MBEKI’S MESSAGE TO DELEGATES: HOPE NOT ‘MOOD INDIGO’

By NJ Watson and Tom Nicholls

President Thabo Mbeki of South Africa opened the 18th World Petroleum Congress in Johannesburg last night with an impassioned speech urging delegates to convey a “message of hope” to the world at a time of great uncertainty.

Endorsing statements by World Petroleum Council president-elect Randy Gossen, Mbeki said the big issue facing the industry is its reputation and credibility with stakeholders, including consumers, non-governmental organisations, international institutions, host communities and governments.

Mbeki also said the problem of high fuel prices needs to be debated vigorously because, quoting a recent World Bank report, the poor suffer from high energy prices twice as much as higher-income groups.

Reciting the lyrics of the bleak jazz classic Mood Indigo to illustrate the despair felt by much of the world, Mbeki said it was important for the Congress to deliver an upbeat message – especially in light of the failure last week of the United Nations to find a way of successfully concluding its Millennium Development Goals, which include the alleviation of poverty, world peace and security and reform of the UN. “To speak frankly, the summit did not succeed in its aims as well as it should have,” said Mbeki.

Good news for Africa, however, came with yesterday’s statement by UK finance minister Gordon Brown that the International Monetary Fund has agreed a deal to approve the G8’s debt-relief programme by the end of 2005 for 18 of the world’s poorest countries.

“Surely, this represents one of the most positive developments in a global situation that otherwise seems to be dominated by negative developments,” said Mbeki, adding: “We hope the Congress will succeed in communicating other items of good news to the people of the world.”

A BRIGHTER FUTURE

In an opening ceremony based around the prospects for a brighter future for Africa, several high-profile speakers, including Lindiwe Hendricks, South Africa’s energy minister, put the continent firmly at the top of the Congress agenda.

The importance of international cooperation as a way of finding solutions to the world’s growing energy crisis was also repeatedly emphasised. Nigeria’s oil minister, Edmund Daukoru, said the Congress’ theme – shaping the energy future: partners in sustainable solutions – could not have come at a better time.

“It is clear to me that market realities are moving beyond the control of producing countries and that we must look to events like this to bring together producers and consumers.”

African dancers convey President Mbeki’s message of hope with a spectacular display

African dancers convey President Mbeki’s message of hope with a spectacular display
Oil prices: consensus view points upwards

By James Gavin and Tom Nicholls

E ARLIER this year, investment bank Goldman Sachs made head-
lines by forecasting crude oil prices could break through the $100 a barrel barrier in the event of a major supply shock.

The devastating effect of Hurricane Katrina, which caused spot gasoline prices on the US Gulf coast to rise by more than $0.60 a gallon (USG) to $2.85/USG on the day of the hurricane – the equivalent, Barclays Capital noted, of $120/b – appeared to confirm the potential for sup- ply disruptions to send prices on the kind of trajectory Goldman was talking about.

While Gulf of Mexico upstream opera- tors and refiners struggle to bring facilities back on stream – a time-consuming and complicated process that will provide price support over the next few weeks – they remain vulnerable to more hurricanes.

Thankfully, Hurricane Rita does not seem to have had a lasting effect on US oil infrastructure that Goldman had feared. On Friday, the weakening hurricane shifted away from the Houston area, home to a large percentage of the country’s refining capacity, and US light crude futures ended the day down by $2.31/b at $64.19/b.

For the longer term, meanwhile, invest- ment banks have been raising price fore- casts. There has even been talk of $75/b before year-end, despite Opec’s com- mitment to cool down oil markets. Deutsche Bank expects crude prices to average $70/b over the next six months, amid tightening market fundamentals and extended weather conditions. For 2006, the bank is forecasting $60/b oil.

Goldman recently raised its five-year oil-price target from $45/b to $60/b. It also raised US oil price forecast for the rest of 2005 by more than $13/b to $67/b and its 2006 forecast by $13/b to $68/b.

One of the reasons given for the bull- ish stance is that oil companies have been slow to reinvest profits in new capacity. Oil companies are said to be sitting on a cash pile of nearly $0.5 tril- lion, which they have refrained from ploughing into new projects, mainly because of uncertainty over the prof- itability of individual projects.

Most analysts have followed Goldman’s lead in upping price forecasts. The most conservative projection of London-based Centre for Global Energy Studies (CGES) sees prices at around $65/b in the last quarter of the year and in the first quarter of next year. Its latest monthly report says it would take “a dramatic slowdown in oil demand growth to undermine prices”.

Merrill Lynch has also recently raised its price forecasts, although it is more conservative than Goldman. While it has increased its 2006 forecast for US light crude to $52b – a rise of $10/b on the previous estimate – it sees $60/b oil as unsustainable in the long-term and expects prices to retrench. “Recent strength has been driven by short-term supply disruptions and renewed geopoliti- cal tensions,” it says.

Other analysts share Merrill’s more conservative instincts. Barclays Capital commodities analyst Kevin Norrish expects oil prices to decline by $10/b from September to around $55/b by year- end 2005, as traders take on board the prospect of lower demand in the second quarter of next year.

One factor underlying the generally bullish assessments of oil-price trends for next year is that the global economy appears better able to absorb higher prices. Also, oil prices in real terms are still some way short of all time highs. A Goldman research note issued earlier this year suggested the high prices of the first three months of 2005, if sustained, would shave as much as 45 basis points from real growth among the Group of Seven economic powers and boost inflation by 75 bp – not a negligible effect, but not enough to derail the global economy.

There are mounting fears that high oil prices are starting to undermine the global economy

However, there are mounting fears that high oil prices are starting to undermine the global economy. Last week, G7 finance ministers said oil prices are a growing threat to world-economic growth and called for sustained increases in oil output, more energy-conservation meas- ures and greater investment in alternative energy sources. CGES, meanwhile, says “high oil prices have already started to undermine oil’s future market”.

Prices fall as Houston escapes major damage

By NJ Watson

THE PRICE of oil fell by nearly $1 a bar- rel yesterday as it became clear that most of the refineries around Houston had escaped serious damage from Hurricane Rita. At a special weekend session on London’s International Petroleum

Exchange, Brent futures fell by $2.16/b to $62.44/b.

The US Department of Energy report- edly said it was “cautiously optimistic” that refineries in Houston had suffered minimal damage, after the hurricane weakened to a category three storm and veered away from Houston’s oil infra- structure as it neared land. Altogether, 16 refineries in the area, which produce around 25% of the nation’s gasoline, were closed last week as the storm approached.

Damage appears more limited than that inflicted by Hurricane Katrina on four of the big refineries in Louisiana, which will be out of commission for the long term. Nonetheless, news trickling out from Gulf coast operators indicates there will be significant delays in restarting some of the plants located in the hurricane’s path.

