

South Korea Boosts LNG Imports as Economic Recovery Aids Power Consumption



South Korea, the world's second-largest buyer of liquefied natural gas, increased imports of the fuel for a sixth month as power generators used more gas amid an economic recovery. LNG purchases rose 79 percent in July to 2.08 million metric tons from 1.16 million tons a year earlier, according to data posted on the Korean Customs Service's website

today. The nation paid \$546.6 a ton, equivalent to about \$10.4 per million British thermal units, for the fuel, 45 percent more than a year earlier, the data show. The cost rose from \$528.8 a ton in June.

Gas consumption jumped 32 percent to 1.8 million tons in July, state-run Korea Gas Corp. said Aug. 11. Power producers used 58

percent more of the fuel last month as manufacturers used more electricity to increase output. Korea Gas said last month it may sell 31 percent more gas this year as economic recovery is boosting demand for the fuel. South Korea bought two spot cargoes from the U.S. and Equatorial Guinea for \$516.41 a ton in July, compared with one spot cargo purchased at \$478.91 a ton a year earlier, the data show. The nation buys LNG under multiyear contracts from Qatar, Russia, Indonesia, Oman, Malaysia, Australia, Brunei and Yemen, as well as individual cargoes in the spot market. Coal imports for power generation climbed 13 percent from a year earlier to 8.17 million tons, customs data released today show. The cost of importing coal rose 6 percent last month to \$85.94 a ton.

BP, U.S. Officials to Determine How to Finally Plug Gulf of Mexico Well

BP Plc and U.S. officials are evaluating how to proceed with a relief well that is intended to make sure BP's damaged well will never leak again.

BP has been ordered by U.S. officials to finish the relief well after pressure tests failed to prove there's no further risk of oil leaking from the well. National Incident Commander Thad Allen said yesterday in a press conference in Schriever, Louisiana.

BP and government scientists are reviewing how to move forward after determining that about 1,000 barrels of oil are trapped in the Macondo well by a cement plug poured from the top last week. The relief well will be finished and we will kill the well, Allen said. The question is how to do that. Injecting mud and cement from the bottom, as had been planned, may force oil out the top and wreck the existing seal, creating a new route to the surface for oil and gas, Allen said during a conference call. BP stopped the leak July 15 after the well gushed an estimated 4.9 million barrels, making it the world's largest offshore accidental oil spill.

BP pumped cement into the top of the well last week. The pressure test indicates the cement plugged the well's central core, or production casing, then flowed into the oil reservoir and back up to plug the annulus, a space between the production casing and the outer casing that runs all the way to the top of the well.

Cement Barrier

How thick the cement barrier is

between the annulus and the reservoir, we just don't know, Allen said. It might be very thin, and we go and plug pressure on that and we have a problem.

The dilemma results from Allen's decision to have BP plug the well with cement from the top after injecting a layer of mud to push gas and oil back into the reservoir, some petroleum engineers said. Leaving the mud in place, then pushing it up and out with cement pumped in from the bottom through the relief well would have been a better way to proceed, they said.

It would have been easier and safer to kill the well with the relief well. Les Ply, a retired petroleum engineer, said yesterday in an e-mailed message. When it is cemented from the bottom, you can be assured the well is dead.

Plugging Options

Rather than intercept the damaged well, Allen could order BP to drill into the oil and gas formation and inject thousands of tons of mud around the base of the well to cut off any possible flow, Nansen Saleri, Chief Executive Officer of Quantum Reservoir Impact LLC, a Houston-based adviser to oil companies on how to improve production, said yesterday in a telephone interview.

That's a standard procedure, he said.

Allen said he may order BP to intercept the damaged well as planned and cement the annulus securely, accepting that some of the oil now in

the well may be pushed into the sea.

Allen had said on Aug. 12 that he might not require BP to finish the relief well, which was begun May 2.

The relief well has been drilled to a depth of 17,909 feet (5,449 meters) below the ocean surface, London-based BP said in a statement on its website. It was about 30 feet from the intercept point when drilling was suspended Aug. 10 because of an approaching storm, Allen said at the time.

Drilling Delay

BP needs 96 hours to resume drilling the relief well, Allen said. The Macondo gusher began after an April 20 explosion aboard the Deepwater Horizon drilling rig 40 miles (64 kilometers) off the Louisiana coast killed 11 people.

The disaster at one point wiped out more than half of BP's stock value, forced the company to suspend its dividend, halted deep-water drilling in the U.S. and closed as much as 37 percent of the Gulf of Mexico to fishing as the oil spreading. BP said Aug. 9 the cost of stopping and cleaning up the spill had risen to \$6.1 billion.

BP posted a record quarterly loss of \$17.2 billion on July 27 after booking a \$32.2 billion pre-tax charge related to the spill. The company said it would expand asset sales to raise as much as \$30 billion over 18 months to help pay for cleanup costs and liabilities from the environmental disaster, which also cost Chief Executive Officer Tony Hayward his job.

