"It will reduce the greenhouse gas emissions that are slowly overheating our planet. But it will also create a market by which corporations will receive valuable credits for efficient investments," he added.

Late last month in Bonn, 180-odd nations finalized a compromise deal to reduce greenhouse gas emissions under the Kyoto treaty framework. Parliaments of the signatory nations must still ratify the pact.

Environmental Defense, an activist group based in New York, praised the Lieberman-McCain move, saying the bipartisan announcement pushed the country forward on climate change.

"It's time to end growing American isolationism on climate change and put America's ingenuity and market power to work against the premier environmental threat of the 21st century," said Fred Krupp, Environmental Defense executive director.

Friday, 3 August 2001 17:06:14

ENDS [nN03204282]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

#### LLR

From: Sent: James\_Mietus@omb.eop.gov Monday, July 16, 2001 11:58 AM

To:

Farrell, Paula; kevin.kelly@ferc.fed.us; dan.larcamp@ferc.doe.gov.treas.gov; ray.squitieri@do.treas.gov; Alexander\_M.\_Brill@cea.eop.gov; Wallace\_P.

Mullin@cea.eop.gov; arthur.rypinski@dow.hq.gov.treas.gov

Subject: FYI on TVA: Critics attack TVA secrecy

Here's a news article from this morning's Chattanooga paper, in which an independent power producer alleges TVA is being inappropriately secretive with respect to price, cost and production information.

Chattanooga Times Free Press - Monday, July 16, 2001 Critics attack TVA's secrecy By Dave Flessner Business Editor

Tennessee Valley Authority's power load center in the bowels of its downtown Chattanooga complex is designed to be secure against bombs, missiles and terrorists. But the secrecy of the power center is now under attack. The federal utility no longer discloses current information about power loads, business operations or even if one of its nuclear plants has shut down. For the first time, TVA officials aren't telling what they expect the peak power demand to be this year in the Tennessee Valley. TVA officials say such information could sometimes push up the cost of power the agency buys or lower the amount it receives for electricity it generates and sells to other utilities. "We're on a trading floor now and if the market knows that one of our units is down, power markets can more easily raise the price of what they sell to us," TVA President O.J. "Ike" Zeringue said. "That's a never a good situation." But critics claim the government utility is often shielded from public scrutiny and is blocking information needed for a competitive market to operate freely. "Under the guise of 'potential business competition,' TVA is withholding a lot of information," said Michael Knauff, a former TVA power trader who now heads Tennessee Power Co., an independent power producer in Chattanooga. "The exchange of data is necessary to have a fluid and effective market, but TVA doesn't want anyone to know what they are doing so no one can criticize them. If TVA is going to operate just like a private business, maybe it should just be one." OLD DEBATE FOR NEW DEAL AGENCY The dispute over how much freedom TVA should have in its power operations is as old as the New Deal agency itself. When President Franklin Roosevelt established TVA in 1933, he envisioned "a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise." Unlike most utilities, TVA is free to set its own rates and conduct its own business without approval or oversight by any state regulatory board. TVA is also exempt from direct oversight by the Federal Energy Regulatory Commission and isn't covered by many antitrust laws. But until recently, TVA was still beholden to the U.S. Congress for money to pay for its nonpower programs. As a government agency, TVA also regularly disclosed its plans for buying, generating and transmitting power around its seven-state service territory. Congress cut off TVA funding three years ago, however. At the same time, the growing competition and deregulation in the electricity industry encouraged TVA to keep quiet about many of its operations. TVA now limits access for even its own staff to the trading room adjacent to the power load center where TVA buys and sells power each day. "There is a problem when we are out purchasing power if other people know that our plants aren't operating or they know what we are planning to buy that day," Mr. Zeringue said. "If they know one of our big assets is down, then the price that is available to us for buying power will probably be just under what it would cost if we fired up our gas turbines (TVA's most expensive power generation). We get taken to the cleaners on it. That's why we are a little hush-hush." Mr. Zeringue said TVA is keeping most information about the current status of its power operations to itself, although he said information about plant operations could be disclosed later. Many of the inquiries about TVA's power status come from competitors interested in gaining a price advantage, not from consumers trying to ensure TVA keeps its costs down. "We occasionally get calls from strange places wanting to know this, that and the other. We just don't respond to the calls," Mr. Zeringue said. Even years after power trading deals are completed, TVA is sometimes unwilling to disclose any of their terms. Earlier this year, for instance, a power marketing arm of Enron Corp. settled one of TVA's biggest lawsuits for an undisclosed amount. TVA sued Enron after it failed to provide enough power during the summers of 1998

and 1999. But the terms of the multimillion-dollar settlement prevented TVA or Enron from disclosing any of the details of their trading arrangements or monetary settlement. WHO'S WATCHING THE STORE? Environmentalists complain that the increased secrecy over costs of generating and trading power makes it difficult to evaluate TVA's decisions and operations. "I think it is a very dangerous trend," said Stephen Smith, executive director of the Southern Alliance for Clean Energy, a Knoxville-based consumer and environmental group. "We don't necessarily want TVA to be at a competitive disadvantage, but whether or not a plant is running is certainly information that the public has a right to know about." Dr. Smith said his group's assessment about the costs of operating TVA's oldest coal plants compared to generating power from cleaner sources is being undermined by TVA's refusal to disclose its costs of operations. "This lends itself very easily to abuse," he said. But supporters of deregulation insist the market discipline of competition will help ensure utilities are well run and meet consumer demands. Public power enthusiasts also note that government agencies are subject to state and federal open records requirements, unlike investor-owned utilities. "We're regulated by our customers who own us and are our neighbors," said Alan Richards, president of the American Public Power Association. "I think more information about power activities is better than less and, in general, public power is much more open than are our investor-owned counterparts." But private utilities disagree. "There's always been a problem of disclosure by TVA because they are not subject to the same oversight that the investor-owned utilities are through FERC and state public service boards," said John Howes, executive director of TVA Exchange, a lobbying group that monitors TVA for other Southern utilities. "As the market becomes more regional and national, TVA needs to operate under the same rules of disclosure that its neighboring utilities do." "If TVA is a federal agency and enjoys the exceptions and benefits of a government agency, why don't they behave like a public identity?" Mr. Knauff asked.

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Thursday, September 13, 2001 5:08 PM
Austin, Kenneth; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary; Flynn, Timothy; Hendershot, Karen; Mills, Marshall; Radelet, Steve; Squitieri, Ray; Joldersma, Dirk FW: World Oil Market Update (noon edition)

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Hart, James [SMTP: JAMES. HART@HQ. DOE. GOV] Thursday, September 13, 2001 11:48:16 AM >To: Washington, Charles; Hart, James; Coburn, Leonard; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RoblTL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov'; 'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Banaszak, Sara; Tomaszewski, Clifford; Neilsen, Jill; Lawson, William; 'Robert C. McNally@opd.eop.gov'; 'cohenle2@state.gov'; 'flooknd@state.gov'; 'terrsc@ucia.gov'; 'neilm@ucia.gov'; 'richask@ucia.gov'; 'kirschde@state.gov'; Ducca, Ann; Lopez, David; 'wayneea@state.gov'; O'Donovan, Kevin; HUTZLER, MARY; 'hallrm@state.gov'; 'feiserse@state.gov'; Greenhalgh, Diana; Esser, Charles; 'doughertydm@state.gov'; DeVito, Vincent; Lopatto, Jeanne; 'youngdk@state.gov'; Haddad, Zead; Burgeson, Eric; Johnson, David; Bailey, Vicky; 'Garrett D. Soden@opd.eop.gov'; Caliendo, Camille; 'jbrodman@usaid.gov'; 'johnsonse@state.gov'; Hamilton, Patrick >Subject: World Oil Market Update (noon edition) >Auto forwarded by a Rule

The Energy Information Administration has again graciously offered to put together a World Oil Market Update. Our Reuters system is still down (the screen eerily reporting the last story as "10:28 11 Sept"). We will continue regular distribution as soon as the system is fixed. Below is EIA's report.

World Markets Online/Dow Jones FOR SEPTEMBER 13, 2001

This report contains the following articles.

