Oil Minister Defends Venezuela’s Policies

In a rare visit to Washington, Venezuelan oil minister Rafael Ramirez on Friday defended his country’s foreign investment climate for heavy oil development and lamented that US leaders appear to be “badly informed” about Venezuela’s energy policies.

Ramirez — who is also president of state oil firm Petroleos de Venezuela (PDV) — said his country is open to working with any foreign investors to develop resources within the country’s Orinoco heavy oil belt. He was addressing reporters at the headquarters of the Organization for American States.

The only two firms Venezuela has clashed with are Exxon Mobil and ConocoPhillips, he added, arguing that the two US majors were unwilling to respect Venezuela’s sovereignty over its hydrocarbon resources. Exxon and Conoco chose to exit heavy oil operations in Venezuela in 2006 after the government unilaterally changed their contracts to give PDV a majority stake in their projects.

“No one can exclude Venezuela from energy discussions,” Ramirez said, because Venezuela has the largest proven oil reserves in the western hemisphere. “We just ask that they respect our sovereignty, our laws and our social programs,” he added.

Unable to shoulder the costs of heavy oil development alone, Venezuela made some minor concessions to oil companies to improve the fiscal terms and encourage foreign investment in the Orinoco region. But it restricted foreign firms to holding minority stakes in heavy oil projects.

Ramirez said the primary purpose of his trip to Washington was to increase awareness of Venezuela’s energy policies at the “Energy and Climate Partnership for the Americas” summit last week (see p2). Many observers were surprised at Venezuela’s attendance.

“We are not going to sign any agreement. We are not going to sign any partnership. We are here to inform the US about what we have been doing,” Ramirez told reporters.

Venezuela is the fourth largest foreign supplier of crude to the US, but political disagreements have added a new layer of strain to US-Venezuela relations in recent years.

Climate Bill Could Add 27¢ to Gasoline Price

Compromise energy and climate change legislation being developed in the US Congress would result in a price of $31 per metric ton for carbon emissions and add 27¢ per gallon to the price of gasoline by 2020, according to analysis by consulting firm Point Carbon.

The legislation being written by staffers for Senators John Kerry, Lindsey Graham and Joe Lieberman would differ in many ways from legislation that passed the US House of Representatives last year.

The House legislation sought to set up a carbon market worth hundreds of billions of dollars a year and designed to cut US greenhouse gas emissions 17% below 2005 levels by 2020.

Instead of encompassing most of the industrial and commercial sectors of the US economy, the Kerry-Graham-Lieberman (KGL) bill would only create a carbon market for greenhouse gas emissions produced by electric utilities.

The electric utility sector — dominated by coal-fired power plants — currently accounts for 40% of national emissions. The Kerry-Graham-Lieberman legislation may also include a price floor of $10 per metric ton for carbon and a ceiling of $30.

The model assumes a “linked fee” that would be levied on transportation fuels and would move in tandem with carbon prices. The linked fee is an idea developed with the help of oil companies and is seen as easier for politicians and consumers to accept than a carbon tax.

The electric utility sector — dominated by coal-fired power plants — currently accounts for 40% of national emissions. The Kerry-Graham-Lieberman legislation may also include a price floor of $10 per metric ton for carbon and a ceiling of $30.

However, Democratic leaders remain conflicted about how to proceed with the landmark legislation, which would also include major expansions of nuclear power and renewable energy through the introduction of a federal renewable energy standard.

(See Ramirez, page 2)
Gasoline . . .

(Continued from 1)

Normally, the legislation would have to pass through at least one of six Senate committees before reaching the floor of the Senate, but Congress is pressed for time with midterm elections approaching in November. Majority Leader Harry Reid of Nevada might therefore opt to take the bill straight to the floor for debate.

Analysts now believe that the bill will be published on Monday, Apr. 26, giving the Congressional Budget Office (CBO) and the Environmental Protection Agency (EPA) four to six weeks to evaluate it and estimate the costs that it will impose on consumers.

The most controversial element of the legislation is the “linked-fee,” which would increase the cost of transportation fuels at a time when energy costs are already high and economic recovery is progressing slowly.

A cap and trade program that includes only the US power sector would be worth about $72 billion a year, comparable to the European Union’s Emission Trading Scheme, which was valued at $99 billion last year. A US emissions market that also included the transportation sector would be worth about $255 billion a year, Point Carbon said.

Bill Murray, Washington

Ramirez . . .

(Continued from 1)

two countries and eventually put on hold the energy agreement that had been active between the two countries since the 1980s,” the embassy said.