The acquisition of oil and gas concessions is the paramount point of competition between oil and gas companies in the upstream sector, said IHS CERA Chief Energy Strategist David Hobbs. Success provides a company with the 'fuel' in its portfolio to deliver superior growth and returns. Failure leads to more of an uphill struggle. This has important implications for the long-term health and employment prospects of oil and gas companies. Oil and gas companies that succeed overseas give their home countries benefits such as a greater sense of energy security, higher employment, promotion of their technology, equipment and service suppliers, research and development investment to support international operations, and returns to shareholders through repatriated dividends.

Afghanistan Discovers 1.8 Billion-Barrel Oilfield in North, Ministry Says

Afghanistan discovered an oilfield containing an estimated 1.8 billion barrels of crude in the north of the country, a Mines Ministry official said.

A huge oil resource, which looks like a triangle, with an estimated 1.8 billion barrels of oil, has been discovered by Afghan geologists in cooperation with international geologists between Balkh and Sheberghan provinces, Jawad Omar, a spokesman for the ministry, said in a phone interview today from the capital, Kabul.

The field is a new discovery and was not among those found by Russian exploration companies, Omar said. Further research will be carried out in the next six months and the field will be tendered once all investigations are completed, he said.

The U.S., which has spent \$27 billion since 2002 training Afghan forces, is promoting development



of Afghan resources in an attempt to stabilize President Hamid Karzai's government. U.S. Deputy Under-Secretary of State Paul Brinkley said earlier this year.

Afghanistan plans tenders for more than five mineral and energy projects by the end of 2011, including gold, copper, iron ore, gemstones, marble, lithium, oil and gas, Mines Minister Wahidullah Shahrani said in June.

The nation's mineral wealth may total \$1 trillion to \$3 trillion, he said. U.S. officials estimate there are untapped minerals worth about \$1 trillion in the country, the New York Times reported on June 14. Estimates of undiscovered reserves in the northern part of Afghanistan average nearly 16 trillion cubic feet of gas and 1.6 billion barrels of oil, according to the ministry.

Lukoil Output Increases as Natural Gas Gains Offset Falling Oil Production

OAO Lukoil,

Russia's second-largest crude producer, boosted total output in the first half to 2.26 million barrels of oil equivalent a day as gains in natural gas compensated for falling oil production.

Oil output declined 1 percent to 1.96 million barrels a day in the first half, Lukoil said today in a statement. Russian production in fell 1.7 percent to 45 million metric tons (1.83 million barrels a day) in the period and international output rose 9.2 percent to 3.11 million tons, the company said.

Oil output will probably continue to decline slowly in Russia until Lukoil starts production in 2013 at Filanovsky, its



largest Caspian field, Pavel Sorokin, an oil and gas analyst at Alfa Bank, said by telephone from Moscow today. The Korchagin field in the Caspian, which began producing earlier this year, hasn't balanced out declines at core west Siberian deposits.

Opportunities for output growth in Russia,

the company's key production region, have been limited but with the exit of ConocoPhillips that may change, Sorokin said.

Lukoil agreed to buy 7.6 percent of its own shares back from the Houston-based company and has until Sept. 26 to exercise an option to purchase as much as

11.6 percent more. The company may improve its chances of gaining rights to large deposits to which the state has limited foreign access by increasing its Russian ownership, Kiti Pantskhava and Maxim Korovin, analysts at VTB Capital in Moscow, said on Aug. 10.

Output of gas available for sale rose 26 percent to 9.24 billion cubic meters from a year earlier, the Russian company said.

Refinery throughputs increased 8.2 percent to 32.4 million tons, Lukoil said. Processing at international plants rose 26.1 percent to 10.2 million tons and domestic plants increased 1.5 percent to 22.2 million tons.

IEA Raises Forecast for Global Crude-Oil Demand Even as 2011 Growth Slows

Global demand for oil will exceed the International Energy Agency's earlier estimates, even as the adviser predicts the economic recovery will slow next year. Crude demand worldwide will average 87.9 million barrels a day in 2011, the IEA said today in its monthly oil market report. While that is 50,000 barrels a day more than the Paris-based adviser forecast last month, it lags behind the upward revision of 80,000 barrels for this year's estimate. There are significant downside risks that demand will slow on an uncertain global economic outlook, the IEA said. Global economic activity is seen expanding by 4.5 percent this year but remains capped at 4.3 percent next year, according to the report. Concerns that the global economic recovery may falter from the second half of 2010 pose a significant downward risk to the forecast. The IEA is projecting that China and other developing nations will offset shrinking demand for oil next year in richer countries such as the U.S., where the Federal Reserve said yesterday it won't unwind stimulus measures because the economy is weaker than previously anticipated. Even China is showing signs of slowing growth, with industrial output increasing the least in 11 months, according to a report today.

