador to Austria, Tareq Aqrawi (l), with Rasheed Hasan, a member of the Iraqi delegation to the Conference.



Above: Indonesian Ambassador to Austria, Dr Thomas A S Sriwidjaja (l), who headed the Indonesian delegation to the meeting and OPEC Governor, Dr Maizar Rahman.

Above centre: Qatar's Second Deputy Prime Minister and Minister of Energy and Industry, HE Abdullah bin Hamad Al Attiyah.

Above right: Saudi Arabian Minister of Petroleum & Mineral Resources, HE Ali I Naimi.

age of oil in the market, the Conference decided to make available its spare output capacity of 2m b/d, should it be called for. The objective of that decision was to prove that OPEC was not hoarding oil and that if there was actual demand for its oil, it was available to whoever was ready to buy it. Having made the offer, if no one came to demand the oil, then nobody should blame market fundamentals, nor OPEC for that matter, for the rising prices. The second angle related to concerns about future supplies. Many observers stressed that with world oil reserves at well over a trillion barrels, 80 per cent of which was in OPEC Member Countries, the world had ample supplies to last well into the 21st century, and even longer, as technological advances had continuously proved in recent times. In view of the fact that the total addition to the world's proven crude oil reserves during the period 1995–2003 was well above global cumulative production for the same period, due to advances in technology, enhanced recovery and reservoir development, as well as new discoveries, developments that were expected to continue in the future, it could be argued that the concerns being expressed about the adequacy of future supplies were not founded. As Saudi Arabian Minister of Petroleum and Mineral Resources, Ali I Naimi, argued — the industry's problem was not that of availability, but deliverability. Stakeholders should resolve to take all necessary measures, including timely investments and the creation of a conducive environment, for the industry to thrive.

Other factors adjudged to be continuing to have an impact on the market included speculation in the futures market, geo-politics and natural calamities. The Conference acknowledged and welcomed actions taken by some consuming countries to ease the burden of higher fuel prices on the final consumer.

Pictured at the concluding press conference (from l–r) are: Head of OPEC's PR & Information Department, Dr Omar Farouk Ibrahim; the Assistant Minister of Petroleum Affairs for the Kingdom of Saudi Arabia and Chairman of the OPEC Long-Term Strategy Committee, HRH Prince Abdulaziz Bin Salman Bin Abdulaziz Al-Saud; OPEC Conference President, HE Sheikh Al-Sabah; and Acting OPEC Secretary General, Dr Adnan Shihab-Eldin.

The Long-Term Strategy team.

OPEC's Long-Term Strategy

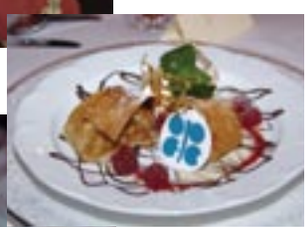
The decision on the oil market was one of two important decisions taken by the September Conference — and the one that attracted more international attention. The other decision was the adoption of the much-awaited OPEC Long Term Strategy (LTS). Produced with the objective of providing a coherent and consistent vision and framework for the Organization's future, the LTS defines specific long-term objectives for the Organization and its Member Countries, identifies the key challenges that OPEC faces now and in the future, and explores scenarios for the energy scene. The document sets objectives in relation to the long-term petroleum revenues of Member Countries, fair and stable prices, the role of oil in meeting future energy demand, the stability of the world oil market, and the security of regular supplies to consumers, as well as the security of world oil demand. It also relates to the legitimate interests of OPEC Member Countries in multilateral agreements. The document identifies the key challenges that may constitute constraints for OPEC in attaining the stated objectives to include, among others, uncertainties surrounding future oil demand. The strategy endorses and encourages research in cleaner fuels, as well as the development of technologies that address climate change concerns. It identifies the development of human capital and the economic diversification of Member Counties as important objectives to be pursued in the long term interest of Member Countries. The strategy calls for more serious and in-depth dialogue on market-related issues between producers and consumers.

The 383-page document was the product of a series of meetings of the Organization's Member Countries' Deputy Ministers of Petroleum/Energy, which spanned over two-and-half-years. Chaired by Prince Abdulaziz Bin Salman Bin Abdulaziz Al-Saud, Assistant Minister of Petroleum Affairs of the Kingdom of Saudi Arabia, with Dr Bernard Mommer, Vice Minister of Hydrocarbons of the Bolivarian Republic of Venezuela, as Vice Chair, the Committee on OPEC Long-Term Strategy was supported by the OPEC Secretariat.

HRH Prince Abdulaziz, speaking to the media after the press conference.

Let the celebrations begin ... 40 years of OPEC in Vienna

Yet another highlight of the 137th Meeting of the Conference was the celebration of the 40th Anniversary of the relocation of the OPEC Headquarters from Geneva to Vienna. A number of activities were lined up for the celebrations, including the formal opening of a month-long exhibition on *OPEC: 40 Years In Vienna*. The exhibition, which was held in the Rathaus, the Vienna City Hall, was declared open by the Mayor of Vienna, Michael Häupl, before dozens of dignitaries, which included OPEC Ministers, ministers from observer countries, Heads of Diplomatic Missions in Vienna, as well delegates to the 137th Ministerial Conference and top Viennese and Austrian government officials. The exhibition was about oil and its contribution to world economic development, the role



Conference President, HE Sheikh Al-Sabah (c), is welcomed at Vienna City Hall by the Mayor of Vienna (r).

Above: Vienna's Mayor, Dr Michael Häupl, officially opening the exhibition hosted by the City of Vienna.

Left: Federal Minister of Economics and Labour, Dr Martin Bartenstein, speaking at the gala dinner.

of OPEC in enhancing this development, and the contribution of Vienna in facilitating this development. It also highlighted the status of Vienna as a hospitable city that hosts many international organizations. The exhibition also provided key background information about OPEC Member Countries.

The Ministers were hosted to a luncheon by Mayor Häupl, where he expressed his delight and that of his government to host OPEC. He commended OPEC for its untiring efforts at stabilizing the international oil market, noting that, but for the actions of the Organization, the volatility that would characterize the international oil market would be unimaginable. He expressed the pleasure of the City of Vienna and the Federal Republic of Austria in hosting OPEC and providing a conducive environment

OPEC Heads of Delegation pictured during the luncheon hosted by the Mayor of Vienna.

that had enabled the Organization to operate in the best interest of the world economy. Responding to the Mayor's speech, the OPEC Conference President expressed the gratitude of the Organization to the Mayor, the authorities of the City of Vienna, and the government and good people of Austria for their hospitality. He thanked the Mayor for the initiative to celebrate the 40th anniversary of OPEC in Vienna, and assured him that OPEC would continue to play an active role in stabilizing the world oil market.

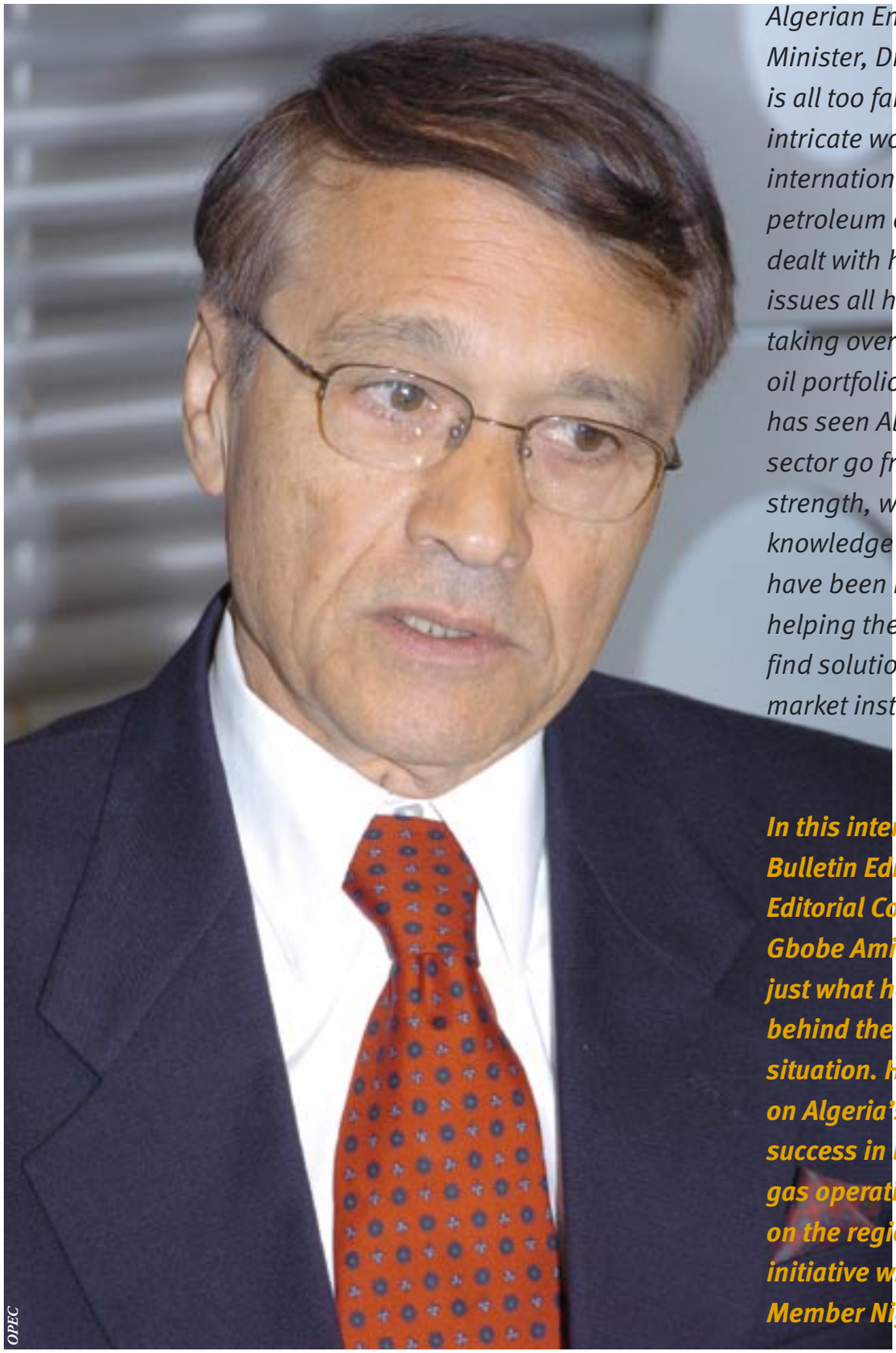
On the eve of the formal opening of the exhibition, the Kuwait Petroleum Corporation (KPC) sponsored a befitting gala dinner at the world-famous Schönbrunn Palace, as part of the activities marking the OPEC anniversary. Attended by delegates to the 137th Meeting of the Conference, top Austrian and Viennese government officials, as well as top Vienna-based diplomats, guests were entertained to various oriental and occidental songs by musical troupes from Kuwait and Austria.









OPEC

Algerian Energy and Mines Minister, Dr Chakib Khelil, is all too familiar with the intricate workings of the international oil market. A petroleum engineer, he has dealt with hydrocarbons issues all his life. And since taking over his country's oil portfolio in 1999, he has seen Algeria's energy sector go from strength to strength, while, in OPEC, his knowledge and experience have been invaluable in helping the Organization find solutions to overcoming market instability.

In this interview with OPEC Bulletin Editor and Senior Editorial Co-ordinator Umar Gbobe Aminu, Khelil outlines just what he considers to be behind the current oil market situation. He also comments on Algeria's growing success in both oil and gas operations and speaks on the regional pipeline initiative with fellow OPEC Member Nigeria.

Algeria

sees its contribution to the oil market and regional co-operation as key elements


OPEC

> *“The world has reached its maximum utilization rate in refining capacity ...”*

Question: Excellency, is the problem with the current oil market essentially structural?

Answer: I do not think there is a problem. I think the market is well supplied; stock levels are very good. However, we are seeing very strong economic growth in the world. It recorded maximum growth last year. This strong performance is being pursued in 2005 and is going to continue next year probably. This economic growth is underpinned by strong demand for petroleum and petroleum products. With this (development) we have experienced a shock — not a shock in the sense of a supply disruption, but rather more of a demand increase, and much higher than anybody would have anticipated. This has come at a time when we have also faced constraints in terms of refining capacity. The world has reached its maximum utilization rate in refining capacity this year and next year we will be in a very tight situation, unless we can bring new capacity onstream.

Do not forget that, at the same time, we still have geopolitical problems throughout the world, which, of course, lead to a lot of uncertainty. In addition, we have the disruption caused by (hurricanes) Katrina and Rita in the Gulf of Mexico. That area produces, I would say, 20 per cent of US production. But what is more worrisome is the effect of the disruption on refining capacity and also on imported capacity in that region.

When you look at all these issues, and the fact that they create lots of uncertainty, together they become a real problem. And so, to protect against that uncertainty, you have speculators who come in, using the futures market to protect themselves against possible disrup-

> *The price you see today does not reflect market fundamentals ... it reflects many factors and uncertainties.*

Gas processing plant in Algeria.

tions that may happen. This shows that the price you see today does not reflect market fundamentals; it reflects all those uncertainties that I have explained. So, you have to cut the price we are seeing today by $15–$20, if you take into account all the uncertainties and all the factors. I would expect this situation to continue next year, in terms of greater economic growth, unless we have a sudden recession in the US, in particular, which I do not think is likely to happen next year. That said, we are likely to see a very tight situation in the coming year.

Talking about getting into a tight situation in the coming year, there have been calls on OPEC Members to diversify their investment into downstream operations. Do you see this as a possible solution to the refining problem?

As I said before, I think one of the factors is refining capacity constraint. One way of relieving that constraint is to address problems related to petroleum products, by getting involved in projects that would address such anomalies, which I am sure a lot of countries and companies are doing, or are trying to do. Several OPEC Member Countries are now undertaking new refinery projects, starting with Algeria, but also including Nigeria, Kuwait, Saudi Arabia, and Venezuela. They are all planning or building new refineries. I think OPEC Member Countries are taking

advantage of this possible opportunity to help eliminate this constraint. That, however, represents a very small percentage of total world refinery capacity, which means that the consuming countries and international oil companies have to contribute to relieving that constraint in the future. Of course, the industrialized countries have many constraints of their own and operate a "not in my backyard," syndrome, which means that as long as you build the refinery somewhere else, it is okay. That means it is very difficult to build a refinery in Europe or the US. Consequently, we will see a lot of continuing constraint, but that is not the only constraint, as I have said.

Algeria has seen improvement in its oil production capacity recently. Can you shed more light on some of the major development projects in the oil and gas sector that are active, or are on the drawing board at present?

Algeria is a small oil-producing country, but I think we have made great progress in achieving a tremendous increase in our production capacity since 1999. Since then, our production capacity has moved from 800,000 b/d, to about 1.47 million b/d, which means an 80 per cent increase over the last five years. We expect to increase to 2m b/d by 2010, thanks to major efforts in terms of new investments by Sonatrach, and also by foreign companies. I think Algeria is also well known for its gas reserves; it has very modest but important gas reserves. Sonatrach is now the largest LNG-exporting company in the world. It is also a major exporter of LPG and condensate. I think we are exporting right now 62 billion cubic metres a year of LNG, which is reasonable. We are participating in 25 per cent of the gas market in Europe. About 20 per cent of the LNG imports into the US are coming from Algeria. Of course, Algeria is the oldest LNG-exporting country in the world. The first LNG exports were made in 1964 to the UK and just this year we started to re-export to the UK. As you know, the North Sea has become an importing region now so we are going back to the UK. Forty per cent of the revenues of Algeria come from natural gas, while the remaining 60 per cent come from oil and oil-related exports.

What is Algeria's total refining output in proportion to its domestic consumption of refined petroleum products today?

We have at present a refining capacity of about 500,000 b/d and we consume 250,000 b/d in the local market.


OPEC

So we see ourselves able to export 250,000 b/d of oil in the form of products. The rest is exported in the form of crude, which means about 1.15m b/d. The rest, of course, is consumed locally. Algeria, consumes a lot of natural gas. It has been at the forefront of using natural gas internally, in the local market. Algeria actually consumes 20bn cu m of natural gas in the local market for residential use, which means most of the houses in Algeria, including villages and rural areas, use natural gas for cooking and heating in the winter time. Gas is also used in industry for brick-making, ceramics, and for other uses. In addition, it is used for power generation. A lot of our power generation is based on natural gas because Algeria is not rich in hydro resources. We use a lot of natural gas locally, but we expect to see our exports rise from the 62bn cu

Algeria has embarked on ambitious plans to boost its LNG production and exports.

> **“The Sub-Saharan gas pipeline is a project very close to my heart.”**

> **“Sonatrach is now the largest LNG-exporting company in the world. It is also a major exporter of LPG and condensate.”**

m I have mentioned to 85bn cu m annually by 2010. Of course, local consumption of natural gas will increase, probably from the 20bn cu m I spoke of to about 30bn cu m by 2010. Algeria is a very rich gas-resource country. We have a sedimentary basin of about 1.5m sq km. It is a big country, the second largest in Africa, after Sudan. It is also under-explored. We have only eight wells for every 10,000 sq km.

Referring to the oil wells you mentioned, the Hassi Messaoud field, which is indeed one of Algeria's oldest, remains active even today. What prospects has this field in terms of its resource viability in the near future?

Hassi Messaoud was the first large discovery in Algeria — in 1959. Of course, when it was first developed we did not have the technology we have today. So, in the late 1960s, and in the 1970s, we put in place secondary recovery processes, like gas flooding, which means that you inject gas into reservoirs at very high pressure. Because of this process of injecting gas, Hassi Messaoud now has one of the largest gas reserves in Algeria. And because the gas that was brought out of the field is being re-injected into the field, it allows for maximum utilization of the field. It also allows us to reach a huge level of recovery, about 55 per cent in the areas where we are injecting gas, while, on average, in normal fields, the recovery rate is maybe 30 per cent, which one normally considers as still being very good. One of the major reservoirs in Hassi Messaoud is called the R2, which is one of the deepest reservoirs, and is connected to the main producing points. The only difficulty with R2 is that it is very compact. But it contains almost the same level of reserves that the other producing areas in the same field possess. Now, with the application of modern drilling technology, we see the field having a second life. Thanks to this technology, it is now producing 400,000 b/d. It is already a major field, but we plan to increase output to 600,000 b/d by 2010.

Can you tell us about your country's efforts at enhancing regional cooperation in the energy sector? I am specifically referring to the Sub-Saharan Africa gas pipeline project.

As you know, this is a project that is very close to my heart — a very important project which I believe in. It is important for many reasons and that is what makes the project interesting. First of all, it is interesting for Algeria and Nigeria for obvious reasons. Nigeria burns a lot of gas, so here is a way to get that gas through a pipeline to the European market. It is good for the European market because we can make this gas available to those consumers without waiting to have an LNG plant. But, more essentially, I think it is important for Nigeria because it is going to go through the northern region of that country. I was surprised when I went to Nigeria to discuss this project to realize that Nigeria does not have a natural gas distribution system. The system is in its infancy. My question was how come a gas-producing and exporting

Right (from l–r in front): Algerian Minister of Energy and Mines, Dr Chakib Khelil; Nigerian Minister of State for Petroleum, Dr Edmund Maduabebe Daukoru; and Algerian Governor and Chairman of the OPEC Board of Governors, Hamid Dahmani.

country does not use gas in the local market to the benefit of the citizens and industry? The fact that this gas pipeline will go through the northern region of Nigeria means that it will be able to feed that region, with the gas used for distribution to local homes, industries, and for power generation, before it is made available to the market. In addition, I think it is also a very interesting project because it goes through poor countries, like the Niger Republic.

Niger has no energy, it has nuclear material, uranium, but in itself is very poor in energy. It uses coal to generate power to mine the uranium to be exported to the developed countries like France to generate power. This natural gas project will also provide gas to this country, but most important is the fact that once it crosses Niger, it will attract a lot of interest for exploration and development because companies will say, well look, if we find gas in Niger we have a pipeline where we can send it through. Of course, for Algeria it is very important for the simple reason that it will interconnect with the existing pipeline which we have going all the way to the southern border, about 1,000 km in length. We are not talking about a long pipeline because it interconnects. Of course, it also has environmental benefits because, right now, if you are burning supposedly 200,000 b/d of gas, then by not burning that gas you are saving the ecology, helping the atmosphere. So maybe we should be able to get some carbon benefits from that and at the same time Nigeria will get some revenues from something it is presently burning. I think all those reasons make sense politically, economically and socially. We are right now in the process of finishing the study with a foreign consultant who was selected by the two sides — Algeria and Nigeria. We have put in place a team and like any project I decide I am going to do — it is going to be done.

Any time-frame for this project?

Well, I think in the next four years we can send praises to God.

Thank you very much, Excellency.

Nigeria's Daukoru

outlines country's new oil investment and expansion strategy

Aerial view of the Niger delta

Dr Edmund Maduabebe Daukoru is certainly no newcomer to the oil industry.

Having spent most of his career working with Shell Petroleum International and the state-owned Nigerian National Petroleum Corporation (NNPC), he understands the dynamics of the sector, both from a business development point of view, as well as in policy implementation strategy.

In this exclusive interview with OPEC Bulletin Editor, and Senior Editorial Co-ordinator, Umar Gbobe Aminu, the Nigerian Minister of State for Petroleum highlights the current challenges facing the international oil market, outlines his plans for the Organization as OPEC Conference President in 2006, and reports on the progress made by his government in furthering the development of the country's oil and gas potential.


Reuters

"There is a weak correlation between the demand and supply of crude oil. The more we put into extra stocks, the more prices tend to rise."

Question: Excellency, how can one best describe the situation we find ourselves in today where oil market fundamentals are basically in tune, and yet prices are on the rise?

Answer: It is, indeed, a quite abnormal situation. The basic rules of supply and demand do not seem to apply. And having no correlation between supply and demand, we are gradually finding out that the more (crude) we are putting onto the market, the more prices rise. This is a phenomenon we started to notice for the first time about the middle of last year. In fact, it was already developing towards the end of 2003, became noticeable in the middle of 2004, and now the trend has become very clear. There is a weak correlation between the demand and supply of crude oil. The more we put into extra stocks, the more prices tend to rise. It is gentle, but it is sloping — it is very clear and very abnormal. I think the industry is going through a different phase, structurally. In the past, there were a few major companies that were fully integrated. They were in exploration and production, transportation, and downstream refining. They took it (the crude) with


Reuters

On January 1, 2006 Dr Daukoru will take over the Presidency of the OPEC Conference from Kuwait's Sheikh Ahmad Fahad Al-Ahmad Al-Sabah (r).

their own transportation, into their own refineries and refined the crude. Even when refinery margins were slim, because they were in the upstream, they felt they were being compensated enough from the upstream, so they could shift the value through exploration, transportation and shipping to refining. In this way, they could endure the shocks of the refining business. With time, with the slim margins on the refining side, many of them actually disposed of their refining capacity. I don't know whether to call it misjudgement, or simply miscalculation, but a lot of independent refiners with no access to upstream assets rushed to these refineries. They now exist as independent refiners, depending, to a large measure, on the spot market.

The Rotterdam spot market started to develop; it has grown even more now so that you can just freely trade crude oil. Crude oil became a freely traded commodity, which meant that an independent refiner who could not secure compensation in the upstream would be very hard hit when the refining margins became slim. For him to survive was headache enough — to expect him to expand, or to add new capacity, was merely impossible.

This is one of the reasons why we have not had further capacity additions today. This signals a major restructuring of the industry. Freely-traded crude oil also means that somebody can simply stockpile crude and not put it into his own refinery. He buys it, he stockpiles it, and he bides his time and releases it piecemeal to refiners

on a cash-and-carry basis for a huge middleman profit. The emergence of this freely-traded phenomenon, combined with just-in-time stock management, where stocks are very finely managed, means that we do not have any spare capacity to absorb the shocks. Natural disasters, global tensions, what have you ... they all add up.

This is the phenomenon we are seeing today, whereby the extra crude oil that producers are putting on to the market is not directly finding its way into refineries, but is ending up assisting huge stock build-ups which don't affect the market because these stocks are held for a trading advantage. It is a form of hoarding, if I may call it that. It is trading, free trading, they are entitled to do as they see fit. I think this is why the more we produce, the more we put onto the market, the more the price tends to rise.

Do you see the call by OPEC Member Countries for increased investment in the downstream sector as the way out of the present predicament?

I should think so, essentially because the supply and demand equation has shifted from crude oil supply and demand to product supply and demand. Crude oil capacity has to translate more directly, not in several intermediary steps into products. OPEC is going well beyond its traditional mandate to actually do this downstream integration — to be involved in refining capacity.

The Saudis are involved in three major projects now. Kuwait is also involved in refinery construction programmes. Nigeria is making a linkage between upstream acreage awards and the installation of refining capacity. We are doing this package to force people who normally may not want to go downstream to be involved in downstream activities. Everybody is doing their best and we hope that with time we will start to see the fruits of our endeavours.

Excellency, looking at Nigeria's current daily oil production of about 2.5m b/d, and with increased talk of investment opportunities for new exploration projects, what is your anticipation for Nigeria's future oil production capacity?

Well, as you know, the existing acreage (for exploration) was awarded in the early 1990s, or late 1989 in particular. Also, in the mid-1990s, another round was undertaken. Those efforts are beginning to yield fruit. Much of the new capacity addition is expected to come in the deep-water offshore areas. We want to move from reserves of 33 billion barrels to about 40bn b. More than a third of that is expected to come from the deep-water offshore. Our production capacity is expected to go from the current 2.5m b/d, or thereabouts, to 4.1m b/d by 2010. By 2007, we should be talking about 3.5m b/d production capacity. This is coming about because the deep-water acreage, being a heavy investment area, is subject to very early production, as against onshore, where the time gap between discovery and production tends to be longer, and the gestation of production tends to be longer. In the deep-water, you cannot afford that.

Once production is pinpointed, it is very quickly appraised and put into production. These are the targets we are having. The new (explortion) rounds are to build on that experience. The difference this time, however, is that we want to encourage three major factors. One is local content, and the second is a specific aspect of local content. That is to say, if you are going to have a lucrative deep-water block you must be involved in downstream activities, refining, gas-to-liquids, or gas development initiatives. The third aspect of this round is to generally improve on the terms that apply to the old production-sharing contracts. Those PSCs were signed at a time when the deep-water acreage was just newly opening up. We did not know what was there. We needed to encourage investors to go out and take the risk.

Now the risk is proving that it can indeed pay. So we are saying, gentlemen, let's sit down and look at the terms again so that the government has a little bit more take, while leaving enough for the investors to be able to re-invest. We have improved on the PSC terms. We put a cap on cost recovery. You cannot recover all your costs in the same year they were incurred; there will be some cost carry-over. Having set a reasonable limit of 80 per cent, it was made competitive, as low as one quarter — a 25 per cent cost recovery to show that, yes, indeed, they are able to carry over a lot of the cost and not recover everything at the same time. Royalty value in the past was zero in the deep-water areas. This was understandable, because the risks were very high. Now we know more about the deep-water so we have demanded royalties. All of this should give the government a bit more take.

> **"The supply and demand equation has shifted from crude oil supply and demand to product supply and demand."**

LNG plant at Bonny Island

Let us talk about the new investment drive in Nigeria. You have been encouraging integrated investment in both upstream and downstream activities. Has this dual approach to the investment option generally been welcomed?

Yes, it has been welcomed. The aggressiveness of the bids we received are ample proof that this is doable. This is a welcome development and I hope that with time investors will not see it as an imposition, but they will say thank God the Nigerian government made us do this. The way I see it, for the next three, four or five years, constraints in refining capacity will be there. Anybody who is in refining should be able to get the investment back. But in the medium term, I do not see us getting out of the shortage, or the tightness of crude oil supply. Anybody investing in refining is going to have his investment paying off amply and more so if it is integrated — if he has an upstream block which he can explore and can put the crude he wins straight into the downstream. You have your own oil, put it into your own refinery, and cut out the middleman.

Turning to the Nigerian government's gas development initiative, I was speaking to your counterpart in Algeria, Dr Chakib Khelil, and he seems very impressed with the Sub-Saharan gas pipeline project — a regional gas initiative involving your two countries. Can you shed more light on this?

Gas activities in the country have exploded in the past ten years and this is way and above our wildest dreams. Bonny LNG, as it was called then, is now NLNG. It was conceived many years ago, probably in the mid-1970s, and it went through many aborted phases before finally going onstream. Ever since, the scope for expansion has been tremendous. It started with two trains — now within five years we are talking about the sixth train, which is

expected to come onstream next year. By the time we get on to trains seven and eight, which are being contemplated, we may be one of the biggest LNG exporters in the world.

That is saying quite a lot. Others are following suit, having seen the wisdom of turning gas into profit, rather than it being a cost. Associated gas, in particular, used to be a cost. The gas flares (in Nigeria) are going to be cut by 2008, the President is adamant about that and we are trying hard to meet that deadline. That challenge is being turned into an opportunity; we are moving from challenge to opportunity. Put out the flares, take the gas that used to be flared, and convert it into LNG.

As I speak with you, there is a two-train project planned at Brass. A major gas distributor in the UK, Central Gas, is contemplating another plant side-by-side. They are trying to do an independent scheme for which we have awarded them upstream blocks. This tells you of the packages we are doing. On the western fringes of the (Niger) Delta, Chevron, together with Shell and British Gas, are also contemplating another complex scheme. At least three, perhaps more schemes, are being contemplated. The gas sector is really moving. In addition, we are supplying the West African sub-region with gas to the tune of, initially, 200m cubic feet a day. That is due to go up to 280–300m cu ft/d, which is going to supply Benin Republic, Togo, and Ghana.

The Nigerian government, through the NNPC, is an equity participator. The pipeline across the Sahara Desert is a most exciting scheme for us. The total length of the line is something around 3,800–4,000 km. But on the Algerian side, there is already an existing pipeline that comes close to the Algerian border with Nigeria. The part that needs to be constructed from scratch is less than 3,000 km, maybe about 2,500 km. If we can do that across the Nigerian border, the narrow neck of Niger, into Algeria, we should be home and dry. We are targeting customers in southern Europe, which have been traditional customers of Nigeria — France, Italy and Spain. That is all very exciting.

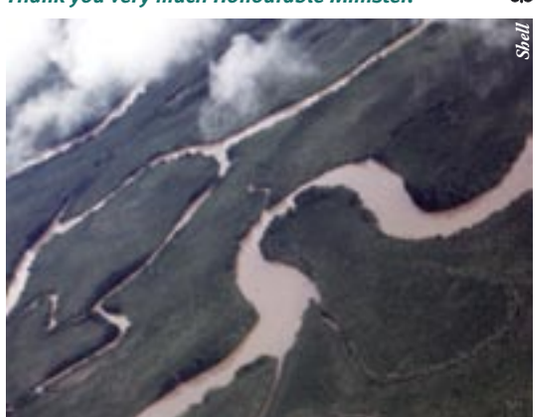
There are also GTL projects being contemplated. One in particular, with Chevron, is targeting a scheme involving about 40,000 b/d of liquid equivalent GTL that has been approved. Construction will start very soon. It is coming in with an investment of about $1.7bn, a very big project. A lot of landfill is involved. Ethanol and methanol projects are also in the works. This call for gas is tremendous. Domestic distribution is not ruled out. In the Lagos area there are independent distributors who are supplying to industry around Lagos, Ikeja, and we are planning to expand to places like Aba and Onitsha in the east of Nigeria.

Finally, you will be assuming the rotational presidency of the OPEC Conference on January 1, 2006. Can you share with us your plans on how you intend to run the Organization in this capacity?

