PetroChina Says Dalian Oil Spill Contained; Port Shut After Blasts, Leak

By Bloomberg

PetroChina Co., the world's second- largest company by market value, said an oil spill caused by pipeline blasts at Dalian port in northeastern China has been contained by floating barriers and the cleanup is underway.

"The most important thing now is to clean up the area," Mao Zefeng, spokesman for the Beijing-based company, said by telephone from Hong Kong today. "We are looking at the extent of the damage to the pipelines, but we think any effect is limited in scale."

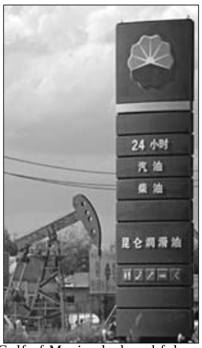
An incorrect procedure during the offloading of a tanker may have led to the July 16 explosion that damaged two pipelines and spilled oil into the Yellow Sea, Mao said. The cause is yet to be confirmed and an investigation is underway, he said. The oil port was closed after the blasts, said an official at one of PetroChina's two refineries at Dalian, who can't be named because he isn't authorized to speak to the media.

Dalian Port (PDA) Co., operator of China's largest crude- oil terminal, fell the most in two months in Hong Kong trading after the explosions caused what may be the biggest spill in the country's seas. The government of Liaoning province, where the harbor is located, has set up a taskforce to deal with the spill, the Ministry of Agriculture said on its website.

Dalian Port declined 5.1 percent, the biggest drop since May 19, to close at HK$3 in Hong Kong. PetroChina, a unit of the country's largest oil company, fell 1.4 percent to HK$8.46 while the benchmark Hang Seng index lost 0.8 percent.

Spill Size

The pipeline blasts occurred a day after BP Plc capped its



Gulf of Mexico leak and followed a Dec. 30 diesel fuel spill from a pipeline operated by PetroChina's parent that polluted the Yellow River. The slick is as thick as 10 centimeters, the state-run China Central Television reported today.

About 1,500 tons of oil has spilled into the sea, according to China National Radio. BP's well spewed as much as 60,000 barrels of oil a day, or 8,220 tons daily, since an April 20 rig explosion until it was capped July 15, according to a U.S. government-led panel of scientists.

"It doesn't compare in terms of size or seriousness with the BP oil spill," Grace Liu, analyst at Guotai Junan Securities Co., said by phone from Shenzhen.

'Seriously' Polluted

The blast has "seriously" polluted 11 square kilometers (7 square miles) of sea and "slightly" affected 50 square kilometers, the official Xinhua News Agency reported today, citing Wu Guogong, deputy chief of the municipal environmental protection bureau.

The spill is the biggest in Chinese waters and could have a long-term impact on the marine ecology of the area, Yang Ailun, a Beijing-based spokeswoman at Greenpeace, said by phone today. "This incident and the one at the Mexican Gulf have revealed the risks of economies being over-reliant on dirty energy."

Hundreds of staff from PetroChina's state-owned parent, China National Petroleum Corp., are working with local and central government agencies to remove the oil, Mao said.

More than 20 vessels have been deployed to spray chemicals and a 7-kilometer barrier has been set up to contain the spill, which may take two weeks to clean up, China National Radio said today, citing Huang Yong, deputy chief of Dalian city's Maritime Safety Administration. The port is capable of handling 57 million tons of crude annually, according to the website of its parent, PDA Corp.

Seafood Production

Two fishery companies, Dalian Yi Qiao Marine Seeds Co. and Dalian Zhangzidao Fishery Group Co., said in filings to the Shenzhen Stock Exchange yesterday the spill was far from their farming areas and hadn't affected products.

"Dalian is one of China's most important seafood production regions, so we need to assess if fishing products will be suitable for consumption for quite a long time to come," Yang of Greenpeace said.

An oil pipeline exploded late on July 16 near Dalian's Xingang Harbor, causing a smaller pipeline nearby to also explode, according to Xinhua. The fire was mostly extinguished by July 17, 15 hours after the initial blast, Xinhua said.

The two refineries at Dalian port haven't been affected by the blast, PetroChina's Mao said today.

