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Oman's petchem push

Despite being in the crosshairs as one of the first to suffer from the oil price slump, Muscat is making strides with its plans to ramp up output from its petrochemical sector.

A new line of thought

Assessing the workings of a prepay energy system in the Caspian region, *NewsBase* looks at the benefits of such a revolutionary arrangement.

Refining ambition

Aliko Dangote has once again demonstrated his determination to make his plans to build a new mega refinery in Nigeria, pledging another US$2 billion to the proposed project.

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COMMENTARY

Oman moves fast on petchems as budget breakeven point bites

Despite being in the crosshairs as one of the first to suffer from the oil price slump, Muscat is making strides with its plans to ramp up output from its petrochemical sector

By Simon Watkins

- **ORPIC has tendered for bids on a series of EPC contracts at the Liwa Plastics Project**
- **Liwa is located in the port of Sohar, which is receiving major investments as part of the petchem plan**
- **Sohar is also home to a refinery that is undergoing a significant upgrade**

Oman is wasting no time in moving forward on developing its petrochemicals industry, since the announcement from commercial sources in the country in November that the sultanate would be spending US$65 billion over the next five years in development projects for its hydrocarbons sector.

Much of this has been earmarked for activities surrounding a swathe of proposed refinery and petrochemical projects.

As oil and gas prices continue in their bear trend, and Oman with staring at a budget breakeven price of US$110 per barrel of Brent crude for 2015, the country's need to expand its higher value petrochemicals output is second only to Bahrain among the Middle East's hydrocarbons producers (see chart).

"In the current low price oil environment, there is a trade-off, of course, between the long- and short-term merits and demerits of investing in petchems' development," Richard Mallinson, geopolitical analyst for global energy consultancy Energy Aspects told *NewsBase* this week.

"Long term it will provide more employment and generate alpha returns over and above plain hydrocarbons product yields, [in the] short term it uses funds from a government's budget that is declining because of lower oil prices, but Oman seems to be taking the longer view."

Tender balance

According to a recent announcement from Oman Oil Refineries and Petroleum Industries Co. (ORPIC), the first stage of the two-stage tender for pre-qualification for the engineering, procurement and construction (EPC) work packages for the estimated US$3.6 billion Liwa Plastics Project (LPP) petrochemical complex in Sohar was completed in the first half of December.

The pre-qualification tender invited applications to tender for one, or several, of four EPC packages, including an 859,000 tonne per year (tpy) steam cracker, 880,000 tpy polymer units, a natural gas liquids (NGL) extraction unit, and a 300-km-long NGL pipeline.

The first stage involved pre-qualification of individual entities, while the second stage will focus on evidence of formation of the proposed joint ventures (JVs) or consortia; bidders were given the choice of applying for tier one – acting as single entities or lead partners in a future JV – or for tier two – acting as partners in a future JV. "The first pre-qualification stage has demonstrated ORPIC's ability to attract strong interest for LPP from prominent contractors, with the envisaged number of strong prequalified bidders being achieved despite very stringent requirements," said Henk Pauw, General Manager of LPP. A list of prequalifying bidders for LPP was included in last week's issue of *Downstream MEA (Week 49)*.

ORPIC intends to issue the invitation to tender (ITT) for the four work packages to the pre-qualified applicants at the beginning of 2015, once the second stage of pre-qualification is completed.

The company plans to situate the polymers and cracker units next to its Sohar Refinery Improvement Project (SRIP), and LPP will include a nominal 900,000 tpy ethylene cracking plant, a high density polyethylene (HDPE) plant, a linear low density polyethylene (LLDPE) plant, a new polypropylene (PP) plant, a methyl tertiary butyl ether (MTBE)) plant, a butene-1 plant and associated utilities and off-site facilities.

Integration intent

In order to fulfil ORPIC's aim of building an integrated refining and petrochemical business, added Pauw, the petrochemical plant will be linked with the refinery, aromatics complex, and polypropylene plant, with the feedstocks currently under consideration being NGLs (C2+) extracted from natural gas in central Oman and piped to the Sohar complex, mixed LPG produced in the refinery and aromatics complex, dry gas produced in the residual fluid catalytic cracking (RFCC) unit, and a new delayed coking unit that will be part of the SRIP. ►►

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"Some of the materials produced in the petrochemical complex, including hydrogen, MTBE, pyrolysis fuel oil and pyrolysis gasoline will be returned to the refinery, aromatics complex and existing polypropylene plant, further boosting integration and efficiency levels," Pauw concluded.

Sohar is also centre-stage in a corollary development announced last week between Sohar Port and Freezone and Oman International Petrochemical Industry Co. (OMPET) to build a fully renewable manufacturing facility that will produce close to 1.5 million tpy of environmentally-friendly packaging materials for the US$1.3 trillion global food and drink industry. The plant will complement the port's existing – and augmented, as above – petrochemicals supply chain, and will see OMPET lease a 330,000 square-metre plot at Sohar for the production of 250,000 tpy of polyethylene terephthalate (PET), primarily used to manufacture bottles. Neatly dovetailing with the LPP plans, the OMPET manufacturing plant will be located next to ORPIC and will consume all of the paraxylene (PX) produced by its Aromatics unit – PX is a key ingredient in producing fully renewable purified terephthalic acid (PTA).

PET push

As highlighted by Mallinson, the monetary payoff over the longer-term for the PET plan could be enormous. According to Global Business Intelligence, the demand for flexible PET bottles – driven largely by FMCG and pharmaceutical industries – has grown at a compound annual growth rate of 7% over the last decade, with production projected to grow by 6.4% by 2020, to 23 million tonnes, and almost half of this demand likely to come from the Asia-Pacific. Overall, global PET production was valued at US$29 billion in 2013.

"The Gulf region is close to becoming a net exporter of PET products, and could soon have a surplus of 1 million tonnes," said Port of Sohar CEO, Andre Toet. "We want to be a contributor to that surplus, and to help Oman become a byword for high quality PET exports and, as we continue to accommodate the commercial traffic from Muscat, we are also aware of the opportunities that will come as a result of increasing demand, particularly in the Gulf and Asia-Pacific."

The final aims of Oman's longer-term petchems' sector expansion plan were underlined by Jamal Aziz, CEO of Sohar Freezone, who added that not only will many of the foreign imports currently used to produce PET be replaced by locally-sourced raw materials, but also the growth of supporting industries is also expected to multiply employment by five times the number of direct jobs created. ■

Energy as a commodity, or energy as a service?

By Chris Cook

I have been involved in the regulation and development of energy markets and instruments for nearly 30 years. In the early 1990s, while a Director of the International Petroleum Exchange – long since assimilated by the Intercontinental Exchange (ICE) – I oversaw the implementation of the UK's natural gas National Balancing Point (NBP) futures contract. I also remember visiting the embryonic Nordic electricity exchange, Nordpool, at the time and observing its first financial energy trades being recorded on a whiteboard.

Since those early days I have been involved for more than a decade and a half in the development of networked markets – in that Twilight Zone where markets and the Internet converge.

So it was with that background and experience that I found myself in Ashgabat, Turkmenistan last week at a conference convened under the auspices of the United Nations with the Turkmenistan Government as hosts. The meeting was the latest of a travelling carousel of meetings convened by the Energy Charter organisation. The previous meeting had been in Astana, Kazakhstan two weeks before.

The subject of the Ashgabat meeting was the 'Reliable and Stable Transit of Energy', and the first day involved the energy ministers of countries or their representatives making their position known in the ponderous, stylised and abstract way of these events.

The next two days saw the slightly more informal meeting of experts discussing the devil in the detail, and I was fortunate enough to have been invited to attend in the capacity of an expert.

Reliable and stable energy transit

This is of course one of those subjects, like motherhood and apple pie, which every country can agree is a 'good thing'. For dozens of countries present, from Laos to Kyrgyzstan; and Bhutan to Cote d'Ivoire, the principal interest was the reliable and stable transit of electricity, usually hydropower, and how to finance and fund not only new generation capacity but also domestic distribution and international transmission of power as a revenue-earning export. ▸▸

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However, the (literally) burning interest of the host Turkmenistan was how to diversify the export of its massive reserves of natural gas, where the Chinese are rapidly becoming – as Turkmen exports to Iran and Russia have been in decline – a monopoly buyer. Beijing is thus increasingly able to dictate terms in a ruthlessly market-driven style.

The Turkmen need for competitive buyers and the security of new sources of energy demand coincides with the need of the European Union for new sources of energy supply.

The Energy Charter organisation exists principally to promote international trade and investment in energy generation and transmission, and is a Brussels-based and EU-centric NGO instituted by the Energy Charter Treaty on December 17, 1991.

The US is not a member of the Energy Charter, and the membership of the Russian Federation was recently suspended as a result of the current situation in Ukraine. However, representatives of both countries were present since the meeting was convened under the auspices of the UN, and certain UN treaties are relevant to the subject matter of reliable and stable transit of energy, as indeed are the rules of the World Trade Organisation to which both subscribe.

In this context, the motives of the players present were clear from the beginning. The principal Turkmen interest was to facilitate export of their natural gas via a Trans-Caspian pipeline to Baku, for onwards transmission to Europe via the Southern Gas Corridor through Turkey, and a secondary interest was export to India via the Turkmenistan, Afghanistan, Pakistan, India (TAPI) pipeline.

The EU has been heavily promoting the Southern Gas Corridor, which the US has long favoured as a means of energy competition against both Russia and Iran. It was interesting to hear privately from delegates of the scale of US pressure brought upon Georgia and Turkey to accede to the Baku-Tbilisi-Ceyhan (BTC) pipeline.

Russia, for its part, is quite happy to promote both TAPI and the export of Iranian gas to Pakistan (via the Iran Pakistan (IP pipeline). But Russia and Iran are united in regarding Turkmen gas as a competitor to their own actual and potential gas supplies to Europe. Naturally, such a base commercial motivation is unmentionable, so as Caspian littoral states with a high regard for environmental matters they have both objected to the proposed pipeline on the laudable grounds of environmental concerns. It was not a surprise therefore to hear from the Georgian and Turkish government representatives and experts how benign pipeline infrastructure actually is for the Caspian environment.

