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Iraq Contract Revisions Clear Obstacles To Oil Expansion

By Rafiq Latta in London

Iraq's Ministry of Oil has made a number of key clarifications and changes in a final contract model for its first upstream licensing round that have gone a long way towards assuaging concerns from prospective bidders in what is the most eagerly anticipated oil investment opportunity in decades. In return Baghdad is seeking soft loans amounting to \$2.6bn to fund budget needs badly hit by both the oil price collapse and production problems in the southern fields.

International oil interest in the bidding round, whose six producing oil field projects and two gas developments cover 44bn barrels of proven oil and 44 trillion cu ft of proven gas reserves, has always been high. But a lack of clarity over decision making, and hazy and punitive definitions of what constituted a force majeure in initial proposed contracts, became combined with existing concerns over security and domestic political opposition to international oil investment to set off alarm bells with many potential investors. "One of the big issues was that companies were to make all the investment and take all the liability and they were to have no control over the destiny of that investment and money spent," one company executive tells *MEES*.

In the final contract model, decision making processes at both the field operating division (FOD) and the joint management committee (JMC) levels have been clarified. After two years, the international-led contractor joint venture will be eligible to appoint a managing director to the project. The international partner will have minority representation on the JMC, but all decisions will be taken on the basis of unanimity. Force majeure definitions have been eased somewhat, particularly as regards security. Now, if international firms feel existing security around their projects is inadequate, they can apply to hire additional private security and include this in recoverable costs. Previous stipulations that the international investor be liable for clearing up any environmental damage prior to the contract signing have been dropped, *MEES* understands. "I thought there might be too many showstoppers, but now a lot of significant issues have been addressed," the executive says.

Terms Remain Challenging

The new proposed contract gets a qualified thumbs-up from potential investors, but they all stress that terms remain extremely challenging. The international investor will own neither reserves, nor equipment or the infrastructure it builds and will also have to carry the Iraqi partner's 25% stake in the project. Baghdad's demand that each of the projects comes

with a soft loan “has changed the risk profile of projects a lot,” notes another executive. The loans vary from \$500mn for Rumaila, to \$400mn for Kirkuk and West Qurna down to \$200mn a piece for the 'Akkaz and Mansouriya gas projects, *MEES* understands. Iraq will get a two-year payment holiday and then is to repay the loan at Libor plus 1%, which is “considerably less than standard Iraq loan rates,” notes another company source, over the following five years. But, as former oil minister and chairman of the Iraqi prime minister’s advisory board Thamer Ghadhban noted, the international oil industry needs Iraq. “The majors are short of reserves, of opportunities,” he said.

There is also much concern over minimum work programs, which include construction of many of the facilities for the next phase of development. And targeted plateau production levels on some of the projects verge on the overambitious, says one source. “To achieve them is going to need a lot of capital and that is going to affect the competitiveness of the bids and could deter some of mid-caps,” he adds. Targeted plateau production capacity levels include 1.75mn b/d of additional capacity for Rumaila, 400,000 b/d for Zubair and 220,000 b/d for Bai Hasan, *MEES* understands. These and earlier modifications made at an Istanbul road show (*MEES*, 23 February) mean that the bidding round will very much be a game for the majors, who have done extensive previous studies on Iraqi fields and who have the financial means and manpower to implement such ambitious projects. Award of the projects is scheduled to take place in Baghdad on 29-30 June, with cabinet ratification targeted by August. Firms will have three months from ratification to mobilize.

Negotiations For East Baghdad Field

Iraq has ambitious oil plans. In addition to the first bidding round, Baghdad hopes to award a second round by year-end covering 11 projects (*MEES*, 12 January). The ministry wants to finalize a deal with Shell over the southern gas development and is reviewing bids from Eni, Spain’s Repsol-YPF and a consortium led by Japan’s Nippon for the Nasiriyah field development. Minister of Oil Husain al-Shahristani, speaking at a 30 April Iraq investment conference in London, said that Iraq was also in talks with companies for a similar 100,000 b/d development of the southern portion of the East Baghdad field, which will be fast tracked to feed a new 70,000 b/d distillation expansion at the nearby Daura refinery. The rest of East Baghdad development will remain part of the proposed bidding round. Mr Shahristani ruled out any other field from the second round being awarded outside the round. There has been speculation that the giant 12.8bn barrels West Qurna Phase II might be withdrawn from the round and offered up in a similar way as Nasiriyah, to Russian companies in recognition of Moscow’s significant forgiveness of Saddam-era debt. Lukoil has long targeted West Qurna.

Mr Shahristani has touted the Nasiriyah process as a simple 18-month engineering, procurement and construction (EPC) project, but the structure of the deal looks far more like a field development service contract. No specifications beyond a 100,000 b/d target in 18 months and 150,000 b/d target in 24 months have been given. Instead bidders have been asked to propose their ideas for the development. EPC contracts typically have a detailed specification and the Nasiriyah bidding originated from an initial field development proposal by Eni earlier in the year. The minister also denied any decision had been made to launch into a similar project for the 6.2bn barrels Nahr bin 'Umar field. A Chevron/Total consortium, Norway’s StatoilHydro and Brazil’s Petrobras had been reported as being in talks for the project. But *MEES*

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understands that even if no formal decision on bin 'Umar has been taken, talks with the companies were carrying on as recently as 29 April.

Award of the second bidding round by year-end is achievable, despite the lack of any announcement of a launch, insisted Mr Shahristani. "We have gained experience with the first bidding round," he said, adding that the fact that most of the Round 2 blocks were greenfield projects would speed the process up. Working out of relations between international investor and current operator in the first round, which is made up of producing fields, has proved to be the most time consuming element of the launch, necessitating creation of a unique contract structure. As to whether a similar soft loan requirement would be imposed on the second round, "much depends on the price of crude oil at the end of the year," said Mr Shahristani, who stressed that the move had come about as a result of a request from the Ministry of Finance.

Rival Vision

Iraqi Prime Minister Nuri al-Maliki, Deputy Prime Minister Barham Salih and a number of other Iraqi and UK ministers also attended the London conference. Mr Salih, a Kurd, who has long opposed Mr Shahristani's championing of strong federal control over Iraq's oil industry, reiterated his view that the federal oil ministry's powers should be limited. "Iraq needs revenues and business-as-usual does not deliver for Iraq," Mr Salih said. "We need to empower the operating companies and delegate to them authority and responsibility. The ministry should be a regulator and policy making in the oil sector will have to be handled by the oil and gas committee." Mr Salih, who currently heads the cabinet's oil and gas committee, spearheaded a symposium in Baghdad in February that was highly critical of the ministry, delivering a number of recommendations to cabinet, which have been approved (*MEES*, 30 March). "It is in the national interest of Iraq that we need to maximize oil production in the shortest possible time," he added.

Non-Oil Investment Agenda

Speakers at the London conference stressed that security improvements over the past two years meant that Iraq was now open for business and that this business opportunity is both huge and goes far beyond oil. "Iraq is the last great greenfield investment opportunity in the world," announced Dr Sami al-'Araji, Chairman of Iraq's National Investment Commission. Mr Salih listed the gains: with inflation having gone down from 36% at end-2006 to 12% at end-2008, per capita income surging from \$65 in 2003 to \$3,200 in 2008, and unemployment falling from 28% in 2003 to 17.5% last year, when economic growth stood at 9%.

Delegates noted that despite reforms, regulations remain hostile to private sector investment, with many Saddam-era laws still in force. Mr Salih conceded the fall in oil prices was a blow to the government and that corruption was still "a serious impediment" to change. But change is happening, officials insist, pointing at moves to allow international investors to buy land for the first time. Iraq is aiming for "a peaceful and studied transition from a centralized economy to a free market," said Mr Maliki in his keynote speech.

The non-oil investment agenda is striking. Three major international airports – at Baghdad, Basra and Karbala – will need to be built, in addition to a major port at Fao. There is a housing shortfall of 1mn units, with potential demand for an additional 3mn units needed in the next five years, said Mr Salih. "According to some estimates, we need an additional 10,000-plus hotel rooms immediately," he added. Electric power is another growth area (*MEES*, 2 February). Iraq is producing 6.5-7.0gw, while demand stands around 10gw and if the security situation continues to improve this could increase to 22gw within two years, said Salam Qazzaz, Deputy Minister of Electricity. "We are facing a big challenge and we have to start from now," he added.

Venezuela Begins Reporting Exports Data To Clarify Position On Oil Production

Venezuela's Ministry of Energy and Petroleum has begun to release crude oil and products exports data, prepared by third party inspectors, in a bid to provide a clear view of its oil production capabilities. In an article published in *MEES* (see page 25), Juan Carlos Boué, Senior Advisor to Venezuela's Ministry of Energy and Petroleum, says: "The gap between IEA and Venezuelan figures currently stands at around 750,000 b/d, a figure that is so large that one can dismiss out of hand the hypothesis that the source of the divergence is a statistical error." The article reports recent Venezuelan crude oil export figures as follows: November 49.67mn barrels (1.66mn b/d); December 52.04mn barrels (1.68mn b/d); January 50.71mn barrels (1.64mn b/d); February 45.24mn barrels (1.62mn b/d); and March 46.42mn barrels (1.50mn b/d).

Much of the discrepancy between Venezuela's estimates of its crude oil production and those of the secondary sources cited by OPEC in its assessments of production by its members is attributable to the International Energy Agency's (IEA's) decision in July 2002 to exclude Orinoco Oil Belt extra-heavy crude oil from its Venezuelan crude output data. Dr Boué argues that, following the strike which paralysed the Venezuelan oil industry during November 2002 to March 2003, a significant increase in output of Orinoco extra-heavy crude was key to the return of Venezuelan crude output to pre-strike levels. "Currently," he said, "it accounts for more than a quarter of crude oil output." Yet the secondary sources continued to leave out Orinoco extra-heavy crude from their calculations: "And no heed was paid to Venezuelan complaints pointing out that Orinoco extra-heavy crude was being excluded for no good reason from these calculations."

Dr Boué told *MEES* that ministry estimates for recent internal oil consumption in Venezuela are as follows: November 16.380mn barrels; December 16.492mn barrels; January 16.213mn barrels; February 15.176mn barrels; and March 16.027mn barrels. The article shows that Venezuela also exports a significant quantity of petroleum products, and that net volumes of exports of crude plus products amount to 72.18mn barrels for November, 73.86mn barrels for December, 83.18mn barrels for January; 70.85mn barrels for February; and 73.98mn barrels for March. The combination of the net exports figures provided in the article with these estimates of Venezuela's internal oil consumption can be seen to provide an estimate for Venezuela's crude oil production of around 3mn b/d during the November-March period.

ADNOC Probes Options For Oil Concession Renewal

By Charles Richards in the UAE

Abu Dhabi has formally opened discussions about the future of the oil concessions in which the four major western companies are partners. State oil company ADNOC sent letters to each of the companies asking for ideas, then called them in for further clarification about what they were looking for. The companies were asked to respond by early April. The contacts have been described as part of an exploratory phase so that Abu Dhabi can determine whether it wishes to renew the concessions, bring in new partners, or devise another arrangement that satisfies its needs to expand capacity while husbanding its resource base.

At stake are the only major oil concessions in the Middle East. Uniquely, Abu Dhabi did not take over completely the companies operating on its territory in the wave of nationalizations that swept the industry in the 1970s. It kept 60% and the international partners the remainder in its two major concessions. ADCO, for onshore exploration and development, comprises: ADNOC (60%); Shell, ExxonMobil, BP and Total (9.5% each); and Partex (2%). The concession expires in January 2014. ADMA for the offshore sector comprises: ADNOC (60%); BP (14.67%); Total (13.33%); and Japan Oil Development Company (Jodco – 12%). This concession ends in 2018. The presence and participation of the majors have provided technology, expertise and assurance so that Abu Dhabi's production has increased whereas other states where national oil companies have gone it alone have suffered.

The international oil companies (IOCs) have been able to book the reserves and the production, but they obtain the lowest returns – calculated at \$1/B – under the tax and royalty arrangements for their share of oil for what is in fact a glorified technical services agreement. The IOCs have remained in thrall to the sheer size of the fields that they are working on. Till now they have accepted the need in a balanced portfolio for some low risk low return annuities such as they have in Abu Dhabi.

Call For Ideas

The existing partners were asked to present ideas about how best they felt Abu Dhabi would be served in the development of the oil and gas industry. Ideas could include use of technology and how the concession agreements might be adapted. Over the past two or three years the companies have been asked to reflect on what might happen after concession renewal, but there is a sense this is the first time it has been so formally expressed. The request for ideas also suggests that no final decision has been taken by the government of Abu Dhabi about the future shape of the concessions.

That decision will be taken by the government of Abu Dhabi, working through the Supreme Petroleum Council, chaired by the President of the UAE, Shaikh Khalifa bin Zayid al-Nuhayyan. Over past years, a number of options have been proposed and explored. These include a straightforward renewal of the

concessions with the existing partners; a different arrangement whereby each field would be managed by a different company rather than by the consortium; and the inclusion of other companies. Within the closed group of Abu Dhabi decision makers there have always been advocates of rolling over the concessions with the same tried and tested partners, with some adjustments. Advocates of the status quo argue that the four largest western oil and gas companies – ExxonMobil, Shell, BP and Total – have provided Abu Dhabi with what it has needed in terms of assurance, reservoir management and stewardship of the national resources, and technology. Others believe that a dose of competition will bring out the best.

International partners would normally expect agreement on the renewal of a concession to be reached 10 years before the end of the concession period, to allow for a continuation of long-term investment plans. Given ADNOC's plans to expand capacity, partners wanted agreement on concession renewal before acceding to such a commitment to put in capital for which they might not see the benefit. A compromise was reached in December 2007 which broadly accelerated the depreciation, reducing its period from 10 years to five. The agreement removed a pretext for the international partners to drag their feet over committing extra capital.

Expansion Plans Resumed

ADNOC suspended all new major capital expenditure programs for about six months because of the economic downturn, but has now resumed its ambitious plans for expansion of existing fields. ADCO has sanctioned over \$4bn on full field development projects for the Asab, Shah and Sahil fields. ADNOC has also had a couple of recent examples to illustrate the pros and cons of having a single company deal with a single field or development. The first in 2006 was ExxonMobil's successful bid for 28% of Zadco, the offshore concession for Upper Zakum (together with ADNOC and Jodco). However, the deep highly fractured offshore field is proving technically very challenging. The second, the award to ConocoPhillips of a 40% interest in the 30-year concession to develop sour gas at the Shah field, close to the border with Saudi Arabia, was the first time that a major company outside the original concession partners had acquired a concession itself. It was also the first such concession onshore for gas production and development. The deal with ConocoPhillips, something of a test case if Abu Dhabi decides to bring in new players, has still not been signed. Furthermore, ConocoPhillips is struggling to make the deal commercial after agreeing to hand Abu Dhabi most of the gas for free, and keep only the liquids, a deal reached when oil was over \$100/B.

At the end of March Abu Dhabi announced the renewal of one of the concession agreements. The Abu Dhabi Gas Industries Limited Company (Gasco) was formed in 1978 for 30 years between ADNOC (68%), Shell (15%), Total (15%) and Partex (2%). Gasco was formed to process associated gas from the Bab, Bu Hasa and Asab oil fields, extracting natural gas liquids for the shareholders, most of which are exported to Japan, and delivering the ethane and methane to ADNOC. The concession was due for renewal or dissolution at the end of 2008, but agreement was only reached at the end of March 2009. Abu Dhabi decided to maintain the structure and shareholding of the original arrangement but imposed more exacting conditions on the other partners, particularly in regard to liabilities and indemnities.