Certainly, we will be closely looking at the current runaway prices. These do not do anybody any good, not the producers and not the consumers. The global economy is affected and all of us are affected. You know of the strong correlation between GDP growth and crude oil demand. We don't intend to do damage to the global economy, which, in recent years, has been very encouraging. Last year was one of the best years in global economic growth. We do not want to damage that — we want to continue on the road (of growth). China and India, in particular, have been growing very fast. We need to moderate prices to a level that industrialization can accept; to a level that economic growth can take. That is the challenge for us. We have initialized dialogue with interested parties, most especially the EU, and intend to continue that dialogue very aggressively. There are other agencies that are involved in the process and, in particular, I think the US, the major consumer and major driver of the global economy, has to be part of these discussions one way or another. I am convinced of that. Coming closer to home, we will do our part to install new capacity through dialogue and exchange of information. The process of new crude oil capacity addition will continue. At the same time, we have to think whether the investment funds allow making downstream investments for those that have spare funds. Those that don't have the funds through proper packaging of upstream opportunities can get those who have the cash to invest downstream. If one can, through contributions, bring some moderation to the market, then in one year we would have made a big achievement.

> **"Runaway prices do not do anybody any good — not the producers and not the consumers."**

Thank you very much Honourable Minister.



Canadian Senator Tommy Banks has achieved national and international renown as a music director and conductor, working with symphony orchestras throughout Canada and the United States. However, in wearing a completely different hat, he is also Chairman of the Canadian Standing Senate Committee on Energy, the Environment and Natural Resources.

Conducting affairs ... in energy

Senator Banks and members of the Canadian Standing Senate Committee on Energy, Environment and Natural Resources, visited Vienna on an energy fact-finding mission. The *OPEC Bulletin* spoke with him when he visited the OPEC Secretariat. We asked him about his tour, his general impressions of OPEC and his view on the current situation in the oil market.

Question: You are most welcome to OPEC and thank you for agreeing to grant us this interview at very short notice. What is the purpose of your visit to the OPEC Secretariat?

Answer: The short answer to your question is to become better informed, to gain whatever information we can. Our Committee has a very wide plate of issues. The importance of OPEC as regards both energy and the environment and natural resources is so pre-eminent that my predecessor arranged a meeting of the CEE with OPEC in, I think, 2001. We were here to gain a better global perspective. We asked if we could consider it again this year and fortunately our request was approved by OPEC. We have had the most useful meeting this morning. We have literally pages of questions that we will have to address by writing to OPEC because there was not sufficient time for us to even begin the questions, which are largely based on the excellent presentation which we received from the Acting Secretary General and officers (of the Secretariat). We are going away much better informed.

Do you think OPEC's influence has increased over the years? You are probably aware that this year we are celebrating 45 years of the Organization and 40 years of being in Vienna. We began as a small group, which has grown over the years.

I think its political influence — I don't know if that's the right word — in some respects is rising. I think its capacity to directly and arbitrarily - and at a moment's notice — affect the price of oil is diminishing because, in the overall scheme of things, a lower proportion of the oil in the world that is being consumed is coming from one place — and that's true of all of us. I think OPEC is perhaps less able to immediately — by the simple push of a button — influence the price of oil, as witnessed by the fact that OPEC's stated preference is to stay within a (price) band. I think it is fair to say that OPEC at one time could actually determine that. In a free market situation it is less able, I think, to do that.

The world has changed drastically, but I think that the moral influence, if I can put it that way, of OPEC has increased substantially, mainly because of OPEC's — to the rest of us — remarkable consistency and the principles upon which it was founded and the assistance that OPEC has provided to the world when we have got into difficulties of one kind or another, in providing stable supply, price stability and contributing to solutions of the problems. I think OPEC has gained great moral influence — that's the right words — in the world.

Do you think this stance is actually appreciated in the world at large, or is it more a Canadian position?

I think that it is not as widely appreciated in the world as it should be. I think it's more a knowledge question. Most people on the street in Amsterdam, or Tokyo, or Edmonton, where I live, are less aware of the contribution that OPEC has made than they should be. But that's true of anything that anybody does that's any good. Good news is not too important on the front pages. I think it is fair to say that the government of Canada is appreciative of OPEC's assistance and the great good it has done in the world in the past. It would be nice if folks across the board realized that more, but it is the nature of things that this is not the case.

One thing OPEC has done over many years is to put a big accent on encouraging co-operation and dialogue, both

with non-OPEC producers and between producers and consumers. What do you think of this approach?

It has been enormously valuable. I think that people in 1960 were pretty worried about OPEC back then because it was seen as a simple cartel for the self-interest of participating nations. It has since demonstrated that this is not the point, that its putative purpose is in fact the true purpose - and that's been proven by history. I think more and more people recognize that. It is certainly the case that people felt threatened by OPEC, but I don't think people feel this way any more. I don't mean governments, but the man in the street.

Moving on to the market, could you tell me whether your visit to OPEC is part of a tour around Europe and other organizations involved in energy?

I wouldn't call it a tour. We have gone specifically to Paris and Vienna because they are the places where international organizations having to do with energy are located. One of our concerns is nuclear and the nuclear agencies are divided between Paris and Vienna and so it is to those two specific places that we have come on this particular trip and we will come again. It is a sort of European axis of the agencies with whom we have to deal with on an ongoing basis.

Do you have any early impressions of how you will report back your visit in Canada?

Positively. We will not be making a report specifically on our visit, because our visit has so many facets. Today is one of them, and among the most important, so there will not be an overall report, except to Parliament, of our visit. But the things we have learned from all the people we have met, including this morning, will form part of our response to other questions and our reports and comments on a wide variety of questions.

I should like to now turn to the current market situation. With nominal prices reaching record levels in a highly volatile market and with Canada being both a major oil producer and consumer, what are your views about the current market situation?

By ways of prognosis, I suspect that the price will not stay at the $70/b mark. I think that's an anomaly. We are very concerned, as I think everybody is, about the volatility of price. The speculative nature of the oil market (we are seeing today) did not used to exist in any real way. We used to be able to make a direct correlation ... if the price of crude went up, the price of the end product, gasoline, went up also.

There was a correlation between the two. There is no longer such a correlation, so I think we all have to be concerned about the non-supply elements of the market that have an effect on prices at the end of the pipeline, or the pump, or the gas tank that have no bearing at all on the question of supply and demand. We are worried about that. I am worried, in particular, about the extent to which these non-supply factors are making the market more volatile than is justified by any rationale. A rumor will send the price of gasoline through the roof, a rumor, based on nothing, the fear that something might happen. Sometimes, when it's a matter of something like (hurricane) Katrina, that's a legitimate fear and everyone can understand that — but a rumor that something might happen can send oil prices up — not crude oil prices, but gasoline pump and heating oil prices — for no possible justifiable reason, that is a worry.

It is presumably an issue that you have been discussing and will discuss in depth

I think the whole world has to discuss this issue. I think however short of imposing price controls, which is never a good answer to anything in my view, we have to deal with a new reality. There are several new realities we have to deal with, among them the fact that crude oil prices are not going to be $25/b anymore in the foreseeable future. That is not an anomaly — that is the new reality or a new reality. Wild fluctuations are another new reality and not an anomaly. We've been used to the fact that the nature of the fluctuations seen in the past has all been attributable to something real. We can all remember when oil was $10/b. I guess that was an anomaly of another kind. Our concerns about the market today have to do with the fact that extremely high prices of fossil fuel end products are not good for anybody. They are not even good for those jurisdictions that are — on a temporary basis — raking it in and rolling in money. And OPEC is very clear that this is not good for any of us who are producers. I think we are in for a new reality to which we all have to adjust quickly.

Do you think this is going to create problems in explaining the current situation to the public?

I don't know that there are new problems. I can tell you that in respect of wild fluctuations in gasoline prices at the pump, successive governments of every stripe in Canada have put into place commissions of examination to find out whether there is profiteering going on by the oil companies. However, each time they have found that no, this was not unreasonable, and no, there was no profiteering going on, that there were legitimate market factors. It will always be difficult for the public, including me, to understand why wild fluctuations take place and it is becoming more so now that they are subject to matters that, as I said earlier, have nothing to do with supply. In short, I guess the answer to your question is no. I don't think the public will ever get over that. I don't think we can ever hope that the public will be fully informed. The information is there, but the headlines are what really do it.

What do you see as the longer-term outcome of the present high oil prices, particularly with regard to future energy supplies? Will they encourage or accelerate the development of non-conventional oil? I am asking you this because of your oil sands endowment and the potential that offers.

Endowment is exactly the right word. Yes, price is a factor, not just in the production of unconventional oil, but also conventional oil, because you know that when you drill a conventional oil well — whether it is one that by natural means spews out oil, or whether you need to pump it — the fact is that you take off only a tiny superficial part of the oil that is actually there because that is how much you can afford to take out. When the price of oil goes up, the capacity to say 'well, we'll invest more in other means of recovery' goes up and that pertains precisely to our bitumen oil — our oil sands. There are two factors. One is the price that you can obtain for the product and the other is the investment and advancement that you make in the technology of recovery. The recovery of usual oil from our very heavy oil tar sands used to be so high that its production was merely experimental. It cost as much to derive a barrel of oil from it as you could sell it for, so it was not economically viable. But when the price of the product goes up, and the cost of producing it technologically goes down, then you are going to have more production, which is where we're at right now. We are now profitable producers of fairly substantial — in our terms — amounts of oil from that source, which would not have been economically viable when I was a younger man. It will have an effect, particularly when it is seen to be a new reality. That means that we will be able to afford to spend more on developing new technologies for extraction and the price is better so that you can justify a higher production cost.

Basically, it is being seen as a take-off point.

It is. Once the industry becomes convinced that it (the oil price) is not going back to $10/b, they will be prepared, I believe, to make further investments. They are doing that anyway. I must say that industry and governments have been very good at continuing to invest this shovel money and seed money — all of which needs to be put into these kinds of processes before they become applicable, practically. And the governments and industry will continue to do this because when they can make the cost of production go down, as long as the price stays high enough to justify it, that's very good for business. It's been explained to me that oil production is like a pyramid. As the price increases, and as it becomes less commonly available, we just go down the pyramid and nobody knows where the bottom of the pyramid is. We are not really worried about security of supply for a long time yet and I think that the perceived peak in production, which is based on information that we know now, is going to change a lot as soon as you can do things, such as sequestration of CO_2. For example, if you have taken 50 per cent of oil in an old well, there is still 50 per cent down there. When the price goes up and the technology improves, we can get at that other 50 per cent as well.

Yes, and the same principle applies to your offshore oil sector.

Precisely, exactly.

What price would you say is the bottom line, below which it may not be advisable to continue with non-conventional oil?

In our case, I think it would depend on which unconventional oil you are talking about. In the tar sands — and I am not an expert on this — my guess is that at $30/b it is profitable. I remember distinctly the day that it hit $30/b and everybody was pretty happy and we saw larger investments in tar sands. I think it is around there. It works at $25/b, below that it begins to be marginal.

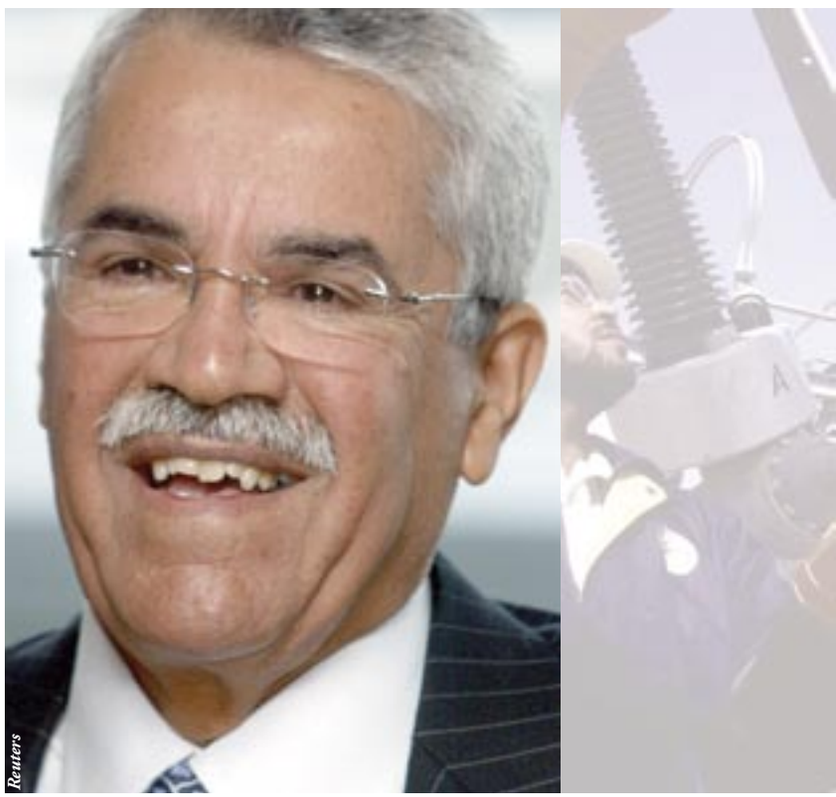
Thank you.

Shaping the future of energy:

The role of Saudi Arabia

*Saudi Arabian Minister of Petroleum and Mineral Resources, **Ali I Naimi,** delivered this address to the 18th Meeting of the World Petroleum Congress, held in Johannesburg, South Africa, on September 25–29, 2005, a forum that brings together key players in the world energy industry and other stakeholders.*

In his speech, Naimi looks at the current challenges facing the oil industry today and discusses the Kingdom's oil policy objectives, its future development strategy for ensuring oil market stability, as well as its foremost efforts of guaranteeing sufficient future oil supplies.



Reuters

> "Co-operation between producers and consumers can assure a bright energy future for the betterment of mankind."

It is very appropriate that the World Petroleum Congress is being held this year in Africa — a continent that is making a significant and growing contribution to world energy supplies. We are seeing exciting new developments here, both offshore and onshore. Africa's dynamic oil industry will play a critical role in enabling the continent to achieve its economic ambitions, while at the same time helping to meet the world's growing energy needs.

Oil markets are experiencing turbulent times. Prices are under various pressures and the petroleum industry's infrastructure is stretched thin. There is tightness across the supply chain and our ability to meet unforeseen problems today has eroded as most of the spare production capacity of the 1980s and 1990s has disappeared, resulting in a system that has a much smaller margin for error.

This situation is happening in parallel with rising demand, insufficient investment in production capacity, a mismatch between crude type and existing refining facilities, and the effects of various and locally legislated petroleum product specifications that result in fractionalized product markets. Hurricanes Katrina and Rita and their aftermath are the most recent and visible examples of the fragility of the energy supply system.

Is there any reason to panic and be pessimistic about the petroleum industry and its future? Is the future for the industry bleak? I want to assure you today that nothing could be further from the truth. Yes, there are challenges. But our industry has been built on a basis to overcome challenges. These challenges we currently face are not insurmountable. Co-operation between producers and consumers can assure a bright energy future for the betterment of mankind.

For that, I would like to talk today about the challenges that the oil industry faces and what we in Saudi Arabia are doing to fulfill our commitment and our efforts to achieve a stable and reliable energy future.

The oil industry ... to operate in a global environment with continuous growing demand. Hence, there will be a need for industry development projects and substantial upgrading and expansion of the petroleum supply chain; the environmental demands on the industry will be greater; and, the geopolitical environment will remain uncertain.

A popular theory receiving much attention in the press these days says the current tightness in the petroleum supply chain is proof that we are rapidly reaching the peak of our ability to produce oil. The core message of this theory is that there is not enough oil left to fuel a growing world economy in the coming decades. In other words — "the end of the age of oil is at hand".

Such talk is not productive because it diverts attention away from the real problems ahead. The main problem we face is not the oil availability — it is a problem of oil deliverability to consumers.

There is an important distinction between availability and deliverability. There is no shortage of petroleum resources left to be developed and produced. This is what I call availability. The resources are more than sufficient to meet expected demand.

To put the current concerns about the availability of oil into perspective, we only have to look back to the past. The oil scarcity was also a popular topic during the 1970s. But, in the intervening years, when we were supposed to face a precipitous decline, world oil reserves increased — in fact more than doubled — from about 550 billion barrels in 1970 to more than 1.2 trillion barrels today. No doubt, an increase of this size is noteworthy, given the fact that the world consumed over 800bn b during this period.

In the case of Saudi Arabia, our proved reserves were estimated at about 88bn b in 1970. Today, they are conservatively estimated at more than 264bn b, despite the Kingdom having produced over 91bn b over the intervening 35 years.

What's behind this impressive growth in reserves? Reserve estimates are a function of both the resource base and economics. Technological advances have improved our knowledge of the underlying geological formations and their characteristics.


Aramco

Latest technology

They have also enabled us to economically recover a greater portion of the resource base, thus adding to recoverable reserve estimates. For example, achieving only a one per cent improvement in recovery rates in Saudi Arabia would provide an additional one year's worth of production.

Ongoing analysis of Saudi Arabia's oil reservoirs indicate that we will be able to boost our proved oil reserves by 200bn b using the latest technology. We are further encouraged by the fact there are vast areas that have not yet been explored. This leads us to say with confidence that Saudi Arabia's proved reserves will expand significantly in the years and decades ahead.

The positive impact of technology is not confined to Saudi Arabia. The same trends will be at work in the world's

other major producing regions. In short, we believe there will be plenty of oil available to meet future demand.

Next, I want to address oil's future competitiveness in the energy marketplace. The forecasts indicate that we will need more energy in the decades ahead. That means there will be room for greater contributions from coal, nuclear, solar, wind power, natural gas, and other alternatives.

Will these alternatives replace or significantly diminish the role of oil? My answer is absolutely no. Let us look at the facts.

In the transportation sector, where oil accounts for 95 per cent of the energy consumed globally, there are currently no competitive alternatives to petroleum-derived fuels.

Cleaner energy

Is this situation likely to change in the future? No, I do not believe so. As I have already said, there will be no scarcity of oil in the foreseeable future: availability is not a problem. Given this reality, we believe that oil will remain the fuel of choice for transportation.

In fact, new technologies, like hybrid vehicles and turbo diesel engines, are likely to enhance oil competitiveness in the transportation sector.

Is the desire for a cleaner environment a threat to oil's dominance? I do not believe so. Our industry is responding to consumers' desires for cleaner energy through the development and distribution of cleaner transportation fuels like ultra-low sulphur diesel. Technological advances will enable us to more efficiently utilize oil resources and minimize the impact on the environment.

Now, I would like to turn to the real problem at hand. This is what I call deliverability to consumers. Let me emphasize again that the challenges ahead of us are not challenges of resources, or what I call "availability". Rather, the world is facing today the challenge of "deliverability". What do I mean by that? Deliverability is a measure of the industry's ability to boost production capacity, of oil transportation and refining, and the delivery of petroleum products to end consumers for their daily lives.

Currently, from the upstream to the downstream — all along the supply chain — the petroleum industry faces infrastructure constraints and bottlenecks that are causing market price fluctuation and restricting the industry's ability to bring oil from underground to the consumer. We should not confuse this very real "deliverability" challenge with resource "availability", which is not a problem.

> "The main problem we face is not the oil availability — it is a problem of oil deliverability to consumers."

How did our current deliverability difficulties arise? There are many contributing factors to consider, such as increasing regulatory complexity and growing public opposition to the siting and construction of infrastructure in proximity to population centres. But, the biggest factor has been the inadequate return on investment caused by a prolonged period of low oil prices and low product refining profit margins from the mid-1980s to the late-1990s.

Past experience has taught us that very low prices and very high prices are not sustainable. During periods of low oil prices, capital tends to move out of energy to sectors offering higher returns. The result is under-investment in new capacity across the spectrum of the industry — including production, transportation, refining, distribution and marketing. At the same time, "low-priced" energy encourages greater consumption. By reducing investment and increasing demand, periods of low prices set the stage for an inevitable corrective rise in prices.

Conversely, we have also seen that when prices rise too high global economic growth suffers, and, ultimately, the oil industry suffers from the ensuing demand destruction. Clearly, we all have a stake in encouraging a stable price environment.

Spare capacity

The cycle of alternating low and high-price periods we have seen over the past 30 years has complicated the decision-making process of both consumers and producers, making it harder to plan and implement massive capital investments with long lead return times.

The vibrant global economy and increasing oil demand have diminished the world's spare production capacity that existed for decades and reached as high as 15m b/d. As a result, there is very little spare crude production capacity available outside Saudi Arabia to help in balancing the market.

We must enhance dialogue between producers and consumers and find acceptable ways to remove impediments to growth.

The biggest problem, I believe, is the downstream sector (refining and distribution) where we have seen a similar trend of diminishing spare capacity and flexibility. Refinery upgrading capacity worldwide has not kept pace with the growth in demand for high-quality, environmentally friendly transportation fuels. As a result, a mismatch currently exists between refinery upgrading capabilities and the basket of crudes produced. This mismatch is critical because it limits the industry's ability to fully utilize existing spare crude capacity, which is heavy and sour in nature.

The current price level is providing the returns needed to attract adequate investment and over the next several years significant new capacity will begin to come onstream. We believe spare crude oil production capacity will grow sufficiently in the next three to four years to restore some margin of security to world crude markets.

Bottlenecks

But higher prices alone are not sufficient to assure that the necessary investments will be made to upgrade and expand the entire petroleum supply system. For example, the bottlenecks facing the downstream are more problematic, and the issues of infrastructure locations and environmental impact will make it more difficult to overcome these bottlenecks in the system.

Investors in any industry — and the petroleum industry is no different — need stability and predictability. As we all know too well, price volatility is not conducive to either stability or predictability. Only speculators benefit from oil price volatility. We therefore need to address the ongoing price volatility that continues to impact oil markets and often delays investment decisions.

A factor clouding the oil market's future is government intervention via various regulations. The investment environment is further distorted by an unco-ordinated proliferation of regulations mandating refined product specifications. Multiple jurisdictions and inconsistent standards have fractionalized product markets, reducing flexibility in petroleum product trading and making it more difficult for the industry to ensure stable markets.

Certainty and predictability of oil's future are also undermined by a lack of reliable oil supply and demand data which adds further uncertainty to the oil markets. These factors all complicate investment decisions and restrict the oil industry's task of meeting future energy needs.

Track record

Now I want to address more directly Saudi Arabia's role in world oil markets as we look to the future. I am often asked: "How does Saudi Arabia intend to meet the challenges of the future?" My response is that we are holding fast to our core belief that both consumers and producers benefit from stable and reliable oil markets. But holding fast doesn't mean accepting the status quo. In fact, we believe that we must proactively confront the deliverability challenge to ensure the goal of stable and reliable markets.

Building on our long track record as the world's preeminent reliable supplier of energy, Saudi Arabia is at the forefront of efforts to expand capacity across the supply chain. These efforts include:

- meeting our customers current requirements by offering additional crude supplies as needed;
- expanding our production capacity from the current 11.0m b/d to 12.5m b/d by 2009 to meet future demand and maintain spare capacity of at least 1.5 to 2.0m b/d;
- expanding and upgrading our existing refineries both in the Kingdom and overseas;
- building new export refineries in Saudi Arabia and in key consuming countries which will be able to handle heavy crudes;
- adding additional tankers to our fleet;
- investing in new advanced technologies across the spectrum of our business;
- training and developing our workforce;
- expanding our research and development efforts; and
- working with the International Energy Forum (IEF) — an organization created to enhance dialogue between producers and consumers, and encourage greater oil market data transparency.

Spare capacity remains a cornerstone of world oil market stability — both for the upstream and downstream. With regard to the upstream, Saudi Arabia has long made it a policy to maintain significant spare capacity, in an effort to promote oil market stability. Our spare capacity has paid great dividends over the years by helping to minimize disruptions to the world economy. The Kingdom's ongoing policy is to maintain 1.5–2.0m b/d of spare capacity.

The upstream expansion projects now underway in Saudi Arabia represent a combined production capacity addition of around 3m b/d, part of which will be utilized to offset natural decline and the rest to expand capacity. By 2009, Saudi Arabia's maximum sustainable capacity will reach 12.5m b/d.


Aramco

Other projects have been identified and can be advanced, if necessary, to meet additional supply requirements. Saudi Arabia has prepared a production capacity scenario of 15m b/d, which can be implemented in response to growing market demand.

While Saudi Arabia is the world's largest oil producer and exporter, it cannot meet the "deliverability" challenges of tomorrow alone. All the countries and companies present today at the World Petroleum Congress have a critical role to play.

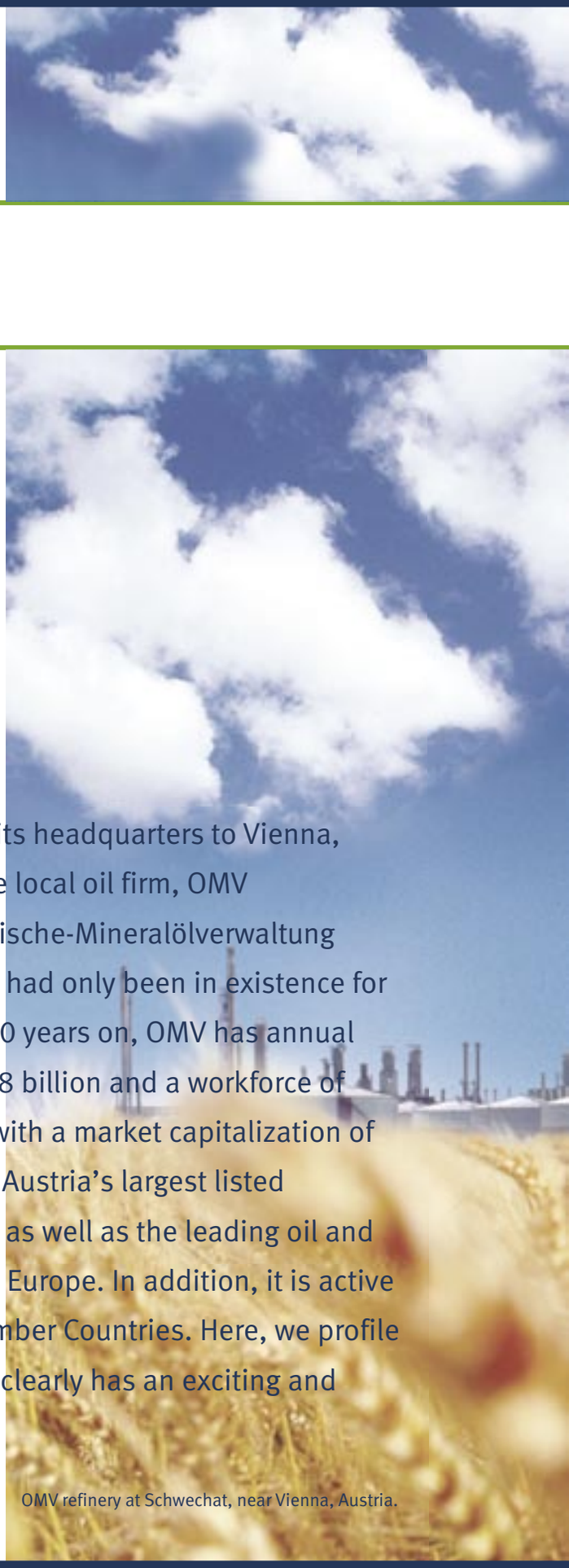
As I discussed, the challenges ahead are not related to a lack of resources, but rather to a variety of hurdles that often delay or defer the necessary investments needed to expand the global oil supply system on a timely basis. Saudi Arabia is working to help in facing these challenges, but I believe that there is more we can do internationally to find ways to remove the bottlenecks that constrain our ability to achieve greater market stability. We must enhance dialogue between producers and consumers and find acceptable ways to remove impediments to growth. After all, a growing global economy is going to demand significantly more petroleum products in the future. We must begin today to remove constraints and prepare the way for a better future.

With this in mind, I would like to propose that the international community, under the auspices of the IEF, undertake a study of the global oil supply system, identifying bottlenecks and propose possible solutions. This would result in specific recommendations for strategies to address the issues which constrain our ability to deliver petroleum at reasonable prices to the world.

In conclusion, the more we can do to understand and remove the factors which constrain the global oil supply system and lead to increased market volatility, the better positioned we will be to meet the future energy requirements of a dynamic and growing global economy. We all have a stake in ensuring that the continuity of petroleum product supply at a reasonable price will be available for future generations.

At home in Austria

When OPEC moved its headquarters to Vienna, Austria, in 1965, the local oil firm, OMV (formerly Osterreichische-Mineralölverwaltung Aktiengesellschaft), had only been in existence for seven years. Now, 40 years on, OMV has annual group sales of €9.88 billion and a workforce of almost 7,000. And with a market capitalization of around €14bn, it is Austria's largest listed industrial company, as well as the leading oil and gas group in Central Europe. In addition, it is active in several OPEC Member Countries. Here, we profile the company which clearly has an exciting and prosperous future.



OMV refinery at Schwechat, near Vienna, Austria.

Children's playground at an OMV petrol station.

OPEC and OMV do not only share the same city for their headquarters. Links between the two Organizations are strong, with the Austrian firm active in exploration and production (E&P) activities in several OPEC Member Countries. In fact, the company's first foray into international E&P was in Libya, in 1985. In 1994, it entered into a strategic partnership with the Abu Dhabi-based International Petroleum Investment Company (IPIC), which now owns 17.6 per cent of OMV.

As an integrated energy company, OMV has three main business segments: refining and marketing (R&M), including petrochemicals; gas; and, of course, E&P.

It is active in R&M in 13 countries and plans to increase its overall market share in these areas to 20 per cent by 2010. The R&M division also offers supply chain management, crude oil supply and trading and logistics, as well as operating Austria's sole oil refinery at Schwechat, just outside Vienna, which is an important supplier of the Austrian market.

OMV also has a refinery in Germany, at Burghausen, which processes 3.4 million tonnes per year of crude and produces ethylene and propylene, as well as extra-light heating oil, diesel, aviation fuel and coke for the aluminium industry. In addition, OMV owns a 45 per cent stake in Bayernoil-Verbund and has a 25.1 per cent shareholding in Romania's Rompetrol Group. Europe-wide, OMV's refinery capacity totals 26.4m t.

OMV is presently engaged in a €400m expansion project at Schwechat to increase ethylene and propylene production from 650,000 t/y to 900,000 t/y. This expansion is also being carried out via plastics producer Borealis, which is increasing its processing capacity at the site to around 1m t/y. The new facilities are expected to begin operation during the current quarter.

In June, OMV acquired a further ten per cent stake in Borealis, which was previously held by Norway's Statoil. At the same time, IPIC increased its stake in Borealis from 25 per cent to 65 per cent, meaning that the two companies now own 100 per cent between them. Borealis processes around 85 per cent of the petrochemical products produced by OMV, making it the largest customer of OMV's refineries in Schwechat and Burghausen.

"The company's first foray into international E&P was in Libya, in 1985."

In chemicals, OMV has a 50 per cent share in Agrolinz Melamine International GmbH (AMI). Based in Linz, Austria, AMI mainly produces melamine and plant nutrients.

Meanwhile, OMV Gas operates a 2,000 kilometre gas pipeline network in Austria, as well as three gas storage facilities. Gas is supplied not only to Austria, but also to Germany, Italy, France, Slovenia, Croatia and Hungary. OMV's pipeline network is also integrated into the gas supply systems of these countries.

April this year saw the company announce the biggest natural gas find in the Vienna Basin for more than 20 years. Potential reserves are estimated to be up to 4 billion cubic metres (25m barrels of oil equivalent). This corresponds to three times OMV's annual gas production in Austria, or about half of annual Austrian natural gas consumption.

