MEES Middle East Economic Survey

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WTI Passes $90/B, OPEC Basket Tops $81/B, On Geopolitics And Dollar Weakness

WTI front-month crude set a new peak of $90.02/B in electronic trading on 19 October, Brent also reached new highs and the OPEC Basket price exceeded $81/B for the first time. Increases early in the week resulted from the Turkish government's threat to send troops into northern Iraq to attack Kurdish rebel groups based there. The rise came in spite of the fact that any conflict in northern Iraq would have little impact on crude volumes reaching the market. Following a brief lull caused by profit-taking, the price surge resumed on 18 October as the dollar slumped to an all-time low against the euro and a basket of other currencies.

The fact that profit-taking on 17 October – rather than the publication of weekly US petroleum data showing an unexpected increase in inventories for both crude and products – caused prices to settle lower that day indicated how much speculation has joined fundamentals as a factor in setting oil prices. Abu Dhabi's *al-Ittihad* newspaper of 17 October quoted ADNOC Director of Refining and Marketing Sultan al-Muhairi as saying: "The main reasons behind the increase in prices is the shortage in refining capacity and geopolitical tensions… Producers have no influence over them."

Announcement

MEES, as from this issue, has new owners. Publisher Saleh Jallad and Managing Director Nora Shawwa have taken over from the Itayim family, owners and publishers of *MEES* since its launch in 1957. The new owners are committed to maintaining the high standards of *MEES* and upholding its reputation for reliability and objectivity. For a statement from the new publisher, see page 27.

Mr Muhairi was echoing a statement on 16 October from OPEC Secretary General ˈAbd Allah al-Badri expressing the organization's view that the fundamentals would not support $90/B oil. OPEC, he added, was carefully watching oil market developments, and had observed with concern the recent escalation in oil prices. "While the organization does not favor oil prices at this level," he said, "it strongly believes that fundamentals are not supporting current high prices and that the market is very well supplied. There has been no interruption in crude supplies and OECD commercial inventory levels remain above five-year levels. Forward cover, which stands at 53.5 days, is at a comfortable level. The rising oil prices which we are currently witnessing are, however, largely being driven by market speculators. Persistent refinery bottlenecks and seasonal maintenance work, ongoing geopolitical problems in the Middle East and fluctuations in the US dollar, also continue to play a role in pushing oil prices higher. Additional political tensions, seen during recent days, are also pressurizing oil prices upwards."

'Toxic Brew' Of Statistics

Fimat's 11 October *Oil Comment* tackled the question of why oil prices should surge when the fundamentals had not noticeably changed: "A toxic brew of bullish statistical reports – from the IEA, EIA and OPEC – and renewed concerns about the risk of Turkish strikes in northern Iraq have apparently helped change the market's mindset." Barclay Capital's 17 October *Weekly Oil Data Review* says that the forecasts agree that there was a counter-seasonal global stockdraw in 3Q07, but differ on what happens next. Barclays estimates the 4Q07 call on OPEC crude at 1.5mn b/d higher than 3Q07, while the IEA and EIA both put the figure at 1.2mn b/d. OPEC, however, estimates the required increase at just 100,000 b/d. "The market looks fairly clear for the moment to explore the upside as far as it wants to," Barclays concludes. "Indeed if, as we suspect, the supply and demand dynamics prove to be sustainable above $100/B, then it might just be a mercy for all concerned just to get there as soon as possible, rather than prolong the adjustment any further."

The EIA reported increases of 1.8mn barrels in crude oil inventories, 2.8mn barrels in gasoline, and 1.0mn barrels in distillates. The EIA's *Weekly Petroleum Status Report* said that US refinery throughputs averaged nearly 15.1mn b/d in the week ending 12 October, up 12,000 b/d from the previous week's average. Capacity utilization was 87.3%, although gasoline production fell to just below 8.9mn b/d and distillates output was steady at 4.2mn b/d. Crude oil imports averaged 10.4mn b/d, up 539,000 b/d, with gasoline imports at 1.09mn b/d and distillates imports at 302,000 b/d. Total products supplied over the previous four weeks averaged 20.7mn b/d, up 0.2% on the same period last year. Gasoline demand was 0.5% lower at 9.2mn b/d and distillates demand was 0.9% higher at 4.2mn b/d.

Settlement Prices For Benchmark Crudes ($/B)

Date	November WTI	Nov*/Dec Brent	DME Oman	ICE Dubai	OPEC Basket
12 October	83.69	80.55*	76.10	75.56	77.62
15 October	86.13	82.75*	76.66	77.82	78.76
16 October	87.61	84.16*	78.87	79.10	80.82
17 October	87.40	83.13	78.81	78.28	81.09
18 October	89.47	84.60	78.85	79.60	81.14

Futures Vs Fundamentals: CGES Seminar Debates Which Drives Oil Markets

Oil market fundamentals are no longer sufficient to explain the pricing of crude, according to Leo Drollas, Deputy Executive Director and Chief Economist of the Centre for Global Energy Studies (CGES). He told the *Sixth CGES One-Day Seminar* in London on 18 October that, because of the rapid escalation of crude oil futures trading in recent years, the oil market had changed dramatically and would probably never be the same again. "In nominal terms," he said, "prices are now the highest in history. The oil market has recently seen some strange goings-on: inventories have moved upwards, but in tandem with oil prices; prices have risen when the market was in contango, whereas normally backwardation would lead to prices rising in a tight market; and fundamentals have been at odds with the observed behavior of oil prices. The futures market has had a lot to do with this. There has been a breakdown in the normal relationship between inventories and price formation."

As an indication of the current weight of futures trading on the market, Dr Drollas said that on 9 October some 950mn barrels of oil was traded worldwide on futures markets, compared with daily crude oil consumption of about 75mn b/d. There is also a structural bias in the futures market, he said. The majority investors are on the demand side of the balance – hedgers such as airlines, utilities and banks covering swaps. On the supply side are producers, but large oil companies and national oil companies rarely hedge their oil production: "So there is a bias in favour of the demand side. The market clears at a higher price if futures positions outweigh supplies. This provides an upward thrust to the market." Open interest in oil futures on Nymex has been growing at a "ferocious" rate of 18% a year in the last few years. In addition there are non-commercial investors or speculators, the fastest growing group, with open interest positions expanding at 24% a year. The largest group of speculators is pension funds, seeking ever better returns on assets. He said that pension funds held a total $22 trillion of interest in commodity markets last year and had become "the proverbial elephant in the room".

Strong Demand For Transport Fuels Supporting Crude Prices

Recent high prices can still be explained by fundamentals, according to David Long, Director of Oxford Petroleum Research Associates (OPRA). He told the conference that hedgers dominated the futures market, holding around 60% of both long and short positions, while speculators held less than 15% of each. "Speculators usually follow prices trends – prices never follow speculators," he said. "So why are oil prices so high? The reasons are: strong demand for transport fuels, which in turn is a result of a booming global economy; downstream bottlenecks – the refining system is less and less able to meet demand; and also there is OPEC supply rationing." Demand for transport fuels has been growing at 2.4% a year during 2003-07, compared with an annual fall in demand for heating fuels of 5.8%. "Because of this there is an increasing need to upgrade the bottom end of the barrel," he continued. "Yet while crack spreads have risen in the last two years, capacity utilization has fallen. We ought to have been refining more crude, but we haven't. This is down to OPEC limiting the supply of crude."

Mr Long argued that the global peak for crude oil production came in December 2005: "Since then oil prices have risen, but crude supplies have not. The Saudis have targeted the transport fuels market, where consumers are prepared to pay higher prices than those in the heating fuel market. Crude oil prices have followed gasoline prices rather than fuel oil prices." The marginal buyer for crude oil is always the straight run refiner, and the marginal supplier is Saudi Arabia, where the spare capacity is mainly for Arab Heavy grade crude. "If you had a simple refinery," he said, "you wouldn't buy Arab Heavy at the prices the Saudis are currently offering, and they are not prepared to discount. As long as the Saudis are rationing supplies, oil prices will tend to rise." He concluded that OPEC's dilemma is that producers have enjoyed high prices, but now need to increase production to prevent a fall in demand, "and they are not prepared to do that".

Potential Impact Of New OPEC Liquids Streams, MENA Refining Expansion

CGES Senior Energy Analyst Julian Lee told *MEES* that new Saudi Arabian crude capacity due on-stream by end-2007 was all Arab Light and Arab Extra Light grade crude. Additionally, Saudi Arabia and other OPEC producers were bringing on-stream a considerable volume of NGLs, which would not be within the organization's quota system and so would come to the market regardless of production policy. Angola, too, was expanding production capacity, and the addition of the new Saudi and Angolan crude streams would improve the quality of the average OPEC barrel. "The question is how much liquids will actually be produced," he said.

"Besides the crude oil, incremental condensate volumes would also be quite significant if they come on-stream as anticipated. We are talking about perhaps 400,000-500,000 b/d of condensate on-stream in the next 12 months. The process is in place to address the market imbalance – the question is whether it will be quick enough."

In a question-and-answer session Mr Long told the conference that crude oil capacity being brought on-stream worldwide was mainly lighter and sweeter than Arab Heavy; however, the marginal barrel – the one most difficult to sell – would still be Arab Heavy. He told *MEES* that an interesting question for the future would be how the current expansion of Middle East/North African refining capacity would affect OPEC supplies. "MENA refiners are trying to capture added value, and their longer-term strategies may impact how their upstream capacity is used, and how much crude is available to the market. They may begin processing some of the heavier crudes themselves. The MENA refiners' problem will be gauging the growth in demand for transport fuels – if they target just this sector, they may neglect the fuel oil market, where demand is still rising in Asia and Africa."

Rising EPC Costs Heighten Gas Supply Concerns

As Qatar awaits the results of its reserves studies to determine whether to lift the moratorium on new projects, imposed in 2005, it has indicated that the tighter contractors market is raising separate questions about whether to embark on fresh LNG ventures. At the 12th International Gas Summit in Paris on 17 October, both Qatar and Algeria underlined their concerns about rising engineering, procurement and construction (EPC) costs affecting their gas plans, despite the rapid growth in global gas demand, as Simon Martelli reports.

The Qatari government put a moratorium on further LNG development, to give state-owned Qatar Petroleum (QP) time to carry out a geological assessment of the North Field, which contains around 900 trillion scf of gas, and to determine how best to monetize the reserves. But even as Qatar continues to assess its reserves potential, the authorities in Doha are looking at other factors that could restrain future LNG expansion. "We should think twice about embarking on a new LNG project in Qatar, not because of the moratorium, but because of the contracting situation," the chairman of Qatargas Faisal al-Suwaidi told *MEES* on the sidelines of the Paris conference. "We're studying the reserves. But the result of that will not come before 2010 or 2011. What I mean by thinking twice relates to the high prices in the contractors market."

Qatargas has a production capacity of 31mn tons/year, and has another six 7.8mn t/y trains under construction. Once these and RasGas expansions are completed, Qatar's total LNG production capacity will rise to 77mn t/y, according to Mr Suwaidi. The delivery of LNG from the first train of Qatargas 2, which will supply the re-gasification terminal at Milford Haven in Wales, UK, will begin "hopefully by the summer of next year," Mr Suwaidi said.

The entire Qatargas expansion plan is scheduled for completion by 2010, and is expected to require a total investment of close to $30bn, over $10bn of which will go towards financing the terminals. Mr Suwaidi stressed the enormous scale of the operation: "It is a series of mega-projects which involves drilling, offshore installations, pipelines to bring gas onshore, liquefaction, ships and re-gasification terminals. It's a very long value chain... If I look at the total value chain, I think we are in good shape."

Sonatrach: "Risking Environment"

Speaking at the Paris conference, the head of marketing at Algeria's state-owned Sonatrach Shawki Rahal said that gas producers were operating in an increasingly risky environment, and described the rising energy prices and EPC costs some of the main challenges facing the industry. Algeria is Europe's third largest supplier of gas, and is hoping to boost its export capacity by 27 bcm/y, when the Medgaz and Galsi natural gas pipelines are built and the Skikda and Gassi Touil LNG projects are completed.