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UK: IPE Brent stays firm after Iraq report spike. p. 4

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#### Latin America

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#### Asia

China <a href="China">China <a href="China">

#### Europe

Russia <a href="http://www.worldmarketsonline.com/servlet/cats?ID=649&typeID=0&subSite=WEO&pageContent=crt">http://www.worldmarketsonline.com/servlet/cats?ID=649&typeID=0&subSite=WEO&pageContent=crt</a> : Gazprom Restructuring Delayed p. 11

Global: Crisis in the US: Oil Prices Stabilise as Markets Settle A semblance of calm returned to oil markets in London yesterday as Brent crude futures for October delivery fell back to US\$28.02 a barrel by the end of trading, a fall of US\$1.04 a barrel on the previous day's close. The fall represents a realisation that there is no immediate threat to Middle Eastern oil supplies, but as speculation still mounts over the US response, the markets will remain volatile. Middle East Tensions The biggest worry is the Middle East connection. As all eyes turn to the region, there are fears that military action by the US in response could ultimately affect supplies. This would be particularly damaging if Iraq was linked to the attack. Although adjustments could ultimately be made to OPEC oil supplies, Iraq's 2.4 million bpd output would be hard to replace if exports were affected. With the US quick to state that no distinctions would be made between terrorists and countries that harbour terrorists, the prospect of military action on a scale in keeping with that of the attack on the US becomes more likely. The focus is presently on Osama Bin Laden and Afghanistan. Should this be the target of any future US retaliation, its distance from the key oil producing centres in the Middle East means that supplies are unlikely to be affected. However, the uncertainty of regional reactions and possibility of escalation will mean tensions are likely to remain high. There are some concerns that consumer panic could lead to a run on already weak US petrol (gasoline) inventories. There have been some reports of a run on petrol in the immediate aftermath of the attack and profiteering by some petrol stations, but the incidents are isolated and likely to dwindle as an air of relative normality begins to return. Balancing Act Oil markets are difficult to predict in times of crisis and uncertainty. There is a danger that rising global tensions will lead to an increase in oil demand as states seek to build reserves to guard against future supply problems. Such increases would push oil prices up. However, OPEC members would be reluctant to raise output to support a global stock build as the prospect for eventual price collapse increases. This would exacerbate the price rise. Equally, there are also fears that the US economy will show increasing weakness, lowering demand. Declining confidence would have a damaging impact on an already stagnant US economy with a consequent impact on demand. The affects on air travel will also need to be assessed. The freezing of flights in the US will have a minor impact on demand in the short-term, but should the tragedy lead to a loss of confidence in excess of the impact of the Lockerbie tragedy, there would be a longer term fall in demand. Implications for Investors Oil markets will wait for the first signals from New York when the NYMEX opens, wait for the clues to a US response and wait for an indication of demand. The uncertainty means that prices could go in either direction in the short term. The reopening of the NYMEX is likely to see a jump in prices, as would any military action taken in the Middle East. Depending upon where this action eventually takes place, oil prices may be affected for the short or medium term.

The larger issues of where an increase in global tensions leads will take longer to answer - as will the concerns for the impact this attack will have on the US economy. Until more clues emerge on the wider impact of the attack on the US, the oil markets will remain cautious and fragile. While the supply fundamentals remain adequate, rising or falling demand will be likely to dictate prices, with concerns over supplies related to the US response in the Middle East. These concerns suggest prices will remain higher in the short-term than would otherwise be the case, raising the possibility of a Q1 2002 price collapse should the fears over Middle East supplies prove unfounded. This article was written by Simon Wardell (simon.wardell@wmrc.com <mailto:simon.wardell@wmrc.com> ).

Global: Fear of Fuel Shortages Sparks Some Panic-Buying

Fears of petrol (gasoline) shortages in the aftermath of the terrorist attacks on New York City has prompted consumers in various parts of the US to dash for petrol, the price of which has more than doubled in some areas (see US: 12 September 2001: Crisis in the US: Energy Industry Goes Into Security Overdrive <a href="http://www.worldmarketsonline.com/servlet/cats?ID=79264&subSite=WEO&pageCon">http://www.worldmarketsonline.com/servlet/cats?ID=79264&subSite=WEO&pageCon</a> tent=art> ). Some independent retailers had reportedly raised prices either to stave off further demand or to take advantage of the rush for supplies. However, the nation's oil majors have tried to allay consumers' worries by freezing their prices and pledging to keep distribution steady. ExxonMobil and BP said supplies would not be hampered - except around New York City - and that there was no need to stockpile petrol. Fears of a shortage reportedly fuelled panic buying and sent prices skyrocketing in Oklahoma, Mississippi, Michigan and other states in the Midwest. Meanwhile, in Europe, there was some panic buying at petrol stations in Poland and France. With the drop in the oil price from US\$31 to US\$29, however, the queues disappeared. In France on 11 September hundreds of motorists descended on petrol stations in waves of panic buying. In Nice all delivery trucks were reserved for the week. A station in Antibes sold out, as queues formed in Cannes and

UK: IPE Brent consolidates lower after two-day trauma.

#### 09/13/2001

Reuters English News Service

Menton on the south coast.

(C) Reuters Limited 2001.

LONDON, Sept 13 (Reuters) - IPE Brent futures looked to consolidate at lower levels on Thursday after two days of volatility as OPEC assurances on stable supplies kept prices under control in the wake of Tuesday's U.S. terror attacks.

By 0738 GMT, October Brent was traded down 28 cents a barrel at \$27.74 a barrel, after having plunged \$1.04 to \$28.02 on Wednesday following OPEC assurances over a potential disruption in Mideast supplies. October goes off the board on Thursday and pre-expiry rolling accounts for some of the previous day's hefty losses. The November contract, which slid only 64 cents on Wednesday, traded down 24 cents at \$27.99 a barrel versus \$27.37 on Monday.

October gas oil traded \$2 lower at \$250 a tonne.

After Tuesday afternoon's suicide plane attacks on the World Trade Center and Pentagon, oil prices surged to a new nine-month high of \$31.05 a barrel amid fears of possible reprisals in the Middle East, potentially disrupting oil supply.

Those gains were later cut by half and Brent now stands only about 30 cents above Monday's closing level, before the attacks.

U.S. officials have said Saudi-born dissident Osama bin-Laden is almost certainly responsible for the attacks but most traders now believe any response directed at the extremist, in hiding in Afghanistan, would not impact regional exports.

However, traders remain wary that any wider retaliation in the Middle East against socalled rogue states could have a knock-on impact on production from the oil-rich region. "The real concern of the oil markets...is what the U.S. response will be," said GNI Research in an opening report.

Volatility will remain a mark of Brent market, however, as New York's NYMEX market remains out of service and many traders find it awkward to trade Brent without the U.S. light, sweet crude contract, which often provides direction.

After a knee-jerk surge on the news on Tuesday most traders said they saw little reason for the market to maintain the gains, particularly given the possibility that the attacks could push the world economy over the brink of recession. Late on Wednesady OPEC kingpin Saudi Arabia added its voice to the chorus of cartel

members assuring the Western world that there would be no shortage of oil supplies. "The government of the Kingdom of Saudi Arabia gives special importance to the stability of the oil market and to provide constant supplies under all circumstances in cooperation with OPEC to cover any-shortage that might occur in the market for any reason," Oil Minister Ali al-Naimi told the SPA.

He said exports from Saudi Arabia, the world's biggest oil exporter, had not been affected by the attacks.

OPEC Secretary-General Ali Rodriguez had said the cartel was committed to ensuring supplies and prices and rejected suggestions that any member of the Arab-dominated group would use oil as a political weapon if violence escalated.

But he also said talk of a potential quick increase in production following the September 1 one million barrel per day (bpd) output cut was premature.

Bearish U.S. oil stockpile reports have been all but eclipsed as they reported rising tanks for crude and products.

The Energy Information Administration (EIA), reporting several hours later than usualy, said crude supplies rose 800,000 barrels to 303.3 million barrels in the week ended Sept 7, more bearish than industry data showing a 20,000 barrel rise.

The reports showed distillate stocks - increasingly important as the winter season approaches - rose between 900,000 barrels and 1.45 million barrels. UK: IPE Brent stays firm after Iraq report spike.

#### 09/13/2001

Reuters English News Service

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LONDON, Sept 13 (Reuters) - IPE Brent crude futures strengthened in mid-session trading on Thursday after Iraq reported that U.S. and British warplanes had struck targets in southern Iraq. Britain and the White House denied the report.

The U.S. and Britain have made regular bombing raids on military installations in southern Iraq over the past decade to protect their aircraft patrolling the no-fly zone established after the Gulf War in 1991. By 1339 GMT, October Brent, which expires at the end of the trading session on Thursday, was six cents higher at 28.08 a barrel, from a high of \$28.18.

November Brent was 17 cents higher at \$28.40 a barrel, five cents off a session high so far.

October gas oil traded \$1 up at \$253.75 a tonne, \$1.75 up. Dealers said the market was extremely volatile and the news reports had rattled fragile nerves.