Not all the concessions are historic. In October 2008 Occidental Petroleum Corporation signed a concession agreement to develop the onshore Jarn Yaphour and offshore Ramhan oil and gas fields. The concessions were not tendered and Oxy has a 100% interest in them - an arrangement widely seen as reward for its partnership with the Mubadala investment company. The fields are not currently in production.

Saudi Arabia Set For 1.55Mn B/D Capacity Surge

Saudi Arabia is working to bring on stream 1.55mn b/d of new oil production capacity in the next two months. The surge will come from three projects – the 100,000 b/d Nuayyim increment, a 250,000 b/d expansion at the Shaybah field and 1.2mn b/d from Khurais, being touted as the single largest increment in oil industry history.

“Nuayyim will be ready on Saturday, maybe Sunday,” a source close to the project, which will produce Saudi Arabia's highest quality grade, Arab Super Light, told *MEES* on 29 April. Commissioning may take up to two months he added. The project involves field development at Nuayyim, including a gas oil separation plant and an upgrade to the pumping station at Hawtah, where the Kingdom's other producing Arab Super Light field is. The project, which was implemented by Greece's Joannou and Paraskevaides with initial

engineering from Australia's Clough, had been scheduled to come on stream by end-2008, but *MEES* understands, there were "problems with procurement on some big ticket items."

Mechanical completion on Shaybah should be done within the next few weeks, with a couple of months for commissioning (*MEES*, 27 April). This involves expansion, managed by Canadian engineering firm SNC Lavalin, to the 500,000 b/d Arab Extra Light Shaybah field near the border of the UAE. Khurais will come on stream in June, Saudi officials say. Khurais involves development of three Arab Light fields – 1mn b/d at Khurais, 110,000 b/d at Abu Jifan and 90,000 b/d at Mazalij – and the project will also produce 80,000 b/d of NGLs and 330mn cfd of gas (*MEES*, 30 June).

Capacity Conundrum

Saudi Minister of Petroleum and Mineral Resources Ali Naimi, speaking at an Asian producer/consumer roundtable in Japan on 26 April, reiterated the Kingdom's message that Saudi capacity will reach 12.5mn b/d by mid-year. Saudi oil capacity stood at 11.3mn b/d last year prior to the addition of the 500,000 b/d Khursaniyah increment. Given low Saudi depletion rates of around 2%, the exact Saudi capacity is open to interpretation, even if reports that Khursaniyah is still not fully completed are confirmed. For the next year or two Saudi capacity could exceed the 12.5mn b/d claimed. And with production running at around 8mn b/d as a result of OPEC cuts, spare capacity could reach 5mn b/d, far in excess the 1-2mn b/d the Kingdom targets. This spare capacity may have been a factor behind state-owned Saudi Aramco calling in contractors last month and revising the schedule for the 900,000 b/d offshore Manifa heavy oil project. This was to have come on stream in September 2011, but *MEES* understands the development timetable has been extended 18 months, putting full Manifa commissioning well into 2013. Manifa output, which was earmarked to feed new high conversion refineries in the Kingdom, was to have offset declines.

Saudi Aramco Delays East Coast Refinery

Saudi Aramco has delayed its planned 400,000 b/d East Coast refinery at Ras Tanura by up to two years, *MEES* understands. The decision is linked to delays on other projects, including Manifa, rather than a move towards a cancellation. Engineering firm Worley Parsons, which was working on the project, has been told to keep a core team in place. The East Coast project was to supply around 100,000 b/d of naphtha to the \$20bn plus Saudi Aramco/Dow Chemicals Ras Tanura integrated refinery petrochemicals venture, which one contractor tells *MEES*, is probably delayed by two years. This delay was the main rationale behind the East Coast postponement decision, he adds.

Partners Saudi Aramco and Total are evaluating bids on their 400,000 b/d joint venture Jubail export refinery project. The project has been split into 15 packages, and the investors are looking to bring down costs to below \$10bn from \$14bn a year ago (*MEES*, 30 March). "Everyone is so hungry, but \$10bn is pushing it. I don't know if it is possible," one of the prospective bidders says. Japan's JGC, Italy's Saipem, France's Technip, Spain's Tecnicas Reunidas (TR) and Korea's SK are all bidding for package 1, the main distillation unit project, sources say. Package 2a, the main conversion package, brings together JGC, Snamprogetti, and Techint. Package 2b, which involves construction of sulfur treating units sees Korea's Hyundai, Daelim, Taiwan's CTCL, India's Larsen and Toubro and a partnership of Japan's Chiyoda and Korea's Samsung bidding. TR, Hyundai, SK, and Daelim are among the bidders for package 3, covering aromatics units. Foster Wheeler, JGC, Chiyoda/Samsung and Snamprogetti are fighting it out for package 4, the delayed coker unit, thought to be of 100,000 b/d capacity. If costs meet Saudi Aramco and Total's targets award should be due in June or July, contractors say.

Meanwhile Saudi Aramco and ConocoPhillips continue to make internal studies on their 400,000 b/d Yanbu' export refinery project, says one source. "Investment decisions will probably be made this year," he notes. But there is little doubt that this lags behind Jubail, and a decision on a gas allocation for the project has still not been made (*MEES*, 21 July). Cost reductions down to \$10bn on Yanbu', which is slightly more complex than Jubail, are thought unlikely to be achievable, *MEES* understands.

LNG Plans Unfold In The East Mediterranean, New Cyprus Bid Round 'This Year'

Egypt is moving ahead with plans to produce LNG from a floating vessel in its Mediterranean deep waters, just as neighboring Cyprus is seeking expressions of interest for an onshore re-gasification terminal, to reduce its dependency on heavy fuel oil for power generation. Cyprus has been talking with all the North African LNG producers about a possible gas supply agreement. Mostly recently, Libya's *de facto* oil minister

Shukri Ghanem discussed this possibility with Cypriot Minister of Commerce, Industry and Tourism Antonis Paschalides on a one-day visit to Nicosia on 29 April, where he told *MEES* that Libya was also considering investing in the planned re-gasification terminal.

"We are talking about the possibility of supplying them with LNG," Dr Ghanem said. "Of course this is not going to be today or tomorrow, because they are going to build a re-gasification facility here. Also our investors may look at [this facility] as a possible investment project."

The proposed 1 bcm/year terminal at Vasilikos, on the island's south coast, is now due for completion in late 2013. The call for expressions of interest, to be submitted to the Cyprus Electricity Authority (EAC) by the end of May, is the first in a series of stages that will lead to the signing of a joint venture agreement between the EAC and its partners. The joint venture will then have responsibility for managing, operating, financing and constructing the terminal, with cost estimates ranging from €400-770mn.

Libya does not currently have any spare LNG capacity to sell to Cyprus, with just 600,000 tons/year (0.8 bcm/y) being produced from its ageing liquefaction plant at Marsa el-Brega. But the OPEC producer is working hard to exploit its gas potential, through multi-billion dollar gas exploration programs that could trigger the development of new LNG facilities if successful (*MEES*, 6 April). The most obvious supplier of LNG to Cyprus is Egypt, which has numerous gas fields to the south of the island, both producing and undeveloped. A team from the Cyprus energy department visited Cairo in February, and Egypt's Ministry of Petroleum announced last week that it is seeking to carry out a new plan to market gas from floating LNG vessels in the Mediterranean.

Egypt's Floating LNG Plan Under Study

"There are now studies being made to investigate the floating LNG option. The project the ministry is talking about is between (Egypt's state oil company) EGPC and Shell," explained a source at EGPC's sister company EGAS. Given that the project is still in the study phase, the lead time is not yet known, and would depend on the availability of the shipbuilding yards. But the source says first gas from any such project would not be seen for "more than two years."

Shell declined to comment on the project, except to say that it is currently working on applying innovative technologies to develop its gas discoveries in the North East Mediterranean Deepwater (NEMED) concession in the most cost effective way. But the company's Vice President for Gas and Power in North Africa, the Middle East and South Asia John Mills told reporters in November last year that Shell was studying the use of a 2mn t/y floating LNG terminal in Egypt.

In its determination to secure gas supplies for its planned LNG receiving terminal, Cyprus has sent a team of technocrats to Algeria, as well as Egypt and Libya, to try and forge bilateral agreements with producer countries. The liquefied gas would probably be supplied under a master sales agreement, with some additional suppliers of spot LNG cargoes "as back up," said Marios Pavlides of the Cypriot Ministry of Commerce. A separate public gas company called DEFA has been set up for the purpose of actually negotiating and signing the supply contracts, although it appears that the company is not yet operational.

"This is the best period to develop the terminal," Mr Pavlides said, "because of the availability of gas." A looming supply glut is expected between now and 2013, with numerous LNG plants in the region due to come on stream, notably in Qatar, Yemen, Algeria and possibly Egypt.

Cyprus Plans New Bid Round, Following Gas Discoveries In The Levantine Basin

In addition to these new LNG supplies, gas discoveries offshore Israel and a promising geo-seismic survey offshore Lebanon have raised interest in the region's prospectivity. The UK-based geoseismic company Spectrum said on 30 April that it has experienced "a surge in demand" for its seismic data from the East Mediterranean, since Noble Energy announced the Tamar and Dalit natural gas discoveries earlier this year. Cyprus hopes to capitalize on these upstream developments and plans to launch its new offshore bid round by the end of this year, the head of Cyprus' Energy Department at the Ministry of Commerce Solon Kassinis told *MEES* last week.

Cyprus' first bid round, held in 2007, attracted little interest. But since then, the Tamar discovery in particular, which was made in the subsalt, lower-Miocene structure on Israel's offshore Matan license in January, has attracted much attention. US firm Noble Energy, the operator of the license that lies around 90km northwest of Haifa, says the Tamar field potentially has 5tcf of gas reserves, although there could be as

much as 7tcf, according to unofficial estimates. At the end of March, Noble announced a second gas discovery at the Dalit well, in the offshore Michal license, and also said that its development plans were being brought forward to achieve first production from the new discoveries in 2012 (*MEES*, 13 April). Noble was the only company to pick up acreage in the first Cyprus bid round, acquiring Block 12, which Mr Kassinis said is just 65km from the Tamar discovery.

Separately, Lebanese Prime Minister Fuad Siniora said last month that a seismic survey carried out by a Norwegian firm had revealed two deep-water gas prospects in the south of the country's economic exclusion zone. He gave no further details about the prospects, but added that a law was in the final stages of being drafted, and once approved by parliament, would enable cooperation with the private sector and international funds in hydrocarbons exploration.

'Big Companies Interested'

Around 12,500km of 2D seismic data for Cyprus' offshore acreage is currently being processed and interpreted by the French oil and gas consultancy firm Beicip-Franlab. Once this has been done, the ministry can allow companies to buy the data, and then the new bid round offering 12 offshore blocks will be announced, Mr Kassinis says. "My expectation is to have it this year, possibly in December." He added that the ministry expects to sell the data to many firms, and that some big companies were now interested. Mr Kassinis' words were supported by the Libyan oil minister's comments during his visit to Cyprus, when he said that either Libya's National Oil Corporation (NOC) or one of its funds would be looking to see if the bid round could be of interest. "It is not yet a decision to take part [in the bid round]," Dr Ghanem told *MEES*. "But we will look to see if it could be of interest, not necessarily to NOC, maybe to one of our funds...The funds may participate as investors."

Saudi Mecca Real Estate, Ras Al-Zour IWPP Project Snags Not Endemic

While the financial crisis has reduced or slowed access to funding and increased the cost of debt for project financing in Saudi Arabia, as well as in the rest of the world, recent road blocks faced by a couple of projects in the Kingdom that were seeking financing are specific to those ventures, rather than signs that conditions are worsening in the country, suggest *MEES* soundings. Both Jabal Omar Development Company (JODC), and Saudi's Water and Electricity Company (WEC) have seen their projects hit snags, but for different reasons, and both are currently examining alternative ways to proceed.

JODC, which is implementing a multi-billion dollar real estate project in the holy city of Mecca, said last week that it had terminated the contract with its financial adviser, Jadwa Investment Company, because Jadwa was unable to secure SR12.4bn (\$3.31bn) in financing within the specified deadline. Saudi Arabian based investment bank Jadwa had been attempting to secure a smaller tranche of bridge financing for the project, and was then planning to follow this up with a larger Sukuk issue, which would serve as longer term financing. However, problems arose because the documentation for land ownership, which banks wanted as security against the bridge loan, was not in place.

"The land offers tremendous potential, and early preparation was being carried out by the Bin Laden Group and Saudi Oger," said one banker, who had looked at the deal with a view to funding it. However, he describes the concession as a "patchwork of hundreds of titles in transition" leading most bankers solicited for commitments to regard any pledge of land to secure the loan as inadequate. "The project had no cash flow and no security" so despite the best efforts of the financial adviser, was an almost "impossible sell," particularly under current market conditions, he added. *Reuters* reported that Jadwa had said on 29 April that the cancellation of its financing contract was void and that it would seek reimbursement for losses or damages. "I think in this market Jadwa should have been given more time, to allow the correct documentation to be put in place. Also, under current market conditions, everything has been slowed down, everywhere," commented another banker. Jabal Omar, which has taken on a former National Commercial Bank employee as an in-house financial adviser, now plans to issue Sukuk to fund its project and will float this proposal to its shareholders on 10 June.

Debt In Place, But Equity Falls Short For Ras Al-Zour

For the \$5bn Ras al-Zour independent water and power project (IWPP) foreign equity contributions proved the sticking point. One of its developers, Malakoff of Malaysia, exited the project when it was unable to raise the funds for its equity contribution (*MEES*, 16 March). As a result the sponsor, Saudi Arabia's WEC, had

decided to fund the construction through government resources. However, the project had already secured a \$2.5bn loan from Japan's export credit agency (ECA), the Japan Bank for International Cooperation (JBIC), while a number of the Kingdom's banks had agreed to provide the equivalent of \$1.2bn in Saudi riyals, with international banks contributing \$495mn.

Given that bank and ECA financing is already in place, some bankers suggest that WEC may still decide to proceed with the original funding plan on the debt side, if the equity contribution can be topped up. They suggested that further funding from Japan should not be ruled out, given that Sumitomo is leading the development consortium (along with locally based Al-Jomaih Automotive) and with JBIC stepping up with a large commitment, support from Japan is already present in good measure. However, WEC is concerned that the shareholder setback could slow down implementation of this project, which is required to meet the Kingdom's growing power and water needs that result from its growing population and industrial expansion, and is, therefore, looking for a quick remedy. There is already a precedent in other areas of the Gulf for project sponsors to abandon their project financing plans, either because they have proved too slow, or too expensive, with the Abu Dhabi Ports Company, for example deciding to finance the Khalifa Port and Industrial Zone project itself, rather than implement long-term project financing, which was already in progress (*MEES*, 16 March).

Other projects both within the Kingdom and wider Gulf have seen hold-ups in securing funding, although some of the delays, such as the large Saudi Aramco projects, have been linked to attempts to secure better prices from contractors, in step with the fall in raw materials prices (see page 5). Many of the Kingdom's other projects are also pushing ahead. Saudi Arabia's rapidly expanding minerals giant, Ma'aden, plans to proceed with its aluminum project, for which it will need external funding (*MEES*, 27 April) and the Kingdom continues to reiterate its commitment to implementing its ambitious plans to create a number of economic cities (*MEES*, 12 January). Saudi Electricity Company (SEC) announced last month that 10 consortia had prequalified to bid for its 1,200mw Riyadh P11 independent power project (IPP), and Saudi banks are gearing up to provide funds for the project. Marafiq's Yanbu' IWPP has been delayed after attracting three bidding consortia, which include International Power/Oasis International Power, ACWA/KEPCO, and Malaysia's Tenaga Nasional Berhad/Saudi Bin Ladin Group, although this project is facing further delays, *MEES* understands.