But disagreement over costs has seriously disrupted progress on Algeria's two new LNG projects. Halliburton's US subsidiary KBR finally signed an EPC contract worth $2.81bn with Sonatrach in July, for the new 4.5mn t/y train at Skikda, to replace those destroyed by an explosion in 2004. But the price negotiations were drawn out over more than two years. Meanwhile, excessive cost overruns and severe delays on the 4mn t/y integrated Gassi Touil project prompted Sonatrach to terminate the contracts of the Spanish operators Repsol-YPF and Gas

Natural last month and announce that it would carry out the project on its own (*MEES*, 10 September). Cost estimates for the project have risen from around €1.6bn ($2.1bn) when the project contract was awarded in 2004 to €5bn now, and production start-up has been pushed back from 2009 to 2012 at the earliest.

Total is another company facing the same kind of challenge. Speaking about the company's experience in Iran, Vice President Total Middle East Ladislas Paszkiewicz said the political situation there was a concern, but was out of its hands. But also of concern was the question of rising costs: "This is a major issue in the LNG business. Costs have something like doubled over the last three years. So huge adjustments are required to adapt to the new cost structure."

IOCs Forge Ahead

The tight contractors market and difficult investment climate are not, however, deterring IOCs from taking on large-scale gas projects, given the ever-growing demand. As StatoilHydro's Vice President for Strategy and Analysis Jan Rune Schopp pointed out, gas represents around 20% of energy demand in OECD countries, and is set to remain the fastest growing fuel supply. The newly merged Norwegian firm is seeking to expand its international portfolio, especially in Algeria and Azerbaijan, where it already has significant production assets. And "we have ambitions to turn a fourth gas corridor in Europe into a reality," Mr Schopp said, referring to the planned Nabucco pipeline bringing gas from the Caspian to Europe through Turkey.

StatoilHydro expects to surpass the 100 bcm/y threshold this year, having brought the Ormen Lange gas field in the North Sea, with a production capacity of 25.6 bcm/y, on-stream in September, and with its 4.1mn t/y Snøhvit LNG project in the Barents Sea due to start up by year-end.

Eni/NOC $28Bn Deal Signed

With similar ambitions in mind, Eni on 16 October signed a wide-ranging agreement with Libya's state-run NOC extend its exploration and production contracts by 25 years and hike its gas output. Under the agreement, the Italian firm will expand the 8 bcm/y Greenstream natural gas pipeline to Sicily by 3 bcm/y and construct a new 5 bcm/y LNG plant at the Melittah gas hub. The two parties also resolved to maximize the recovery of their producing oil fields through enhanced oil recovery techniques such as CO_2 injection, and to implement a new drilling campaign at nearby fields. Eni has a net Libyan output of around 250,000 b/d of oil equivalent, and the company's Senior Vice President for International Activities Camillo Gloria told the conference that the new deal would clearly contribute to the security of gas supply in the Mediterranean.

Libya has enormous gas potential, which it has recently started to exploit following years of neglect relating partly to the country's 20-odd years of economic and political isolation. The only major gas project carried out since ExxonMobil built the Marsa El-Brega LNG plant in the 1960s, was the Eni-operated West Libya Gas Project (WLGP), inaugurated in 2004, which also saw the construction of Greenstream (*MEES*, 9 July). Reflecting the extent to which foreign firms value such gas opportunities, as well as the soaring EPC costs now involved in projects of this scale, the overall investment required for Eni's agreed work program is put at $28bn over 10 years.

MEES Agenda

Corruption Continues To Hamper Development In Most MENA Countries

Governments throughout the Middle East say they are committed to the eradication of corruption. Yet a recently published report by Transparency International shows that many states in the region have made little or no progress in recent years in rooting out corruption and increasing public transparency.

Entrenched corruption is a roadblock to reform in the Middle East and North Africa (MENA) region. This was the conclusion of the team of Arab experts who compiled a recent human development report on behalf of the United Nations Development Programme (UNDP). The report said political and economic corruption was so commonplace in the region that surveys conducted in five countries showed that 90 per cent of people believed that it pervaded their societies. "Aspects of corruption are also clearly visible to citizens, particularly those in the business sector, who complain that the people in power monopolize the main areas of the economy, either directly or as 'partners' of successful businessmen," the report added.

Not a day passes in the Middle East without some aspect of corruption, or the fight against it, being covered in the media. In the latest edition of *al-Ahram Weekly*, for example, former Lebanese minister and a member of the board of the Arab Anti-Corruption Organization Ghassan Salameh spoke of the "predominance of corruption, the culture of corruption" in the region. The main story on the front page of Kuwait's daily *al-Qabas* on 15 October was headlined: "The Time Has Come for Government and Parliament to Tackle Corruption Together". Amid suggestions of widespread corruption in Kuwait, at the end of September a former defense ministry official was sentenced to life imprisonment and fined some $72mn for corruption and racketeering. Bahrain has launched a campaign to stamp out the problem with a series of arrests of business executives. "The Bahrain government is pressing ahead with reforms," Crown Prince Shaikh Salman bin Hamad Al Khalifa said. "We will not spare any minister involved in corruption."

But the latest report from the Berlin-based global civil society organization formed to combat corruption, Transparency International, indicates that the battle to wipe out corruption in MENA countries will be long and difficult. The 2007 Corruption Perceptions Index looks, according to the organization, "at perceptions of public sector corruption in 180 countries and territories… and is a composite index that draws on 14 expert opinion surveys. It scores countries on a scale from zero to 10, with zero indicating high levels of perceived corruption and 10 indicating low levels."

Poor MENA Performance

Topping the list, with 9.4 points are Denmark, Finland and New Zealand. At the bottom are Myanamar and Somalia with 1.4. As the Table below shows, the performance of 20 MENA countries surveyed is poor. Of the Arab League states (plus Iran), only Qatar scored over five, and while the UAE and Bahrain were rated with fives, the latter was cited – along with Jordan and Oman – as being in a group of countries "with a significant worsening in perceived levels of corruption in 2007." Kuwait dropped to 60th place in the table of 180 countries from 46th last year. Commenting on the dismal results for Iraq and Somalia, Huguette Labelle, Chair of Transparency International, said "countries torn apart by conflict pay a huge toll in their capacity to govern. With public institutions crippled or non-existent, mercenary individuals help themselves to public resources and corruption thrives."

As for the performance as a whole of the Middle Eastern states surveyed, the Transparency International report says "the year's results make clear that corruption and lack of transparency still constitute a very important challenge for the development of the region. For many countries in the Middle East, increased debate about corruption reflects slow but steady progress on legal reform. Among the Arab countries that ratified the UN Convention Against Corruption (UNCAC) are Jordan, Kuwait, Libya, Qatar, UAE and Yemen. Jordan, in particular, has emerged as a leader in spearheading efforts to promote the UNCAC, and is the only Arab country volunteering for an UNCAC pilot review. Others in the region are lagging behind in implementation."

Need For Action

Commitments to tackle corruption are one thing. Taking action is another. According to Ms Labelle, "low-scoring countries need to take these results seriously and act now to strengthen accountability in public life." While the pervading mood of cynicism towards rulers and governments in the Middle East and North Africa means that there is little public expectation of radical change in the near future, there are increasing signs that the pressure on the authorities is growing. In Kuwait, for example, the local chapter of the Global Organization of Parliamentarians Against Corruption (GOPAC), issued a statement when the latest Transparency International report was published. Commenting on Kuwait's poor rating, it called for "immediate practical and effective measures to eliminate corruption at the administrative and political levels. Corruption [in Kuwait] threatens the stability of society, fair distribution of resources and human rights, and obstructs economic and social development." Exactly the same could be said for most countries in the MENA region.

2007 Corruption Perceptions Index, Middle East

Country Ranks	Regional Rank	Country	CPI Score 2007
30	1	Israel	6.1
32	2	Qatar	6.0
34	3	UAE	5.7
46	4	Bahrain	5.0
53	5	Oman	4.7
53	5	Jordan	4.7
60	7	Kuwait	4.3
61	8	Tunisia	4.2
79	8	Saudi Arabia	3.4
99	10	Algeria	3.0
99	10	Lebanon	3.0
105	12	Egypt	2.9
123	13	Mauritania	2.6
131	14	Yemen	2.5
131	14	Libya	2.5
131	14	Iran	2.5
138	17	Syria	2.4
172	18	Sudan	1.8
178	19	Iraq	1.5
179	20	Somalia	1.4

ENERGY FUNDAMENTALS

OPEC September Oil Output Increased To 30.7Mn B/D As Iraqi Output Rebounds

Total OPEC oil production increased by 170,000 b/d in September to 30.7mn b/d, according to *MEES* estimates. Iraq increased production by 180,000 b/d, while Saudi Arabia and Angola each added 40,000 b/d to output. Deliveries declined slightly in Iran and Nigeria, and 40,000 b/d of UAE output was deferred because of a production shut-in to repair a gas leak. Iranian exports were estimated at 2.37mn b/d for September, with a further 1.45mn b/d of crude being processed in Iranian refineries. OPEC-10 output (OPEC excluding Iraq and Angola) decreased by 50,000 b/d to 26.86mn b/d, which was 1.06mn b/d above the 25.8mn b/d target agreed by the organization in late 2006 (*MEES*, 18 December 2006).

The sharp rise in Iraqi output dominated the September production data, and was attributable to a 160,000 b/d increase in output from northern fields including Kirkuk, and a 20,000 b/d rise in output from southern fields. Iraq's northern fields produced 430,000 b/d in September, the highest since October 2004, because of the resumption of deliveries to the production gathering centre at Baiji and of exports through the Iraq-Turkey pipeline, after pipeline repairs and improved security measures. Saudi Arabia again increased output as part of an anticipated step-up in output ahead of a recently agreed 500,000 b/d addition to OPEC production targets beginning 1 November (*MEES*, 17 September). Saudi Arabia has announced increased deliveries to Asia beginning 1 November, which are expected to add 350,000 b/d to Saudi volumes. While other producers are also likely to raise exports, UAE production is expected to be down 600,000 b/d in November because of scheduled maintenance.

OPEC Crude Oil Production January – September 2007
(*MEES* Estimates – '000 B/D)

	2007								
	Sep	**Aug**	**Jul**	**Jun**	**May**	**Apr**	**Mar**	**Feb**	**Jan**
Algeria	1,380	1,380	1,370	1,370	1,360	1,340	1,330	1,320	1,340
Angola	1,710	1,670	1,650	1,620	1,610	1,600	1,600	1,550	1,500
Indonesia	840	840	840	840	850	840	850	860	860
Iran	3,820	3,850	3,920	3,900	3,810	4,170	4,430	3,860	3,900
Iraq	2,130	1,950	2,100	1,950	2,000	2,040	2,000	1,900	1,680
Kuwait*	2,450	2,450	2,420	2,420	2,450	2,420	2,400	2,420	2,420
Libya	1,720	1,720	1,700	1,700	1,720	1,690	1,690	1,690	1,700
Nigeria	2,180	2,200	2,170	2,100	2,050	2,200	2,100	2,200	2,200
Qatar	820	820	820	800	800	800	790	790	800
S Arabia*	8,720	8,680	8,600	8,600	8,560	8,500	8,500	8,500	8,700
UAE	2,510	2,550	2,550	2,550	2,550	2,520	2,520	2,500	2,500
Venezuela	2,420	2,420	2,400	2,420	2,400	2,400	2,420	2,450	2,450
Total	30,700	30,530	30,540	30,270	30,160	30,520	30,630	30,040	30,050
OPEC 10**	26,860	26,910	26,790	26,700	26,550	26,880	27,030	26,590	26,870

* Includes 50% share of Neutral Zone output, which averaged 530,000 b/d in September, unchanged from August.
** Excludes Iraq and Angola.

OPEC Holds Oil Outlook Steady, Sees Weather And Economy As 'Big Wild Cards'

OPEC has made only slight adjustments to its oil demand outlook, but expects the price strength to continue in the short term despite an easing of the supply/demand balance. The latest *Monthly Oil Market Report*, published on 15 October, observes that oil prices have exhibited unusual strength and volatility even beyond the end of the driving season, pushing to record levels despite OPEC's decision to increase production by 500,000 b/d beginning 1 November. "The continued price strength can be explained in large part," the report says, "by fears of potential damage to oil installations in the Gulf of Mexico, as storm activity picked up during the peak hurricane month of September; a string of refinery outages particularly in the US market; and increasing geopolitical concerns in various regions. In addition, speculators, encouraged by a weakening dollar, rushed back into the crude oil futures market, boosting the premium and the potential for greater volatility."