"The market is extremely volatile and likely to remain so for as long as NYMEX remains closed," one dealer said.

The New York Mercantile Exchange has been closed since suicide plane attacks on Tuesday on the World Trade Center in New York and the Pentagon in Washington.

AMERICA ATTACKED: LEISURE AND ENTERTAINMENT ENERGY Oil, Gas Prices Settling Down U.S. officials try to assure motorists of adequate supplies, threaten action against price gougers. NANCY RIVERA BROOKS TIMES STAFF WRITER

09/13/2001 Los Angeles Times Home Edition C-3

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Calm returned to oil and gasoline markets Wednesday as traders and retailers digested the good news of sufficient supplies--and got a stern talking-to from Energy Secretary Spencer Abraham and other government officials.

Oil prices had jumped to a nine-month high in London, and U.S. gasoline prices leaped as high as \$5 a gallon in some places after Tuesday's terrorist attacks in New York and Washington. Although reports of isolated gouging continued Wednesday, the feared surge at the pump failed to materialize because of wholesale price freezes by some major refiners and government threats of retaliation against profiteers.

Gasoline demand was heavy Tuesday and Wednesday, producing lines at some stations and spot shortages, particularly the first day.

"After a trauma, people feel they need to defend themselves or prepare themselves in some way, and for some motorists that meant going to the gas station and topping off their tanks," said Geoff Sundstrom, spokesman for AAA, the automobile association. "But as awful as these [attacks] were, there was never any threat to oil and gas supplies."
By late Wednesday, most AAA clubs around the country were "reporting prices are stable and

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stations are open and things are functioning fairly normally," Sundstrom said. AAA expects prices nationwide to rise only a few cents from the current average of about \$1.53 a gallon for self-serve regular, he said.

Wholesale prices have risen between 8 cents and 20 cents around the country since the attacks, resulting in moderate retail increases, said Mary Welge, a senior editor with Oil Price Information Service, a New Jersey company that tracks gasoline prices.

Many of the big price hikes spotted Tuesday--largely in the Midwest and South, including \$5 a gallon at a Texaco station in Oklahoma City--have since been rolled back, she said. That dealer, who raised his price because of shortage worries, was so chagrined about the resulting publicity that he is issuing refunds, Welge said.

More big refiners said Wednesday that they had frozen wholesale prices to dealers, joining BP, Exxon Mobil Corp. and Chevron Corp., which had fixed their prices to dealers a day earlier.

Several attorneys general threatened to prosecute any gasoline retailers that were believed to be profiteering during this unsettled time.

Abraham said during a news conference that summer antipollution requirements for Midwest gasoline will be lifted three days early to ease any supply bottlenecks. He said consumers should report price gougers to his agency and other authorities.

An Energy Department investigation found "there's no basis for those kinds of charges," said Abraham, who allowed that the agency has no enforcement powers over gasoline station prices. "But I may call them on the phone if I don't think they are acting properly," he said.

Oil prices also eased Wednesday. Although the New York Mercantile Exchange remained closed, oil was traded on the International Petroleum Exchange in London and in private exchanges operated by Enron Corp., Dynegy Inc. and El Paso Corp. that reopened for part of Wednesday.

The October contract for Brent crude oil, an international benchmark, slipped \$1.04 on Wednesday to close at \$28.02 a barrel, after spurting \$1.61 a barrel higher Tuesday on concerns about Middle East supplies. The Organization of Petroleum Exporting Countries had vowed Tuesday to pump more oil if necessary, and that helped ease supply worries. Spot trading was conducted for about 90 minutes in West Texas intermediate crude oil, the U.S. benchmark, and prices were stable near \$28.60 a barrel. The physical crude oil market closely tracks the Nymex futures market, where West Texas crude closed Monday at \$27.63 a barrel.

"The market was very rational and stable," Enron spokesman Mark Palmer said. The Houston company decided to trade oil Wednesday to provide liquidity to the market because oil is not being unloaded from tankers in Los Angeles, New Orleans and New York, he said. Nymex officials had not decided when the exchange will reopen but will do so "as soon as it is safely possible," spokeswoman Nachamah Jacobovits said. Bloomberg News was used in compiling this report.

Houston Energy Companies Resume Some Trading; Prices Remain Stable Michael Davis

### 09/13/2001

KRTBN Knight-Ridder Tribune Business News: Houston Chronicle - Texas Copyright (C) 2001 KRTBN Knight Ridder Tribune Business News; Source: World Reporter (TM) Houston energy companies moved to return to normal Wednesday, with limited trading showing stable fuel prices.

While the New York Mercantile Exchange remained closed, companies resumed trading oil, natural gas and power via telephone and on their private online services. Gasoline prices on the spot market Wednesday were down across the board. Refiners pledged to try to hold gasoline prices steady. They called on independent retailers to not make drastic price increases, but added they had no control over them.

Reports of isolated price gouging at gasoline stations began surfacing late Tuesday in the wake of Tuesday's terrorist attacks, which caused oil prices to spike up in early trading Tuesday.

The U.S. Department of Energy said Wednesday it had investigated gasoline price gouging allegations and had found there was no supply disruption to justify prices as high as \$5 per gallon.

The AAA said it had found no evidence of widespread extreme gas price increases or long lines.

"The terrible events of (Tuesday) had nothing to do with oil or gasoline supplies and for this reason, panic buying or pricing would be absolutely irresponsible," said Robert Darbelnet, AAA president.

U.S. markets were closed again Wednesday, but oil prices were lower on the London market. Brent crude oil for October delivery fell \$1.04, or 3.6 percent, to \$28.02 a barrel in London.

The New York Mercantile Exchange's closure did not prevent Houston energy companies from resuming trading oil, natural gas and power, among other commodities.

The New York Mercantile Exchange, near the World Trade Center, was evacuated Tuesday, stopping trading. As of late Wednesday, there was no decision about when the Nymex exchange would reopen.

"Given the extent of the personal tragedy, no one would be surprised if all Nymex trading remained closed for the rest of the week," Lawrence Eagles, head of commodities research for GNI Ltd., said in an interview with Bloomberg News.

Enron Corp. resumed trading by phone and online. "We were aiming for stability," Enron spokesman Mark Palmer said. "The markets were very orderly. Power prices actually went down, and gas was only up slightly, and there is a depression in the Gulf."

Enron plans to be open for the full day today, he said.

"We are going to take a look and assess things, but plans are to be open all day," Palmer said.

Dynegy also resumed trading through noon Wednesday.

"The physical business is operational, but obviously the financial business has been impacted due to the Nymex closure," said Steve Stengel, Dynegy spokesman. "We feel this is a short-term impact, and we expect things to return to normal in the not-too-distant future."

Reliant Energy also resumed trading for the full day, said company spokeswoman Sandy Fruhman.

"It was our experience that activity was very light," Fruhman said. Mel Scott, spokesman for El Paso Corp., said the company had resumed normal trading and would do a complete day of transactions on Wednesday.

Equilon Enterprises and Motiva Enterprises, Houston-based refining joint ventures between Shell Oil Co. and Texaco, said they will "help maintain calm in the marketplace with a pledge to hold gasoline and diesel fuel prices steady for the next couple of days." The companies said the nation's overall inventory of fuel is adequate.

"We encourage consumers to buy gasoline as they normally would to minimize sharp swings in gasoline demand and availability. This hold will apply to the prices we charge at Shell and Texaco stations that we own and operate, as well as the retail and wholesale prices we charge our independent dealers and wholesalers throughout the U.S., " the companies said. "We encourage our thousands of independent dealers and wholesalers to exercise restraint in their pricing decisions. We will continue to assess our position as new developments unfold."

Exxon Mobil issued a statement saying it has adequate gasoline supplies.

"In stations we own and operate, our prices have not increased since yesterday's events," the company said. "To reiterate, we have not taken any pricing action with Exxon- and Mobil-branded customers as a result of this tragedy. We cannot control what independent dealers or distributors do but are encouraging them to act responsibly."

Ultramar Diamond Shamrock issued a statement saying it did not increase gasoline prices in response to the terrorist attacks.

"We are sensitive to this national tragedy, and at our 1,500 company-owned retail stores, we did not increase prices in response to this incident," said Steve Motz, senior vice president of marketing at Ultramar Diamond Shamrock.

The company also supplies fuel to independent business owners whose stores are branded Diamond Shamrock, Beacon, Ultramar or Total. Those independents make their own pricing decisions, the company said.

USA: UPDATE 1-NYMEX aims for Thurs pm ACCESS trade via 'Net.

#### 09/13/2001

Reuters English News Service

(C) Reuters Limited 2001.