Reverse Tsunami

Despite the problems encountered by some, such as JODC, banks in Saudi Arabia now have renewed appetite for project financing, after suffering a liquidity crunch in the fourth quarter last year. This resulted from the Saudi Arabian Monetary Agency's (SAMA's) bid to control inflation after it climbed to over 10% in the third quarter. To combat inflation SAMA encouraged deposits to move out of the banking system, but now the Kingdom is seeing a "reverse tsunami" after SAMA channeled its efforts towards combating the credit crunch, which had slowed funding to projects. It fostered the conditions needed for deposits to flow back into Saudi banks and as a result of SAMA's about face, domestic banks are well funded. The Al Dur IWPP project in Bahrain for example, has attracted a number of Saudi banks (see page 15).

Saudi Arabian institutional lender the Public Investment Fund (PIF) also recently announced measures to increase funding to the Kingdom's projects in an attempt to address a reduction in support from international banks which have been severely impacted by the ongoing financial crisis (*MEES*, 2 February). ECAs are also expected to be widely tapped in forthcoming project financings, and across the Gulf the bond market has reopened, with a number of sovereign issues which are being followed by corporate and project bonds (*MEES*, 20 April). Players in Saudi Arabia are also understood to be preparing to tap the debt markets. Funds are therefore available in the Kingdom, but for well structured projects with strong covenants and good underlying security, said banks. Projects that fall outside this sphere will have a hard time, predict bankers.

MEES Agenda

Angola Requests Exemption From OPEC Targets, Underlining Compliance Issue

Angola has sent a letter to OPEC Secretary-General 'Abd Allah al-Badri requesting special exemption from implementing its OPEC production target obligations, *MEES* understands. Citing the damage wrought by 30 years of civil war, the letter argues Angola has a special need for revenues to rebuild its shattered economy

and points to similar exceptions given to both Iraq and Kuwait. The fact that several new projects are coming on stream from high-cost offshore acreage means that Luanda will be severely penalized by enforcement of its 1.517mn b/d output target, the letter adds.

Luanda plans for its proposal to be formally discussed when OPEC ministers meet in Vienna on 28 May, *MEES* understands. However, Angola faces an uphill struggle to convince its fellow members to give it special dispensation. Implementing OPEC's December Oran meeting decision to slash output to 24.845mn b/d has been a long hard struggle. According to *MEES* calculations, member countries have managed to cut an impressive 1.9mn b/d off December output, but March production at 25.81mn b/d was still 1mn b/d off the target. Ministers are highly unlikely to sanction any action that could endanger the fragile recovery in prices which has benefited them all and that has taken effort from all countries to create.

Furthermore, OPEC members are all feeling some pain from the global economic downturn and are thought to be unlikely to agree on principle to anyone not willing to make the necessary sacrifices. There is also the fear that such a move could potentially open the floodgates to widespread quota busting, triggering a disastrous price rout. "I don't want to prejudge the issue, but I don't think this proposal was thought through. Of course they are a sovereign country and can propose whatever they want," notes one OPEC source.

Even prior to the letter, there was a feeling among OPEC's core Middle East Gulf members that Angola, in common with Iran and Nigeria, was not living up to its membership responsibilities (*MEES*, 27 April). *MEES* estimates that Angolan output fell marginally from 1.65mn b/d in February to 1.62mn b/d in March, but OPEC's latest *Monthly Oil Market Report (MOMR)* cites Angola as one of only two countries, the other being Iraq, which does not participate in OPEC production cut agreements, whose output actually rose. March output stood at 1.653mn b/d, up from 1.637mn b/d in February, the *MOMR* said.

Complicating the issue further is the fact that Angola is currently holding the OPEC presidency – a position some feel comes with the obligation to be supportive of organization decisions and rules. Whatever the outcome of production target discussions at the May meeting, the issue of Angolan compliance is likely to become more prominent. What level of compliance Luanda has achieved has been partly inadvertent, as a result of problems at BP's 200,000 b/d Plutonio field. And several projects, including Total's 220,000 b/d Plazfor development and increments from ExxonMobil's Kizomba field, are expected to come on stream in the next year or so. Angola is not alone, with Nigerian compliance almost complete as a result of disruptions. In the absence of an unlikely rebound in global oil demand, OPEC's supply discipline is a major factor preventing a major slide in prices, and this is being increasingly tested.

Ministers See Further Price Recovery Despite Fundamentals Weakness

Angola's threat to production unity aside, there appears a consensus that while stocks are high – 62-63 days of forward cover according to one OPEC official – and demand is likely to remain weak, prices should continue to recover. "In line with all the scenarios we saw (concerning the world economy) and with the current analysis of the market, oil prices are likely to reach \$60/B by the end of 2009," Algerian Minister of Energy and Mines Chakib Khelil said during a news conference, held jointly in Algiers with Mr Badri on 26 April. Speaking in Cyprus three days later, *de facto* Libyan oil minister Shukri Ghanem said: "We are not so pessimistic as other people regarding the international economy, and we think there are signs, starting now in America, that the economy may start to rebound in one way or another, and that will lead to improvement in demand. But we are a little bit concerned about the overhang. Yet we think the price will go up." Dr Ghanem said Libya was producing 1.48mn b/d, in line with its quota.

Dr Ghanem stressed that vigilance was critical in the run up to the 28 May meeting. Then "all options are open," he said. Echoing comments by Mr Badri in Algiers, he confirmed general unhappiness within OPEC with current oil prices. "We think the prices are low and that that will lead to a lot of problems ... we start seeing companies unable to finance certain projects," Dr Ghanem noted. However, "in looking at the general context of the world economy, we are not in a mood to take action that may also affect the economy at this moment in time," he added. His sentiments were echoed by both Qatar and Saudi Arabia in comments reported by *Reuters* from a Tokyo Asian producer/consumer summit. "I think this is very pragmatic, \$40-50/B is a pragmatic price for 2009," said Qatari Minister of Energy and Industry 'Abd Allah al-'Attiyah. Saudi Minister of Petroleum and Mineral Resources Ali Naimi said that \$50/B oil was Riyadh's "contribution to the world economy."

ENERGY FUNDAMENTALS

WTI Crude Holds Steady Around \$50/B, Swayed By Economic Fluctuations

Crude oil prices continued to gyrate around the \$50/B mark during the week amid fluctuations in the dollar and fresh economic indications that suggest the global financial circumstances may be beginning to stabilize. Concerns over a swine flu pandemic and news that Detroit's Chrysler would file for bankruptcy swayed the stock market and had a knock-on effect for crude prices during the course of the week. WTI closed above \$51/B on 30 April. Weekly data released by the US Energy Information Administration (EIA) showed US stocks continuing to rise, although gasoline inventories had declined.

The EIA said in its *Weekly Petroleum Status Report* on 29 April that US commercial crude oil inventories increased by 4.1mn barrels in the week ending 24 April. At 374.7mn barrels, US crude oil inventories are above the upper boundary of the average range for this time of the year. Total motor gasoline inventories decreased by 4.7mn barrels and are in the upper half of the average range. Distillate fuel inventories increased by 1.8mn barrels and are above the upper boundary of the average range for this time of year. Total commercial petroleum inventories increased by 5.5mn barrels last week and are above the upper limit of the average range for this time of the year.

US crude oil imports averaged about 9.8mn b/d, down 31,000 b/d from the previous week. Over the last four weeks, crude oil imports have averaged 9.6mn b/d, 246,000 b/d below the same four-week period last year. US crude oil refinery inputs averaged about 14.3mn b/d, down by 182,000 b/d from the previous week's average. Refineries operated at 82.7% of their operable capacity last week. Total products supplied over the last four-week period have averaged 18.4mn b/d, down by 6.8% compared to the similar period last year.

Settlement Prices For Benchmark Crudes (\$/B)

Date	Nymex WTI	ICE Brent	DME Oman	ICE Dubai	OPEC Basket
24 April	51.55	51.67	49.11	49.47	49.97
27 April	50.14	50.32	48.89	49.15	49.21
28 April	49.92	49.99	48.26	48.82	48.70
29 April	50.97	50.78	49.32	49.61	49.98
30 April	51.12	50.80	49.71	49.73	NA

Saudi LPG Prices For May Reduced

Saudi Aramco and Kuwait Petroleum Corporation (KPC) announced to customers on 30 April that LPG contract prices for May deliveries would be \$380/ton for propane and \$400/ton for butane, reduced by \$15/ton and \$5/ton respectively from April. Ron Gist, Managing Consultant at the Houston office of Purvin & Gertz, told *MEES* that the May LPG pricing was in line with recent swaps market prices, and unlikely to surprise most market participants. "Saudi Aramco's premium of \$20/ton for butane over propane is in line with the current price differentials for spot propane and butane in Asia," said Mr Gist, "which is the primary

Saudi Aramco/KPC LPG Prices (\$/Ton)

Date of Change				Date of Change				Date of Change			
		Propane	Butane			Propane	Butane			Propane	Butane
2007	1 Jan	545.00	550.00	2008	1 Jan	870.00	875.00	2009	1 Jan	380.00	380.00
	1 Feb	526.00	526.00		1 Feb	800.00	805.00		1 Feb	505.00	505.00
	1 Mar	506.00	506.00		1 Mar	820.00	825.00		1 Mar	470.00	450.00
	1 Apr	530.00	545.00		1 Apr	805.00	815.00		1 Apr	395.00	405.00
	1 May	560.00	575.00		1 May	845.00	860.00		1 May	380.00	400.00
	1 Jun	592.00	612.00		1 June	895.00	920.00				
	1 Jul	575.00	595.00		1 July	905.00	950.00				
	1 Aug	580.00	605.00		1 Aug	860.00	890.00				
	1 Sep	560.00	580.00		1 Sep	800.00	840.00				
	1 Oct	640.00	665.00		1 Oct	790.00	810.00				
	1 Nov	730.00	755.00		1 Nov	490.00	490.00				
	1 Dec	860.00	885.00		1 Dec	340.00	335.00				

destination for LPG exports from the Middle East. Saudi Aramco's contract prices highlight the fact that LPG prices remain weak relative to crude oil prices. The seasonal market for LPG in Asia is currently going through a transition from winter to spring/summer. LPG demand for cooking and heating will be declining, but demand as a feedstock for ethylene production will be increasing, particularly for butane. Purvin & Gertz expects that butane will be a cheaper feedstock than naphtha for ethylene production in Asia from March through September this year."

Japan's March Oil Imports Fall 13.7% From February, 16.7% Year-On-Year

Monthly petroleum data published by Japan's Ministry of Economy, Trade and Industry (METI) on 30 April showed that Japan's crude oil imports during March fell by 13.7% to 3.792mn b/d compared with imports of 4.393mn b/d in February. Year-on-year, Japan's crude imports are down by 16.7% from 4.552mn b/d in March 2008. Crude imports from the Middle East during March declined by 12.9% from the previous month. March Middle East imports averaged 3.418mn b/d compared with 3.924mn b/d in February. Saudi Arabia retained its role as the largest crude oil supplier to Japan with imports during March averaging 1.173mn b/d, although this was down from the 1.263mn in February and from 1.329mn b/d in March 2008. The UAE was Japan's second major supplier in March, followed by Iran and Qatar.

Japanese Crude Oil Imports, March 2009 (B/D)

Source	Mar 2009	Feb 2009	Mar 2008
Middle East	3,417,552	3,923,780	3,854,944
- Iran	472,454	580,741	546,409
- Iraq	64,100	72,966	-
- Saudi Arabia	1,172,975	1,262,673	1,329,892
- Kuwait	296,176	443,194	249,721
- Neutral Zone	104,728	97,404	33,603
- Qatar	471,932	448,465	493,188
- Oman	61,660	92,965	76,646
- UAE	764,532	916,843	1,113,442
- Yemen	8,995	8,528	12,042
East & Central Asia	-	14,206	9,757
Southeast Asia	67,330	184,092	294,785
Europe	195,649	185,788	137,567
Central & South America	-	-	-
Africa	58,392	29,965	195,774
Oceania	53,017	54,795	59,161
Total	3,791,940	4,392,625	4,551,988

Source: METI. (Note: figures may not add due to rounding).

China's March Crude Imports Increased To 16.3Mn Tons

China's crude oil imports for March amounted to 16.3mn tons (3.84mn b/d), up by 39% from February imports of 11.73mn tons. Saudi Arabia retained its position as China's largest crude oil supplier, with shipments during March totalling 2.49mn tons.

China Crude Oil Imports 2008-09 (Mn Tons/Month)

	2009			Total 2008	2008									
	Mar	Feb	Jan		Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Imports	16.30	11.73	12.82	178.9	14.37	13.36	16.16	15.03	15.65	13.79	14.57	16.20	14.24	17.30
Mn B/D	3.84	3.06	3.02	3.58	3.40	3.25	3.82	3.67	3.69	3.25	3.55	3.81	3.46	4.07

Crude Oil Formulas/Posted Prices (\$/B)

Algeria (Dated Brent + / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Saharan Blend (44°)	+0.00	+1.25	+1.85	+1.00	+0.30	+1.00	+1.35	+1.15	+1.35	+1.30	+1.30	+1.50	+2.10

Iran (+ / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Asia (O/D)													
Iranian Light (34°)	+1.10	+1.20	+0.50	-0.20	-0.60	-0.95	-0.35	+0.30	+1.00	+1.65	+2.35	+2.25	+1.85
Iranian Heavy (31°)	-0.45	+0.55	-0.58	-1.98	-3.18	-3.87	-2.87	-2.47	-3.17	-3.92	-3.92	-3.45	-3.25
Foroozan (31°)	-0.40	+0.60	-0.51	-1.91	-3.11	-3.80	-2.80	-2.40	-3.10	-3.85	-3.85	-3.16	-3.36
Soroosh (18.6°)*	-10.55	-10.35	-10.52	-11.07	-11.77	-11.83	-11.53	-11.53	-12.33	-13.08	-13.43	-13.40	-13.15
Norooz (20.6°)*	-9.95	-9.75	-9.92	-10.47	-11.17	-11.23	-10.93	-10.93	-11.73	-12.48	-12.83	-12.80	-12.55
NWE/S Africa (BWAWE)													
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Iranian Light (34°)	-3.30	-1.75	-3.45	-5.40	-5.90	-4.70	-4.80	-5.00	-5.50	-6.25	-6.90	-5.60	-4.50
Iranian Heavy (31°)	-4.05	-2.15	-3.85	-6.50	-7.45	-6.75	-6.65	-6.65	-7.45	-9.35	-10.50	-8.80	-6.90
Foroozan (31°)	-3.90	-2.00	-3.80	-6.50	-7.50	-6.80	-6.70	-6.70	-7.50	-9.40	-10.40	-8.75	-6.85
Mediterranean (BWAWE)													
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Iranian Light (34°)	-3.40	-3.00	-4.40	-5.90	-6.15	-5.45	-5.90	-4.80	-6.45	-10.60	-9.75	-8.00	-6.30
Iranian Heavy (31°)	-4.20	-3.30	-5.25	-7.35	-8.30	-7.65	-7.70	-6.90	-9.35	-13.40	-13.05	-10.90	-8.80
Foroozan (31°)	-4.05	-3.15	-5.20	-7.35	-8.35	-7.70	-7.75	-6.95	-9.40	-13.45	-12.95	-10.85	-8.75
Soroosh (18.6°)*	-2.05	-1.00	-2.30	-4.20	-5.50	-6.30	-5.30	-5.75	-7.45	-9.05	-10.55	-9.35	-8.20
Norooz (20.6°)*	-1.05	0.00	-1.30	-3.20	-4.50	-5.70	-4.75	-5.15	-6.85	-8.45	-9.95	-8.75	-7.50
Sidi Kerir (BWAWE)													
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Iranian Light (34°)	-2.40	-1.55	-2.90	-4.40	-4.80	-4.00	-4.00	-3.35	-4.25	-6.95	-6.10	-5.45	-4.10
Iranian Heavy (31°)	-3.20	-1.85	-3.75	-5.85	-6.95	-6.20	-5.80	-5.45	-7.15	-9.75	-9.40	-8.35	-6.60
Foroozan (31°)	-3.05	-1.70	-3.70	-5.85	-7.00	-6.25	-5.85	-5.50	-7.20	-9.80	-9.30	-8.30	-6.55

* Iran's Soroosh and Norouz crudes are discounted against Iranian Heavy crude.