The hurricane veered east as it approached land, putting the refineries near the state line between Texas and Louisiana – in Port Arthur, Texas, and Lake Charles, Louisiana – in the hurri- cane’s path. Valero Energy said it would take between two weeks and a month to restart its 250,000 b/d Port Arthur refinery. Royal Dutch Shell said its 285,000 b/d refinery had sustained wind damage, but did not say when the facility would restart.

However, ExxonMobil said its Baytown refinery, which is located fur- ther west and is the country’s largest, with a capacity of around 0.5mn b/d, escaped serious damage. The company said the refinery had already reopened its terminals and pipelines, although efforts to restart operations had not yet begun.
It took us 125 years to use the first trillion barrels of oil.

We’ll use the next trillion in 30.

So why should you care?

Energy will be one of the defining issues of this century. One thing is clear: the era of easy oil is over. What we all do next will determine how well we meet the energy needs of the entire world in this century and beyond.

Demand is soaring like never before. As populations grow and economies take off, millions in the developing world are enjoying the benefits of a lifestyle that requires increasing amounts of energy. In fact, some say that in 20 years the world will consume 40% more oil than it does today. At the same time, many of the world’s oil and gas fields are maturing. And new energy discoveries are mainly occurring in places where resources are difficult to extract, physically, economically and even politically. When growing demand meets tighter supplies, the result is more competition for the same resources.

We can wait until a crisis forces us to do something. Or we can commit to working together, and start by asking the tough questions: How do we meet the energy needs of the developing world and those of industrialized nations? What role will renewables and alternative energies play? What is the best way to protect our environment? How do we accelerate our conservation efforts? Whatever actions we take, we must look not just to next year, but to the next 50 years.

At Chevron, we believe that innovation, collaboration and conservation are the cornerstones on which to build this new world. We cannot do this alone. Corporations, governments and every citizen of this planet must be part of the solution as surely as they are part of the problem. We call upon scientists and educators, politicians and policy-makers, environmentalists, leaders of industry and each one of you to be part of reshaping the next era of energy.
Gossen takes the top job

By Tom Nicholls

RANDY Gossen was elected president of the World Petroleum Council yesterday. He said he would use the post to improve the oil industry’s reputation and to encourage dialogue between the industry and essential partners such as governments, NGOs and international organisations.

“We as the petroleum industry have to find ways of producing oil in an economically viable, environmentally acceptable and socially responsible way,” said Gossen. “The big issue is around our reputation and credibility. The WPC can’t solve the world’s problems, but it can facilitate and catalyse dialogue between the industry and its various stakeholders. That is, and will continue to be, my focus.”

The outgoing president, Eivald Røren, had a similar message. “Listen to the industry and listen to the public and provide a meeting place for both,” he said. “We must be conscious about the future. Oil is a finite resource – we are in transition and we must prepare ourselves for a new future.”

Gossen, vice-president for safety, environment and social responsibility at Canada’s Nexen, was chairman of the congress programme committee for the present Congress. Gossen, elected by the Council’s 62 member countries, holds the post until the next World Petroleum Congress – in Madrid in three years’ time.

In a separate ballot, Pedro Baridon was elected as the Council’s senior vice-president for the next three years. In the same meeting, applications from Sierra Leone, Azerbaijan and Japan to join the World Petroleum Council were approved, bringing the total number of members to 65.

WPC president: high oil prices are here to stay

By NJ Watson

A NEW price level for oil has been established and will be sustained for years to come, Eivald Røren, president of the World Petroleum Council, said yesterday. Speaking at a press conference ahead of the opening ceremony of the 18th World Petroleum Congress, Røren said: “We will hardly see those days of $18-20/b come back soon and we will have to live with this new level for many years.”

He put much of the blame for higher prices on the bottleneck in the global refining industry – a problem that has been exacerbated by the hurricanes in the US. “The lack of refining capacity means the price of oil will be felt by the world through gasoline prices,” he said.

The high price of oil and its effect on ordinary people was touched on by the other participants in the press conference – South African energy minister Lindiwe Hendricks, chairperson of the South African National Committee Ayanda Mjekula and PetroSA CEO Sipho Mkhize. They said the Congress must produce outcomes that engage the man, and woman, in the street.

“The debate over the price of oil rages on and it is something the world is increasingly concerned about,” said Mjekula. “The Congress offers a real chance to deliberate on some of the solutions to this global dilemma.”

Hendricks stressed that the Congress – which is being staged in Africa for the first time – must find lasting solutions to a range of problems, especially those related to the environment, HIV/AIDS, corporate governance and revenue transparency. Røren said revenue transparency has been given special attention in the programme and the Congress and would examine the extent to which governments and countries are telling the public about how much money is changing hands.

WPC social and technological awards

Social awards

Large company winner
Statoil
Akassa – a community project based on substantial local participation
www.statoil.com

Large company runner-up
Schlumberger
Malaria prevention programme
www.oilfield.slb.com

Small company winner
Nexen
Building a community of trust in zones of conflict
www.nexeninc.com

Small company runner-up
Tenaris Siderca
Alentar Plan between Tenaris Siderca and the community of Campana
www.tenaris.com

Small company runner-up
Pro-Natura International (Nigeria)
From the Niger Delta: a coastal development initiative
www.pronatura-nigeria.org

Technical awards

Large company winner
EnCana
Drilling-waste management system
www.encana.com

Large company runner-up
Saudi Aramco
Automatic ballast exchange: a cost-effective, environmentally friendly solution
www.saudiaramco.com

Small company winner
Welltec
Well Miller – creating a new drilling technique
www.welltec.dk

Small company runner-up
Addax Petroleum Services
Fit-for-purpose application of breakthrough technologies breaks economic barrier
www.addax.com

The WPC Excellence Awards Luncheon takes place today between 12:00 and 13:45 at the Macela Room, Sandton Sun. Sponsored by ExxonMobil
Angola: Finds for BP, start-up for ExxonMobil

By Martin Quinlan

B P ANNOUNCED its eighth oil discovery in the ultra-deep-water block 31 last month, just weeks after making its seventh. Following the two discoveries, the firm says it is “evaluating development concepts” for the block’s southeast area, where two other finds have been made. Meanwhile, BP is understood to be near a development decision for the four fields that make up the block’s Northeast Development Area (NDA) – likely to become the first development in the country’s ultra-deep-water areas.

Last month’s find was made with the Astra-1 well, drilled by the Jack Ryan drillship in 1,496 metres of water. The well, which tested 6,513 barrels per day (b/d), was drilled only 10 km southeast of the 1996 when the ground-breaking Girassol development came on stream. Production from Block 15 started through an FPSO. Participants in Block 15 are ExxonMobil, 40%, BP, 26.67%, Eni, 20% and Statoil, 13.33%.