NEW YORK, Sept 13 (Reuters) - The New York Mercantile Exchange said early Thursday it hoped to start after-hours ACCESS trade for two hours for futures contracts in energy, electricity and metals on Thursday afternoon.

This system has not been used for public trade before.

The exchange had planned to launch this Internet-based version of its electronic off-hours system in early September. But on August 30, it delayed the start of "ACCESS on the Internet" to allow for its members to prepare.

Regular open-outcry trade on the floors of NYMEX and its COMEX division remained closed Thursday due to the terror attacks in lower Manhattan on Tuesday. NYMEX is located a few blocks northwest of the World Trade Center complex, which was destroyed after two planes slammed into the twin towers, causing their collapse.

Manhattan south of Fourteenth Street is closed to civilians, all businesses in that part

of the island are closed. This includes NYMEX and the offices of many of its clearing firms, some of which were located in the World Trade Center.

A clearing firm guarantees transactions made during the buying and selling of futures contracts.

NYMEX ACCESS allows traders to trade futures contracts electronically after regular openoutcry market hours.

"We're making best faith efforts to get a NYMEX ACCESS on the Internet session going this afternoon, with the schedule to be announced later," a NYMEX spokeswoman told Reuters. ACCESS sessions usually start at 4:00 p.m. EDT (2000 GMT) Sunday through Friday, running all night. The spokeswoman did not specify at what time NYMEX hoped to start ACCESS. NYMEX said ACCESS, if it starts, would be available for futures contracts in crude oil, natural gas, heating oil, gasoline, propane, electricity, gold, silver, copper, platinum and palladium.

Nigeria <a href="http://www.worldmarketsonline.com/servlet/cats?ID=551&typeID=0&subSite=WEO&pageContent=crt">http://www.worldmarketsonline.com/servlet/cats?ID=551&typeID=0&subSite=WEO&pageContent=crt</a> : Government and Union Reach Agreement on Fuel Prices

A committee comprising the federal government and the Nigeria Labour Congress (NLC) signed an agreement yesterday ruling out any increases in the price of petroleum products this year. The government has argued that liberalisation of the downstream oil sector would be ineffective if petroleum subsidies are maintained. NLC has resisted the removal of subsidies, arguing that the resultant increases in prices will hurt poor residential and industrial consumers. The 'Joint Committee on Deregulation, Wages and Pension' also agreed that the 25% wage increase proposed for this year as stipulated in the year 2001 minimum wage action, should be deferred, but no later than May 2002. President Olusegun Obasanjo set up the joint committee in May this year to reconcile differences of opinion between the government and the nation's workers, represented by the NLC, on economic issues of mutual interest such as deregulation of the downstream oil sector.

Colombia <a href="http://www.worldmarketsonline.com/servlet/cats?ID=611&typeID=0&subSite=WEO&pageContent=crt">http://www.worldmarketsonline.com/servlet/cats?ID=611&typeID=0&subSite=WEO&pageContent=crt</a> : Average Crude Production Rose by 70,000 bpd in August

Columbia produced an average 668,221 bpd of crude oil in August, representing an increase of over 70,000 bpd from the July figure, the state oil company Ecopetrol said yesterday. August's production figure was the highest monthly average this year since January and nearly 34,000 bpd higher than the output for the same month of 2000. Ecopetrol attributed last month's production increase to better performance at Occidental Colombia's second largest oil field, which had been virtually paralysed since February 2001 due to an escalation in rebel attacks on the Cano Limon-Covenas pipeline. Fewer attacks on the pipeline last month allowed Occidental to increase oil output from the field. The attacks have been attributed to the country's largest left-wing guerilla groups the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) who oppose what they see as foreign dominance of the oil sector.

Venezuela <a href="http://www.worldmarketsonline.com/servlet/cats?ID=636&typeID=0&subSite=WEO&pageContent=crt">www.worldmarketsonline.com/servlet/cats?ID=636&typeID=0&subSite=WEO&pageContent=crt</a> : Oil Supplies to US Continuing as Normal

Venezuela's Energy Minister Alvaro Silva said yesterday that oil supplies to the US remained normal following the recent terrorist attacks on the US and that he did not anticipate any disruptions to Venezuelan oil shipments. Silva said that Venezuela would continue to be a secure supplier of crude oil to the US and that if it were necessary Venezuela had the capacity to increase its crude exports to the US. However, Silva said that any increase in supplies would only be made in co-ordination with other OPEC members. The cartel of oil producing nations has not indicated whether the current production level will need to be adjusted at the next meeting of OPEC ministers scheduled for 26 September. Venezuela's economy is heavily dependent on the oil sector and Venezuela will be concerned about the economic impact of the terrorist attacks and in particular the consequences for future oil demand from the US market. According to June figures from the US Department of Energy, Venezuela was the third largest oil exporter to the US at 128 million bpd for June, after Saudi Arabia and Canada. Mexico had slipped to fourth place. However, if the US sought to reduce its dependence on Middle East crude in the wake of the attacks, this could benefit oil exporting countries such as Venezuela and Mexico. The Venezuelan state oil company PDVSA's US subsidiary CITGO has increased security at all of its US installations following the attacks.

China <a href="http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&">http://www.worldmarketsonline.com/servlet/cats?ID=572&typeID=0&subSite=WEO&"</a>

The Chinese government has agreed to maintain refinery throughput at existing levels despite calls for margins to be increased as a security precaution in the light of Tuesday's terrorist attacks in the US. A spokesman for national oil company Sinopec said that it would only raise output in response to any significant increase in demand. However, this seems unlikely given that oil demand in China tends to be driven overwhelmingly by domestic factors. Last month the company decided to cut monthly output by 13% to 8.7m tonnes due to low demand and excessive margins. Thailand and Taiwan both responded to the attacks in the US by immediately increasing their reserves from oil refineries (see Thailand: 12 September 2001: Oil Stockpiles to be Raised <a href="http://www.worldmarketsonline.com/servlet/cats?ID=79262&subSite=WEO&pageContent=art">http://www.worldmarketsonline.com/servlet/cats?ID=79262&subSite=WEO&pageContent=art</a>).

SINGAPORE: Asia gas oil dips, focus returns to ample supplies.

#### 09/13/2001

Reuters English News Service

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SINGAPORE, Sept 13 (Reuters) - Singapore gas oil prices came off on Thursday, as the initial bullish reaction to the terror attacks on the U.S. subsided and the market focused again on bearish fundamentals.

News that Philippines would halt exports of products failed to stir the market, as traders saw the country more an importer than exporter. Philippines state refiner Petron tenders on the spot market intermittently to buy low sulphur gas oil.

Traders said the market was quiet, eyeing further developments in the U.S. investigation of Tuesday's attacks and any subsequent retaliatory actions which might emerge.

But with no indication of any immediate supply disruption, they said the market was just drifting lower in search of firm buying interest in the region.

The Singapore cash market was also awash with gas oil offers, with four sellers coming out, but no buyers seen.

Fixed price offers were at \$31.00-\$31.15 a barrel, compared to selling indications at \$31.50 a barrel on Wednesday.

Spot gas oil last traded on the Singapore cash market on Tuesday at parity to spot quotes. In Sri Lanka's October gas oil buy tender which closed on Wednesday, six offers were submitted, indicating that there were no concerns about supply shortages, traders said. Jet-kerosene prices also eased lower, with traders expecting some fallout in jet fuel demand due to reduced flights to the U.S. following the terror attacks. The lower demand could offset the relative tight supplies in Asia ahead of the peak winter season. Regrade, or the swaps premium of jet-kerosene over gas oil, had fallen to be last talked at \$2.30 a barrel, compared to a high of \$3.00/\$3.40 talked early on Wednesday immediately after the U.S. attacks.

On the Singapore cash market, jet-kerosene buyers bid at discounts of 9-10 cents a barrel under spot quotes, and faced offers at a 20-cent premium, or at fixed prices of 33.10-33.15 a barrel. Nothing traded.

A jet-kerosene spot cargo had traded on Wednesday at \$33.70, sharply higher compared to a Tuesday trade done at \$32.20.

(Prices are in dollars per barrel). MTH FOB SIN BUY/SELL PREV BUY/SELL

SEP JET/KEROSENE 32.90/33.10 33.30/33.70

SEP GASOIL 0.5% S 30.80/31.00 31.00/31.50

OCT JET/GAS OIL SWAPS +2.25/+2.35 +2.40/+2.50

OCT GAS OIL SWAPS 30.85/31.00 31.50/32.00

NOV GAS OIL SWAPS 30.60/31.80 31.25/31.75.