Ramirez drew attention to the fact that US major Chevron was part of one consortium that recently bid for acreage in the Carabobo area in the eastern part of the Orinoco region (OD Mar.17,p4).

Aside from highlighting Chevron’s involvement in Venezuela, Ramirez pointed out the efforts of PDVs US refining subsidiary Citgo, which has supplied heating oil at low cost to low-income Americans.

However, Ramirez said he thinks some Bush-era resentments toward Venezuela still linger.

US state department officials claim that they have tried to reach out to Venezuela, but that senior Venezuelan officials have not been responsive.

“In the US we still find people linked to the prior administration — and this has created a situation where even people who are genuinely interested in working with us are badly informed,” Ramirez added. “So we have been talking about how Venezuela has been diversifying our energy markets, to give authorities first-hand information from us.”

Lauren O’Neil, Washington

Wide Range of Issues Discussed at Americas Energy, Climate Summit

Energy ministers, oil company representatives and civil society leaders from across the Americas gathered in Washington on Thursday and Friday for a meeting of the US-led Energy and Climate Partnership of the Americas.

The Obama administration has pushed the partnership as a key part of its foreign policy toward the region, as well as an important step forward in the president’s goal of promoting clean energy and tackling climate change.

Officials from the Obama administration and the Inter-American Development Bank (IDB) presented a series of initiatives to promote energy efficiency and regional energy integration, develop renewable energy and biofuels, expand electricity grids and support efforts to adapt to climate change.

The IDB announced it would increase financing for renewable energy and climate-related projects to $3 billion annually by 2012.

Many participants acknowledged that the meeting created a positive forum for dialogue to develop projects that could help reduce dependence on fossil fuels in the region.

However, many attendees were also skeptical. Critics said the initiatives presented were mostly small scale “demonstration” projects, while leaders were unwilling to address the broader issues that have blocked the expansion of clean energy sources in the Americas.

Secretary of State Hillary Clinton and Energy Secretary Steven Chu described some of the initiatives during speeches at the meeting.

Chu discussed projects that could improve efficiency, such as upgrading standards for refrigerators and expanding the use of fluorescent light bulbs.

Clinton described some of the larger-scale projects under the partnership. For example, Colombia is spearheading a plan to link electrical transmission lines from Panama, through the Andean region, to Chile, Clinton noted, while multilateral organizations are exploring the possibility of installing underwater electric cables connecting power grids in the Caribbean islands.

Such projects would facilitate the expansion of renewable energy by achieving economies of scale and allowing for diversification of energy supply.

However, participants tiptoed around the broader issues that have prevented Latin America from reaching its clean energy potential, such as faulty regulatory frameworks and non-market based pricing schemes, according to sources attending the event.

“My overall impression is that it was a talk fest with no real mission or mandate,” said one source.

Analysts say renewable energy sources in Latin America are underdeveloped because governments are unable to subsidize production, which is more costly than for fossil fuels. Yet leaders are unwilling to pass the additional costs on to consumers for fear of a political backlash.

Many oil and gas producers in the region, from Venezuela to Argentina, mandate below-market electricity tariffs, making renewable energy uncompetitive.

Sources said these issues were raised during panel discussions, but the energy partnership has no framework for addressing them.

The idea of energy integration is another pillar of the partnership — a goal that Latin American countries have for years failed to achieve because of transnational political tensions or concerns about national sovereignty.

Much of the discussion centered on micro-level projects, while avoiding broader controversial issues, said Eric Farnsworth, Vice President of the Council of the Americas.

“Until you get the right policies in place, a lot of this is just academic or theoretical,” he said.

Some analysts said the Obama administration chose to focus its policy toward Latin America on clean energy and climate change because these issues draw broad consensus.

Developing renewable energy, for example, is a focal point that creates a unique commonality among the diverse roster of nations in the hemisphere,” wrote Jeremy Martin, who heads the energy program at the Institute of the Americas and helped organize the event.

Although the debate focused largely on moving away from fossil fuels, some speakers described natural gas as an important transition fuel toward cleaner forms of energy, according to sources at the event.

Secretary Clinton said the US would promote the development of shale gas in the Americas. “I know that in some places [shale gas] is controversial, but natural gas is the cleanest fossil fuel available for power generation today, and a number of countries in the Americas may have shale gas resources,” she said.

Little exploration has been done in Latin America to assess the region’s shale gas resources, but Clinton said the US Geological Survey was prepared to help explore this potential.

Lisa Viscidi, New York
Oil Follows Stock Market Lower as SEC Files Suit Against Goldman

Over 1.4 million Nymex crude contracts were traded last Tuesday, setting a new record. And on Wednesday another 1.1 million contracts changed hands — the second highest amount ever recorded in a single day.