BP puts Gulf oil spill cost at nearly $4 billion

LONDON - Oil company BP says that the cost of dealing with the Gulf of Mexico spill has now reached nearly $4 billion.

The company, which last week managed to place a temporary cap on the leak, said Monday it has made payments totaling $207 million to settle individual claims for damages from the spill along the southern coast of the United States.

To date, almost 116,000 claims have been submitted and more than 67,500 payments have been made, totaling $207 million.

Including the cost of the spill response, containment, relief well drilling, grants to the Gulf states, payment of claims and U.S. government costs, BP says it has now spent $3.95 billion.

The company adds that it is still too early to quantify the eventual total cost

BP Operations in the Eastern Hemisphere

Source: www.gulfoilandgas.com

Many large Oil companies would consider buying BP's assets if they are put on sale. BP is setting aside some assets as security while it builds up the $20 billion fund agreed upon with the U.S. to compensate for the damage from the Gulf of Mexico oil spill.BP and its affiliates operate facilities or market products in most of the world's countries and explore for oil and natural gas on six continents.In the Middle East, the BP group has offices in Kuwait, Oman, Qatar, Saudi Arabia and the UAE. The head office for BP Middle East exploration and production activities is in Abu Dhabi. Many of BP's Important projects exist in the UAE such as Lower Zakum Development, Sharjah - Sajaa Gas Concession and Abu Dhabi Hydrogen Power Plant with Masdar. BP main business in Saudi Arabia is the supply and trading of petroleum products such as lubricants and aviation fuel to wholesale and retail customers.In Asia, BP's exploration and production activities are centered in Russia, Azerbaijan and China. BP also holds a leadership position in Liquefied Natural Gas (LNG) in China through a number of joint ventures.In Russia, BP has an important joint venture through 50 per cent ownership of TNK-BP through its major producing assets, which are located in West Siberia, the Volga-Urals and East Siberia. BP is the operator of major projects in Azerbaijan such as Azeri-Chirag-Guneshli" and "Shahdeniz", as well as Baku-Tbilisi-Jeyhan and South Caucasus pipeline projects. These developments converge at the Sangachal Terminal. Also BP recently signed an agreement to explore and develop the Shafag - Asiman structure.BP Group has a large number of exploration and production activities in North Africa focused on Algeria and Egypt. In Algeria, BP had plans to spend $2 billion over the next five years to develop its operations in Salah and Amenas fields. In Egypt, BP has many fields in the Gulf of Suez and the Western Desert, which are operated through its subsidiary Gulf of Suez Petroleum Company (GUPCO); and operating gas assets in the Nile Delta through the Pharaonic Petroleum Company (PhPC).BP has well-established operations in Sub-Saharan Africa including Angola, Botswana, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. In Angola, the first BP-operated asset is Block 18, which was discovered in 1999-2001, and consists of five distinct fields (Galio, Cromio, Paladio, Plutonio, and Cobalto).

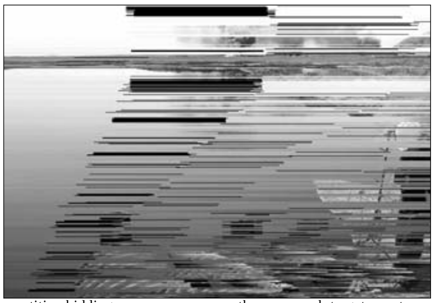
A Comprehensive coverage of BP operations and major assets in the eastern hemisphere can be found as part of the 3D projects online database available at Gulfoilandgas.com. Additional information can be found at the following link: http://www.gulfoilandgas.com/webpro1/Projects/main.asp.

Iraq urges oil companies to honor contracts

By SINAN SALAHEDDIN and TAREK EL-TABLAWY

BAGHDAD -- Iraq's oil minister urged international oil companies to move swiftly with implementing their newly-awarded contracts in the country, while assuring them Sunday they have the government's full support in dealing with any obstacles.

