Middle East Oil Producers Might Consider BP Investment - to Diversify

With BP poised to move on from the Gulf oil spill with a new chief executive, the beleaguered London-based company might look attractive to Middle East sovereign wealth funds after all.It would be a parting legacy from outgoing CEO Tony Hayward if his efforts earlier this month to court the funds in Abu Dhabi and other oil-producing countries were to bear fruit.

It may seem counter-intuitive at first blush that funds set up to diversify assets for oil exporters would want to invest in a major oil company. But BP, originally known as British Petroleum, has made good on its motto of recent years to go "beyond petroleum" - and it could do the same for oil producers.BP has energetically acquired assets in natural gas and renewable energy that could translate into useful technology transfer for the well-heeled sovereign funds.As Victoria Barbary, a senior analyst at the Monitor advisory group, recently told Reuters: "SWFs over the last two years have been actively investing into technology transfer from an economic diversification point of view. From this perspective, BP actually have an attractive portfolio."

Leaving the U.S. as persona non grata in the wake of the oil spill, Hayward embarked on a whirlwind tour at the beginning of July to court SWFs as shareholders, in large part to bolster the company's defense against a takeover.

Among others, he met with Abu Dhabi's crown prince, Mohammed bin Zayed al-Nahyan, urging him to have the emirate's sovereign wealth fund, considered to be the largest in the world, acquire up to 10% of BP, according to news reports.

Libya reportedly was also considering an investment through its sovereign wealth fund, though Kuwait, which already owns BP stock, ruled out any further acquisition for the time being.Along with its decision to replace Hayward as chief executive, the BP board this week also agreed to sell off $30 billion in company assets to offset its expenditures in connection with the oil spill. The sale, representing a good 10% of BP's assets, would offer an opportunity for oil producers to acquire non-oil assets directly.

Cuba readies to dive into offshore oil exploration

(Reuters) - A Chinese-built drilling rig is expected to arrive in Cuban waters in early 2011, likely opening the way for full-scale exploration of the island's untapped offshore fields.

Companies with contracts to search for oil and gas in Cuba's portion of the Gulf of Mexico have already begun preparations to drill once the Scarabeo 9 rig gets to the communist-led island.

An official with Saipem, a unit of Italian oil company Eni SpA ENI.M told Reuters on Friday the massive semi-submersible rig should be completed at the Yantai Raffles YRSL.NFF shipyard in Yantai, China by the end of this year.The journey to Cuba will take two months, and once it arrives it will be put into operation almost immediately, said the official, who asked not to be identified.

It will be used first as an exploratory well for a consortium led by Spanish oil giant Repsol YPF (REP.MC) (REP.N), which drilled the only offshore well in Cuba in 2004 and said at the time it had found hydrocarbons.

Cuba has said it may have 20 billion barrels of oil in its offshore, but the U.S. Geological Survey has estimated a more modest 4.6 billion barrels and 10 trillion cubic feet of gas.

Repsol has been mostly silent on the long delay in drilling more wells, but it is widely assumed in the oil industry it was due to the longstanding U.S. trade embargo against Cuba.

The embargo limits the amount of U.S. technology that can be used, which complicates finding equipment because U.S. companies have long dominated the offshore oil business.

Construction of the Scarabeo 9 was begun by Norwegian firm Frigstad Discoverer Invest Limited in 2006, but the company was purchased by Saipem in 2007. The rig was due to be completed by September 2009, but has been delayed because of modifications requested by Saipem, the Saipem official said.

PREPARATIONS UNDERWAY

The official said it was also slowed because the shipyard "had taken on too much work" with other projects.

Repsol is said to be planning at least one exploration well and possibly another. The rig will then be passed to other companies with contracts to drill in Cuban waters.

Cuba's portion of the Gulf of Mexico has been divided into 59 blocks, of which 17 have been contracted to companies including Repsol, Malaysia's Petronas PETR.UL, Brazil's Petrobras (PETR4.SA) (PBR.N), Venezuela's PDVSA and PetroVietnam.Repsol is partnering with Norway's Statoil STL.OL) (STO.N and ONGC Videsh Limited, a unit of India's Oil and Natural Gas Corp (ONGC.BO).