Traders said one of the primary causes of the record volumes was the growing importance in the market of speculators, such as exchange traded funds (ETFs) and index funds. Most of these funds have a statutory obligation to roll their passive long positions from trading day five through nine of each month, which automatically leads to increases in trading volumes.

Index funds roll 20% of their open interest during each of these trading days by selling the front month and buying the second-month crude futures contract.

"Every month, volumes move with that," said Carl Larry of Oil Outlooks. "We're starting to see more and more funds put volume into the market. The index funds are growing and growing as each day passes by."

An increase in electronic trading has also made it possible for investors to enter and leave the market rapidly.

"I think, in general, we have an indication that petroleum traders are pointing and clicking faster than ever before," said Citi's Tim Evans.

Others pointed to the strength of equity markets and the belief that the global economy has entered into a recovery phase, as a major cause for the surge in activity.

(See Futures, page 4)
Norway Lowers its Oil Resource Estimate For Waters Surrounding Arctic Archipelago

The Norwegian Petroleum Directorate (NPD) has reduced its reserve estimates for unexplored areas along the country's scenic Arctic offshore by around 200 million barrels of oil equivalent to roughly 1.3 billion boe.

The NPD report, published Friday, follows three years of extensive seismic studies around the pristine Lofoten-Vesteraalen-Senja archipelago in the Norwegian Sea, which will remain closed to oil and gas drilling at least until after the next general election in 2013.

According to the NPD's last estimate in 2005-06, the area held 1.5 billion boe — roughly one-third of all remaining undiscovered oil and gas reserves on the Norwegian Continental Shelf (NCS).

The latest study forms part of the state-commissioned management plan for the Norwegian sector of the Barents Sea and areas outside the Lofoten islands, which is due to be published this summer.

Ultimately, the plan will determine whether the government opens new tracts to offshore exploration, which drilling advocates say will help stem declining oil output on the NCS and boost employment.

Oil industry lobby group Konkraft's own resource estimate for the Nordland VI and VII and Troms II areas off the Lofoten and Vesteralen islands is much higher, at around 3.4 billion boe.

But green groups, Norway's fishing industry and even the Church of Norway are against opening these new tracts to drilling, saying a spill would seriously harm the Arctic ecosystem. A new environmental report commissioned by Oslo and released Thursday concluded that the probability of oil- and gas-related accidents in the polar region is low, but that their impact could be significant.

Futures...

(Continued from 3)

“I think that the stock market keeps grinding higher means investors are getting overconfident and putting their money in riskier assets like commodities and oil,” said Matt Bradbard of MB Wealth.

Low interest rates have also contributed to the heavy amount of trading, causing investors to turn away from investment tools such as money market funds to riskier holdings like commodities.

“Investors are not going to earn money at the bank. You have to try and find it somewhere else,” said Kyle Cooper of IAF Advisors.

Traders may also be trying to profit from movements in the contango — a situation in which prices for outlying months are higher than the prompt contract — and this too may have contributed to increased volumes.

In March, the contango narrowed, causing ETFs and similar funds to buy into the market.

However, contango spreads widened this week, prompting investors to leave the market.

“This has mostly been spread trading,” said Tom Bentz of BNP Paribas.

On Friday, the May-June Nymex crude spread had widened to $1.43. On Mar. 16, it stood at 27¢.

Crude and oil product prices fell Friday, largely tracking an equities market rocked by news that the US Securities and Exchange Commission (SEC) has filed a civil suit against investment bank Goldman Sachs, alleging inadequate disclosure to investors.

“I wouldn’t be surprised if Goldman shorted against itself today,” said one observer.

On Friday, Nymex May crude futures slipped $2.27 to settle at $83.24 per barrel. In London on ICE Futures, June Brent dropped $1.60 to finish at $85.99.

Deb Kelly, London

Gregory Gethard, New York

April 19, 2010 (4) OIL DAILY

www.energyintel.com
Pemex Ignores Government Call to Freeze Chicontepec Spending

Pemex, Mexico's state oil firm, plans to keep investing in the giant but complex Chicontepec oil field, despite a call by the national hydrocarbons regulator to stop.

Mexico's National Hydrocarbons Commission (CNH) issued a report last week, calling on Pemex to suspend its drilling program in Chicontepec pending a re-evaluation of its strategy there.

However, Hector Moreira, an independent member of Pemex's board, says the company wants to continue development of the field, which is located on land northeast of Mexico City.

According to Moreira, the board's strategy and investment committee is finalizing a report that explains the firm's justification for continuing its work at Chicontepec. He expects the report to be issued shortly.