Despite the market volatility, OPEC sees fundamentals easing. Downward revisions to demand forecasts, especially for the US, combined with rising OPEC production "have eased the perception of market tightness." At the same time, the start of autumn maintenance by refiners is expected to remove as much as 2mn b/d of crude distillation capacity from the market, which should lead to lower demand for crude. "However," the report warns, "uncertainties remain large. Apart from geopolitics, the big wild cards remain winter weather and the extent of the slowdown in the US and global economy in the coming months. Equally important is the performance of non-OPEC supply, which experienced continuous downward revisions this year."

Fourth quarter oil demand is expected to show typical high seasonal consumption levels, due to the expected normal winter weather in the northern hemisphere. World oil demand in 4Q07 is expected to be 1.8mn b/d higher than in 4Q06 at 87.07mn b/d, with overall demand growth for 2007 at 1.28mn b/d or 1.5%. Global oil demand growth for 2008 is expected to be 1.34mn b/d, with the transport and industrial fuel sectors growing the most. Non-OECD countries are expected to account for 1.1mn b/d or 79% of total oil demand growth in 2008. Non-OPEC supply is expected to increase by 810,000 b/d in 2007 and 1.07mn b/d in 2008. The report estimates total OPEC crude oil production at 30.61mn b/d in September, an increase of 245,300 b/d on August, including an Iraqi output rise of 166,300 b/d to an average 2.18mn b/d. Preliminary figures were said to indicate that world oil supply averaged 85.30mn b/d in September, a significant increase of 1.13mn b/d from August.

OPEC's Summarized Oil Supply/Demand Balance For 2007
(Mn B/D)

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	84.47	85.77	84.57	85.57	87.07	85.75
Non-OPEC Supply	49.48	50.33	49.93	49.85	51.04	50.29
OPEC NGLs and Non-Conventionals	4.06	4.21	4.35	4.39	4.60	4.39
(b) Total Supply Excluding OPEC Crude	53.53	54.54	54.28	54.23	55.64	54.68
Difference (a-b)	30.93	31.23	30.29	31.34	31.43	31.07
OPEC Crude Oil Production[1]	30.89	29.97	30.11	30.48		
Balance	-0.04	-1.25	-0.18	-0.85		

1. Selected secondary sources.
Tables treat Angola as OPEC member retrospectively. Totals may not add due to independent rounding.

OPEC's Summarized Oil Supply/Demand Balance For 2008
(Mn B/D)

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	85.75	87.33	85.60	86.68	88.73	87.09
Non-OPEC Supply	50.29	51.45	50.94	50.94	52.12	51.36
OPEC NGLs and Non-Conventionals	4.39	4.70	4.82	4.94	5.14	4.90
(b) Total Supply Excluding OPEC Crude	54.68	56.16	55.76	55.88	57.26	56.27
Difference (a-b)	31.07	31.17	29.84	30.80	31.47	30.82

1. Selected secondary sources.
Totals may not add due to independent rounding.

OPEC Annual Report 2006 Attributes Oil Market Volatility To A Combination Of Factors

The *OPEC Annual Report 2006*, published on 10 October, attributes oil market volatility in 2004-06 to a combination of factors. In the report's foreword, OPEC Secretary-General ʿAbd Allah al-Badri observed: "These have been identified as unexpectedly large growth in world energy demand, a relatively short-lived decrease in the growth rate of non-OPEC supply, serious downstream bottlenecks in some major consuming countries, natural disasters and other unseasonal weather patterns, geopolitical developments and enhanced levels of speculation, especially from non-commercials."

The annual average OPEC basket crude oil price in 2006 was $61.08/B, which was 20% higher than for 2005. Mr Badri said: "Despite monetary tightening and higher oil and commodity prices well into the third quarter, as well as geopolitical tensions, the world economy was successful in achieving a rate of growth of 5.4%, compared with 4.8% in 2005. This was well above historical averages and provided an appropriate response to those who claimed that oil prices were affecting sound world economic growth in 2006."

The report estimated OPEC crude oil production at almost 30.9mn b/d in 2006, which was some 200,000 b/d lower than in 2005. The decline was attributable to the organization's 1.2mn b/d production cut from 1 November 2006, which was agreed "in order to balance the market". Non-OPEC supply averaged 49.5mn b/d in 2006, a 460,000 b/d increase on 2005. Although high oil prices contributed to a slowing of demand growth in 2006, particularly in developed countries, OPEC maintained that there was a positive economic outlook for all regions. "China experienced robust economic growth," the report said, "enjoying an annual growth rate of 10.7%. Overall, GDP growth for developing countries in 2006 has been estimated at a healthy 6.5%. Due to a strong decline in the OECD, world oil demand growth in 2006 was revised down by 500,000 b/d from an initial forecast of 1.5mn b/d. Indeed, non-OPEC countries accounted for all the world oil demand growth during the year."

OPEC Crude Oil Production: 2001-06
(Mn B/D)

	2001	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006
Algeria	827	864	1,134	1,228	1,349	1,376	1,368	1,361	1,359	1,366
Angola	734	893	900	1,019	1,241	1,401	1,328	1,410	1,409	1,387
Indonesia	1,213	1,120	1,027	968	942	922	914	882	862	895
Iran	3,672	3,416	3,751	3,920	3,924	3,849	3,800	3,910	3,821	3,845
Iraq	2,376	2,000	1,321	2,015	1,830	1,711	2,001	2,061	1,952	1,932
Kuwait	2,021	1,885	2,165	2,344	2,504	2,532	2,513	2,506	2,465	2,504
Libya	1,361	1,314	1,422	1,537	1,642	1,680	1,699	1,719	1,709	1,702
Nigeria	2,098	1,969	2,136	2,322	2,412	2,257	2,213	2,220	2,244	2,233
Qatar	685	649	734	771	792	816	820	834	816	822
Saudi Arabia	7,939	7,535	8,696	8,957	9,390	9,416	9,114	9,135	8,787	9,111
Venezuela	2,891	2,617	2,312	2,582	2,633	2,595	2,574	2,504	2,485	2,539
Total OPEC	**27,968**	**26,249**	**27,844**	**30,023**	**31,105**	**31,084**	**30,880**	**31,115**	**30,432**	**30,877**

Source: *OPEC Annual Report 2006.*

NEWS BY COUNTRY

ALGERIA

Egypt Steel Firm Plans $750Mn Plant In Algeria

Egypt's Ezz Steel and Algeria's Ministry for Industry and Investment on 15 October signed a preliminary agreement for the construction of a steel factory worth $750mn located in Jijel on the Mediterranean coast, 460km east of Algiers. The plant is to produce 1.5mn tons/year of steel rebars used in the construction industry and may later be expanded with a further $500mn investment. Steel from the plant will be used by Algeria's domestic market and some will be exported.

BAHRAIN

PTTEP And Oxy Win Blocks Offshore Bahrain

Thailand's PTT Exploration and Production (PTTEP), in a statement released to the Thai stock exchange on 11 October, said it had bid successfully for Block 2 offshore Bahrain. The 2,228 sq km block, to the north of the island, is one of four offered in a licensing round in March (*MEES*, 19 March). PTTEP said it had been informed of its success by Bahrain's National Oil and Gas Authority (NOGA). Two of the other three blocks on offer (1, 3 and 4) have been awarded to Occidental Petroleum. One block remains open. The third bidder, Zarubezhneft, was unsuccessful (*MEES*, 24 September). A total of 18 firms expressed interest in the offshore blocks on offer, but only three firms bid. The PTTEP and Occidental awards await approval by parliament and the Shura council – a process that should be completed by the end of 2007.

CASPIAN

Legal Status Of Caspian Sea Remains Unresolved As Summit Focuses On Security/Nuclear Issues

As expected, the summit of Caspian Sea littoral state leaders in Tehran on 16 October made little headway in resolving the question of legal status for the Caspian Sea. Instead, host Iran and leading member Russia focused on security issues aimed at excluding foreign – particularly US – forces from the region and endorsing the right of every Caspian state to develop peaceful nuclear power. The summit, attended by the presidents of Russia, Iran, Kazakhstan, Azerbaijan and Turkmenistan, resulted in a 25-point declaration that disguised the differences between the five states. Russia and Iran succeeded in asserting their opposition to Western influence in the region, particularly on the issue of trans-Caspian oil and gas pipelines that would allow Kazakhstan and Turkmenistan to export hydrocarbons to Western markets free of Russian or Iranian participation.

Iranian President Mahmoud Ahmadinejad reasserted Tehran's long-held position that the Caspian's hydrocarbon resources be shared by all littoral states, a situation that would allow it to claim 20% of the sea as opposed to the 13% Iran would be entitled to if the southern seabed were divided in accordance with each country's respective shoreline, as Russia, Kazakhstan and Azerbaijan have done. "Considering the great energy reserves in the area and the coastal countries' facilities for transferring oil and gas, collective cooperation for exploration and transferal is the shortest and most economical way to use the energy, which will be in the best interest of all the littoral states," President Ahmadinejad said. Iran's position complements Russia's determination to forestall any attempt by Kazakhstan, Turkmenistan and Azerbaijan to move ahead on Western proposals to build pipelines across the Caspian. Moscow continues to argue that subsea pipelines run the risk of harming the environment. Should this position prevail, Kazakhstan and Turkmenistan could become entirely dependent upon Russia or Iran for moving the bulk of future production to export markets.

Two key points of the declaration addressed Iran's standoff with the UN Security Council over Tehran's refusal to halt its nuclear research program and Iranian leaders' concern that the US might attempt to use Azerbaijan as a staging point for an attack against Iranian targets. "The parties reiterate that they will not let any country use their soil for a military attack against other littoral states," the declaration said, while on the development of nuclear power it said: "The parties believe that the Non-Proliferation Treaty is one of the most important foundations of international peace and stability. The parties confirm that all signatories to the NPT have the right to generate and utilize nuclear energy for peaceful purposes within the framework of the NPT and the International Atomic Energy Agency statute."

Kazakh Court Lowers Tengiz Environmental Fine To $306Mn

A $609mn fine imposed on Chevron-led Tengizchevroil (TCO) by Kazakhstan's Ministry of Environmental Protection for the company's slow progress in dealing with sulfur stockpiled at the worksite was reduced to $309mn by the Aktau Economic Court on 15 October. Chevron, which holds 50% of TCO, and its partners, ExxonMobil (25%), KazMunaiGaz (20%) and LukArco (5%), were fined in July for accumulating sulfur, the by-product of processing mercaptans from Tengiz crude oil and gas. Chevron disputed the court's ruling and will appeal to a higher court. Meanwhile, the Kazakh government continues to send contradictory signals about the environmental dispute at Tengiz. Kazakh Prime Minister Karim Masimov on 12 October said the government and Chevron had found a way "to solve the sulfur problem," and on 21 September he told visiting Chevron CEO David O'Reilly that the government was satisfied with the work carried out at the Tengiz and Korolev oilfields. Mr O'Reilly's visit to Kazakhstan was prompted by a call from a Kazakh member of parliament for operations at Tengiz to be shut down because of environmental violations (*MEES*, 8 October, 1 October). Tengiz is the largest oil producing field in Kazakhstan, with output at 300,000 b/d, expanding during 2008 to exceed 500,000 b/d.

KMG E&P To Purchase 50% Of Karazhanbas Oilfield

KazMunaiGaz Exploration and Production (KMG E&P), the London-listed upstream arm of Kazakhstan's state-owned KazMunaiGaz, is to purchase 50% of CITIC Canada Energy, 100% owner of CITIC Canada Petroleum, from Hong Kong's CITIC Group for $930mn. CITIC Group completed its purchase of Canada's Nations Energy in January for $1.9bn and agreed with Kazakhstan to give KazMunaiGaz an option to purchase 50% of CITIC's acquisition (*MEES*, 14 May, 1/8 January). CITIC Canada Petroleum, previously Nations Energy, operates the Karazhanbas oil field in western Kazakhstan where proven reserves are put at 363.8mn barrels. The field produces 42,700 b/d of heavy crude – 2.3mn tons in 2006. KMG E&P on 3 October said the $930mn deal was comprised of $875.5mn for purchase costs and $54.5mn in financing costs. KMG E&P said $150mn of the purchase would come from its own funds and that CITIC would provide a loan for the balance.