Projects of this size and complexity”. Production from Block 15 started in December 2003, when the Xikomba field came on stream through an FPSO. Participants in Block 15 are ExxonMobil, 40%, BP, 26.67%, Eni, 20% and Statoil, 13.33%. Angola’s next big start-up, due later this year, will be the first phase of Chevron’s $2.2bn Benguela-Belize-Lobito-Tomboco (BBLT) development, in Block 14. The BBLT fields will be brought on stream through a compliant tower platform, standing in 381 metres of water. Lobito and Tomboco will be tied-in to the development using subsea facilities next year, allowing combined BBLT production to rise to over 200,000 b/d in 2008.

ExxonMobil attributes the Kizomba B project’s early start-up to the firm’s “design one, build multiple” approach

The NDA fields – Plutão, Saturno, Maria and Venus – are likely to be developed using a floating production, storage and offloading (FPSO) vessel, with first oil flowing in 2008-2010. Interests in Block 31 are BP, 26.67%, ExxonMobil, 25%, Sonangol, 20%, Statoil, 13.33%, Marathon, 10% and Total, 5%.

Meanwhile, production from Angola’s deep-water licences is mounting. In July, ExxonMobil brought its Kizomba B development on stream in Block 15 – remarkably, for a $3.5bn project, five months ahead of schedule. Kizomba B, tapping 1bn barrels of reserves in the Kisanje and Dikanza fields, should raise production from the block to 0.550m b/d by the end of the year. Water-depth over Dália is 1,010 metres.

There is no single explanation. The 1993 PSCs – drawn up when the first deep-water blocks were offered – are regarded as reasonably attractive and companies have been keen to move offshore to avoid conflicts with local populations. Although President Olusegun Obasanjo is credited with better management than his military predecessors, it seems the country’s well-known problems are at work: investments are perceived as running political risks because government policies towards the industry lack stability; corruption is rife; costs are inflated; local services are often of poor quality, necessitating supply from overseas; and infrastructure can be inadequate.

After 12 years of deep-water exploration, there is just one relatively small field on stream, the 30,000 b/d Abo Central. Further work could raise output to 45,000 b/d. The start-up of Shell’s Bonga field, scheduled for this year though lagging behind, will give the deep-water industry a boost. The $2.7bn scheme, in a water-depth of 1,000-1,100 metres, has been held up in part by the size and complexity of the project and in part because of the need to complete, on location, topsides work that should have been done at contractor Amec’s UK yard.

Further developments

A stream of other developments are in the pipeline. In early 2006 – and only slightly behind schedule, if there are no additional delays – ExxonMobil is due to bring its Erha field on stream, to flow at an expected 150,000 b/d. Another field that, according to earlier plans, should have been on stream already is Chevron’s Agham, discovered in 1999. It has been held up by a legal dispute over ownership, which, despite an order for the field’s $1.1bn FPSO, still does not appear to have been fully resolved.

Angola: Finds for BP, start-up for ExxonMobil

Nigeria: looking for explorers

By Martin Quinlan

T HE OFFER of 63 blocks in the 2005 licensing round – a mix of deep-water, onshore and up-country acreage – is the first real test of the attraction of Nigerian operations in recent times, especially offshore. In view of the costs and technology involved, officials want to license the deep-water blocks to the majors or other large foreign companies, although their appetite for this type of acreage remains uncertain.

In comparison with Angola – Nigeria’s main competitor in the Gulf of Guinea deep-water race – exploration has been slow and development work even slower. Lately, projects in emerging producers such as Equatorial Guinea and Mauritania have been achieving shorter cycle-times than Nigeria’s.

Political risks

There is no single explanation. The 1993 PSCs – drawn up when the first deep-water blocks were offered – are regarded as reasonably attractive and companies have been keen to move offshore to avoid conflicts with local populations. Although President Olusegun Obasanjo is credited with better management than his military predecessors, it seems the country’s well-known problems are at work: investments are perceived as running political risks because government policies towards the industry lack stability; corruption is rife; costs are inflated; local services are often of poor quality, necessitating supply from overseas; and infrastructure can be inadequate.

After 12 years of deep-water exploration, there is just one relatively small field on stream, the 30,000 b/d Abo Central. Further work could raise output to 45,000 b/d. The start-up of Shell’s Bonga field, scheduled for this year though lagging behind, will give the deep-water industry a boost. The $2.7bn scheme, in a water-depth of 1,000-1,100 metres, has been held up in part by the size and complexity of the project and in part because of the need to complete, on location, topsides work that should have been done at contractor Amec’s UK yard.

Further developments

A stream of other developments are in the pipeline. In early 2006 – and only slightly behind schedule, if there are no additional delays – ExxonMobil is due to bring its Erha field on stream, to flow at an expected 150,000 b/d.

Another field that, according to earlier plans, should have been on stream already is Chevron’s Agham, discovered in 1999. It has been held up by a legal dispute over ownership, which, despite an order for the field’s $1.1bn FPSO, still does not appear to have been fully resolved. Also delaying Agham – now due early 2008 – has been a disagreement over local content, a topic that may still unsettle deep-water investors.
Land of emerging producers

By Martin Quinlan

Africa is opening up. While the established deep-water provinces of Angola, Nigeria and Egypt are the hunting-grounds of the majors, the push into new areas is being led by much smaller frontier specialists. There are operators from Australia, the UK, the US, Canada, Ireland and elsewhere, including China, keen for more upstream involvement.

The rise of the frontier specialists should give Africa a new producing country in the first quarter of next year, when Mauritania’s first oil is due to flow from the Chinguetti field. The Mauritanian experience is typical of the new exploration and production scene. The majors had explored there in the past, but, when the country’s entire deep-water offshore was offered for licensing in the late-1990s, all eight blocks were snapped up by new entrants. A group led by Australia’s Woodside Energy holds five of the blocks and a group led by the UK’s Dana Petroleum holds three.

Chinguetti discovery

Woodside made the Chinguetti discovery in 2001, with a well 90 km off Nouakchott in 800 metres of water. The first phase of the Chinguetti development, to cost $0.625bn, will tap reserves estimated at 120m barrels. An initial flow of 75,000 barrels a day (b/d) is expected from six producing wells supported by four water-injectors and one gas-injector. The second phase of the development, likely to be implemented in 2008-09, will add four more wells.

Other African countries set to join the ranks of oil exporters in recent years include Chad and Sudan, while gas is being exploited in Tanzania for domestic power use. The momentum is pulling other countries along.

Also with prospects of emerging as a gas producer – but in the hands of a frontier specialist, now that the majors have pulled out – is Namibia. The country’s Kudu gasfield, in 170 metres of water, some 180 km offshore, was discovered in 1974 and later taken up by Energy Africa – which, last year, was acquired by Tullow Oil.

Power possibility

The majors had been defeated initially by the lack of a local market for Kudu’s gas and later by the failure to prove up sufficient reserves for an LNG scheme – Shell had been considering the field for the first application of its floating LNG technology. Tullow, however, says a gas-to-power project could work, to meet rising demand for electricity in Namibia and South Africa. The firm is studying the construction of an 800 megawatt power station for the Oranjemund area of southern Namibia, with electricity purchased by state utility NamPower for distribution locally and in South Africa. The start-up target is 2009.