Libya (Dated Brent + / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Zueitina (41°)	+0.20	+0.40	+0.30	+0.05	-0.10	0.00	+0.20	+0.20	+0.20	0.00	0.00	+0.10	+0.10
Brega (40°)	+0.60	+0.80	+0.70	+0.45	+0.30	+0.60	+0.80	+1.00	+0.95	+0.75	+0.75	+0.85	+0.85
Sirtica (41°)	-0.60	-0.40	-0.40	-0.60	-0.75	-0.45	-0.35	-0.35	-0.35	-0.55	-0.55	-0.45	-0.45
Es Sider (37°)	-0.40	-0.20	-0.20	-0.70	-0.85	-0.75	-0.65	-0.65	-0.85	-1.05	-1.05	-0.75	-0.55
Bu Attifel (36°)	+0.55	+0.85	+0.85	+0.65	+0.50	+0.80	+0.90	+1.00	+1.00	+0.80	+0.80	+0.90	+1.00
Sarir (36°)	-2.00	-2.00	-2.30	-2.70	-2.85	-2.75	-2.55	-2.45	-2.45	-2.55	-2.55	-2.25	-2.25
Amna (36°)	-1.10	-0.90	-1.15	-1.35	-1.50	-1.20	-1.10	-1.00	-1.10	-1.20	-1.20	-1.00	-0.90
Esharara (43°)	+1.50	+2.10	+2.10	+1.80	+1.70	+2.70	+2.90	+3.10	+3.00	+2.80	+2.80	+2.80	+2.95
Mellitah (41.6°)	+1.20	+1.80	+1.80	+1.50	+1.40	+1.70	+1.90	+1.90	+1.80	+1.60	+1.60	+1.80	+2.00
Bouri (26°)*	-2.60	-2.40	-2.55	-2.95	-3.10	-2.90	-2.70	-2.60	-2.60	-2.80	-2.80	-2.60	-2.45
Al Jurf (30°)*	-0.35	-0.15	-0.15	-0.55	-0.70	-0.70	-0.70	-0.70	-0.70	-0.80	-0.80	-0.60	-0.50

* Adjustment factor is the Urals Average.

Oman (\$/B)

	2009						2008						
	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
Oman													
Oman (34°)	50.09	45.87	43.51	44.34	40.53	49.97	68.89	95.88	113.13	133.08	128.28	119.15	104.19

Nigeria (Dated Brent + / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Bonny Light (37°)	+0.60	+1.80	+3.15	+2.00	+1.85	+2.75	+3.60	+2.70	+2.35	+3.90	+4.45	+4.00	+3.50
Brass River (36°)	+0.60	+1.85	+3.20	+2.05	+1.90	+2.80	+3.70	+2.75	+2.45	+3.95	+4.50	+4.20	+3.70
Qua Iboe (37°)	+0.60	+1.80	+3.15	+2.00	+1.85	+2.75	+3.60	+2.70	+2.35	+3.90	+4.45	+4.00	+3.50
Pennington (36°)	+1.50	+3.00	+4.55	+3.50	+3.00	+3.95	+4.85	+4.20	+3.80	+5.20	+5.85	+5.70	+4.90
Escravos (36°)	+0.15	NA	NA	NA	NA	+2.35	+3.00	+2.15	+1.65	+3.70	+4.00	+3.50	+2.90
Forcados (31°)	+0.45	+1.80	+3.50	+2.80	+2.50	+3.35	+3.80	+2.95	+2.30	+3.95	+4.50	+4.05	+3.55
Odudu (27°)	+0.20	+1.75	+2.95	+1.80	+1.65	+2.65	+3.40	+2.70	+2.10	+3.80	+4.35	+3.90	+3.45

Syria (Dated Brent + / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Syrian Light (37°)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Syrian Heavy (24°)	-5.75	-5.50	-7.50	-11.00	-12.50	-12.50	-10.00	-10.00	-11.25	-13.25	-13.25	-12.25	-12.25

Yemen (Dated Brent + / - Adjustment Factor; \$/B)

	2009					2008							
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Marib Light (40°)	-	1.45	-2.75	-1.25	-1.25	-1.50	-1.00	-0.90	-0.90	-0.45	+0.60	+0.55	+1.45
Masila (30°)	+0.09	-0.30	-0.70	-1.40	-2.00	-2.75	-2.50	-1.20	-1.80	-1.90	-1.75	-1.85	-1.20

NEWS BY COUNTRY**ALGERIA****Algerian Export Revenues Fell 42% In 1Q09**

Algeria registered a 42% year-on-year drop in the value of receipts for first quarter exports to \$10.74bn in 1Q09, *Al-Watan* newspaper reported on 21 April. New data from the National Computing and Statistics Centre (CNIS) of Algeria's Customs Authority showed that exports of hydrocarbons, which account for 97.27% of the overall value of receipts, plunged 42% from \$18.01bn during the first quarter of 2008 to close to \$10.45bn during the same period in 2009, due to the sharp decrease in oil prices. Non-hydrocarbon exports also recorded a 44% drop to \$293mn. *Al-Watan* also reported an inflation rate of 6.1% in 1Q09, based on the National Office of Statistics' figures, an increased rate due mainly to considerably higher food prices.

BAHRAIN**Occidental And Mubadala Sign Bahrain Development And Production Agreement**

Occidental Petroleum and the Abu Dhabi-based investment company Mubadala have signed a 20-year development and production sharing agreement to boost production from Bahrain's Awali field. The partnership is looking to triple production from the first oil field discovered on the Arabian peninsula, using Oxy's experience in enhanced oil recovery. Awali was discovered in 1932, but production has slipped to a little over 30,000 b/d of late. Oxy plans to double this within five years under a \$1.5bn development program. Over the life of the concession, some \$5bn will be invested. Gas production is also expected to rise from 1.7bn cfd now to over 2.5bn cfd.

Awali had been run until now by the Bahrain Petroleum Company (Bapco). The Bahraini authorities decided they needed to get in international expertise to help develop the field and increase production, the better to finance its economic diversification policy. The partners are to establish a joint operating company in which Oxy will have a 48% stake, Mubadala 32% and a subsidiary of Bahrain's National Oil and Gas Authority (NOGA) the remaining 20%. Oxy-Mubadala beat out bids from ExxonMobil and Maersk, the other two shortlisted companies (*MEES*, 5 January).

Oxy's strategic partnership with Mubadala is viewed as yielding considerable benefits to both sides by combining a shared business objective with intergovernmental cooperation. Over a quarter (27%) of Oxy's worldwide production of 600,000 b/d is from the Middle East, in its strategic alliance with Mubadala. Oxy

and Mubadala have entered Libya and Oman. Oxy also has a 24.5% interest in the Dolphin project, bringing gas from Qatar to the UAE, and a 100% concession for two small fields in Abu Dhabi. It is also among the 35 companies qualified to bid for work in Iraq. Mubadala CEO Khaldun Khalifah al-Mubarak issued a statement saying: "Our collaboration with Oxy is wholly in line with Mubadala's strategy of developing a top class international oil and gas unit focused on exploration and development projects in the Middle East, North Africa and South East Asia."

Bahrain has also been seeking to find more deep gas. On 2 February NOGA signed a memorandum of understanding with Shell to explore the feasibility of a number of gas ventures in Bahrain (*MEES*, 9 February). Bahrain produces about 11 bcm/year of gas and is keen to find more. For Shell, this is the latest in a series of gas deals concluded or under negotiation in the region, in Qatar, Saudi Arabia, Abu Dhabi, Oman and Kuwait.

Al Dur IWPP Targets Signing Of Financing Documentation By End Of May

Bahrain's Al Dur independent water and power project (IWPP) is on target to achieve signing of financing documentation by the end of May, *MEES* learns. The project has attracted strong interest from the financial community with support from a mix of international, regional and Islamic banks and export credit agencies (ECAs). It will be the first major new project financing to close in the Gulf this year and sends a clear message that in spite of the difficult financial conditions experienced, GDF Suez Energy and Gulf Investment Corporation, the sponsors can raise significant amounts of funding for important infrastructure projects in this part of the world. The initial mandated lead arrangers (MLAs) on the deal comprise Calyon, Mashreqbank and Standard Chartered.

Commitments have been received from Al Rajhi, Arab Bank, Bank of Tokyo Mitsubishi, Banque Saudi Fransi, Bayerische Landesbank, Calyon, Fortis, KBC, KfW-Ipex, Mashreq, National Australia Bank, Riyadh Bank, Société Générale, Standard Chartered Bank, and WestLB. A further six institutions are in the final stages of their credit process and are also expected to join the financing group, which would increase it to 21 banks. The debt is structured as an eight-year, non-recourse mini-perm with a full cash sweep starting 2.5 years after construction. A portion of the international commercial tranche will be covered by Korean export credit agency KEIC. In addition to the international commercial tranche, other facilities will be provided by various financial institutions including Islamic banks and US-EXIM, which will rank *pari passu* with the commercial tranche.

Al Dur will have a generation capacity of 1.234gw and a desalination capacity of 48mn gallons/day (218,000 cmd) of water when completed. Hyundai Heavy Industries is the engineering, procurement and construction (EPC) contractor with Degremont designing and supplying seawater reverse osmosis technology. The plant is scheduled to start commercial operation by mid-2011. The financing has been conducted on a book building basis. Al Dur is expected to cost \$2.2bn to construct, with the debt package pegged at around \$1.7bn. The bank facility is carrying margins that start at around 250 bps and move up across the eight-year tenor (*MEES*, 26 January).

CASPIAN

Shah Deniz 2 Costs Rising, Start-Up Date Pushed Back Again

Azerbaijan's Minister of Energy Natiq Aliyev told a press conference in Baku on 27 April that "the total cost of the second phase of Azerbaijan's giant Shah Deniz gas condensate field development will be between \$16bn and \$20bn," with \$20bn being the most "probable estimate scenario." He said that the project would raise Azerbaijan's gas exports to Europe "to between 15 bcm/year 20 bcm/y." The increased cost estimate is threatening the projects start-up schedule of 2012-13, with commercial operator StatoilHydro now anticipating first production in 2016. While development operator BP is maintaining its original timetable, saying that it would reach its own final investment decision on the expansion in the second half of 2010, Azeri state firm Socar said last month that production could start in late 2015.

Bulgaria Signs MOU For Egyptian LNG Imports

Bulgarian Economy and Energy Minister Petar Dimitrov and Egyptian Minister of Petroleum Sameh Fahmy signed a memorandum of understanding (MOU) in Sofia on 25 April for the import of up to 1 bcm/year of Egyptian LNG beginning in 2011-12. Mr Dimitrov told reporters: "This deal is extremely important for Bulgaria after the January crisis, as it opens possibilities for Bulgaria to import gas from Egypt. There are possibilities to import LNG through an existing terminal in Greece or through a new terminal, whose

construction we are discussing with Greece." Bulgaria was the EU state worst hit by the January Russia-Ukrainian gas crisis and has since sought ways to diversify its import sources. Bulgarian officials have visited a number of gas exporting states over the last six months including Azerbaijan, Turkmenistan, Uzbekistan, Egypt, Qatar and the UAE (*MEES*, 27 April).

IRAN

Iran And Iraq Sign Agreement For 200,000 B/D Basra-Abadan Oil Pipeline

Iran's Minister of Petroleum Gholamhossein Nozari and Iraqi Minister of Oil Husain al-Shahristani have signed an agreement to build a pipeline to carry Iraqi oil to Iran, National Iranian Oil Refining and Distribution Company (NIORDC) Managing Director Nouredin Shahnazadeh told reporters on 23 April. During a visit by Dr Shahristani to Tehran, the two sides finalized an agreement to build a 32-in pipeline to deliver up to 200,000 b/d of oil from Basra to Abadan, where NIORDC operates a 430,000 b/d capacity refinery. Mr Shahnazadeh said the pipeline would be owned by the two countries on a parity basis, with Iran supplying up to 1.5mn tons/year of fuel oil and 1.5mn t/y of diesel in exchange for Iraqi crude. He also said that the two ministers agreed to study joint construction of five refineries in southern Iraqi cities, beginning with Basra.

Kasaizadeh Says Sinopec May Take Equity In Persian LNG Project

National Iranian Gas Export Company (NIGEC) Managing Director Reza Kasaizadeh told *Mehr News Agency* on 27 April that China's Sinopec is negotiating to take a 20% stake in the proposed Persian LNG project. He said that "NIGEC, Repsol, and Shell currently have 50%, 25%, and 25% shares in the project, respectively. If the proposed plan is agreed on, these shares will be changed to 20%, 30% and 30% respectively." The Persian LNG project involves the development of South Pars Phases 13-14 to supply gas to a twin-train LNG export project with capacity to produce 16.2mn tons/year. The liquefaction plant would be built at the port of Tombak. The LNG plant is expected to cost \$10bn.

NIOEC And SKSD Form JV To Build Malaysian Refinery

The National Iranian Oil Engineering and Construction Company (NIOEC) and Malaysia's SKSD have formed a joint venture company to build a refinery in Malaysia, NIOEC International Projects Manager Hamid Sharif Razi was quoted by the Ministry of Petroleum's *PIN* news service as saying on 28 April. He said the SKS-PARS joint company would build a 250,000 b/d refinery at Kadhah in northern Malaysia, at an estimated cost of \$4.8bn.

NIGC Lobbies For Transit Of Turkmen Gas To Europe

National Iranian Gas Company (NIGC) Managing Director Azizollah Ramezani told an energy transit conference in Ashgabat on 23-24 April that Iran "constitutes a natural bridge for Turkmen gas exports to Europe and beyond." He said that Iran could offer Turkmenistan three main options for reaching European markets in a way that "diversified its exports routes": via the Turkish system to the Nabucco pipeline; via the Interconnector Turkey-Greece-Italy (ITGI) pipeline; and via Iran's proposed Persian pipeline from Iran to southern Europe through Turkey. Sending Turkmen gas to Europe via any of these proposed pipelines would require a major expansion of the 200km Turkmen-Iranian Korpeje-Kord-Kuy pipeline, through which Iran has been receiving approximately 6.5 bcm/year of Turkmen gas since 1997. After a visit to Tehran in February, Turkmenistan's President Gurbanguly Berdymukhamedov told reporters that "Turkmenistan would like to take advantage of Iran's cooperation in the exploitation of new gas resources, estimated at 14 trillion cu ms, as well as the construction of a new gas pipeline."