Tethys Plans Gas Production From Kyzyloi Field In November

Canada's Tethys Petroleum expects gas production at its Kyzyloi gasfield in Kazakhstan to begin at a rate of up to 625,000 cmd starting by November. Tethys operates three licenses west of the Aral Sea, the Kyzyloi, Akkulka and Kul-Bas. Gas production will be shipped through a 55km pipeline to the Bukhara-Ural trunk line, which runs between Uzbekistan and Russia. Tethys expects production to reach 2mn cmd within two years. The block has estimated gas reserves of 1.42 bcm. The company on 16 October announced a gas discovery at the Akkulka AKK-11 well. It was drilled to a depth of some 660ms and tested dry gas at a stabilized rate of 7.9mn cfd. The well is undergoing further testing prior to being suspended for future production. Tethys said the well is the first in a 10-well shallow exploration program that is scheduled to be complete by June 2008 (*MEES*, 17 September, 20 August).

Other recent developments in the Caspian and Black Sea regions include:

- Russian state-owned oil transport company Transneft is now headed by Nikolai Tokarev, who has replaced Semyon Vainshtok as president of the company. Mr Tokarev, formerly head of state-owned oil company Zarubezhneft, is reported to be a close political ally of Russian President Vladimir Putin. Mr Tokarev was vice-president of Transneft in 1999 and moved to head Zarubezhneft in 2000.

- Turkey is strengthening security along its 1,000km stretch of the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, which carries Azeri Light crude to the Mediterranean coast. Kurdish rebels have on several occasions bombed the natural gas pipeline running between the Iranian border and Turkey's eastern gas hub of Erzurum and the stepped-up security is anticipation of further rebel activity. BTC operator BP said shipments through the pipeline during November were expected to average more than 700,000 b/d.

- A South Korean consortium led by Korean National Oil Company (KNOC) has finalized its purchase of 20% of Azerbaijan's offshore Inam Block from Shell (*MEES*, 3 September). The block, where drilling has proved problematic in the past due to high geological pressures, is estimated to contain 2bn barrels of crude oil reserves. A second well, INX-2 is planned for November using the Istiglal rig. BP is operator of the Inam production-sharing agreement (PSA) with 25%, Azerbaijan's state-owned oil company holds 50%, Shell 5% and the KNOC-led group 20%.

- Socar, Azerbaijan's state-owned oil company, said on 15 October it planned to open the crude oil and products export terminal at Georgia's Black Sea port of Kulevi in November, shipping 1mn tons through it before end-2007. The terminal has a capacity to handle 10mn tons/year (200,000 b/d) and Socar has said it would like to increase this to 20mn t/y (400,000 b/d) and build a refinery at the site (*MEES*, 28 May).

- The UK's Caspian Holding on 15 October reported that nine wells were operating in its onshore Zhengeldy oilfield in western Kazakhstan during the third quarter of 2007 – wells 102, 105, 106, 107, 111, 112, 118, 119 and 121 – and produced a total of 9,700 barrels. The company holds 100% of the Zhengeldy oilfield and said it expected to resume exports during the fourth quarter.

- Houston-based Frontera Resources on 11 October said it spudded the Taribani 45 (T-45) well in the Taribani oilfield in Block XII in Georgia. The well is scheduled to reach a target depth of 2,400ms within 50 days. Work at the Dino-2 well, where re-completion work began this summer, was finished in September. The Taribani oilfield covers 80 sq km with oil-bearing reservoirs located between 2,200-3,500ms.

- Canada's Arawak Energy on 16 October said it had encountered oil-bearing horizons at Wells 60 and 62 in Besbolek field. The company said it had drilled 27 development, appraisal and exploration wells in the Besbolek and Akzhar oilfields this year, 21 of which have commercial production capability.

- Turkmenistan intends to build a new gas processing plant at the Yashyldepe gasfield, the Turkmenistan.ru website reported on 11 October. The plant is to have a capacity of 50,000 tons/year of LPG, 200 tons of condensate and 1 bcm/y of gas.

- Wintershall, a subsidiary of Germany's BASF, has failed to reach agreement with Azerbaijan's Socar over the development of the offshore Ashrafi Block. Wintershall had wanted the Karabakh Block as well, but Socar intends to develop that block on its own. Ashrafi is one of several blocks, including Karabakh and Dan Ulduzu, that were abandoned when drilling failed to show promising results (*MEES*, 23 July 2001, 26 April 1999, 25 January 1999).

IRAN

Nozari Appoints Kordan As Deputy Minister Of Petroleum

Iran's Acting Minister of Petroleum Gholamhossein Nozari has appointed Ali Kordan as his deputy, the *Fars News Agency* reported on 11 October. While senior staff in the ministry and the heads of subsidiary companies are already known as deputy ministers, this role is a superior position which has been newly created. Mr Kordan has no experience of the oil industry, but has a long track record in government positions, most recently as Deputy Minister of Labor. His appointment is seen as the latest move by President Mahmoud Ahmadinejad to strengthen his control over Iran's key ministry. This was initiated by Mr Ahmadinejad's appointment of Mr Nozari, managing director of the National Iranian Oil Company (NIOC), as caretaker minister in place of Kazem Vaziri-Hamaneh (*MEES*, 27 August). Mr Nozari also appointed Ali Mohamaddi, formerly Deputy Minister of Petroleum for Coordinating Affairs, as a senior advisor. Mr Nozari is shortly expected to be confirmed as Mr Ahmadinejad's candidate for the ministerial role (*MEES*, 8 October).

POGC Sets Deadline For Total And Shell Upstream/LNG Investment Decisions
Pars Oil and Gas Company (POGC) Managing Director Ali Vakili has set Total and Shell a June 2008 deadline to make final investment decisions (FIDs) on their proposed upstream/LNG export projects utilizing gas from South Pars field. Total is pursuing the South Pars Phase 11 field development linked to the Pars LNG export project, while Shell is negotiating for South Pars Phases 13-14/Persian LNG. The Ministry of Petroleum's *PIN* news service quoted Mr Vakili as saying that "the deadline will not be extended and scores of companies are on standby", having voiced their willingness to take on the projects. Talks between Iran and Total are stalled because of rising cost estimates, and the National Iranian Oil Company (NIOC) says it is prepared to develop the project without Total. Shell says it is at least a year away from FID. Although deadlines seem to pass regularly in Iranian contract negotiations, NIOC appears to be reconsidering its LNG options, having signed a study agreement with Edison for an LNG plant linked to an undesignated South Pars development phase (*MEES*, 1 October).

Ministry Of Petroleum Issues Temporary Permit For Gasoline Imports
Iran's Ministry of Petroleum on 15 October issued a temporary permit to the National Iranian Oil Refining and Distribution Company (NIORDC) for the import of gasoline. NIORDC Managing Director Mohammad Nematzadeh said Acting Minister of Petroleum Gholamhossein Nozari approved the permit when the company's $2.5bn gasoline imports budget ran out. He added that the temporary permit would enable Iran to import 14-15mn liters day (88,060-94,350 b/d) of gasoline, using foreign currency provided by the National Iranian Oil Company (NIOC). The Iranian cabinet plans to request a further $1.5bn for gasoline imports (*MEES*, 1 October). Gasoline rationing has reduced Iran's gasoline import requirement by more than 200,000 b/d (*MEES*, 2 July).

FAFT Concerned About Iran's Deficiencies In Combating Money Laundering
The Financial Action Task Force (FATF) has warned that the deficiencies in Iran's system of combating money laundering and terror-financing pose risks to the international financial system. The Paris-based inter-governmental body, set up in 1989 by the group of seven leading industrial nations and now made up of 34 members, said that it was concerned that Iran's "lack of a comprehensive anti-money laundering/combating the financing of terrorism [AML/CFT] regime represents a significant vulnerability within the international financial system." FAFT called on Iran to address the shortcomings urgently and said that "FAFT members are advising their financial institutions to take the risk arising from the deficiencies in Iran's AML/CFT regime into account for enhanced due diligence." US Treasury Secretary Henry Paulson said he was pleased with FAFT's statement, but a German banking source observed that the move would have little impact in practice because most European banks had already either discontinued business with Iranian counterparts or were dealing with them only on a very restricted basis.

Fattah Sees 5.3GW Of New Power Generation Capacity On-Line This Year
Iran's Minister of Energy Parviz Fattah estimates that 2.7gw of new electric power generating capacity has been brought on-line in the current Iranian year (21 March 2007 – 20 March 2008), according to the *Iran Daily* newspaper of 11 October. He said that 600mw of the new capacity was from hydropower schemes, while the rest was combined cycle capacity. A further 2.6gw of thermal and hydroelectric capacity was expected to be brought on-line this year. *Mehr News Agency* reported on 15 October that a 37.5mw generating unit was brought on-line on Kish Island, taking capacity at the Kish Power Plant to 120mw. Iran's power generating capacity is currently around 45gw, while domestic power consumption is expanding at 10% a year.

JORDAN

JPMC And Mitsubishi Sign MOU For $300Mn Fertilizer Project

Jordan Phosphate Mines Company (JPMC) and Japan's Mitsubishi Corporation in Tokyo last week signed a memorandum of understanding (MOU) to build a $300mn fertilizer plant near the main Ishidiya phosphate mines in southern Jordan. It will have the capacity to produce 10,000 tons/day of phosphoric acid and 3,000 t/d of sulfuric acid from the Ishidiya mines which have an estimated 1.3bn tons of phosphate rock deposits, of which at least 800mn tons are proven. Construction of the fertilizer project, due for completion by 2010, will help JPMC to exploit its three major mines in Hassa, al-'Abaid and Ishidiya. JPMC has mining rights for over 1bn tons of phosphate rock in the kingdom.

In January JPMC signed an MOU with the Indian Farmers Fertilizer Cooperative (IFFCO) to build a phosphoric acid plant for export at the Ishidiya mines at a cost of $350mn (*MEES*, 19 February), and more recently JPMC signed another MOU with Venture Capital Bank of Bahrain, an Islamic investment bank, and another Jordanian company, Jordan Arab Fertilizers and Chemical Company (JAFCCO) to set up a $65mn fertilizer company at the White Valley in southern Jordan (*MEES*, 6 August, 28 May). JPMC in 2006 posted a 55% increase in net profits (after taxes and dividends) to JD16.1mn ($22.8mn) from JD10.4mn ($14.7mn) in 2005 and sales revenue rose to JD297mn ($421mn) in 2006 from JD287mn ($407mn) in 2005 (*MEES*, 19 March).

KUWAIT

Rushaid Appointed Chairman Of KOC, Zanki Moves To KNPC

A meeting of the Kuwait Petroleum Company (KPC) board of directors on 10 October decided to swap the roles of the chairmen and managing directors of Kuwait Oil Company (KOC) and Kuwait National Petroleum Company (KNPC). As a result, Sami al-Rushaid takes over as Chairman and Managing Director of KOC, and Faruq al-Zanki is the new Chairman and Managing Director of KNPC. Among other changes, the former head of Kuwait Foreign Petroleum Export Company (Kufpec), Badr al-Khashti, is now Chairman and Managing Director of Kuwait Gulf Oil Company (KGOC). But Hashim al-Rifaʾi, who was made head of Oil Development Company (ODC) in May 2006 (*MEES*, 5 June 2006), remains in his post. ODC's role is to oversee operations of the consortium of international oil companies chosen to carry out Project Kuwait. Announcing the appointments, acting Oil Minister and KPC Chairman Muhammad al-ʾUlaim, said the moves were in line with the corporation's intention to overhaul the oil sector and develop it by means of introducing new blood into the senior ranks of KPC subsidiaries. The following is the list of chairmen and managing directors of KPC subsidiaries, published by *Kuwait News Agency (KUNA)*:

Kuwait Oil Company (KOC): Sami al-Rushaid
Kuwait National Petroleum Company (KNPC): Faruq al-Zanki
Kuwait Oil Tankers Company (KOTC): Nabil Bursali
Petroleum Industries Company (PIC): Maha Husain
Kuwait Foreign Petroleum Exploration Company (Kufpec): Fahd al-ʾAjami
Kuwait Petroleum International Company: Husain Ismaʾil
Kuwait Gulf Oil Company (KGOC): Badr al-Khashti
Oil Development Company (ODC): Hashim al-Rifaʾi

In addition to the above, five new managing directors for the KPC's board were named:

Planning: Jamal al-Nuri
Marketing: ʾAbd al-Latif al-Huti
Training: Shaza al-Sabah
Parliamentary, Governmental and Media Relations: Talal al-Sabah
Financial and Administrative Affairs: ʾAli al-Hajri

The former head of KOTC, ʾAbd Allah al-Rumi, was appointed advisor to the CEO of KPC.