As is the way of such conferences, the conclusion desired by the organisers is decided prior to the meeting in the form of a draft declaration, and in this case the aim was clearly to agree a declaration in language which would facilitate the overcoming of Russian and Iranian objections to the pipeline via the UN.

The declaration as drafted by the Energy Charter and our Turkmen hosts was quite acceptable to the majority of delegates who had little or no interest in gas generally or Caspian gas specifically, and most of whom were blithely unaware of the tussle going on behind the scenes.

Conference proceedings

A video presentation by no less than the Vice-President of the European Commission Maros Sefcovic could not have been clearer: the EU wants access via a Trans-Caspian pipeline to Turkmen gas, and they want it now.

Iran's approach was unexpected, and Iran's head of international gas affairs – Azizollah Ramazani – made a wide-ranging speech which offered a constructive solution through the export of gas-generated power throughout the Caspian region. He referred to the need for new Caspian Energy Grid infrastructure incorporating efficient High Voltage Direct Current (HVDC) links similar to those now crossing the North Sea.

He envisaged that Turkmenistan could be central to such a grid as a gas-to-power hub exporting energy to the West not as gas, but rather in the form of efficiently-generated power using state-of-the-art generation.

Perhaps the most interesting aspect of Ramazani's speech was his reference to the need for energy efficiency and specifically to the use of the 'least carbon fuel cost' principle. In other words, the need to minimise carbon fuel use for a given production of electricity heat and power and he referred to the catastrophic output inefficiency and waste of carbon fuel both in Iran and throughout the region.

There was also an interesting intervention by Dr Seyed Jalaledin Alavi – the Deputy Secretary General of the Economic Co-operation Organisation (ECO) group of 10 regional players. Alavi made the point that while the ECO membership may compete in relation to the upstream supply and trading of energy as a good, at a meeting of ECO energy ministers in 2013 there was complete agreement on the need for downstream co-operation in relation to power generation (particularly gas-to-power) and for the reliable and stable transit arrangements which were the subject of the Ashgabat conference.

Unfortunately, the clear logic and sophistication of these arguments appeared to have passed by the hosts, who were focused specifically on gas export pipeline projects, and was ignored by the Big Beasts intent only on driving through a declaration which suited their agenda.

However, the Russian delegation was made – as ever – of sterner stuff, and they made clear as directly as diplomatic language permits that they were having none of the declaration as drafted. Their astute lead diplomat Marat Berdyev then succeeded in the next couple of days in neutering the declaration into an anodyne form which Russia could live with, and that is how the conference ended, pretty much as it began.

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The energy market faultline

From the expert papers and discussions a fundamental energy market faultline came into view which is that energy may be seen – depending on its form – as either a good or a service and that these treatments have very different outcomes. Negotiations in relation to the application of World Trade Organisation (WTO) agreements to energy have apparently seen an almost 50:50 split between the two perspectives.

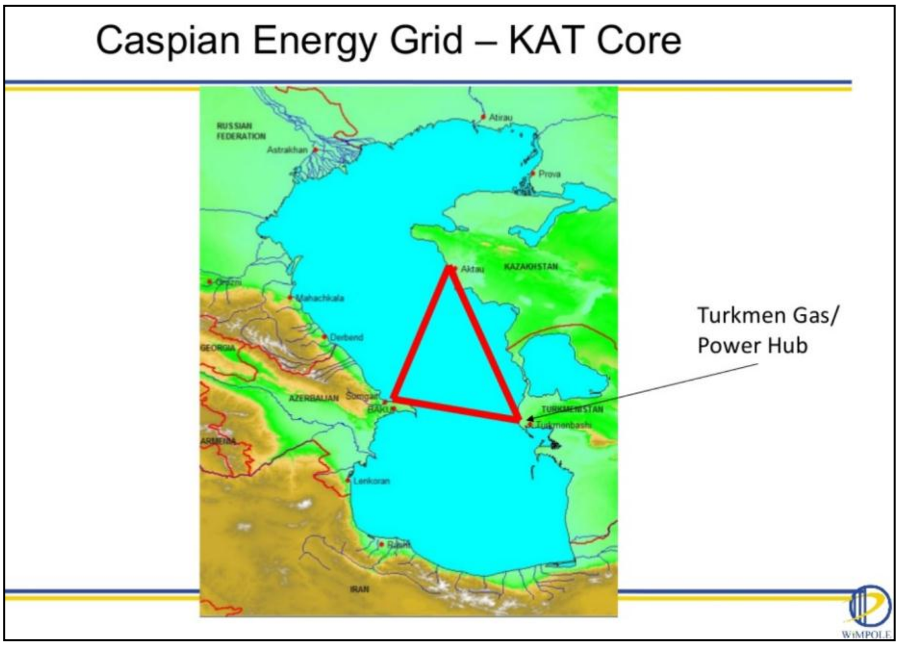
As a good or commodity, energy may be bought and sold for short term financial transaction profit: as a service or flow, energy may be the subject of investment and long term financial return. Of course, the reliable and stable transit of energy requires long-term investment in infrastructure which will last for decades or even centuries, and such investment in energy as a service requires a stable and reliable market price in order to be conventionally funded by either equity or debt funding.

Unfortunately, energy markets have instability and volatility hard-wired into them through the presence of intermediaries involved in trading energy as a good to maximise transaction profit. This inherent instability of an intermediated market is then amplified by the leverage created through bank credit, and through derivatives.

Energy producers have an interest in stable and transparent high prices: energy consumers have an interest in stable and transparent low prices.

But for the intermediaries who created and operate the existing financial system of markets in their own interests, stability and transparency are death.

The outcome is that the reliability and stability required for financing and funding of the colossal investment needed for the production and transit of flows of energy as a service are fundamentally in conflict with the existing intermediated market paradigm of trading for transaction profit of energy as a good.



Transition through gas

This was the title of a presentation I made in Tehran in October 2011 at a high level conference at which I was a plenary speaker immediately after the OPEC and Gas Exporters Countries Forum (GECF) Secretary Generals.

The presentation noted that the crude oil market had become completely financialised and dysfunctional and that the crude oil price was being supported – through control of the market benchmark Brent/Brent, Forties, Oseberg, Ekofisk (BFOE) North Sea crude oil complex – by financial leverage from risk averse 'passive' investors.

It stated that the crude oil price level was unsustainable and I forecast that the price would inevitably collapse to or probably though a lower price level of US$60-70 per barrel after which it would eventually recommence its cycle of boom and bust.

But I also suggested that this inevitable price collapse would create the conditions for a window of opportunity for a new settlement directly between producers and consumers of energy collectively. That moment appears now to have arrived, and the transition through gas to which it could lead, was the subject of my presentation in Ashgabat.

Protocols and prepay

The first requirement is for new (in fact, ancient) agreements for energy production sharing and for the sharing of risk and reward involved in energy transactions.

The second requirement is a new financial instrument capable of connecting producers directly to consumers, and in fact the necessary 'prepay' credit instrument precedes modern equity, debt and derivative instruments by thousands of years. The prepay instrument is simply a credit instrument issued by a producer which he will accept from any holder in payment for his supply.

It neither confers a right to payment (so it is not a debt instrument) and nor does it confer a right to supply or delivery, which would make it a forward contract or derivative instrument.

Note that prepay instruments have been re-emerging in use in the wholesale commodity markets, initially opaquely, such as by Enron – who used prepay to mislead their investors and creditors as to the true state of their finances.

More recently, from 2004 to July 2008 we saw a major investment bank and a major oil company inflate the crude oil price to US$147 per barrel using this instrument, funded by passive/risk averse investors. The price then collapsed dramatically to US$35 per barrel in December 2008 (while physical oil demand varied by maybe 3%). ▸▸

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Professor Sergei Vinogradov of Dundee University – a renowned expert on the international law which applies to energy resources – made a very interesting presentation in respect of the legal position of what is known as the Caspian Sea, but which as he pointed out is not technically a 'sea' at all since it is land-locked. It was clear from his presentation that a legal vacuum exists which gives rise to a requirement for a new and consensual agreement between Caspian littoral nations in respect of their rights and obligations of access to, and use of this body of water and to the resources which lie beneath. Such a consensual agreement or protocol would cover the domain of physical resources and there is also a requirement for a linked multilateral protocol covering the financial and investment aspects which are the subject of the Energy Charter and similar agreements. However, in view of the fundamental conflicts described above, this financial protocol, I believe, requires a new approach based on consensual and interactive/two-way protocols which are additional or complementary to existing agreements rather than competing with them.

I advocate firstly a protocol wherein no stakeholder groups have dominant rights but each of them will have certain veto rights over matters which concern them. I term such an agreement a Nondominium, to distinguish it from existing Condominium agreements of co-ownership where dominant rights are shared between stakeholders.

I envisage that the Caspian littoral states may create a Caspian Balancing Point physical gas market benchmark price – and/or an associated electricity benchmark price – and these markets will be subject to transparent record-keeping and mutually guaranteed acceptance of the issuance of prepay energy credits which will be transacted and priced by reference to these benchmarks within a Clearing Union agreement.

Outcomes

The above framework and instruments for regional trading and investment in energy will in my view enable the creation – commencing with a Caspian Energy Grid – of the basis for what may then organically develop into new Eurasian energy infrastructure.

Such a protocol and instruments will enable one of the Big Trades of the 21st Century to be achieved through enabling the private sector to genuinely become partners of governments. This Big Trade consists of the exchange of the intellectual value comprised in knowledge, knowhow and technology for the intrinsic value of carbon fuel savings monetised by using carbon fuel prepay credits. The New York Times has recently written of the trillion-dollar scale of the commercial opportunity of this exchange. It documented how major corporates as diverse as E.ON and Schneider are evolving their business models from a technology-as-commodity model to a technology-as-service model with much lower capital requirements and therefore much higher return on capital invested.

The necessary funding for this colossal investment in a transition through gas is currently held in the form of colossal international dollar reserve balances. It is my case that energy consumer countries such as Japan and China will find that to hold reserves in the form of energy credits offers more stability, certainty and utility than holding reserves in dollar claims over the productive capacity of the US where much of that country's productive capacity is currently deployed to non-productive purposes.

The outcome will also be to enable best use of finite gas reserves, while they exist, by drastically reducing domestic demand, and to fund a seamless transition to a new generation of renewable energy infrastructure.