The discovery was made during drilling of the Strasshof T4 exploration well, adjacent to the Matzen field, at depths of approximately 3,200 and 4,300 metres. Geological and technical studies are underway and further appraisal wells are scheduled for 2006 with production expected to begin in three years' time at around 500,000 cu m/d and 1,000,000 cu m/d over 20 years. In 2004, OMV's total oil and gas production in Austria was around 14m boe.

OMV says it wants to become one of the most influential gas suppliers in Central and Eastern Europe by 2010 and expand its sales and trading activities in Austria and neighbouring countries, as well as strengthen the Baumgarten hub.

This is part of its overall 'Growth Strategy 2010', which aims to strengthen its number one position in the oil and gas business in Central and Eastern Europe, while maintaining the return on capital employed at 13 per cent.

In R&M, OMV wants to increase its market share in the Danube-Adriatic region from the present 18 per cent to 20 per cent, while in E&P it seeks to boost oil and gas production levels from the current 340,000 boe/d to over 500,000 boe/d by 2010.

OMV and OPEC

OMV initially began its operations in Austria as an E&P company, where its activities are concentrated in the Vienna Basin, one of Central Europe's most prolific oil and gas provinces and the location of the recent gas find. In 2004, the firm's total oil and gas reserves in Austria

stood at 149m boe — 89m boe of gas and 60m boe of proven crude reserves.

It plans to maintain annual Austrian oil and gas production of around 14m boe in the coming years.

But it took until 1985 for OMV's international E&P activities to begin. That was when the company started work in Libya.

Today, it operates in 18 countries on five continents in the following regions: Danube-Adriatic; North Sea; North

"OMV is presently engaged in a €400m expansion project to increase ethylene and propylene production."

Africa; Middle East; Australia and New Zealand. The backbone of its production is Austria and Romania, while the rest comes from Libya, the UK, Pakistan, Australia and New Zealand.

In 2004, OMV acquired the Romanian national oil company Petrom and with it a significant portfolio of oil and gas reserves, boosting total company reserves significantly to 1.4 bn boe. OMV's total production volume

“Today, OMV operates in 18 countries on five continents.”

is around 340,000 boe/d, of which 64 per cent is oil and 36 per cent natural gas.

OMV is currently active in three OPEC Member Countries — Libya, Iran and Qatar — and has strong links with a fourth — the United Arab Emirates (UAE).

Libya is part of OMV’s North African core region. It entered the country by signing an agreement with the Libyan National Oil Corporation (NOC), Repsol of Spain, and France’s Total to develop the giant El Shararah field. OMV’s equity production is 27,000 boe/d, accounting for an important part of OMV’s total production. It is also interested in producing natural gas in Libya and would like to acquire licences for gas properties. It plans to invest in some 30 exploration projects over the next four years.

OMV’s activities in Iran began with the signing of an exploration contract with the National Iranian Oil Company (NIOC) in May 2001 for the 2,500 sq km onshore Mehr field in south-western Iran, in the Zagros thrust zone, where some of the world’s largest oil fields are located. Under the terms of a four-year contract, over 1,000 km of 2-D seismic were acquired by January 2003 and the geological and geophysical analysis was finalized by the end of that year. A first exploration well, Band-E-Karkheh-2, spudded in 2004 and drilled to a depth of 41,148 m, resulted in an oil discovery announced in January 2005. Testing of the reservoir has yielded an average flow of 1,040 b/d of 22° API oil. This year, two more exploration wells are being drilled on the same block, in order to define the size of the field. OMV, with a 34 per cent stake in the block, acts as operator with Repsol-YPF and Sipetrol, both of which hold 33 per cent shares.

The UAE-based IPIC group is a shareholder in OMV

"OMV is expecting another strong financial performance in 2005, anticipating record results."

and the two companies have a strong strategic alliance, including their joint ownership of the Borealis group. Borealis also operates a joint venture with the Abu Dhabi National Oil Company (ADNOC), namely the Borouge plastics production site in Abu Dhabi. This is viewed as strategically important with respect to future demand growth from China and elsewhere in Asia.

Borouge produces around 600,000 t/y of ethylene and 600,000 t/y of polyethylene.

Financial performance

OMV is expecting another strong financial performance in 2005, anticipating record results. In 2004, earnings before interest and tax (EBIT) rose by 44 per cent to €926m, net income increased by 63 per cent to €642m, while earnings per share were up 63 per cent at €23.76. First-half 2005 results look even more promising, with an EBIT of €937m and net income of €693m.

All photos in this feature: OMV.

Nigeria – Paris Club seal deal on debt cancellation

The Paris Club deal has been described as offering a "win-win" situation for the government of Nigerian President, Olusegun Obasanjo (pictured).

Nigeria has made a remarkable breakthrough in its debt negotiations. Under a landmark agreement reached with the Paris Club recently, some $18 billion of its total debt of $30bn to the Club's creditors will be cancelled.

Here, in the lead up to this historic agreement, which Nigerian Finance Minister, Ngozi Okonjo-Iweala, has described as "momentous", the *OPEC Bulletin* speaks to the Director-General of the country's Debt Management Office, Dr Mansur Mukhtar, who was attending a seminar in Vienna, organized by the Nigerian Embassy and the Nigerians in Diaspora Organization in Austria.

The untiring efforts

by Nigeria to reduce its debt overhang with the Paris Club have paid off after all, following the decision by the Club, the group to which Nigeria owes over 80 per cent of its debt, to cancel part of the debts. The Club has said it will reduce two-thirds of the country's total debt, following a series of negotiations with the Nigerian government. Dr Mansur Mukhtar, Director-General of the Nigerian Debt Management Office, which is run by the Nigerian Federal Ministry of Finance, said his country's efforts at securing the debt relief had been very encouraging. However, he warned of a daunting challenge ahead, in ensuring that a more sustainable fiscal monitoring system of checks was in place to serve against future abuses. The DMO Director-General was in Vienna to attend a seminar on *Economic and Investment Opportunities in Nigeria*.

Relating the impact of Nigeria's huge debt obligations on investment in the country, Mukhtar told the gathering of Austrian and Nigerian intellectuals and businessmen that the country's debt profile had clouded investors' perception of the country's investment environment and its potential, which had subsequently caused considerable capital flight out of the country.

He said that because of the non-availability of export credit cover, the cost of doing business in Nigeria was unduly high, as most transactions required upfront payments before they were entered into. This development, he stressed, had made the cost of doing business in Nigeria comparatively high. The government of President Olusegun Obasanjo committed itself to addressing the country's debt issue by seeking global debt relief, a move that eventually paid off.

Director-General of the Nigerian Debt Management Office, Dr Mansur Mukhtar.

The case for debt cancellation

The DMO chief executive officer said that in building the case for Nigeria's debt relief, a number of considerations were brought to the fore. This approach, he explained, was based on strong moral, economic, political and geo-strategic arguments put forward before the creditors.

On the strength of geopolitics for instance, Nigeria's position in Africa, as a regional power, with the potential to spur the region's economic growth, was highlighted, as well as its large population and driving workforce. Mukhtar said that, in addition to this, there was the moral argument standpoint, which compelled creditors to demonstrate their commitment to helping meet the Millennium Development Goals, which were aimed at eradicating global poverty by 2015. It also argued that given the fact that Nigeria was a populous and potentially rich nation, its socio-economic indicators were worse than those of the Heavily Indebted Poor Countries (HIPC), which were being considered for debt cancellation. The point was also stressed that most of the debts in Nigeria were as a result of irresponsible lending and the fact that the country today lacked a voice and a say in the way and manner such penalties and arrears had been accumulated over the years. Much of Nigeria's current debt was servicing interest and penalty charges. The country had long paid up its debt, Mukhtar remarked.


AP Photo

Nigerian Finance Minister, Ngozi Okonjo-Iweala, who has described the historic agreement with the Paris Club as being "momentous" for her country, said Nigeria will use the $18 billion it secured to develop the nation's non-oil economy.

Quoted by the *Observer newspaper,* she said she wanted to attract foreign investors to Nigeria and create a more diversified economy.

"We are trying to develop a non-oil economy, to take the focus away from oil," the Minister, *pictured,* stressed.

She explained that, in the past, Nigeria's fortunes had been closely tied to the price of oil, but expanding into other sectors could help to generate more stable economic growth.

"The private sector says the biggest obstacle to investment is no longer bribery and corruption, but infrastructure,' she said.

Okonjo-Iweala said around $1bn a year in the debt repayments Nigeria would save would be spent on extending power, water and roads to rural areas.

"The issue of the debt has bedevilled us for too long," she pointed out. "Now Nigerians can say 'we know what we did with the oil money we earned'."

Nigeria — the road to debt relief

Phase 1	Phase 2	Phase 3
imminent	around May 2006	after May 2006
Write-off of 67 per cent of debt stock after payment of arrears Estimated to cost about $6 billion Reduces outstanding debt stock to about $8bn	'Buy-back' of pre-payment of outstanding debt stock at market-related discount Government-to-government, fixed, disclosed rate Estimated to cost about $6bn	Elimination of Paris Club debts Total and permanent exit from debt trap Escape from endless spiral of indebtedness

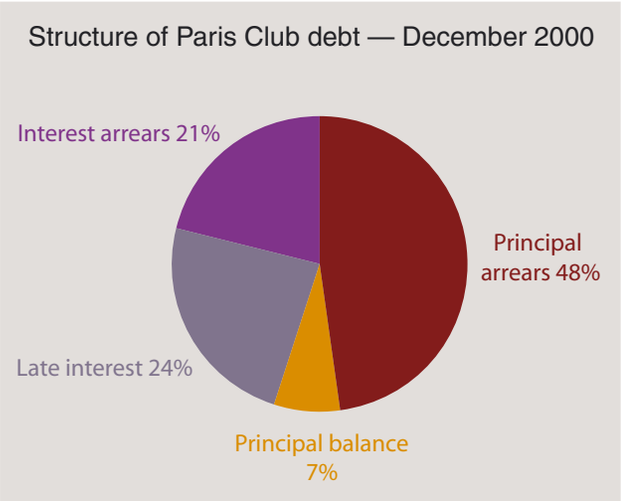
Devastating impact of arrears, interest and penalties ...

> huge arrears, penalties and interest accumulated over the years between 1985–1998

> payments to creditors unilaterally curtailed

> in December 2000 rescheduling agreement, debt profile is:
principal arrears = $10.31bn
interest arrears = $4.45bn
late interest = $5.18bn

> debt stock affected recently by dollar depreciation — over $6bn increase recorded between 2003–2004



Debt exit to be in phases

The DMO Director-General explained the exit strategy options for Nigeria, which was planned in phases as of September 2005 to May 2006, and which were based on the understanding reached between the government of Nigeria and the Paris Club. The initial announcement: "Paris Club creditors agree in principle on a comprehensive debt treatment for Nigeria" was made in a press release following an extraordinary meeting of the Paris Club on June 29, 2005. The phase-by-phase exit is graphically presented in the chart opposite.

In conclusion, Mukhtar said the uniqueness of the deal was that it offered Nigeria a permanent exit option from the Paris Club and would end the cycle of debt rescheduling. With this move, Nigeria would no longer be classified as a "bad and doubtful debt country", he stated. The Nigerian debt cancellation initiative was conceived as a home-grown approach to addressing the country's debt problem. It is reputed to be the first ever Paris Club debt buy-back scheme at a discount and one that is not based on a formal IMF programme. It is anticipated that with the deal in place, investors' negative perceptions of the country will change and by having investors investing in the country, the economy will expand and stimulate growth and employment. There would also be the restoration of export credit guarantees and the enhancement of private-sector competitiveness to help rejuvenate the economy.

The Nigerian government, according to the DMO Director-General, planned to use the savings from the debt relief to benefit Nigerians in the areas of social and economic development, such as agriculture, health, education, water supply, power and security. He noted that part of the challenge ahead was how to establish stringent control over borrowing and ensuring efficient utilization of borrowed funds, in addition to the successful passage of enabling bills and laws to strengthen measures for public sector borrowing.

Large debt profile

Nigeria's large debt profile is the result of several combinations of factors. These comprise poor lending and inefficient loan utilization, accumulated arrears and penalties, inefficient trade and exchange rate policies, coupled with poor debt management practices, which have been accentuated by adverse interest rates, as well as exchange rate movements.

On the role of the Nigerian Debt Management Office, Mukhtur said that with the beginning of the debt cancellation initiative started by the government, President Obasanjo appreciated the fact that "we did not even have a clear sense of the amount of debt that Nigeria owed and no coherent and well-articulated strategy for dealing with the issue."

This led to the establishment of the Office, he explained. The role of the DMO is to ensure that it creates and maintains a reliable and accurate database, one that will ensure prompt and timely servicing of the country's debts. Mukhtar said Nigeria's future strategy would be to "ensure that the resources that have been freed up from this debt relief were appropriately channeled to lead to the improvement in the lives of the people, and assist in rebuilding infrastructure and the economy."

G8 approves debt cancellation for poor nations

Reuters

> “The path to complete debt relief now has been cleared across Africa and around the world, 38 countries will no longer have to choose between spending to benefit their people and impossible debts.”

The Group of Eight (G8) industrialized nations has agreed to cancel 100 per cent of the debt owed to it by some of the world’s poorest countries. In a statement issued at the end of the a meeting of the World Bank Development Committee and the International Monetary Fund in Washington DC, World Bank President Paul Wolfowitz *(pictured left)* said the Bank had made significant progress in fulfilling its obligations to the world’s poorest people.

He said the high point of the meeting was the historic endorsement of the G8 proposal to cancel the debts of some of the world’s poorest countries. “The path to complete debt relief now has been cleared. Across Africa and around the world, 38 countries will no longer have to choose between spending to benefit their people and impossible debts, often the legacy of past governments,” Wolfowitz stated.

The Development Committee also supported the World Bank’s new African Action Plan, put in place by the Bank to increase financing for infrastructure as part of its growth development agenda for developing countries. “Taken together, the G8 commitment and the Africa Action Plan represent the largest ever increase in development assistance in the past 50 years,” Wolfowitz said. He said improving assistance to Africa was crucial. However, he also said that this implied more commitment to good governance, accountability and respect for the rule of law and good performances by the countries that had benefited from the Bank’s assistance over the years.

He said economic performance in many African countries had been improving, creating better employment opportunities and increasing the standard of living. Macro-economic reforms had been undertaken, resulting in a seven per cent growth rate across Africa. But Wolfowitz stated that, despite this, no African country was in line to meet the development goal objectives for the eradication of poverty by 2015. He said that as UK Prime Minister Tony Blair had said: “It is a deal for a deal.”

The World Bank President noted that the improved performance of many African countries had given him hope that this was a moment of real opportunity. Wolfowitz said, however, that the most significant achievement for securing the debt cancellation for poor countries would come about if a comprehensive trade agreement is achieved at the Doha Round of the World Trade Organization’s negotiations in December 2005. The success of the WTO talks is seen as giving a boost to developing countries, many of which are indebted, in their efforts to compete fairly and objectively in the global market.

Better aid for fairer trade:

the case for special and differential treatment

The following is a statement by the Director-General of the OPEC Fund for International Development, Suleiman J Al-Herbish, which was distributed at the 72nd Meeting of the Development Committee, Washington DC, on September 25, 2005.

The second topic for consideration by this 72nd meeting of the Development Committee – the Doha Development Agenda (DDA) and Aid for Trade – highlights the urgency for the global community to accelerate implementation of the DDA in the run up to the Sixth Ministerial Conference of the World Trade Organization (WTO) in Hong Kong, on December 13-18, 2005.

Policy-makers seem to agree that trade can be a forceful engine for growth, poverty reduction and achievement of the United Nations Millennium Development Goals (MDGs). The benefits of free trade were cheered on the occasion of the 50th anniversary celebrations of the multilateral trading system, held in Geneva, Switzerland, in May 1998. Leaders from the North argued that trade liberalization can spur growth and employment creation, raise living standards and contribute to world peace and stability in countries worldwide.

However, both state and market are imperfect institutions. Amidst unprecedented global prosperity, the least developed countries (LDCs) have been increasingly marginalized from the mainstream of the world economy and the gap between rich and poor has continued to widen. The 50 LDCs, 34 of which are in Sub-Saharan Africa (SSA), are more vulnerable today then ever. Despite ongoing efforts, African LDCs will fall short of all MDGs if current trends continue. These countries typically rely on a narrow range of low value-added and weakly competitive non-fuel primary commodities for an average of three-fourths of their export revenues, and have remained

heavily indebted and aid dependent. Market-based solutions have aggravated these structural vulnerabilities. African LDCs need a fair chance to trade themselves out of poverty, debt and hunger. Without structural solutions, however, intermittent food aid, or more debt forgiveness will not be able to put these poor countries on a path of sustainable growth, and their future will be gloomy indeed. African economies still lack appropriate 'shock-absorbers' to withstand internal challenges — such as the devastating impact of HIV/AIDS on their economies — and to reduce their vulnerability to changes in the external environment.

Erasing barriers

Measures to protect the economies of these poor countries against low and volatile commodity prices have been gradually eroded with the dismantling of the commodity agreements and non-reciprocal trade preferences of the 1970s, 1980s and 1990s, made possible under special waiver from the Most Favoured Nation (MFN) principle. The volatility in the prices for non-fuel primary commodities emanating from these fundamental mutations are compounded by adverse weather conditions, structural oversupply and speculation in commodity futures markets. The information technology (IT) revolution is radically altering how price information is delivered, erasing the barriers between the futures market and over-the-counter world commodity markets.

More advanced developing countries, such as India, are developing their own futures markets to arm themselves against the instability of today's commodity markets. African LDCs have been unable to join the IT revolution in a rapidly widening digital divide, and do not have any defence against such uncertainties. Non-fuel primary commodity prices have suffered a marked long-term decline since the 1980s — the upturn since 2002 notwithstanding — and remain highly volatile. Excessive price instability complicates export revenue forecasting and makes it extremely difficult for policy-makers to plan current expenditures that could help reach the poverty reduction and related MDGs.

An important objective of the WTO is to ensure that developing countries and the LDCs in particular secure a share in the growth of international trade, commensurate with the needs of their economic development. One recalls a specific provision in the mandate of the WTO as outlined in the 1996 WTO Inaugural Declaration: "The integration of the developing countries into the multilateral trading system is important for their economic development and for global trade expansion. In this connection, we note that the WTO agreement embodies conditions

"The integration of the developing countries into the multilateral trading system is important for their economic development and for global trade expansion."

Fairtrade Foundation

"Protectionist measures and subsidies provided by the North cost the South an estimated $72bn in lost revenues a year."

conferring differential and more favourable treatment for developing countries, including special attention to the particular situation of the least developed countries."

Many developing countries had felt sidelined during the Uruguay Round (1986–1994) of trade negotiations and at the Third WTO Ministerial Conference, held in Seattle, USA, in November 1999, which ended in failure. Encouraging progress has been made within the WTO in the past ten years to enhance transparency and participation by the developing countries in its internal decision-making processes and procedures. However, the WTO can only act as a broker among its 148 member states, 32 of which are LDCs, highlighting the need for ongoing institutional reform. At the fifth WTO Ministerial Conference, in Cancun, Mexico, in 2003, multilateral trade negotiations again broke down due to a lack of commitment by the North to enhance market access and implement the DDA, particularly in 'sensitive' areas such as agriculture, which remains the mainstay of most LDC economies, employing 75per cent of the labour force.

Lost revenues

Protectionist measures and subsidies provided by the North, totalling over $1 billion a day in 2004, cost the South an estimated $72bn in lost revenues a year by encouraging overproduction, depressing global prices, and hindering market access. Meanwhile, the percent-

age of official development assistance (ODA) allocated to agriculture dropped from 20 per cent in the 1980s to 12 per cent today, or $1bn a year. In 2001, the overall share of world exports of goods and services supplied by LDCs that export predominantly agricultural commodities stood at only 56 per cent of its level in 1980. Although the WTO July 2004 package revived hopes by setting out a framework for agricultural negotiations on the future elimination of export subsidies for agriculture, progress in this area remained slow. Delays in the agricultural talks in turn hold up progress in goods and services liberalization. Without a significant breakthrough on agriculture and a clear commitment by the North to cut agricultural tariffs, large emerging markets are unlikely to agree on the liberalization of their goods and services markets. It is hoped that the March 2005 ruling of the WTO's Appellate Body condemning the heavy US subsidy programmes for its cotton farmers can serve as a precedent for the undoubtedly arduous agriculture negotiations to come.


Fairtrade Foundation

Growing vulnerability

In addition to eroding preferences and inadequate market access, the trade position of African LDCs is seriously undermined by mounting external competition, as a result of ongoing deep structural transformations under the rules-based multilateral trading system. These may be illustrated by the impact of the dismantling of textile quotas under the WTO Agreement on Textiles and Clothing as per January 1, 2005 on the economies of African LDCs. The dismantling of quantitative restrictions intensifies competition for African LDCs from producers in Asia and Latin America, and the industry will have to struggle to survive. Small developing countries and LDCs are increasingly vocal about their growing vulnerability and are demanding access to developed country markets on a preferential basis in the context of the DDA.

The main principle behind the MFN is that of fairness and justice. The first major challenge for policy-makers in developed countries is to provide special and preferential treatment as an integral part of all elements of the forthcoming multilateral trade negotiations, as envisaged in the DDA. An encouraging step in the right direction was taken by the EU in March 2001 with the Everything but Arms Initiative, which provides duty- and quota-free access to EU markets on a non-reciprocal basis for essentially all LDC products — with the exception of arms and ammunition. More specifically, trade ministers from the North are encouraged to consider reviewing all special and differential treatment provisions for LDCs under the Framework Agreement on Special and Differential Treatment (WT/GC/W/442) proposed in Article 44 of the DDA at the forthcoming WTO Ministerial Conference, and to incorporate such provisions in their Ministerial Declaration or Decision, which would establish a legal basis for such treatment.

At the national level, African LDCs face serious trade capacity constraints, including acute infrastructure needs. Addressing these needs and constraints requires more and more effective aid that could help raise the national competitiveness of these countries and strengthen their supply capacity. The second major challenge for the international community therefore is to help mobilize financing for development, in line with the Monterrey Consensus and the Brussels Programme of Action for the LDCs. Donors are also encouraged to untie aid for LDCs, in line with the Recommendation to Untie Aid to the LDCs made by the Development Assistance Committee of the Organization for Economic Co-operation and Development in April 2001.

Aid volumes

Despite the upward trend in ODA since 2001 and some encouraging initiatives taken in advance of the UN High Level Summit, in New York, in September 2005, current aid volumes remain well short of the $100bn that is needed every year to meet the MDGs by 2015. There remains a

"African LDCs face serious trade capacity constraints, including acute infrastructure needs."

shortfall of some $46bn, a deficit which has been estimated to rise to $52bn by 2010. The shortage is especially large for SSA, where aid flows would need to double over the next five years for the MDGs to be achieved.

The OPEC Fund for International Development aims at helping bridge this financing gap by making available concessional loans and grants to particularly the poorer, low-income countries. The Fund was established in 1976 by the then 13 Member Countries of the Organization of the Petroleum Exporting Countries (OPEC) in the firm belief that it is our social responsibility to help unlock the poverty trap through mechanisms for voluntary distribution. Our mandate is to reinforce financial co-operation between Fund member states and other developing countries and to promote South-South solidarity. In carrying out its noble mandate, the Fund actively participates in ongoing international efforts to enhance the quality and effectiveness of aid through harmonization and alignment, in line with the objectives of the March 2005 Paris Meeting on Joint Progress toward Enhanced Aid Effectiveness.

"The OPEC Fund remains committed to fostering trade and economic co-operation among developing countries."

OPEC Fund assistance

Since its inception to date, the Fund has made available a cumulative total of $7.7bn in untied development assistance. Activities have included infrastructure development and technical assistance for trade-related human and institutional capacity-building. Among the numerous activities sponsored have been projects to encourage technical co-operation and technology transfer in such areas as agricultural development, food production, and food security, to enlarge the pool of scientifically qualified personnel and to foster co-operation and networking among reputable research institutes and Centres of Excellence in the South. Recognizing the importance of the private sector in helping raise national competitiveness and standards of living, the Fund established a separate Private Sector Facility (PSF) in 1998. The Facility aims at encouraging productive private enterprises and the development of local capital markets by providing lines of credit, direct loans, equity and quasi-equity, and leasing. The Fund further established special accounts to help mitigate the impact of HIV/AIDS and a series of food crises in the countries worst affected. Finally, the Fund continues to contribute its fair share to the Heavily Indebted Poor Countries (HIPC) Initiative, which aims at reducing the external debt and debt service burdens of eligible poor countries to sustainable levels.

The Fund was established by its founding fathers to provide development financing, in addition to the resources already made available by OPEC Member States through other multilateral and bilateral channels. By the end of 2003, Arab development institutions together had made available $81.3bn in development assistance. This amount includes the trade financing provided by particularly the Islamic Development Bank (IsDB) and the Arab Fund, which are most active in directly facilitating the flows of exports and imports. With South-South trade growing at a brisk pace of ten per cent annually, twice as fast as global trade expansion, demand for such financing is likely to increase. The OPEC Fund remains committed to fostering trade and economic co-operation among developing countries by working in partnership and joint action with its sister and like-minded institutions, and all other relevant stakeholders. The Fund has been a staunch supporter of the International Fund for Agricultural Development (IFAD) since the latter's inception, with Fund co-financing with IFAD ranking third only after the World Bank and the Arab Fund. In addition, the Fund has helped safeguard the economies of LDCs against the impact of exogenous price shocks by providing substantial grant financing for subscriptions to the Common Fund for Commodities (CFC).This longstanding partnership was moved to new horizons in late 2004, when the modalities for disbursement of the unutilized $46.4 million pledged by the Fund to the CFC's Second Account were re-defined.

Stronger leadership

It is hoped that more and better aid and SDT provisions for LDCs in the context of the forthcoming WTO Ministerial Conference can help these countries gradually climb the development ladder and realize the MDGs by allowing them to become more active players in the global trade arena. This will require renewed dedication and stronger political leadership by all WTO members to implement both the DDA and the Monterrey Consensus. Much is at stake. With some 824 million undernourished around the world and less than three months to go before the start of WTO negotiations in Hong Kong, time is of the essence. Successful negotiations that accommodate the needs of the LDCs and more and more effective ODA could foster economic prosperity, peace and stability in both the North and South. Another failure, by contrast, would constitute another opportunity lost to give international trade a human face, with disappointing effects for particularly the poorest of the world's poor.

OPEC Fund extends grant of $1 million for earthquake victims in South Asia

Following the devastation caused by the earthquake that hit several communities in South Asia on October 8, the OPEC Fund for International Development has approved a grant worth $1 million to provide urgent relief supplies for the victims, a statement by the Fund said.

The quake, measuring 7.6 on the Richter Scale, has claimed more than 50,000 lives and injured over 80,000 people mostly in Pakistan, but also in India and Afghanistan.

The earthquake's epicenter was located 95 kilometres north-east of the Pakistani capital, Islamabad.

Areas primarily affected are the north-west Frontier Province and Pakistan-administered Kashmir. Pakistani President, General Pervez Musharraf, has been appealing to the international donor community for all forms of emergency assistance to help cope with the disaster. International relief agencies have established a working relationship with the government and the Pakistani army to the help alleviate the situation.

The OPEC Fund said its contribution would be channeled through the International Federation of the Red Cross and Red Crescent Societies (IFRC).

The Fund's contribution to the aid effort will be distributed as follows: $600,000 to Pakistan; $200,000 to India; and $200,000 to Afghanistan.


Reuters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Humanitarian aid being delivered to the earthquake-affected areas of Pakistan, India and Afghanistan.

In several areas aid can only be delivered by air-drop, helicopter, boat or by foot.

Children, AIDS and the Millennium Development Goals

by Audrey Haylins

UNICEF's Executive Director, Ann Veneman, outlines the challenges facing the institution in this interview with Audrey Haylins, Information Officer at the OPEC Fund for International Development in Vienna.

As the first five-year review of progress toward the Millennium Development Goals (MDGs) approaches, concern is growing as to how achievable the targets actually are, especially for those countries in Sub-Saharan Africa where development efforts continue to be thwarted by the obdurate spread of HIV and AIDS.

A huge question mark hangs over the future of Africa's children, whose young lives are blighted not just by poverty, but by bereavement and the stigma of disease. Millions face the prospect of growing up without parents and the security of family life. While some AIDS orphans are fortunate enough to be taken in by relatives, many more are left to fend for themselves, the victims of inadequate social safety nets.

The link between the MDGs and AIDS, and the resulting implications for Africa's youngest generation, were highlighted recently by UNICEF Executive Director, Ann Veneman, during a visit to the OPEC Fund. Ms Veneman was at the Fund to sign an agreement between the two institutions for a major joint initiative against HIV/AIDS.

"The MDGs are all about children," she said. "Whether we're talking about universal primary education, gender equality and clean water and sanitation, or about reducing hunger and poverty and improving maternal health and child survival, these are all things that are critical to the future of our children."

Goal of combating disease

Ms Veneman identified the goal of combating disease, especially HIV/AIDS and malaria, as a key issue. HIV/AIDS, she stressed, was particularly devastating, with a unique impact on children. Its relentless spread, she said, was a serious impediment toward achieving the MDGs.

"The prevalence rate of HIV is so high in some African countries that a whole generation is being wiped out. Life expectancy in some parts of the continent has plummeted from the mid-60s to the low-30s. Most AIDS victims are in their prime productive years. So, workforces are being depleted, and children are losing not only their parents, but also their teachers and many of the other people that they — and indeed society in general — depend on for survival.

"The statistics are shocking — 15 million youngsters have lost one or both parents to this disease," Ms Veneman pointed out. "The international community has a responsibility to take charge of the situation and help as many children as it can."

Ms Veneman revealed that UNICEF would soon be announcing the launch of a multi-partner global initiative to address the issue of children and HIV/AIDS.

"We only have until 2015 to complete the MDGs. So, UNICEF has made it a priority to focus on how it can best utilize its programs to ensure that countries reach the

Community care centres, like this one in Swaziland, provide psychosocial support, pre-school education, basic skills-training and meals for vulnerable children affected by HIV/AIDS.

Millions of African children have lost not only their parents to AIDS but also their teachers and many of the other people they depend on for survival.

targets," she stated. "The planned global initiative will set a direction for all those who want to contribute to the cause of helping children who are impacted by HIV and AIDS."

The initiative, Ms Veneman explained, would be led by UNICEF and incorporate a variety of activities to curb the spread of HIV and provide care and protection to orphans and vulnerable mothers and children.

"We feel it's particularly important to prevent mother to child transmission. We know that if we can convince pregnant women to get tested, we can give antibiotics to the baby and avoid thousands of inevitable paediatric AIDS cases."

Integrated approach

Ms Veneman emphasized the benefits of an integrated approach. "Tackling HIV and AIDS can have a ripple effect. Getting orphans into day care centres, for instance, is not just about offering protection. It's about providing food and education as well. So, while focusing on HIV/AIDS, we can address the MDGs of hunger and education at the same time.

"Likewise, if you're testing for mother to child transmission, mothers will learn how important it is to continue that course of infant care that they started during pregnancy, and children will, hopefully, get the ongoing primary healthcare that they need."

According to Ms Veneman, partnerships are critical in the battle against HIV and AIDS. "I believe very strongly in the importance of collaboration in the field so that we can allocate and make the best use of resources. The problems are so many and so varied that we need to address them in a systematic, co-ordinated fashion, and this means working with all partners, be they donor governments, NGOs, other UN agencies or, of course, host governments.

Ms Veneman was particularly appreciative of the recently concluded partnership with the Fund, which she said "embraces many of the ideals and objectives of the global initiative being advanced by UNICEF."