Moreira says the board's vision includes further technical analysis of Chicontepec and continued investment. He made the comments on Thursday on the sidelines of a conference in Mexico City.

The conference was sponsored by the Institute for Energy Law and Anade, a Mexican association of corporate attorneys.

In a presentation to the conference, Carlos Morales, head of Pemex's exploration and production group, also defended the company's work at Chicontepec.

Despite the CNHs concern that Pemex has invested too heavily in the field and has little to show for its efforts so far, Morales insisted that the project was profitable.

If Pemex stopped investing in Chicontepec today, Morales said, the firm would still recoup all of its investment, after taxes, within a year. "The Chicontepec project today is a project that is not losing (money)," he said.

That view flatly contradicts the findings of the CNH.

The regulator's report criticized Pemex for proceeding without fully researching the field's geology and without establishing a suitable methodology to select the right drilling technologies (OD Apr.13,p4).

Although Pemex has invested over 60 billion pesos ($4.9 billion) in the field, the CNH says, production in January was just 32,000 barrels per day.

For his part, Morales blamed Chicontepec's complex geology and the need to drill thousands of wells for the slow progress.

Tapping the oil in the area may take up to 70 years, he warned.

The field is made up of numerous small pools of oil isolated from each other by impermeable rock. To tap Chicontepec's oil, Pemex must identify suitable methods of fracturing the rock so that the oil forms larger pools that can then be recovered.

Morales did recognize that Pemex cannot conduct all of the work that will be necessary at Chicontepec on its own.

Development of the field will require the drilling of 1,200 to 1,500 wells per year, he said. He admitted that Pemex would need the assistance of foreign contractors to do that.

Last year alone, Pemex commissioned Halliburton, Schlumberger, and Weatherford International to drill a total of almost 1,200 wells in Chicontepec (OD Jul.27,p5).

Petrobras Inks Strategic Cooperation Accord With China's Sinopec

Brazil's state-controlled Petrobras has inked a strategic cooperation agreement with Chinese state giant Sinopec and China Development Bank (CDB), building on a pact signed last May.

In a statement released late Thursday, Petrobras said the agreement includes cooperation in exploration and production, downstream projects, petrochemicals and fertilizers, and services and procurement. It added that there is a possibility it could also sell some of its 100% interest in blocks BM-PAMA-3 and BM-PAMA-8 in the Para-Maranhao Basin to Sinopec (OD Apr.15,p7).

The deal was signed during a visit to Brasilia by a number of Chinese officials, including President Hu Jintao, for the annual BRIC (Brazil, Russia, India, China) summit, which ended Friday.

Petrobras said the sides will assess partnership opportunities in the Comperhite petrochemical complex in Rio de Janeiro, as well as new oil supply contracts. It added that the agreement with CDB includes the possibility of bilateral financing, but did not provide any figures. CDB chief Chen Yuan was also quoted as saying Thursday that no specific value has been set for any joint venture that the bank is prepared to help fund any joint work by the two firms.

The Chinese bank last year agreed to lend $10 billion to Petrobras in return for long-term oil supplies to China via term deals with Unipec, the trading arm of-listed entity Sinopec Corp. Brazil agreed to increase its crude exports to 150,000 barrels per day last year, ramping up to 200,000 b/d over the following nine years (OD May20,p1).

According to Chinese customs data, imports of Brazilian crude have increased significantly from an average of 81,500 b/d last year to 187,000 b/d in the first two months of 2010.

Sinopec has had a presence in Brazil for five years, although it has mainly been involved in the engineering and construction of gas pipelines. It has been expanding aggressively overseas to boost its equity production to feed refineries back home. Last year, its net international crude output totalled 12.8 million tons (257,000 b/d).

Elsewhere in Latin America, Sinopec has stakes in exploration and producing blocks in Colombia via Mansarovar Energy Colombia, a joint venture with India's Oil and Natural Gas Corp. It also has three blocks in Ecuador through Andes Petroleum, which it owns jointly with rival China National Petroleum Corp. Sinopec has reportedly been in talks with the Ecuadorian government about investing $500 million to develop the Oglan Block in the Amazon region.
Recent API Data Shows Signs of Improvement in US Gasoline Market

US gasoline production climbed to an all-time high in March, while gasoline deliveries to market — a proxy for demand — rose to a record level for March of any year, according to a report released Friday by the American Petroleum Institute (API).

However, production and demand for "distillate fuel" — heating oil and diesel — still sit below year-ago levels, the oil industry lobby group's data showed. US crude oil production, meanwhile, climbed slightly year-on-year helped by increased output from the Gulf Coast and Midcontinent regions.