Finally, instead of the terminally dysfunctional energy-as-commodity market of crude oil priced in dollars, and gas priced in oil, perhaps we will come to see a transitional market paradigm of energy-as-service where both oil and the dollar are priced in gas? ■

Chris Cook is a Director at consultancy Wimpole International.

ExxonMobil emerges as Nigeria's number one corporate citizen

By Olubunmi Martins

Nigerian President Goodluck Jonathan on December 9 hosted a select number of 100 companies operating in the country at the presidential villa in Abuja, to thank them for keeping faith in Nigeria. He specifically requested their support in navigating the country out of the present dire economic straits, following the steady decline in global oil prices.

With a population in excess of 170 million, the country depends on crude oil sales to run its economy. On average, Nigeria exports around 2 million barrels per day, but a large chunk of sales revenue is lost to corruption and theft. Jonathan singled out ExxonMobil, ahead of Royal Dutch Shell, Nigeria LNG, Total, Chevron and telecommunications giant MTN, for its contributions to Nigeria's economic development. He described the companies as Nigeria's "shining stars because they have provided significant employment opportunities for Nigerians." ▸▸

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Tunji Oyebanji, CEO of Mobil Oil Nigeria, while commending Jonathan for the honour, said: "We have been operating for 107 years in Nigeria and have progressed to become one the biggest oil companies in the country. The industry will continue to support Nigeria for another 100 years."

The choice of ExxonMobil was described by an analyst as a deft move by the Nigerian government to raise investors' confidence ahead of the presidential election coming up in February 2015. It is widely believed that most of the multinational oil companies honoured by the Nigerian President were those which stood against certain provisions contained in the Petroleum Industry Bill (PIB); the industry has consequently become prostrate because of the non passage of the bill.

Public confidence in the incumbent Nigerian government's ability to manage the petroleum industry and indeed the entire affairs of state is also, at this point, under intense scrutiny as the Nigeria Union of Petroleum and Natural Gas Workers (NUPENG) began taking industrial action on December 15, citing the non passage of the PIB as one of its reasons.

Several industry players spoken to expressed a lack of confidence in the leadership of the petroleum ministry, in addition to the president, who has been accused of ineptitude in managing the escalating security challenges in the north-eastern parts of the country.

Working hand-in-hand

Although Jonathan stopped short of being specific in his reasons for singling out ExxonMobil, at different times in the past, major government agencies have consistently mentioned the name and impressive performance of ExxonMobil, especially in regard to Nigeria's gas-to-power development agenda.

The Nigerian Electricity Regulatory Commission (NERC) was more specific in recommending to investors the ExxonMobil business model for gas field development. The model provides for gas-to-power generation alongside other primary purposes. The total amount of electricity generated that is available to the national grid remains limited to around 4,000 MW, largely because of the inadequate development of gas fields. The country aims to generate 20,000 MW between now and 2020.

Apart from Lagos and Abuja, south-eastern Nigeria is probably the fastest growing region in the country, with the imposing presence of Mobil Oil Nigeria as the dominant business player, providing employment and community relation services. Security issues have been managed pretty well around the firm's operations, in co-operation with the local authorities and the regional government.

Akwa Ibom State has demonstrated a viable example of public-private sector co-operation in delivering development and better living standards to its citizens.

What next?

From a modest beginning in 1907 when the company began marketing operations in Nigeria selling kerosene, until it became a publicly listed company, it has grown to become one of Nigeria's largest oil companies with more than 200 retail outlets across the country.

It also owns and operates a lube plant in Lagos State with a capacity to produce 450,000 barrels per year (1,230 bpd), the largest in Africa.

Looking to the future, the firm has declared that it will continue to expand on its operations in Nigeria, especially in the areas of gas, petrochemicals and power. However, in its recently released global business outlook, it said that its investment decisions will hinge largely on the availability of good governance institutions to support safety of its investments.

The current bearish market conditions could hinder plans for further development, but the economic viability of shale oil projects in the US, which have attracted the attention of swathes of American producers, is being undermined by the current low oil price. For Nigeria, this oil price slump may come as a blessing in disguise. ■

MARKET COMMENTARY

Oil prices fall again as storage looms on horizon

By David Flanagan

Crude oil prices fell again sharply in mid-December as the oil market continued to digest OPEC's late-November decision to keep output stable at 30 million barrels per day.

Speculation that the producers' cartel would hold a special meeting to placate disaffected members, or that some members were about to leave, have not so far materialised. But, despite the continued fall in prices, OPEC's appeal to other oil market 'stakeholders', such as Russia and Norway, to negotiate cuts in oil output, has also been largely shunned. Already, the oil market appears to have concluded that everyone has to get back to business, and not dwell too much on the dramas of 2014. ▸▸

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Cost-cutting will emerge among oil producers both large and small in the current market. This is unavoidable. But, more lateral thinking, and the recognition of old-fashioned oil market dynamics and the trading opportunities they present, are already beginning to appear.

What do you do with a commodity when its price falls sharply, yet its production is still buoyant? The answer is to store it. This long-established practice in the oil trading market now has much more relevance because of the simple fact that individual oil producers no longer have the ability to influence oil prices by manipulating production.

So, the logical response to the current price shock, and the nature of the shock, is to store oil.

Ready, set, store

We will see much greater interest in 2015 in onshore tank farm storage projects and in oil storage activity on seaborne tankers. Indeed, the manipulation of tankers for storage instead of transportation is a typical response of trading companies anxious to keep oil off the market when prices fall.

Paradoxically, oil storage and oil tanker freight rates may soon start to climb even with underlying low oil prices, as capacity is utilised in this way. But, major oil producers will soon start to see storage as a part of the answer to their plight if oil prices remain weak, and that includes OPEC producers. They may not be permitted to cut production, but they can certainly store oil.

Facilities in locations such as Fujairah are likely to fill up over the coming months as Middle Eastern producers look for somewhere to keep oil off the market. It also makes sense for buyers and end-users of oil to stock up while it is cheap. So, buyers in Asia will be picking up capacity in close strategic locations such as Singapore.For once, the widely-acknowledged over-capacity of global oil refining, especially in Europe, could just come in handy. Refineries are equipped with storage capacity for a certain period of their processing operations (often around 90 days). And, whether they store crude oil before processing, or oil products afterwards, refiners are now in quite an interesting strategic position.

Suddenly, they can play a more important role in regulating the oil market. The under-utilisation of refining, especially in Europe, bestows a great degree of flexibility upon refineries. With spare capacity, and not much else to do in the coming years, they have something to offer.Refining is more attractive in a low oil price environment, owing to the enhanced margins.

This means that oil refining throughput is also virtually certain to rise in some major importing countries, even if the result is to place oil products straight into storage. For example, China imported 6.2 million bpd of crude oil in November, up from October, which was itself healthy as a result of the lower oil price. China is clearly buying crude oil for storage, as is its general policy in times of weak oil prices. But, it is also still buying for refining even if a slowdown in domestic Chinese demand growth for conventional fuels is coming. Part of China's strategy is to stimulate oil products exports into the Asian market, which tends to suggest more oil products are being placed into storage in anticipation of a price upturn sooner or later. And, we should expect an invigorated investment attitude in China towards new oil refining and storage projects.

On the markets

On the markets, the Dubai Mercantile Exchange (DME) Oman crude oil marker for the February 2015 future slipped in December, from US$70.55 per barrel on December 2, to US$66.00 on December 8, and on December 15 to US$60.19.

A price rebound on the basis that oil is now 'oversold' has not materialised. Given that the oil market is now getting ready for a holiday period, the likelihood of large long positions being taken in crude oil futures looks remote, as do the prospects of a price recovery before the end of the year. The effect of increased storage may be to trigger the expectation of a 'shortage' of oil in the longer time periods (2015 and beyond), and the crude oil futures forward curve will move into a steeper contango, where longer-term prices are much higher than short-term prices. Such trends will encourage an uptick in trade in complex products such as so-called 'calendar spreads', or trade of the price differential between oil futures time 'buckets'.

The future of OPEC will of course remain the subject of continuing speculation. At the moment, six-monthly meetings result in a build-up of tension, and OPEC may now think that such tensions are no longer helpful to its position. Meetings where results are not announced, but come out steadily through market action, make little sense in the context of OPEC's appeal for more transparency in oil markets. But, the question in most peoples' minds is whether OPEC members now have a common purpose.

Since all oil producers are now looking at costs, and OPEC producers display such wide disparity of costs of production, there is less common ground. OPEC will therefore show moves towards engagement with members and non-members which seek to bridge these now very wide gaps and restore some common purpose between its members. So far, it could only do this through production, but the future of co-operation in the cartel now lies in numerous areas, such as the sharing of technology, joint evaluation of target markets, or some forms of large-scale vertical integration.

As a base for future developments, we could not really have had a more dramatic year for the oil market. But, we should remember that the fall in oil prices in 2014 does mean a likely 'hold' in market share for all oil producers, not just for OPEC producers.

With a more competitive price, oil is less likely to be knocked out of markets by coal, renewable power and other substitutes. Inevitably, the upstream sector is about to engage in an episode of cost-cutting, and it is new projects which will have to be postponed or modified. But, it is also clear that constructive solutions to the current downswing in oil prices will be found, and there is plenty of potential for alert and astute market players to respond to some of these enticing opportunities. ■

Have a question or comment? Contact the editor – Ian Simm (ians@newsbase.com)

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POLICY

Barter deal with Russia denied by Iranian oil minister

Iranian Oil Minister Bijan Namdar Zanganeh has rejected reports of an agreement with Russia involving the barter of oil in return for staple goods.

Iran's Mehr news agency reported on December 10 that Zanganeh had contradicted recent reports citing Russian Economy Minister Alexei Ulyukayev as saying that Moscow plans to sign contracts with Iran to start delivering grain and industrial products to Tehran in return for oil.

"We did not sign any contract to do oil barter with Russia," he said.

During a visit to Tehran in late November, Ulyukayev expressed his hope that such a deal could be reached in the near future, underlining that the central banks of Russia and Iran have been working on ways to start making payments in the two countries' national currencies, to circumvent western sanctions. Ulyukayev said preparatory work had already begun in this respect.