Nozari To Promote Nabucco Pipeline Participation During German Visit

National Iranian Oil Company (NIOC) Managing Director Seyfollah Jashnsaz told reporters on 29 April that "the transfer of Iranian natural gas to Germany through the Nabucco pipeline will top the agenda during the oil minister's visit next week to Germany." *MEES* understands that Iranian Minister of Petroleum Gholamhossein Nozari has been holding talks since late January 2009 with Germany's RWE Dea and Austria's OMV regarding the potential participation of Iran in Nabucco. As negotiations over transit terms for Azeri gas via the Turkish pipeline system to Europe appear to be stalemated, Nabucco partners led by RWE Dea and OMV are considering Iranian gas exports as a potentially "more immediate contributor" for the 31 bcm/year project than initially planned. Turkey already imports around 20% of its gas needs via the existing Iran-Turkey pipeline, and signed a memorandum of understanding (MOU) with Iran last year for the development of South Pars gas field Phases 23-24 to supply the proposed Persian pipeline project to deliver Iranian gas to Europe via Turkey.

IRAQ

Increase In Iraqi Budget Deficit In 2009 May Not Materialize

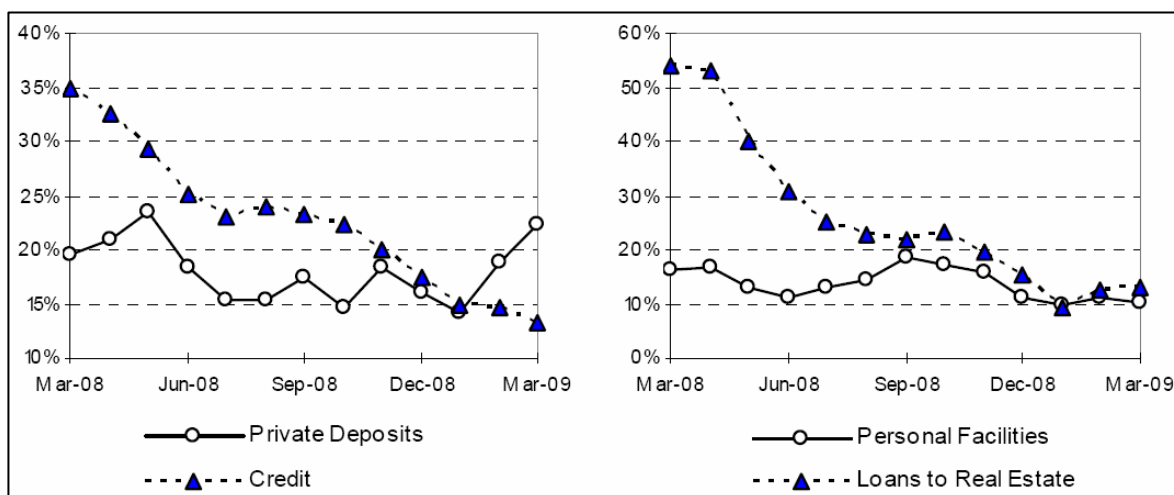
Last month's warning by the Iraqi Minister of Finance Bayan Jabr that the budget deficit in 2009 could soar to \$25bn from the projected figure of ID18,757bn (\$15.9bn) was perceived as an exaggeration by economists familiar with the Iraqi economic scene. In an interview with *Reuters* in 'Amman, Mr Jabr attributed his gloomy outlook to the fall in oil exports in the first quarter of 2009 to an average of 1.8mn b/d, some 200,000 b/d below the budget target, coupled with fall in oil prices below the \$50/B budget price assumption (*MEES*, 16 March). One economist suggested that the accumulated budget surpluses for the years 2004-08 would serve as a good cushion for 2009 and noted that oil prices seem to have stopped sliding for now. At the same time, given the poor institutional structure in Iraqi governance, some ministers are not expected to spend all their budgetary allocations, which would help in reducing the budget deficit by the end of the year.

KUWAIT

Kuwait's Credit Growth Remains Low In March, According To NBK

Credit growth in Kuwait remained sluggish in March despite a pick-up in the real estate sector in the previous two months, reports the National Bank of Kuwait (NBK) in its latest *Economic Brief* published on 28 April. Earlier this month the Central Bank of Kuwait (CBK) cut its discount rate by 25 bps to 3.5%, the lowest level since mid-2004, in order to stimulate credit growth. Credit to residents rose by 0.8% (KD185mn-\$636mn) in March, yet well below its pace of recent years. Private deposits at local banks continue to expand rapidly thanks to government injections through semi-public institutions. Private resident deposits rose by KD838mn (\$2,879mn) in March while deposits of non-residents dropped by KD223mn (\$766mn). During the first quarter, deposits of residents grew KD2.9bn (\$9.96bn) compared with a KD1.1bn (\$3.78bn) decrease from non-residents. CBK's foreign assets dropped KD146mn (\$502mn) in March for the first time in seven months. Money supply (M2) increased by 3.4% month-on-month in March. Loans to the real estate sector remained the largest growth sector, rising KD204mn (\$701mn) in March, followed by industrial and consumer loans (excluding securities financing). Local banks' net foreign assets rose KD434mn (\$1,491mn) due to a large drop in foreign liabilities. Banks' holdings of public debt instruments dropped KD217mn (\$746mn) in March as most of the KD399mn (\$1,371mn) renewed treasury bonds were subscribed by other institutions. Liquid assets at local banks dropped KD46mn (\$158mn) in March but remain ample. The December cut in CBK reserves to deposits ratio to 18% from 20% along with new deposits to banks has greatly lowered pressure on banks' liquidity. Accordingly, average Kibor fell between 43 and 67 bps over the different maturities in March.

Credit Indicators March 2009 (Year-on-Year % Growth)



Source: NBK.

LEBANON

Egypt Starts Test Supplies Of Electricity To Lebanon

Egypt began on 25 April to supply electricity to Lebanon on an experimental basis, the Egyptian Minister of Electricity Hasan Yunis announced last week. Lebanese Minister of Energy and Water Alain Tabourian said that supplies will start at the rate of 50mw during off-peak periods via a regional eight-country electricity grid which links up Libya, Egypt, Jordan, Syria, Lebanon, Iraq, the Palestine National Authority and Turkey. Egypt and Lebanon had signed a supply agreement in February under which Egypt could provide between 150mw and 450mw during off-peak periods. According to the agreement, this supply of Egyptian electricity is intended for Lebanon, Syria and Jordan, and in the event that the latter two countries do not need their shares, then Lebanon could receive all the available supply from Egypt (ie up to 450mw). Mr Yunis added that the sharing of electricity via this regional grid is an important part of Arab economic integration and said that supplies would be raised gradually to Lebanon. The latter suffers from regular power cuts because of the acute shortage in electricity generation capacity, which according to Mr Tabourian does not exceed 1.5gw, whereas demand is put at close to 2.5gw (*MEES*, 2 March).

As far as the supply of Egyptian gas to Lebanon via the Arab Gas Pipeline (AGP) is concerned, Mr Tabourian said that some gas supplies are already flowing into Syria, but that deliveries to Lebanon would start only when Syria receives all of its intended share from the gas.

LIBYA

Libya To Buy Verenex Within Weeks, Says Ghanem

Libya's top oil executive Shukri Ghanem said last week that he hoped the National Oil Corporation (NOC) would "within weeks" conclude the acquisition of Verenex Energy. "We confirmed to them that we're exercising [our pre-emption right]," the NOC chairman told journalists in Nicosia on 29 April. "We discussed it with them and it is agreed and established. And we informed the Chinese... We are taking it, there is no question." Libya's top energy official said he did not know when the deal would go through, adding: "We would like to take it this week! I hope it will not take months, just weeks."

Libya's decision to buy out Verenex, which has made some eye-catching discoveries on Area 47 in the Ghadames Basin that it was awarded as operator in 2005, took the Canadian company by surprise when Dr Ghanem announced the move in mid-March. Just weeks beforehand, Verenex had accepted an offer amounting to \$398mn by China's CNPC International subject to the approval of the Libyan authorities (*MEES*, 23 March). It published a statement on 18 March saying it was "unable to confirm or deny reports...that Libya plans to buy Verenex."

Dr Ghanem said it had not yet been decided whether the Canadian company would become part of NOC or whether a separate company had to be formed. NOC is in the process of consulting lawyers and the company about "what is the procedure in Canada, do we have to establish a company, do we have to take it directly," the Libyan official said. "But it will be ours." Verenex has drawn up a development plan that envisages initial oil production of around 50,000 b/d when the first discoveries are brought on-stream in 2011.

Commenting on the visit to Libya by Gazprom Chairman Alexei Miller on 13 April, Dr Ghanem emphasized the good relations between NOC and the Russian firm. He said that they had discussed the state of the market, the role that Gazprom and Russia could play in balancing the market, and Gazprom's possible acquisition of some Libyan assets belonging to Eni. Although he declined to say when, Dr Ghanem said he expected Gazprom's proposed acquisition of a 33% stake in Eni's Elephant field, first announced last year but then delayed, to go ahead (*MEES*, April 27).

"I haven't received the official letters. But we spoke about it, and they said that they concluded it. I heard it from both sides, from Eni's CEO Paolo Scaroni and Miller. We don't have in principal any objection. Like Verenex there are certain procedures that we have to look at. But I don't see a big hurdle in that," said Dr Ghanem, adding that he would travel to Russia in early June.

OMAN

Oman Inaugurates Sohar Aluminum Plant

Oman's \$2.4bn Sohar Aluminum smelter was formally inaugurated on 29 April. The plant, which is one of Oman's largest investments, is a joint venture owned 40% by Oman Oil Company (OOC), 40% by the Abu Dhabi Water and Electricity Authority and 20% by Rio Tinto Alcan. According to the Omani Minister of Commerce and OOC chairman Maqbul bin 'Ali Sultan, the project will create employment opportunities in the Sultanate, particularly in the Batinah region. The project's energy-efficient technology makes it competitive even amid the current global economic downturn. Production of primary aluminum at the smelter began last June (*MEES*, 23 June 2008) and full production capacity of 360,000 tons/year was reached on 19 February. The project is the first greenfield smelter in the Middle East in over 30 years and was completed on time and on budget, Sohar Aluminum said.

QATAR

Naqilat Takes Delivery Of Another LNG Carrier

Qatar Gas Transport Company (Naqilat) announced on 23 April that it had taken delivery of another LNG carrier – the 210,000 cu ms Q-Flex “Onaiza”, which was built by South Korea's Daewoo Shipping and Marine Engineering Company at its Okpo shipyard on Goeje Island. The vessel will be chartered on long-term contract to Qatar Liquefied Gas Company (Qatargas) and will be used to ship LNG produced by Qatargas 3 to markets primarily in the US. Qatar has ordered a total of 45 LNG carriers from three South Korean shipyards – Samsung, Daewoo Shipbuilding and Hyundai Heavy Industries (6 October 2008). By 2010 Naqilat will own 54 LNG vessels, making it one of the largest LNG ship owners in the world.

REGIONAL

Social And Economic Disparity ‘Potentially A Greater Threat Than Terrorism’ In North Africa

North African states are failing to implement the economic and political reforms that are needed to confront “an underlying fragmentation of society,” a phenomenon which may overtake terrorism and criminality as the region's main destabilizing force. This is the finding of a report published by UK-based think tank Chatham House last month, which analyses the problem of growing authoritarianism, Islamism and civil unrest in North Africa, as well as the daunting economic challenges faced even by the hydrocarbons-rich countries Libya and Algeria, in the context of a global economic downturn.

The importance of stability in the Maghreb region has risen sharply up the European and US agenda in the last few years. This can be explained principally by its capacity and prospects as an oil and especially gas exporting region, the expanding activities of Algeria-based Al-Qa'ida in the Islamic Maghreb (AQIM), which has the potential to disrupt those exports and has already claimed some high-profile western kidnappings this year, and North Africa's crucial role in combating the flow of illegal migration to Europe.

“Because of gas and oil, very few of North Africa's partners have sought to upset the regional balance in recent years by pressing too hard on regional governments to accelerate their domestic reform programs,” says the report, which was authored by Claire Spencer, the head of Chatham House's Middle East and North Africa Program.

Ongoing Violence

The tendency among North Africa's main western partners to focus on immediate security concerns rather than domestic reform is to some extent inevitable. Since late last year, AQIM has claimed responsibility for two audacious kidnappings just across Algeria's southern border in Niger, namely of UN special envoy to the country Robert Fowler and his colleague Louis Gay, in December, and four European tourists the following month. Separately, a *Reuters* estimate put the death toll from political violence in Algeria in February at 33, more than twice as high as in the previous month, with nine security guards employed by state-owned Sonelgaz among the dead. Last week, two Algerian policemen were killed and four wounded when a surveillance post was attacked by insurgents in the Tizi Ouzou region, according to the independent daily *El Watan*.

But such security preoccupations have often distracted attention from “the less visible but nonetheless mounting instability within each state,” according to the Chatham House report. It cites endemic unemployment and corruption as examples of the inconspicuous threat to regional stability, which have led to growing social and economic divisions, and the widespread disengagement from electoral politics.

Strong Growth, Sluggish Reform

North African states have made good progress at the macroeconomic level, especially in reducing foreign debt to less than 20% of GDP in all but Tunisia, and achieving average growth rates of 5-6% in recent years (see table). But the report warns that, while this growth has soaked up some unemployment, the gaps between rich and poor have widened, and the global downturn means that current levels of expenditure are unlikely to be sustainable beyond the next two to four years, even despite Libya and Algeria's record-high external reserves. The prominence of the public sector in Algeria, for example, means its \$150bn five-year spending program, aimed at diversifying the economy, runs the risk of being depleted by meeting public-sector wage bills and subsidizing uncompetitive state-run and parastatal companies.

North Africa's share of global foreign direct investment (FDI) has also improved considerably in recent years, says the report. But it remains unimpressive compared with the FDI levels attracted by Latin American and Asian markets, and nets just 4-5% of European FDI in Africa itself, compared with 50% in South Africa. According to numerous external assessors listed by the report, this is due to the continuing difficulties of doing business in North Africa, which include a lack of transparency, unfavorable terms of investment, and the personalization of contacts needed to overcome bureaucratic hurdles.

The North African countries' failure to attract and sustain local and international investment at the levels that reflect their status as medium-sized economies is a major obstacle to progress highlighted by the report. But with the four countries' leaders set to remain in power for life, the prospects for the devolution of political and economic responsibility from the center – and for the development of the institutions necessary to encourage investment beyond the hydrocarbons sector – are looking increasingly remote. This has increased the sense of apathy and disillusionment amongst the region's electorate, which according to the report, could lead to wider support for Islamism and manifest itself in various forms of civil disobedience.

Last month, rioting broke out in Algeria's northeastern province of El Tarf among young people protesting against the lack of employment prospects and opportunities, according to the country's *El Watan* newspaper. Hundreds of young people reportedly besieged the local premises of the National Employment Agency in Drean, and elsewhere demanded the release of those arrested in previous clashes with the security forces, which caused considerable damage in the affected municipalities.