In August, Ivory Coast joined Africa’s deep-water producers when the Baobab field started flowing. Baobab, operated by Canadian Natural Resources (CNR), lies 25 km offshore in 970 metres of water. Production is expected to build up to 60,000 b/d of relatively heavy 23°API crude, from recoverable reserves of 200m barrels.

Ivory Coast has also experienced the transition from majors to frontier specialists: the Espoir field was discovered, and produced from 1982-88, by Phillips, which abandoned it because of production disappointments. Ranger – subsequently acquired by CNR – took over the licence and a two-year redevelopment was completed in February 2002, when the field started flowing again. It now flows 35,000 b/d, with just under 1.0m cm/d of gas.

There are more speculative plays coming into focus. The continent’s western coast provides a range of opportunities for frontier specialists, with the offshore blocks of Morocco, Western Sahara, Senegal, Guinea Bissau, Sierra Leone, Liberia and Ghana all seeing some recent activity.

Unlocked interest

Along the eastern coast, gas production in Mozambique, and now Tanzania, has unlocked interest elsewhere. Kenya has recorded greater interest from frontier explorers, and even landlocked Uganda has had a number of exploration wells drilled in the past year or so. Most recently, Exxon Mobil declared its interest in the area, taking a stake in a block off Madagascar.

Keys to unlocking development potential

Many sub-Saharan countries face complex development challenges. They fill the news today more than ever. Often this news is bleak and obscures the existence of a multitude of initiatives that are having a positive impact on socio-economic development on the continent. Business can make a positive contribution to this effort, but is just one part of the socio-economic system. The ability of business to innovate and create productive capacity depends in large part on the stability and capacity of the system to encourage the application of talent and ideas.

As a leading innovator of oilfield services technology, Schlumberger is “committed to the idea that education, particularly in science and engineering, is critical not only to meeting the energy challenges of the future, but also to contributing to the long-term development of nations. Its potential in Africa is as great as it has been anywhere else,” says Schlumberger chairman and CEO Andrew Gould.

“In addition to our investment in training and developing our people, whom we recruit where we work, a number of not-for-profit education initiatives have been implemented to help build capacity in the sciences at secondary and tertiary levels,” says Johana Dunlop, Schlumberger Foundation manager. “These efforts are intended to complement, but not replace, government educational programmes.”

Women form only 15% of the scientific field in Africa and only 1% are in leadership positions. Of the 22% of African girls who get as far as secondary education, only 10% study science-related topics, says the Association for the Development of Education in Africa and the Forum for African Women Educationalists. Ten years ago, Schlumberger decided to bring the same focus to gender diversity as it had brought to nationality diversity – with a target of one in four of recruits being a woman. “But we can only recruit from the available talent pool,” says Dunlop. “While ability is not an issue, research shows a lack of role models is a barrier to the uptake of the physical sciences by women. Last year, we launched our Faculty for the Future programme supporting female academics committed to pursuing university teaching careers.”

This year, the programme awarded fellowships to five African women academics to pursue doctoral studies in the US, France, UK, Netherlands, Denmark and South Africa. “The greater the number of women teachers, the more likely younger women will be attracted to these disciplines. In this sense, the programme serves as a catalyst,” says Dunlop.

Building a partnership with the Institut des Hautes Études Scientifiques (IHES), a leading research centre for mathematics and theoretical physics, is a first step in Schlumberger’s strategy to support education in the sciences in sub-Saharan countries. “Last year we awarded a five-year grant to IHES, which has created a new programme enabling African researchers to receive greater support at home and to visit IHES regularly,” Dunlop explains.

“The grant enables African scientists to learn about the latest trends and discoveries in their fields,” says Jean-Pierre Bourguignon, director of IHES. “Their involvement increases their knowledge and gives them additional credibility.”

This article was contributed by Schlumberger

www.wpc-news.com
Equatorial Guinea: developing high-margin LNG

By Martin Quinlan

Exports of liquefied natural gas (LNG) are on target to start in late 2007 from a $1.4bn venture that will be “one of the highest-margin LNG operations in the Atlantic basin”, according to Marathon Oil, the firm implementing the project. It estimates operating, capital and feedstock costs will total “$1/m Btu at the loading flange” of the plant. Marathon has contracted to sell 3.4m tonnes a year (t/y) of LNG, though capacity of the plant will be in excess of this, at about 3.8m t/y.

Japanese investment

The facility is being built on the north-west side of Bioko island and close to the capital, Malabo. The initiative is owned by Equatorial Guinea LNG, which groups Marathon with state-owned Compañía Nacional de Petroles de Guinea Ecuatorial (GEPetrol) and a group of Japanese investors. Marathon is funding its investment from its own resources, without loans, while GEPetrol is drawing on its cash from oil production.

Marathon is exploring the construction of a second train. “There is a great deal of gas in a small area around Bioko island and we see potential to develop a gas hub for the area,” says a spokesman.

The source of the gas for the export plant is the Alba field, 25 km off Bioko in 76 metres of water, one of many to be discovered off the island in recent years. The country’s largest producing oilfield is ExxonMobil’s Zafiro, lying about 70 km west of Malabo, but in much deeper waters. Zafiro, together with a number of satellites, flows 300,000 b/d of light, low-sulphur crude. The supermajor says recoverable reserves exceed 400m barrels, but other estimates for the wider area rise to 1.2bn barrels.

But while Zafiro has been expanding, the field that first pointed to Equatorial Guinea’s larger oil potential – Ceiba, discovered in 1999 by Triton and now operated by Amerada Hess following its acquisition of that firm – has been a disappointment. The field is a low-energy structure and initial hopes for its production and reserves have not been met.

Ceiba was the first discovery in a new oil province – offshore Rio Muni, on the African mainland. The field, 35 km off the coast and in water 670-800 metres deep, was brought on stream through an FPSO-based early production system in 2000. Production is flowing at a rate of 40,000 b/d.

South Africa pins hopes on deep water

By Tom Nicholls

SOUTH AFRICA may be a minor oil and gas producer, but Petroleum Agency SA (PASA), the upstream regulator, hopes growing interest in frontier offshore acreage will soon boost the country’s reserves and production profile.

Although the country’s global pre-eminence in the synthetic-oil business significantly reduces its import bill, present production of about 39,000 b/d accounts for less than 10% of the oil South Africa consumes. But that may be about to change. Upstream spending is on the rise – excluding block 9, where the country’s producing fields are located, it is expected that R900m ($150m) will be spent on exploration this year, compared with R100m in 2004.

Appraisal is continuing at one significant discovery – Forest Oil’s Ibhubesi gasfield in the Orange Basin, which may hold up to 15 trillion cubic feet (cf). Other explorers include BHP Billiton and Canadian Natural Resources.