Zanganeh said only that co-operation between Iran and Russia was ongoing in the hydrocarbons sector.

"Russian companies will provide Iran's oil and gas industry with technical and operational support." In early August, the countries signed a five-year memorandum of understanding (MoU), paving the way for the intensification of economic co-operation. The MoU laid a foundation for a comprehensive multi-billion dollar deal for oil sector trade between Tehran and Moscow. On September 9, the two sides signed four MoUs for co-operation in oil and gas, petrochemical, industry and mining sectors, one of these targeting the construction of a fertiliser plant. It has also been reported that the two sides were to discuss bartering goods for petrochemical and chemical products.

The US and European Union have imposed a raft of embargoes on Russian individuals and businesses over the crisis in Ukraine, and have for some years imposed sanctions against Iran over Tehran's potential nuclear activities. ■

Libyan war spreads to struggle for oil revenues

Libya's rival governments have turned their attention to acquiring control of the country's central bank and other financial institutions.

In September, the internationally recognised government in the eastern city of Tobruk appointed a new governor for the Central Bank of Libya, Ali Hibri. Hibri served as deputy governor under Saddek Omar El-Kaber, who remains at his post in Tripoli and who has continued to pay state salaries and subsidies, but who is also refusing to pay spending demanded by both governments.

Libya has accumulated a balance of payments deficit of US$22 billion this year and foreign reserves are threatened by falling oil prices and the continuing conflict, El-Kaber was quoted as saying by the Financial Times.

Libya's foreign reserves are estimated by the International Monetary Fund (IMF) at around US$100 billion compared to US$120 billion at the start of the year.

"If things continue as they are," El-Kaber said, "with the decline in revenues and the increase in budgetary expenditure, especially in the light of sliding crude prices, the situation will be difficult. It will impact reserves in the sovereign fund and in the central bank foreign currency holdings, which have been extensively affected this year and are expected to decline further next year."

Libya relies on oil sales to cover 95% of government spending.

In August, Tripoli was overrun by the Islamist Libyan Dawn alliance, which supports the government of Omar Hassi and the re-established General People's Congress. The parliament that was elected last summer was forced to relocate in Tobruk. It is headed by Abdullah al-Thinni, who is trying to set up a new revenue collection and disbursement system with banks and the National Oil Corp. (NOC), which also has two heads, as does the Libyan Investment Authority (LIA).

Meanwhile, fighting erupted over the weekend for the control of the Es Sider and Ras Lanuf export terminals. A Libya Dawn force advanced on Es Sider and was joined by the United Nations-designated terrorist organisation Ansar al-Sharia. The advance was confronted by the Petroleum Facilities Guard headed by Ibrahim Jathran, whose anti-Islamist military once controlled four of Libya's crude export terminals but turned them over to government control last summer. Jathran now supports Thinni's government, as does the Libya Air Force, which attacked the Libyan Dawn advance and is also supported by the Egyptian and United Arab Emirates (UAE) air forces. ▸▸

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POLICY

NOC closed the Es Sider and Ras Lanuf terminals because of the fighting. Their combined export capacity is 300,000 bpd. Attacks on oilfields and infrastructure continue to keep Libyan oil production and export volatile. Under the regime of Muammar Ghaddafi, Libyan production and export capacity was estimated as high as 1.6 million bpd. Following the overthrow of Ghaddafi, exports quickly returned to 1.2 million bpd, but strikes, seizure of oilfields and infrastructure and increased fighting between rival groups reduced exports to less than 200,000 bpd earlier this year. In recent weeks, Libya has been averaging exports of around 800,000 bpd.

The UN has attempted to arrange peace talks between the rival governments, but they have yet to take place. ■

COMPANIES

Kentz lands Pearl-GTL brownfield work

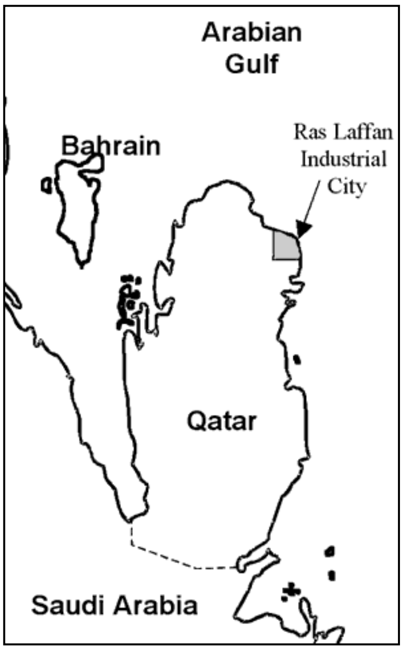
Qatar Kentz has been awarded a multi-million-dollar engineering, procurement and construction management (EPCM) contract by Qatar Shell for services related to plant changes at the Pearl-GTL project, the world's largest gas-to-liquids (GTL) plant commissioned in 2011 at Ras Laffan Industrial City.

Kentz, a subsidiary of Canada's SNC Lavalin since August, has worked on various elements of the US$18-19 billion scheme since construction began in 2006 and has a strong and wide presence in the Qatari hydrocarbons sector, up- and downstream, winning a three year US$190 million contract from Qatar Petroleum (QP) in November 2013 for wellhead services across 775 wells on the Dukhan oilfield. Qatar Shell is a joint venture (JV) between state-owned QP and Royal Dutch Shell.

The latest Pearl contract is for four years with an option for a two-year extension, and covers project management, engineering and specialist studies, procurement and logistics, construction and commissioning management, and the execution of construction works related to 'plant changes'.

It replaces a similar three-year deal signed by Kentz in 2011 – the year the first 70,000 barrel-per-day train at the complex came on stream – and builds on extensive involvement since 2006 in Qatar's biggest industrial project. Pearl GTL is aimed at diversifying the export outlets for the country's vast gas reserves beyond LNG and pipelines and into a far more flexible commodity much sought after as a clean transportation fuel to replace diesel and thus meet higher environmental standards.

Kentz won work worth in excess of US$320 million during the project's first phase, which covered the development of upstream facilities at a block on the North Field to produce around 1.6 billion cubic feet (45 million cubic metres) per day of gas and construction of the first train, and the firm delivered various utilities components including the electrical and instrumentation package during 2009-10.



Commenting on the new EPCM award, SNC president for oil and gas, Christian Brown, spoke of its strategic importance for the newly merged entity and the consequent opportunity to strengthen the company's relationship with a key client.

Pearl-GTL manufactures 140,000 bpd of GTL products alongside 120,000 barrels of oil equivalent per day (boepd) of natural gas liquids (NGL) and ethane at the Ras Laffan complex, fed from the offshore upstream facilities via a 60-km pipeline and utilising Shell's proprietary technology, pioneered at a far smaller-scale plant in Malaysia. The novelty and size of the scheme dictated a long gestation, with a memorandum of understanding (MoU) first signed in 2002 later solidifying into a development and production-sharing agreement (PSA) in 2004, reaching the construction phase in 2006 and full capacity in late 2012. Coinciding with the start of Pearl's construction, Qatar's first such project, the 32,400 bpd Oryx GTL plant, was brought on stream by QP and South Africa's Sasol.

QP and Shell are also partners in the US$8 billion Qatargas 4 LNG project, comprising a 7.8 million tpy single LNG train at Ras Laffan brought on stream in 2011. In June, Kentz won an engineering, procurement, construction, installation and commissioning (EPCIC) contract from QP to provide wastewater recycling and reduction facilities serving four LNG trains. ■

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REFINING

Dangote announces extra US$2bn refinery investment

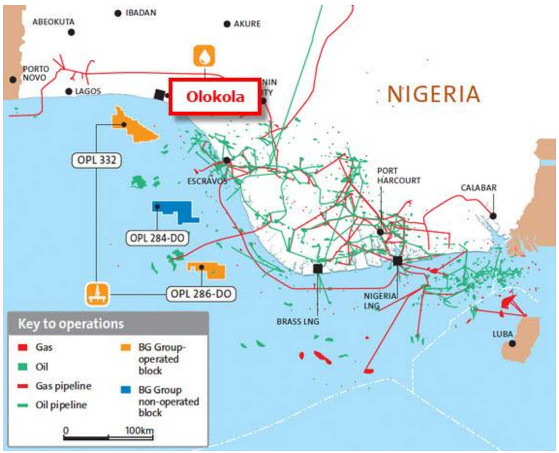
Aliko Dangote, president of Dangote Group and Africa's richest man, has pledged another US$2 billion to the proposed refinery and petrochemicals project in Nigeria's Ondo State.

Speaking to the Financial Times in Lagos last week, Dangote said that the facility should come online with a lifespan of "decades". The refinery was first announced in April 2013, with Dangote later confirming that an investment of US$9 billion would be needed.

Once completed, the 400,000 barrel per day facility will double Nigeria's overall refining capacity, as well as reducing the country's reliance on its four existing plants, which have long been dogged by neglect and mismanagement.

"Nigeria needs it and Africa needs it," Dangote added, stating that this move could revolutionise Nigeria's energy sector by reducing corruption, cutting fuel imports and adding further value to oil exports.

However, the country's economy has been hit heavily by the global fall in oil prices, with the naira losing roughly 12% against the dollar since January.



This will "increase our dollar costs," Dangote said, "but most people in the oil business have slowed down or suspended projects. So I think we will get very good deals in terms of building. That will compensate."

However, this may also "be a blessing in disguise because Nigeria will have to work harder to diversify the economy, especially when it comes to foreign exchange earnings."

Nigeria currently imports the vast majority of its fuel, despite its position as one of the world's biggest crude exporters.

As it stands, the Port Harcourt facility – the country's largest refinery with a capacity of 210,000 bpd has been hit by long-running maintenance issues – as has the 125,000 bpd Warri plant and the 110,000 bpd Kaduna refinery. ■

FUELS

South Sudan minister refuses to take blame for fuel crisis

South Sudanese Oil Minister Stephen Dhieu Dau announced last week that fuel supply issues in the country were not the responsibility of the government. Speaking to reporters in Juba, he said that vessels importing fuel to Kenya's coastal town of Mombasa had been delayed for 10 days.

"The petrol is not even in Kenya," he said. "Even if you have dollars, you don't get it. There was a delay of the ship," he explained. According to Dhieu Dau, this is a problem that is facing the whole region, not just South Sudan.