Hussain al-Shahristani's call reflects the pressure Iraq faces as it struggles to rebuild following the U.S.-led 2003 invasion that toppled Saddam Hussein. Years of sanctions on the country, home to the world's third largest proven reserves of crude, ravaged its oil industry. Looting, sabotage and perennial security woes following the war battered the sector even more and stunted investor interest.Developing the 11 fields awarded during the two licensing rounds last year is "the nation's highest priority," al-Shahristani told representatives of the companies.The oil executives and representatives from various Iraqi ministries had gathered to outline the challenges the companies face, and to ensure that Baghdad gives them all the help they need to meet their targets."You have to prove to us, and to the world, your ... ability to implement these contracts in accordance with the timeframe and the conditions" stipulated in the deals, al-Shahristani said, adding that the contracts were awarded transparently and through com-



petitive bidding.

"Success is not only reaching the production targets, but reaching these targets at a lesser cost, as much as possible," he said. "I hope we work together to reduce the costs."The companies are seen investing between $150 billion and $200 billion over the course of the 20-year service contracts they were awarded.

The bidding rounds were the first Baghdad has held in decades, and were seen as opening a new era for Iraqi oil. The country relies on crude sales for more than 90 percent of its state revenue, but has been unable to produce more than roughly 2.5 million barrels per day, on average, for years.

Al-Shahristani has said Iraq hopes to boost output to 12 million barrels per day in about six years with the new contracts - a level that would put it just shy of OPEC kingpin Saudi Arabia's current production capacity. But analysts and others say such targets are too optimistic.Salah Baker, a Scotland-based Iraqi oil expert, told The Associated Press recently that 6 million barrels per day within the next five years was a more realistic goal.The courting of international firms was aimed at bringing in companies with deep pockets and ample experience. But concerns about security - which has improved dramatically since the height of the insurgency in 2006 - still cast a shadow on development plans, as does Iraq's inability to form a new government, four months after no clear victor emerged from the March 7 elections.The companies - which get a fixed price per barrel they produce - also face a host of other challenges, both logistical and bureaucratic.

"What concerns us is the lack of infrastructure," said an executive with one of the companies, speaking on condition of anonymity because he was not authorized to speak on behalf of his company. "We're afraid that we reach a point when we can't handle the oil and gas we produce."

The Iraqis are working hard to build develop the necessary infrastructure, "but they need to be fast," he said.

A representative from another international firm said officials need to streamline logistics if the development deadlines are to be met.

"The most important issue to us is to get a visa. It's like a lottery," he said, adding that it sometimes takes 40 days to get the visa. He also said they've run into delays getting materials to the site.

Iraqi officials acknowledge that the obstacles are many, but pledged that they will work hard to ensure that they meet their obligations. Al-Shahristani stressed that security at the sites was the government's responsibility

Thamer al-Ghadhban, an energy adviser to Prime Minister Nouri al-Maliki, said while virtually everything needed for the projects would have to be imported, Iraq was committed to clearing the path for the companies to operate.Al-Ghadbhan cautioned the companies, however, that they also need to ensure that their work brings benefits to the regions in which they would be working."The local communities have expectations which I advise the (companies) to take into consideration," he said.

OPEC lifts demand for its oil for first time in three years

OPEC, the 12-country oil cartel, expects demand for its petroleum products to increase for the first time in three years in 2011.

The oil producers, including Nigeria, Saudi Arabia and Iran, predicted that demand would edge up by 1m barrels per day - or 1.2pc - next year on China's growing need for energy and an improved world economy.

OPEC said the modest increase "reflected continued caution about the pace of the global economic recovery".

It said most growth in the demand for oil would come from China, India, the Middle East and Latin America, but added that the world's hopes for economic recovery hinged on the US.

"Any further delay in the US's economic recovery will of course lead to a downward

revision in the world oil demand in total," OPEC's monthly report said.

"Other factors that might play an important role in next year's oil demand are retail oil product prices, taxes and removal of retail price subsidies worldwide."

The forecast is slightly lower than the increase suggested by the International Energy Agency, which believes the world will need an extra 1.3m barrels per day.

However, the price of oil dropped in London on Thursday. Brent crude for August delivery fell 42 cents to $76.62 a barrel.

Analysts at Commerzbank said: "Weaker economic data from China and a pessimistic economic outlook of the US Federal Reserve cause some strain. In addition, the inventory data published [on Wednesday] by the US Department of Energy turned out to be weaker than initially expected on closer inspection."