North Africa Growth, Poverty And Transparency Indicators

Country	Population At Mid-08 (Mn)	GDP/Capita As Of 07 (PPP\$)	Real GDP Growth As Of 08 (%)	Poverty Index 05 (Out Of 177)	Population Below Income Poverty line (%)	Transparency Rating (Out Of 180)
Algeria	34.7	7,879	3	51	15.1	92
Libya	6.3	15,335	6.3	N/A	N/A	126
Morocco	31.2	4,087	5.3	68	14.3	80
Tunisia	10.3	7,357	4.7	45	6.6	62

Source: Chatham House, Population Reference Bureau, The Economist, UNDP, Transparency International Corruptions Perception Index.

SYRIA

GulfSands Discovers Oil At KHE-8 And Spuds New Well KHE-9

GulfSands Petroleum announced on 23 April that it had completed drilling operations on Khurbet East well No 8 (KHE-8) and has identified an oil column in what was originally anticipated to be a field delineation well located on the southern limits of the KHE field within Block 26 in northeast Syria. KHE-8 flowed under artificial lift at a stabilized rate of 617 b/d and with no lift assistance at 120 b/d. The well, which was drilled to a total depth of 1,940ms, will be suspended as a future oil producer. GulfSands also announced the spudding of new well KHE-9 on 9 April as the next development well in the KHE field. KHE-9 is located approximately 1km south of KHE-1 and will be the first of three development wells planned to support the expansion of the early production facilities capacity to 18,000 b/d. The drilling and completion is likely to take 45 days to complete. Commenting on the discovery of the oil column, GulfSands' CEO Ric Malcolm said "we are pleased with the results of the KHE-8 well as it demonstrates that the Khurbet East Field extends significantly further south than previously interpreted and that commercially attractive oil production rates

can be achieved from wells located in poorer reservoir quality some distance away from the central portion of the field.”

Gulfsands owns a 50% working interest and is operator of Block 26, with the remaining 50% held by Emerald Energy of the UK. The KHE field was discovered in June 2007 and commercial production began within 13 months of the discovery. KHE is currently producing more than 11,000 b/d through an early production facility. Gulfsands' current exploration license expires in August 2010 and is extendable for a further two years. The company said in its preliminary results for 2008 that the target for end-2009 gross production from the KHE field is up to 16,000 b/d and that it was proceeding with design and construction of permanent production facility with a capacity of 50,000 b/d (*MEES*, 27 April).

In further announcement on 30 April, Gulfsands raised its reserves estimates in Block 26. Gross oil reserves as at 31 December 2008 from the KHE and Yousefieh fields rose 82% from 19.4mn to 35.4mn barrels, while proved plus probable gross reserves increased 20% from 58.7mn to 70.4mn barrels. The company added that it was proceeding to bring into production the Yousefieh field during 2009.

Syria Needs To Tap Alternative Sources Of Energy For Electricity

Syrian Minister of Electricity Ahmad Kayalli has called for the use of alternative sources of energy in Syria, like wind or solar power in electricity generation, and for the reduction in the loss of power in transmission. Sources at the Syrian Ministry of Electricity have said that the situation with regard to power generation at present is much better than what it was at the end of last year and the first few months of 2009. Consumption of electricity has fallen and the necessary maintenance work is being carried out on schedule in anticipation of the summer season. The sources added however that the expected deficit in electricity supply in the summer cannot be predetermined, given that demand for electricity in Syria increases annually by 9%. According to the minister, a number of electricity expansion projects are currently underway. These include: Dair 'Ali power plant (third unit) in the southern areas expected to start up in July and add up to 250mw; expansion of the Tishreen power plant due at the beginning of next year with the addition of 150mw; addition of two steam turbines at the Zara power plant with a capacity of 300mw; addition of two steam turbines with a capacity of 400mw at the Tishreen plant also; and a feasibility study for a 750mw project at Dair al-Zour.

Syria has experienced power shortages in the last two summers and in early 2008 the state-owned Public Establishment for Electricity Generation and Transmission (PEEGT) said that it had plans to add over 4.5gw of power generation capacity by 2010 to meet this shortage (*MEES*, 21 April 2008).

UAE

Mubadala Bond Issue Follows Abu Dhabi Sovereign Paper

Abu Dhabi government-owned Mubadala Development Company issued a bond last week following the emirate's successful tapping of the debt markets, when it issued sovereign paper in early April. Mubadala's \$1.75bn five-year issue was priced 395 bps over treasuries, and the \$500mn 10-year issue was priced at 462.5 bps over treasuries. This compares to the \$1.5bn five-year sovereign, which secured 400 bps over treasuries and the 10-year sovereign, which received 420 bps over treasuries (*MEES*, 20 April). Undercutting the sovereign on the five year issue was probably the result of the spreads tightening amid robust demand in the secondary market since the former was priced in the first week of April. The Mubadala bond issue is significant because it shows there is a return to corporate paper. Experts noted that Mubadala received similar pricing to a recent note issued by Goldman Sachs.

Moody's Investors Service assigned a foreign currency rating of Aa2 with a stable outlook to the global medium-term note program issued by MDC-GMTN BV, a vehicle for the transaction unconditionally and irrevocably guaranteed by Mubadala. This is in line with Mubadala's issuer ratings, which were assigned in September 2008 and are Aa2 with a stable outlook. Mubadala has a public policy mandate of assisting the development and diversification of the emirate's hydrocarbon based economy. Although it does not have an explicit written guarantee, Moody's said that it had been verbally assured by the government of Abu Dhabi that it stands fully behind the company. Mubadala's issuer ratings are therefore aligned with those of the government, which is also rated Aa2 with a stable outlook.

Fitch Ratings assigned Mubadala a senior unsecured AA rating, although noted that the final rating is contingent on receipt of documents that confirm information already received. Fitch noted that the terms and conditions of the GMTN documentation include a negative pledge clause and a cross default provision,

with English law applicable. Fitch applied its parent and subsidiary rating linkage methodology to assess the relationship between Mubadala and the emirate of Abu Dhabi (Abu Dhabi, AA/stable). As with Moody's, Fitch's rating of Mubadala has been aligned with its Abu Dhabi sovereign rating. The bond offering, which is of a size sufficient to benchmark Mubadala's debt, was managed by Citigroup, Goldman Sachs, and Royal Bank of Scotland.

New Credit Ratings Issued On Abu Dhabi's IPIC

Three leading rating agencies on 27 April issued new credit ratings for Abu Dhabi state investment arm International Petroleum Investment Company (IPIC). The ratings are closely aligned with the high investment-grade sovereign ratings held by the government of Abu Dhabi, given the strategic role played by IPIC in Abu Dhabi's hydrocarbon industry and the government's policy of safeguarding transportation and export of its crude oil. IPIC holds a number of strategic investments on behalf of the Abu Dhabi government in listed and unlisted international, primarily downstream, oil and gas and petrochemical companies. The company is in the process of finalizing the acquisitions of Nova Chemicals of Canada and an additional stake in Spain's Cepsa (*MEES*, 6 April). Recently, the government also decided to acquire a 16.5% stake in Barclays via IPIC. Despite IPIC's geographical diversification, the rating agencies view the exposure to the cyclical downstream sector as a key risk factor. Change in the credit ratings will depend upon the government's support for IPIC's new and ongoing operations.

Moody's Assigns Aa2 Rating

Moody's Investors Service assigned long term foreign and local currency issuer ratings of Aa2 and short term ratings of Prime-1 to IPIC. The outlook is stable, assuming that the government ownership and the strategic mandate and oversight of the company remain unchanged. Although ratings are based on the assurance of government's support, Moody's maintained that the group's underlying credit profile is considerably constrained by its dividend exposure to a fairly cyclical industry, high leverage in support of future growth and significant near term funding requirements. While historically financed primarily through government equity injections, IPIC's recent acquisitions have been mostly debt-financed, thus increasing the company's pro forma debt to market value leverage to around 49%. Moody's ratings assumed that the close alignment between IPIC and the government will be maintained, and that the government will continue to promote IPIC's investment activities with regular funding whilst providing last-resort liquidity, should public funding be unavailable. This is particularly relevant over the coming months, in which IPIC will require in excess of \$3bn (close to \$7bn including Barclays) to meet short term bridge loans, and additional needs to close recently announced acquisitions. IPIC's track record of attracting fresh funding at quasi-sovereign pricing is good, concluded Moody's.

S&P Assigns AA Long-Term And A-1+ Short-Term Ratings

Standard & Poor's Rating Services (S&P) assigned its AA long-term and A-1+ short-term corporate credit ratings to IPIC. The outlook is stable. Although the Abu Dhabi government has not formally guaranteed IPIC's liabilities, S&P stated that the group has a high-profile policy role in undertaking international investments with some technological or other benefit for the Abu Dhabi economy or for the national oil company ADNOC, and is set to play a central role in the development of the domestic petrochemicals industry. Unlike most private-sector holding companies, IPIC's investment policies are very long term and not focused on short-term liquidity or dividend coverage. According to S&P, a key strength of IPIC's portfolio is asset quality, with its most important investments seen as having strong credit features. S&P added that any lowering in the credit rating on the government of Abu Dhabi, or any indication that the government's commitment to IPIC is weakening, would result in a lower credit rating on the company. A higher rating could result from improvement in the credit quality of the Emirate of Abu Dhabi, to which the underlying credit risk of IPIC is linked.

Fitch Assigns AA Ratings Over The Long Term

Fitch Ratings assigned IPIC long-term local and foreign currency Issuer Default Ratings (IDRs) of AA, respectively, with stable outlooks, and a short-term IDR of F1+. IPIC's stable outlook is in line with that for the Emirate of Abu Dhabi (AA/F1+ /Stable). The company's ratings rely on continuing support from the sovereign, especially given its need to re-finance material short-term debt maturities in the amount of approximately \$3.1bn falling due in the first half of 2009. According to Fitch, IPIC is currently anticipating a further equity injection by the government of Abu Dhabi sometime in 2009. Changes in the government's commitment to provide continued financial support could cause Fitch to re-evaluate the assumptions

contributing to the alignment of the ratings with the Emirate of Abu Dhabi under the agency's parent and subsidiary methodology.

S&P Places Dubai Government-Related Entities On Credit Watch With Negative Implications

Standard & Poor's Ratings Services (S&P) on 30 April placed the ratings on a number of Dubai-based government-related entities (GREs) on credit watch with negative implications. They comprise DIFC Investments, DP World, Jebel Ali Free Zone (FZE), the Dubai Multi Commodities Centre Authority (DMCC), Dubai Holding Commercial Operations Group LLC (DHCOG), and Emaar Properties. In addition, S&P placed the notes issued by Thor Asset Purchase (Cayman), which are securitized by cash flows from a revolving pool of existing and future receivables originated by Dubai Electricity and Water Authority (DEWA – not rated), as well as the notes issued by JAFZ Sukuk, on credit watch with negative implications. The move is based on the likelihood of downgrades if the government of Dubai will not affirm the potential for extraordinary support to some of the rated GREs, notes, and also a possible debt restructuring in unrated Dubai-based GRE Nakheel. S&P said this possibility would increase the uncertainty as to Dubai's intention to provide adequate support in times of stress. Although it acknowledged the ability of Dubai's government to support the GREs in 2009 also through the first tranche of a \$20bn bond program (*MEES*, 2 March), S&P underlined that if confirmed, the criteria used in Nakheel's debt restructuring would help determine the order of the companies to receive support. The action also aims at clarifying how the government intends to reconcile the restructuring with its stated support to the GREs.

Through this action, S&P is willing to engage in a dialogue with the rated GREs as well as the Dubai government, which has declined to either refute the possibility of a debt restructuring at any of its rated GREs or to provide clear assurances that all debt obligations of the rated GREs will be met in a full and timely manner as per their original terms. The credit watch placement will hold for the duration of the review, which may result in the downgrade of one or more rated GREs or the notes by one or more notches. This will depend on the agency's assessment of the criteria of Nakheel's restructuring, its impact on the GREs and likelihood of support on a case-by-case basis, and on the stand-alone creditworthiness of each rated GRE and its respective obligations. Although S&P does not place a sovereign rating on Dubai's government, a confidential, unless explicitly requested, assessment is considered necessary to assign ratings on its GREs.

YEMEN

Pirate Attack Near Balhaf Terminal Casts Shadow Over Yemen LNG Start-Up

Somali pirates attacked an empty oil tanker just off the coast of Yemen on 26 April, raising concerns about the safety of the LNG tankers that are due to start lifting from the Balhaf export terminal in just three months time. The country's defense ministry said on its website that a Yemeni navy commando unit recovered the hijacked Qana oil tanker early on 27 April, in an operation that left three pirates dead and two injured, while 11 were reportedly captured. The ship, which belongs to the Aden Refineries Corporation, was hijacked 10 nautical miles from the Balhaf port, as it was returning to Aden, having unloaded its cargo in Mukalla.

"Yemen LNG is as concerned as the rest of the parties involved," said a spokesman for the company. "All I can say is that Yemen LNG is coordinating its efforts with the Yemeni security forces, in order to ensure the safety and security of the LNG vessels." The Total-operated consortium celebrated the arrival of gas at the 6.7mn tons/year liquefaction facilities in November last year. But the first cargo is not now expected to leave the Balhaf terminal until July, according to the spokesman. The company has chartered four LNG tankers, each with a capacity of 150,000-170,000 cu ms, for the entire lifespan of the project, two of which have been supplied by Denmark's AP Moller-Maersk and two by Malaysia International Shipping Corporation (MISC).

The danger posed by Somali pirates has worsened in the last 18 months, prompting some international shipping lines, including AP Moller-Maersk, to consider re-routing their ships to avoid the Gulf of Aden and driving up insurance premiums (*MEES*, 1 December 2008). It also spurred the international community to launch a major naval security operation in the Gulf of Aden and the Indian Ocean at the end of last year. But the latest incident suggests the beefed up naval presence remains limited in its ability to prevent the pirates from launching long-range attacks.

POLITICAL COMMENT

The UN Special Tribunal for Lebanon has ordered the release of the four generals detained nearly four years ago in connection with the assassination of Lebanese Prime Minister Rafiq al-Hariri. US Secretary of State Hillary Clinton has warned Israel that a failure to make progress in the peace process plays into the hands of the Iranians. Syria and Israel are sparring over resuming their peace negotiations.

UN Tribunal Orders Release Of Lebanese Generals

On 29 April the international body investigating the assassination of Lebanese prime minister Rafiq al-Hariri in February 2005, the UN Special Tribunal for Lebanon, ordered the release of the four leaders of Lebanon's pro-Syrian security establishment at the time – General Security commander Gen Jamil al-Sayyid, former Internal Security director Gen 'Ali al-Hajj, intelligence Director General Gen Raymond Azar and Presidential Guard commander Gen Mustafa Hamdan – who have been detained for nearly four years, after prosecutor Daniel Bellemare declared that there was “insufficient evidence” to continue their detention. According to the tribunal's presiding judge, Daniel Fransen, the reason for Mr Bellemare's finding was that “some witnesses modified their statements and...a key witness expressly retracted his original statement which incriminated the persons detained.” The release of the four generals was generally seen as a setback for Lebanon's anti-Syrian 14 March coalition headed by Mr Hariri's son Sa'd, albeit one that is unlikely to have much of an impact on the outcome of the 7 June parliamentary elections. It will also make it easier for the Americans to continue their tentative engagement with Damascus. And it was actually welcomed by Sa'd al-Hariri, who said “I...don't feel one iota of disappointment or fear over the fate of the international tribunal. What has happened is a clear declaration that the international tribunal has started work and it will reveal the truth.”