Russia <a href="Russia">Russia</a> <a href="Russia">Russia

Economics and Trade Minister German Gref has dismissed reports that the government has a fixed timetable for restructuring gas giant Gazprom. Earlier this year Finance Minister Aleksei Kudrin said that the government will embark upon an extensive programme of reform

of Gazprom in the autumn (see Russia: 23 May 2001: Gas Industry Reform Scheduled for Autumn <a href="http://www.worldmarketsonline.com/servlet/cats?ID=63130&subSite=WEO&pageContent=art">http://www.worldmarketsonline.com/servlet/cats?ID=63130&subSite=WEO&pageContent=art</a>). Furthermore, Prime Minister Mikhail Kasyanov announced plans to separate the company's production units from transportation and give independent gas producers access to Russia's gas pipeline system (see Russia: 12 July 2001: Gazprom To Be Split Up <a href="http://www.worldmarketsonline.com/servlet/cats?ID=71529&subSite=WEO&pageContent=art">http://www.worldmarketsonline.com/servlet/cats?ID=71529&subSite=WEO&pageContent=art</a>). However, Gref said this week that the government has yet to draft a

restructuring programme, which is likely to delay the process.

From:

Subject:

Rao, Geetha

Sent:

Thursday, September 06, 2001 4:46 PM

To:

Austin, Kenneth; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel;

Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary; Flynn, Timothy;

Hendershot, Karen; Mills, Marshall; Radelet, Steve; Squitieri, Ray; Joldersma, Dirk

FW: World Oil Market Update (p.m.)

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Hart, James[SMTP: JAMES. HART@HQ. DOE. GOV]
               Thursday, September 06, 2001 4:49:12 PM
>To: Washington, Charles; Hart, James; Coburn, Leonard; Pumphrey, David; Shages, John;
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>Subject:
              World Oil Market Update (p.m.)
>Auto forwarded by a Rule
Crude oil prices jumped higher today, as EIA data released this morning backed up
yesterday's API report of a draw in U.S. oil stocks last week. Crude oil on the New York
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Mercantile Exchange ended the day at \$27.58, up 63 cents, while Brent crude in London was also up 63 cents to \$26.95. NYMEX heating oil was up 1.61 cents to close at 78.32 cents a gallon, and gasoline up 1.96 cents to close at 80.79 cents a gallon. EIA today reported a draw in U.S. crude oil stocks last week of 2 million barrels, a draw in gasoline of 1.2 million, and a draw in distillate of 300,000 barrels. The continued draw in U.S. stocks has analysts talking tighter markets and higher prices, as noted in David Bird's column in the fifth story below. OPEC Secretary General Rodriguez reiterated today that he does not expect OPEC to take any action on output levels when it meets on September 26. The Iraq pricing dispute at the UN continues, with Russia objecting to the U.S.-UK suggestion to adjust Iraq's contract prices every 15 days. The goal of the U.S.-UK plan is to have Iraqi crude oil prices track closer to the market, leaving less leeway for Iraq to pressure a surcharge from its initial buyers (many of which are little-known Russian companies).

1. End-day market analysis from New York

<sup>2.</sup> OPEC Secretary General Rodriguez expects no output change at

September meeting

- OPEC members unhappy with increased Russian oil flows
- Report on today's EIA stock data
- David Bird suggests U.S. stock data points to price surge
- Iraq and UN Security Council wrangle over expulsions, oil prices
- Russia objects to U.S.-UK Iraq pricing idea
- 8. Iraq crude pricing dispute and OPEC cuts push up price for Russian Urals crude
- Analysis on marginal UK oilfields and high prices
- Venezuela's Chavez rhetoric makes investors nervous
- 11. U.S. said seeking India's cooperation on energy security
- 12. Report on today's EIA Short-Term Outlook
- 13. Report on today's EIA OPEC fact sheet

# NYMEX CRUDE, PRODUCTS END SHARPLY UP AS STOCKS TIGHTEN

NEW YORK, Sept 6 (Reuters) - NYMEX crude oil and refined product futures ended sharply higher Thursday as stocks tightened after hefty draws were made last week.

NYMEX October crude last settled at \$27.58 a barrel, leaping 63 cents or 2.3 percent on the day. It traded as high as \$27.65, the highest in a little over two weeks.

In London, front month October Brent finished 63 cents or 2.4 percent up at \$26.95.

NYMEX November Brent, on its second day of trade, finished at \$26.95, surging 67 cents or 2.5 percent in fairly active dealings.

Crude futures drew strength on the Energy Information Administration (EIA) data which showed crude stocks shrank a solid 2.0 million barrel, which countered a minor 499,000 build in industry estimates.

October heating oil settled at 78.32 cents a gallon, up 1.61 cents or 2.1 percent. It peaked at 78.60 cents, the highest in 11 weeks.

Heating oil found support from a large 1.9 million barrel stock draw last week in distillate stocks reported by the industry group American Petroleum Institute (API). Distillates include heating oil and diesel fuel.

EIA confirmed the direction, though reporting a much smaller draw of just 300,000 barrels.

Still, "this is just enough information to start up heating oil worries once again," said Phil Flynn of Alaron Trading. "We should be building at this time of year, and when refinery operations jump up and distillate stocks go down, there is something wrong."

NYMEX October gasoline finished at 80.79 cents a gallon, a 1.96-cent or 2.5 percent gain, after extending the day's high to 81.00 cents, the highest in a week.

API data showed a 1.9 million barrel draw in gasoline stocks, the eighth consecutive weekly decline. EIA data were less bullish, with a 1.2 million barrel decline.

The day's gasoline gains were also spurred by supportive refinery news. Talk of refinery troubles lifted front-month gasoline almost 2.00 cents on Wednesday.

Motiva Enterprises LLC will bring down its 175,00 bpd crude unit at its Delaware City, Delaware, refinery for 20 days of planned maintenance starting Sept 20, a company source said.

Conoco Inc. <COCa.N> <COCb.N> said it expected a 37,000 bpd fluid catalytic cracking unit at its Ponca City, Oklahoma, refinery, to return to service this Thursday evening. BP Plc. <BP.N> is delaying for two weeks or until Oct 15 a planned maintenance at its 410,000 bpd refinery in Whiting, Indiana. A spokeswoman would not specify the units affected.

Valero Energy Corp. <VLO.N> said it will take down an 18,000-bpd cat cracker for maintenance on Oct. 1 at its newly acquired East Corpus Christi, Texas, refinery.

The company will also start maintenance on the plant's 3,000 bpd alkylation unit that day. The work on the two units is expected to last 21 days, the company said.

In other news, Iraq's latest standoff with the United Nations over pricing also remains a focal point for traders as it threatens to trim crude imports ahead of the winter season.

Iraqi exports in the week to Aug. 31 fell 550,000 bpd day to 1.86 million bpd due in part to the cancellation of two tankers expected to load out of Ceyhan, Turkey, but industry sources expect supplies to bounce back this week.

((Gene Ramos, New York Energy Desk, +1 646 223 6054, gene.ramos@reuters.com))

Thursday, 6 September 2001 16:20:21

OPEC SECRETARY GENERAL SEES NO OUTPUT CHANGE AT SEPTEMBER MEETING

By Sally Jones

Of DOW JONES NEWSWIRES

LONDON (Dow Jones) -- The Organization of Petroleum Exporting Countries is unlikely to change its current output target of 23.201 million barrels a day when it meets later this month in Vienna, the group's Secretary General Ali Rodriguez told Dow Jones Newswires Thursday.

Speaking by telephone from Vienna, Rodriguez said OPEC will probably "maintain its same position in September," unless something "surprising" happens in the market in the meantime.

Rodriguez also said he expects OPEC's basket price to stay close to the group's preferred level of \$25/bbl for the remainder of 2001.

OPEC's secretary general said oil prices normally rise during the fourth quarter because of increased buying ahead of the winter months, but added that despite this the price of OPEC's basket should still average \$25/bbl for the year.

Rodriguez said he didn't expect OPEC to call an extraordinary meeting for November, but added that a final decision would be made on this when OPEC ministers meet Sept. 26.

Rodriguez said he had studied each member's individual crude output for August and all looked to be "satisfactory." He offered no details on actual August output figures.

However, he called for continued compliance amongst all members to the group's current output agreement.

He said if non-OPEC members were to cooperate with OPEC on output decisions then the group had to show it was adhering to its agreements.

July 25, OPEC members, excluding Iraq, pledged to cut output by 1 million b/d from Sept. 1. This gives the group a new output target of 23.201 million b/d.

Wednesday, OPEC's basket price of seven crude oils averaged 24.59/bbl.