WorleyParsons Wins KOC Program Management Services Contract

Kuwait Oil Company (KOC) on 16 October awarded WorleyParsons a five-year $300m contract for the supply of Program Management services. WorleyParsons will provide project management, coordination, planning, design, engineering, construction management, contracting, procurement, project controls and other services for construction of new facilities, upgrading of existing facilities, and transfer of technology. Commenting on the contract award, KOC's Deputy Chairman and Deputy Managing Director (Technical Services), Fahd al-ʹAjmi said the deal was "essential to support KOC's comprehensive on-going program of major projects and is considered critical to the day-to-day business and future development of the company's facilities. WorleyParsons is well qualified to perform the required services, and has previously demonstrated their added value from 1993 to 2003 when they executed the same services to KOC. We have many great challenges to reach the 2020 strategy of 4mn b/d output capacity."

LIBYA

Libya Wins Two-Year Term On UN Security Council

Libya on 16 October was elected to a two-year term on the UN Security Council, marking the change in attitude in recent years towards the regime of Colonel Mu'ammar al-Qadhafi. The US, formerly Libya's main adversary, did not openly opposed Tripoli's efforts to gain at seat on the Security Council, where it has been pilloried before the international community on numerous occasions. Libya attempted to gain a seat on the council in 1995 and 2000, but its efforts were blocked by the US and other Western nations. Other countries to win two-year terms on 16 October were Croatia, Vietnam, Costa Rica and Bukina Faso.

QATAR

Qafco 5 Still Plans October Financing Launch, Drops Bond Tranche

Qatar Fertilizer Company (Qafco) is still planning to approach the bank market for financing for its Qafco 5 expansion this month (*MEES*, 10 September), but after an assessment of current market conditions the bond tranche has been dropped, *MEES* understands. Qafco decided to postpone its foray into the capital market in the wake of the global credit squeeze triggered by the US subprime mortgage crisis, despite the high rating (A+ from Standard & Poor's and Aa2 from Moody's) favoring the issuance of a bond. Instead, the expansion will be financed through a corporate loan, carrying a 10-year tenor, although in a few years' time refinancing via a bond remains a possibility. The financing is expected to comprise a $1.1bn loan with a $250mn revolving credit facility. HSBC carries the advisory role for the bank portion of the financing (rating advisor on the bond was Goldman Sachs, also acting as bookrunner along with Morgan Stanley).

Qafco 5, in Mesaieed, will have a capacity of 3.2mn tons/year of ammonia and 4.2mn t/y of urea. Start-up is planned for 2010 after the completion of the Ras Laffan-Mesaieed pipeline which is scheduled for 2009. With the commissioning of Qafco 4, the company became the world's largest single site producer of urea, and is amongst the largest producers of nitrogenous fertilizers. Qafco is 75% owned by Industries Qatar (IQ), 15% by Yara Netherland and 10% by Fertilizer Holding. IQ is 70% owned by Qatar Petroleum, with 30% publicly held (18% by individuals and 12% by companies/charities).

Tasweeq's Set Up A Commercially Significant Step

The setting up of Qatar International Petroleum Marketing Company (Tasweeq), which will start operations on 1 January 2008 for the export of non-LNG products such as LPG, condensate, refined products and sulfur, is not expected to impact the creditworthiness of Qatar's RasGas and Qatargas. However, it represents a commercially significant step and will allow Qatar to gain the maximum benefit from by-products of LNG production, especially given that Qatar will become one of the largest condensate producers in the world in the next few years. Following the establishment of Tasweeq by Amiri Decree in September, the ratings agencies have not issued any changes on the RasGas 2/3 bond ratings, and Fitch affirmed its ratings at A+ last week. So far RasGas 2/3 has used $6.8bn of its $10bn debt program. Under its terms, it can approach banks and the bond market again once train 6 is operational, or if it obtains a further guarantee from project sponsors Qatar Petroleum and ExxonMobil. Trains 6 and 7 are under construction, with train 6 expected to come online in 2008 and train 7 expected to start up in 2009.

Tasweeq will coordinate arrangements for spot market sales of the LNG by-products, and through economies of scale, will be able to ensure the best execution for sales and shipping, market experts said. Importantly, it will avoid competition between Qatar's liquefaction trains. LNG sales are mostly conducted on a long-term basis and will not come under Tasweeq's purview. The project financing for the LNG projects is based on LNG sales only, so this development will not impact lenders. By-products account for 20-30% of revenues, one expert said, noting that he sees "only upside" from Tasweeq's set-up for the LNG producers. Tasweeq will be 100% owned by the Qatari government, but will operate independently from Qatar Petroleum.

REGIONAL

Gulf Capital Markets Rally After 'Id Holiday Break

Gulf capital markets rallied as trading resumed after the 'Id al-Fitr holiday break. The Saudi capital market closed for 10 days as of 10 October. The UAE bourses, resuming on 15 October, witnessed heavy trading as foreigners bought into property and financial services stocks. After HSBC announced that it expected shares of the market's four largest banks (National Bank of Abu Dhabi – NBAD, Abu Dhabi Commercial Bank – ADCB, First Gulf Bank – FGB, and Union National Bank – UNB) to rise, the ADSM index rose by 6.85% and hit a 16-month high at 4,030.58. The Dubai financial market index rose by 5.32% to close at a new high of 4,744.22. The Kuwaiti bourse resumed trading on 16 October when its index reached an all-time high of 13,137.00. The KSE index rose by 0.4% and closed at 13,131.70 at the end of the week. The MSM resumed trading on 17 October and its index rose by 5.78% to reach an all-time high at 7,908.46. The DSM also resumed trading on 17 October. Led by gains in financial stocks (particularly in Doha bank shares) its index rose by 3.75% to reach a new-year high at 8,816.83. The Bahraini bourse resumed trading on 17 October and its index rose by 1.43% to reach a new year-high at 2,610.62.

Gulf Stock Market Indexes: 12 Month High And Lows

Market/Index	17/18 October Close	10/11 October Close	Year High	Year Low
Saudi Stock Exchange General Index	7,912.45	7,912.45	11,709.10	6,861.80
Dubai Financial Market General Index*	4,744.22	4,504.44	4,985.39	3,658.13
Abu Dhabi Securities Market Index	4,030.58	3,772.14	4,030.58	2,839.16
Kuwait Stock Exchange General Index	13,131.70	13,079.00	13,137.00	9,164.30
Doha Securities Market Index	8,816.83	8,497.89	8,816.83	5,825.80
Bahrain All-Share Index	2,610.62	2,573.74	2,610.62	2,106.70
Muscat Securities Market Index	7,908.46	7,476.18	7,908.46	4,811.62

Source: www.zawya.com.

* The DFM index was developed in 2000 with a base level of 100, but effective 4 December 2006 the base in the new DFMGI was raised to 1,000.

Selected GCC Energy Company Stocks

Company	17/18 October Close	10/11 October Close	Year High	Year Low
Saudi Arabia (SR)				
SABIC	135.00	135.00	135.00	94.25
Sahara Petrochemicals Company (SPCO)	31.00	31.00	47.80	21.60
Yansab	36.00	36.00	36.50	22.25
Sipchem	37.75	37.75	55.83	29.14
Al-Babtain Power and Telecommunications Company	62.00	62.00	146.50	40.00
Nama Chemicals	25.50	25.50	63.11	19.00
SAFCO	138.50	138.50	152.75	97.00
Saudi Kayan	12.25	12.25	13.00	10.00

Company (Cont'd)	17/18 October Close	10/11 October Close	Year High	Year Low
Abu Dhabi (Dh)				
Aabar Petroleum	4.27	3.90	4.27	1.54
TAQA	3.27	3.01	3.27	1.80
Dana Gas	1.84	1.71	1.87	1.30
Qatar (QR)				
Qatar Gas Transport Company - Nakilat	29.00	26.60	27.90	11.00
Industries Qatar	149.20	139.90	143.30	71.50

Source: www.zawya.com.

SAUDI ARABIA

King ˈAbd Allah Reconstitutes Petroleum/Minerals Council For New Four-Year Term

King ˈAbd Allah ibn ˈAbd al-ˈAziz on 15 October issued a royal decree reconstituting the Supreme Council for Petroleum and Mineral Affairs (SCPMA) for another four years, with effect from 26 October. The SCPMA was created in January 2000 (*MEES*, 10 January 2000), superseding the Supreme Petroleum Council (SPC) established in the 1970s. It also replaced the Supreme Council of Saudi Aramco, created in 1988 when the Saudi government officially took over control of the company (*MEES*, 20 March 1989). Despite the official designation change in 2000, the council is more often than not still referred to as the SPC.

The new council, replacing the one formed in November 2003 (*MEES*, 8 December 2003), has only one minor change: Muhammad al-Suwail replaces Salih al-ˈAdhil in his capacity as President of the King ˈAbd al-ˈAziz City for Science and Technology. Ghazi al-Qusaibi was Water and Electricity Minister when the last council was formed, but he has retained his place, even though he is now Labor Minister. His continued presence reflects both his professional qualities and the importance that the government attaches to job creation – not least in the energy and minerals sector.

The following are members of the new SCPMA:

Chairman: ˈAbd Allah ibn ˈAbd al-ˈAziz
Vice-Chairman: Crown Prince, Deputy Prime Minister and Defense Minister Prince Sultan ibn ˈAbd al-ˈAziz

Members:

Prince Saˈud al-Faisal (Foreign Minister)
Ghazi al-Qusaibi (Labor Minister)
Mutlab al-Nafisah (Minister of State and Secretary-General of the SCPMA)
Hashim Yamani (Commerce and Industry Minister)
Ali Naimi (Oil Minister)
Ibrahim al-ˈAssaf (Finance Minister)
Khalid al-Qusaibi (Economy and Planning Minister)
Muhammad al-Suwail (President of the King ˈAbd al-ˈAziz City for Science and Technology)
ˈAbd Allah Jumˈa (President and Chief Executive of Saudi Aramco)

Rabigh Refinery Set For One-Month Maintenance Shutdown

Saudi Aramco is to shut down the Rabigh refinery (400,000 b/d capacity) for one month for routine maintenance and to allow work to be carried out in connection with the related PETRORabigh project. According to industry sources quoted by *Reuters* on 17 October, the shutdown is likely to begin on 22 October and might extend beyond a month. Saudi Aramco's existing refinery and infrastructure at PETRORabigh will serve as the base platform for the development of the new complex, which will comprise a high-olefins fluid catalytic cracker complex alongside an ethane-based cracker, producing approximately 1.5mn tons/year of ethylene, 900,000 t/y of propylene, and 60,000 b/d of gasoline as well as other refined products. Downstream units will convert all of the olefin production into petrochemical products, such as linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE), polypropylene, propylene oxide and mono ethylene glycol (MEG). Completion is scheduled for the second quarter of 2008.

Buoyant Oil Market Increasing Saudi Arabia's Budget Surplus, Says Jadwa

All-time high oil prices and OPEC's production quota increase will lift economic growth, and widen budget and external surpluses in Saudi Arabia, Jadwa Investment said in its October *Monthly Bulletin* (www.jadwa.com). Jadwa now forecasts WTI will average $71/B (equivalent to $65/B for Saudi crude) this year, up from the previous forecast of $60/B ($57/B for Saudi crude – *MEES*, 30 July). Fallout from the woes in the US subprime mortgage market has so far had a surprisingly positive impact on oil prices. While a slowdown in the US economy threatened to cut oil demand, the larger-than-expected cut in US interest rates in September and the prospect of further reductions have allayed concerns. Also, with oil seen as safer than many other assets during the current financial market volatility, speculative money has helped to spur the recent oil price climb.

As a result of the oil market revision, Jadwa now forecasts that nominal GDP will grow by 6.4%, compared to the previous estimate of a 4.3% decline. In per capita terms, GDP is projected to exceed $15,000 for the first time since 1981. Given that oil accounts for around 90% of total budget revenue, the increase in Jadwa's oil price and production forecasts produces a large jump in the projection for the budget surplus. Owing to concerns about the impact on inflation, government spending is not expected to grow to the same extent as the increase in revenue, though the continued escalation of project costs will make it harder to contain expenditure. Pressure for higher public sector pay to counter rising inflation will further limit the government's ability to control spending growth. Jadwa therefore forecasts that the budget surplus in 2007 will be lower than last year, although it will remain substantial, at $59bn or 16% of GDP.