Following the delays and the lack of fuel availability, transport operators in the country have increased fares in Juba and neighbouring towns, forcing motorists to buy from the black market. Meanwhile, fuel suppliers are saying that the government is not issuing them with the Letter of Credit (LoC) required by traders to access US dollars to import items abroad.

However, the minister dismissed the claims, saying the government is not to blame. "The shortage of fuel is not a problem of South Sudan. It is a problem of East Africa. It is not our problem," he said.

South Sudan is an oil producer, but lacks refining facilities, meaning that it is reliant on fuel imports from neighbouring countries.

At the moment, and following other severe fuel shortages like that of October, black market fuel is gaining momentum in Juba, and is sold at higher prices.

Although the ministry has previously discouraged the practice and officials have described it as unacceptable, the uncertainty of fuel supplies has led motorists to buy additional supplies and in bulk, out of the fear that they may be left without fuel. ■

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PETROCHEMICALS

OMPET concludes tenancy deal

The polyesters petrochemicals complex planned at Sohar by a joint venture (JV) of state-owned Oman Oil Co. (OOC), its subsidiary and project operator Takamul and South Korea's LG International – now named Oman International Petrochemical Industry Co. (OMPET) – took a step forward in early December with the signature of a formal site lease agreement with the Sohar Port and Freezone authorities.

While the government involvement in both ventures rendered the deal a formality, clearing of the bureaucratic hurdle paves the way for the launch of tendering on the main construction contracts and signals Muscat's commitment to the project's implementation despite the budgetary fears created by falling oil prices and warnings of fiscal hardship coming from international ratings agencies.

The other major petrochemicals scheme at the northern industrial city, the Liwa Plastics Project planned by Oman Oil Refineries & Petroleum Industries Co. (ORPIC), likewise progressed in early September with the completion of first-stage prequalification for the main construction contracts – with the publication of the results in the local press reflecting a statement of intent on the part of the government-owned sponsor to proceed as planned.

The estimated US$600 million OMPET facility will produce 1.1 million tonnes per year (tpy) of purified terephthalic acid (PTA), which will be used to manufacture polyethylene terephthalate (PET). The site leasing announcement puts PET output at 250,000 tpy although all previous reports have spoken of 500,000 tpy as the target capacity. A senior project official told an industry conference in late November that engineering, procurement and construction (EPC) contracts are due to be tendered in early 2015, with commissioning scheduled for 2018. Australia's Worley Parsons is the project manager. Being developed separately at the complex by Takamul is a 100,000 tpy unit producing purified isophthalic acid (PIA) – another PET ingredient – while in a further indication of the integrated nature of downstream development at Sohar, all the paraxylene (PX) produced at ORPIC's existing aromatics plant will feed the PTA facility. The announcement of the lease of a 330,000 square-metre plot from the Sohar port authorities, a 50:50 JV between the government and the Netherlands' Port of Rotterdam, was accompanied by an upbeat assessment of the project's benefits for the domestic economy, including the creation of 300 direct jobs and five times as many indirect posts, import substitution, and export of high-quality PET to a growing international market. – Sohar Port & Freezone CEO Andre Toet explained that this is of particular importance in packaging but also for use in the electrical, automotive and consumer appliance industries. When acknowledging the need to trim fiscal outlays in light of falling oil prices, Muscat has emphasised that strategic economic development projects will be unaffected – and the continued development of a world-scale petrochemicals industry, with its promise of job creation and diversification, falls into that category. Costing an estimated US$3.6 billion, Liwa Plastics is the largest such project, hence the prominent disclosure of lists of high-calibre international firms successfully prequalifying for the four main EPC contracts in early December.

Once the second stage is complete, qualifying companies will be able to participate as junior partners in bidding consortia, and a full tender will be floated in two stages. One of these will be launched at the end of January 2015 on the basis of basic engineering designs and the second will follow at the end of March on completion of the front-end engineering and design (FEED). When commissioned in 2018, the flagship plant will produce 880,000 tpy of high density polyethylene (HDPE) and linear low density polyethylene (LLDPE), 300,000 tpy of polypropylene (PP), 90,000 tpy of methyl tertiary-butyl ether (MTBE), 41,000 tpy of butane, and 111,000 tpy of pyrolysis gasoline. ■

PIPELINES

Second MZ-SA gas pipe on track

Independent oil producer SacOil, the Public Investment Corp. and Mozambique's Institution for the Management of State Shareholdings (IGEPE) have signed a joint development agreement to evaluate the technical and commercial feasibility of a US$6 billion natural gas pipeline which will link South Africa and Mozambique. The pipeline, which will carry gas from latter's Rovuma fields to South Africa, will have off-takes to other southern African countries specifically members of the Southern African Development Community (SADC). "The Mozambique gas project is key for the economic transformation of southern Africa. Our participation is in line with SacOil's long term strategy of being a leading Pan African oil and gas company," said SacOil CEO, Dr Thabo Kgogo. ▸▸

Have a question or comment? Contact the editor – Ian Simm (ians@newsbase.com)

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PIPELINES

He said that feasibility studies would cover engineering, market development, gas purchasing, economic, financial, technical and commercial risk profiles as well as environmental, social and regulatory issues.

Ahead of the construction project, the two firms will establish a technical working group to oversee the implementation of the feasibility studies' components and incorporate a company "to ensure that total focus on the Project is maintained, and emphasis will be placed on local ownership of businesses along the entire value chain."

Earlier, SacOil, an independent African oil and gas company with dual listing on the Main Board of Johannesburg Stock Exchange and the AIM Board of the London Stock Exchange (LSE), had said the main drivers of the pipeline project include the persistent energy shortages which have constrained the southern African market, the potential of gas to transform the energy sector in the region – but now accounting for 3% of the energy demand in South Africa – and President Jacob Zuma's government target of reducing carbon emission levels through increased use of natural gas.

"The demand for natural gas is also expected to grow in Botswana, Malawi, Mozambique, Zambia, Zimbabwe and Africa in general," said SacOil in a previous statement. "The main driver of this demand for gas is expected to be from gas-fired power stations, vehicle and related downstream industries and domestic consumption."

If constructed, it is proposed that the 2,600-km main pipeline from northern Mozambique to South Africa will, en route, deliver gas to key towns and settlements in all provinces of Mozambique, thereby stimulating industrial growth in the country.

Mozambique's proved natural gas reserves exceed 100 trillion cubic feet (2.8 trillion cubic metres), much of it discovered by US-based Anadarko Petroleum and Italy-based Eni in the Rovuma basin, placing the country the third-largest proved natural gas reserve holder in Africa, after Nigeria and Algeria.

The country produces an estimated 154 billion cubic feet (4.4 million cubic metres) of natural gas mainly from two onshore gas fields, Pande and Temane out of which 127 bcf (3.6 bcm) was transported to South Africa via the 535-mile (861 km) Sasol Petroleum International gas pipeline.

Anadarko recently announced that it had signed non-binding long-term supply agreements with Asian buyers covering 66% of the capacity of the first 5-million tonne per year (tpy) liquefaction train. First LNG sales are expected in 2019, although this date has been pushed back in the past. ■

TERMINALS & SHIPPING

Bids submitted for Al-Zour refinery tank farm

Bids were finally opened on December 7 for the storage tanks package on the New Refinery Project (NRP) planned by state downstream operator Kuwait National Petroleum Co. (KNPC) at Al-Zour in southern Kuwait. The remaining four of the five main construction contracts are now due to be opened during the first half of January 2015.

Though an encouraging development, the success of the 10-year-old scheme rests heavily on the upstream development of the northern oilfields, most importantly the flagship Lower Fars Heavy Oil venture, the main contract on which KNPC's upstream counterpart Kuwait Oil Co. (KOC) recently pledged to award by the end of the year.

Longstanding sensitivities over the refinery's proposed site – located in the Kuwaiti portion of the Partitioned Neutral Zone (PNZ) shared with Saudi Arabia – have also been rekindled by a recent increase in tension between the neighbours over management of the shared territory's substantial oil and gas reserves.

A team of Italy's Saipem and India's Essar submitted the lowest price by far of 406 million dinars (US$1.4 billion) for the engineering, procurement and construction (EPC) contract, 23.6% lower than the 503.4 million dinars (US$1.7 billion) offered by South Korea's Daelim.

Daewoo, also of South Korea, priced the work at 560.8 million dinars (US$1.9 billion), while a team of the UK's Petrofac with South Korea's Hyundai Heavy Industries was more than 200 million dinars (US$686 million) off the pace at 623.3 million dinars (US$2.1 billion).

Petrofac's eyes are presumably focused on the more lucrative prize of the single EPC contract out to bid on the Lower Fars scheme, for which it submitted the lowest price of US$4.3 billion in July, although it is on the shortlist for all five NRP packages. The UK-based firm and Hyundai Heavy Industries (HHI) are also working separately on two of the main contracts on KNPC's other flagship development, the so-called Clean Fuels Project to expand and upgrade the existing Mina al-Ahmadi and Mina Abdullah refineries. ▸▸

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TERMINALS & SHIPPING

The Al-Zour tank farm package covers tanking, piping and underground works for the 615,000 barrel per day plant, now scheduled for completion in 2019 after years of politically-charged delays and the twice cancelled tendering process – as late as after main contract awards in 2008. The fuel is now increasingly urgently required, in particular to feed rapidly-rising demand for heavily subsidised electricity, and about 225,000 bpd of the new refinery's output will comprise low-sulphur fuel oil for power generation.

Bids for the marine works package, which had thus far moved in tandem with the storage element, are now due on January 6 following a further one-month extension, while prices from the six prequalifiers for the three remaining EPC contracts, covering the atmospheric residue desulphurisation unit, the hydrogen compression and recovery units, and the offsites and utilities – worth an estimated combined total of some US$9 billion – are due on January 13, 2015.

In March, Van Oord of the Netherlands was awarded a 186.4 million dinars (US$663.3 million) site preparation contract, the impact on which of subsequent tensions with Riyadh and of plans announced in September for the integration of a long-planned petrochemicals complex with the refinery are unknown. Amec of the UK is the project manager.