By Sally Jones, Dow Jones Newswires; 44-20-7842-9347; sally.jones@dowjones.com -0- 06/09/01 15-12G

Thursday, 6 September 2001 10:14:01

OPEC MEMBERS UNHAPPY AS RUSSIAN OIL FLOWS - SOURCES

By Sally Jones

Of DOW JONES NEWSWIRES

LONDON (Dow Jones) -- The activities of the world's third largest oil producer, Russia, have become the subject of debate behind closed doors at the Organization of Petroleum Exporting Countries, given the prospect of sharply lower oil prices next year.

Russia has been attending OPEC meetings as an observer for the past few years, but hasn't been part of output pacts since 1998.

So far this year, OPEC has cut output a total of 3.5 million b/d in an attempt to prevent oil prices from crashing amid a gloomy outlook for economic growth and oil demand.

OPEC sources said despite repeated calls from OPEC for cooperation from Russia, its output has continued to rise in recent months.

"The floodgates have opened...since the first quarter Russian crude supplies on the (Mediterranean) have generally increased, and if we are going to control the market Russia also needs to be more forthcoming," one OPEC delegate said.

According to the Paris-based International Energy Agency's August oil market report, Russian crude output has been at record levels since February, resulting in exports of almost 5 million b/d.

One OPEC source said unless Russia's crude output is controlled, crude oil prices could be pushed down to between \$16.00-\$18.00 a barrel by early 2002. Prices are currently within OPEC's targeted range of \$22-\$28 a barrel.

OPEC officially says it is in its interest to continue dialogue with Russia. Secretary General Ali Rodriguez told Dow Jones Newswires he is keen to closely work with Russian oil officials to guarantee better cooperation.

"I want strong cooperation and links with Russia," Rodriguez said, but added that he wants to avoid scenarios whereby OPEC members cut output to maintain oil prices "at a good level" while others increase output.

Behind the scenes, some members are suggesting Russia should be excluded from OPEC meetings to punish it for its lack of cooperation.

"I think it is unlikely that we will get the kind of cooperation we want from OPEC through diplomatic means...the only way possibly is to threaten them," one OPEC source said.

But a Libyan OPEC delegate told Dow Jones Newswires most members don't want to

sever links with Russia.

"We need to keep a soft tie rather than no tie," he said.

Unless OPEC works more closely with Russian oil officials, sources said they are concerned Russia will continue to ignore any requests by OPEC to join it on future output decisions.

Several OPEC delegates are now calling on senior OPEC officials to meet with their Russian counterparts to resolve the situation.

"Ministers should be talking at the highest level," one senior OPEC source said. Rodriguez said any request by Russia to join OPEC would be welcomed by the group, although Russia's oil minister, Alexei Miller, has said recently this isn't being considered.

-By Sally Jones, Dow Jones Newswires; 44-20-7842-9347; sally.jones@dowjones.com Thursday, 6 September 2001 13:49:34

EIA SHOWS FLAGGING IMPORTS CUT U.S. CRUDE STOCKS

WEEK ENDED 8/31/01 CRUDE 302.5			8/24/01			8/31/0		
DISTILLATE. 120.4			OOWN 2.0			15.4		
GASOLINE 194.7			1.2 MLN			7 MLN		
RFG 40.4			DOWN	2		UP		MIM
UTILIZATION 94.8	PCT	UP 2	.0 PCT			DOWN	3.4	
PRODUCT DEMAND.20.1	MLN BPD	UP 1	.0 PCT	DOWN	2.1	PCT		
(4-WEEK AVG)								

NEW YORK, Sept 6 (Reuters) - A sharp fall in crude oil imports and an upturn in refinery runs cut into U.S. stocks of crude last week, the Energy Information Administration said Thursday.

Stocks of gasoline and distillates, including heating oil and diesel, also fell back, EIA said, although by a smaller margin than reported late Wednesday by the American Petroleum Institute (API).

Distillates fell in both reports, which occurred at a time of year when stocks typically build ahead of heating season. EIA reported a much milder draw of only 300,000 barrels compared to API's reported draw of nearly 1.9 million barrels.

"This is just enough information to start up heating oil worries once again," said Phil Flynn of Alaron Trading. "We should be building at this time of year, and when refinery operations jump up and distillate stocks go down, there is something wrong."

Frontmonth October heating oil futures on the New York Mercantile Exchange rose 1.69 cents to 78.35 cents a gallon early on Thursday following the report.

Crude stocks fell 2 million barrels during the week ended Aug 31, according to EIA, the statistics arm of the Department of Energy, which disputed API's build of nearly 500,000 barrels. Still, crude stocks sat more than 15 million barrels higher than the corresponding week last year.

Crude imports fell 1.1 million barrels per day (bpd), according to EIA, to 8.3 million bpd, which countered expectations of more imports from Iraq which resumed oil exports later this summer after halting them in June.

Iraqi exports in the week ended Aug 31 fell 550,000 bpd to 1.86 million bpd in part due to the cancellation of two tankers expected to load out of Iraq's port at Ceyhan, Turkey.

Analysts said exports of other grades were holding out for higher prices. "I think some of the fall in crude imports is due to some people holding back in expectation crude will soon go higher following the latest OPEC cut," said Flynn.

The Organization of Petroleum Exporting Countries cut production by 1 million bpd out of the 76 million bpd global oil market from Sept 1, in its third cut of the year.

Refinery use in both reports rose with API showing a slightly bigger rise of 2.3 percent to 94.5 percent of capacity. EIA showed a 2 percent gain in capacity to 94.8 percent.

--((Timothy Gardner, New York Energy Desk, +1 646-223-6058; fax +1 646-223-6078, timothy.gardner@reuters.com)) Thursday, 6 September 2001 11:21:50

ENERGY MATTERS: U.S. OIL STOCKS POINT TO PRICE SURGE

By David Bird

A Dow Jones Newswires Column

NEW YORK (Dow Jones) -- Are we there yet?

On the road between economic downturn and recession, U.S. oil demand sputtered

along in August. And as vacationing motorists yield the streets to school buses, the age-old question from the child in the back seat becomes a valid query for oil market analysts.

Although the desired destination of U.S. economic recovery isn't on the same page as the country's current route, oil demand remains buoyant.

The worry now becomes whether the higher oil prices we see coming give us a flat tire on the route to recovery or get us hopelessly lost on the way.

As President Bush tries to spur consumers to spend the country out of its fiscal funk with tax rebate checks, the road ahead remains rutted.

If surging oil prices cause a breakdown, Bush is most likely to do what most male

motorists do almost instinctively when they get lost - blame somebody else.

In this case, "somebody else" would be OPEC. And ministers from the Organization of Petroleum Exporting Countries clearly bear key responsibility for how the

global economy is steered as much as they would like to duck the blame.

It's easy to misread the signs for the U.S. oil price outlook by comparing only with last year's extremely tight inventory levels.

Five-Year Stocks Data Are Bullish

But a five-year analysis of Energy Information Administration data shows strong trends that point to still higher prices.

While Nymex crude oil futures hover near \$27, we still see a series of factors which could take crude back to near the \$30 level for the first time since

The continued signs of vitality in the U.S. market, which gobbles up 25% of the world's petroleum, contrasts with sluggishness elsewhere and present fresh concerns for OPEC, which meets in less than three weeks to examine supply/demand fundamentals.

As we have said repeatedly, OPEC ministers on Sept. 26 in Vienna will publicly support their latest agreement, in which they pledged to cut oil output quotas by 1 million barrels a day from Sept. 1.

But very little oil is likely to be taken out of the market, as OPEC fears prices may surge, and the group has been lax in sticking to its accords.

Ministers are expected to set an extraordinary meeting for November to consider adjusting output to meet winter demand in the Northern Hemisphere.

Although OPEC has pledged to slash official supply levels by 3.5 million b/d this year, including the latest move, OPEC's own data show July output exceeded agreed levels by nearly 750,000 b/d. Preliminary August data show OPEC busted quotas by about 1 million b/d, according to tanker-trackers Petrologistics.

It isn't hard to imagine OPEC pumping 2 million b/d over its new quota by the time it meets later this month.

OPEC would love to see prices hover around the average so far this year, of around \$24.80 for its reference basket, but the huge level of overproduction will pressure prices, if stronger demand doesn't materialize.

In a paradox, any credible sign that OPEC actually is cutting production would send prices well above the group's \$25 target. A price over \$28 for the basket, for 10 straight days, would lead OPEC to - at the very least - boost output by 500,000 b/d under its price-band mechanism.