The revised oil forecasts have also improved the outlook for the current account. Oil exports are projected to reach an all-time high of $191bn in 2007, over treble the total of just five years earlier. They were revised down for 2006 to $187.7bn from $188.8bn, as were non-oil exports, to $22.8bn from $25bn. As import spending has also risen, Jadwa forecasts a decline in the overall trade balance. With foreign service payments expected to rise (owing to a lack of skilled employees in the Saudi labor market), the current account surplus will still be down on the record total of last year, but at $84bn (23% of GDP) it will be exceptionally high. Jadwa's current account projections are based on newly published revisions by SAMA to its estimates for 2006.

Imports were revised up by over $3bn, to $63.8bn, investment income revised up to $10.4bn from $6.9bn, and remittances from expatriate workers revised up by $1bn to $15.6bn. Importing the skilled and unskilled labor necessary to implement the mega-project boom will add to the outflow of remittances in the years to come. Jadwa has nudged up its inflation projections for 2007-10 after a detailed examination of food prices, which have climbed on higher global commodity prices. Jadwa expects food price inflation to average 5% per year until 2010. Inflation excluding food prices was negative until the start of 2006 and only began to take off in recent months as rents climbed. Inflation surged to a 12-year high of 4.4% in August, from 3.8% in July.

Key Economic Data*	**2002**	**2003**	**2004**	**2005**	**2006**	**2007F**	**2008F**	**2009F**	**2010F**
Nominal GDP									
(SRBn)	707.1	804.6	938.8	1,182.5	1,307.5	1,391.4	1,436.5	1,599.9	1,685.0
($Bn)	188.6	214.6	250.3	315.3	348.7	371.0	383.1	426.7	449.3
(% Change)	3.0	13.8	16.7	26.0	10.6	6.4	3.2	11.4	5.3
Real GDP (% Change)									
Oil	-7.5	17.2	6.7	7.8	0.2	-5.8	4.0	5.0	1.0
Non-Oil Private Sector	4.1	3.9	5.3	5.8	6.4	7.3	7.4	8.5	8.0
Government	2.9	3.1	3.1	4.0	6.1	6.3	6.0	5.3	4.5
Total	0.1	7.7	5.3	6.1	4.3	2.9	6.1	6.7	5.2
Oil Indicators (Average)									
WTI ($/B)	26.2	31.1	41.5	57.2	66.1	71.0	65.0	70.0	70.0
Saudi ($/B)	23.7	26.9	34.7	49.5	60.5	65.0	59.5	64.0	64.0
Production (Mn B/D)	7.5	8.8	9.0	9.5	9.2	8.6	9.0	9.4	9.5

Key Economic Data* (Cont'd)	2002	2003	2004	2005	2006	2007F	2008F	2009F	2010F
Budgetary Indicators (SRBn)									
Government Revenue	213	293	392	564	660	671	645	720	727
Government Expenditure	234	257	285	346	390	445	516	583	635
Budget Balance	-21	36	107	218	270	222	129	137	92
(% GDP)	-2.9	4.5	11.4	18.4	20.6	16.0	9.0	8.6	5.5
Domestic Debt	660	660	614	475	380	320	270	250	260
(% GDP)	93.3	82.0	65.4	40.2	29.1	23.0	18.8	15.6	15.4
Monetary Indicators (Average)									
Inflation (% Change)	0.2	0.6	0.3	0.7	2.3	3.8	4.1	3.5	3.0
SAMA Base Lending Rate (%, End Year)	2.00	1.75	2.50	4.75	5.20	5.50	5.50	5.25	4.50
External Trade Indicators ($Bn)									
Oil Export Revenues	63.6	82.0	110.4	161.1	187.7	190.8	182.3	205.4	207.5
Total Export Revenues	72.3	93.0	125.7	180.1	210.5	213.1	205.5	231.4	235.6
Imports	29.6	33.9	41.1	54.6	63.8	76.6	89.6	104.0	119.5
Trade Balance	42.6	59.1	84.6	125.5	146.6	136.5	115.9	127.5	116.0
Current Account Balance	11.9	28.1	51.9	90.0	98.9	84.0	60.7	75.2	67.9
(% GDP)	6.3	13.1	20.7	28.5	28.4	22.6	15.9	17.6	15.1
Official Foreign Assets	73.3	97.1	127.9	195.5	273.2	344.6	399.7	470.8	535.5
Social And Demographic Indicators									
Population (Mn)	21.5	22.0	22.5	23.1	23.7	24.4	25.1	25.8	26.6
Unemployment (male, 15+, %)	7.6	8.2	8.5	8.8	9.1	9.0	8.8	8.5	8.2
GDP per capita ($)	8,773	9,745	11,112	13,640	14,725	15,227	15,227	16,532	16,918

Source: Jadwa forecasts for 2007-10, SAMA (GDP, monetary and external trade indicators), Finance Ministry (budgetary indicators), Central Department of Statistics/Jadwa estimates (oil, social and demographic indicators). This is update of the table published in *MEES*, 30 July.

* Includes new forecasts for 2007-10, and some revisions for previous years.

Saudi Capital Market Index Now At 38% Of Its Peak In February 2006

The Saudi capital market saw its best performance in 2005 and early 2006 with the share index at the end of 2005 doubling to 16,712.64 from 8,206.23 at the end of 2004, according to data published by the Saudi Arabian Monetary Agency (SAMA) in its *Forty Third Annual Report* for 2007. The index peaked on 25 February 2006 at 20,634.86, but thereafter started to decline steeply to reach 7,933.29 at the end of 2006. The index fell further to 7,666.11 at the end of the first quarter of 2007, compared to 17,060.34 at the end of the first quarter of 2006, the report added. But since then it fell even further to below the 7,000 mark during 2007 and has recently recovered to just under the 8,000 mark. In the week ending 10/11 October the index reached 7,912.45, or 38% of the peak in February 2006 (*MEES*, 15 October).

According to the report, an analysis of the activity of the domestic share market by sector indicates that the services sector came first in terms of the number of shares traded at 35.4% of the total. The industry sector came second with 33.3%, followed by agriculture (12.9%), electricity (11.6%), cement (2.3%), banking (2.2%), telecoms (2%), and insurance (0.3%).

Saudi Share Market Indicators

Year	No Of * Shares Traded (Mn)	Annual Change (%)	Value Of Shares Traded (SRBn)	Annual Change (%)	Market Capitalization Of Issued Shares (SRBn)	Annual Change (%)	No Of Executed Transactions ('000)	Annual Change (%)	Share Price Index	Annual Change (%)
2000	2,774.55	5.20	65.29	15.40	254.46	11.32	498.14	13.67	2,258.29	11.33
2001	3,459.15	24.67	83.60	28.04	274.53	7.89	605.04	21.46	2,430.11	7.61
2002	8,679.20	150.91	133.79	60.03	280.73	2.26	1,033.67	70.84	2,518.08	3.62
2003	27,829.30	220.64	596.51	345.87	589.93	110.14	3,763.40	264.08	4,437.58	76.23

(Cont'd)

Year	No Of * Shares Traded (Mn)	Annual Change (%)	Value Of Shares Traded (SRBn)	Annual Change (%)	Market Capitalization Of Issued Shares (SRBn)	Annual Change (%)	No Of Executed Transactions ('000)	Annual Change (%)	Share Price Index	Annual Change (%)
2004	51,491.70	85.03	1,773.86	197.37	1,148.60	94.70	13,319.52	253.92	8,206.23	84.93
2005	61,406.65	19.26	4,138.70	133.32	2,438.16	112.28	46,607.95	249.92	16,712.64	103.66
2006*	68,515.28	11.58	5,261.85	27.14	1,225.86	-49.72	96,095.92	106.18	7,933.29	-52.53
1Q07	18,792.14	15.80	854.51	-52.68	1,193.92	-52.92	21,444.27	4.21	7,666.11	-55.06

* Revised data to exclude the effect of the split of the nominal value of all listed companies' shares to SR10/share instead of SR50 in April 2006.

Source: Annual Report on the performance of the Saudi Capital Market (Tadawul) 2006.

SUDAN

Peace Deal Under Threat As SPLM Withdraws From Sudan's Coalition Government

The Comprehensive Peace Agreement (CPA) that ended the 20-year civil war in Sudan faces its greatest threat since being signed in January 2005, following the decision by the former rebel movement of south Sudan, the SPLM, on 11 October, to boycott the Government of National Unity (GoNU) until a number of key issues are resolved. The latest political development reflects a deterioration in north-south relations arising from the ruling National Congress Party's (NCP) perceived failure to meet important deadlines and implement certain fundamental provisions in the CPA, most notably the demarcation of borders in the oil-rich Abyei region (*MEES*, 10 January 2005).

President ʿUmar al-Bashir conceded to some of the demands presented by an SPLM delegation, by agreeing on 16 October to replace the Foreign Minister Lam Akol, who was considered too close to the NCP. The Government of Southern Sudan (GoSS), which nominally controls certain ministries, has being calling for his removal since January, and for other ministerial reappointments. But these require the authorization of the president, who observers say has been uncooperative. Talks between GoSS leader Salva Kiir and the president on 18 October failed to overcome the latest political impasse.

Other instances of foot-dragging by Khartoum that have undermined north south relations include the non-withdrawal of the army (SAF) from territories in southern Sudan, which was due to be completed by 9 July, and the lack of transparency in the oil sector. But the Abyei issue remains the most sensitive and divisive one, and has been highlighted by the International Crisis Group (ICG) in a report published, coincidentally, on 12 October. The Brussels-based think tank regards the SPLM's suspended participation in the GoNU as "the most serious political escalation to date between the parties," and says the escalating tensions over Abyei in particular, risk dragging the country back to war. The planned integration of SAF and SPLA, the armies of north and south Sudan, into a joint integrated unit in Abyei, has not taken place, with the SAF maintaining heavy forces in and around the oil-rich area. According to ICG, the SAF has as many as 15,000 troops stationed in Heglig, which the Abyei Boundary Commission (ABC) places within the Abyei region, while the SPLA has built up its forces south of Abyei.

ICG says international pressure is urgently needed to persuade Khartoum to accept the findings of the ABC, submitted to the presidency in July 2005. The NCP has rejected the ABC's report as "final and binding" because of its demographic implications. Local elections are due to take place in 2009. These will directly influence the outcome of the referendum on unity, scheduled for 2011, and by extension, how much of the disputed Abyei region's oil wealth may become part of an independent southern Sudan. But Egbert Wesselink, who heads the European Coalition on Oil in Sudan (ECOS), a monitoring group based in the Netherlands, plays down the immediate implications of the SPLM's latest move. "They are raising the stakes a bit," Mr Wesselink told *MEES*. "It's a negotiating tactic." But he acknowledged that this was the most serious disagreement since the signing of the peace deal. "If you have violence (between the north and the south), it will be about Abyei," he said.

Sudan GDP Increases By 12% In 2006, Says IMF

Sudan's GDP increased by 12% in 2006 despite a lower oil production than previously projected, according to the IMF's public information notice (PIN) issued on 3 October, following Article IV consultations concluded on 7 September. Economic growth continued to be strong in 2006. Important structural reforms were completed and domestic fuel subsidies were reduced in August. Non-oil GDP increased by 10% due to continued recovery in agriculture and strong activity in manufacturing, construction, and services. However, the 12-month rate of inflation nearly tripled from 5.6% in 2005 to 15.7% in 2006, the IMF said. The fiscal position weakened due to shortfalls in oil revenue (linked to Dar blend crude). The overall deficit is estimated to over 4% of GDP. Non-oil revenues were also lower than projected due to the wide use of tax exemptions. Many of the fiscal difficulties that emerged in 2006 carried over into 1Q 07, due largely to the continued difficulties in the production and sale of Dar blend oil, according to the IMF. The external current account reached a deficit of around 13% of GDP. While crude oil exports rose by 70% in volume, the extremely low price received for Dar blend resulted in an increase of only 24% in value. Non-oil exports declined by 11% in dollar terms. Imports surged over the course of the year, reflecting an increase in foreign investment.