Diplomats in Havana have said Malaysia's Petronas will get the rig next, after Repsol completes its drilling.Petronas, which has four exploration blocks, has conducted seismic work and built offices for a battery of employees who will come to Cuba for the project, sources said.

It also is talking to a possible partner in Gazprom Neft (SIBN.MM), the oil arm of Russian energy company Gazprom (GAZP.MM), whose chief told shareholders last month the company wants to join Petronas in the Cuba project.

ONGC Videsh, which has two blocks of its own, separate from its consortium with Repsol and Statoil, has already solicited bids for equipment including sub-sea wellheads and casing pipes for its planned exploration.

Russian oil firm Zarubezhneft has two nearshore blocks it said it plans to drill next year, but also has an agreement with Petrovietnam to participate in exploration of its three offshore blocks.

Zarubezhneft opened an office in Havana in June, according to Russian state news agency Ria Novosti.

A number of international oil service companies have solicited information about Cuban regulations on issues ranging from safety equipment to finance and taxes, diplomats said.

OIL SPILL CONCERNS

Cuba's state-owned oil company Cupet has been silent about the offshore activity and rejected requests for interviews. A government official said the requests were denied because Cupet did not want to speak during the BP oil spill in the Gulf.

The spill has never reached Cuba, but it has heightened safety concerns both in the government and among oil companies with offshore blocks, sources said.

The prospect of drilling in Cuban waters has also raised pollution fears in Florida, which is just 50 miles (80 km) away from the island's maritime boundary.

The Saipem official said the Scarabeo 9, which is capable of operating in water depths up to 3,600 meters (11,811 feet), is built to Norwegian standards, meaning it has extra equipment to shut off blown-out wells not required in the United States.

Due to the U.S. trade embargo, U.S. oil companies are not allowed to operate in Cuba.

Later this month a group from the Houston-based International Association of Drilling Contractors is scheduled to visit Cuba. The group has said it wants to discuss offshore safety issues with Cuban officials and get an overview of deepwater prospects.

Despite five decades of hostile relations, Cuba has said it would welcome the involvement of U.S. companies in developing its offshore fields.

Oil expert Jorge Pinon at Florida International University in Miami said U.S. oil service companies would like to enter the Cuban market because it is a new market close to home.

"For the U.S. offshore oil industry, Cuba is basically an extension of the Gulf of Mexico. It's not like Angola -- they can provide service from Houston or Freeport or Mobile."

Chevron 2Q income triples on higher energy prices

Chevron's second-quarter earnings tripled on better refining margins and higher prices for oil and natural gas, the company said Friday.

The results easily beat most Wall Street expectations. The San Ramon, Calif., company is the latest oil major to report big gains in the second quarter as demand for oil and gasoline has pushed prices higher. Exxon Mobil Corp. posted income of $7.56 billion in the quarter, its best result since the last three months of 2008. Royal Dutch Shell Group boosted second-quarter earnings 15 percent, and ConocoPhillips said profits nearly tripled in the April-June period.

Chevron Corp. reported net income of $5.4 billion, or $2.70 per share, for the three months ended June 30. That compares with $1.7 billion, or 87 cents per share, in the same part of last year. Revenue jumped 32 percent to $53 billion.

Among oil giants, BP PLC has been the only one to disappoint as it continues to reel from the massive oil spill in the Gulf of Mexico. The British company this week reported a record $17 billion quarterly loss as it set aside $32.2 billion to pay for the widening environmental calamity in the Gulf.

BP's runaway well, which pumped as much as 184 million gallons of oil into the sea, has tainted the entire oil industry. Market values slumped for Big Oil as President Obama temporarily closed U.S. waters to deep-sea oil exploration.

The moratorium, which could be lifted after Nov. 30, forced service companies and rig owners to move staff and equipment onshore and out of the Gulf.

Chevron said it has halted two exploratory wells in the Gulf. Plans for two more deep-water exploration wells also have been delayed. The company loaned one of its rigs to BP to help with the spill response, and the other two have been sitting idle.