Preliminary U.S. data for August show oil demand dropped to 20.068 million b/d from the August 2000 record of 20.496 million b/d, which was the third highest monthly level ever recorded.

The demand drop came as gasoline use dipped to 8.815 million b/d from the year-ago August record 8.921 million b/d. But year-to-date gasoline demand is still up 1.4% and our June-July-August demand indicator set a record at 8.84

million b/d, up 1% on the year.

Distillate fuel demand set a record for August, at 3.792 million b/d, up 1.8% from a year ago, and the year-to-date figure is up 7.2% from a year ago, EIA says.

It is a combination of strong demand and extremely tight stocks in crucial regions which points the way for our strong price forecast.

No End To Driving Season

While the high-demand season for gasoline ends, it is critical to note that year-round use of the fuel is also at record levels.

Gasoline demand, which was barely topping 8 million barrels on annual average as recently as 1997, topped that level last January - usually the weakest month of the year. In 2000, December gasoline demand topped the heart-of-summer July level and was the fourth highest of the year. In 1999, December's gasoline usage was the third highest of the year.

U.S. end-August gasoline stocks were 194.7 million barrels, according to

four-week data ended Aug. 31, just below the five-year average of 197 million barrels.

EIA noted that in July and August, gasoline stocks fell by 25.4 million barrels, the largest-ever fall for those two months.

In the past four years, gasoline stocks have been higher at the end of November than at the end of August.

For that trend to continue, refiners will need to balance output of the fuel with the need to cover a huge deficit in distillate stocks, comprising home-heating oil and diesel fuel.

Nationwide distillate stocks at the end of August averaged 120.4 million barrels, latest data show. The figure is up a sharp 8.8% from under 111 million barrels last year, but is 6.6% below the five-year average of 129 million barrels.

EIA, noting that distillate stocks "normally build this time of year," reported a 300,000-barrel drop in the latest week.

Big Builds Needed For Normal Heating Oil Stocks

Heating-oil season begins at the start of December, with end-November stocks averaging 136 million barrels over the past five years. That means stocks will need to grow by 15.6 million barrels in the September-November period to reach normal levels.

But that's more than twice the average growth rate over the past five years during the period. Distillate stocks haven't risen by close to the needed level since 1993, when they climbed by 21 million barrels. Back then, though, U.S.

benchmark West Texas Intermediate crude traded at \$18 in August and fell to around \$14.50 by year end.

On the East Coast, the world's largest heating oil market, total distillate stocks ended August at 47.1 million barrels, about 13% below the five-year average.

Stocks of high-sulfur distillate, used for heating oil, were 30.3 million barrels, up nearly 33% from a year ago, but about 16% below the five-year average.

End-November East Coast heating oil stocks averaged just under 40 million barrels in the last five years, meaning a build of about 10 million barrels is needed to lift stocks to normal season-opening levels. The average net gain over the last five years was just 3.75 million barrels in the period.

Low-sulfur stocks, used as road diesel, but which can be used as home-heating oil, show no cushion, at 16.9 million barrels, compared with the end-August five-year average of less than 17.9 million barrels.

Nationwide, crude oil inventories ended August at 302.5 million barrels, versus the five-year average of 309 million, although up sharply from last year.

In the U.S. Midwest, where Saudi Arabia's oil minister says crude oil stocks are a good indicator of price swings, stocks remain at levels which suggest a surge back to \$30 or more.

Stocks ended August at 58.3 million barrels, down from 60.5 million barrels a year ago. On a forward-cover basis, stocks dropped to just 17.25 days, the lowest since Sept. 22, 2000, when U.S. benchmark crude was priced at \$32.68.

OPEC will have little more information than it now has when it meets later this month, but reading the road map correctly, and keeping the taps loose, will keep the world economy from careening out of control.

-By David Bird, Dow Jones Newswires; 201-938-4423; david.bird@dowjones.com (David Bird is senior energy correspondent for Dow Jones Newswires.) (Energy Matters will next appear on Tuesday, Sept. 11, at 1030 EDT, with our annual look at The Old Farmer's Almanac's weather forecasts.)
Thursday, 6 September 2001 10:30:27

UNITED NATIONS (AP) -- Baghdad's expulsion of six U.N. employees and British efforts to clamp down on Iraqi oil prices dominated a heated Security Council meeting Thursday that ended with Iraq's ambassador screaming at the head of the U.N.'s humanitarian program.

"Why are you sending me spies?" Iraqi ambassador Mohammed al-Dhouri shouted at Benan Sevan, the director of the U.N.'s Iraq program, which monitors the use of Iraqi oil profits for the purchase of humanitarian goods including food and medicine.

Outside the council chamber, Sevan quietly denied that members of his team were

Iraq expelled a Dutch national Friday for taking photographs in public and then informed Sevan that five others -four Nigerians and a Bosnian - were being thrown out of the country for leaking security information to "enemy states."

The Iraqi government hadn't used the term "spies," but al-Dhouri did so on Thursday. "They were spying and we hope to prove that soon," al-Dhouri told reporters.

After a briefing by Sevan, a united Security Council issued a statement Thursday urging Iraq to provide the U.N. with evidence to back up the claims against the five.

French diplomats in New York and in Baghdad were meeting Iraqi officials on the sidelines to try to contain tensions between the oil-rich nation and the world body exacerbated by U.S.-British efforts to tighten an arms embargo and overhaul the sanctions

But there was no agreement among council members on a U.S.-backed British proposal aimed at preventing Iraq from profiting from oil sales by forcing buyers to pay surcharges outside the U.N.'s oil-for-food program.

China and France raised concerns on procedural grounds because the proposal skirts an existing committee that sets oil prices.

Russia - Iraq's key ally on the council - objected outright to the plan, stalling the necessary U.N. approval for the prices. In the meantime, Iraqi oil prices will continue until the impasse is broken.

"They want to introduce a new mechanism, which is not in the rules of procedure," Russian Ambassador Sergey Lavrov said.

Diplomats, who spoke on condition of anonymity, said that behind closed doors, Lavrov lashed out at the U.S. and Britain for air strikes on Iraq while French diplomats quietly complained that the English-speaking allies were opening old wounds in the council on Iraq.

At present, Iraq is permitted to sell unlimited amounts of oil but the revenue must be used for humanitarian purchases.

Britain and the U.S. believe that Iraq earns money outside this system by setting artificially low prices for buyers, then demanding secret payments to make up the

Currently, Iraq and the U.N. set prices on Iraqi crude every 30 days, taking into account fluctuations in market prices. But under the plan, the price adjustment period would be reduced to 15 days to limit Iraq's ability to garner revenue outside the system and give oil traders the lead time needed for chartering tankers.

Al-Dhouri also said there had been two additional expulsions of U.N. personnel but Sevan's office denied that claim. Thursday, 6 September 2001 14:59:0

# RUSSIA VOICES OBJECTION TO U.S.-UK PLAN ON IRAQ OIL PRICES

UNTIED NATIONS (Dow Jones) -- Russia expressed stern opposition Thursday to a U.S.-British plan to crack down on Iraqi efforts to collect illicit surcharges on its oil sales by reviewing Iraqi oil prices more frequently.

The Russian objection raises the possibility of a new confrontation between Iraq and the United Nations on the issue of oil prices. A similar dispute last December led to a temporary suspension of Iraqi oil exports, although Baghdad, has given no indication that it would halt oil sales over the current disagreement.

Britain and the United States want the Security Council committee monitoring sanctions on Iraq to review Iraqi oil prices every two weeks instead of the normal once a month. The proposal is meant to make it harder for Iraq to exploit market volatility to impose a surcharge atop its preset official export prices.

Western diplomats said Russia's opposition is partly an effort to protect the interests of Russian companies, which dominate the trade in Iraqi oil that takes place under the U.N.-monitored oil-for-food program.

Russian U.N. Ambassador Sergey Lavrov told the Security Council that Russia objects to the U.S.-U.K. proposal not on technical or economic grounds, but because it would violate

current committee procedures.

"They want to introduce a new mechanism, which is not in the rules of procedure," Lavrov said.

Yet Iraq in the past has frequently changed its official oil prices over the course of one month in an effort to take advantage of market fluctuations, Britain's U.N. Ambassador, Sir Jeremy Greenstock said. The Iraq Sanctions Committee should have the same flexibility, he said.

"One risk of these excess premia is that contract-holders who purchase Iraqi oil direct from (Iraq's State Oil Marketing Organization) pass the excess premia back to the Iraqi government...as an illegal 'surcharge,'" Britain said in a memo circulated to Security Council members. "There is substantial evidence from the oil markets and informed oil sources that this is indeed occurring."