US refiners produced 9.3 million barrels per day of gasoline in March, a record that represents a 7.5% increase over the same month of last year. The increase comes despite sustained low refinery utilization rates last month. Run rates climbed above 85% last week for the first time since October, according to recent data from the Energy Information Administration (EIA).

During a conference call on Friday, API Chief Economist John Felmy cited several factors for the record production. Gasoline yield enhancements have led to refineries "squeezing more out of the barrel," he said. Felmy also said US refining capacity is higher than in the past, despite several plant shutdowns, and that gasoline output is therefore higher despite low percentage utilization.

Even though production has increased, gasoline inventories fell in March for the first time in five months, according to the API data, thanks to healthy gasoline deliveries, which Felmy cited as evidence of an improving economy. Gasoline inventories also fell because of a decline in US imports of gasoline and blending components, which fell to 634,000 b/d in March from 1.1 million b/d a year ago.

Distillate fuel imports also declined — falling 27.2% year-on-year in March — but things are not as rosy in the middle of the barrel. Distillate fuel deliveries — a proxy for demand — were down 0.8% from last year's recession-hit levels. Fortunately, refineries produced 3.8% less, but the lack of demand means that inventories are 4.8% above year-ago levels.

Felmy said the historical correlation between diesel consumption and gross domestic product (GDP) suggested that the US economy is still far from fully recovered.

With product stocks remaining high, Felmy placed the blame for high fuel prices on more expensive crude oil inputs into refineries. He said the March data "make it abundantly clear" that supply issues are not behind the run-up in gasoline prices.

In fact, the US is pushing more refined products out into international markets. Exports were nearly 2 million b/d last month, up 7.4% from March 2009.

Domestic crude oil production remained strong in March at 5.5 million b/d, up 1.1% from the same month of 2009 and slightly higher than production in February. The largest increases occurred in Louisiana, North Dakota and Kansas, the API said.

Crude oil stocks were down 3.6% year-on-year in March at 352.8 million bbl, helped by a 1.2% drop in imports. Last year, however, crude inventories were at their highest level for any March since 1990.

John Galante, New York

Results of Well in Turkish Sector of Black Sea Eagerly Awaited

All eyes in the Black Sea oil and gas industry are on a deepwater well spudded off Turkey by Brazil's state-controlled Petrobras on Feb. 26, industry sources tell Oil Daily.

Yurdal Oztas, vice president of state oil and gas company Turkish Petroleum (TPAO), said drilling is due to be wrapped up in June.

The Sinop Block, which lies off Turkey's northern coast, is held by Petrobras and Exxon Mobil, with 25% each, and TPAO with 50%. Water depth in the block is 2,200 meters and the total depth of the well, including the sea section, will be 5,700 meters.

"The depths are similar to the kind of drilling that Petrobras does in the Brazilian deepwater," Oztas said on the sidelines of the Balkan and Black Sea Petroleum Conference in Vienna late last week.

It is a far cry from the start of offshore exploration in Turkey in 1977, when the first well was spudded in 124 meters of water.

Oztas said he believes the Turkish sector of the Black Sea holds probable recoverable resources of 10 billion barrels of oil and 1.5 trillion cubic meters of gas. "The Black Sea is the natural progression west from the Caspian oil and gas basin," he said.

"The Black Sea is attractive to the majors because it is one of the last unexplored frontiers," said one source with a major oil company.

To date, only one deepwater well has been drilled in the Black Sea, and that was dry.

The well was drilled by BP in 2004 in the Hopa Block in Turkish waters in the eastern Black Sea, near the Georgian border. TPAO believes BP did not drill the Hopa-1 well deep enough, only reaching about 2,400 meters below the seabed.

Anadarko Petroleum around the same time held three deepwater blocks off Georgia, but exited after doing seismic work but without drilling a well.

Turkey's Sinop well is being drilled by the semisubmersible rig Leiv Eiriksson, contracted by operator Petrobras for three years from Ocean Rig, a wholly owned subsidiary of DryShips.

"Whether there is a discovery or not, we will move the rig afterwards to the western sector to drill in the Yassihoyik Block," Oztas said.

Yassihoyik, in water depths of 2,040 meters, and targeting a total well depth of 5,200 meters, will be drilled later this year by TPAO, which is 100% owner of the block. Next year, it plans to drill a well in its Surneme Block, where the water depth is 1,800 meters, and later in the Kuskayasi Block, in water depths of 2,100 meters. Both blocks are also 100% held by TPAO.

The Turkish firm also has 50% interests in two Turkish Black Sea deepwater blocks in partnership with Exxon, Samsun and Kastamonu.