The NRP's fate is naturally closely tied to that of the northern upstream development by which it will be fed through a 270-km pipeline which is also awaiting selection of a contractor.

Bids for the single EPC contract for the Lower Fars project, which would yield output of 60,000 bpd by 2020 and ramp up to 270,000 bpd over the following decade, were submitted in July.

Earlier this month, KOC CEO Hashem Hashem promised an award by the end of the year. ■

NEWS IN BRIEF

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POLICY

OPEC cuts 2015 demand forecast for its oil

Global demand for OPEC crude in 2015 is expected to fall to the lowest level in more than a decade and far below current output, the group said, pointing to a hefty supply surplus without OPEC output cuts or a slowdown in the US shale boom. In a monthly report, the OPEC forecast demand for the group's oil will drop to 28.92 million bpd in 2015, down 280,000 bpd from its previous expectation and over 1 million bpd less than it is currently producing.

The report follows OPEC's decision last month not to try and prop up prices by cutting output. Top exporter Saudi Arabia urged fellow members to combat the growth in US shale oil, which needs relatively high prices to be economic and has been eroding OPEC's market share. OPEC's decision on November 27 to retain its output target of 30 million bpd has sent prices plunging. Brent crude LCOc1 was trading below US$66 per barrel, close to five-year low and down more than 40% since June.

REUTERS, December 10, 2014

Oil recovery stabilising markets

A rebound in the oil price may help Middle East stock markets stabilise on December 14 after sharp drops in the past two trading days, but equities investors are likely to remain cautious after their earlier attempts to catch the bottom failed. Brent crude climbed above US$62 per barrel after hitting five-and-a-half-year lows of US$60.28 earlier, as traders began pricing in expectations of improving global manufacturing data to be published later this week.

Gulf markets have largely moved in line with oil prices for the last few weeks as investors became worried that a sharp decline in oil revenues could trigger government spending cuts and slow non-oil growth. While analysts and fund managers believe this is unlikely to happen in countries other than Oman and Bahrain, they say stock markets will remain under pressure from retail investors in the near future, until there is some evidence that government spending and corporate profit growth is staying strong. "Upcoming catalysts that will help determine the direction of markets will be the 2014 results along with the announcement of the Saudi budget for 2015," manager of the EFG-Hermes Middle East and Developing Africa Fund Sherif El Haddad said.

REUTERS, December 15, 2014

Cheap oil chokes off Iran's economy, budget resources

While Iran's targeted oil export revenues has not been realised, a 41% decrease in OPEC basket price compared to June has choked off the country's economy and budget incomes. While according to its budget law Iran should have exported 1.3 million bpd of crude oil (including natural gas condensate), the statistics released by Reuters on November 29 reported that Iran's oil exports to Asia stood at 1.11 million bpd during the ten months of 2014. Iran sends about 100,000 bpd of oil to Turkey, but the Iranian Oil Ministry has confirmed that targeted 1.3 million bpd of oil exports has not been realised. Iran's Government Spokesman Mohammad Baqer Nobakht said that people should remember that the government has to manage the economy based on US$24 billion oil export revenues. ▸▸

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NEWS IN BRIEF

Iran oil exports decreased from 2.5 million bpd in 2011 to about 1.07 million bpd in 2013. The Iranian government offered the next fiscal year's budget to Parliament on December 7 to be approved. The budget was set based on US$72 per barrel of oil. Iran's fiscal year starts on March 21.

TREND, December 10, 2014

Iran's Oil Minister rejects oil barter with Russia

Iranian Oil Minister Bijan Namdar Zanganeh has rejected reaching any agreement with Russia to barter oil in return for staple goods, the Islamic Republic Mehr news agency said. Zanganeh was reacting to news reports quoting Russian Economy Minister Alexei Ulyukayev as saying Moscow plans to sign contracts with Iran to start delivering grain and industrial products to Tehran in return for oil. "We did not sign any contract to do oil barter with Russia," the Iranian minister said. Ulyukayev, during his visit to Tehran in November, expressed hope that a deal could be reached in this regard in the near future, adding that the central banks of Russia and Iran are working on ways to start making payments in the two countries' national currencies and preparatory work has already begun to achieve this goal. Zanganeh said that Iran and Russia only will co-operate in gas and oil industry, "Russian companies will provide Iran's oil and gas industry with technical and operational support." Early in August, Russia and Iran signed a MoU for a period of five years, signalling a sharp intensification in economic co-operation between the two countries. The document lays the foundation for a comprehensive multi-billion dollar deal for trade in the oil sector between the two nations. The two sides signed four MoU on September 9 for co-operation in the oil and gas, petrochemical, industry and mine sector, including a MoU between Iran International Petrochemical Co. and the Russian Gas Stroll to build a fertilizer plant.

OIL & GAS INDUSTRY, December 11, 2014

Premier due in Baghdad to discuss security, energy files

An official source said that military co-operation between Jordan and Iraq will continue, noting it will be on the agenda of an upcoming visit by Prime Minister Abdullah Ensour to Baghdad. "We have already trained Iraqi soldiers and our military capabilities are at their disposal whenever they ask for it," the source noted. Meanwhile, the government source said that the prime minister and a government delegation are due in Baghdad next week to discuss bilateral relations with their Iraqi counterparts, with focus on security and energy issues.
The source said military co-operation is continuous between Amman and Baghdad, and it will be further discussed in the scheduled meetings.
"We always support Iraq in its efforts to fight terrorism and always support Iraq's unity," the source explained, as Jordan is a member of the regional coalition to fight terrorism. "The discussions will focus on the Basra-Aqaba oil pipeline project and progress achieved so far in this project," he said, adding that tenders will be floated soon for the implementation of the US$18-billion pipeline through which Iraq will export crude oil from Basra to Aqaba.
The 1,680-km double pipeline will pump 1 million bpd of oil from Basra on the Arabian Gulf to Aqaba Port on the Red Sea, in addition to around 258 mcf of gas.
The Basra-Aqaba oil pipeline, which is expected to be operational late in 2017, will provide Jordan with 150,000 bpd of oil, while the rest will be exported through Aqaba, generating an estimated US$3 billion per year in revenues for the kingdom.

THE JORDAN TIMES, December 11, 2014

Israeli natural gas to save Jordan US$1.5 billion per year

Importing Israeli gas will save Jordan US$1.5 billion per year, according to a report on the Israeli financial website Globes. Last September, Jordanian power company Nepco signed a letter of intent with Noble Energy, which operates the Leviathan reservoir.
The agreement is for 15 years, during which the partners in Leviathan will supply 3-4 bcm annually, amounting to 45 bcm over the contract period. The value of the deal is estimated at US$15 billion.
From a technical standpoint, exporting gas to Jordan is the cheapest and quickest option, because the land-based gas pipeline that must be constructed for it is only a few km long.
The deal is also economically worthwhile for both sides. Jordan currently imports 97% of its energy, paying at least double what it would pay for Israeli gas.
Estimates are that the Jordanian economy will save US$1.5 billion a year by switching the purchase of Israeli gas. For their part, the Israeli gas partners will receive a higher price for the gas than they would have received in Israel.
Globes reported that Jordan's energy minister defended the deal before Jordan's parliament saying, "the purchase of gas from Noble Energy does not constitute a political risk for Jordan, and will not make it dependent on the goodwill of a single country. … We can't sit and do nothing when our power company is losing more and more money each year."
The article further reports that over the course of the fifteen to twenty year deal, "both parties realise that there will be ups and downs in the relations between the two countries."
Jordan turned to Israel to supply its natural gas as instability last year in the Sinai led to regular sabotage of Egypt's natural gas pipeline to Jordan.

THE TOWER, December 11, 2014

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NEWS IN BRIEF

Nigeria oil workers on strike

Nigeria's two oil unions began an indefinite strike that they say will curb exports from the West African nation responsible for pumping more than a quarter of the continent's crude. "You will soon begin to see shutdowns of our oil flow," spokesman of the Petroleum and Natural Gas Senior Staff Association of Nigeria Emmanuel Ojugbana said. Spokesman for the Nigerian National Petroleum Corp and the Oil Ministry Ohi Alegbe declined to comment on exports. Any reduction in pumping would coincide with a collapse in the price of Nigeria's biggest source of revenue. Brent crude oil plunged 44% this year. "We do not expect the strike to have a material impact on Nigeria's oil production, certainly not in the early days," New York-based Eurasia Group's Africa director Philippe de Pontet said. "The unions are taking advantage of the political climate ahead of general elections in February to maximise their negotiating leverage on a set of unrelated matters."

BLOOMBERG, December 15, 2014

Sudan plans gas development and imports

Sudan is looking for investment in natural gas extraction and the importation of natural gas. The country's plans are to aid it in fuelling power generation and industry according to the country's president, Omar Al Bashir. Sudan has proven natural gas reserves but it lacks the infrastructure and development has been slow. The country also lacks the infrastructure to import the commodity, not having the pipelines or port terminals to bring in the gas in its natural state or in the form of LNG.

Bashir said the government had established a state-owned gas company to facilitate gas imports and would build a gas pipeline from Port Sudan on the Red Sea to the capital. "We will work to increase the production of gas inside Sudan and … to open the doors to investment," he said, adding that the constitution was being amended to specify the authority responsible for facilitating foreign investment.

PETROLEUM AFRICA, December 11, 2014

Fujairah anticipates increased trade

With a strategic location as the UAE's only Emirate on the East coast connecting all the markets of the Arab Gulf countries, the Middle East, Europe and East Africa, the Port of Fujairah has embarked on a process to enhance its facilities and range of functions to meet the rising demands of international trade. The port is located at the crossroads of major shipping lines between east and west, which has allowed it to become the second largest bunkering port in the world serving an anchorage that had 13,493 calls in 2013. This positioning has led to a 40% growth over the past 12 months and the port is attracting attention as a risk-hedging option away from the political instability in the Strait of Hormuz.

In this regard, the UAE government has committed US$3 billion to develop a 240-mile oil pipeline from Abu Dhabi to Fujairah with a capacity of 1.5 million bpd, directing about 70% of its daily crude exports through the port. The new pipeline is to reduce the reliance on Arabian Gulf oil terminals, while also reducing shipping congestion through the Strait of Hormuz, cutting insurance costs and saving sailing time. The government has also committed another US$4 billion to set up a refinery at the port's premises.