Neighbouring Namibia’s Kudu gasfield, where it is thought that reserves may be as great as 283tn cubic metres – enough for a liquefied natural gas scheme – bodes well for exploration offshore South Africa’s west coast, while exploration success offshore Mozambique is also encouraging for prospects to the east, in South Africa’s barely explored Durban and Zululand basins.
Developing local workforces

By Claire Markwardt, partner, Accenture

The energy industry has changed significantly since the early 1980s, when many of today’s approaches to talent management were developed. To meet rising energy demand, in a high-price environment, most exploration and production (E&P) projects require a trained workforce. Many, either through necessity or choice, are rethinking traditional approaches to talent management and are building a local workforce with the capability to develop E&P projects that will run well into the 21st century. There are several reasons why companies must recruit and develop local workforces in frontier markets:

The size of the expatriate workforce is shrinking while the size of the frontier workforce is increasing. Nearly half of the petroleum professionals in Western energy firms will reach retirement age in the next 10 years and the American Geological Institute reports low enrolment in geosciences programmes in US colleges. Consequently, there will be fewer expatriates available for frontier assignments. In addition, because this smaller pool of professionals is ageing, there is less willingness to relocate to remote areas.

The cost of importing skilled labour is rising and becoming prohibitive. When a resource becomes scarcer, its price rises, so it is with the expatriate pool.

Governments in frontier markets want energy companies to use local workforces and support the growth of sustainable local businesses. Frontier markets are often in remote regions with limited technologies and infrastructures, and manage their workforces. Many, either through necessity or choice, are rethinking traditional approaches to talent management and are building a local workforce with the capability to develop E&P projects that will run well into the 21st century.

High prices and demand pressures also contribute to lower operating costs. Usually the local workforce does not have the technical capabilities and management skills required to operate, support and supply a sophisticated and complex industry, but governments want energy firms to utilise their people.

Historically, frontier countries have provided raw materials and semi-skilled labour to the industry, but, as they develop, it is appropriate that those countries become involved in a broader range of business activities.

The energy industry has changed significantly since the early 1980s, when many of today’s approaches to talent management were developed. To meet rising energy demand, in a high-price environment, most exploration and production (E&P) projects require a trained workforce. Many, either through necessity or choice, are rethinking traditional approaches to talent management and are building a local workforce with the capability to develop E&P projects that will run well into the 21st century. There are several reasons why companies must recruit and develop local workforces in frontier markets:

The size of the expatriate workforce is shrinking while the size of the frontier workforce is increasing. Nearly half of the petroleum professionals in Western energy firms will reach retirement age in the next 10 years and the American Geological Institute reports low enrolment in geosciences programmes in US colleges. Consequently, there will be fewer expatriates available for frontier assignments. In addition, because this smaller pool of professionals is ageing, there is less willingness to relocate to remote areas.

The cost of importing skilled labour is rising and becoming prohibitive. When a resource becomes scarcer, its price rises, so it is with the expatriate pool.

Governments in frontier markets want energy companies to use local workforces and support the growth of sustainable local businesses. Frontier markets are often in remote regions with limited technologies and infrastructures, and manage their workforces. Many, either through necessity or choice, are rethinking traditional approaches to talent management and are building a local workforce with the capability to develop E&P projects that will run well into the 21st century.

High prices and demand pressures also contribute to lower operating costs. Usually the local workforce does not have the technical capabilities and management skills required to operate, support and supply a sophisticated and complex industry, but governments want energy firms to utilise their people.

Historically, frontier countries have provided raw materials and semi-skilled labour to the industry, but, as they develop, it is appropriate that those countries become involved in a broader range of business activities.

You’re hired

By Tom Nicholls

Unless oil and gas companies can start to win the battle of the number of graduates joining the technical side of the business, the industry may lack the manpower to meet world demand for energy within a few years. To solve the problem, companies must make themselves appealing to a wider potential workforce and put human resources (HR) management at the centre of their thinking, say industry experts. According to research by the Booz Allen Hamilton consultancy, around 50% of professional E&P staff are aged 40-50, while only around 15% are in their early 20s to mid-30s. Booz Allen says up to half of the workforce will retire within 10 years and that technical segments of the industry, where staff shortages are acute, are likely to feel the most pressure to replace skills.

Chakib Sbiti, executive vice-president of Schlumberger, whose business is highly dependent on recruiting skilled engineers and technicians, agrees that human resources has become “one of the most vital components” of the oil industry’s future. “We view the industry as a real opportunity to attract graduates,” Sbiti says, “and emphasise the variety of jobs they can offer.”

Recruiting from areas of the world that have not traditionally been thought of as sources of talent for the oil industry may go a long way to solving the industry’s staffing problem. Mark Rubin, executive director of the Society of Petroleum Engineers (SPE), argues that while the number of graduates entering the industry from Western engineering schools may give the impression of an industry struggling to attract graduates, globally that is not the case. “If you look at worldwide enrolment in petroleum engineering schools – in China, Russia and the Middle East – you get a different picture.”

Schlumberger has already gone down that route, recruiting in the countries where it operates, allowing it, says Sbiti, to tap a rich seam of talent. (The firm is trying to reap similar benefits by encouraging more women to work in the business.)

Rubin agrees. “Schlumberger is a model for recruiting young people from around the world.” Rubin also remains optimistic that even in US engineering schools, graduate enrolments are set to pick up. “If a graduate is interested in working internationally, working in a high-technology industry or taking on a lot of responsibility at a young age, then oil is a great industry to work in.”

www.wpc-news.com
The prospects for oil and gas in the Caspian were undoubtedly exaggerated, but recent events show the extent to which the region remains a magnet for Asian and small to medium-sized energy companies

By NJ Watson

Lukoil’s admission in August that another of its Caspian projects had failed to find oil or gas was a salutary reminder of the hype that once surrounded the region’s resources. Lukoil and its partner, Kazakhstan’s state-owned KazMunaiGaz, abandoned exploration in the Tyub-Karagan Block, in the Caspian Sea, after drilling to the planned depth of 2,500 metres without success.

A few months earlier, Lukoil suffered a similarly expensive setback when its first well in the Yalama block, in the Azerbaijani sector of the Caspian Sea, also failed to strike oil. Lukoil’s recent experiences stand in stark contrast to the mood following the disintegration of the Soviet Union in 1991. At that time, the US estimated the Caspian basin – defined by the Energy Information Administration (EIA) as the littoral states of Azerbaijan, Kazakhstan, Turkmenistan, and parts of Russia and Iran, as well as Uzbekistan – held some 200bn barrels of oil and large volumes of gas. The region became a target for investment by international oil firms and Western governments looking for alternative sources of oil as a way to reduce reliance on the Middle East.