Each agency is contributing $4 million to co-finance the OPEC Fund/UNICEF Mother/Child Global Project to Fight HIV/AIDS. The project will cover a total of 17 countries, 11 of them in Africa, four in the Caribbean and two in Asia.

"The circumstances vary from country to country, so we will have to tailor activities according to the needs," explained Ms Veneman. "Having said that, though, there are many similarities in terms of reaching out to pregnant mothers and trying to get them tested and into an integrated programme for the child once it's born."

As well as preventing mother to child transmission, the joint project aims to provide care, protection and support for orphans and vulnerable children, together with HIV prevention and life skills development for street children. Much of the effort will focus on capacity building and the development of national strategies and action plans so that countries are able to deal effectively with the management of HIV/AIDS programmes.

The project is the ninth major initiative to be financed from the Fund's HIV/AIDS Special Grant Account, which was launched in 2001 with an initial endowment of $15m. Subsequent replenishments have boosted the account to $50m. The Fund is currently working with a number of lead agencies, including UNAIDS, UNESCO, UNFPA, ILO, WHO and IFRC, to implement AIDS projects in all developing regions of the world.

September/October

This section includes the OPEC Monthly Oil Market Reports (MOMR) for September and October published by the Research Division of the Secretariat, containing up-to-date analysis, additional information, graphs and tables.

The publication may be downloaded in PDF format from our Web site (www.opec.org), provided OPEC is credited as the source for any usage.

Crude oil price movements

September

OPEC Reference Basket[1]

The month of August started on a bullish tone in the geopolitical arena in the Middle East, due to the passing away of King Fahd of Saudi Arabia, tensions concerning Iran's nuclear programme, as well as refinery snags in the USA. A revised forecast for this year's hurricane season in the Gulf of Mexico furthered concern over tight gasoline supply. The first weekly average price for the OPEC Reference Basket stood $2.48/b, or nearly five per cent, higher at $54.99/b. Moreover, tight supply of light sweet grades in the North Sea, due to the prolonged repair at BP's Schiehallion North Sea oil field, amid a fall in planned September Brent and Statfjord loadings, sparked buyers to snap up some remaining August BFO (Brent/Forties/Oseberg) cargoes. This was furthered by market concern over a string of outages at seven refineries beginning in the last week of July and running to mid-August with a processing capacity of 1.7m b/d, which kept oil prices on the rise. Hence, the Basket's second weekly average price rallied $1.79/b, or 3.3 per cent, to close at $56.78/b. Continued concern over sustained refining capacity, which was exacerbated by the outage of a fluid catalytic cracking unit at ExxonMobil's 363,000 b/d Beaumont, Texas, refinery, kept the bulls intact. However, concern over high product prices, which were perceived as denting demand amid the widened light/heavy crude spread, prevented prices from escalating further as the Basket in the last two days of the third weekly period plunged by $2.38/b. Thus, the Basket gained 1.48¢, or 2.6 per cent, to close at $58.26/b in the third week (see **Table A**).

The volatility was resumed in the fourth week on concern over tight supply amid a halt of production from Ecuador of some 200,000 b/d that heightened market bullishness, which was strengthened by healthy refining margins in Europe. Moreover, prolonged fears over a storm in the US Gulf of Mexico only kept prices on the rise. However, indisposed prompt cargoes in the Mediterranean balanced the bulls. The Basket inched up 23¢ to settle at $58.49/b in the fourth week. The bulls strengthened further on an early precautionary evacuation of oil operators from non-essential rig platforms in the Gulf of Mexico, due to the impending storm and improved sour margins in the Mediterranean. In the final weekly period, the market eased in the east as most October spot procurements were fulfilled, which helped to moderate prices, while demand for light sweet grades inspired buying interest in the west. The disastrous impact of Hurricane Katrina not only tragically devastated New Orleans, but also damaged the oil infrastructure in the Gulf of Mexico as well as the US Gulf Coast. As a result, the Basket rose to well over the $61/b level and registered a record-high weekly average of $60.58/b for a gain of $2.09/b, or 3.5 per cent. Nevertheless, in the wake of Hurricane Katrina, the oil market saw concerted efforts by producers and consumers to calm a jittery market as early assessments showed massive outages in both upstream and downstream production. Hence, the US Department of Energy (DoE), the Energy Information Administration (EIA) and OPEC together worked out a strategy to put more crude and product supplies in the market. The Basket eased in the first week of September to $58.98/b. This downward trend continued during the second week of September when the Basket declined to $55.82/b on September 13, the lowest level since August 8, 2005.

On a monthly basis, the Basket remained bullish. Continued concern over refinery out-

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

ages in the USA, amid a spate of hurricane threats, pushed prices to record-highs. August's monthly average closed at $57.82/b for a gain of $4.69/b, or almost nine per cent. During August, an accumulated outage of nearly 2m b/d of refining capacity revived fears of a shortfall of refined product supply ahead of the end of the driving season. The strike in Ecuador added to the pressure in the marketplace. By the end of the month, while the market was digesting the all-time record oil prices, Hurricane Katrina topped it all by disrupting a significant volume of refining capacity and upstream production in the Gulf of Mexico. Nevertheless, co-operation between producers and consumers helped the market to ease along with the IEA's announcement of the release of crude and refined products from the SPR.

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

	Aug 05	Sep 05	2004	2005
OPEC Reference Basket	**57.82**	**57.88**	**34.75**	**49.94**
Arab Light[1]	58.24	57.63	33.93	49.31
Basrah Light	57.10	55.68	33.58	47.97
BCF-17	46.15	50.79	na	39.27
Bonny Light[1]	65.49	65.60	36.31	54.73
Es Sider	60.27	60.39	34.98	51.28
Iran Heavy	55.69	55.10	32.13	47.14
Kuwait Export	55.18	54.60	33.28	48.05
Marine	57.49	58.37	33.17	49.16
Minas[1]	61.07	60.27	35.69	53.50
Murban	61.78	62.68	35.43	52.95
Saharan Blend[1]	63.67	63.30	36.38	53.64
Other crudes				
Dubai[1]	56.55	56.41	33.04	48.18
Isthmus[1]	59.66	59.92	35.59	49.40
Tia Juana Light[1]	54.22	53.87	32.31	45.25
Brent	64.06	62.75	36.35	53.60
West Texas Intermediate	64.96	65.28	39.17	55.34
Differentials				
WTI/Brent	0.90	2.53	2.82	1.74
Brent/Dubai	7.51	6.34	3.31	5.42

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

US market

The oil market in the USA reversed the bearish momentum of the final days of July and prices saw a gain, following outages at BP's Texas refinery. Hence, the WTI/WTS spread widened in the first week to average $3.36/b for a gain of $1.04/b amid continued draws on gasoline stocks. WTI closed the first week at $61.22/b for a rally of over five per cent. A series of refinery outages amid fears of tight supply kept alertness in the marketplace. Concern over continued refinery outages with accumulated capacity of 1.7m b/d, or some ten per cent of total US capacity, drove energy prices higher. Hence, refinery profits improved. sending the sweet/sour crude differential to a higher level.

The WTI/WTS spread widened a further 22¢ to $3.58/b. WTI cash crude's weekly average closed at $63.94/b for a gain of $2.72/b, or 4.5 per cent, in the second week. Moreover, the switch from sour to sweet crude at BP's massive refinery in Texas boosted the differential further. Despite production outages of heavy crude from Ecuador, a spate of refinery outages indicated healthy demand for sweet grades. Hence, the WTI/WTS weekly average spread widened in the third week by a healthy $1.78 to $5.36/b, while the WTI/Cushing spread surged another two per cent to close at $65.19/b. Nevertheless, with the ongoing strike in Ecuador triggering fear of supply outages, the sweet/sour spread widened, but at a slower pace, influenced by a fire at Venezuela's Paraguana refining complex at the time of production outages in the North Sea, India and Nigeria.

WTI closed the fourth week at an average of $66.15/b for another rally of 1.5 per cent with the WTI/WTS spread widening a slight 7¢. In the final week, prices were pushed up by the damages caused by Hurricane Katrina. While US domestic crude was trading the first day against the October futures contract, the spread widened to a record high of $6.47/b. However, the outages at Shell's Mars platform in the Gulf of Mexico revived fears of a supply shortfall. Hence, the WTI/WTS spread started to narrow, closing the final week some 2¢ lower at an average of $5.41/b. WTI's monthly August average was $64.96/b for a gain of $6.30/b, or nearly 11 per cent, over July, with the monthly average spread at $4.63/b, for a gain of nearly 100 per cent.

European market

The European market moved higher in the wake of the shutdown of BP's 120,000 b/d Schieallion field and Statoil's unplanned maintenance in the North Sea. Hence, differentials firmed during the first week of August. Dated Brent also followed suit on concern over refinery outages in the USA to close the first week with an average of $60.41/b, representing a surge of $2.37/b, or four per cent. Sentiment firmed further in the second week on a glitch at Shell's North Sea Bravo platform, which exacerbated the already tight August market. Dated Brent closed the second week at $63.39/b for another rise of some five per cent. The rising trend continued into the third week amid a curtailed September loading programme. However, volatility in the futures market kept Brent under pressure as it rose just over two per cent to $64.83/b. The sentiment furthered increasing refining margins. However, high outright prices amid an earlier-than-expected return

of BP's Schieallion field pushed differentials lower for North Sea crudes. Yet, Dated Brent's fourth weekly average edged up a 46¢ to close at $65.29/b. The weak sentiment continued into the final week as a spate of new loading programmes for September cargoes were on offer, pressuring the differential lower. However, as the market awaited news of the damage on the US Gulf Coast, differentials were prevented from slipping further. Dated Brent's monthly average in August stood at $64.06/b for a gain of $6.59/b, or nearly 12 per cent.

The market in the Mediterranean weakened in late July. Poor refining margins amid tight light barrels depressed differentials. The Brent/Urals spread widened from $2.47/b in the last week of July to $4.28/b in the first week of August. The expansive spread was also inspired by the announced wide Mideast price differentials for medium and heavy grades. Sentiment weakened further as buyers stayed away from the market, pressuring differentials further as refining margins slipped deeper into the red.

The Brent/Urals spread expanded in the second week to $4.64/b. This sentiment continued into the second week amid unsold barrels, with the Urals spread under Brent at $5.66/b. Moreover, buyers cut prices to move cargoes ahead of the release of the September programme. Hence, the spread between Urals widened to $6.63/b in the fourth week, the lowest level so far this year. This move attracted many buyers back into the market, clearing most of the lingering barrels. Hence, in the final week the spread narrowed slightly to $5.88/b.

Far East market

The market for Mideast crude emerged on a weak note from late July with September Oman trading at 50¢b below MOG. The disappointing performance of the fuel oil market maintained the pressure. October Oman was also under pressure, trading at a firmer level at a discount of around 15¢/b to MOG as Chinese demand for fuel oil has yet to make a strong recovery. The weak sentiment was also enhanced by the narrowing of the Brent/Dubai spread by 44¢/b to $5.78/b on the possibility of an opening of the arbitrage opportunity for rival western crude to flow eastwards. The pressure on Oman continued as refiners in Japan and South Korea boosted imports for middle distillate-rich crude for October loading to build heating fuels before winter. Hence, while October Murban was assessed at a 4–9¢/b discount to the official selling price (OSP), firmer than the week before at a discount of 10–20¢/b, Oman was trading at 23–27¢/b to MOG. Nevertheless, as the Brent/Dubai Exchange of Futures for Swaps (EFS) widened, pressure on Mideast crude eased, implying more expensive light sweet crude. The spread was the widest since late March.

The Brent/Dubai spread widened to $7.67/b. Hence, October Oman traded at a firmer level of 18–19¢/b, with Abu Dhabi Murban trading at a 15¢/b premium. The improved fuel oil crack spread supported October Oman to firm further late in the third week of the month. However, demand for winter fuel-rich crude kept Oman under pressure, while Abu Dhabi Murban firmed further to a 29¢/b premium to the OSP, yet additional Mideast barrels kept the differential from sustaining the rise. Oman was trading at a 38¢/b discount, with Murban at a premium of 15¢/b. As most October loading programmes were fulfilled, Mideast crude was heading towards narrow differentials late in the month, despite the wide Brent/Dubai spread at $8.65/b. October Oman traded at a 40¢/b discount, with Murban at a 5-¢/b premium amid ample supply.

Asian market

The market on the Asian/Pacific Rim was inspired by an outage at the Bombay high field that lost production of 123,000 b/d, spurred by the Indian Oil Corporation's prompt buy-tender. This sentiment was also furthered by healthy demand from China and Indonesia, amid emerging Asian naphtha demand. Hence, Duri was assessed at a premium to the ICP as high as $1.60/b. Tight supply amid high demand for light sweet crude prompted the sweet/sour spread to widen amid high outright prices, with Petronas offering October Tapis at $1.10/b to the APPI, 5¢ lower than its September sale. Stronger demand for naphtha and gasoline continued to support light sweet grades as Tapis approached the $70/b level in the wake of Hurricane Katrina.

October

OPEC Reference Basket

The OPEC Reference Basket emerged in September on a strong bullish note as Hurricane Katrina moved through the Gulf of Mexico, significantly affecting oil operations. However, the bullish momentum was short-lived due to fears that sustained high prices in the wake of Katrina would result in lower economic growth. The Basket averaged $58.98/b in the first week, a drop of $1.60, or 2.6 per cent. The bears continued to dominate in the second week, following the announcement of the IEA's plan to release 2 million barrels per day of crude and fuel products for 30 days, as well as a statement by US officials that the SPR could be tapped this winter in the event of a supply crunch. Hence, market pressure eased and the OPEC Reference Basket saw a hefty drop of $2.19/b. or four per cent, in the second week to $56.79/b.

The recovery of oil operations to a somewhat normal level also helped the bears to revive, with prices drifting lower on an IEA forecast for lower-than-anticipated global demand in 2005, amid fund sell-offs in the futures market. However, another hefty draw in US crude oil stocks pushed the Basket higher towards the end of the second week (see **Table A**).

During the third week, the expectation of higher OPEC output ahead of the 137th Meeting of the Conference kept the market calm. However, bullishness was soon revived with the appearance of Hurricane Rita in the Gulf of Mexico. The Basket jumped $1.35/b, or 2.4 per cent, in the third week to average $58.13/b on concern over another wave of hurricane damage. However, several refinery outages in the US Gulf Coast were seen to imply less demand, which pushed prices lower. This perception was amplified by a strike at Total's refinery in France, which freed up even more barrels for an amply supplied market, and fed a general impression that higher petroleum prices were eroding demand. In the final week, the Basket slipped a marginal 51¢ to close at

$57.63/b. The US administration's announced willingness to tap emergency reserves further supported calmness in the market. Hence, sell-offs for profit-taking in the futures market added to the downward pressure in the petroleum complex. As a result, the Basket closed the second week at $55.23/b.

On a monthly basis, the bears dominated most of the month, although sizeable damage by Hurricane Katrina, followed by Hurricane Rita, kept the market alert. The bullish trend was balanced by the emergency response of the IEA to release some 2m b/d of crude oil and products, as well as the OPEC decision to make available to the market 2m b/d of spare capacity if needed. Thus, the OPEC Reference Basket in September rose slightly higher by 6¢ to average $57.88/b for the month, after drifting lower from a second-week rebound. The Basket continued to slip with the month-to-date average standing at $55.55/b on October 13 on the continuing perception that higher prices were eating into demand.

US market

The US cash market emerged on a bullish note amid healthy refining margins after Hurricane Katrina roared through the US Gulf Coast. Differentials rose for deepwater crude as Shell's Mars platform remained out of service. The movement of sweet/sour crude was furthered by the slowdown in output recovery. The WTI/WTS spread remained at a wide $5.41/b, while light sweet crude soared to over $68/b in the first week. The upward trend continued into the early part of the second week as more than half of Gulf of Mexico production was out of service due, to damage from Hurricane Katrina. However, differentials fell as the US government released strategic stocks to the US market.

The WTI/WTS spread narrowed to $4.97/b as light sweet grades fell to $65.74/b, for a drop of nearly four per cent. Concern over prolonged oil production outages continued and alertness dominated the marketplace. However, when interest for SPR crude was less than anticipated, the bears took over as the government offered 30m b, while interest was only for 11m b, even though production capacity rose to above 50 per cent. Hence, the WTI/WTS spread widened to $45.26/b in the third week, while WTI's weekly average slipped $1.63 to close at $64.11/b, the lowest level since August 11. The bearish trend persisted on the perception of higher OPEC output ahead of the Meeting of the Conference. Nevertheless, Hurricane Rita threatened oil operations in the Gulf of Mexico, triggering concerns over tight supply. The WTI/WTS spread narrowed to $4.97/b, as WTI surged to $65.84/b. However, as Rita hit oil infrastructure along the US Gulf Coast, the sweet/sour spread remained wide on fears over petroleum product supply shortfalls amid prolonged refinery outages. The WTI/WTS spread widened to $5.09/b as WTI inched lower to $65.72/b.

European market

The market in Europe weakened at the start of the month on a volatile futures market and turmoil in the wake of Hurricane Katrina, which sparked uncertainty over crude demand. The bears gained strength following the release of petroleum products by the IEA. Moreover, refinery maintenance in September weakened demand at a time when traders were looking at potential transatlantic arbitrage opportunities. North Sea crude differentials continued to fall as sellers struggled to move lingering September cargoes, even as the October loading programme emerged. Brent closed the first week down $2.57/b, or nearly four per cent, on average, at $63.82/b. The bearish sentiment remained in the second week amid the release of the October loading programme, which revealed higher volumes than in September.

The downward pressure was furthered as buyers stayed on the sidelines in an attempt to dampen the price differential. Brent's second weekly average fell a further $2.21/b, or 3.5 per cent, to settle at $61.61/b. The poor showing continued in the third week as a surplus of prompt cargoes weighed on prices. However, sentiment was little changed as overhung September cargoes were cleared out, while October loading picked up. The market's inspiration was triggered by the appearance of Hurricane Rita, which sent fears of supply shortfalls in both streams and roiled the futures market. Hence, Brent's weekly average price surged $1.66/b, or 2.7 per cent, to close at $63.27/b in the third week. Nevertheless, this sentiment was short-lived as the market continued to re-assess the impact of Hurricane Katrina at a time when Hurricane Rita added to the burden of already shut-in downstream facilities. Moreover, the strike at France's Total refinery heightened uncertainty about crude demand. Therefore, Brent's final weekly average dipped almost $1/b, or 1.6 per cent, to close at $62.29/b.

The market's inspiration was triggered by the appearance of Hurricane Rita.

In the Mediterranean, sentiment on Urals was uncertain as refiners cited an overhang of prompt cargoes, although the market could easily have tightened. Hence, the differential for Urals firmed in the first few days of September, but sentiment was uncertain as dealers struggled to assess whether extra crude might head west in response to Hurricane Katrina. However, strong refining margins supported buying interest for Urals. Hence, the Brent/Urals spread narrowed in the first week by 60¢ to $5.28/b. The Urals crude differential continued to rise, as strong refinery margins at levels similar to those for sweet crude, encouraged refiners to stick with – or switch to – sour crudes, adding to the demand that had spurred buying interest for the grade. However, this bullish sentiment eased as dealers considered the impact of Mexican crude oil being offered for sale into the Mediterranean market. While refiners adopted a wait-and-see stance in the hope of a further fall in price differentials, sufficient availability and

some buying interest appearing in the north and the south left the market balanced in the second week. Hence, the Brent/Urals spread narrowed further by 50¢ to $4.78/b. The clearing of September stems and the movement of the October programme amid strong refining margins continued to spur demand in the third week. This caused the Brent/Urals spread to narrow a further 55¢ to $4.23/b. This bullishness was sustained on healthy refining spreads and the clearance of early October loading programmes. Thus, the Brent/Urals spread narrowed a further 44¢ to $3.79/b.

Far East market

There was a bullish start to the month for Mideast crude as traders prepared themselves for the August Oman retroactive OSP, which though it was set at a record high, was expected to show a fall in Oman's premium to Dubai. November Oman was discussed at a 10¢/b discount to parity with respect to the MOG. In the first week, Abu Dhabi's Murban crude jumped on the impact of Hurricane Katrina. The first Murban cargo for November loading was sold at a premium of 50–60¢/b to ADNOC's OSP, while November Oman was on offer at a 10¢/b premium to MOG. Meanwhile, Oman raised the August OSP to a record high of $56.97/b, up $3.50/b from July, yet it sharply cut its premium to Dubai to 37¢ from 64¢ in July. This left Oman at its lowest premium level to Dubai since August 2002, when it was set at 30¢/b. Hence, the lower-than-anticipated OSP anchored the grade firmly into premiums for the first time in three months. Meanwhile, Abu Dhabi's ADNOC raised the retroactive selling price of its key Murban crude for August loading by $3.85/b to a record high of $60.95/b. However, November Murban eased as buyers stayed clear of the $1/b premium discussion levels prompted by supply disruptions following Hurricane Katrina. Moreover, although most Mideast producers cut October price differentials with the Brent/Dubai EFS narrowing, healthy Asian buying interest amid concern over supply disruption in the Western hemisphere kept the bulls intact. However, sentiment flipped in the second week as outright prices were falling on the release of IEA petroleum stock data. As a result, November Oman traded at a 1¢ premium to the MOG with Murban assessed lower at a 50–80¢/b premium, down from the $1/b level seen earlier in the month. Oman even moved towards a discount when it was discussed at a 5¢ premium. Sentiment on the Middle East crude market turned increasingly bearish as refiners remained on the sidelines and fears mounted that crude oil demand was weakening in Asia. Middle Eastern crude values fell on weaker refinery demand, forcing sellers to cut offer levels amid the threat of US refinery closures diverting Atlantic Basin supplies into the region. The bearish sentiment continued as many industry participants were engaged in the annual APPEC conference in Singapore. November Murban was assessed at a 30¢ premium to the OSP with Oman at a slight discount.

Asian market

In the Asia Pacific region, an early perception that regional crudes could flow west in the wake of Hurricane Katrina kept the bulls alive. Light sweet crude was clearing at a rapid pace early in the month, with Malaysia's Petronas selling several cargoes, even as Tapis APPI surged over $70/b for the first time. Bintulu traded at a 75¢/b premium to the APPI, compared to the usual 30¢ discount, which would leave Tapis at a $1.05/b premium. The bullish sentiment was sustained as Asian refiners continued to snap up light sweet crude and condensate as demand for gasoline and naphtha in Asia and the USA drove up the market. With the high outright prices, Malaysia's Petronas sold an October Tapis cargo at an 88¢/b premium to Tapis APPI. Heavy sweet crudes also traded, but at lower prices than earlier expected. October Duri crude traded at a $1.30–1.40/b premium to the grade's Indonesia Contract Price (ICP), slightly weaker than the last assessment for September Duri crude, as Japan required smaller volumes with peak summer electricity demand ending. Light sweet crude sellers were testing the market for their November-loading cargoes, as most October barrels were sold out. Some traders hoped that gasoil would attract interest in Europe and gasoline demand strengthening further on increased US requirements, where four refineries remained shut from Hurricane Katrina, which forced refiners to replace heavy sour grade with light sweets. Hence, Malaysia sold its first cargo for November delivery at a $1–1.10/b premium. However, high outright prices pressured regional sweet crude to trade lower as Tapis was heard sold last at a 95¢–$1.00/b premium to the APPI. Moreover, the return of Indonesia's sweet crude CDU to the Cilacap refinery supported the premium for regional crudes at the end of the month.

Product markets and refinery operations

September

Product market developments have undergone two phases over the last couple of weeks. In the first phase, gasoline stocks in the Atlantic Basin were running low and demand for gasoline in the USA was high, while in Asia the market looked relatively overbalanced for middle distillates, but more promising for gasoline, due to lower exports from China, Taiwan and India. During phase two, which followed the impact of Hurricane Katrina, product sentiment gained significantly and various product prices, particularly gasoline, rose sharply.

At the initial stage of Hurricane Katrina, operations involving about 3m b/d of refining capacity in the USA were either fully or partially affected, but 2m b had returned to normal operations. The remainder could be offline for weeks, if not months. This situation will further tighten the refining industry, which has already suffered from a shortage of capacity and should support crude and product prices over the next few months.

In the first phase, product prices in the USA and Europe were unable to outpace their corresponding benchmark crudes WTI for the USA and Brent for Europe, and refinery margins in the Atlantic Basin rose only marginally, compared to the previous month. But in Asia, the major parts of the barrel complex, with the exception

of fuel oil, performed better than Dubai benchmark crude, and refinery margins in Singapore rose by $1.90/b, compared to the previous month. With the tightening of US operational refining capacity and the boosting of arbitrage opportunities from Europe to the USA, product prices should keep their recent strength versus their benchmark crudes in Europe and the USA and are likely to bolster refining margins in the Atlantic Basin in September (see **Table B**).

The refining utilization rates rose across the world, with the exception of the USA in August. In the USA, utilization rates declined by 2.9 per cent to 92.9 per cent from 95.8 per cent in July, due to tropical storms, particularly Hurricane Katrina late last month. In Japan, utilization rates surged sharply by nine per cent, compared to the previous month, to stand at 93.7 per cent. In the EU and Norway, they rose a marginal 1.9 per cent from 86.5 per cent in July (see **Table C**).

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

		Jul 05	Aug 05	Sep 05	Change Sep/Aug
US Gulf (cargoes)					
Naphtha		63.31	75.76	85.48	9.72
Premium gasoline	*(unleaded 93)*	73.56	87.24	107.88	20.64
Regular gasoline	*(unleaded 87)*	67.54	81.71	98.68	16.97
Jet/Kerosene		69.97	78.89	94.17	15.28
Gasoil	*(0.05% S)*	69.66	77.41	91.41	14.00
Fuel oil	*(1.0% S)*	43.12	47.06	57.04	9.98
Fuel oil	*(3.0% S)*	37.73	39.58	43.86	4.28
Rotterdam (barges fob)					
Naphtha		61.22	69.12	74.77	5.65
Premium gasoline	*(unleaded 50 ppm)*	76.54	84.28	92.35	8.07
Premium gasoline	*(unleaded 95)*	68.33	75.64	82.82	7.18
Jet/Kerosene		74.02	79.78	83.78	4.00
Gasoil/Diesel	*(50 ppm)*	74.60	80.15	83.28	3.13
Fuel oil	*(1.0% S)*	37.74	41.70	46.70	5.00
Fuel oil	*(3.5% S)*	36.71	39.25	41.86	2.61
Mediterranean (cargoes)					
Naphtha		50.79	58.32	62.01	3.69
Premium gasoline	*(unleaded 95)*	72.99	83.45	88.35	4.90
Jet/Kerosene		71.79	78.44	81.90	3.46
Gasoil/Diesel	*(50 ppm)*	74.14	80.97	84.73	3.76
Fuel oil	*(1.0% S)*	41.03	43.55	48.43	4.88
Fuel oil	*(3.5% S)*	35.08	37.73	41.43	3.70
Singapore (cargoes)					
Naphtha		49.62	58.17	61.73	3.56
Premium gasoline	*(unleaded 95)*	64.70	73.19	79.40	6.21
Regular gasoline	*(unleaded 92)*	63.43	72.52	78.39	5.87
Jet/Kerosene		70.07	75.84	79.16	3.32
Gasoil/Diesel	*(50 ppm)*	72.48	74.92	80.77	5.85
Fuel oil	*(180 cst 2.0% S)*	40.27	42.39	47.35	4.96
Fuel oil	*(380 cst 3.5% S)*	38.76	41.35	46.68	5.33

US market

Hurricane Katrina cut US refinery throughput by about ten per cent and significantly boosted the bullish market sentiment which, in turn, raised product prices, particularly gasoline. On September 1, the US Gulf Coast gasoline price reached $110.64/b. Over the last few days, due to the restart of several partially damaged refineries, the release of SPR by the IEA, relaxing shipping and environmental regulations in the USA, as well as the flow of over 30 arbitrage cargoes from Europe, light product prices have lost part of their earlier gains.

The crack spread of gasoline against the WTI benchmark is still about $37/b. This situation should encourage refiners to shift their refinery operations in favour of gasoline at the expense of gasoil and jet/kero. However, this raises the risk of a possible decline in heating oil stocks ahead of the winter. This condition could be exacerbated if about 1m b/d of capacity remaining offline as a result of Hurricane Katrina stays out of the market for an extended period.

With regard to fuel oil, due to shut-in natural gas production on the US Gulf Coast, as well as higher-than-normal temperatures on the US East Coast, the market for low-sulphur fuel oil should be strong, but high-sulphur fuel oil is likely to remain lacklustre.

European market

Hurricane Katrina's impact was immediately reflected in the futures market and the physical activities of European crude and product markets. Before Katrina, the arbitrage opportunity for gasoline to the USA was very weak, but this situation has changed significantly and more than 35 vessels were fixed over the last few days to ship different light products, particularly gasoline, to the USA.

The gasoline price in the USA has lost some of the sharp gains made just after Hurricane Katrina, but most probably will remain strong in the future, in order to absorb arbitrage cargoes. This will keep the European market for light products strong as well. However, due to relatively comfortable distillate stocks, the recent developments of the US market have not resulted in a sharp rebound of distillate prices, and the crack spread of gasoil in Rotterdam against the Brent benchmark rose very moderately compared to early August.

These developments also affected the Mediterranean area, and most of the overhang of light product cargoes have moved to the USA. It is worth noting that, due to high margins,

Table C: Refinery operations in selected OECD countries

	Refinery throughput *m b/d*				Refinery utilization *per cent*			
	Jul 05	Aug 05	Sep 05	Sep/Aug	Jul 05	Aug 05	Sep 05	Sep/Aug
USA	16.07	15.59	13.83	–1.76	95.8	92.9	82.5	–10.40
France	1.76[R]	1.72	1.70	–0.02	90.1[R]	88.1	87.3	–0.80
Germany	2.30[R]	2.36	2.39	0.03	98.8[R]	101.4	102.7	1.30
Italy	1.93[R]	1.86[R]	2.00	0.14	83.1[R]	80.1[R]	86.0	5.90
UK	1.75[R]	1.51[R]	1.66	0.15	95.7[R]	82.6[R]	90.7	8.10
Eur-16	12.48[R]	12.29[R]	12.54	0.25	89.9[R]	88.6[R]	90.4	1.80
Japan	3.99	4.25[R]	4.17	–0.08	84.7	90.3[R]	88.5	–1.80

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

R Revised since last issue.

European refiners may postpone their maintenance schedules to export more cargoes to the USA.

Despite the bullish sentiment for light products, the European market for high-sulphur fuel remained under pressure, due to ample supply, and it may become worse, due to higher output, but low-sulphur fuel oil prices may rise, due to export opportunities to the USA.

Asian market

Over the last months, the Asian market has been suffering from ample supply and lack of buyers of naphtha, but in August market sentiment changed somewhat as China entered the spot market to buy naphtha cargoes, which thus lifted naphtha prices. However, many market players believe that this situation will not last long. Similarly, the Asian market for gasoline, which had not been very lucrative in the last few months, rebounded in August amid lower exports by China, Taiwan and Korea, as well as the recent export opportunities to the USA.

Following the gasoline shortage in Southern China, the Chinese government suspended the 11 percentage point refund on the 17 per cent VAT for gasoline exports and stopped the approval of any new crude processing contracts intended for product exports. These decisions will most probably reduce gasoline exports by China and support gasoline prices.

Furthermore, prices for middle distillates, particularly for gasoil, which has been falling over the last two months, may rise again, as the harvest season in China is approaching and export possibilities to the USA, together with higher demand by Indonesia in September, could lend some support to middle distillate product prices in the next months.

As far as fuel oil is concerned, the Asian market improved moderately due to less arbitrage cargoes. The high-sulphur fuel oil crack spread versus Dubai benchmark crude rose by $1.91/b to minus $13.53/b in early September from minus $15.44/b the previous month, and later on it increased further.