Executive Board Assessment

According to the Executive Board, policy slippages contributed to Sudan's weaker fiscal and external sector positions in late 2006 and early 2007. Directors welcomed the authorities' efforts to implement the new 18-month Staff-Monitored Program (SMP), which aims at restoring fiscal discipline and ensuring stability while supporting continued strong economic growth. They stressed that successful implementation of the peace agreement would be crucial for the social and economic advancement of Sudan. They welcomed the authorities' efforts to tighten fiscal policy, including through reducing fuel subsidies. Broadening the tax base as well as conservative revenue forecasting, will be key to ensuring macroeconomic stability, the IMF said. Directors called for improved transparency in oil sector revenues. They welcomed the authorities' decision to allow greater exchange rate flexibility and to rebuild foreign exchange reserves and underlined the importance of implementing structural reforms aimed at strengthening competitiveness, reducing poverty, and bolstering non-oil growth. On the other hand, they expressed concern about the deterioration in financial sector indicators. Finally, many Directors urged the authorities to minimize non-concessional borrowing in view of Sudan's already unsustainable external debt burden and to avoid complications in a potential debt-relief operation.

Sudan: Selected Economic Indicators, 2002-07

	2002	2003	2004	2005	2006	2007
Real Sector						
Real GDP Growth (% Change)	5.4	7.1	5.1	8.6	11.8	11.2
GDP (in Bn of Dinars)	3,943	4,640	5,592	6,798	8,131	9,373
GDP (in $Mn)	14,976	17,780	21,685	27,904	37,442	46,708
GNP per Capita ($)	436	506	597	753	970	1,182
Inflation (in %)						
Period Average	8.3	7.7	8.4	8.5	7.2	8.0
End-of-Period	8.3	8.3	7.3	5.6	15.7	7.0
Central Government Operations (In % of GDP)						
Revenue and Grants	11.9	16.0	19.7	21.7	19.4	18.7
Expenditure	8.8	15.3	18.2	23.4	23.7	22.5
Overall Balance (Commitment Basis)	3.1	0.7	1.5	-1.8	-4.2	-3.8
Monetary Indicators						
Reserve Money (End-of-Period Growth Rate, in %)	22.0	26.6	27.8	34.9	27.8	18.0
Broad Money (End-of-Period Growth Rate, in %)	30.3	30.3	32.1	44.7	27.4	24.0
Broad Money Velocity	7.2	6.6	5.7	4.8	4.1	4.2

	2002	2003	2004	2005	2006	2007
External Sector (Cont'd)						
Current Account Balance (Including Transfers, $Mn)	-982	-827	-815	-2,324	-4,903	-4,358
In % of GDP	-6.6	-4.7	-3.8	-8.3	-13.1	-9.3
External Debt						
In $Bn	23.6	25.7	23.3	26.7	26.6	28.0
In % of GDP	158	145	108	96	71	60
Net International Reserves (In $Mn)	84	290	1,144	1,889	1,384	1,300
In Months of Next Year's Imports of Goods and Services	0.3	0.8	1.9	2.4	1.7	1.4

Source: Sudanese authorities and IMF staff estimates.

SYRIA

Unchecked Energy Subsidy Could Rise To $6.9Bn In 2008 Syrian Budget

The energy subsidy in the Syrian budget is expected to rise to a record S£350bn ($6.9bn) in 2008 if left unchecked, senior officials, including Prime Minister Naji al-ʿUtari, have warned in the past few months as a result of record international oil prices and rising consumption in the country. At a session of the Syrian parliament earlier this month to examine the possibility of reducing the subsidy gradually, or lowering it for certain sectors of society, a number of deputies expressed their concern about the possibility of hiking domestic petroleum product prices at a time of rising inflation in Syria.

Addressing parliament, Deputy Prime Minister for Economic Affairs 'Abd Allah al-Dardari assured the deputies that the government had not taken any decision so far to lower the energy subsidy. But he said it was committed under its current five-year plan to adopt certain economic reforms intended to liberalize the economy. Mr Dardari noted that while Syria imported 1,000mn liters of diesel oil in 2000, its consumption of this product surged to 9,200mn liters in 2007, of which 5,500mn liters were imported. In the meantime Syria was transformed from an oil exporter to an oil importer, with a negative oil balance. Mr Dardari explained that up to 70% of the savings from the lower energy subsidy would go to the people and to farmers who would receive higher prices from the state for their produce. If however the subsidy was maintained, Mr Dardari added, the budget deficit would rise and allocation for investment would decline – leading to an erosion of foreign exchange reserves estimated at $20bn, higher inflation and pressure on the exchange rate. Also at the same session Finance Minister Muhammad al-Husain confirmed that Syria was facing a serious problem because of the energy subsidy and estimated the deficit in the 2008 budget at around S£200bn ($3.9bn).

EMGM Seeks EU Funding For Its Damascus Center

The Euro-Mashreq Gas Market (EMGM) has officially requested the European Commission to provide funding for the center in Damascus for another year, its director Na'im Danhash announced earlier this month. The center was inaugurated in March 2006 and is funded by an EU grant of €6mn and €1mn by the four countries it is intended to serve – Egypt, Jordan, Lebanon and Syria (*MEES*, 20 March 2006). These four are involved in the Arab Gas Pipeline (AGP) project which is intended to supply gas from Egypt to the three other countries. Mr Danhash added that the funds would enable the center to put in place the necessary organizational structure and provide training for its staff. He also said that EMGM had purchased a special computer program to regulate existing and planned pipelines in the four participant countries and develop the necessary infrastructure for the gas industry.

TURKEY

TAPCO Shifts Route Of Samsun-Ceyhan Crude Oil Pipeline

The Trans Anatolian Pipeline Company (TAPCO) has shifted the route of its planned 1mn b/d capacity crude oil pipeline running 550km between Samsun on the Black Sea and the Mediterranean terminal of Ceyhan. TAPCO is a joint venture between Turkey's Calik Enerji, Italy's Eni and India's IOC. Construction of the $1.5-2bn project was marked at a ceremony at Ceyhan in April (*MEES*, 30 April). *Today's Zaman* newspaper said the Black Sea terminal would be located at Unye, with the pipeline running from there through Akkus, Niksa, Tokat, Ylidizeli, Sarkisla, Pinarbasi, Sariz, Tufanbeyli, Saimbeyli, Feke, Kozan, Sumbas, Kardirli, Ceyhan and Yumurtalik. The new route is 100km shorter and will allow larger offloading facilities to be built at Unye than those at Samsun. Calik Enerji and OIC also have been granted a license to build a 300,000 b/d refinery at Ceyhan, estimated to cost $4.9bn (*MEES*, 23 July). The pipeline is expected to carry Caspian and Russian crude oil.

Turkey's Privatization Authority Offers Petkim Shares To Second-Highest Bidder

Turkey's Privatization Authority on 16 October decided to pass over the winning bid made in July by TransCentralAsia Petrochemical Holding of $2.05bn for 51% of Petkim Petrokimya Holding in favor of the second-highest bid of $2.04bn made by a consortium comprised of Azerbaijan's Socar, Turkey's Turcas and Injaz Projects of Saudi Arabia (*MEES*, 13 August, 16 July). TransCentralAsia is comprised of two Kazakh investment firms, CaspiNeft JSC and Investment Production Group Eurasia, and Russia's Troika Dialog, which has Armenian shareholders. According to Turkish *Today's Zaman* newspaper, after it was announced that TransCentralAsia had won the tender, "a wave of resentment simmered against the winning group because of rumors that the Kazakh company was being supported by the Armenian diaspora." The shares of Petkim and Turcas were suspended from trading on the Istanbul Stock Exchange on 16 October after Turkish media reported that the Privatization Authority had begun talking to Turcas and its partners about their bid for Petkim.

UAE

TAQA To Launch Bonds And Notes

The Abu Dhabi National Energy Company (TAQA) received ratings from international agencies last week, ahead of issuance of its global medium-term note (GMTN) and bond programs. Despite the credit crunch triggered by the US subprime mortgage crisis, as a quasi-sovereign issuer (owned 75.1% by the government of Abu Dhabi with the remainder publicly held) TAQA is better positioned than most to seek funding during times of global market uncertainty. The size of the two separate facilities has not been specified and is expected to be determined by market appetite.

The bonds will be issued in Canadian dollars by TAQA North, TAQA's Canadian subsidiary. They will fund part of TAQA's recent acquisitions in Canada, such as Northrock Resources for $2bn (*MEES*, 4 June), and the recently announced purchases of Pioneer International Resource Company ($540mn – *MEES*, 17 September) and PrimeWest Energy Trust ($5bn – *MEES*, 1 October). TAQA North is irrevocably guaranteed by TAQA and this is reflected in the ratings which are the same for both (Aa2 from Moody's Investors Service and AA from Standard & Poor's Rating Services). The GMTN program (primarily to be issued in US dollars) carries the same support from TAQA and thus enjoys the same high ratings. It will allow the company to tap the market when it needs funds, and could possibly raise $9bn over a five year period.

TAQA/Kuwait Energy Cooperation

TAQA signed a letter of intent (LOI) last week with Kuwait Energy Company (KEC) for the two to cooperate on building a portfolio of global energy assets in the MENA and Caspian region, with the focus on production, development and exploration. TAQA remains in growth mode after a number of key acquisitions (see *TAQA Sees Subprime Crisis Narrowing Field For Acquisitions*, *MEES*, 17 September), while KEC is also expanding its operations. The latter holds shares in oil and gas producing, development and exploration properties in Kuwait, Egypt, Indonesia, Iraq, Oman, and Yemen. TAQA and KEC are assessing projects in Egypt, Oman, Syria, Yemen, Kazakhstan and Iran. The LOI between TAQA and KEC does not yet include capital commitments, but the two have identified a number of target projects and are expected to reveal further details in the first half of 2008. KEC's share capital was KD24.54mn ($88mn) at the end of 2006.

Abraaj Capital Sees $1.2Bn Record Closing Of Infrastructure And Growth Capital Fund

Private equity firm Abraaj Capital announced on 16 October a record $1.2bn second closing of its Infrastructure and Growth Capital Fund (IGCF). It now has total commitments of $1.7bn, after its first closing yielded $500mn on 31 December last year (*MEES*, 12 February). IGCF, expected to be capped at $2bn upon final closing before the end of 2007, is the largest private equity fund in history focused on the Middle East, North Africa and South Asia region. The international fundraising efforts were led by Deutsche Bank, also a partner in IGCF. Abraaj has already made five investments for IGCF this year, including the $1.41bn acquisition of Egyptian Fertilizers

Company (EFC), which was the largest private equity-led leveraged buyout in the history of the MENA region. The other acquisitions include a strategic pre-IPO stake in Air Arabia, a strategic stake in Global Education Management Systems (GEMS), and a stake in Acibadem, Turkey's leading healthcare operator. In June Abraaj acquired (through its $500mn Abraaj Buyout Fund II) the GMMOS Group, a major regional oil and gas services and industrial group operating in the Gulf and Caspian markets.

YEMEN

Hayward Tyler Delivers Side Entry Mixers For Yemen Refineries

UK-based Hayward Tyler announced on 15 October that it had delivered eight gear driven side entry mixers in October for Yemen Refining Company's ʿAden and Marib refineries. The first eight side entry mixers were delivered in March 2006, bringing the total supplied to 16. A wholly-owned subsidiary of Southbank UK, Hayward Tyler is a manufacturer of pumps and motors for the power, oil and gas industry. While the ʿAden refinery has a design capacity of 170,000 b/d, it is operating at around 100,000 b/d because of damage it sustained during the civil war. Under a modernization program, capacity is being increased to 150,000 b/d, with the addition of a new $200mn fractionation plant to produce unleaded gasoline, as well as additional electricity supply and the repair of other units (*MEES*, 21 January). The estimated cost of upgrades for both refineries is roughly $500mn.

ʿAden Refinery Fire

Five engineers were injured in a fire in one of ʿAden's two refining units late on 10 October, according to Yemen news agency *Saba*. The fire was controlled quickly and the damaged unit resumed activity after a few days.

POLITICAL COMMENT

US Secretary of State Condoleezza Rice has been touring the region to drum up support for the international conference that is supposed to take place sometime next month. The Turkish parliament has authorized military action against Kurdish separatists operating out of north Iraq.