By the turn of the century, however, it was becoming clear the region would never live up to early expectations. The EIA now estimates proved oil reserves to be a more modest 17bn-33bn barrels of oil, with gas amounting to 6.5 trillion cubic metres (cm). And although, the countries in the region continue to sign exploration deals with major companies, many experts claim it is unlikely that future discoveries will match deposits such as the offshore Azeri-Chirag-Guneshli (AGC) oilfields and Shah Deniz gasfield in Azerbaijan, and the onshore Tengiz and Karachaganak blocks, and the Kashagan offshore fields in Kazakhstan.

“ Azerbaijan is increasingly dependent on one major project to fuel oil-output growth, meaning the country’s oil boom could be short-lived,” says Andrew Neff, a senior energy analyst with Global Insight, a consultancy.

In addition, as prospects in the region diminish, the majors are finding the costs of exploration and production (E&P) keep rising. In February, Lukoil and Azerbaijan’s state-owned oil company, SOCAR, terminated a deal to develop the 146m barrel Govsany-Zyk oil field deposit because of an extra $100m due in environmental costs, which would have made the $250m-300m project uneconomic.

Western oil firms are also finding that they are not as welcome as they once were. Uzbekistan, which has estimated gas reserves of 1.9 trillion cm, has made clear that it would sign an oil deal worth $0.6bn with China’s CNPC and, in July, the government gave US forces six months to vacate their Karshi-Khanabad air base.

Looking beyond the West

Likewise, Kazakhstan has been looking to replace Western partners with Asian ones since the late 1990s. The most recent example of this was the authorities’ relentless campaign against Canada’s PetroKazakhstan, which included criminal charges levied against several executives over allegations of monopolistic operating practices. PetroKazakhstan put itself up for sale in June and, in August, said it would be taken over by CNPC.

The high price CNPC was willing to pay shows how important Asian parties still view opportunities in the region. China and India especially are willing to spend the money and take risks to secure the energy supplies they need to meet rising domestic demand.

However, the region’s resources are not being left solely for the Asians to squabble over, as many niche players are exploring in places such as Kyrgyzstan and Tajikistan. In Kyrgyzstan, Cambran Oil & Gas, a small exploration company listed on London’s Alternative Investment Market, is working on two projects – a production venture with state-owned Kyrgyzneftegaz and an exploration project in the Tash Kumyr exploration licence area, where the firm has just completed a geophysical survey over the South Karagundai and Shirkat Sui prospects.

Cambrian says the survey revealed “clear hydrocarbons indications” and plans to start an extensive seismic survey to define drillable targets. “We have between a one in two or one in three chance of finding 20m barrels of recoverable oil, which is a pretty good chance of success,” says Neale Taylor, Cambrian’s CEO. Cambrian is looking to expand its operations in the region, specifically in the offshore deposits of the Fergana basin in Uzbekistan and Tajikistan – which have similar geology and operating conditions.

THE CHALLENGES FACING THE E&P INDUSTRY IN AFRICA ARE MULTIPLE — with new production in the complex deepwater areas of West Africa, established production in the mature fields of North Africa, and growing exploration activity across the continent, Schlumberger has been working throughout Africa for more than 50 years. We know Africa, and we know how to produce success.

Success means asking the right questions and acquiring the precise data to help define your risks. When you can define risk, you can mitigate it, and you can make informed decisions. It takes knowledge, technology, and processes, all of which are available to you through our global network.

Success also comes from valuing local ingenuity. We live where we work – hiring locally, developing talents, contributing to economic development, and gaining an intimate understanding of your environment. As a result, we have a long-term commitment to solving the challenges in your region.

Visit us at the 18th World Petroleum Congress, September 25–29, booth 2/88, and see how the Schlumberger Excellence in Educational Development (SEED) program has provided computers and Internet access to 34 schools, helping to educate 30,000 students in 9 African countries. This is just one of the ways we are working to produce future success.

www.oilfield.slb.com/wpc

Schlumberger

Monday 26 September 2005

Issue 1

Table 1: Caspian littoral states – oil reserves

<table>
<thead>
<tr>
<th>Country</th>
<th>Low case</th>
<th>High case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>7.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Iran*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>9.0</td>
<td>17.6</td>
</tr>
<tr>
<td>Russia*</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>16.9</td>
<td>32.2</td>
</tr>
</tbody>
</table>

* includes only those reserves located in Caspian Sea basin

Source: US EIA
Recognition sponsors

HOST SPONSOR:

PetroSA

CO-HOST SPONSORS:

NOC
Libya

NNPC
Nigeria

Sonangol
Angola

Sonatrach
Algeria

GOLD SPONSORS:

bp

Chevron

SASOL
reaching new frontiers

ExxonMobil

Saudi Aramco

TOTAL

OFFICIAL AIRLINE:

South African Airways

OFFICIAL AUDITOR & BUSINESS ADVISOR:

PricewaterhouseCoopers

OFFICIAL BANK:

ABSA
Today, tomorrow, together.

OFFICIAL TELECOMMUNICATIONS PARTNER:

MTN
everywhere you go

SILVER SPONSORS:

AFRICA REPORT
National Ports Authority
of South Africa

accenture
High performance. Delivered.

Deloitte

BR Petrobras

Pioneer
Natural Resources

Schlumberger

Shell

Statoil

FMC Technologies

Halliburton

IHS Energy.

Bronze Sponsors:

KPMG
Oando
Petroleum Agency SA

Woodside
ziff
North Africa

Monday 26 September 2005

Issue 1

Libya: a new lease of life

By Tom Nicholls

INE MONTHS ago, Libya’s under-performing oil sector was facing a bleak future. Then foreign investors flocked to the country’s first upstream licensing round since US sanctions were lifted. Competition was intense and Libya is considered highly prospective, where big discoveries are a distinct possibility and where production was found.”

On 2 October, the appetite of investors for Libya risk will again be tested as bids are opened for acreage offered under the second licensing round conducted under the Epsa-4 model. National Oil Corporation (NOC) has put 26 licences up for auction, covering 100,000 square km of acreage, and – reflecting the growing role of the country’s offshore – 10 blocks in the Mediterranean.

Analysts expect competition to remain intense. Says Craig McMahon, an analyst at Wood Mackenzie: “Indications are that there will be a similar level of enthusiasm to the first round – 63 companies have expressed an interest.”

In what amounts to an auction of acreage, victory is secured by companies prepared to cede the highest share of future oil production to NOC, with signature bonuses tied settling bids. While this approach means companies will have to compete in rounds with the licensing rounds as a way of gaining access to the country’s coveted upstream supply deals with southern European countries. Chief executive John Browne visited Muammar Qaddafi in Tripoli in June. ExxonMobil has also been tightening its links with Tripoli.

Victory will be secured by firms prepared to cede the highest share of future oil production to NOC.