According to TPAO, Exxon has lined up the Transocean drillship Deepwater Champion for work in the Turkish sector, with a five-year contract worth up to $1.8 billion. "Exxon has a different strategy, to bring in a rig and drill several wells. It will start its first well in 2011," Oztas said.

Exxon also has a 50% share in the deepwater Neptun Block off Romania, with the rest held by Petrom, majority-owned by Austria's OMV. The duo completed a 3-D seismic survey over 3,200 square kilometers between August and November 2009.

"Processing the data takes six months to get a working result. The next step will be to interpret the data — and reduce the risks — to determine whether we will drill or not," said Gary Ingram, Petrom's offshore exploration manager.

Michael Ritchie, Vienna
Electricity
Texas Plants Change Hands
Constellation Energy said it agreed to buy two natural-gas-fired power facilities in Texas for $365 million ($332 per kilowatt) from privately held Navasota Holdings.

The transaction was for the 550 megawatt (MW) Colorado Bend Energy Center near Wharton and the 550 MW Quail Run Energy Center near Odessa, the company said.

The acquisition is in line with the company’s strategy of deploying up to 3,000 megawatts of new capacity, Constellation said.

Venoco to Sell Texas Assets
Oil and natural gas company Venoco said it has agreed to sell its Texas assets for $100 million.

The sale covers the Manvel field, Hastings field and Venoco’s other oil and gas properties in the Texas Gulf Coast region.

The company also raised its 2010 capital expenditure budget by $40 million, to $220 million.

Repsol YPF: $48 million
Spain’s Repsol YPF has denied reports it plans to sell its stake in the midsized producer Alliance Oil.

Sources close to Alliance tell Oil Daily the Stockholm-listed firm has received no notification from Repsol that it plans to sell its holding, which stands at around 3.2%.

Repsol in 2006 bought a 10% stake in West Siberian Resources, but that company merged with Alliance in 2008 and the combined entity was ultimately renamed.

Bloomberg later quoted a Repsol spokesman as saying it did not intend to sell its interest in Alliance after Spanish newspaper El Economista had reported Repsol was responding to a call from its largest shareholder — Spanish construction firm Sacyr Vallehermoso — to make further divestments. The paper said Repsol had decided to put its stake in Alliance up for sale, and it could fetch as much as €70 million ($94.5 million).
Moscow Boosts Latin Ties

Russia and Argentina signed a series of agreements aimed at improving relations during Russian President Dmitry Medvedev's first official visit to Buenos Aires. Oil and gas did not figure, but the sides agreed to step up cooperation in power, transport, forestry and other business.

They also inked a deal on the peaceful use of nuclear power, with Russian nuclear agency Rosatom offering to help build reactors in Argentina. In addition, Russia is to deliver two MI-171 military helicopters.

Medvedev also visited Brazil for a summit of the BRIC (Brazil, Russia, India and China) group.

Moscow has been stepping up relations with Latin America over the past two years in response to the extension of US influence in countries Russia considers to be in its backyard. Medvedev's visit came two weeks after Prime Minister Vladimir Putin went to Caracas, where Russia and Venezuela finalized a deal to set up a joint venture to develop the Junin 6 heavy oil block in the Orinoco Belt.

Hanwha Buys Into US Field

South Korean conglomerate Hanwha said Friday that it has spent $29 million on a 50% stake in an oil field in Lynch Canyon, California.

Hanwha did not identify the field, but said it had bought the stake from four companies, including Trio Petroleum, and would receive the right to operate the field by Oct. 15.

The field, which holds 10.4 million bbl of reserves, is now producing 500 b/d and Hanwha plans to boost output to 2,900 b/d in a couple of years.

Hanwha, which has a preference for producing fields, is currently focused on North America, a company source said. But it wants to branch out and is also looking at the Middle East and Latin America, he added.

Right now, it has interests in Yemen's Block 4, Qatar's RasGas and the US Gulf of Mexico. Last year, it paid $30 million for a stake in a 1,100 b/d oil field from US independent O'Ryan Oil and Gas.

Venezuela Sets Up Ventures

Lawmakers on Thursday established joint ventures between Venezuela's state oil company PDV and two consortia of foreign companies to develop the Carabobo fields in the South American nation's heavy crude belt.

The Carabobo auction in February awarded the largest oil investment of President Hugo Chavez's 11-year rule, drawing tens of billions of dollars of much-needed foreign finance to the Orinoco Belt just three years after the leftist leader nationalized operations there.

The first joint venture established by the national assembly gives PDV a 60% share of the project, with 40% divided between Repsol, Indoil and Petronas.