Rice Promotes Conference

Like former Secretary of State Warren Christopher, Condoleezza Rice was at pains to limit expectations before her 14-17 October tour of the region to drum up support for the proposed international conference, saying that "I don't expect… there will be any particular outcome in the sense of breakthroughs on the document" which is to form the basis of the conference – "this is really a work in progress." And this turned out to be an accurate forecast, as it swiftly emerged that whereas Israeli Prime Minister Ehud told Dr Rice on 14 October that it was his "clear hope" that a joint statement could be agreed before the conference but "that's not a condition for the meeting taking place," Palestinian President Mahmud ʿAbbas said the next day "we are working hard to formulate a joint document with the Israeli side that defines the fundamental status for a solution of final status issues such as Jerusalem, borders, settlements, refugees, security, water and joint relations" and warned two days later that "it's impossible to go to the conference at any price. We told Secretary Rice we don't have much time, that we must make use of every minute." Further evidence that the Israelis want as much room for maneuver as possible at the conference came when Foreign Minister Tzipi Livni said on 17 October that while Israel wants "to reach understanding on the widest possible common ground " before the conference, "the idea is not to raise expectations that can lead to frustration and to violence" (which almost sounds as if Israel had made a regular habit of raising Palestinian expectations).

If there were any grounds for optimism about Dr Rice's tour they were to be found in Cairo, where on 15 October Egyptian Foreign Minister Ahmad Abu al-Ghait initially expressed unhappiness with Israeli attempts to limit the goals of the US initiative and said that "failure to stand up to such attempts must lead to serious thought about postponing the meeting to a more appropriate time." However, after meeting with the secretary of state on 16 October Mr Abu al-Ghait changed his tune and said that "we are encouraged because she says she is determined… to have a breakthrough during the remaining year of this administration. We have to believe them. I cannot doubt them… what we heard gave us lots of confidence." It remains unclear what Dr Rice might have said to encourage such confidence or whether Mr Abu al-Ghait was merely being polite and saying what his guests wanted to hear. Whatever the case, Dr Rice departed on 17 October sounding much as she did when she arrived. "We are at the beginning of a process," she stated. "If we work hard to resolve these issues, I think we have a reasonable chance of success in moving forward on the vision of two states living side by side in peace and freedom."

Turkish Parliament Approves Iraq Incursion

As expected, the Turkish parliament on 17 October voted by a crushing majority – 507 to 19 – to approve a motion authorizing a large-scale cross border military incursion into north Iraq in pursuit of the separatist Turkish Kurds of the Kurdistan Workers Party (PKK). This move was immediately decried by President Bush, who said that "we are making it very clear to Turkey that we don't think it is in their interests to send troops into Iraq," and by the EU, whose spokesman declared on 17 October that "it is crucial that Turkey continues to tackle this problem through cooperation between the relevant authorities." The lone voice supporting Turkey was, curiously, Syria, which nearly came to blows with Turkey in 1998 as a result of its support for the PKK and its leader Abdullah Ocalan. President Bashar al-Asad, who happened to be on a visit to Ankara, said on 17 October that "we support the decisions the Turkish government has put on its agenda against terrorism and terrorist activities. We see this as Turkey's legitimate right."

Earlier, Iraqi Prime Minister Nuri al-Maliki had sought to pour oil on troubled waters with a statement on 16 October saying that "the Iraqi government will try by all means to defuse the crisis with its neighbor and is concerned to maintain security and stability. We are ready to hold emergency talks with senior officials to solve all remaining problems and give assurances that will help to regulate relations between the two neighboring states." But from the Turkish point of view, the problem is that the Baghdad government can barely control the capital, let alone the Kurdish north, where the Kurdistan Regional Government (KRG) headed by Masʿud Barzani seems determined to explore the outer limits of autonomy. And a KRG spokesman did very little to calm the situation by saying on 17 October that "we see the problem as a Turkish internal problem. If the Turkish parliament gives the authorization to the army to enter another country, we consider this illegal and a violation of international law and the UN charter." That might have been calculated to provoke the Turks, but fortunately Iraqi President Jalal Talabani, himself a Kurd, took a less confrontational line when he said on 17 October that "we consider the activities of the PKK against the interests of the Kurdish people and against the interests of Turkey. We have asked the PKK to stop fighting and end military activity." Even the KRG apparently had second thoughts about the wisdom of its initial reaction, since on 18 October it issued a statement saying "we appeal to our friend and neighbor Turkey to refrain from military action in Iraq. The KRG seeks no conflict with Turkey. We do not and will not allow our territory to be used by anyone to attack or undermine Turkey or any of our neighbors… Any problem or disagreement between the KRG and Turkey should be solved through diplomacy and dialogue. The KRG welcomes direct dialogue with Ankara on all issues of common interest or concern, including the PKK." That at least sounded conciliatory, but it remains open to question whether the Turks in their present mood will be satisfied with requests to the PKK to halt its attacks and well-intentioned statements.

Charles Snow

OP-ED/DOCUMENTS

What Is Energy Security? Asian Countries And the Concept of "Energy Security" (Part 2/5)

By A F Alhajji

The following article was written for MEES by Dr Alhajji, president of the Ohio-based Energy Security Analysts, LLC. The article draws on a chapter entitled "India's Energy Security: Concepts and Measures" in "West Asia in Turmoil," Published by The Institute for Defense Studies Analysis, New Delhi, India, 2007. This is the second of five articles for MEES *on the theme of energy security by Prof Alhajji. The first was published on 24 September, and the remaining three will appear in future weeks. The author can be reached via email: a@aalhajji.com*

Energy security "fever" has reached China, India, and Japan. Unfortunately, it seems that those "eastern" countries do not know the meaning of this imported "western" concept. The importation of this one-size-fits-all concept has led to contradictions among policies on one hand and between policies and their objectives on the other. These contradictions have in turn led to policy failures, rendered the concept of energy security hollow, and jeopardized world energy security in the process.

Energy demand in Asia, especially in China and India, has increased substantially in the last decade. Although India and China are oil producers, their domestic production has not been able to keep up with the growing demand. The result is a growing gap that has to be covered by imports of oil, natural gas, and LNG. Since oil has dominated energy imports in recent years, oil dependence dominates the "energy security" debate in those countries.

To enhance energy security, Asian countries have concentrated mainly on "filling the energy gap" by securing upstream oil contracts around the world, encouraging domestic exploration for oil and gas, exploring the possibility of transporting natural gas via pipelines from Iran, the Caspian, Russia, and Myanmar, and securing long-term LNG contracts with Qatar, Iran, and Algeria. At the same time, government officials in several Asian countries have started talking about the "energy security" of their nations. Some Indian officials' statements go so far as to call for elimination of energy dependence.

Policy Contradictions

If the officials of those Asian countries are truly worried about "energy dependency" and "energy security", then they have to answer the following question:

- Why do they make such dependency *legal* and *binding* by signing exploration and production contracts with some oil producing countries?
- Why do they sign contracts with the *least secure* countries in the world?
- How does investment in the upstream sector of some *unstable* oil producing countries that are *as far away as* Venezuela enhance the energy security of these Asian countries?
- How does the security of oil supplies *differ* from the security of the investments of Chinese, Indian, and Japanese oil companies in the oil producing countries, some of which are known for their political instability?
- Why was the visit of the Saudi monarch to China and India termed *historic* by the same officials who are worried about "energy dependency"?

Ignorance, Political Posturing Or Both?

The contradictions between calls for "energy independence" of some Chinese, Indian, and Japanese government officials and the actions of their government-owned oil companies indicate that most politicians do not know what energy security is, which smacks of political posturing. Even if they are aware of its meaning, these countries lack the measures needed to assess and measure energy security. In most cases, they lack the timely data required to build such measures.

If it was not "ignorance" or "political posturing," can officials explain why they are worried about "dependence" on oil supplies from the Middle East? Can Indian officials, in particular, explain why dependence on their historic and geographic partners in the Gulf is "dangerous"? Can they explain why, for example, the impact of 30% dependence on oil imports is different from 60%? Those in China and India who are worried about the increasing dependence on oil imports must answer the following questions:

- How can they explain the economic miracles of Japan and Germany despite their 100% dependence on foreign oil?
- How can they explain the impressive high rates of economic growth in their countries in recent years despite record-high oil prices?
- How can they explain this impressive economic performance despite record dependence on oil imports?

And one more question: should the Saudis lead the way in eliminating "dependence" on Chinese, Indian, and Japanese products?

PUBLISHER'S STATMENT

MEES*: The Next 50 Years*

By Saleh Jallad

During the last 50 years, the world experienced a mixture of pleasant as well as miserable economic, political and physical changes. Population explosion, political upheavals, regional wars and atrocities, terrorism, exhaustion of primary resources, famine and floods, and the ozone and other environmental potential catastrophes are only a few negative aspects of that period.

Simultaneously, economic growth and development, industrial innovation and creativity, enhancements in health and education, improvement in the quality of life of individuals and societies, positive revolution in the information technology, the rise of multinational companies and giant conglomerates; globalization and many other elements developed in the same space and time with equal vigor and intensity.

From the above, two primary common factors can be traced, namely: energy and finance; the infrastructure and the superstructure. These are the bloodline of the past, present and future of human activity. Consequently their role has been vital in the daily life of individuals, organizations, and nations, as well as the physical resources and environment with which such entities interact. The exploitation of resources to produce the goods and services meant to satisfy human needs and aspirations has been fundamental to human beings since the beginning of time.

The fact that *MEES* has been a prime vehicle of information regarding the dynamics of energy and finance in the Middle East since its inception on 19 November 1957, half a century ago, is not surprising. *MEES* prides itself in assuming a leading role in delivering to the satisfaction of all its subscribers, prompt and useful in-depth analysis of the vibrant implications of Middle East energy issues and their regional and international ramifications. The management and editorial team of *MEES* has always carried its responsibility with utmost journalistic professionalism and integrity, thus establishing a mutually strong bond between *MEES* and its subscribers; a tradition *MEES* will always cherish and continue to cling to.

Bright Middle East Energy Future

In our judgment, the future of the hydrocarbon energy resources in the Middle East, including Iran, is still bright. The region is the home of approximately 71% of the world's known oil reserves, as well as more than 40% of its gas reserves. Moreover, it is also home to ample but untapped solar and wind renewable and alternative resources. With globalization as a *fait accompli*, interdependency between the Middle East and the rest of the world becomes even more critical than any time before.

In addition, the financial and human resources in the region are increasing at almost geometric rates with further consequences on world economic and political dynamics. The construction boom that is a characteristic of the region is expected to continue for years to come. Expenditure on the energy industry, whether regarding the rehabilitation of existing onshore and offshore facilities, transportation or new facilities, demands massive financial and technical resources. Our analysis shows that scores of billions of dollars are expected to be disbursed on oil and gas within the coming five years.

Today the population in the Middle East region, including Iran, is approximately 400mn. At a 3% rate of growth it will surpass 500mn over the coming eight years and 600mn by 2021. It is worth noting that more than 60% are below 24 years old. This requires enormous allocation of financial resources to projects whose objective is to alleviate future infrastructure pressure.

Financial intermediation through international, regional and local institutions is therefore expected to adjust to the challenges. As has always been the case, they will adjust to the new realities and formulate efficient solutions while facilitating the flow of funds within a most intensely regulated industry.

Maintaining *MEES* Objectives

The environment surrounding the oil and gas industry, coupled with the financial implications, present *MEES* with the extra challenge of maintaining its standards of providing its subscribers with the analytical products that support their planning horizons' profitability objectives. Our goal therefore for the next decade is to maintain the most credible and useful information on the energy sector of the Middle East, and its interaction with other sectors in the micro- and macro-economies of the region and the world, including the ensuing political ramifications and the risks involved. However not withstanding that, the analysis of the vital financial superstructure in the region and elsewhere will be an intrinsic part of the delivery objectives of *MEES*.

As in the past, *MEES* will maintain its policy of attracting some of the most specialized experts and editorial teams in the information business, providing credible and objective analysis to its subscribers in all the media methods available in the market to the satisfaction of our sponsors. This is supported by the most friendly IT activities, by the most renowned editors and the most complete archives of 50 years of oil and gas and economic data on the Middle East available in the market anywhere in the world. The wealth of intelligence *MEES* offers to its subscribers is truly unsurpassed. *MEES*' professional team, more than that in any other organization, commands the languages and has a deep understanding of the region's mores, customs and social habits. Consequently its relative comparative advantage regarding the Middle East oil and gas industry and its interaction with economic and political ramifications, regional and international, remains an outstanding feature of *MEES*. We are committed to maintaining this comparative advantage of *MEES* in the region in order to meet the evolving requirements of its subscribers.