By Ayesha Daya

THE BOOMING Egyptian gas industry passed another milestone in September when the second train of the ELNG plant came on stream. Start-up was nine months ahead of schedule, although that success hardly seemed surprising for an industry that has experienced such remarkable growth in recent years. Since 1984, proved reserves have soared to 66 trillion cf from 8.4 trillion cf, transforming the country into a net gas exporter. The government says there may be scope to double that figure in the next few years, which would make Egypt one of the richest gas nations in the world. However, fast-rising domestic demand may limit the scope for exports, with the public, will make Algeria a more attractive destination for foreign dollars.

Sonatrach: a new role

Although Khelil was forced to retract plans for the partial privatisation of Sonatrach, the law will weaken Sonatrach’s control over the energy sector. Sonatrach will no longer be automatically the majority equity holder in upstream developments and it will be stripped of its regulatory functions. Private-sector companies will be allowed to conduct exploration independently of Sonatrach, while two independent agencies – a contracting authority and a regulator – will take on Sonatrach’s regulatory role.

Greater operational flexibility should see Sonatrach itself become more efficient and competitive, but the firm will also retain the privileges of a state-owned champion. Although the national oil company will have the ability to compete for acreage like any other company, it will have 30 days to back down for an agreement for up to 30% stake if a company makes a declaration of commerciality.

Egypt: Sink or swim

By Ayesha Daya

T HE BOOMING Egyptian gas industry passed another milestone in September when the second train of the ELNG plant came on stream. Start-up was nine months ahead of schedule, although that success hardly seemed surprising for an industry that has experienced such remarkable growth in recent years. Since 1984, proved reserves have soared to 66 trillion cf from 8.4 trillion cf, transforming the country into a net gas exporter. The government says there may be scope to double that figure in the next few years, which would make Egypt one of the richest gas nations in the world. However, fast-rising domestic demand may limit the scope for exports, with the public, will make Algeria a more attractive destination for foreign dollars.

Sonatrach: a new role

Although Khelil was forced to retract plans for the partial privatisation of Sonatrach, the law will weaken Sonatrach’s control over the energy sector. Sonatrach will no longer be automatically the majority equity holder in upstream developments and it will be stripped of its regulatory functions. Private-sector companies will be allowed to conduct exploration independently of Sonatrach, while two independent agencies – a contracting authority and a regulator – will take on Sonatrach’s regulatory role.

Greater operational flexibility should see Sonatrach itself become more efficient and competitive, but the firm will also retain the privileges of a state-owned champion. Although the national oil company will have the ability to compete for acreage like any other company, it will have 30 days to back down for an agreement for up to 30% stake if a company makes a declaration of commerciality.

Egypt: Sink or swim

By Ayesha Daya

T HE BOOMING Egyptian gas industry passed another milestone in September when the second train of the ELNG plant came on stream. Start-up was nine months ahead of schedule, although that success hardly seemed surprising for an industry that has experienced such remarkable growth in recent years. Since 1984, proved reserves have soared to 66 trillion cf from 8.4 trillion cf, transforming the country into a net gas exporter. The government says there may be scope to double that figure in the next few years, which would make Egypt one of the richest gas nations in the world. However, fast-rising domestic demand may limit the scope for exports, with the public, will make Algeria a more attractive destination for foreign dollars.

Sonatrach: a new role

Although Khelil was forced to retract plans for the partial privatisation of Sonatrach, the law will weaken Sonatrach’s control over the energy sector. Sonatrach will no longer be automatically the majority equity holder in upstream developments and it will be stripped of its regulatory functions. Private-sector companies will be allowed to conduct exploration independently of Sonatrach, while two independent agencies – a contracting authority and a regulator – will take on Sonatrach’s regulatory role.

Greater operational flexibility should see Sonatrach itself become more efficient and competitive, but the firm will also retain the privileges of a state-owned champion. Although the national oil company will have the ability to compete for acreage like any other company, it will have 30 days to back down for an agreement for up to 30% stake if a company makes a declaration of commerciality.

Egypt: Sink or swim

By Ayesha Daya

T HE BOOMING Egyptian gas industry passed another milestone in September when the second train of the ELNG plant came on stream. Start-up was nine months ahead of schedule, although that success hardly seemed surprising for an industry that has experienced such remarkable growth in recent years. Since 1984, proved reserves have soared to 66 trillion cf from 8.4 trillion cf, transforming the country into a net gas exporter. The government says there may be scope to double that figure in the next few years, which would make Egypt one of the richest gas nations in the world. However, fast-rising domestic demand may limit the scope for exports, with the public, will make Algeria a more attractive destination for foreign dollars.

Sonatrach: a new role

Although Khelil was forced to retract plans for the partial privatisation of Sonatrach, the law will weaken Sonatrach’s control over the energy sector. Sonatrach will no longer be automatically the majority equity holder in upstream developments and it will be stripped of its regulatory functions. Private-sector companies will be allowed to conduct exploration independently of Sonatrach, while two independent agencies – a contracting authority and a regulator – will take on Sonatrach’s regulatory role.

Greater operational flexibility should see Sonatrach itself become more efficient and competitive, but the firm will also retain the privileges of a state-owned champion. Although the national oil company will have the ability to compete for acreage like any other company, it will have 30 days to back down for an agreement for up to 30% stake if a company makes a declaration of commerciality.

Egypt: Sink or swim

By Ayesha Daya

T HE BOOMING Egyptian gas industry passed another milestone in September when the second train of the ELNG plant came on stream. Start-up was nine months ahead of schedule, although that success hardly seemed surprising for an industry that has experienced such remarkable growth in recent years. Since 1984, proved reserves have soared to 66 trillion cf from 8.4 trillion cf, transforming the country into a net gas exporter. The government says there may be scope to double that figure in the next few years, which would make Egypt one of the richest gas nations in the world. However, fast-rising domestic demand may limit the scope for exports, with the public, will make Algeria a more attractive destination for foreign dollars.

Sonatrach: a new role

Although Khelil was forced to retract plans for the partial privatisation of Sonatrach, the law will weaken Sonatrach’s control over the energy sector. Sonatrach will no longer be automatically the majority equity holder in upstream developments and it will be stripped of its regulatory functions. Private-sector companies will be allowed to conduct exploration independently of Sonatrach, while two independent agencies – a contracting authority and a regulator – will take on Sonatrach’s regulatory role.

Greater operational flexibility should see Sonatrach itself become more efficient and competitive, but the firm will also retain the privileges of a state-owned champion. Although the national oil company will have the ability to compete for acreage like any other company, it will have 30 days to back down for an agreement for up to 30% stake if a company makes a declaration of commerciality.
A Business Class bed that feels like home.

An internet connection that feels like the office.

An experience that feels like cloud nine.

All for this one moment.