George Kirkland, Chevron's vice president of global upstream and gas, said the company remains committed to exploring oil and gas in the Gulf. He told investors in a conference call that the company expects a variety of drilling projects to resume later this year "assuming the moratorium is lifted."

Oil stocks declined this summer as the BP spill expanded in the Gulf. Chevron's stock has been making a comeback in recent weeks, though it's still about 7 percent lower since the April 20 rig explosion.

Fadel Gheit, an analyst with Oppenheimer & Co., said investors remain concerned that oil refineries will be able to maintain profits like they have this quarter. Gasoline prices tend to rise during the second quarter as an influx of summer tourists hit the roads. Afterward, refineries could continue to struggle, Gheit said.

Chevron shares also have taken a hit as investors worry about the company's ability to increase production.

"Chevron has one of the largest holdings of oil leases in the Gulf of Mexico," Gheit said. "So they could see a big future impact" if the U.S. extends its drilling ban. Chevron's oil production should fall slightly this year because of the ban, slicing less than 10,000 barrels a day from the overall operation, Chevron's Kirkland said.

Current oil and gas production wasn't targeted by the ban, however, and in the second quarter oil majors reaped billions of dollars in profits from drilling operations around the world.

As the U.S. and other countries pull themselves from recession, world demand for petroleum products has been on the rise. Oil prices jumped 31 percent and natural gas prices rose 14 percent in the quarter. Retail gasoline prices also increased 20 percent to an average of $2.86 per gallon in the second quarter, according to data from the Energy Information Administration.

Oil companies cranked up production to take advantage. Chevron increased oil and gas production 3 percent to 2.04 million barrels per day.

The refining business also rebounded from a woeful 2009, when companies struggled to pass higher oil prices along at the pump. A rise in consumer demand pushed profit margins higher for refineries. During the quarter, Chevron's downstream business, which includes refineries, reported earnings of $975 million, up from $131 million in the year-ago period.

Shares rose 19 cents to close Friday trading at $76.21.

Dana Discovers New Oil Field at North Zeit Bay

Dana Petroleum is pleased to announce that the Fin-1X exploration well has discovered a new oil field, in the North Zeit Bay Production Sharing Contract ("PSC") area onshore in the Gulf of Suez, in Egypt. This follows the discovery of the Lorcan oil field, made just last month in the same PSC area.The Fin-1X well (Dana 100% stakeholder and Operator) was drilled to a depth of 10,038 ft, some 3km from the Lorcan oil discovery announced in June. The Fin-1X well encountered good quality oil bearing sands in the Kareem formation, in line with Dana's prognosis prior to drilling.During the drill stem test, the Fin-1X well flowed strongly with high downhole pressures delivering an average flow rate of 1,049 barrels of oil per day through a 52/64" choke. The flow rate during this test was restricted by the temporary flow testing facilities and the requirements to truck the produced oil from the desert location. The well has been retained as a future oil producer.

The Fin discovery together with Lorcan, which flowed at 4,714 barrels of oil per day and was also constrained by the testing equipment, confirms this area will be very attractive to develop. A preliminary development plan has already been submitted to the Egyptian General Petroleum Corporation (EGPC) for agreement. Dana estimates that these two discoveries so far in this PSC area have proven up initial reserves of 10-12 million barrels of oil (100% Dana) with the potential for considerable upside beyond these initial proved volumes. Further drilling is planned.

Once the development plan has been agreed with EGPC, an application will be submitted to the Ministry for a development lease. Following the development lease being lodged, the potential for early oil production will be discussed with EGPC. With EGPC's agreement, early production facilities which would allow oil to be exported by road tanker could be installed and operating within one month. The full development plan is to tie production from this PSC area back to the East Zeit oil and gas processing plant, which is situated just 15km to the south east of the Lorcan and Fin oil fields. Dana also holds a 100% working interest in East Zeit, making these developments extremely efficient and commercially attractive.The drilling rig will move to another operator to drill one well, which was a pre-existing contractual commitment for the rig, before returning to Dana's North Zeit Bay concession. Dana expects the rig to return in October, when it will drill at least one appraisal well on the Lorcan field plus a further exploration well in this important PSC area. Drilling on the North Zeit Bay concession will also continue in 2011.