October

Sharp refinery outages in the USA, as a result of hurricanes Katrina and Rita, along with the falling natural gas output on the US Gulf Coast and fears of a product shortage in the winter season, lifted product prices in the month of September, and refinery margins of different benchmark crudes surged sharply in the same month.

The refinery margin of WTI to crude oil on the US Gulf Coast surged to $20.47/b in September from $3.98/b in August. Similarly, the refinery margins of benchmark crudes Brent and Dubai in Rotterdam and Singapore surged in September to $12.36/b and $12.21/b, from $4.94/b and $6.19/b, respectively, in the previous month. Due to the recent slowdown in demand, particularly in the USA, and technical sell-offs, the product market, along with the crude oil market, lost part of its strength, but product markets fundamentally remain short and may rebound again in the next few weeks. As about 2.4m b/d of US refinery utilization remain off-line, and because of the recent strike in France, the current shortfall of the product market could deepen to further support product and crude oil prices (see **Table B**).

The hurricanes also caused the US refinery utilization rate to drop by 10.4 per cent in September, compared to the previous month, and despite the restart of operations at some of the affected refineries, the US refinery utilization rate is expected to remain more or less at the same level in October. In Europe, refiners have increased throughput by 1.8 per cent to reach 90.4 per cent. They may further increase utilization rates to compensate for part of the capacity lost in the USA. In Asia, the Japanese refinery utilization rate declined by 1.8 per cent to 88.5 per cent in September, from 90.3 per cent in August (see **Table C**).

US market

Prior to Hurricane Katrina, the US product market was relatively short of gasoline, but well balanced for the rest of the products and natural gas. The impact of Hurricane Katrina on the refining industry and natural gas output have triggered supply fears for all petroleum products and resulted in skyrocketing prices. Due to the immediate reaction of the oil industry – the increase in production at non-affected refineries, the rise in imports and the release of crude and product SPRs co-ordinated by the IEA – US product prices, particularly for gasoline, retreated to rather moderate levels in the middle of September. Due to the emerging risk

of the destructive impact of Hurricane Rita, US product prices spiked again in the latter part of the same month. However, due to lower demand for gasoline and distillates in September compared to the same period last year, the bullish sentiment of the US market switched and the weekly gasoline crack spread versus the WTI benchmark crude plummeted on the US Gulf Coast from $65.69/b on September 29 to $51.05/b on October 6. Despite falling gasoline prices, the jet/kerosene price extended its upward trend, while the gasoil price remaining fairly flat over recent weeks.

With the approach of the winter season, and because of the shortfall of natural gas, as well as higher demand for heating oil, it seems that distillates will soon take up their typical role and run the market over the next few months. The hurricanes, which have resulted in a forecast product output shortfall of 150–100m b for the fourth quarter, also lifted fuel oil prices in the USA, and its crack spread jumped from –$17.94/b in early September to –$8.03/b on October 6. High natural gas prices and growing demand for low-sulphur fuel oil will continue to support fuel oil margins.

European market

In the wake of Hurricane Katrina, transatlantic arbitrage opportunities, which had been closed before, re-emerged and the excess gasoline supply in Europe was exported to the USA in September. This situation has supported the gasoline market sufficiently and its prices surged sharply in early September. Apart from the hurricanes, strikes in France disrupting operations at refineries in the north and the south have also underpinned the light product market in Europe. Due to the declining US product prices and shrinking arbitrage opportunities, European gasoline lost part of its earlier strength in September, the crack spread of gasoline in North-West Europe against the Brent benchmark crude oil is still high compared to the middle of August.

Similarly, due to lower tertiary stocks, falling diesel exports from the Baltic and the continuation of Total's refinery workers' strike, the distillate market in Europe has retained its upward trend and may remain strong over the next month, as the balance of the distillate market in the Atlantic Basin looks tight. With respect to high-sulphur fuel oil, the European market is suffering from ample supply, lack of demand and falling arbitrage opportunities to Asia, due to the high shipping rates. But the low-sulphur fuel oil market remains more lucrative.

Asian market

The Asian market, which had been suffering from slowing Chinese demand, has been pushed up by the bullish sentiment of the Western market, following the hurricanes on the US Gulf Coast. The crack spreads of different products against the Dubai benchmark crude oil improved in September, but gasoline has recently lost its earlier strength. Similarly, due to ample supply, naphtha is also losing ground.

As far as the middle distillates are concerned, the kerosene market remained very strong, as larger-than-expected Chinese demand and an export cut by South Korea have supported this market. The Chinese Aviation Oil Trading (CAOT) has bought over one million tonnes of jet/kerosene for delivery during September to December. Export opportunities to the West have also boosted the gasoil market, and its crack spread rose from $19.30/b in late August to $25.39/b in late September.

Higher exports from India and increasing freight rates may put pressure on the Asian gasoil market and ease its prices. Additionally, the reduction of petroleum product subsidies by the Indonesian government could dampen product demand in the future. Indonesia increased product prices by 126 per cent on average, effective October 1.

Apart from the top and the middle of the barrel complex in Asia, the bottom has also benefited from the new circumstances in the market, rebounding in September from the previous month. Furthermore, healthy Chinese demand and less arbitrage cargoes to Asia have supported high-sulphur fuel oil, and its crack spread discount versus Dubai crude oil decreased from –$13.53/b in late August to $9.43/b in the latter part of September. Due to the rise in bunker demand, low inventories in China and less arbitrage cargoes, the high-sulphur fuel oil market may remain relatively strong in October as well.

The oil futures market

September

The futures market began August on a bullish note after a bearish late July. Persistent concern over tight downstream capacity continued to dominate the market's direction. In the first week of the month, non-commercials increased longs by a hefty 15,000 contracts to 121,000, boosting net longs by some 26,000 lots. Market sentiment was inspired by the revised hurricane forecast, which revived concerns over supply shortfalls similar to last year. Nymex WTI closed the first week at $61.89/b, or $2.69/b higher than the previous week. Open interest rose 38,000 lots to 840,000 with commercials reducing longs and increasing the shorts at a slower pace.

The second weekly period saw a similar move, although a statement by the OPEC Conference President calmed the market as traders took profits. Yet, non-commercials continued to increase longs by 18,000 contracts to 139,000. Open interest also surged by a hefty 47,000 lots to 888,000 with the commercials raising shorts at a faster rate than longs. Nymex WTI front-month closed at $63.07/b for a gain of $1.18/b from the previous week.

The trend continued in the third week on refinery outages, which pushed WTI prices to $66.08/b for a gain of $3.01/b, or nearly five per cent. Hence non-commercials increased longs by a further 15,000 lots to close at 154,000, the highest level since April. Open interest peaked at an all-time record of 958,000 after a hefty build of 70,000 lots with commercials increasing longs at a slower pace than shorts to close at 553,000 and 579,000 lots, respectively. The fourth week saw liquidation for profit-taking as prices eased. Nymex WTI prompt-month closed at $65.71/b. Non-commercials depleted longs by a hefty 14,000 contracts, while increasing their shorts. The net long position narrowed by a

hefty 25,000 lots to 16,000. In the final weekly period, in the wake of Hurricane Katrina, the market saw a slight build by non-commercials with net longs widening to 19,000 lots and open interest remaining at around 898,000 lots. A 20 per cent surge in gasoline futures pushed Nymex WTI to close four per cent higher at $68.91/b in the final weekly period.

The forward curve in the futures market remained in contango during August, although at a narrower spread. The 1st/2nd month spread narrowed to 73¢ from 97¢/b in July. A continuing healthy level of crude oil stocks kept the market structure in contango. However, a sustained draw on gasoline stocks kept the near month at a lower spread relative to the forward month. Most of this occurred during the second half of the month, inspired by refinery outages and several unplanned production shutdowns and the impending impact of Hurricane Katrina. The 1st/6th month spread also narrowed to $2/b, compared to $2.49/b the month before, with the 1st/18th month spread leveling out at plus 2¢, compared to minus $1.11/b in the previous period.

October

The crude oil futures market started off strong in September, as a result of damage to the petroleum infrastructure in the US Gulf of Mexico by Hurricane Katrina. WTI averaged $67.99/b in the first week, a gain of 40¢ on concern over a supply shortfall in both streams. The CFTC weekly report revealed that non-commercials reduced short positions by 6,500 to some 117,000 lots at a faster rate than longs, which fell by nearly 2,000 to 141,000 contracts. As a result, net long positions closed nearly 5,000 higher at 24,100 contracts. At the same time, commercials also increased long positions by a significant 19,000 lots to 552,000, while the shorts were up 3,200 to 540,000 contracts. Nonetheless, open interest declined a moderate 16,000 to 898,000 contracts, slipping below the 900,000 seen the week before. Bullish momentum weakened following the emergency response by the IEA to release strategic crude and products to supplement the shortfall caused by Hurricane Katrina. Moreover, recovery of oil operations in the Gulf of Mexico further calmed market momentum at a time when the IEA revised its forecast for lower-than-expected global demand in 2005. Hence, fund sell-offs for profit-taking in volatile trade pushed the WTI front-month contract to close the second weekly period at an average of $63.88/b, plunging $4.11/b, or six per cent. This was evidenced by the hefty 26,000 drop in non-commercial long positions, while the shorts saw a build of 6,200 contracts. As a result, net non-commercial positions fell into negative territory for the first time since the end of May, dropping 32,300 lots as shorts outpaced longs by 8,200 lots. Moreover, open interest continued to slide at a faster rate, decreasing by some 25,000 lots to 873,000 contracts.

In the third weekly period, the bulls were boosted by fears over low winter fuels amid hurricane-damaged refinery operations and limited natural gas supply, due to shut-in production in the US Gulf of Mexico. The market was calmed on the expectation of higher OPEC output amid a slowdown in demand. Hence, the six per cent fall of gasoline futures contract on September 16, on profit-taking, exerted downward pressure on the petroleum complex. However, looming Tropical Storm Rita in the Gulf of Mexico further ignited market concern over a supply shortfall, as well as slowed efforts to restore oil operations after Hurricane Katrina in both streams. The futures market saw a reversal to the previous trade session on September 19, with Nymex WTI jumping nearly seven per cent as gasoline futures surged by well over 14 per cent and heating oil was up almost 11 per cent. Therefore, the weekly average closed $1.41 or 2.2 per cent at $65.29/b. However, OPEC's pledge of excess capacity amid the prospect of lower demand capped the earlier rally. The CFTC report showed non-commercials continued to reduce their longs with net shorts at 13,000 lots. Moreover, open interest saw another hefty drop of 26,000 lots to 847,000 contracts. In the fourth week of September, volatility continued on concern over slowing refinery demand amid fears of a petroleum product shortfall on prolonged refinery outages. While the closing weekly average was up a marginal 39¢ at $65.68/b, non-commercials continued to hold net short positions, with shorts continuing to hold an edge over longs for the third consecutive week at 26,300 lots, with the longs dropping to 107,000 lots, their lowest level since mid-June and the shorts peaking at their highest level within the last three years at 134,000 lots. Open interest increased a marginal 5,000 lots to 851,000 lots. It is worth noting that the commercial longs increased by some 9,000 to 542,000 lots, while short positions fell by 9,000 to 503,000 lots. The Nymex prompt month average closed 56¢ higher at $65.55/b over the August average on shuttered refineries and constrained natural gas output, due to damaged facilities in the Gulf of Mexico. Moreover, while the Nymex front month price was 42 per cent higher on average than last year, the open interest monthly average only saw a gain of 27 per cent over the same period last year.

The forward structure eased in September to narrow the contango with the 1st/2nd month average spread in September at –36¢, compared to –73¢ in August. Healthy crude oil stocks in the USA kept the contango in place. However, concern over tight product supply narrowed the gap as demand for winter fuels emerged at a time when the major oil production and refining facilities were damaged in the US Gulf of Mexico. Moreover, preliminary data for monthly crude oil stocks revealed that September stocks were lower than August by some 13m b at 308m b. The contango narrowed away from the 18th forward month. The 1st/18th month backwardation widened to 6¢, compared to 2¢ in August, although this gap was mostly closed by the end of the month.

The tanker market

September

In August, OPEC area spot fixtures remained close to the previous month's level at 13.43m b/d, reflecting zero growth in OPEC's crude oil production. This represents minor growth of 0.5 per cent against the August 2004 level, despite a y-o-y production increase of more than 500,000 b/d. The limited rise in spot fix-

tures, compared to 2004, can be explained by the slowdown in crude oil trade and in the level of the spot share, which has been constantly lower this year. Nevertheless, given the same level of spot fixtures from the previous month, OPEC's share of total spot fixtures moved up from 62 per cent in July to 65 per cent, the highest level since March 2005. Middle Eastern fixtures showed a mixed pattern, with eastbound long-haul fixtures increasing by 130,000 b/d, or 2.5 per cent, to 5.25m b/d, whilst westbound fixtures slid sharply by almost 500,000 b/d, or 23 per cent, to 1.5m b/d, which led to a global decline of 320,000 b/d in Middle East spot fixtures. Due to the significant decline in westbound fixtures, the Middle East/eastbound and westbound shares in OPEC fixtures fell from 52 per cent to 50 per cent in August, the lowest level so far in 2005, but were 800,000 b/d, or ten per cent, lower than the August 2004 level, confirming the decline in the share of spot fixtures. In contrast, the remaining OPEC Countries increased spot fixtures by 280,000 b/d, or four per cent, to 6.67m b/d, pushing their share in OPEC spot fixtures to 50 per cent, compared to 47 per cent a month earlier and 44 per cent a year earlier. Non-OPEC spot fixtures dropped significantly by 750,000 b/d, or nine per cent, to hit 7.35m b/d, the lowest level in the last five months.

Non-OPEC spot fixtures were also lower than the August 2004 level, when they accounted for more than 7.7m b/d. Following the month-to-month decline, the non-OPEC share in total spot fixtures moved down from 38 per cent in July to 35 per cent in August 2005, which was similar to the previous year's level. Estimated sailings from the OPEC area increased for the second consecutive month, reaching 25.26m b/d, which corresponds to growth of 630,000 b/d, or 2.6 per cent. Compared to the level of the same period of 2004, OPEC's sailings were up by 2.4m b/d. Middle East countries, which represent three-fourths of OPEC sailings, were the sole contributor to the growth in OPEC sailings. Sailings from the Middle East reached a record of nearly 18.8 m/d. Preliminary estimates of arrivals showed declines in most of the regions, except in North-West Europe, which displayed a significant growth of nearly 500,000 b/d, or 6.2 per cent, to reach 8m b/d, the highest level since March 2005. However, arrivals on the US East Coast, the US Gulf Coast and in the Caribbean fell by 160,000 b/d, or 1.5 per cent, to average 10.9m b/d from a record high of more than 11m b/d in July 2005, but were 1.1m b/d higher, compared to a year earlier. Similarly, the Euromed region saw arrivals decline by 200,000 b/d to 4.55m b/d, while in Japan arrivals dropped by 280,000 b/d to 3.85m b/d, reversing the growth shown in the previous month.

Plenty of tonnage, giving more confidence to the charterers, continued to push crude oil spot freight rates down further on all segments. Oversupply in the VLCC sector pushed charterers to hold back on cargoes, putting pressure on owners to accept levels below Worldscale 70. Freight rates for the Middle East eastbound long-haul route lost 16 points, or 20 per cent, to average W69 in August, while westbound rates dropped by ten points, or 14 per cent, to stand at W63. Both routes began the month with higher freight rates of W90 and W80, respectively, before declining steadily. Losses on these two routes in August were equivalent to 50 per cent of July's gains. In the Suezmax sector, freight rates also dropped, but at a lower pace of three to five per cent. On the West Africa/US Gulf Coast route, freight rates moved down by five points for a monthly average of W106, while on the North-West Europe/US East Coast and US Gulf Coast routes, freight rates continued to decline for the third consecutive month to average W101, the lowest level in 24 months, due to lack of activity. It is worth noting that freight rates showed continuous improvements during the last week of the month, following an increase in bookings. In contrast, the Aframax sector displayed mixed patterns with freight rates for tankers moving from the Caribbean to the US East Coast and across the Mediterranean showing significant declines amid a surplus of tonnage, in combination with a lack of activity. Freight rates on all other routes rose a slight two to five per cent. Following Hurricane Katrina, freight rates from the Caribbean to the US East Coast surged sharply at the end of the month, gaining more than 40 points in two days. This huge increase was specific to the Caribbean/US East Coast route and a result of the jump in bookings, supported by the short distance between the US East Coast and the Caribbean, compared to other routes. On the Indonesia/US West Coast route, freight rates continued to increase steadily for the third consecutive month to reach an average of W141, a gain of seven points over the previous month. Continuing activity on the Mediterranean/North-West Europe route put an end to the pronounced downward trend displayed during the previous two months and pushed freight rates up by a slight two points to average W130. Freight rates for all sectors were lower than their August 2004 levels, but were expected to firm in the coming months due to Hurricane Katrina.

Product freight rates continued to improve in the east, but remained weak in the west

The product tanker market displayed a mixed trend with freight rates in the East continuing to improve for the second consecutive month, whilst displaying significant losses in the east, ranging from 36 to 90 points. Steady activity in the east pushed freight rates to their highest level since April 2005. Rates for tankers carrying 30,000–50,000 dwt on the Middle East/east route gained 31 points, or 12 per cent, to average W280. Similarly, shipowners trading on the Singapore/east route experienced a strong market, with freight rates increasing by 19 points to stand at a monthly average of W319. If steady activity helped freight rates to improve further in the east, huge tonnage, in combination with limited activity, put downward pressure on vessels trading in the west,

especially in the Mediterranean. The very slow market between the Caribbean and the US Gulf Coast undermined freight rates on this route by an average of 52 points, or 20 per cent, to settle at W203 in August, after increasing by 15 points the previous month. At the same time, freight rates on the North-West Europe to US East Coast and US Gulf Coast routes continued to decline for the fifth consecutive month to average W216, due to the presence of many ships and a lack of inquiries. The market was very weak in the Mediterranean with ship-owners facing very low rates. Freight rates across the Mediterranean basin dropped for the fifth consecutive month and plunged by 71 points to hit an average of W188, the lowest level since late 2002. However, the decline was more pronounced on the Mediterranean/North-West Europe route, where rates lost one-third, or 90 points, to stand at an average of W195, a 20-month low. Compared to the same month last year, freight rates were lower on all routes, except for ships trading east.

Product freight rates increased significantly at the end of the month, especially for ships moving to the USA, following Hurricane Katrina. Freight rates on the North-West Europe/US East Coast and US Gulf Coast routes increased by almost 60 points during the last two days of the month. However, the impact of Hurricane Katrina is expected to boost freight rates along all segments in September.

October

OPEC area spot fixtures soared sharply by 2.27m b/d, or 18 per cent, to average 14.8m b/d in September. Compared to the same period last year, OPEC fixtures were more than 1.2m b/d higher. However, despite this substantial growth, OPEC's share of total spot fixtures remained virtually stable at 65 per cent, compared to the previous month. Middle Eastern countries were the main contributors to the growth in OPEC spot fixtures, with 1.9m b/d, or 84 per cent of the growth. Middle East/eastbound long-haul fixtures increased by 900,000 b/d, or 18 per cent, to 5.85m b/d, while westbound fixtures surged by 1m b/d, or nearly 90 per cent, to hit 2.16m b/d, the highest growth since April 2004.

OPEC spot fixtures soarded by almost 2.3m b/d in September

The sharp increase in the westbound spot fixtures was essentially due to strong bookings ahead of Northern winter demand and increasing cargoes to the USA, following hurricanes Katrina and Rita, which shut in more than 98 per cent of US Gulf Coast crude production. Consequently, Middle East/eastbound and westbound shares in OPEC fixtures moved up from less than 50 per cent in August to 54 per cent, which was almost the same as in September 2004. OPEC Countries outside the Middle East also saw fixtures increase, but at a lower pace of 360,000 b/d, or six per cent, to average 6.8m b/d, corresponding to a 46 per cent share in total OPEC spot fixtures. Non-OPEC spot fixtures followed the same trend and moved up by 800,000 b/d, or 11 per cent, to 7.9m b/d, keeping their share in total spot fixtures unchanged at 35 per cent, compared to the previous month and a year earlier. Both increases in OPEC and non-OPEC fixtures pushed total spot fixtures to 22.7m b/d in September, as against 19.6m b/d in the previous month.

Estimated data for sailings from the OPEC area dropped for the second consecutive month and hit 24.7m b/d, a drop of 720,000 b/d from August, but were 1.7m b/d higher than a year earlier. Middle Eastern countries, which saw their volumes reduced by 450,000 b/d to 18.36m b/d, contributed 60 per cent to the decline in OPEC sailings. Preliminary estimates of arrivals at the main consuming regions displayed a mixed trend. However, arrivals at the US Gulf and East Coasts and the Caribbean dropped by 830,000 b/d to hit 10m b/d, the lowest level seen in the last eight months, amid disruptions to US Gulf Coast ports. At the same time, arrivals at North-West Europe fell by 440,000 b/d to average 7.7m b/d. In contrast, arrivals at Euromed inched up a slight 50,000 b/d to reach 4.6m b/d, while arrivals in Japan continued their upward trend to increase by 180,000 b/d to 4.3m b/d. Compared to the same period last year, arrivals were higher in all main consuming regions.

In September, crude oil spot freight rates picked up, due to a surge in bookings from refiners and traders to cope with seasonal demand and increasing imports from the USA after the resumption of activities at US Gulf Coast ports, following Hurricane Katrina. In addition, the congestion in US ports increased the tightness of the market by tying up more vessels. The VLCC sector experienced significant growth in terms of percentage, ranging between 29 per cent and 32 per cent. Freight rates on the Middle East/eastbound and westbound long-haul routes rose by 20 points each to average monthly levels of W89 and W83, respectively, the highest levels since March 2005. In the last week of the month, owners of VLCCs heading from the Middle East east and west routes secured more than W100.

Suezmax spot freight rates behaved in the same way, thanks to lower tonnage availability and strong demand for light sweet African crude. Freight rates for tankers moving from West Africa to the US Gulf Coast increased by 20 points to settle at a monthly average of W126, since some of the US Gulf Coast production damaged by Hurricane Katrina was replaced by long-haul imports. Similarly, on the North-West Europe/US East and Gulf Coast routes, freight rates gained 22 points to average W123. In the Aframax sector, strong activity between the Caribbean and the US East Coast, due essentially to an immediate need from US refiners and the short distance between the two regions, drove freight rates on this route down by 34 points to average W218, reversing the downward trend of the previous three months. With an average of W218, freight rates on this route were even higher than the September 2004 level. However, on the Indonesia/US

West Coast route, rates continued to increase for the fourth consecutive month, gaining 18 points, or 13 per cent, in September to reach a monthly average of W159. Freight rates for ships trading between the Mediterranean and NW Europe improved further to average W146, which corresponds to an increase of 16 points, or 12 per cent, while, within the Mediterranean, rates remained nearly stable at a monthly average of W185. Compared to the same period last year, freight rates were lower on all routes except for the Caribbean/US East Coast route in the Aframax sector.

In the aftermath of hurricanes Katrina and Rita, trade of refined products to the US market surged, resulting in a shortage of tankers. This led to a spike in product tanker freight rates, especially in the Atlantic Basin, where they soared by more than 80 per cent in one month. The reduction in tanker availability was exacerbated by the fact that even some ships from Asia were fixed to the USA, due to record-high product prices in that market, which had not been attractive in the past. Freight rates in the East continued to firm for the third consecutive month, with rates for shipments of 30,000–50,000 dwt on the Middle East/East route increasing by 30 points to settle at a monthly average of W310, while on the Singapore/East route, they surged by 121 points, or 38 per cent, to average W440.

The shortage in product supply, due to refinery outages and offline US Gulf Coast natural gas production, boosted US imports of products and pushed freight rates to exceptionally high levels in the Caribbean and the Atlantic Basin markets. However, freight rates for cargoes between the Caribbean and the US West Coast, as well as for cargoes moving from NW Europe to the US East and Gulf Coasts, surged by 163 and 182 points, respectively, to average W366 and W398. According to secondary sources, there were more than 80 additional ships moving products to the USA in September. With the very attractive rates, some dirty crude vessels have been cleaned and shifted to move clean products to the USA. Similarly, freight rates across the Mediterranean and from there to NW Europe experienced significant improvements, corresponding to 71 points and 61 points, respectively, to average W259 and W256. Compared to the same month last year, freight rates were higher on all routes. It is worth noting that freight rates on the Singapore/East and the Caribbean/US Gulf Coast routes, as well as the Atlantic Basin, reached levels not seen since late 2000.

World oil demand

September

Forecast for 2005

World oil demand growth this month has been revised down for the fifth consecutive time after peaking in April this year. Despite the constant revisions, world oil demand growth estimates have been relatively stable, in comparison with other years, oscillating within the 1.45–1.75m b/d range. This month's downward revision is, in part, the result of the latest data coming in from major consuming countries, which shows low growth demand rates for the first half of the year, especially from the USA and China. The initial effects of Hurricane Katrina have also been factored in; nonetheless it is important to emphasize that the revisions to demand growth are driven by factors such as high oil prices, higher domestic product prices in several developing nations, as well as changes in policy being implemented in several Asian nations. It is, as yet, too early to attempt to assess the impact of Hurricane Katrina on oil demand; however, the initial effects of loss in consumption are estimated at around 100,000–200,000 b/d for the current as well as the coming month, but the expected massive reconstruction process that will follow might quickly reverse, or at least diminish, the initial consumption loss. On the economic side, with the economy of the two most affected states (Louisiana and Mississippi) accounting for approximately three per cent of total US GDP, the impact on the US economy and the spillover effect on demand for oil and petroleum products should not be significant.

Therefore, total world oil demand in 2005 is projected to grow by 1.42m b/d, or 1.73 per cent, to average 83.49m b/d. On a regional basis, OECD oil demand is estimated to increase by 320,000 b/d, or 0.65 per cent, to average 49.79m b/d, with the major share of the growth originating in the North American region. Oil demand growth is projected to suffer a minor contraction in Western Europe, while OECD Pacific countries' demand will rise by one per cent y-o-y. Oil demand growth in developing countries is estimated to increase by 740,000 b/d, or 3.47 per cent, to average 22.13m b/d, which makes up more than 50 per cent of total world oil demand growth for the year. China's consumption growth has once again been revised down and now stands at 300,000 b/d, or 4.6 per cent, to average 6.82m b/d for the whole of 2005. Oil demand in the FSU and other Central European nations is projected to rise by 70,000 b/d and 20,000 b/d, respectively.

OECD

Oil demand in the OECD region is forecast to rise by 0.65 per cent, or 320,000 b/d, to an annual average of 49.79m b/d for the present year. Inland delivery of petroleum products for the period January-June shows a disappointing 260,000 b/d, or 0.57 per cent, expansion to average 45.79m b/d. All major product categories with the exception of LPG and residual fuel oil showed gains. Inland consumption of gasoil/diesel rose by 1.9 per cent, while kerosene and naphtha deliveries increased by 3.04 per cent and 3.27 per cent during the six-month period. Gasoline showed a very marginal 0.11 per cent rise, while residual fuel oil and other products contracted by 0.06 per cent and 1.7 per cent. In the North American region, inland deliveries of petroleum products rose by only 0.46 per cent over the first half of the year. The consumption of naphtha increased by 3.85 per cent, while gasoil/diesel and gasoline deliveries rose by 1.96 per cent and 0.73 per cent, respectively. Latest figures released by the EIA for the period January-August 2005, indicate a marginal 0.18 per cent growth in total petroleum product supply, a far lower rate than originally estimated. In Western Europe, consumption shows no growth for the six-month period as increases

in gasoil/diesel and kerosene were offset by a sizeable decline in gasoline and LPG deliveries. Surprisingly, delivery of petroleum products in OECD Pacific countries rose by 150,000 b/d, or 1.82 per cent, for the first six months of 2005. Naphtha and kerosene deliveries rose by 4.69 per cent and 3.71 per cent, respectively, while gasoline consumption grew by 2.72 per cent.

Developing countries

Developing countries' oil demand is forecast to rise by 740,000 b/d, or 3.47 per cent, to average 22.13m b/d for the whole of 2005. This month's forecast has been revised down to reflect projected lower demand growth in the Asia Pacific for the rest of the year. The economic impact of sustained high international oil prices on these countries has prompted the implementation of a series of measures designed to alleviate the negative effect of oil prices on their trade balances, as well as their national budgets. Countries in Asia have recently started to lower, or totally phase-out, subsidies, which resulted in a hike in domestic retail product prices, as well as encouraged fuel substitution. It is, as yet, too early to assess the full impact of such measures on the consumption of oil and petroleum products in these countries, due to the time-lag between implementation and impact. Nevertheless, we believe that consumption will be dampened towards the last month of the present year and the real impact of these measures will be felt during 2006. We reiterate once again the increasing risk that developing countries pose to any demand assessment, due to the quality, availability and timeliness of the data. Extreme caution must be exercised as 740,000 b/d, or more than half of the total 1.46m b/d global consumption growth for 2005, is projected to originate in this group of countries. Very preliminary figures for the first and second quarters of 2005, which show 4.24 per cent and 3.16 per cent y-o-y growth, seem to substantiate the projections for the whole year.

Other regions

Other Region's apparent demand growth for the present year is projected to rise by 350,000 b/d, or 3.15 per cent, to average 11.64m b/d – significantly lower than the 530,000 b/d growth estimate given two months ago. The considerably lower projected consumption is entirely due to a hefty 70,000 b/d downward revision in Chinese apparent demand growth. Latest figures on trade – one of the components of apparent demand – point to a sharp reduction in imports of petroleum products for the first seven months of 2005. For the period January-July, imports of petroleum products into China fell by around 220,000 b/d, or 30 per cent. While crude imports for the same period rose by 100,000 b/d, or 4.4 per cent, China's total net trade of crude and petroleum products shows a decline of nearly three per cent for the period. With indigenous crude production fairly flat during the first half of 2005, apparent demand for the first six months of the year shows a negligible 0.1 per cent increase with respect to the same period of last year. It is important to reiterate that China's apparent demand growth for the first half of 2004 was exuberant (20 per cent y-o-y) and that it was not likely to see such high growth rates during the first half of this year. Nonetheless, we still expect to see vigorous growth rates during the second half of this year, based on healthy rates of economic growth and possibly the diminished use of inventories.

Forecast for 2006

Average world oil demand is forecast to grow by 1.52m b/d, or 1.82 per, cent to average 85m b/d for 2006, a marginally lower estimate than that presented last month. The downward revision is due to a more pessimistic view of the world economy for the coming year. World GDP growth is now projected to rise by 3.9 per cent next year with the OECD Pacific, some developing economies and China showing lower than previously estimated rates of economic growth.

Oil demand is forecast to grow in all regions, except for Other Europe, where demand is expected to remain flat, compared to last year. OECD countries' oil demand is projected to rise by 460,000 b/d, or 0.92 per cent, to average 50.25m b/d for the whole of 2006. As usual, North America will account for around 80 per cent of the total gain in demand, with the remaining increase expected to originate in Western Europe and the OECD Pacific, where growth rates are projected at 0.4 per cent for both regions. Following estimated growth of nearly 1m b/d in 2004 and 740,000 b/d in 2005, oil demand for developing countries is forecast to rise by 650,000 b/d, or nearly three per cent, to average 22.78m b/d. Two regions (Asia and the Middle East) will account for nearly 80 per cent of the group's projected growth, with Latin America and Africa adding the remaining 20 per cent. Finally, China and FSU projections call for 350,000 b/d and 50,000 b/d growth in consumption, respectively, next year.