NEWSBASE, December 11, 2014

COMPANIES

BP in advanced talks with BG over Egypt deal

British gas company BG is in advanced talks that could boost supplies to power-hungry Egypt by allowing rival BP to use its pipelines, the head of BG Egypt said. A deal could enable BG to raise production at its Egyptian operations, which account for about one-fifth of its global gas output but have been hit hard by the turmoil that followed the overthrow of Egyptian president Hosni Mubarak in 2011.

The companies are in talks to link their gas developments off Egypt's north coast by routing around 350 mcfd of gas from two undeveloped BP fields into BG's under-used WDDM offshore pipeline network. "We've been having discussions with BP at a fairly advanced stage. I am sure the agreement will be signed in due course," BG Egypt President Arshad Sufi said, adding a deal would be "for everybody's benefit."

Egypt is battling its worst energy crisis in decades. Rising energy consumption and decreasing production have turned it from a net energy exporter to a net importer in the last few years and caused persistent blackouts. Meanwhile finding supplies for the Idku plant in Alexandria, one of BG's two LNG plants in Egypt, has become a priority for BG, which issued a profit warning in January due to production cutbacks in Egypt.

Sufi said BG was looking at "many options" to boost production in Egypt. "Of course in the Eastern Mediterranean there's a lot of other discovered gas. So we're in discussions with different parties," he said. Cyprus Hydrocarbons said it was in talks to send gas through BG's infrastructure into Egypt. The group developing Israel's Leviathan gas field has also said it is eyeing Egypt for exports through BG-owned pipelines.

BAKKEN, December 10, 2014

BP plans investment in Egypt projects

BP plans to invest more than US$12 billion in Egypt over the next five years, the country's MENA news agency reported, quoting a BP official as saying. BP's Egyptian country head, Hesham Mekawi, also said the company planned to double the volume of gas it supplies to Egypt's domestic market within 10 years, the news agency reported. ▸▸

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NEWS IN BRIEF

Mekawi said BP hoped to help lift Egypt from the energy crisis that has gripped the country since its 2011 revolution. Shortages of natural gas for power generation and liquid petroleum gas, widely used as cooking gas in Egypt, have been especially pronounced.

In late November, Egypt's minister of petroleum resources, Sherif Ismail, said he believed the BP-operated US$10-billion deepwater North Alexandria gas project would be among Egypt's most important upstream petroleum developments.

PLATTS, December 11, 2014

REFINING

China to give credit to Angola for refinery

Angola's state oil company Sonangol will benefit from a new US$2-billion line of credit from the Chinese Development Bank to finance new projects, the oil corporation said.

"This Chinese financing will support Sonangol's plans for expansion in oil and gas," the company said, adding that among the first projects will be a new refinery in Lobito, southern Angola next year.

The southwest African country is China's second biggest supplier of oil, accounting for some 40% of the Asian giant's needs. Since the end of Angola's civil war in 2002, Beijing has extended a total of US$14.5 billion (11.65 billion euros at current exchange rates) to the former Portuguese colony, according to the latest figures from the Chinese embassy in Luanda.

Recent years have seen China help finance major infrastructure projects including roads, rail lines and new cities. During a state visit to Angola by Chinese Prime Minister Li Keqiang in May, he and President Jose Eduardo dos Santos pledged to diversify their co-operation, currently concentrated in the construction sector. Bilateral trade totalled nearly US$36 billion last year, according to the Chinese customs services.

AFP, December 15, 2014

Israel owes Iran US$100 million in compensation

Israel may have to pay Iran as much as US$100 million after a Swiss arbitration panel ruled that the Islamic Republic deserved to be compensated for the loss of its stake in a joint pipeline after its 1979 revolution. The preliminary ruling, which comes after two decades of arbitration, would pay the value of a 50% stake in the Iran Eilat Ashkelon Pipeline Company, which has more recently been in the news for a huge oil leak in Israel's southern Arava region.

But the ruling, which could grant Iran between US$50 million and US$100 million, is still far from being final. It is the first of several rulings required in a complicated arbitration case between countries, during which the two sides will be able to file claims and counterclaims before the panel determines the final amount owed, if any. The preliminary decision was made about a year ago but has never been published. Israel opposes the entire process on legal grounds, but was compelled to take part. EAPC was formed in 1968 when the two countries were friends as a joint-venture company that would bring Iranian oil from the Gulf to Israel's Red Sea port of Eilat and ship it to terminals in Ashkelon, avoiding the Suez Canal. From there the oil would be sold and shipped to Europe.

HAARETZ, December 10, 2014

Africa's richest tycoon adds another US$2 billion into Nigeria refinery

Africa's richest businessman Aliko Dangote is increasing the size of his investment in an oil refinery, petrochemical and fertiliser plant in Nigeria by more than a fifth to US$11 billion despite a looming slowdown in Africa's biggest economy. The project could eventually revolutionise Nigeria's energy sector by slashing fuel imports, eliminating costly rackets associated with subsidies and crude oil swaps, and adding billions of dollars in value to petroleum exports. Mismanaged for years, Nigeria's state-owned refineries work at a fraction of installed capacity. Therefore the country, Africa's leading oil producer, imports most of its petrol and diesel. Mr Dangote has deep pockets and a long record as an industrialist, having converted his trading empire into a vast conglomerate, which produces cement, sugar, flour and other basic commodities and is estimated to be worth more than US$22 billion.

Speaking to the Financial Times at his headquarters in Lagos, he said the refinery and petrochemicals project should be completed by the end of 2017 and thereafter have a lifespan of decades. He is planning an additional US$2 billion of investment, he said, on top of the US$9 billion he announced just over a year ago, to double production of polypropylene and to add production of polyethylene, two raw materials used to make plastics. Nigeria's economy has diversified over the past 15 years thanks to the rapid growth of services. But it still depends on oil for more than 90% of export earnings, and 70% of state revenues. The country has been hit hard by the drop in oil prices, with the central bank haemorrhaging foreign reserves before devaluing the official exchange rate for the naira by 8% last month. The finance and economy minister Ngozi Okonjo-Iweala has forecast a percentage point slowdown in growth to below 6%.

FINANCIAL TIMES, December 14, 2014

Muscat Refinery repair to cost millions

Repairing the refinery in Minal Al Fahal that caught fire is a top priority for the government, said a Ministry of Oil official, even as an expert from the industry predicted that it could cost millions of dollars to fix. "The fire that destroyed part of the Muscat Refinery will cost the government millions of dollars to bring it back to full operation," said an industry expert.

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NEWS IN BRIEF

Hundreds of workers were evacuated when the refinery in Minal Al Fahal caught fire and injured four persons. A statement posted on the Oman Oil Refineries and Petroleum Industries Company website said: "The incident was due to a fire in one of its naphtha treatment units."
Witnesses said they heard a blast shortly before smoke erupted from the plant. The refinery is located in the midst of residential and business areas at Qurm, but Orpic said there was no indication of any release of toxic substances that would pose a threat to the surrounding areas.
The refinery is managed by Orpic. The state-run company also has another refinery in Sohar that pumps around 120,000 bpd of refined oil. "The way it was described to me by refinery engineers, it will take tens of millions of dollars to repair the refinery. The naphtha treatment facilities are not cheap to replace and neither are the processing plants. Also you need to consider the time the refinery will be out of service and the income loss when it is down," consultant of South Korea's SK Engineering and Construction Company Aki Atsushi. A Ministry of Oil official said, "We know what we have to do and repairs are a top priority. It is part of the refinery business operations to put things right and we are on the job."

TIMES OF OMAN, December 10, 2014

Mina Al Fahal refinery to resume operating December 18

The Mina Al Fahal refinery of Oman Oil Refineries and Petroleum Industries is expected to resume operations on December 18, the company said. ORPIC had previously said on December 5 that it had put out a fire at one of the naphtha treatment units at the refinery in Muscat. In a new statement, the company said the damage was minor and that "the operations of the refinery are expected to resume on December 18, 2014". Three people were injured in the fire but are recovering well, it added. An investigation of the cause of the fire is underway and is expected to be completed in the next two to three weeks. "ORPIC has also confirmed that fuel products supply to the local market is continuing as normal and the production at its Sohar refinery is continuing as per (the) normal production plan," ORPIC said, adding that it had increased the loading capacity of fuel trucks at Sohar to ensure adequate supplies.
The Mina Al Fahal refinery has a capacity of 106,000 bpd, according to Reuters data. Including the Sohar refinery, ORPIC has total refining capacity of 220,000 bpd, according to its website.

AL ARABIYA, December 12, 2014

Pakistan to resume building IP pipeline

Iran's Minister of Economic Affairs and Finance, Ali Tayyebnia, pointed to the latest remarks made by Pakistani Prime Minister Nawaz Sharif on the construction of Iran-Pakistan gas pipeline, and said the project will soon be started in the Pakistani territory soon. "The Pakistani side and particularly the prime minister of the country have announced their serious intention to implement the project," the Iranian minister said.
"Required co-ordination has been done in this regard and the construction of the pipeline in Pakistani soil will be started," he added. Iran and Pakistan signed an agreement for the construction of the gas pipeline in 1995. The IP pipeline is designed to help Pakistan overcome its growing energy needs at a time when the country of over 180 million people is grappling with serious energy shortages. The final construction phase of the IP pipeline was inaugurated on March 11, 2013. Iran has already built 900 km of the pipeline on its soil. Pakistan, however, has fallen short of constructing the 700-km part of the pipeline on its territory. Elsewhere in his remarks, Tayyebnia commented on the trade exchanges between Iran and Pakistan, saying that the volume of bilateral trade ties is currently less than US$1 billion.

TASNIM, December 10, 2014

SAMREF completes sulphur-reduction work

Saudi Aramco Mobil Refinery Company (SAMREF), a joint venture of Saudi Aramco and ExxonMobil, has completed construction of major desulphurisation facilities, including a new hydrotreater, that dramatically cuts sulphur levels in petrol and diesel. The project is the largest investment in SAMREF's history and will reduce the sulfur levels in petrol and diesel by more than 98%, to 10 parts per million, which makes the refinery an industry leader in emissions reduction.
"Our long-term partnership benefits from the technology and innovation from both companies. Our refinery will continue to be an industry leader throughout the Middle East and in the global market place well into the future. It is also testimony of Saudi Arabia's long-standing role as a reliable energy supplier to key geographic areas of the world," said president and CEO of Saudi Aramco Khalid Al-Falih.
Senior vice-president of ExxonMobil Corporation Darren Woods said: "We continue to apply advantaged technology that will deliver world-class products that contribute to the fuels value chain. The successful, recent startup of the clean fuels project illustrates the refinery's advancements and preparations to meet global energy demands."