Israel, The Palestinians And Iran

US Secretary of State Hillary Clinton took advantage of an appearance before the House of Representatives Appropriations Committee on 23 April to underline that the Obama administration, unlike its predecessor, sees the Arab-Israeli conflict in its regional and international context and that therefore “for Israel to get the kind of strong support it is looking for vis-à-vis Iran, it can't stay on the sidelines with respect to the Palestinians and the peace efforts. They go hand in hand.” She added that the Arab states “believe that Israel's willingness to enter into discussions with the Palestinian Authority strengthens them in being able to deal with Iran.” In other words, obstructing the peace process while building settlements plays right into the hands of the hard-liners in Tehran.

While on the subject of Israel and Iran, it is of course in the Israelis' interest to exaggerate the threat posed by Iran's alleged nuclear ambitions, and exaggerate it Israeli Prime Minister Benjamin Netanyahu has on every possible occasion and then some. However his campaign to dragoon the international community into action has been subtly sabotaged by none other than Israeli President Shimon Peres, who said on 29 April that “simply attacking the nuclear facilities is not the be-all and end-all. There are other options for the west, or the coalition that arises. The first thing to tell the Iranians...if you use a nuclear weapon – no matter against who – you'll get a nuclear response.” (Mr Peres also made the rather obvious point that “you can destroy the centrifuges but you cannot destroy the knowledge about building centrifuges.”) The message is that Iran's leaders may be anti-Israeli but they are not insane. Mutually assured destruction works as a deterrent.

Syria And Israel Spar Over Golan

After breaking off indirect peace talks with Israel via Turkey as a result of Israel's assault on Gaza in January, Syrian President Bashar al-Asad has of late proved unexpectedly willing to resume negotiations – but only if Israel recognizes Syria's right to regain the Golan Heights, which it lost to the Israelis in 1967. Speaking in Vienna on 27 April, Mr Asad said that “what is important is that Golan is our territory. It is our right. It must be returned to us without fail...we can talk about peace when this principle is recognized.” The Syrian leader was presumably reacting to remarks the previous day by Israel's new right-wing foreign minister, Avigdor Lieberman, who said that “I would be happy to hold negotiations with Syria this very evening, but without preconditions and without ultimatums,” adding that “each of the sides has a position. Syria may want sovereignty over the Golan Heights, while we ask for a 200-year lease on the Golan Heights. They can demand the Golan Heights in exchange for peace, while we will demand peace for peace.” As things stand at the moment, that does not sound like a very promising starting point for new negotiations.

Charles Snow

OP-ED/DOCUMENTS

How Much Oil Has Venezuela Really Been Producing?

By Juan Carlos Boué

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At the 101st meeting of the OPEC Conference in November 1996, it was decided that, from then on, the output of crude oil of the member countries for the purpose of assessing compliance with their respective quotas would be determined on the basis of production estimates published by six secondary sources, to wit: Cambridge Energy Research Associates (CERA), the Centre for Global Energy Studies (CGES), the Energy Information Agency of the US Department of Energy (EIA), the International Energy Agency (IEA), Petroleum Intelligence Weekly (PIW) and Platts. This roundabout mechanism was meant to address the situation whereby certain member countries were producing oil in excess of their assigned quota, and then communicating to the OPEC Secretariat output figures which did not reflect this violation of quota.

This mechanism is very revealing of the disarray in which OPEC found itself in the late 1990s. As an acute oil market observer lapidarily observed to the author, since 1986 OPEC has just had the one meaningful policy lever to pursue its objectives (the quota system), and this mechanism was tantamount to abandoning this lever in the hands of organizations whose opinion about the whole OPEC set-up ranged from the uncompromisingly and institutionally hostile (EIA, IEA), to the almost-but-not-quite neutral (Platts), by way of the dismissive bordering on the contemptuous (CERA, CGES and PIW).

At the time when this mechanism was introduced, the OPEC member country exceeding its production quota in the most blatant and brazen fashion was Venezuela. After November 1996, Venezuela did not betray any inclination to curb its oil output to collaborate with other member countries in stabilizing oil prices. The only discernible change in the prevailing market situation was that it was left to the secondary sources (rather than the OPEC Secretariat) to highlight the gaping gulf between Venezuela's output, on the one hand, and its quota commitments, on the other. And this the secondary sources did with mounting glee.

Why Rely On Secondary Sources Of Data?

Given the thrust of Venezuelan output policy at the time, it is somewhat surprising to see that it was precisely representatives of this country, which came up with the idea of using output estimates culled from secondary sources as an alternative form of production monitoring. Furthermore, Venezuela was also instrumental in the nomination and selection of the six secondary sources mentioned above. These facts beg an obvious question: why would Venezuela espouse this oversight mechanism in the first place, when it was this country's behavior that was contributing in a major way to market instability, not least by hamstringing OPEC's ability to restrict supplies? The answer to this question is counterintuitive: the idea that quota compliance be assessed on the basis of estimates from secondary sources was an important plank in a long-term strategy devised by the top management of the Venezuelan national oil company (in cahoots with some major international oil companies and supra-national institutions), to make the country withdraw from OPEC, albeit *de facto* rather than *de jure*.

It is difficult to make sense of this assertion, *sine ira et studio*, unless one makes a brief reference to two factors that were largely responsible for shaping the political interaction between Venezuela and other OPEC member countries during much of the 1990s. The first one was that the terminal decay of the Venezuelan political system had allowed Petr6leos de Venezuela (PDVSA) to dismantle the institutional framework of the country's oil industry and to take charge of all aspects of oil policy, including the handling of its relationships with OPEC (a body which PDVSA always saw as an Arab-led cabal whose main goal was to deprive Venezuela of its rightful place in the oil firmament). The second one was the knowledge that extra-heavy crude oils from the Orinoco Oil Belt would, in the not too distant future, account for the bulk of Venezuelan oil output. In this regard, it is worth recalling that, by late 1996, extra-heavy crude production for blending into commercial segregations such as Merey or Leona was already running at around 300,000 b/d, and a further 60,000 b/d or so was being transformed into Orimulsion, a boiler fuel for oil-fired power stations (sold at a delivered price on a par with that of steam coal). Even more importantly, the Venezuelan Congress had either approved, or was in the process of approving, four upgrading joint ventures with international oil companies (with a joint expected output of more than 650,000 b/d by 2005), as well as two more ventures to produce around 200,000 b/d of crude to transform into Orimulsion. And to cap all of this

off, the short and medium term prospects for additional upgrading (and even Orimulsion) ventures appeared to be very promising.

PDVSA's leadership accepted that, even though their policy of producing oil *à outrance* might very well succeed in rending OPEC asunder, the outright and formal withdrawal of Venezuela from OPEC was not a proposition that they would be able to force on the country's political leadership, despite the latter's chronic weakness. But there was a way in which they could make Venezuela leave OPEC piecemeal, albeit with less noise and political fallout and, hence, greater probabilities of success. For this to happen, however, oil from the Orinoco Oil Belt would have to be excluded from the Venezuelan quota by some means. Thus, as production of such oil rose in time, a progressively smaller – and ultimately irrelevant – proportion of Venezuela's output would be involved in the OPEC quota system.

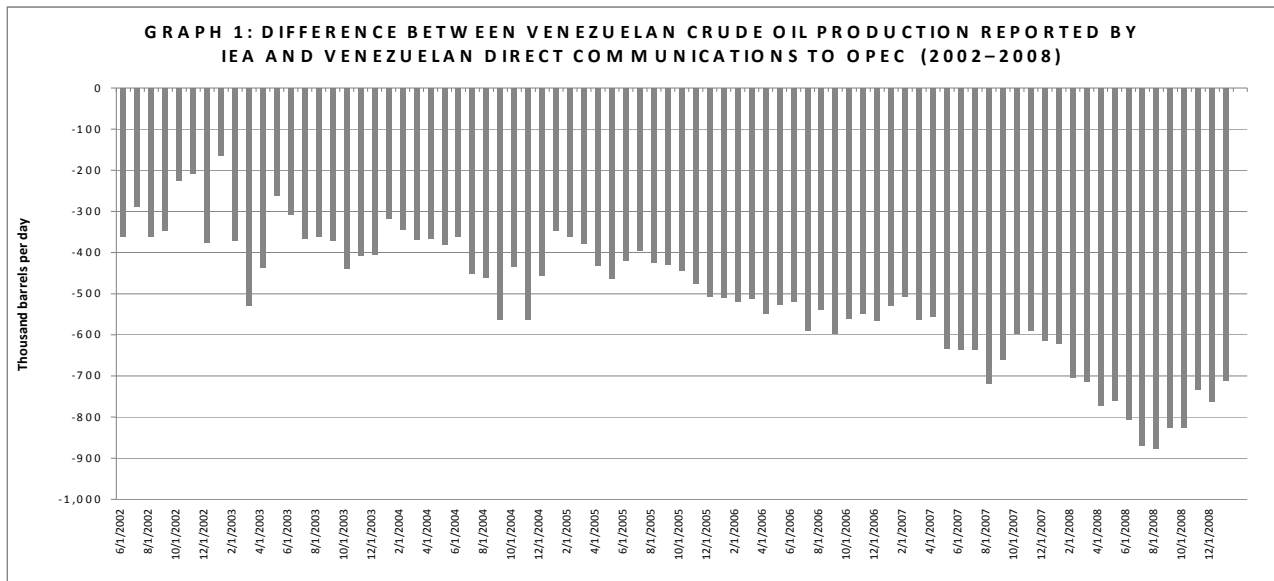
Claims For Orimulsion

The foundations for this subterfuge had been carefully laid down a few years before, with the commercial launch of Orimulsion. Venezuela (or rather, PDVSA) claimed that this fuel was prepared by emulsifying Orinoco natural bitumen in water. This claim was never more than a fabrication, though. The Standards Committee of the World Petroleum Congress unambiguously defines natural bitumen as a hydrocarbon with a dynamic viscosity of 10,000 millipascal/second or greater, measured at reservoir temperature and atmospheric pressure, on a gas free basis. Orimulsion was prepared with extra-heavy crudes with a dynamic viscosity barely exceeding 3,000 mPa/s at reservoir temperature (indeed, that this crude did not satisfy the definition of natural bitumen was the reason why it could be produced from conventional flowing wells). However, under standard temperature and pressure conditions – 15.56°C, 760 mmHg – the Orinoco crudes in Orimulsion (which are essentially identical with the ones contained in blends like Merey or – even more pertinently for the case at hand – the ones processed nowadays in the four upgraders located in Jose, Anzoátegui state) are just as viscous as the genuine natural bitumens from the Alberta oil sands. Furthermore, Venezuelan extra-heavy crudes and Canadian natural bitumens are remarkably similar in terms of their respective densities, sulfur content and general chemical compositions, which helped give credence to PDVSA's assertion that the former were also natural bitumens. Moreover, since natural bitumens are universally considered to be non-conventional hydrocarbons, PDVSA argued by analogy that this name should be applied to the Orinoco extra-heavy crudes as well, particularly since the latter did not satisfy the definition of crude oil informally used by OPEC since 1983 (the OPEC Conference has never formally adopted a definition of crude oil, only of condensate, but from that year onwards, its *Statistical Annual* has incorporated a formulation taken over from the American Petroleum Institute, whereby crude oil is said to be a liquid not only underground but above ground as well, at standard conditions).

The Orimulsion boondoggle served to establish an all-important precedent in terms of the long-term anti-OPEC objectives of the PDVSA leadership, namely that production of non-conventional oil is not subject to quota. OPEC's acquiescence towards Orimulsion at the time of the latter's gestation doubtless owed as much to the marginal volumes initially involved as to the organization's aversion to unpleasant political discussions. Unfortunately, OPEC's "decision through non-decision" allowed PDVSA to drive a thin wedge through the heart of the quota system. The idea was that this breach would be relentlessly widened as the upgrading projects came on stream. However, since volumes from these large projects would have a non-negligible impact on the oil price, PDVSA naturally did not want to leave it up to OPEC to decide whether or not they should be covered by the quota system. It would be much preferable if someone could be relied upon to report Venezuela's oil output "correctly" to OPEC (ie the production of 'conventional oil' subject to quota), and this is precisely where the secondary sources came in. It is no accident that the secondary sources that OPEC chose in 1996 (at the instigation of Venezuela), all hold as a matter of dogma that 'non-conventional' is fully synonymous to 'not subject to quota', even though the OPEC Conference has never issued any pronouncement whatsoever in this sense.

One would think that the coming to power of President Hugo Chávez spelled the end of PDVSA's plan to undermine OPEC from within. After all, shortly after taking office, Mr Chávez effectively reined back Venezuelan production, and he lost little time in dismissing the head of PDVSA. Furthermore, the capability of the 'old school' managers to mount an anti-OPEC counterattack was dealt a fatal blow after most of them left the company in the wake of their failure – on two separate occasions! – to unseat the Chávez government in the year 2002. Nevertheless, the stratagem of using the secondary sources to subvert the quota system survived the demise as a political force of its Venezuelan promoters. This survival owed as much to the chronically volatile political environment in Venezuela, as to the fact that quite a few influential officials of

the Chávez administration were (and, indeed, many continue to be) enthusiastic supporters of the Orimulsion business and, by extension, of its anti-OPEC thrust.



Back in 2001, when speaking of the progress of the upgrading ventures in Venezuela (and very much with an eye on the Orimulsion-set precedents), the IEA reminded the market at large that “there [was] some uncertainty as to whether Venezuela’s extra-heavy oil will be counted as ‘crude’, subject to OPEC’s quotas, or treated as ‘bitumen’, outside of OPEC’s current regime” (*Oil Market Report*, 11 May 2001, page 16). However, once the production of upgraded oil in the Orinoco took off in earnest, in July 2002 the IEA proceeded to switch “from a classification that reported Venezuelan heavy oil production as crude oil, to one whereby Venezuelan synthetic crude production was counted in the OPEC NGL and non-conventional oil category,” with this switch supposedly being consistent with “a number of statements suggesting that heavy oil and/or synthetic crude production was not included for consideration towards Venezuela’s OPEC production quota” (*OMR*, 14 March 2006, page 18). As a result of this move, while maintaining overall supply constant, the IEA at a stroke lowered its production estimates for Venezuela by some 300,000 b/d (and revised its series back to 2001 – *OMR*, 12 July 2002, page 22), and Venezuela’s official production figures started to come in lower than the IEA estimates (the reverse had been true until then). From that point on, the gap between the Venezuelan and the IEA figures has continued to widen, as shown in Graph 1. Tellingly, there has always been a very close correspondence between the monthly variations in this gap, on the one hand, and the monthly output of extra-heavy crude from the Orinoco Oil Belt, on the other hand. Incidentally, the other five secondary sources followed the IEA’s lead in excluding these crudes from their own estimates.