Whether you want to work, surf, sleep or simply relax on board, our long-haul Business Class offers you every comfort imaginable. Access your e-mail and read the very latest news via FlyNet®, a unique portal with broadband internet access. And when you’re feeling sleepy, stretch out on our PrivateBed – the longest in its class with two meters of space to lose yourself in. After all, your trust is our greatest reward.

www.flynet.lufthansa.com
China: Fuel shortages prompt rethink on oil pricing

By Martin Clark

T HE COUNTRY’S insatiable thirst for energy to feed its fast-growing economy is by now almost legendary, yet little has been said of China’s tightly controlled oil market. In recent months, this distorted market structure – which keeps prices artificially low – has resulted in severe gasoline shortages in certain parts of the country, including the important industrial province of Guangdong in the south. Now, record crude prices are putting increasing pressure on the government to lift controls that have shielded consumers from the worst effects of the surge in the oil price.

At a time when the number of motorists in China is soaring, pushing up the demand for energy rapidly, the fuel equation is likely to become an increasingly hot potato for the authorities in Beijing. Under-pressure officials have already conceded that the present oil-pricing system requires a little tweaking. To protect the poor and hold back inflation, governments across Asia, including China, have either subsidised fuel prices by using their own budgets, or worsen, kept them low by twisting retailers’ arms.

Capping system

Although there are no direct subsidies, Beijing sets retail oil prices using a basket of the previous month’s global trading levels in London, New York and Singapore, and then allows only modest movement. The capping system is similar to a subsidy, but instead of draining government funds, it forces refiners to shoulder the effect through lower profits.

The first-half profits of Asia’s largest refiner, state-owned Sinopec, grew at their slowest pace in three years because of the performance of the refining segment, which made a loss of Rmb1.3bn ($160m) in the first half compared with a profit of Rmb3.3bn a year earlier. With crude prices soaring to record levels, Chinese refiners are paying too much for oil because of the large gap in what they must pay for their supplies and what they receive from sales.

With demand for energy rising rapidly, the fuel equation is likely to become an increasingly hot potato for Beijing.

Although the situation has eased, with the government ordering smaller provincial cities to make supply available to bigger urban areas, the problem is not likely to go away. A shake-up of the oil market could well be on the cards although these things tend to take time in China. Already, gasoline and diesel prices have been raised twice in recent months in an attempt to encourage refiners to make more products available and Beijing may look at introducing market-friendly reforms. However, Sinopec’s Tonghai expects the government to continue to control oil prices tightly during the latter part of this year.

Market reform could bring other benefits. By lowering price support, the government may encourage consumers to curb fuel consumption, helping to stem the rapid rise in China’s gasoline line shortages. China is now the world’s second-largest oil importer, after the US.

**South Africa facts**

- **Nominal GDP (2004E):** R196.5bn
- **Population (2004E):** 46.7 million
- **Exports (2004):** gold, diamonds, other metals/minerals, machinery/equipment
- **Imports (2004):** machinery, foodstuffs/equipment, chemicals, petroleum products, scientific instruments
- **Petroleum Minister:** Lindiwe Hendricks (since 2005)
- **NOC:** Sasol (formed in 2002)
- **Oil Reserves:** 15.7m barrels
- **Production (2004):** 40,000 b/d
- **Main oilfields:** Oriris (1997) and Oriva (2000), 15,000 b/d combined output; Sable (2003), 25,000 b/d output
- **Planned deep-water production:** first well, PetroSA/Africa Exploration; second well, BHP Billiton/Occidental
- **Synthetic fuel production:** 155,000 b/d
- **Oil products:** 100m b/d
- **Petroleum products:** Total, Shell, BP
- **Raffinery capacity:** 1.3mn b/d
- **Planned refinery capacity:** 1.7mn b/d
- **Gas consumption:** 15bn m³

---

**Features**

**Monday 26 September 2005**

---

**China: Fuel shortages prompt rethink on oil pricing**

By Martin Clark

T HE COUNTRY’S insatiable thirst for energy to feed its fast-growing economy is by now almost legendary, yet little has been said of China’s tightly controlled oil market. In recent months, this distorted market structure – which keeps prices artificially low – has resulted in severe gasoline shortages in certain parts of the country, including the important industrial province of Guangdong in the south. Now, record crude prices are putting increasing pressure on the government to lift controls that have shielded consumers from the worst effects of the surge in the oil price.

At a time when the number of motorists in China is soaring, pushing up the demand for energy rapidly, the fuel equation is likely to become an increasingly hot potato for the authorities in Beijing. Under-pressure officials have already conceded that the present oil-pricing system requires a little tweaking. To protect the poor and hold back inflation, governments across Asia, including China, have either subsidised fuel prices by using their own budgets, or worsen, kept them low by twisting retailers’ arms.

Capping system

Although there are no direct subsidies, Beijing sets retail oil prices using a basket of the previous month’s global trading levels in London, New York and Singapore, and then allows only modest movement. The capping system is similar to a subsidy, but instead of draining government funds, it forces refiners to shoulder the effect through lower profits.

The first-half profits of Asia’s largest refiner, state-owned Sinopec, grew at their slowest pace in three years because of the performance of the refining segment, which made a loss of Rmb1.3bn ($160m) in the first half compared with a profit of Rmb3.3bn a year earlier. With crude prices soaring to record levels, Chinese refiners are paying too much for oil because of the large gap in what they must pay for their supplies and what they receive from sales.

With demand for energy rising rapidly, the fuel equation is likely to become an increasingly hot potato for Beijing.

Although the situation has eased, with the government ordering smaller provincial cities to make supply available to bigger urban areas, the problem is not likely to go away. A shake-up of the oil market could well be on the cards although these things tend to take time in China. Already, gasoline and diesel prices have been raised twice in recent months in an attempt to encourage refiners to make more products available and Beijing may look at introducing more market-friendly reforms. However, Sinopec’s Tonghai expects the government to continue to control oil prices tightly during the latter part of this year.

Market reform could bring other benefits. By lowering price support, the government may encourage consumers to curb fuel consumption, helping to stem the rapid rise in China’s gasoline line shortages. China is now the world’s second-largest oil importer, after the US.

---

**South Africa facts**

- **Nominal GDP (2004E):** R196.5bn
- **Population (2004E):** 46.7 million
- **Exports (2004):** gold, diamonds, other metals/minerals, machinery/equipment
- **Imports (2004):** machinery, foodstuffs/equipment, chemicals, petroleum products, scientific instruments
- **Petroleum Minister:** Lindiwe Hendricks (since 2005)
- **NOC:** Sasol (formed in 2002)
- **Oil Reserves:** 15.7m barrels
- **Production (2004):** 40,000 b/d
- **Main oilfields:** Oriris (1997) and Oriva (2000), 15,000 b/d combined output; Sable (2003), 25,000 b/d output
- **Planned deep-water production:** first well, PetroSA/Africa Exploration; second well, BHP Billiton/Occidental
- **Synthetic fuel production:** 155,000 b/d
- **Oil products:** 100m b/d
- **Petroleum products:** Total, Shell, BP
- **Raffinery capacity:** 1.3mn b/d
- **Planned refinery capacity:** 1.7mn b/d
- **Gas consumption:** 15bn m³
a great diesel... deserves a great diesel