BUSINESS STANDARD, December 11, 2014

FUELS

Syrian diesel fuel price drops

Syria's Ministry of Internal Trade and Consumer Protection reduced the price of one litre of diesel fuel for private sectors by 10 pounds to 140 pounds. Diesel fuel price for home heating use and inter-provincial transportation remains at 80 pounds per litre.

SANA, December 13, 2014

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NEWS IN BRIEF

Experts in Oman say fuel subsidy issue needs a detailed study

Officials and experts closely following Oman's fuel subsidy issue have said that the situation is not at a pressure point to warrant urgent or dramatic action. They said subsidies are a complicated issue that require a long-term strategy and more studying, and should not be considered among the immediate means of compensating for a drop in government revenue due to decreased oil prices. Additionally, ending subsidies, however gradual, would have larger social implications. "It's (subsidy) not at a level that's unsustainable," said an official from Oman Investment Fund (OIF), the government investment arm, requesting anonymity. "The government has enough money accumulated from when the oil prices were above government budget projections. It's not a fiscal emergency." Debates were catalysed by comments in late October by Minister Responsible for Financial Affairs H E Darwish bin Ismail bin Ali al Balushi on 'probable' cuts in 2015 linked to decline in oil prices. Officials say that the two options to cover any subsidy cut, gradual implementation and special programmes like a voucher system to benefit the needy, are possible. According to a Central Bank of Oman report, the government spent more than 1.1 billion rial in 2013 on fuel subsidies, which is more than half (54.6%) of the total money spent on all subsidies. Besides petrol, the government subsidises water, electricity, gas and certain food staples. However, only fuel subsidies have come under discussion. Also requesting anonymity, a professor at Sultan Qaboos University's economics and finance department said petrol was the easiest manageable subsidy to cut, but noted that such a move would run counter to government priorities in recent years that emphasised on social provisions.

MUSCAT DAILY, December 15, 2014

PIPELINES

Oando completes pipeline for crude evacuation in Nigeria

Oando Energy Resources, a Nigerian company with extensive interests in the African oil industry, says it has completed the 45,000-bpd, 51-km Umugini pipeline. The pipeline will provide an alternative evacuation route for crude oil produced from the Ebendo Field through the Trans Forcados export pipeline. Ebendo is located onshore, in the central Niger Delta, approximately 100 km northwest of Port Harcourt and covering an area of 65 sq km (16,062 acres). The Licence includes two fields, Ebendo (producing) and the Obodeti field (undeveloped). Oando Energy Resources holds a 42.75% working interest on the field. Following the successful drilling of Ebendo wells 5, 6, and 7 over the past 12 months, oil production capacity within OML 56 has grown to 7,140 boe per day gross for OER and Energia the operator of the asset. However, exports have been constrained at 3,093 boe per day via the Agip operated Kwale-Brass NAOC/JV infrastructure in which OER currently has a 20% interest through the recent US$1.5-billion acquisition of ConocoPhillips Nigerian Oil & Gas Business.

VENTURES AFRICA, December 09, 2014

TERMINALS & SHIPPING

Egypt to tender for second LNG terminal

Egypt will launch a tender for a second LNG import terminal in the coming weeks, which could help address the country's ongoing energy crisis, a source at the state gas board said. High consumption, along with foreign firms' reluctance to invest in the sector until the government pays billions of dollars it owes, have turned the country from a net energy exporter into a net importer over the last few years. Egypt can export LNG but it cannot import it without installing regasification and storage terminals. The country finalised a long-delayed deal last month with Norway's Hoegh LNG for a floating storage and regasification unit that will allow it to begin LNG imports. The oil ministry has announced plans to import six LNG cargoes from Algeria between April and September next year. Plagued by a series of delays over the last two years, the first terminal is meant to begin operating by the end of March. Egypt has been struggling with soaring energy bills caused by subsidies it provides on fuel for its population of 86 million. It has begun to repay foreign energy firms in a bid to court fresh investment, but still owes about US$4.9 billion to a group of companies.

REUTERS, December 09, 2014

Oman's 10-month oil exports decline

The sultanate has recorded an annual 3% decline in oil-export volumes for the January-October period of 2014. Total oil exports fell to 244.1 million barrels from 251.7 million barrels per year earlier, statistics released by National Centre for Statistics and Information showed. The average price of Oman crude remained almost flat at US$105.45 per barrel in the 2014 period, compared with US$105.51 in the corresponding period last year. While total oil production inched up 0.6% to 287.8 million barrels for the period under review, daily production averaged 946,800 barrels, up from 940,800 barrels last year. The government has set a production target of 980,000 barrels per day for next year, which is over 3% above the 2014 target of 950,000 barrels, Undersecretary of the Ministry of Oil and Gas H E Salim al Aufi said. He said the continuing trend of lower oil prices will not impact the government's capital expenditure programme for the oil and gas sector in 2015.

FREIGHT NEWS, December 11, 2014

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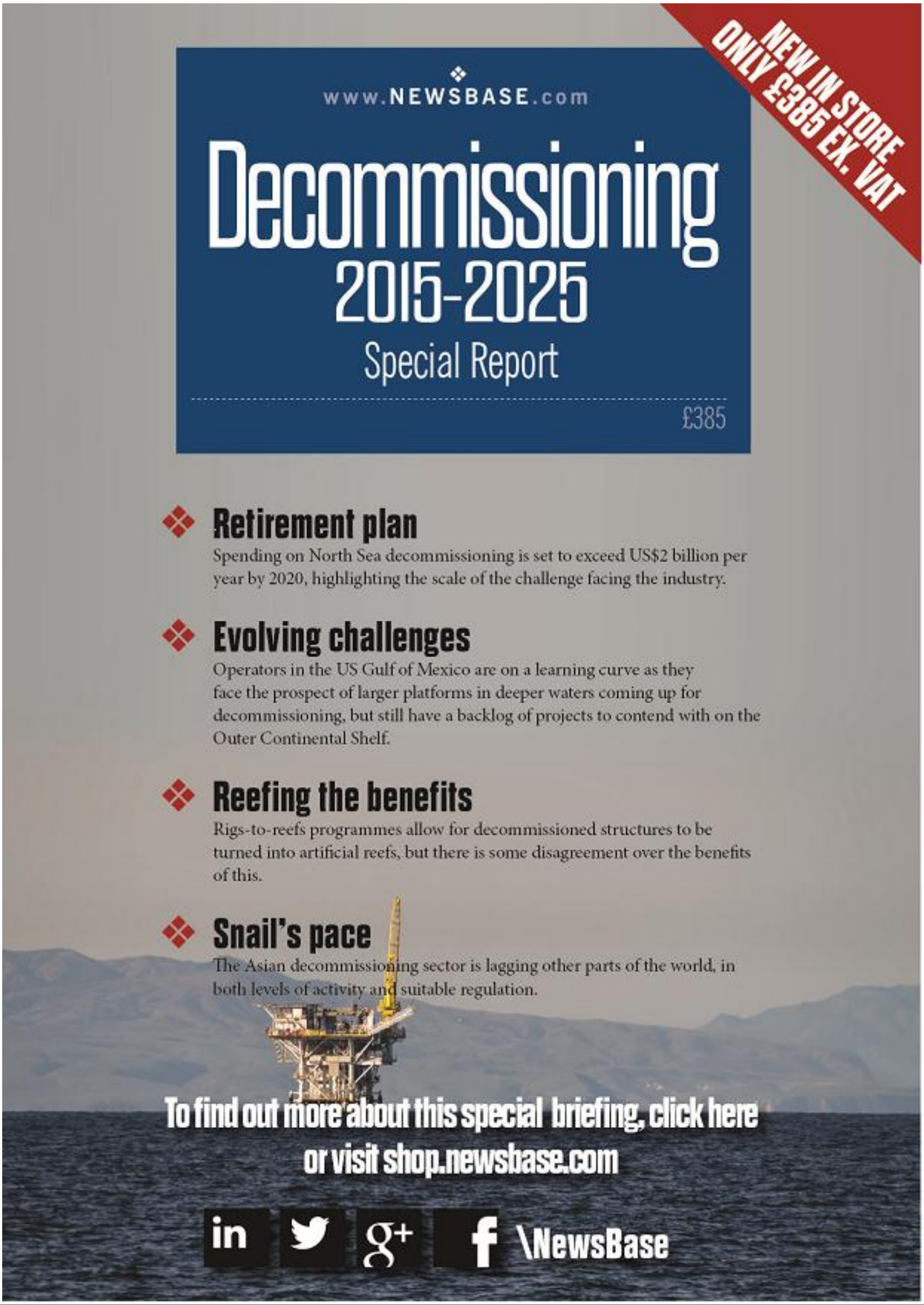
SPECIAL REPORT



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NEWSBASE INFORMATION

HEADLINES FROM A SELECTION OF NEWSBASE MONITORS THIS WEEK

Oil and Gas Sector

AfrOil

Cameroon expects its oil production to double within the next two years.

AsianOil

ONGC has made three new oil and gas discoveries in India.

ChinaOil

PetroChina is to increase tight gas production to around 80 bcm per year by 2020.

FSU OGM

Rosneft is pressing ahead with efforts to establish an Arctic oilfield service base in the Murmansk region.

GLNG

Shell has chartered from Teekay five new Daewoo-built LNG carriers with cutting-edge MEGI engines.

LatAmOil

Colombia expects exploration investment of US$8bn next year, with over 1,000 wells to be sunk in existing fields.

MEOG

OPEC has cut its forecast for global oil demand and has reduced its demand estimate for its own crude in 2015.

NorthAmOil

Cameroon expects its oil production to double within the next two years.

Unconventional OGM

The Dutch government is extending a moratorium on shale drilling in the country.

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