The second joint venture is also led by PDV with 60% of the shares, with Chevron splitting the remaining 40% with Japan's Inpex, Mitsubishi and Venezuela's Suelopetrol.

The auction consisted of three projects with similar surface areas containing a total of 127.9 billion bbl of oil in place. One project was not awarded.

The government believes a total of 25.6 billion bbl are recoverable, based on a recovery rate of 20%.

The projects are each slated to produce 400,000 barrels per day b/d. They each include the construction of a heavy crude upgrader that can turn 200,000 b/d of tar-like Orinoco oil into lighter and more valuable synthetic crude.

OGX Mulls Selldowns

Brazilian oil and gas startup OGX said it is considering selling minority stakes in some of its oil blocks.

OGX, part of the EBX energy and infrastructure conglomerate owned by Brazilian billionaire Eike Batista, has made a string of hydrocarbons finds in recent months, helping its shares more than triple since the beginning of 2009.

"As a result of recent discoveries an-

Lukoil Opens Up Russian Sector of Caspian

Russia's top private oil producer, Lukoil, is preparing to open up a new oil and gas province with the start of commercial production from the Russian sector of the Caspian Sea. The official launch ceremony, scheduled for Wednesday, will be attended by Prime Minister Vladimir Putin.

The taps are opening at the Y. Korchagina field, discovered by Lukoil in 2000, which harbors 211 million barrels of recoverable oil and 63.3 billion cubic meters of recoverable gas. Installation of the infrastructure was completed last year and drilling started in December.

The infrastructure includes a 560,000 ton ice-resistant production complex, a platform for year-round worker accommodation and a 28,000 ton floating oil storage unit connected by a 58 kilometer subsea pipeline to the production platform.

The platform is able to drill to depths of more than seven kilometers below the seabed; a total of 30 wells will be drilled. Peak production is put at 50,200 barrels per day of oil and 1 billion cubic meters per year of gas.

Oil will be loaded out of floating storage onto 6,000-12,000 ton shuttle tankers and delivered to the Russian port of Makhachkala, the only Russian port on the Caspian that is ice-free all year, for onward shipment to world markets via the Baku-Novorossiysk pipeline.

Other options include rail deliveries to Novorossiysk or to Novaya Ozereika for export via the Caspian Pipeline Consortium terminal, or to Lukoil's Volgograd refinery.

Lukoil spent 34.4 billion rubles ($1.2 billion) on the project in 2004-09, but says it is not economic under the current tax regime. It wants zero duties introduced for crude exports from the acreage, as well as cancellation of the mineral extraction tax.

The tax breaks that Lukoil is seeking are similar to those introduced in East Siberia in an effort to stimulate output in another new production region. Companies that currently enjoy the privilege are Rosneft, which is developing the Vankor field, and Surgutneftegas and TNK-BP, which are respectively working at the Talakanskoye and Verkhnechonskoye fields.

Lukoil does not believe the individual tax allowances should be permanent, and instead wants them replaced by a new tax regime based on profits rather than revenues. Discussions have opened on the subject and the government is expected to come up with a draft proposal early next year (OD Apr 14,p4).

Since 1995, Lukoil has discovered eight oil and gas fields in the northern Caspian. These include the Filanovskogo field, which holds 1.1 billion bbl of recoverable oil and 26 Bcm of gas.

Nelli Sharushkina, Moscow
nounced in the company's exploratory blocks, OGX is studying the possibility of selling minority shares in some of those blocks," OGX said.

The company will compete in Colombia's next oil and gas round for exploration rights in June due to lack of opportunities at home, the company's head of exploration told Reuters in an interview on Wednesday.

**Venezuela Crude Output Rises**

The latest data from monitoring firm Inspectorate show Venezuelan exports of crude and refined products both rising. Along with higher deliveries for domestic use, this points to higher crude production.

*Oil Daily* sister publication *Oil Market Intelligence* estimates that Venezuela's March crude oil output rose by 125,000 barrels per day to 2,617 million b/d from a downwarly revised February estimate of 2,491 million b/d.

That remains well short of the official government estimate of 2,787 million b/d released separately by the energy ministry. However, it is substantially higher than the Opec secondary source average of 2.29 million b/d for February that appeared in Opec's latest *Monthly Oil Market Report*.

**Oil & Gas Markets**

**Europe: Ash Hits Jet Prices**

Jet fuel trading activity was sidelined Friday as traders scrambled for information on how long Europe's airspace would be closed during the biggest aviation shutdown since the Sep. 11, 2001 attacks on the US.

Almost two-thirds of all European flights were canceled Friday as a cloud of volcanic ash from Iceland's Eyjafjallajokull volcano drifted into Northwest European airspace.