October

Forecast for 2005

The world oil demand growth estimate for the present year has once again been revised down as preliminary lower oil consumption data for July, August and, in some instances, September indicates a slowdown in oil and petroleum product demand in some important consuming countries. Thus, after the sixth consecutive revision, world oil demand growth is now estimated at 1.2m b/d – 1.4 per cent y-o-y growth – with a yearly average of 83.26m b/d.

There is enough evidence to indicate that oil demand growth will probably slow down further in the months to come and it is likely that consumption growth will be further revised down as we approach the end of the year. Nonetheless, there is still no compelling evidence for a dramatic drop in consumption. High crude oil prices have already triggered daring economic reforms in some emerging economies. This is the case in Indonesia where the government raised key fuel prices by an average of 126 per cent late last month. The price of kerosene – a politically sensitive primary cooking fuel used by the majority of Indonesia's poor – was raised by more than 185 per cent, while gasoline suffered an 87 per cent increase. Under the new pricing system, a committee of several ministers will be empowered to decide over domestic product prices and the target is to completely

phase out subsidies by early 2008. High oil prices have started to erode demand. It is, as yet, difficult to assess the external impact on consumption.

On the positive side, the economic outlook for the present year remains healthy at 4.24 per cent, with the exception of the USA, where second semester GDP growth is estimated to grow by 2.5 per cent – post-Katrina and Rita – well below the 3.5 per cent recorded in the first half. Advocates of a dramatic drop in demand, particularly for the coming winter season, would need to also take into account forecasts for colder-than-normal temperatures in the Northern hemisphere, which could raise consumption of heating oil fuels.

Finally, market pundits who feel vindicated by a substantial 2.7 per cent y-o-y drop in US consumption in the latest EIA figures for gasoline demand, based on the last four-week average, should also consider the yearly trend where gasoline consumption for the period January-August 2005 was 9.15m b/d, versus 9.11m b/d last year. In this context, the last four-week average might be misleading, especially when the period encompasses the post-Katrina period. In contrast, distillate consumption in the same period showed a slight 0.4 per cent rise. Thus, it is too early to draw conclusions about the impact of the hurricanes on petroleum product demand. It is possible that what is being reflected in the latest EIA figures could be a temporary phenomenon – but then again maybe it isn't.

OECD

Oil demand in OECD countries is projected to rise by less than two-thirds of one percentage point for the whole of 2005. The y-o-y rise in demand of 300,000 b/d estimated for 2005 makes up only one-quarter of the expected total world growth of 1.2m b/d, while the proportion of OECD consumption to total world demand is approximately 60 per cent. The main revision this month occurred in North American demand for the third quarter of 2005, which, according to preliminary figures for July and August and projections for September, indicates that there will be marginal growth at best. Most of the revision to third-quarter North American demand comes on the back of the aftermath of the hurricanes that severely affected the USA last month.

As stated before, the drop in product demand evidenced in September might be a temporary occurrence that could be followed by an increase in consumption when the reconstruction phase gains full steam, as well as by the fact that SPR releases ought to be replenished some time in the future. Western Europe demand is projected to marginally shrink in 2005. However, the more positive regional economic outlook for the present year might render some demand growth. OECD Pacific y-o-y growth for 2005 has been revised up, based on the positive performance of the first half of the year and a more optimistic economic outlook. Demand is projected to rise by 90,000 b/d, or 1.06 per cent, to average 8.62m b/d for the whole of 2005.

Inland deliveries of petroleum products for the period January–July 2005 indicate a growth rate of just 0.47 per cent over the same period of last year. The net volumetric gain of 210,000 b/d for the seven-month period comes on the back of higher gasoil/diesel, kerosene and naphtha consumption, partially offset by the sizeable drop in LPG use and to a lesser extent gasoline and residual fuel oil. During the first seven months, net North American regional demand was 100,000 b/d. The rise in gasoline and gasoil/diesel demand was capped by the drop in LPG and 'Other products' demand. In Western Europe, ongoing gasoil/diesel substitution for gasoline and the drop in LPG consumption resulted in a marginal demand contraction for the seven-month period. In the OECD Pacific region, the 120,000 b/d rise in demand during the first seven months – mainly increases in naphtha, and kerosene consumption – made up more than 50 per cent of the total OECD consumption growth for the period.

Developing countries

Developing countries' oil demand has been revised down slightly on the back of expected lower growth in Asia Pacific countries. Nonetheless, the more optimistic economic outlook for the region and indications of good demand growth for the first half of the year, despite high oil prices – according to preliminary data at hand – presents a puzzling situation. Emerging economies' oil demand is projected to grow by 710,000 b/d, or 3.34 per cent, to average 22.1m b/d for the year, or about 60 per cent of expected total world demand growth. As stated before, high international oil prices and the immense burden on national budgets of many of these nations have prompted governments to implement, in some instances, substantial policy reforms, which are very likely to have an impact on consumption of petroleum products in the months to come. The Asia Pacific – a region of healthy demand growth – represents a particular hazard to our demand forecasts as some governments have partially phased out subsidies and intend to bring domestic prices in line with market levels.

World oil demand growth revised down by 240,000 b/d to 1.2m b/d

Oil demand in India – a nation that has gone up several notches on the scale of large consuming countries and which probably by 2007 will overtake Germany as the fifth largest consumer – continues to grow at a solid rate. For the period January-August 2005, demand for crude oil and petroleum products has increased by 70,000 b/d, or 2.8 per cent, over the same period last year. In the same period, net exports of petroleum products fell by 66,000 b/d to 76,000 b/d from the previous year.

India continues to be a net importer of LPG and has been importing considerable quantities of jet kerosene to cope with domestic consumption. On the other hand, exports seem to have

picked up in August, especially of gasoil/diesel. On the crude side, India continues to import higher quantities of crude oil. During the first eight months of 2005, crude imports totaled 2.08m b/d, which represents an increment of nearly four per cent versus the same period of 2004. Crude oil imports of 2.74m b/d in May and 2.6m b/d in June this year constitute an all-time record.

Other regions

Apparent demand growth in the group Other Regions suffered a sizeable 190,000 b/d downward revision. Apparent demand is forecast to rise by just 160,000 b/d, or 1.4 per cent, to a yearly average of 11.4m b/d. Third-quarter apparent demand growth was revised down by 470,000 b/d, with most of the decrease originating in China, as well as the FSU, resulting in negligible growth for the quarter. Fourth-quarter growth was also revised down by 300,000 b/d – again the major part of the revision took place in the FSU, as well as China apparent demand. The significant revisions came on the back of the latest figures for the first eight months of the year, which point to contractions in demand for both China and the FSU. The latest figures for Chinese apparent demand, derived from production and trade statistics, but not accounting for stock changes, indicate that for the period January–August 2005, demand contracted by more than one per cent, compared to the same period last year.

Furthermore, for the last two months where data is available (July and August), apparent demand fell by three per cent y-o-y. Thus, to allow for any growth for the third quarter of 2005, apparent demand would have to rise by at least six per cent in September. With crude oil production being fairly stable in China, the source of the drop in apparent demand emanated from the sharp drop in imports principally in petroleum products. According to the latest figures, petroleum product imports for the period January–August 2005 of 450,000 b/d were near 40 per cent below the 740,000 b/d level seen in 2004.

On the crude side, Chinese imports for the first eight months of 2005 experienced a three per cent y-o-y rise. Therefore, the combined effect on the total Chinese oil trade balance is a 220,000 b/d, or seven per cent, decline with respect to 2004. As new data becomes available it is clear that the early optimistic growth in Chinese consumption, based on GDP growth and income elasticity of demand, is unlikely to materialize. With the disappointing performance seen for the first eight months of the year, apparent consumption in China must grow by around 350,000 b/d during the last three months for the forecast 120,000 b/d yearly growth to take place. On a positive note, advance buying ahead of the Chinese lunar year could lift demand. However, any increase for the last quarter of this year will be limited by the hefty 20 per cent fourth-quarter 2004 growth.

Forecast for 2006

Despite the upward revisions to many regions, as well as the forecast for total world GDP growth for 2006, world oil demand has been revised down slightly. Thus, global oil demand is projected to rise by 1.47m b/d, or 1.8 per cent, to a yearly average of 84.73m b/d. The lower growth figure comes about from factoring in the price impact through historic price elasticity coefficients. With the sole exception of Other Europe, where demand is expected to remain almost flat from the 2005 level, oil demand is forecast to grow in all other regions. OECD demand is projected to rise by 470,000 b/d, or 0.94 per cent, to average 50.24m b/d for the whole of 2006. North America, as usual, will account for around 80 per cent of the total gain in demand, with the remaining growth originating in Western Europe and the OECD Pacific, with growth rates projected at 0.4 per cent for both regions. Following growth of nearly 1m b/d in 2004, and an estimated 700,000 b/d in 2005, oil demand in developing countries is forecast to rise by 570,000 b/d, or 2.6 per cent, to average 22.68m b/d. The Asia Pacific region will account for more than 50 per cent of the total group's projected growth, with the remaining two-fifths equally distributed among the other three sub-regions. Finally, China and FSU projections call for respective demand growth of 350,000 b/d and 70,000 b/d for next year.

World oil supply

September

Non-OPEC

Forecast for 2005

Non-OPEC supply in 2005 is expected to average 50.41m b/d, representing an increase of 610,000 b/d over the previous year, following a downward revision of 120,000 b/d to last month's figures. Non-OPEC supply (including OPEC NGLs and non-conventional oils) is expected to increase by an average 800,000 b/d over 2004. On a quarterly basis, production for the second, third, and fourth quarters have been revised down by 47,000 b/d, 257,000 b/d and 173,000 b/d, respectively. Revisions to US production account for the bulk of the adjustments in the third and fourth quarter of 2005, but given the uncertainties related to the recovery of US Gulf of Mexico production post Katrina, this forecast is likely to be revised again in the coming months.

OECD

The outlook for the OECD has been revised down on the back of significant revisions to the outlook for the USA. OECD oil production is estimated to average 20.73m b/d, which represents a decline of 550,000 b/d versus the previous year, and a downward revision of 158,000 b/d. Production losses, due to unplanned maintenance in Norway, and the impact of weather-related shutdowns in the USA, have contributed to significant production losses in the OECD. In our last report, we said that expected OECD losses at the time represented a record, but given the latest revision, that record has already been broken.

Production and the outlook for the USA has been affected by Hurricane Katrina. Before Katrina, the USA was expected to show a modest drop of 20,000 b/d in 2005, versus 2004. Now, US production is seen to drop by 140,000

Non-OPEC supply growth has been revised down again following significant revisions to the outlook for the USA

b/d, but could fall even further. US production is now expected to average 7.52m b/d in 2005, and on a quarterly basis is expected to be 7.71m b/d in the first quarter of 2005, 7.77m b/d in the second, 7.36m b/d in the third, and 7.25m b/d in the fourth. This represents a downward revision of 13,000 b/d in the first quarter of 2005, up 18,000 b/d in the second quarter, and down 250,000 b/d in the third and fourth quarters, versus earlier expectations. Katrina-related losses are assumed to average 750,000 b/d in September, 350,000 b/d in October, 200,000 b/d in November and 150,000 b/d in December. The only material damage reported to date is Mars (150,000 b/d), which is assumed to remain offline until the second quarter of 2006. Under this assumption, total crude losses could reach 45m b by the end of the year.

It is important to keep in mind that most of the oil production outside of the Louisiana offshore production area has been restored. At the present some, 840,000 b/d remain shut, 90 per cent of which is in the Louisiana offshore production area, which was hit the hardest by the path of Katrina. Several deepwater fields account for the bulk of the shutdowns (Mars, Ursa, Marlin, Nakika, Pompano, King, Horn, Medusa, Mica and others accounting for approximately 500,000 b/d of crude). However, it has been reported that a number of operators are looking for options to restart production in several facilities in the Louisiana offshore area, pending further assessment of the connecting pipeline infrastructure for oil and gas from the platforms to onshore. So far, no material damage to the pipelines has been reported, but it is too early to tell. But the fact that operators have reported that several fields could come back to production, subject to options, indicates limited physical damage to these production platforms.

The recovery of production depends on many factors and remains largely unknown. In addition, it should not be forgotten that the hurricane season is not yet over – the last forecast by the US National Weather Centre (August) calls for a total of 18 to 21 tropical storms, of which nine to 11 may become hurricanes, compared to earlier expectations for just five to seven hurricanes. So far, we have seen only two bad ones – Emily and Katrina.

The supply forecast for Mexico remains broadly unchanged despite the underperformance of crude oil production in July when output was reduced 80 per cent for a few days as a precautionary measure ahead of Hurricane Emily. However, July data shows that output averaged around 400,000 b/d less than in the previous month (June), and this has resulted in a downward revision of 34,000 b/d to the third quarter of 2005 and a revision of 8,000 b/d to the full year. Mexican oil supply is now expected to average 3.77m b/d in 2005, which represents a decline of 70,000 b/d over the previous year. The outlook for Canada remains unchanged; oil supply is expected to average 3.05m b/d, a decline of 20,000 b/d versus 2004.

Total oil supply in OECD Europe is now expected to average 5.84m b/d, which represents a decline of 300,000 b/d from last year and a negative adjustment of 23,000 b/d. Oil supply in Norway is expected to average 3.06m b/d, a decline of 120,000 b/d versus 2004, and a revision of 23,000 b/d. Year-to-date, Norwegian production has averaged approximately 300,000 b/d less than in the same period last year, and was down almost 800,000 b/d in June. Unplanned shutdowns, early maintenance and production restrictions in several facilities have led to a poor performance, but the impact of these is expected to disappear in the third and fourth quarters of 2005. UK oil supply is expected to average 1.92m b/d, which represents a decline of 170,000 b/d versus 2004. Elsewhere in the OECD, oil supply in the Pacific region is expected to average 550,000 b/d, which represents a decline of 30,000 b/d.

Developing countries

The outlook for the developing countries has been revised up slightly. Oil supply is estimated to average 12.51m b/d in 2005, which represents an increase of 610,000 b/d versus 2004, and an upward adjustment of just 9,000 b/d.

The base and outlook for Colombia has been revised up slightly and this accounts for the upward revision within this group. Colombian production is now expected to average 520,000 b/d in 2005, which represents a decline of 20,000 b/d versus 2004, and a positive revision of 18,000 b/d. However, third-quarter 2005 production data for Ecuador has been revised down to reflect production losses during the strike. Crude oil production was brought to a halt in August, following disruption to the infrastructure. Assuming a full recovery from September, production is now expected to average 520,000 b/d, unchanged from 2004 and a revision of 10,000 b/d.

The project Baobab in Côte d'Ivoire has started producing. The field is pumping close to 50,000 b/d and is expected to reach a peak of 65,000 b/d by early 2006. In India, the operator of the damaged Bombay High complex has been able to restore some of the 100,000 b/d lost during the accident. About 70 per cent of the lost production is expected to be restored by late September and the rest in the coming months. Therefore, the outlook for India remains unchanged from our revised August figure. In Chad, production at the country's only oil project is reported to be averaging 180,000 b/d, versus capacity of 225,000 b/d. We will assess the situation in the coming weeks, with a view to evaluating the future production prospects of the country.

Other regions

The outlook for the FSU has been revised up slightly. FSU production is now expected to average 11.55m b/d, an increase of 380,000 b/d, versus 2004 and an upward revision of 28,000 b/d. The forecast for 'Other regions' (Other

Europe and China) remains unchanged. Total oil production is estimated to average 3.78m b/d in 2005, which represents an increase of 140,000 b/d from 2004.

The outlook for Russia remains broadly unchanged. Russian oil supply is expected to average 9.39m b/d, an increase of 200,000 b/d versus 2004, and a positive revision of 30,000 b/d, versus earlier expectations. Preliminary data for the month of July and August indicates that production was 9.45m b/d and 9.49m b/d, respectively, slightly higher than our expectations for the period of 9.4m b/d on average. We have adjusted the production base for the rest of the year to account for this slightly higher level of production, but we expect virtually no incremental growth from the third to the fourth quarter of 2005. Export tariffs are expected to increase again from October 1 to a new record of $24.6/b and this, combined with expected losses at Yukos and other producers, should result in nearly flat production during the seasonally low growth period of the fourth quarter of 2005.

Non-OPEC oil supply in 2006 is expected to average 51.48m b/d

In the Caspian region, the outlook for Azerbaijan has been revised up slightly, but has been revised down for Kazakhstan, following lower-than-expected production (preliminary data) in July and August. Data for the first two months of the third quarter of 2005 shows that Azerbaijan production performed slightly better than expected. As a result, the estimate for the third quarter of 2005 has been revised up by 20,000 b/d and the full year by 5,000 b/d. In Kazakhstan, the lower-than-expected performance is related to temporary production shutdowns, due to gas-flaring restrictions and a reduction of production at some of the large fields (Karachaganak), due to technical issues. Kazak oil production is expected to average 1.29m b/d in 2005, or 80,000 b/d more than last year.

Forecast for 2006

Non-OPEC oil supply in 2006 is expected to average 51.48m b/d, an increase of approximately 1m b/d over 2005, and a downward revision of 29,000 b/d from last month's report. Non-OPEC supply (including OPEC NGLs and non-conventional oils) is expected to average 56.01m b/d, an increase of 1.4m b/d over 2005. The adjustment reflects primarily the impact of Hurricane Katrina on US production and lower-than-expected production in Norway, partially offset by slightly better expectations in Latin America and the FSU.

On a regional basis, the largest contributor is expected to be the African region at 440,000 b/d, followed by the FSU at 350,000 b/d, Latin America at 170,000 b/d and North America at 110,000 b/d, whilst OECD Europe, the Pacific and the Middle East are expected to show a net decline of approximately 30,000 b/d, 20,000 b/d and 110,000 b/d, respectively. Oil production growth is underpinned by the start-up of several projects in deepwater, bitumen extraction and syncrude projects, as well as the continuing expansion of the Caspian region. Deepwater alone is expected to account for approximately 60 per cent of the net growth.

Revisions to the 2006 forecast

On a quarterly basis, the forecast for non-OPEC supply has been revised down by 100,000 b/d for the first quarter and by 63,000 b/d for the third quarter and revised up by 44,000 b/d for the fourth quarter, resulting in a full-year adjustment of 29,000 b/d. The outlook for the USA has been revised down primarily based on the assumption that the Mars production platform will not be back on until the third quarter of 2006. Reports suggest that the platform was producing 150,000 b/d prior to Katrina from the main field and other satellites. We have assumed that some of this production will be restored progressively, but it will take time, given the damage caused to the drilling unit of the platform. In addition, at least 20,000 b/d may have been permanently lost as many small production units along the Louisiana area have disappeared. But we have not yet fully incorporated this into our forecast.

As a consequence of this, plus other minor adjustments to the profile, the outlook for the USA has been revised down in the first and third quarters of 2006.

Norwegian production has also been revised down by a slight 50,000 b/d, based on the significant year-to-date underperformance. However, production is still expected to edge higher in 2006, versus 2005, to average 3.1m b/d, an increase of 50,000 b/d. As a result, the growth rate remains unchanged. This report also incorporates the expected contribution from a new project to come onstream in the Philippines in the third quarter of 2006. In Colombia, revisions to the base in 2005 have also been carried through to 2006, resulting in a positive adjustment of 20,000 b/d. Finally, the production base for Russia has been revised up slightly to reflect 2005 production, but the expected growth rate of 80,000–100,000 b/d in 2006 versus 2005 remains unchanged.

FSU net oil export (crude and products)

In 2005, FSU net oil exports are expected to average 7.62m b/d. On a quarterly basis, net oil exports are expected to average 7.49m b/d in the first quarter of this year, 7.69m b/d in the second, 7.69m b/d in the third, and 7.56m b/d in the fourth. This represents a y-o-y increase of 300,000 b/d, versus 2005. The latest available data (July) shows Russian net oil exports averaging 6.3m b/d, which represents a y-o-y increase of 200,000 b/d, based on data available for rail and pipeline exports. We would highlight that rail exports have been reduced significantly since March 2005 – from 700,000 b/d to just 291,000 b/d in July – mainly as a result of high export tariffs and high operating costs for rail exporters.

The forecast for 2006 shows FSU net oil

exports averaging 7.91m b/d, which represents an increase of 300,000 b/d over 2005, and a positive revision of 10,000 b/d versus last month's report. Next year, we expect the bulk of the increase to come from Caspian producers, notably Azerbaijan (see **Table D**).

OPEC NGLs and non-conventional oils

The forecast for 2005 remains unchanged at 4.21m b/d, representing an increase of 210,000 b/d over 2004. In, 2006, OPEC NGLs production is expected to average 4.53m b/d, an increase of 330,000 b/d over 2005. The forecasts for NGL in 2005 and 2006 are likely to be revised up to reflect a higher production level in some OPEC Countries (see **Table E**).

OPEC crude oil production

Total OPEC crude production averaged 30.2m b/d in August, unchanged from last month, according to secondary sources. Production increased primarily in Saudi Arabia, Kuwait and the UAE. Iraqi oil production averaged 1.9m b/d. Production for Iraq is taken by some secondary sources as net of re-injection (see **Table F**).

October

Non-OPEC

Forecast for 2005

Non-OPEC supply in 2005 is expected to average 50.30m b/d, representing an increase of 490,000 b/d over the previous year, following a downward revision of 113,000 b/d to last month's figures. Non-OPEC supply, including OPEC NGLs and non-conventional oils, is expected to increase 700,000 b/d over 2004. On a quarterly basis, non-OPEC supply has been revised down in the third and fourth quarters by 127,000 b/d and 331,000 b/d, respectively; negative revisions to US Gulf of Mexico and UK production account for the bulk of the adjustments, partly offset by upward revisions in Australia and in several developing countries. However, the outlook for the USA remains largely unknown and will likely be revised again in the coming months.

OECD

As expected, the OECD has been revised down on the back of significant revisions to the US Gulf of Mexico. OECD oil supply is expected to average 20.56m b/d, which represents a decline of 710,000 b/d versus the previous year, and a downward revision of 170,000 b/d. This report takes note of the recent positive news in the OECD, including good production performance in Denmark, a brief bounce in Norwegian production, and higher-than-expected production in Australia.

However, the impact of hurricane-related shutdowns in the US Gulf of Mexico, combined with underperformance in UK crude production, continue to be a major drag on the overall performance of the OECD and non-OPEC as a whole. The average expected losses in the OECD are now close to 710,000 b/d for the full year, but much of it is concentrated in the third and fourth quarters of 2005, resulting in relatively significant losses of good quality crude during the winter period.

US update

The outlook for total US production depends on the expected recovery of Gulf of Mexico production, and therefore remains largely unknown. Last month, we revised down the third and fourth quarters of 2005 by 250,000 b/d each to reflect certain assumptions that have now turned out to be conservative. At that time, Katrina-related losses in 2005 were assumed to average 750,000 b/d in September, 350,000 b/d in October, 200,000 b/d in November, and 150,000 b/d in December. Now, after considering the latest information, we have revised our assumptions further to reflect the following: September actual losses (1.1m b/d), projected losses in October (1m b/d), November (750,000 b/d), and December (400,000 b/d). These assumptions have resulted in a downward revision for the third quarter of 2005 of 221,000 b/d and 450,000 b/d for the fourth quarter of 2005, compared to last month's report. Total US oil supply is now expected to average 7.14m b/d in the third quarter of 2005 and 6.8m b/d in the fourth quarter. For the full year, US oil supply is expected to average 7.34m b/d, which represents a drop of around 300,000 b/d, versus 2004.

At the time of writing, 1m b/d remained shut in the Gulf of Mexico, 80 per cent of which is in the New Orleans–Houma offshore production area, which was hit the hardest by the path of Katrina (never recovered before Rita arrived), and is the one most likely to see a slow return. Of the 800,000 b/d that are currently shut in this area, it is estimated that 35 per cent are affected due to severe damage to onshore infrastructure (estimated up to three months to fully repair), another 25 per cent are affected due to severe physical damage to production facilities, many of which are deepwater fields (estimated up to eight months to fully repair). In addition, approximately 50,000 b/d have been permanently lost in the Gulf of Mexico, due to the collapse and disappearance of a number of platforms.

Elsewhere in North America, the supply forecasts for Mexico and Canada remain unchanged. Mexican oil supply is expected to average 3.77m b/d in 2005, which represents a decline of 70,000 b/d versus the previous year. However, several reports suggest that Pemex may need to reduce production by up to ten per cent some time in the fourth quarter, following damage to US refineries, which have reduced demand. Whilst no official announcements have been made on this issue at the time of writing, it is clear that a lack of customers, combined with limited storage capacity, should lead to some production being deferred. Therefore, the outlook for Mexican oil production is now on the watch-list for a potential downgrade. On the other hand, the outlook for Canada remains unchanged and solid – oil supply is expected to average 3.05m b/d, a decline of 20,000 b/d, versus 2004. Syncrude production at the damaged Suncor facility has now been restored in line with expectations. And the White Rose project (100,000 b/d), offshore Newfoundland, will start on time at around the end of October. Already, the first cargo available for November 10–15 lifting is being marketed, according to some reports. These two factors provide the base for the recovery of Canadian oil production to 3.17m b/d in the fourth quarter of 2005,

compared to average production of 3m b/d in the first nine months of 2005.

Total oil supply in OECD Europe is now expected to average 5.82m b/d, which represents a decline of 310,000 b/d, versus last year and a negative adjustment of 20,000 b/d. Oil supply in Norway is expected to average 3.06m b/d, a decline of 120,000 b/d versus 2004. Following significant underperformance in the first six months of 2005, preliminary data for September shows crude production up by 200,000 b/d versus August. In Norway, unplanned shutdowns, deeper and prolonged maintenance, and production restrictions in several facilities, led to a poor performance in the first half of 2005 and this is likely to lead to a reduction in the production forecast for 2005 and possibly 2006. In fact, based on the preliminary data, the September rebound may still not be sufficient to arrive at our third quarter of 2005 average of 3.03m b/d, much less to the expected full-year average of 3.06m b/d. At the time of writing, Statoil made an announcement that production on the Sleipner East and West had been halted after a gas leak was found, resulting in the shutdown of 95,000 b/d of condensate, which would affect output as well. UK oil supply is expected to average 1.90m b/d, which represents a decline of 190,000 b/d versus 2004, and a negative revision of 23,000 b/d, versus the last report. The most recent data shows UK crude production down ten per cent in the first half of 2005, from year-ago levels, despite the fact that technical issues have been fixed in several fields. The underperformance appears to be due to field deliverability issues, rather than technical faults. Therefore, we have adjusted UK production for the fourth quarter of 2005 down by 48,000 b/d and revised the base by a similar amount into 2006.

Oil supply in the Asia Pacific region is now expected to average 580,000 b/d, unchanged from 2004, but an upward adjustment of 30,000 b/d. A significant revision in Australia provides the basis for the change. Total Australian crude production in the second quarter of 2005 was 71,000 b/d, higher than previously thought, according to official data. The difference may have been due to the exclusion of some of the production from the new Mutineer-Exeter project, which started at the end of the first quarter of 2005, and was underreflected in the total number until recently. Our numbers now reflect a slightly higher base than before, resulting in positive revisions of 23,000 b/d and 40,000 b/d for the third and fourth quarters of 2005, respectively. The base for 2006 has also been revised up slightly.

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

	1Q	2Q	3Q	4Q	Year
2001	4.30	4.71	4.89	4.47	4.59
2002	5.14	5.84	5.85	5.49	5.58
2003	5.87	6.75	6.72	6.61	6.49
2004	7.17	7.30	7.38	7.37	7.31
2005[1]	**7.49**	**7.77**	**7.82**	**7.72**	**7.70**
2006[2]	**7.68**	**8.06**	**8.11**	**8.00**	**7.96**

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

Table E: OPEC NGL production, 2002–06

m b/d

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

Developing countries

The outlook for the developing countries has been revised up slightly. Total oil supply is expected to average 12.53m b/d in 2005, which represents an increase of 620,000 b/d versus 2004, and an upward adjustment of 24,000 b/d.

The revision reflects the inclusion of actual data for the second quarter of 2005 and minor changes to the outlook for the third and fourth quarters of the current year in several DCs. Positive adjustments have been made to Malaysia (4Q2005), Yemen (4Q2005), Other Africa, and Other Latin America, whilst negative adjustments were made to Vietnam (3Q2005), Trinidad (3Q2005), and Malaysia (2Q2005). In addition, the outlook for Angola has been revised up by 43,000 b/d for the fourth quarter of 2005 on the expectation of a higher contribution from Kizomba B (onstream since July) and the BBLT Phase I project (start in December 2005).

Elsewhere, we remain cautious about the outlook for Chad. As reported last month, production from the Doba project appears to have settled at a level that is less than what is currently estimated. The project began in 2003 and reached its designed capacity of 220,000 b/d, but recent trading reports indicate that only five to six cargoes a month of around 900,000 barrels are being marketed regularly since at least May. This level suggests that production is around 160,000 to 190,000 b/d, or 50,000 b/d below capacity. We will assess the situation further with a view to evaluating the future prospects of the country in our next report.

Other regions

The outlook for the FSU has been revised up slightly. FSU oil supply is now expected to average 11.56m b/d, an increase of 410,000 b/d versus 2004, and an upward revision of 28,000 b/d. The forecast for 'Other regions' (Other Europe and China) remains unchanged. Total oil supply is expected to average 3.79m b/d in 2005, which represents an increase of 140,000 b/d from 2004.

The outlook for Russia in 2005 remains unchanged. Russian oil supply is expected to average 9.39m b/d, an increase of 200,000 b/d versus 2004. Official data for the months of July, August and September indicates that production was 9.45m b/d, 9.49m b/d and 9.48m b/d, respectively, which is slightly higher than our expectation of 9.46m b/d for the third quarter of 2005. Last month, we adjusted the 2005 production forecast to account for this higher level of production; going forward we still expect no material incremental growth from the third to the fourth quarter of 2005, on the assumption that production increases slightly in October, but then declines in the latter part of the year, in line with the trend for this period. The Russian Ministry has also announced that production growth will be lower than originally

Table F: OPEC crude oil production, based on secondary sources									1,000 b/d
	2003	2004	4Q04	1Q05	2Q05	Jul 05	Aug 05	Sep 05	Sep/ Aug
Algeria	1,134	1,228	1,285	1,313	1,343	1,362	1,367	1,368	1.3
Indonesia	1,027	968	963	951	944	937	936	925	-10.4
IR Iran	3,751	3,920	3,947	3,900	3,946	3,987	3,973	3,967	-5.5
Iraq	1,321	2,015	1,960	1,834	1,841	1,941	1,936	2,005	68.8
Kuwait	2,172	2,344	2,448	2,438	2,506	2,509	2,530	2,559	29.0
SP Libyan AJ	1,422	1,537	1,608	1,613	1,634	1,649	1,654	1,661	6.8
Nigeria	2,131	2,352	2,344	2,332	2,423	2,474	2,428	2,425	-2.3
Qatar	749	778	792	784	793	797	799	800	1.2
Saudi Arabia	8,709	8,982	9,450	9,220	9,456	9,487	9,506	9,532	26.2
UAE	2,243	2,360	2,486	2,396	2,399	2,448	2,458	2,485	26.7
Venezuela	2,305	2,577	2,605	2,699	2,636	2,627	2,615	2,609	-6.0
OPEC-10	**25,643**	**27,045**	**27,929**	**27,647**	**28,082**	**28,275**	**28,265**	**28,332**	**67.0**
Total OPEC	**26,965**	**29,060**	**29,889**	**29,481**	**29,923**	**30,216**	**30,201**	**30,337**	**135.8**

Totals may not add, due to independent rounding.

expected in 2005 and 2006. Crude export tariffs have increased from October 1 to a new record of $24.6/b and this, combined with expected losses at Yukos and other producers, should result in no growth in the fourth quarter of 2005, despite the start-up of the Sakhalin 1 project in early October (Sakhalin 1 is expected to produce 50,000 b/d by year-end and then rise to 250,000 b/d by the end of 2006). On the positive side, Gazprom and Sibneft have finally agreed to combine forces and this should reduce the uncertainty at this major oil company (ie Sibneft), which has seen its production drop (presumably due to a reduction in investment and activity) in 2005.