Impact Of Oil Industry Strike

The IEA’s adoption of these accounting changes preceded by only a short interval the strike which paralyzed the Venezuelan oil industry between November 2002 and March 2003, and which wrought untold damage on many of its oil fields, especially those around Lake Maracaibo. During the recovery period after the strike, for obvious reasons, Venezuela was not in a position to fulfill its OPEC quota. Come May 2003, however, Venezuelan total crude production had more or less recovered to pre-strike levels, thanks in no small part to a very significant increase in the production of Orinoco extra-heavy oil that compensated for the accelerated decline in output from other areas (in other words, after the strike, Orinoco extra-heavy production was responsible for a much higher share of Venezuelan production than before the strike: currently, it accounts for more than a quarter of crude oil output). However, the secondary sources persisted in reporting that Venezuela was producing way below quota, claiming that the country’s oil industry had not recovered from the sabotage (a situation for which they readily blamed the Chávez government). Nary a mention was made of their accounting changes or their effect, however, beyond notes in footnotes explaining that upgraded crude oil output was not considered towards Venezuela’s “crude target compliance calculation.” And no heed was paid to Venezuelan complaints pointing out that Orinoco extra-heavy crude was being excluded for no good reason from these calculations. If the IEA ever felt the need to respond to such complaints, it tended to justify its methodology with statements such as the following: “to date, Venezuela has excluded

Orinoco resources from estimates of its conventional oil reserves [note: reserves, not OPEC production]. Now the government is lobbying for these to be included [but included what where? Orinoco resources in reserves figures? Orinoco production in quota estimates? And who, exactly, would the government have been allegedly lobbying?].... This Report classifies syncrude production as non-conventional and thus excludes it from monthly estimates of Venezuelan crude oil supply (OMR, 10 November 2004, page18)." By the by, since synthetic/upgraded crude is, strictly speaking, a refined product, its exclusion from these statistics is understandable, indeed justifiable. Alas, the same cannot be said for the exclusion from the statistics of the extra-heavy crude from which such synthetic/upgraded crude is derived.

Given this sort of response, it is hardly surprising that the Venezuelan oil minister decided to visit the IEA personally to inform its Director that the Venezuelan government did consider Orinoco crudes as part of the country's quota. His representations led to the IEA increasing its estimates of Venezuelan production in March 2006, but only temporarily. After a couple of months, the figures reported by the IEA and other secondary sources had returned to their previous levels, resuming a downward trend which they maintain to this day, and with an even more pronounced slope than before. To muddle the situation further, the IEA and other sources thereafter maintained that the picture of accelerating production decline that they painted included output from the Orinoco Belt.

The gap between IEA and Venezuelan figures currently stands at around 750,000 b/d, a figure that is so large that one can dismiss out of hand the hypothesis that the source of the divergence is a statistical error. Indeed, the Venezuelan Ministry of Energy and Petroleum is in a position to demonstrate that the estimates published by the secondary sources are absurd. After all, Venezuelan domestic consumption is a fairly well known quantity, and the totality of Venezuelan petroleum exports has to leave the country through only eight marine terminals and a floating storage and offloading vessel (FSO) in the Corocoro offshore field. Thus, to get a reasonable proxy for Venezuelan crude production, one need only tally Venezuelan seaborne exports – a task that surely is within the reach of the secondary sources – and add the resulting figure to the domestic consumption estimate.

Independent Assessment Of Exports

Acting upon the assumption that the credibility of the results would be enhanced if the exercise were carried out by an independent party, the ministry retained Inspectorate (www.inspectorate.com), a British firm of long standing that is one of the world's leading inspection and testing companies, in order to quantify the monthly gross and net volumes of oil being exported from Venezuela (exports should be understood in the strictly territorial sense of oil leaving Venezuelan jurisdiction, whether for storage abroad or through an actual sale). The tallying would be done on the basis of the bill of lading or discharge certificate issued for each and every cargo, provided to Inspectorate by the Servicio Autónomo de Metrología de Hidrocarburos (SAMH – Autonomous Service for the Measurement of Hydrocarbons), a new agency set up to make Venezuelan measurement practices fit for purpose once again, after decades of neglect by former PDVSA management. Thus far, reports have been prepared for the months of November and December 2008 and January, February and March 2009, and the exercise will continue for the foreseeable future. The tables summarizing the monthly results can be found at the end of this article.

As can be appreciated in these tables, the net monthly Venezuelan oil exports (which include some volumes of LPG and natural gasoline obtained from condensates and natural gas liquids, respectively) exceed, by a very handsome margin, the total Venezuelan crude production put out by the secondary sources for these months. These figures suggest that, either the production estimates of the secondary sources are inaccurate, or else that the Venezuelan government is inflating its production figures. The latter alternative is not impossible *per se*, of course. Moreover, it fits well with the unfavorable image that most trade journals (as well as other media) try to project about the Chávez government, which is said to be bent upon a "politically motivated" mission "to polish the tarnished image of the national oil industry ... and restore Venezuela's standing in OPEC" (*Energy Compass*, 13 March 2009). However, this theory would require that Venezuelan domestic consumption be minutely small and, in addition, that Venezuela draw down, month by month, from a large inventory of oil (which is yet to show sign of becoming exhausted) held in some mystery location and, last but not least, that the inspection company be inept. Which reflection brings us to an obvious question: what is the source of the information that the IEA and other secondary sources are using in order to arrive at their production estimates?

The answer to this question is quite straightforward. Up until the 2002-03 strike, PDVSA maintained informal but very strong bonds with certain secondary sources. After the strike, the latter maintained their

strong links with the PDVSA faction that unsuccessfully tried to topple the Chávez government. And given that the strike severed the flow of detailed information that PDVSA used to make available to them, these secondary sources resorted to sourcing unofficial information from “tertiary sources” consisting of individuals belonging to the defeated PDVSA faction. And the information on output that these tertiary sources make available simply does not include Orinoco crude volumes, partly as a matter of ideological principle (these individuals were the very ones who set the whole thing up in order that such crudes be excluded from the quota, after all) and, increasingly, on grounds of political expediency. This latter angle is easy to grasp. These individuals use the data published by the IEA and other secondary sources (and, paradoxically, legitimized by OPEC itself, through its use of the secondary sources in quota monitoring) as ‘proof’ that the Chávez administration has been responsible for a calamitous collapse in Venezuelan oil output.

The IEA and other secondary sources maintain that they prepare their production estimates with due care and, above all, in good faith. However, the secondary sources surely are sophisticated enough organizations for the rule of *caveat emptor* to apply in their dealings with their sources of information. Finally, and most tellingly, the information presented in this article shows that it would now be relatively easy for the IEA and other secondary sources to ascertain the true situation regarding Venezuelan output.

According to *Energy Compass* (sister publication of *PIW*, one of the six OPEC secondary sources), “the world has a problem with Venezuela’s oil data. Caracas wants everybody to believe that it produces more than 3mn b/d, while the most generous independent estimate puts the volume at least 400,000 b/d lower. Venezuela ... is now on a mission to convince the key data compilers that its production woes are not as severe as outside sources believe” (*Energy Compass*, 13 March 2009). Actually, if the world has a problem with a set of data, it is that of the secondary sources. It is not Caracas that wants everybody to believe that it is producing 3mn b/d; rather it is the secondary sources that want everybody to believe that Venezuela is doing otherwise. And Venezuela is certainly not on a mission to convince anybody, least of all the secondary sources.

It should be noted that perhaps one reason why many people are still reluctant to jettison the estimates of the secondary sources is the effect that this would have on their demand/supply models. But even if one is not among those who would rather prove the reality of their models than use models to understand reality, should not one be concerned at the sort of stockbuild that all this unreported oil would imply, and its likely price consequences? The answer is negative. Global stock level statistics are invested by the market at large with a degree of precision that they do not have (not least because they are residual magnitudes where error terms tend to accumulate). The inherent inaccuracy of global stock data would make it quite easy for the currently unreported Venezuelan barrels to be lost among all the statistical noise. In this regard, it is worthwhile to point out that the spread between the highest and the lowest estimated stockbuild figures for 2009 in the major market tracking publications is currently running at the equivalent of 1mn b/d. A far more pertinent question for the market, as well as energy policymakers everywhere, would appear to be the following: what would the price of oil had been in September 2008 had Venezuela really been producing what the IEA and other secondary sources claimed it was producing?

Monthly Venezuelan Exports Of Crude Oil, Upgraded Oil And Petroleum Products (Barrels)

Month	Exports						Imports			Net Exports
	Load Port	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
Nov 2008	FSO Nabarima	851,096	0	851,096	1	1	0	0	0	851,096
	La Salina	2,294,599	0	2,294,599	7	7	0	0	0	2,294,599
	Bajo Grande	2,451,208	0	2,451,208	7	7	0	0	0	2,451,208
	El Palito	0	1,392,712	1,392,712	5	5	1,423,859	1,423,859	7	-31,147
	Pto Miranda	4,249,661	0	4,249,661	13	17	0	0	0	4,249,661
	Cardón	0	3,713,116	3,713,116	14	18	648,794	648,794	6	3,064,322
	Amuay	0	4,453,065	4,453,065	16	19	389,635	389,635	2	4,063,430
	Guaraguao	16,358,231	1,956,120	18,314,351	47	75	434,426	434,426	5	17,879,925
Jose	23,461,516	13,895,757	37,357,273	63	71	0	0	0	37,357,273	
Total (Barrels)		49,666,311	25,410,770	75,077,081	173	220	2,896,714	2,896,714	20	72,180,367

Month	Exports						Imports			Net Exports
	Load Port	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
Dec 2008	FSO Nabarima	778,267	0	778,267	1	1	0	0	0	778,267
	La Salina	2,676,005	0	2,676,005	8	8	0	0	0	2,676,005
	Bajo Grande	198,762	0	198,762	1	1	0	0	0	198,762
	El Palito	0	1,579,718	1,579,718	4	5	1,830,991	1,830,991	11	-251,273
	Pto Miranda	4,871,225	0	4,871,225	14	15	0	0	0	4,871,225
	Cardón	0	2,973,607	2,973,607	12	22	540,457	540,457	5	2,433,150
	Amuay	0	6,877,729	6,877,729	21	23	374,168	374,168	3	6,503,561
	Guaraguao	18,323,226	1,495,417	19,818,642	49	73	583,154	583,154	5	19,235,488
Jose	25,193,161	12,219,022	37,412,183	62	74	0	0	0	37,412,183	
Total (Barrels)		52,040,646	25,145,492	77,186,138	172	222	3,328,770	3,328,770	24	73,857,368

Month	Exports						Imports			Net Exports
	Load Port	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
Jan 2009	FSO Nabarima	788,658	0	788,658	1	1	0	0	0	788,658
	La Salina	3,089,287	0	3,089,287	9	9	0	0	0	3,089,287
	Bajo Grande	598,810	0	598,810	2	2	0	0	0	598,810
	El Palito	0	2,059,556	2,059,556	7	7	478,267	478,267	2	1,581,289
	Pto Miranda	4,472,120	0	4,472,120	13	14	0	0	0	4,472,120
	Cardón	0	3,714,338	3,714,338	17	29	154,321	154,321	3	3,560,017
	Amuay	0	10,026,500	10,026,500	31	37	451,382	451,382	4	9,575,118
	Guaraguao	15,740,093	2,569,562	18,309,655	47	66	191,403	191,403	2	18,118,252
Jose	26,021,544	15,379,645	41,401,189	71	80	0	0	0	41,401,189	
Total (Barrels)		50,710,512	33,749,601	84,460,113	198	245	1,275,373	1,275,373	11	83,184,740

Month	Exports						Imports			Net Exports
	Load Port	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
Feb 2009	FSO Nabarima	1,576,828	0	1,576,828	2	2	0	0	0	1,576,828
	La Salina	2,770,709	0	2,770,709	9	9	0	0	0	2,770,709
	Bajo Grande	1,910,225	0	1,910,225	7	7	0	0	0	1,910,225
	El Palito	0	984,835	984,835	3	3	888,828	888,828	5	96,007
	Pto Miranda	4,542,029	0	4,542,029	14	15	0	0	0	4,542,029
	Cardón	0	2,840,328	2,840,328	13	19	362,392	362,392	5	2,477,936
	Amuay	0	6,065,981	6,065,981	23	25	259,373	259,373	2	5,806,608
	Guaraguao	14,435,012	3,262,122	17,697,134	43	61	330,110	330,110	6	17,367,025
Jose	20,007,793	14,296,568	34,304,361	58	68	0	0	0	34,304,361	
Total (Barrels)		45,242,596	27,449,835	72,692,431	172	209	1,840,702	1,840,702	18	70,851,728

Month	Exports						Imports			Net Exports
	Load Port	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
Mar 2009	FSO Nabarima	788,056	0	788,056	1	1	0	0	0	788,056
	La Salina	3,104,854	0	3,104,854	9	9	0	0	0	3,104,854
	Bajo Grande	1,209,106	0	1,209,106	4	4	0	0	0	1,209,106
	El Palito	0	1,425,741	1,425,741	5	5	1,050,316	1,050,316	5	375,425
	Pto Miranda	5,128,931	0	5,128,931	15	17	0	0	0	5,128,931
	Cardón	0	3,222,958	3,222,958	12	18	339,709	339,709	4	2,883,249
	Amuay	0	7,668,369	7,668,369	21	21	239,202	239,202	2	7,429,167
	Guaraguao	14,751,317	2,100,782	16,852,099	42	66	477,821	477,821	5	16,374,278
Jose	21,441,011	15,246,008	36,687,019	65	70	0	0	0	36,687,019	
Total (Barrels)		46,423,275	29,663,858	76,087,133	174	211	2,107,048	2,107,048	16	73,980,085

Note: BOLs = Bills of lading.

Notes And Disclaimers

Products exports include upgraded crude oil.

Upgraded crude oil is only exported from Jose, and all Jose product exports are upgraded crude oil.

Products exports include small volumes of LPG refined from condensates as well as natural gasoline from separation plants, but do not include natural gas liquids exports by PDVSA Gas. Exports of such liquids for the months of November and December 2008, and January, February and March 2009 are 60,023 barrels, 131,799 barrels, 460,070 barrels, 601,107 barrels and 294,316 barrels, respectively.

The reports from which the above tables have been drawn were prepared by Inspectorate representatives, who attended the offices of the Ministry in Caracas, Venezuela, where they were provided by SAMH with copies of bills of lading for the relevant months, grouped by port of departure, as well as the copies of certificates of discharge for imported products for those same months. The bills of lading for petroleum exports and certificates of discharge for imported products provided to Inspectorate representatives, and reviewed by them, complied with the official form for such documents in terms of their size, wording, arrangement and style, and all were duly signed and sealed by the Master of Agents of the vessels involved in the export (and import) of petroleum from (to) Venezuela. Furthermore, Inspectorate provided independent inspection services for a number of the export and/or import operations during the relevant months, and the cargo quantities related to these operations, as stated in the bills of lading/certificates of discharge provided to Inspectorate representatives for their review corresponded to the quantities that Inspectorate witnessed when it provided independent inspection services for such operations. Finally, Inspectorate representatives tallied all the bills of lading to determine the total volume of petroleum exported and imported, and the net volume exported, as well as the total exports of crude oil, upgraded oil and petroleum products on a port-by-port basis. The results stated in Inspectorate's reports are accurately expressed, and neither the Inspectorate representatives nor Inspectorate have received and will not receive direct or indirect compensation in exchange for expressing specific figures in their reports. The reports were prepared on the basis of information that Inspectorate believed is reliable and comprehensive, but Inspectorate makes no representation that such information is accurate or complete. Inspectorate's role in connection with the preparation of these reports has been limited to the certification of Inspectorate's own calculation of volumes based upon documents provided to Inspectorate, and which Inspectorate has taken in good faith.

Neither the contents of these reports nor Inspectorate's role in reviewing the documents that underlie them, should be construed as constituting any representation or other assurance, express or implied, on the part of Inspectorate as to whether such documents were genuine, authentic and/or legally valid.

Inspectorate is not certifying or vouching for the accuracy or authenticity of the documents provided to it or the volumes of oil, petroleum products or liquid petroleum gases actually exported or imported to/from Venezuela during the months in question.