The tiny particles of rock, glass and sand in volcanic ash have jammed aircraft engines in the past, with near-disastrous consequences.

The European Organization for the Safety of Air Navigation, Eurocontrol, announced Friday morning that only 11,000 flights would take place on Friday, versus normal daily traffic of 28,000. Just over 20,000 aircraft movements occurred Thursday as the cloud first headed south.

Traders reckoned Friday's closure would wipe at least 100,000 tons from regional jet fuel demand, on top of around 50,000 tons lost Thursday. Market sources estimate Northwest Europe's daily jet fuel burn at 150,000 tons, with the UK accounting for 60,000 tons.

The consensus is that jet fuel demand will surge once airspace is reopened, but that it will not be enough to offset the fall if airspace is closed for much more than 24 hours.

Jet prices slumped only $3 per ton overnight Thursday as traders balanced the aviation industry shutdown against a $5/ton rally in diesel — which meant refineries were already shifting production away from jet.

**Bakken Oil Shipped to Louisiana**

NuStar Energy said it has unloaded its first rail shipment of Bakken crude oil from North Dakota at a terminal in St. James, Louisiana, and plans to ship up to 10,000 b/d.

The delivery of 5,000 bbl opens up a new market for oil from the Bakken formation, a hot US onshore oil play that has been hampered by a shortage of pipeline capacity to ship the crude to refineries.

NuStar is working with the BNSF, Union Pacific and Canadian Pacific railroads on the initiative, a NuStar spokeswoman said.

“The Bakken crude oil sources in North Dakota are of critical importance to the United States oil and gas industry,” NuStar Chief Executive Curt Anastasio said.

“We think there's a lot of potential to market this product through St. James, so we have short-term and long-term plans to increase the amount of crude oil that we can ship there,” he said.

EOG Resources last May announced plans to move Bakken oil by rail to Cushing, Oklahoma, the Nymex delivery point, and Enbridge was expanding its North Dakota pipeline system to be able to handle more Bakken.

**TNK-BP Shuts Ukraine Plant**

TNK-BP said Friday that it plans to close its Lisichansk refinery in Ukraine for around 50 days starting in May for scheduled major maintenance. The shutdown will not affect Ukrainian consumers, as supplies will be brought in from neighboring markets, mainly the Mozyr refinery in Belarus.

The Russian-UK joint venture recently completed installing a diesel hydrotreater at the plant that will allow it to produce diesel to Euro-4 standards. The move was part of a $1.3 billion, five-year program aimed at upgrading output from TNK-BP refineries in Russia and Ukraine to meet new government fuel quality standards.

Right now, the 320,000 b/d plant is processing around 160,000 b/d. Crude throughput averaged 106,000 b/d in the first quarter of 2010, up 7.5% year-on-year.

**Stock Market Correction Could Hurt Natgas**

Natural gas bulls attempted to break out to the upside last week, only to have efforts thwarted by rapidly rebuilding storage inventories. But the week ahead could prove the bears' domain due to the potential for a sizeable correction in the US equities market, which is showing signs of topping out.

“Over the last couple of decades, we've seen multiple situations where the stock market makes a big correction and pulls down oil and natural gas futures as investors become fearful of an all-out meltdown in several asset classes,” said a gas futures trader in Colorado. “At this point, nearly everything is exceedingly over-bought — equities, oil, gold, etc. So it wouldn't come as a surprise to see a major pullback in nearly everything.”

On the face of it, everything is rosy, with Wednesday marking the 10th straight week of US equity gains as the Dow Jones Industrial Average traded above 11,000 for the first time this year. So what's making investors nervous? That's a very long time to go without a significant correction and the S&P 500 index is nearing major resistance near 1,210.

“Some areas of the economy are improving, but a vast majority of the underlying fundamentals are still quite bad. Yet, the stock market has managed to blatantly ignore the fundamentals and rally for months on end,” said a gas futures trader in Texas. “If we see a serious correction, it could easily weigh on energy futures prices as investors take their money and run.”

The Energy Information Administration reported an 87 billion cubic foot build for the week ended Apr. 9, bringing total working gas in the ground to 1,756 Bcf. The unseasonably huge injection blew away analysts' consensus for a 77 Bcf build and increased the year-over-year surplus to 3.8% and the five-year surplus to 16.3%.

CME/Nymex May gas futures gained 5.4¢ Friday to close at $4.039/MMBtu, down 3.1¢ for the week.

Friday's Commodity Futures Trading Commission's Commitment of Traders report for the week ended Apr. 13 showed non-commercials in about 73.7% short futures-only positions for the week.

*Alan Lammey, Houston*