Crude for September delivery fell as much as 1.2 percent to \$79.26 a barrel in electronic trading on the New York Mercantile Exchange, leaving prices virtually

unchanged this year.

'Slightly Higher'

The energy adviser raised its estimate for worldwide oil consumption in 2010 and 2011 on slightly higher global economic growth forecasts by the International Monetary Fund in 2010. While its total oil demand outlook was increased, the IEA still expects consumption growth to slow next year. Oil demand in developing economies, which will account for all the increase next year, will increase 3.7 percent in 2011, compared with 4.5 percent this year, according to the IEA. China will contribute about a third of world demand growth, increasing consumption by 420,000 barrels a day, or 4.5 percent. In 2010, Chinese oil demand is forecast to rise 9.2 percent. Consumption in developed economies belonging to the Organization for Economic Cooperation and Development will shrink 0.4 percent in 2011 to 45.33 million barrels a day, after climbing 0.2 percent this year, according to the IEA. Demand in the U.S. will drop 50,000 barrels a day, or 0.3 percent, to 18.91 million barrels next year, the IEA said. Rising Consumption

World demand will climb 1.3 million barrels a day, or 1.5 percent in 2011, down from this year's growth of 1.8 million barrels a day, or 2.2 percent, the IEA said. Last month, it forecast 2010 growth of 2.1 percent and 1.6 percent in 2011. Rising consumption will be

more than offset by greater production from countries outside the Organization of Petroleum Exporting Countries, reducing the world's need for OPEC oil, according to the IEA estimates.

Non-OPEC supply will average 52.9 million barrels a day in 2011, 100,000 barrels a day more than the IEA estimated last month. The revision was driven by higher U.S. production figures and greater-than-expected Chinese oil supply in the second half of this year, according to the agency. It also raised its supply forecast for 2010 by 200,000 barrels a day to 52.6 million barrels a day.

The IEA cut its outlook for the so-called call on OPEC crude. The producers, responsible for 40 percent of worldwide output, will need to provide an average of 29.1 million barrels a day next year to balance world supply and demand, or 100,000 a day less than the IEA forecast last month. The adviser also reduced its 2010 estimate by the same amount to 28.8 million barrels a day. The 11 OPEC members bound by production quotas raised supplies last month by 190,000 barrels to 26.8 million barrels a day, according to the IEA. That implies compliance of 53 percent with record supply cuts set in 2008, down from an implementation rate of 58 percent in June.

Supplies from all 12 nations, including Iraq, increased by 220,000 barrels a day to average 29.2 million.

Analysis: U.S. Ranks Lower as Home Base for O&G Investment

Non-US-based companies have fared better in acquiring oil and gas concessions than US-based counterparts in the face of competition from national oil companies (NOCs) that have emerged as international players, according to a recent report by IHS Cambridge Energy Research Associates (CERA) and Deloitte.

In the analysis, Fiscal Fitness: How Taxes at Home Help Determine Competitiveness Abroad, the share of global activity by investor-owned companies (IOCs) measured by oil production, acreage owned and number of wells operated by international oil companies in the U.S. or elsewhere has declined in relative terms over the past 40 years as NOCs have taken control of their home territories and begun investing in overseas oil and gas ventures.

While a number of factors contribute to the difference in performance between U.S.-based and non-U.S.-based companies, one factor that has not received the attention it deserves is the complex interactions between the host

country fiscal regime and that of the home country. Other factors include policy objectives of the home country, access to capital, and the ability to mobilize collateral investments in the host country, such as ports, railways, and power generation. IHS and Deloitte concluded that the costs of repatriating profits from international operations back to the U.S. is higher than many of its chief competitors and places a value hurdle in the path of U.S.-based oil and gas companies that is higher than that of companies based in other countries. Securing new concessions requires them to overcome this hurdle. Companies from other countries such as the United Kingdom, Netherlands, Russia, Canada, Norway, Italy and China pay less by way of additional taxes on their repatriated profits and are therefore able to compete more easily with U.S.-based companies in some cases enabling them to afford to bid twice as much for oil and gas concession, the report said. The competitive playing field in the international oil and gas sector has become more crowded with

new entrants and the growth of existing players. Over the past 20 years, the number of companies with production of over 1 million BOE/d has doubled from eight to 16. This number does not include NOCs that do not operate outside their home territories.

The acquisition of oil and gas concessions is the paramount point of competition between oil and gas companies in the upstream sector, said IHS CERA Chief Energy Strategist David Hobbs. Success provides a company with the 'fuel' in its portfolio to deliver superior growth and returns. Failure leads to more of an uphill struggle. This has important implications for the long-term health and employment prospects of oil and gas companies. Oil and gas companies that succeed overseas give their home countries benefits such as a greater sense of energy security, higher employment, promotion of their technology, equipment and service suppliers, research and development investment to support international operations, and returns to shareholders through repatriated dividends.