In the Caspian region, the outlook for Azerbaijan has been revised up slightly, but remains unchanged for Kazakhstan. Actual data for the first and second quarters of 2005 and the latest data shows that Azeri oil production has performed better than expected. As a result, the estimate for 2005 has been revised up by 38,000 b/d. The positive performance is due mainly to the ACG project, which is connected to the BTC pipeline. The BTC pipeline started to be filled in May and this process is expected to be completed by late October to allow for first exports from the Mediterranean port of Ceyhan this year. However, some reports have suggested that exports are likely to be delayed until early in 2006, whilst others indicate that the project is on target. Kazak oil production is expected to average 1.26m b/d in 2005, 80,000 b/d more than last year. This forecast, however, assumes that there is a slight improvement of 30,000 b/d in the fourth quarter of 2005, versus recent trends. Elsewhere, in the FSU we have revised slightly down the outlook for Turkmenistan to reflect actual numbers for the first and second quarters of 2005 and this has translated into a negative revision of 10,000 b/d for the full year. Production in Turkmenistan was previously estimated at 217,000 b/d for 2005, but this has now been reduced to 197,000 b/d.

Forecast for 2006

Non-OPEC oil supply in 2006 is expected to average 51.57m b/d, an increase of 1.27m b/d over 2005, and an upward revision of 90,000 b/d from last month's report. Non-OPEC supply including OPEC NGLs and non-conventional oils is expected to average 56.19m b/d, an increase of 1.6m b/d over 2005.

On a regional basis, the largest contributor is expected to be the African region with 440,000 b/d, followed by the FSU with 340,000 b/d, North America with 340,000 b/d, and Latin America with 150,000 b/d, whilst OECD Europe and the Pacific and the Middle East are expected to show net drops of approximately 70,000 b/d, 20,000 b/d and 90,000 b/d, respectively.

Oil production growth is underpinned by the start-up of over 35 greenfield projects in deepwater, bitumen extraction and syncrude projects, as well as the continuing expansion of the Caspian region. Deepwater alone is expected to account for approximately 50–60 per cent of net growth. However, the expected return of US Gulf of Mexico production is also an important feature of the profile in 2006.

Revisions to the 2006 forecast

On a quarterly basis, the forecast for non-OPEC supply has been revised up by 19,000 b/d, 145,000 b/d, 113,000 b/d and 86,000 b/d in the first, second, third and fourth quarters, respectively, resulting in a full-year adjustment of 91,000 b/d. The outlook for the USA has been revised down by 150,000 b/d for the first quarter of 2006, based on the expectation that more losses than previously thought will continue, but the outlook for the second, third and fourth quarters of 2006 has been revised up by 56,000 b/d, 76,000 b/d, and 196,000 b/d, respectively. Beyond the second quarter of 2006, the return of production will begin to

OPEC capacity expansions — moving ahead

The 137th Meeting of the Conference, held in Vienna on September 19–20, 2005, agreed to make available to the market the spare capacity of around 2m b/d of OPEC Member Countries, should it be called for, for a period of three months, starting October 1, 2005. The Conference further noted that Member Countries are implementing significant investment plans, in some cases together with international companies, to accelerate the expansion of crude production from about 32.5m b/d to at least 38m b/d by 2010, to meet future demand growth. In addition, further investments are being undertaken to expand the production of other liquids by 1.8m b/d, including NGLs, condensates, ethane, GTL, and non-conventional oils.

OPEC crude capacity currently stands at 32.5m b/d and is expected to increase further to 32.9m b/d by the end of the year, assuming Iraq's production remains at 2m b/d. This represents a growth of 1m b/d versus the end of 2004 and 1.6m b/d compared to the average capacity seen in 2004. Capacity growth in 2005 is underpinned by projects completed at the end of 2004, as well as several projects executed during 2005; to be more precise there are at least 26 important projects representing over $20 billion of new investment. Of these, 17 projects will produce light quality crude (>32° API), six medium-quality crude (26-32° API), and three heavy quality crude (<26° API). With current OPEC crude output estimated at 30.34m b/d — with Iraq estimated at 2m b/d, net of re-injection — spare capacity stands at around 2m b/d.

By the end of 2006, OPEC crude capacity is expected to increase further to 33.9m b/d, assuming Iraq remains at 2m b/d. This represents an increase of 900,000 b/d versus the end of 2005, and a cumulative expansion of around 2m b/d versus the end of 2004. During 2006, expansions are expected in almost every Country, but the bulk will take place in Algeria, Iran, Libya, Nigeria, Saudi Arabia, and UAE. There are 18 important projects representing over $15 bn of new investments, which come on top of ongoing redevelopment and complementary infrastructure projects. Of the 18 upstream projects, 12 have light-quality crude and six medium-quality crude. It should be noted that the capacity expected at the end of 2006 is also much higher than the estimated required OPEC crude in the fourth quarter of 2006 of 28.9m b/d. Iraq may additionally contribute to the increase in capacity if conditions allow.

OPEC is, and has always been, committed to expanding capacity to meet the needs of the market. Focusing on the medium term, between the end of 2004 and the end of 2010, over 100 new projects, including expansions, are expected to add a net 5.5m b/d of crude oil at an estimated cost of $100bn. A project list can be easily constructed based on public information and published studies and reports. In addition, as pointed out in the April and August reports, the crude quality of new projects is overwhelmingly light — in fact 67 per cent of the estimated total gross new oil is expected to be light. The average quality of total OPEC production and capacity is, and has always been, primarily medium (26° to 32° API) and light (>32° API) and with a high sulphur content, and this combined with the crude type of the medium-term expansion is likely to maintain the current mix.

feed through, and this, combined with the start-up of several projects, is expected to result in the recovery of US production from the second quarter of 2006 onwards. By the fourth quarter of 2006, total US production is expected to be 900,000 b/d higher than in the fourth quarter of 2005.

Our new assumptions for total hurricane-related losses in the USA in 2006 are 300,000 b/d in the first quarter of 2006, 200,000 b/d in the second quarter, and permanent losses of 50,000 b/d, compared with last month's assumption of 150,000 b/d in the first and second quarters of 2006 and no permanent losses. The new assumption is underpinned by a number of reports of damage to platforms, onshore infrastructure, and production facilities. In addition, as reported by several oil companies, the impact of the hurricanes may delay ongoing work in many projects, as well as the schedule of new start-ups, in particular the big deepwater projects.

However, the effect, if any, that these delays will have on production in the future is difficult to assess at this time. The big deepwater projects that will make a material contribution to US supply next year include Thunder Horse (start at the end of the second quarter of 2006 – 250,000 b/d at peak), and Atlantis (start at the fourth quarter of 2006 – 200,000 b/d at peak). At this time, we will refrain from making any adjustments to the project schedule.

Elsewhere, we now expect slightly higher production in Australia, Yemen, Angola and Azerbaijan, partially offset by slightly lower expectations for the UK and Brazil. The outlook for Australia has been revised up to reflect primarily a higher base. Australian oil supply is now expected to average 490,000 b/d in 2006, which represents a decline of 30,000 b/d versus 2005. In Yemen, we have incorporated output from a new satellite project in 2006; production is expected to average 380,000 b/d, versus 360,000 b/d earlier, representing a decline of 20,000 b/d versus 2005. Recent reports suggest that a high level of E&P activity is taking place in Yemen, which may translate into a better-than-expected performance next year. In Angola, the adjustment reflects pri-

marily the contribution from the BBLT Phase II project, which is now expected to start earlier than previously thought. The BBLT Phase II is expected to start in six months (compared to one year before) after Phase I (December 2005 – 50,000 b/d at peak) and will contribute another 70,000 b/d by 2007.

Finally, in Azerbaijan, the impact of higher production levels in 2005 has translated into a higher base. However, the growth rate remains unchanged. Azeri production is expected to average 570,000 b/d in 2006, an increase of 140,000 b/d versus 2005.

The outlook for the UK has been revised down by 48,000 b/d, based on the significant year-to-date underperformance. UK oil supply is expected to average 1.81m b/d in 2006, which represents a decline of 90,000 b/d versus 2005. In Brazil, a delay in the start-up of the Jubarte Phase I field (60,000 b/d) from late 2005 to the first quarter of 2006, has resulted in a downward revision for the absolute production level, and this, combined with expected higher levels of cumulative decline, has led to a downward revision of 35,000 b/d for the full year. Brazilian oil supply is now expected to average 2.17m b/d in 2006, compared to 2.2m b/d earlier. In 2006, three oil projects are expected to start: Jubarte Phase I, Golfinho Module 1 (100,000 b/d in the second quarter of 2006) and Piranema (20,000 b/d).

FSU net oil export (crude and products)

In 2005, FSU net oil exports are expected to average 7.7m b/d. On a quarterly basis, net oil exports are expected to average 7.81m b/d in the third quarter and 7.72m b/d in the fourth quarter. The latest available data (August) shows Russian net oil exports averaging 6.3m b/d, which represents a y-o-y increase of 300,000 b/d, based on data available for rail and pipeline exports. We would highlight that rail exports have been reduced significantly since March 2005 – from 700,000 b/d to 291,000 b/d in July, but recovered somewhat in August to 380,000 b/d. The forecast for 2006 shows FSU net oil exports averaging 7.96m b/d, which represents an increase of 260,000 b/d over 2005 (see **Table D**).

OPEC NGLs and non-conventional oils

The 2004 base for OPEC NGLs has been revised up by 90,000 b/d to include a higher level of NGL production for Saudi Arabia. This new level is now reflected in the 2004, 2005, and 2006 base. However, the growth forecast for 2005 and 2006 remains unchanged at 200,000 b/d and 330,000 b/d, respectively. This increase should result in average production in 2005 and 2006 of 4.3m b/d and 4.62m b/d, respectively (see **Table E**).

OPEC crude oil production

Total OPEC crude production averaged 30.34m b/d in September, or 136,000 b/d more, than last month, according to secondary sources. Production increased in all countries except Algeria, Indonesia, Iran, Nigeria and Venezuela. Iraqi oil production averaged 2.01m b/d, net of re-injection (see **Table F**).

Rig count

September

Non-OPEC

The non-OPEC rig count stood at 2,600 rigs, which represents an increase of 71 rigs, compared to the previous month. Of the total, 292 rigs were operating offshore and 2,308 onshore. In terms of the oil and gas split, there were 786 oil rigs and 1,792 gas rigs. The number of oil rigs increased by 38 over the previous month. Regionally, North America gained 72 rigs versus last month, while Western Europe lost four rigs and the OECD Pacific gained two rigs. The Middle East, Africa, Latin America and rest of Asia gained one rig.

OPEC

The OPEC rig count was 277 in August, which represents an increase of seven rigs from last month. Increases took place in Algeria (five), Indonesia (one), Kuwait (three), Nigeria, (one), Qatar (one), and the UAE (one). These gains were partly offset by declines in other OPEC Countries. Of the total, 211 rigs were operating onshore and 66 rigs offshore and in terms of oil and gas split, there were 221 oil rigs, while the remainder was gas and other rigs.

October

Non-OPEC

The non-OPEC rig count stood at 2,558 rigs in September, which represents a decline of 42 rigs, compared to the previous month. Of the total, 289 rigs were operating offshore and 2,274 onshore. In terms of the oil and gas split, there were 770 oil rigs and 1,771 gas rigs. The number of oil rigs declined by 11 over the previous month. Regionally, North America lost 29 rigs, versus last month, while Western Europe lost nine rigs and the OECD Pacific lost one rig. The Middle East, Africa, Latin America and rest of Asia lost three rigs.

OPEC

The OPEC rig count was 279 in September, which represents an increase of two rigs from last month. Increases took place in Indonesia (two), Nigeria, (one), Qatar (one), Saudi Arabia (one) and the UAE (one). These gains were partly offset by declines in other OPEC Countries. Of the total, 208 rigs were operating onshore and 71 rigs offshore and in terms of the oil and gas split, there were 226 oil rigs, while the remainder was gas and other rigs.

Stock movements

September

USA

US commercial oil stock data for August, representing total crude oil and petroleum product inventories, but excluding SPR, reflected part of the losses resulting from Hurricane Katrina's devastating damage to oil facilities in the Gulf of Mexico at the end of August and in early September. US commercial oil stocks witnessed the highest draw this year and the biggest since last December, plunging a massive 11.9m b, or 340,000 b/d, to 1,009.60m b. The main contributor to this draw was gasoline inventories, which fell a dramatic 15.1m b, or

430,000 b/d, to 190.1m b, a level not seen since mid-November 2000. Crude oil and residual fuel oil inventories added to the draw, while distillates continued to build, recovering some losses (see **Table G**).

Despite the massive ten per cent drop in refinery runs, crude inventories failed to rise as oil production and imports fell rapidly, due to the impact of Hurricane Katrina. US crude oil production was 790,000 b/d lower at 4.36m b/d, while imports fell 1.43m b/d to 9.53m b/d at the end of the reporting period (September 2, 2005). The draw on crude oil stocks had little effect on the y-o-y and five-year average surplus, which widened to ten per cent and eight per cent, respectively, from six per cent and seven per cent. The days of forward cover at the end of this period showed that crude oil stocks remained at a comfortable level of 0.2 days higher than last month and 2.5 days above the previous year. It was also 1.3 days, or seven per cent, above the five-year average.

Gasoline stocks observed the most significant change in August as a direct result of the drop in refinery runs, where the shutdown of several refineries along the US Gulf Coast caused a 600,000 b/d to 8.06m b/d fall in gasoline production, compared with the previous period. Not only production, but also imports were considerably lower due to Hurricane Katrina, falling by 150,000 b/d to stand at 860,000 b/d. Stagnant implied demand, which slowed by 560,000 b/d to 9.03m b/d, prevented further losses in gasoline inventories. The huge draw on gasoline stocks widened the shortage over last year and the five-year average to about seven per cent and four per cent, respectively, from only two per cent last month. Days of forward cover stood at 20.6 days, or 1.3 days below last year, and 1.4 days less than the five-year average.

Slower implied demand, which fell by 140,000 b/d to 4.00m b/d – as well as higher imports, especially prior to Hurricane Katrina, which gained 70,000 b/d to 280,000 b/d – helped distillates to rise by 7.1m b to stand at 134.4m b. This persistent build in distillates improved the y-o-y surplus by one per cent to six per cent and doubled the five-year average excess to ten per cent. Days of forward demand rose by 1.1 days to 1.9 days, or six per cent, over last year and by one day, or three per cent, over the five-year average.

During August 2005, the Strategic Petroleum Reserve (SPR) reached its full capacity, standing at 700.5m b, after a gain of 2.3m b. This level is expected to see a drawdown of 30m b during next month as part of a rescue plan announced by the IEA to compensate for barrels lost to Hurricane Katrina. The draw could be higher if US refiners take part in a loan programme of about 10m b, which was announced by the US administration in the wake of the hurricane damage.

Western Europe

Total oil stocks in Eur-16 (EU plus Norway) in August declined by a slight 1.4m b, or 50,000 b/d, to stand at 1,124.4m b. This minor draw came from crude oil inventories, which decreased moderately, while product inventories continued to head up, except for gasoline, which moved marginally down. Despite this marginal draw, the y-o-y surplus narrowed further by one per cent to stand at two per cent, or 23.5m b.

Higher refinery runs and the slowdown of North Sea crude oil production, due to seasonal shut-ins, were responsible for a draw of 3.4m b, or 110,000 b/d, to 486.8m b. A slight drop in crude oil inventories did not affect the y-o-y surplus that much as it remained at a very comfortable level of 32.2m b, or seven per cent. The IEA's announcement on September 2 to release 60m b, of which about more than 50 per cent was crude oil, and planned shutdowns of several refineries, are expected to lift crude oil stocks in the coming months (see **Table H**).

Despite healthy seasonal demand, gasoline inventories managed not to fall massively, but marginally, losing 500,000 b, or about 20,000 b/d, to stand at 140.9m b. This level was 4.7m b, or about three per cent, higher than that registered a year ago. Due to the severe shortage of gasoline in the USA after Hurricane Katrina, EUR-16 gasoline inventories are projected to decrease noticeably in the coming months, especially if planned maintenance in some refineries lasts longer than expected.

Distillate stocks behaved contrary to crude oil and gasoline inventories, building by 1.8m b, or 60,000 b/d, to stand at 360.7m b. The flow of materials from Russia and even from Asia came as high prices attracted traders to ship more gasoil to Europe in an expectation that local consumers are about to fill their tanks, especially in Germany ahead of the winter season. The y-o-y deficit widened to about three per cent after only one per cent in July.

Japan

Total commercial oil stocks in Japan regained the previous month's losses in July, building by 4.9m b, or 160,000 b/d, to stand at 186.7m b. All builds occurred on product inventories, mainly distillates, while crude oil stocks saw a marginal decline. Despite this stock-build, the y-o-y surplus remained mostly unchanged at the previous month's level of eight per cent.

High refinery runs during July, which rose by 5.1 per cent to 84.6 per cent, were behind the slight draw on crude oil stocks of 1.6m b, or 50,000 b/d, to 120.2m b. An increase in imports, which moved up by about nine per cent in July, managed to mitigate the draw. The slight draw on crude oil stocks narrowed the y-o-y surplus to about one per cent from the nine per cent observed in the previous report (see **Table I**).

Product inventories benefited from higher refinery runs as refinery throughput rose by 240,000 b/d to 3.98m b/d in July, with middle distillates benefiting the most from the increase. Middle distillate inventories rose by 5.7m b, or 190,000 b/d, to stand at 32.8m b, a level not seen since last January. This significant rise helped the y-o-y surplus to regain the previous month's losses, rising to eight per cent, from one per cent for the previous month. Gasoline stocks improved slightly, due to higher production, and despite relatively healthy demand, showing an increase of 300,000 b to 13.1m b, or 11 per cent above last year's level. Residual fuel oil followed the same trend, adding 500,000 b to 20.6m b for a gain of 14 per cent over last year. Despite this marginal draw, the y-o-y surplus narrowed significantly by five per cent to just one per cent.

October

USA

The impact of hurricanes Katrina and Rita on US commercial oil inventories (total crude and petroleum products, excluding SPR) was less than expected. August's draw, which had been thought to reflect part of the losses resulting from the devastating damage of the hurricanes, was higher than the drawdown in September of 4.7m, or 170,000 b/d, to stand at 1,004.90m b, which was 3.4 per cent higher than last year's figure and two per cent above the five-year average (see **Table G**).

In September, crude oil stocks took the lead, falling by about 10m b, followed by distillate stocks, which registered a draw of about 6m b, while gasoline compensated for part of the previous month's loss, building by about 5m b. A further drop in refinery runs, which plunged to nearly 70 per cent from about 87 per cent in the last report, did not help crude oil inventories, which tripled their losses from 3m b in August to 9.6m b, or 340,000 b/d, to stand at 305.4m b in September. The main cause for such a massive draw was the drop of 550,000 b/d to 3.81m b/d in crude oil production, as well as the fall in crude oil imports, which plunged to 8.12m b/d from last month's level of 9.53m b/d. Despite this significant draw, the y-o-y surplus was sustained by one per cent to stand at 11 per cent, while the five-year average moved down slightly by one per cent to stand at seven per cent. The days of forward demand rose by two to 22.2 days, compared with the level in the last period. Forward demand was 3.9 days higher than last year's level and 3.3 days above the five-year average.

Contrary to earlier expectations of a further draw on gasoline inventories, due to the hurricanes, which forced several Gulf of Mexico refineries to shut down, gasoline stocks managed to build, adding 5.4m b, or 190,000 b/d, to stand at 195.5m b. Increasing imports, which rose by 560,000 b/d to 1.42m b/d, as well as stagnated implied demand, which fell by 190,000 b/d to 8.84m b/d, helped gasoline stocks to stay above the 190m b level after the previous month's massive drop. This build helped gasoline inventories to narrow the y-o-y deficit to about five per cent from seven per cent in the last report. The five-year average's shortage also narrowed to three per cent from four per cent registered in the last report. The days of forward cover improved, due to this build, standing at 22.3 days, or two days above last month's level. Compared with last year's level, this was one day, or six per cent, less.

The most obvious reason to explain the distillate stock-draw of 6.4m b, or 290,000 b/d, to 128.0m b is the drop in output. Distillate production fell by 790,000 b/d to 3.01m b/d, due to partial and complete shut-downs of some refineries, after the two severe hurricanes in September. The slight rise in distillate imports, which gained 20,000 b/d to 310,000 b/d, did not help inventories as implied demand rose, increasing by 30,000 b/d to 4.03m b/d.

This upward demand trend is estimated to show further strength, while the winter season is approaching. This draw affected the y-o-y and five-year average surpluses, narrowing them to four per cent and three per cent, respectively, from the six per cent and ten per cent registered in the last report. Days of forward consumption lost slightly, declining by 0.8 days to stand at 32.7 days, which was three per cent, or about one day, above last year's level. During the same period, the SPR witnessed a lower-than-expected draw, declining by 7.2m b, or 260,000 b/d, to stand at 693.3m b. The measures taken by the US administration and the IEA to help alleviate the damage caused by the hurricanes are supposed to make such a draw in this period more than that, but most of the refineries hit by the hurricanes were not able to handle additional volumes, due to the slow recovery.

Therefore, the SPR is projected to see a further drawdown once refineries overcome their difficulties, which, in some cases, could take longer than expected. In the week ending October 7, total US commercial oil stocks displayed a further draw, declining by 6.89m b to stand at 998.01m b, or below the mark of one billion for the first time since June. Most of the fall came from distillate and gasoline inventories, which dropped by 3.41m b to 124.63m b, and by 2.65m b to 192.80m b, respectively. Crude oil stocks showed a slight build, rising by 1.02m b to stand at 306.43m b.

US commercial oil stocks fell by 170,000 b/d in September

Western Europe

Total oil inventories in Eur-16 (EU plus Norway) in September continued to show builds for the third consecutive month, increasing by 2.9m b, or 100,000 b/d, to stand at 1,136.0m b. This level was 37.1m b, or 3.4 per cent, higher than that registered a year ago. All the builds came from crude oil stocks, while refined product inventories either remained virtually unchanged (gasoline and fuel oil), or witnessed a moderate draw (middle distillates).

Stagnant US crude oil demand after hurricanes Katrina and Rita forced regional European grades, such as North Sea crude oils, to remain in Europe, which, together with imports from West Africa, helped crude oil inventories to again touch a record of 490m b, or an increase of 7.1m b, which was 23.2m b, or five per cent, above last year's level. This high level of crude oil inventories is expected to see a further build, as long as the US market remains uneconomic for North Sea grades. Despite sending European gasoline exports to the US market after the hurricanes, gasoline stocks remained unchanged at the previous month's level of 139.6m b. Higher refinery runs, which rose by 250,000 b/d to 12.54m b/d, could explain part of this lack of movement. The release of 6m b of German strategic reserves is also thought to have remained in Europe, due to tight tanker supply. The y-o-y surplus stood at 6m b, or about five per cent (see **Table H**).

Increasing demand for distillates from local European players and from the USA, where fears of a shortage in distillates ahead of winter were aggravated after the hurricanes hit several US

refineries, helped to push distillate inventories down by 3.4m b, or 110,000 b/d, to stand at 371.1m b. Strikes at some French refineries could have affected distillate output as well. This level was 10.6m b, or about three per cent, higher than that observed a year ago.

Japan

Total oil inventories in Japan showed a further moderate build in August, rising by 4.2m b, or 140,000 b/d, to stand at 190.9m b, a level not seen since November 2004. The main contributor to this build was middle distillates and to a lesser degree residual fuel oil, while the draw on gasoline and crude oil inventories capped the upward movement. The build improved the y-o-y surplus, pushing it up to about 13 per cent, or 21.7m b, from eight per cent in July.

Crude oil stocks continued to suffer from high refinery runs, which rose a further 420,000 b/d to 4.41m b/d in August. Crude oil inventories declined by 2.7m b, or 90,000 b/d, to stand at 117.5m b. This lifted the y-o-y surplus from one per cent in July to 14 per cent, or 14.8m b, in August (see **Table I**).

Despite seasonal demand, gasoline stocks managed to land softly, thanks to higher output. They decreased by 800,000 b, or 30,000 b/d, to 12.3m b, which was seven per cent, or 800,000 b, higher than the level observed last year. Increasing distillate production, as a result of higher refinery runs ahead of high seasonal winter demand, helped middle distillate inventories to build significantly by 7.5m b, or 240,000 b/d, to stand at 40.3m b, a level not seen since December 2004.

Balance of supply/demand

September

Forecast for 2005

The supply/demand balance for 2005 has been revised down slightly to reflect lower demand and lower supply expectations. Demand for OPEC crude in 2005 [(a)–(b)] is forecast at 28.9m b/d, an increase of 600,000 b/d from 2004, but slightly lower than the 29m b/d projected earlier. On a quarterly basis, demand for OPEC crude is estimated at 29.2m b/d, 27.3m b/d, 28.7m b/d, and 30.3m b/d for the first, second, third, and fourth quarters, respectively (see **Table J**).

OPEC crude production averaged 29.5m b/d in the first quarter of this year, 29.9m b/d in the second, and 30.2m b/d in the first two months of the third, according to secondary sources. Current production levels have translated into crude inventory builds in the OECD, particularly in the USA, where total oil stocks (commercial plus SPR) are at record highs, allowing forward cover to improve to stand close to the last five-year average. Despite the uncertainty regarding potential production losses in the Gulf of Mexico, the combination of high current stock levels, the emergency responses to date by the IEA, and stock releases from the US SPR, appear to be sufficient to maintain US inventories at healthy levels in 2005.

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude production levels and projected production capacity, OPEC's spare capacity is estimated to average around seven per cent in the second half of 2005, compared to 4.9 per cent in the same period of 2004.

Forecast for 2006

For 2006, demand for OPEC crude is expected to average 29.0m b/d, an increase of 100,000 b/d from 2005 but a revision of around 200,000 b/d versus the figure in last month's report. The quarterly distribution shows that demand for OPEC crude is now expected to be 29.8m b/d in the first quarter, 28.0m b/d in the second, 28.7m b/d in the third, and 29.5m b/d in the fourth. The quarterly revisions are distributed as follows: up 100,000 b/d in the second quarter of 2005, and down 300,000 b/d in the third, and 500,000 b/d in the fourth.

In terms of OPEC capacity, in 2006 OPEC capacity is expected to average around 33.4m b/d, representing an average increase of 700,000 b/d from 2005. Taking into account the supply/demand balance for 2006, the resulting required OPEC crude production levels and the projected production capacity, OPEC's spare capacity in 2006 is estimated to average around ten per cent, assuming there is no significant improvement in output from Iraq.

October

Forecast for 2005

The supply/demand balance for 2005 has been revised down slightly to reflect lower demand and lower supply expectations. Demand for OPEC crude in 2005 [(a)–(b)] is now forecast at 28.7m b/d, an increase of 500,000 b/d from 2004, but 200,000 b/d lower than projected earlier. On a quarterly basis, demand for OPEC crude is estimated at 29.1m b/d, 27.2m b/d, 28.3m b/d, and 30m b/d for the first, second, third, and fourth quarters, respectively. However, the required crude for the fourth quarter of 2005 is now estimated to be 300,000 b/d lower than before, as well as current OPEC crude production (30.3m b/d) (see **Table J**).

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude production levels and projected production capacity, OPEC's spare capacity is now estimated to average around 8.5 per cent in the fourth quarter of 2005, compared to 4.9 per cent in the same period of 2004.

Forecast for 2006

For 2006, demand for OPEC crude is expected to average 28.5m b/d, a downward revision of around 400,000 b/d versus last month's report. The quarterly distribution shows that demand for OPEC crude is now expected to be 29.7m b/d in the first quarter, 27.7m b/d in the second, 28m b/d in the third, and 28.8m b/d in the fourth.

In terms of OPEC capacity, in 2006 OPEC capacity is expected to average around 33.5m b/d. Taking into account the supply/demand balance for 2006, the resulting required OPEC crude production levels and the projected production capacity, OPEC's spare capacity in 2006 is estimated to average around 14 per cent, even assuming there is no significant improvement in output from Iraq compared to 2005.

Table G: US onland commercial petroleum stocks[1]

m b

	Jul 29, 05	Sep 2, 05	Sep 30, 05	Change Sep/Aug	Sep 30, 04	Oct 7, 05[2]
Crude oil (excl SPR)	**318.0**	**315.0**	**305.4**	**–9.6**	**273.1**	**306.4**
Gasoline	205.2	190.1	195.5	5.4	204.9	192.8
Distillate fuel	127.3	134.4	128	-6.4	123.4	124.6
Residual fuel oil	36.2	32.3	33.5	1.2	34.1	34.0
Jet fuel	40.1	39.4	37.2	-2.2	41.3	37.6
Total	**1,021.5**	**1,009.6**	**1,004.9**	**–4.7**	**971.7**	**998.0**
SPR	698.2	700.5	693.3	-7.2	670.2	690.5

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

Source: US/DoE-EIA.

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

m b

	Jul 05	Aug 05	Sep 05	Change Sep 05/Aug 05	Sep 04
Crude oil	**485.9**	**482.5**	**489.5**	**7.1**	**466.4**
Mogas	137.5	139.6	139.6	–	133.6
Naphtha	23.8	23.8	23.3	-0.4	24.8
Middle distillates	377.1	374.6	371.1	-3.4	360.5
Fuel oils	110.9	112.8	112.5	-0.3	113.7
Total products	**649.2**	**650.7**	**646.4**	**–4.2**	**632.5**
Overall total	**1,135.1**	**1,133.1**	**1,136.0**	**2.9**	**1,098.9**

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

Source: Argus, Euroilstock.

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

m b

	Jun 05	Jul 05	Aug 05	Change Aug 05/Jul 05	Aug 04
Crude oil	**121.8**	**120.2**	**117.5**	**–2.7**	**102.7**
Gasoline	12.8	13.1	12.3	-0.8	11.5
Middle distillates	27.1	32.8	40.3	7.5	35.8
Residual fuel oil	20.1	20.6	20.9	0.3	19.2
Total products	**60.0**	**66.5**	**73.4**	**7.0**	**66.5**
Overall total[2]	**181.8**	**186.7**	**190.9**	**4.2**	**169.2**

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

Source: MITI, Japan.

Table J: World crude oil demand/supply balance *m b/d*

World demand	2001	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD	48.0	48.0	48.6	49.5	50.6	48.7	49.2	50.7	49.8	51.0	49.2	49.7	51.1	50.2
North America	24.0	24.1	24.5	25.3	25.5	25.3	25.4	26.0	25.6	26.0	25.7	25.8	26.3	25.9
Western Europe	15.3	15.3	15.4	15.6	15.5	15.3	15.6	15.9	15.6	15.6	15.3	15.7	15.9	15.7
Pacific	8.6	8.6	8.7	8.5	9.5	8.1	8.1	8.8	8.6	9.4	8.2	8.2	8.9	8.7
Developing countries	19.7	20.2	20.4	21.4	21.7	22.2	22.2	22.3	22.1	22.3	22.6	22.9	22.8	22.7
FSU	3.9	3.7	3.8	3.8	3.9	3.7	3.9	4.0	3.9	4.0	3.6	3.8	4.2	3.9
Other Europe	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.9
China	4.7	5.0	5.6	6.5	6.5	6.6	6.4	7.1	6.6	7.0	6.9	6.7	7.4	7.0
(a) Total world demand	**77.1**	**77.7**	**79.2**	**82.1**	**83.6**	**82.0**	**82.5**	**84.8**	**83.3**	**85.2**	**83.4**	**83.9**	**86.3**	**84.7**
Non-OPEC supply														
OECD	21.8	21.9	21.6	21.3	21.0	21.0	20.1	20.2	20.6	20.7	20.7	20.4	21.5	20.8
North America	14.3	14.5	14.6	14.6	14.5	14.6	13.9	13.7	14.2	14.2	14.4	14.5	15.0	14.5
Western Europe	6.7	6.6	6.4	6.1	6.0	5.7	5.7	5.9	5.8	5.9	5.8	5.4	5.9	5.7
Pacific	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.6
Developing countries	10.9	11.3	11.4	11.9	12.3	12.5	12.5	12.9	12.5	13.0	13.0	13.2	13.3	13.1
FSU	8.5	9.3	10.3	11.2	11.4	11.5	11.7	11.7	11.6	11.7	11.7	12.0	12.2	11.9
Other Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7
Processing gains	1.7	1.7	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	**46.4**	**47.8**	**48.7**	**49.8**	**50.3**	**50.5**	**50.0**	**50.4**	**50.3**	**51.1**	**51.1**	**51.3**	**52.8**	**51.6**
OPEC NGLs and non-conventionals	3.6	3.6	3.7	4.1	4.2	4.3	4.3	4.4	4.3	4.5	4.6	4.7	4.8	4.6
(b) Total non-OPEC supply and OPEC NGLs	**50.0**	**51.4**	**52.4**	**53.9**	**54.5**	**54.8**	**54.3**	**54.8**	**54.6**	**55.6**	**55.7**	**56.0**	**57.6**	**56.2**
OPEC crude supply and balance														
OPEC crude oil production[1]	27.2	25.4	27.0	29.1	29.5	29.9	30.3							
Total supply	77.2	76.7	79.4	83.0	84.0	84.7	84.5							
Balance[2]	**0.1**	**–1.0**	**0.1**	**0.9**	**0.4**	**2.7**	**2.0**							
Stocks														
Closing stock level (outside FCPEs) *m b*														
OECD onland commercial	2630	2476	2517	2563	2551	2632								
OECD SPR	1285	1345	1408	1444	1456	1492								
OECD total	3915	3821	3925	4007	4007	4123								
Oil-on-water	830	816	883	906	927	935								
Days of forward consumption in OECD														
Commercial onland stocks	55	51	51	51	52	54								
SPR	27	28	28	29	30	30								
Total	82	79	79	81	82	84								
Memo items														
FSU net exports	4.6	5.6	6.5	7.3	7.5	7.7	7.8	7.7	7.7	7.7	8.1	8.1	8.0	8.0
[(a) – (b)]	27.1	26.3	26.8	28.2	29.1	27.2	28.3	30.0	28.7	29.7	27.7	28.0	28.8	28.5

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

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

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

The monthly evolution of spot prices for selected OPEC and non-OPEC crudes is presented in ***Tables One and Two*** *on page 83, while* ***Graphs One and Two*** *(on page 84) show the evolution on a weekly basis.* ***Tables Three to Eight****, and the corresponding graphs on pages 85–86, show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided by courtesy of Platt's Energy Services).*

Table 1: OPEC Reference Basket crude oil prices, 2005

$/b

Crude/Member Country	Mar	Apr	May	Jun	Jul	August 1W	August 2W	August 3W	August 4W	August 5W	August 5Wav	September 1W	September 2W	September 3W	September 4W	September 4Wav
Arab Light – Saudi Arabia	46.85	48.68	47.09	52.47	53.46	55.63	57.20	58.77	58.72	60.87	58.24	58.46	56.62	57.96	57.47	57.63
Basrah Light – Iraq	46.21	45.74	44.57	50.59	52.24	54.15	56.08	56.89	58.25	60.13	57.10	57.95	54.54	55.37	54.86	55.68
BCF-17 – Venezuela	32.86	32.73	32.39	37.48	44.07	42.98	44.47	46.67	47.42	49.23	46.15	51.15	48.78	51.34	51.87	50.79
Bonny Light – Nigeria	53.15	53.18	50.23	55.93	58.40	61.45	64.46	65.90	66.72	68.94	65.49	66.84	64.57	65.95	65.06	65.6
Es Sider – SP Libyan AJ	49.71	49.67	47.90	53.15	55.71	56.65	60.01	60.61	60.97	63.10	60.27	61.04	58.86	61.07	60.60	60.39
Iran Heavy – IR Iran	46.50	46.06	43.25	49.60	51.07	53.13	54.71	56.19	56.14	58.31	55.69	56.89	53.89	55.13	54.48	55.10
Kuwait Export – Kuwait	46.42	47.89	46.36	51.15	51.31	53.12	54.46	55.54	55.32	57.44	55.18	55.74	53.56	54.80	54.30	54.60
Marine – Qatar	46.53	48.23	46.66	52.27	53.57	55.41	56.22	57.91	57.72	60.17	57.49	59.07	57.58	58.69	58.12	58.37
Minas – Indonesia	54.30	55.96	50.34	55.01	56.17	58.49	59.30	61.74	61.11	64.71	61.07	62.00	59.63	59.89	59.56	60.27
Murban – UAE	49.90	52.35	51.03	55.16	57.05	59.31	60.62	62.38	62.41	64.19	61.78	63.62	62.23	62.90	61.98	62.68
Saharan Blend – Algeria	52.59	51.98	48.69	54.41	57.30	59.87	62.88	64.03	65.05	66.51	63.67	64.17	62.42	63.80	62.82	63.30
OPEC Reference Basket	**49.07**	**49.63**	**46.96**	**52.04**	**53.13**	**54.99**	**56.78**	**58.26**	**58.49**	**60.58**	**57.82**	**58.98**	**56.79**	**58.13**	**57.63**	**57.88**

Table 2: Selected OPEC and non-OPEC spot crude oil prices, 2005

$/b

Crude/country	Mar	Apr	May	Jun	Jul	August 1W	August 2W	August 3W	August 4W	August 5W	August 5Wav	September 1W	September 2W	September 3W	September 4W	September 4Wav
Arab Heavy – Saudi A.	41.81	43.33	42.21	48.34	48.83	50.51	50.99	52.44	52.03	54.12	52.02	52.36	50.72	51.86	51.35	51.57
Brega – SP Libyan AJ	52.11	51.67	48.36	54.03	56.77	60.01	62.99	64.43	64.89	66.29	63.72	63.42	61.51	63.17	62.19	62.57
Brent – North Sea	52.60	51.87	48.90	54.73	57.47	60.41	63.39	64.83	65.29	66.39	64.06	63.82	61.61	63.27	62.29	62.75
Dubai – UAE	45.60	47.24	45.68	51.37	52.78	54.63	55.72	57.13	56.64	58.64	56.55	57.25	55.50	56.69	56.18	56.41
Ekofisk – North Sea	52.34	51.68	48.85	55.03	57.59	60.51	63.47	64.77	64.84	66.01	63.92	63.47	61.51	63.12	62.08	62.55
Iran Light – IR Iran	48.50	48.42	45.53	52.37	53.86	55.57	59.48	61.33	61.98	63.71	60.41	60.65	57.40	58.85	58.04	58.74
Isthmus – Mexico	47.52	47.13	45.05	51.48	53.85	56.34	59.11	59.64	60.59	62.61	59.66	60.22	58.78	60.49	60.17	59.92
Oman -Oman	46.95	48.22	46.70	52.20	53.42	55.48	56.46	57.95	57.61	59.79	57.46	58.97	57.44	58.53	58.02	58.24
Suez Mix – Egypt	44.58	44.81	43.11	48.88	51.64	52.83	55.87	56.16	56.36	58.85	56.01	56.74	54.38	56.58	55.95	55.91
Tia Juana Light[1] – Venez.	43.50	43.27	41.67	48.19	49.10	51.20	53.72	54.20	55.06	56.90	54.22	54.14	52.85	54.38	54.10	53.87
Urals – Russia	47.92	47.89	46.27	51.87	54.95	56.13	58.75	59.17	58.66	60.51	58.64	58.53	56.83	59.04	58.50	58.23
WTI – North America	54.09	53.09	50.25	56.60	58.66	61.22	63.94	65.19	66.15	68.29	64.96	65.47	64.11	65.83	65.72	65.28

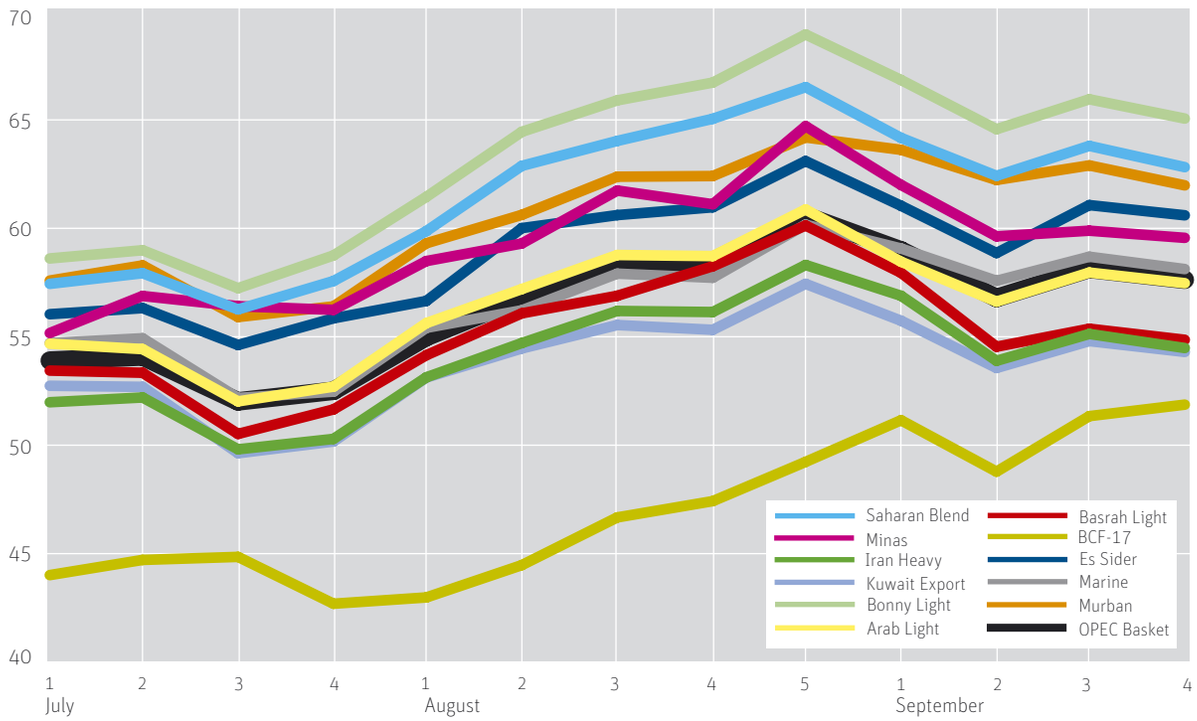
Note: As of June 16, 2005 (ie 3W June), the OPEC Reference Basket has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference.

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

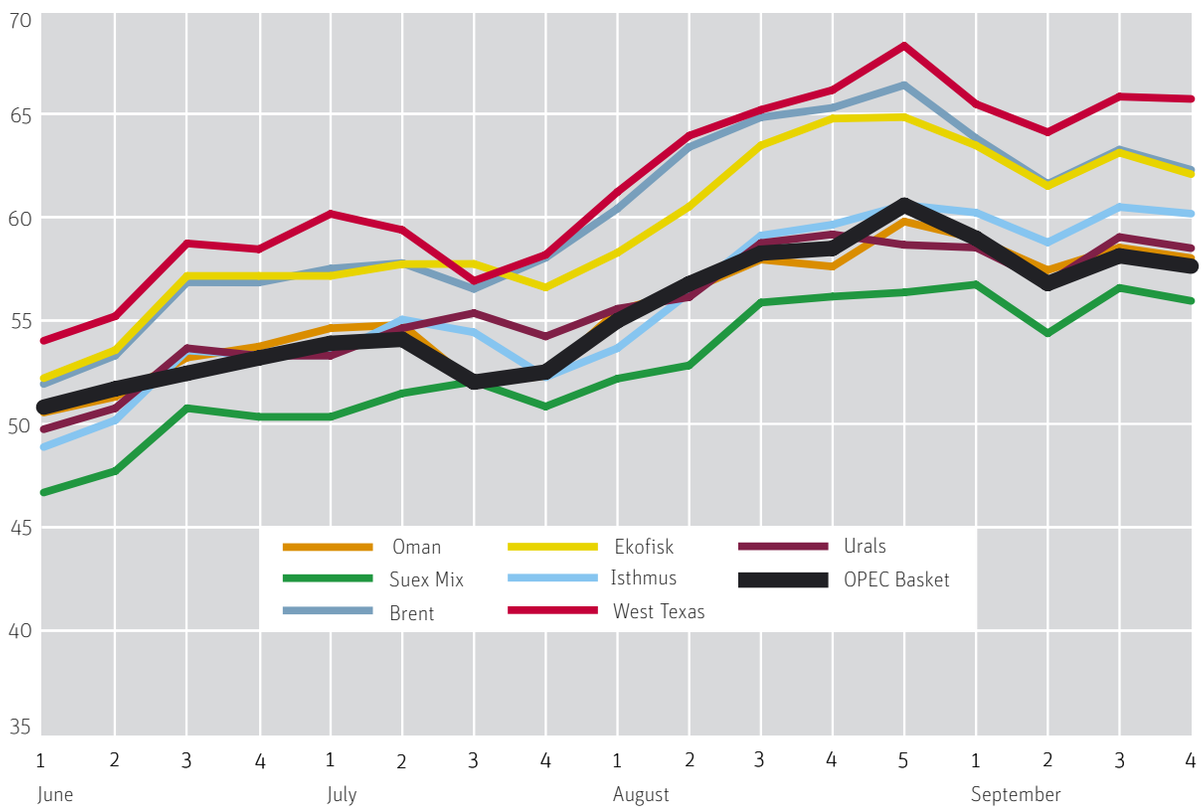
Kirkuk ex Ceyhan; Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

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

Graph 1: Evolution of the OPEC Reference Basket crudes, July to September 2005



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



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

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

		naphtha	regular gasoline unleaded	premium gasoline 50ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2004	September	54.88	50.73	56.15	58.04	58.49	23.40	24.12
	October	61.21	55.81	61.90	66.82	65.91	28.10	25.88
	November	56.49	50.64	56.00	63.76	60.31	25.23	21.49
	December	50.20	42.42	46.52	60.36	54.05	24.96	20.93
2005	January	51.32	47.72	52.89	55.54	55.05	26.68	23.54
	February	54.49	49.69	55.53	58.33	58.05	27.78	25.48
	March	62.33	55.94	62.03	69.30	68.81	34.06	30.09
	April	61.62	61.29	68.55	70.38	71.67	35.59	34.53
	May	54.65	56.14	62.85	64.51	64.90	34.56	33.79
	June	57.23	61.88	69.54	73.02	72.32	35.01	34.86
	July	61.22	67.78	76.54	74.60	74.02	37.74	36.71
	August	69.12	75.37	84.28	80.15	79.78	41.70	39.25
	September	74.77	82.32	92.35	83.28	83.78	46.70	41.86

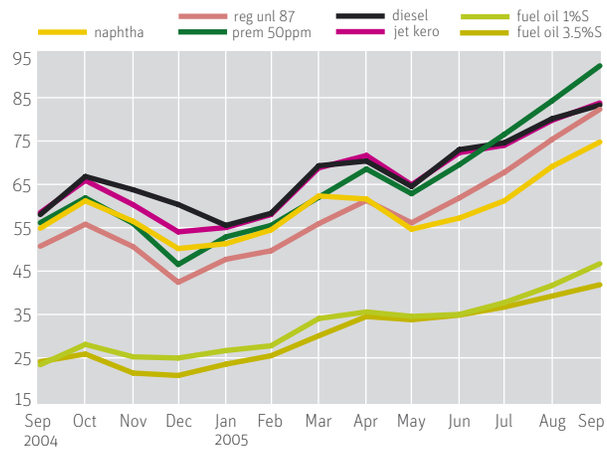


Table and graph 4: South European market — spot cargoes, fob Italy *$/b*

		naphtha	premium gasoline unl 95	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
2004	September	45.90	49.84	57.04	58.93	25.66	22.81
	October	50.76	54.43	62.14	67.84	29.03	24.20
	November	45.68	48.70	55.83	64.72	26.72	18.65
	December	39.98	39.72	46.58	62.29	25.65	18.62
2005	January	41.69	45.72	53.17	58.75	28.69	21.80
	February	44.26	48.28	56.09	59.29	29.59	24.79
	March	51.34	54.23	62.87	73.26	35.31	29.07
	April	51.05	59.51	68.88	71.44	38.31	33.67
	May	44.97	53.58	61.99	64.90	35.99	32.20
	June	46.94	59.95	68.85	73.65	38.33	33.59
	July	50.79	na	72.99	74.14	41.03	35.08
	August	58.32	na	83.45	80.97	43.55	37.73
	September	62.01	na	88.35	84.73	48.43	41.43

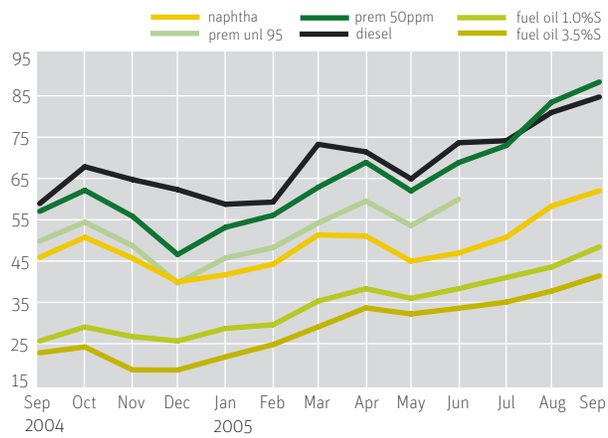
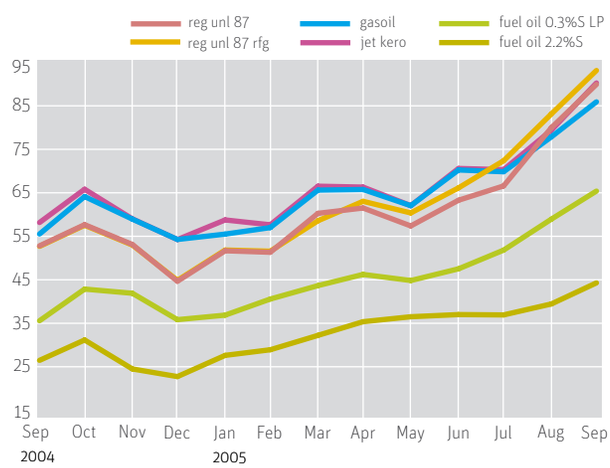


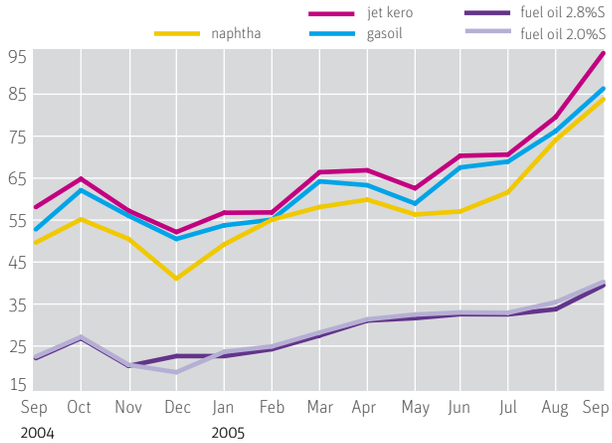
Table and graph 5: US East Coast market — spot cargoes, New York *$/b, duties and fees included*

		regular gasoline unleaded 87	regular gasoline unl 87rfg	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
2004	September	52.80	52.68	55.52	58.16	35.58	26.47
	October	57.67	57.54	64.14	65.82	42.86	31.16
	November	53.12	52.99	58.95	59.01	41.90	24.50
	December	44.66	44.87	54.27	54.25	35.83	22.74
2005	January	51.67	51.84	55.50	58.76	36.87	27.62
	February	51.32	51.57	57.00	57.64	40.57	28.91
	March	60.28	58.57	65.62	66.52	43.66	32.22
	April	61.50	63.04	65.76	66.31	46.23	35.36
	May	57.38	60.37	62.04	62.05	44.83	36.50
	June	63.29	66.13	70.25	70.60	47.52	37.00
	July	66.58	72.37	69.84	70.32	51.82	36.92
	August	79.97	83.13	77.86	79.41	58.94	39.44
	September	89.92	93.13	85.92	90.26	65.40	44.29



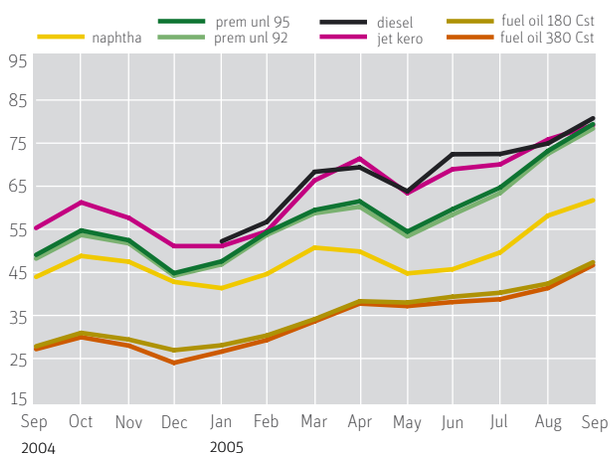
na not available.
Source: Platts. Prices are average of available days.

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



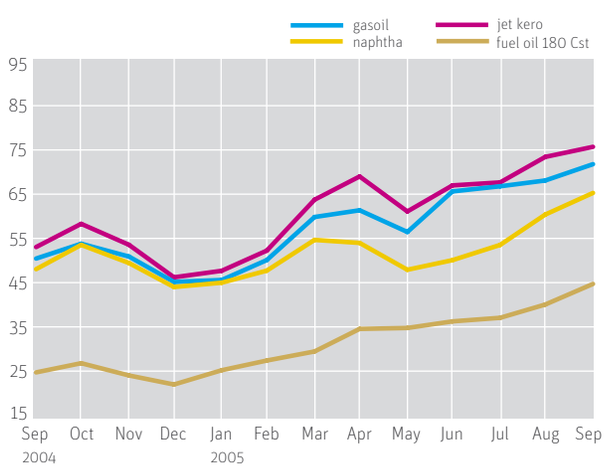
		naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
2004	September	49.65	52.80	58.10	22.47	22.11
	October	55.18	62.12	64.83	27.16	26.87
	November	50.51	56.02	57.23	20.50	20.26
	December	41.06	50.50	52.15	18.75	22.60
2005	January	49.21	53.75	56.75	23.62	22.60
	February	55.09	55.09	56.83	24.91	24.25
	March	58.11	64.23	66.41	28.22	27.50
	April	59.86	63.31	66.87	31.36	31.07
	May	56.34	58.95	62.57	32.50	31.64
	June	57.06	67.54	70.32	33.00	32.58
	July	61.63	68.93	70.60	32.92	32.54
	August	74.08	76.21	79.54	35.44	33.76
	September	83.80	86.35	94.80	40.29	39.47

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



		naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 2%S	fuel oil 3.5%S
2004	September	43.95	49.06	48.20	–	55.30	27.84	27.18
	October	48.81	54.73	53.68	–	61.25	30.96	29.95
	November	47.46	52.45	51.74	–	57.64	29.40	27.99
	December	42.79	44.81	44.24	–	51.10	26.93	24.00
2005	January	41.34	47.57	46.87	52.21	51.10	28.08	26.61
	February	44.61	54.27	53.70	56.72	54.54	30.35	29.28
	March	50.74	59.47	58.72	68.34	66.33	34.13	33.61
	April	49.85	61.50	60.23	69.39	71.40	38.30	37.75
	May	44.76	54.46	53.37	63.83	63.39	38.00	37.18
	June	45.71	59.65	58.38	72.42	68.93	39.34	38.11
	July	49.62	64.70	63.43	72.48	70.07	40.27	38.76
	August	58.17	73.19	72.52	74.92	75.84	42.39	41.35
	September	61.73	79.40	78.39	80.77	79.16	47.35	46.68

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



		naphtha	gasoil	jet kero	fuel oil 180 Cst
2004	September	48.04	50.44	53.04	24.71
	October	53.53	53.79	58.29	26.79
	November	49.44	50.90	53.56	24.02
	December	44.01	45.16	46.20	21.97
2005	January	44.99	45.60	47.68	25.20
	February	47.71	50.10	52.24	27.39
	March	54.66	59.83	63.74	29.44
	April	53.98	61.36	69.00	34.54
	May	47.91	56.45	61.09	34.75
	June	50.08	65.62	66.98	36.24
	July	53.53	66.78	67.66	37.05
	August	60.39	68.09	73.42	40.05
	September	65.28	71.78	75.70	44.71

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

Forthcoming events

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Introduction to the natural gas industry ... from wellhead to burner-tip, November 7–8, 2005, Calgary, Canada; **November 14–15, 2005,** Montreal, Canada; **November 17–18, 2005,** Toronto, Canada; **November 28–29, 2005,** Edmonton, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street NW, Calgary T2L 2A6, Canada. Tel: +1 403 282 1231; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca.

LNG USA 2005, November 9–10, 2005, Houston, TX, USA. Details: IQPC Ltd, 555 Route 1 South, Iselin, NJ 08830, USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: info@iqpc.com; Web site: www.IQPC.com/Oil&GasIQ.

The Russian & CIS oil & gas investment forum, November 9–10, 2005, London, UK. Details: Details: The Energy Exchange, Barclays Bank, 128 High Street, Cheltenham, Gloucestershire GL50 1EL, UK. Tel: +44 20 7067 1800; e-mail: marketing@theenergyexchange.co.uk; Web site: www.theenergyexchange.co.uk.

12th Africa upstream 2005, November 9–11, 2005, Cape Town, South Africa. Details: Global Pacific & Partners, Suite 27, 78 Marylebone High Street, Marylebone, London W1U 5AP, UK. Tel: + 44 20 7487 3173; fax: +44 20 7487 5611; e-mail: duncan@glopac.com; Web site: www.petro21.com.

Production sharing contracts and international petroleum fiscal systems, November 9–11, 2005, London, UK; **November 14–16, 2005,** Muscat, Sultanate of Oman. Details: Conference Connection Administrators Pte, 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.

2005 Jeddah water and power forum, November 12–14, 2005, Jeddah, Saudi Arabia. Details: CWC Associates Limited, 3 Tyers Gate, London SE1 3HX, UK. Tel: +44 20 7089 4200; fax: +44 20 7089 4201; e-mail: bookings@thecwcgroup.com; Web site: www.thecwcgroup.com.

Libyan international oil, gas and power exhibition and conference (LIOGE), November 12–15, 2005, Tripoli, Libya. Details: ITE Group Plc, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 20 7596 5000; fax: +44 20 7596 5111; e-mail: matthew.moss@ite-exhibitions.com; Web site: www.ite-exhibitions.com.

Oil & gas exchange: advanced upstream technologies, November 14–15, 2005, London, UK. Details: IQPC Ltd, 555 Route 1 South, Iselin, NJ 08830, USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: info@iqpc.com; Web site: www.IQPC.com/Oil&GasIQ.

ERTC 10th annual meeting, November 14–16, 2005, Vienna, Austria. Details: Global Technology Forum, Highview House, Tattenham Crescent, Epsom Downs, Surrey, KT18 5QJ, UK. Tel: +44 1737 365100; fax: +44 1737 365101; e-mail: events@gtforum.com; Web site: www.gtforum.com.

Economics of downstream oil, November 14–16, 2005, Singapore. Details: Conference Connection Administrators Pte, 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.

EMA emerging markets conference: emissions and renewables, November 14–17, 2004, Houston, TX, USA. Details: Emissions Marketing Association, 555 East Wells Street, Suite 1100, Milwaukee, 53202–3823, USA. Tel: +1 414 276 3819; fax: +1 414 276 3349; e-mail: info@emissions.org; Web site: www.emissions.org.

Natural gas market fundamentals, November 17–18, 2005, Calgary, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street NW, Calgary T2L 2A6, Canada. Tel: +1 403 282 1231; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca.

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Petrochemicals — from economics to markets, November 19–20, 2005, Manama, Bahrain. Details: CMT Events, 80 Marine Parade Rd, #13–02 Parkway Parade, Singapore 449269. Tel: +65 6345 7322; fax: +65 6345 5928; e-mail: nancy@cmtsp.com.sg; Web site: www.cmtevents.com.

Korean oil and gas conference, November 20–22, 2005, Seoul, Korea. 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.

Petroleum business — from wellhead to refinery to markets, November 21–22, 2005, Singapore. Details: CMT Events, 80 Marine Parade Rd, #13–02 Parkway Parade, Singapore 449269. Tel: +65 6345 7322; fax: +65 6345 5928; e-mail: nancy@cmtsp.com.sg; Web site: www.cmtevents.com.

International petroleum technology conference, November 21–23, 2005, Doha, Qatar. Details: IPTC, PO Box 502217, Dubai, UAE. Tel: +971 4 390 3540; fax: +971 4 366 4648; e-mail: iptc@iptcnet.org; Web site: www.iptcnet.org.

20th annual European autumn gas conference 2005, November 22–23, 2005, London, UK. Details: DMG World Media, Queensway House, 2 Queensway, Redhill, Surrey RH1 1QS, UK. Tel: +44 1737 855106; fax: +44 1737 855463; e-mail: info@theeagc.com; Web site: www.theeagc.com.

Floating systems summit 2005, November 23–24, 2005, London, UK. Details: IQPC, 555 Route 1 South, Iselin, NJ 08830, USA. Tel: +1 973 256 0211; fax: +1 973 256 0205; e-mail: info@iqpc.com; www.IQPC.com/Oil&GasIQ.

Introduction to Canada's oil sands industry, November 24–25, 2005, Calgary, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street NW, Calgary, Canada T2L 2A6. Tel: +1 403 282 1231; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca.

Introduction to the upstream petroleum industry, November 24–25, 2005, Edmonton, Canada. Details: Canadian Energy Research Institute, #150, 3512–33 Street NW, Calgary T2L 2A6, Canada. Tel: +1 403 282 1231; fax: +1 403 284 4181; e-mail: sjohnsgaard@ceri.ca; Web site: www.ceri.ca.

3rd international Black Sea & Caspian ecology summit 2005, November 24–25, 2005, Istanbul, Turkey. Details: BME/ITE Group Plc, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 20 7596 5206; fax: +44 20 7596 5204; e-mail: ingram@ite-exhibitions.com; Web site: www.bemltd.com.

GTLtech 2005, November 28–29, 2005, Doha, Qatar. Details: CMT Events, 80 Marine Parade Rd, #13–02 Parkway Parade, Singapore 449269. Tel: +65 6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; Web site: www.cmtevents.com.

8th ASCOPE conference and exhibition, November 30–December 3, 2005, Manila, Philippines. Details: All World Exhibitions, OES Ltd 12th Floor, Westminster Tower, 3 Albert Embankment, London SE1 7SP, UK. Tel: +44 20 7840 2136; fax:+44 20 7840 2119; e-mail: ascope@oesallworld.com; Web site: www.allworldexhibitions.com.

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