Russia is expected later Thursday to send a letter to the chairman of the Sanctions Committee, Ambassador Peter Kolby of Norway, raising an official objection to a U.S.-British proposal that the committee approve Iraq's proposed prices for the U.S. market for only the first two weeks of September.

Iraq had proposed those prices for the full month of September.

Russia's objection means that there will be no officially approved Iraqi oil prices for exports to the U.S. But it doesn't pose an immediate threat to Iraqi oil exports. The committee has indicated that Iraq may continue its oil sales until members agree to a new set of prices. Once approved, prices will be applied retroactively to the period.

-By Masood Farivar, Dow Jones Newswires; 201-938-2094; masood.farivar@dowjones.com Thursday, 6 September 2001 16:02:39

# IRAQI CRUDE PRICE WRANGLE, OPEC CUTS, PUSH UP RUSSIAN URALS PRICE

LONDON (Dow Jones) -- OPEC production cuts and renewed wrangling over a proposed price formula for Iraqi crude oil have pushed up the price of Russian Urals, the only other alternative sour grade in the Mediterranean, to the highest levels seen this year, traders and brokers said Thursday.

Russian Urals, a sour crude that is the most similar to Iraqi Kirkuk in quality, has traded this week at least once at 70 cents a barrel under dated Brent.

The high level of Urals, that usually trades around \$1-\$2/bbl under dated Brent, has surprised many traders.

"Urals has traded higher than most people would value the grade, but it must be trading at that level for a reason," said a Mediterranean crude trader who specializes in Urals.

Traders said a combination of factors is pushing up the price for the grade, including a reduced supply of available spot cargoes.

Uncertainty over the outcome of a new battle between Iraq and the U.N. over pricing has worried some crude buyers that supplies could be disrupted again this year.

In recent weeks, the U.S. and U.K. have been pushing for more frequent reviews of Iraqi oil prices in an effort to make it harder for Baghdad to impose an illegal surcharge on oil shipments.

"I would suspect that this constant changing of the Kirkuk price formula has caused some buyers to turn to alternatives such as Russian crude," said a second trader.

Also of growing concern to buyers is the Organization of Petroleum Exporting Countries decision to cut output three times this year, resulting in a total reduction of 3.5 million barrels since the beginning of the year.

The most recent OPEC cut took effect Sept. 1.

Traders in the Mediterranean said the missing OPEC barrels could be one of the explanations why Urals is so strong.

"In the end it all comes down to the OPEC cuts," said a trader with a European oil major.

"OPEC countries have been quite strict in Europe and there's definitely a perception that there's less Saudi, Iranian and other crude around," he said.

Indeed, it is more than a perception.

Saudi crude nominations for Europe have been shrinking since the beginning of the year, with many oil majors currently receiving between 155 and 20% less than their contracted volumes.

Several traders have said the price of Urals is currently artificially strong and a play was being made on the grade to push it higher to cover a position held in the market. But either way, they said, once the numbers were out in the market, the price was likely to stay at that level.

"If feels as if some companies have been pushing Urals up, but now it is up, everyone

else is jumping on the bandwagon and keeping it high," a crude broker said.
-By Selina Williams, Dow Jones Newswires; 44 (0)20 7842 9262;
selina.williams@dowjones.com
Thursday, 6 September 2001 10:51:46

# ANALYSIS - HIGH PRICE OFFERS LAST CHANCE FOR MARGINAL UK OIL

By Tom Ashby

ABERDEEN, Scotland, Sept 6 (Reuters) - Britain's North Sea oil producers should hurry up and develop marginal reserves now while world prices are high because they could be drinking at the last chance saloon, industry leaders said on Thursday.

Executives at an industry fair in Britain's oil capital Aberdeen do not believe current prices can last forever but said some small oilfields previously considered to be sub-commercial could be brought on stream before prices head south.

"For the UK North Sea, it is key to make quick investment decisions and bring projects forward quickly to take advantage of these high prices which might not last for long," said Mark Carne, general manager of Shell UK's northern business unit.

Carne said Shell <RD.AS><SHEL.L> had not altered its long-term oil price forecast, which sees Brent crude oil in the "mid-teens" versus its current \$27 per barrel price, but high prices had contributed to its decision to develop the small Kestrel field.

"It is quite common for people to make marginal investments where there is short-term return when you have these periods of high oil prices," Carne said.

The Kestrel development is a classic response to high prices because it is relatively low-cost at \$35 million, produces oil quickly within eight months of the decision to invest, and will drain half its reserves within 18 months.

Technology is also a key driver behind smaller field developments such as Kestrel, said North Sea analyst David Cox, because they benefit from existing subsea pipelines and offshore platforms which bring development costs down.

"It's a combination of higher prices and better technology which means these marginal satellite fields are being developed," said Cox, who works for Wood Mackenzie consultants.

### SLOWING THE DECLINE

These fields help extend the life of ageing North Sea oil infrastructure, but they will only slow the decline forecast to grip Britain's oil industry over the next five years. From 2.3 million barrels per day forecast this year, UK oil production is forecast by the government to drop to about 1.6 million in five years.

High prices have boosted production in some other countries significantly, especially Russia, while the 11-member OPEC exporting cartel has cut output drastically to maintain prices.

But the North Sea is unlikely to mirror the Russian example, as geologists believe it has few big fields left to discover.

Pierre Senequier, manager of the central North Sea area for TotalFinaElf <TOTF.PA>, said current prices did give the industry more confidence to invest, but wasn't taking any risks.

"We see the oil price stabilised around the \$20s, because OPEC reacts with production cuts every time it goes down," he said. "But we are keeping costs low to ensure life is still possible if prices go down."

Companies are still applying tough cost hurdles to their long-term investment plans, and will only commit big money to projects that can survive the vagaries of the world oil market.

"My guess is that most companies are still doing their hurdles their tests at well under \$20," said James May, director-general of the UK Offshore Operators' Association, which represents the main North Sea producers. ((Tom Ashby +44 7990 560330, london.energy.desk@reuters.com)) Thursday, 6 September 2001 09:18:27

# VENEZUELA'S CHAVEZ RHETORIC KEEPS INVESTORS EDGY

By Jehan Senaratna

Of DOW JONES NEWSWIRES

CARACAS (Dow Jones) -- Venezuela's private sector wishes President Hugo Chavez would just shut up.

The oil-dependent country's economy needs private investment very badly, and Chavez himself has spent millions traveling the world purportedly trying to bring that bacon home.

But the garrulous globetrotter seems to have a completely different take on things when he's talking on local television, and the business sector has just about seen enough of it.

Just Tuesday, Chavez threatened to declare a state of emergency and withdraw all public deposits from the banking system to stop currency speculators driving down the bolivar (\$1=VEB741.25).

The rhetoric had the opposite effect intended: the bolivar promptly lost VEB2.00 against the dollar and is still dropping as more investors seek a safe haven and buy the U.S. currency.

Pedro Carmona, the president of the country's biggest business chamber, Fedecamaras, has politely called for Chavez to "moderate the tone of his speech."

"These are issues of great sensitivity ... the tone should be moderated and the matters should be discussed in great depth," the Federamaras chief was reported as saying in all the country's major newspapers.

Albis Munoz, ex-president of Consecomercio, the country's largest retail chamber representing some 160 sectors, said some of Chavez's comments affect confidence and generate uncertainty.

"Dollar demand rises in proportion to the number of controversial things he says," Munoz said.

### Oil, Land Reforms Make Waves In Investor Circles

Emerging slowly from a wrenching 6.1% economic contraction in 1999, Venezuela's gross domestic product grew 3.2% in 2000 and 3.4% in the first half of this year, mostly on the back of government spending programs.

To keep growing, and to avoid a continued reliance on volatile oil revenues, the county will need upwards of \$20 billion a year in private investment, Planning Minister Jorge Giordani has said.

But if there is that kind of money looking for a home, it likely won't rush to Venezuela, mostly because Chavez says - and sometimes does - some incredibly

investor-unfriendly things, according to business leaders.

Chavez, a former army paratrooper, led a failed coup attempt in 1992 before winning 1998 presidential elections in a landslide. He remains popular with Venezuela's poor, even as investors flinch about his speeches that rail against U.S. "neoliberalism" and stress his ideological ties with Cuba's Fidel Castro.

He has recently also defended a draft of a new hydrocarbons law that would nearly double royalties in the oil sector, prompting warnings from the private sector that it might invest less going forward. Oil represents around 30% of Venezuela's GDP.

In July he canceled a long-planned privatization of the country's crumbling electricity sector after several international power companies had pre-qualified to bid for control of some state-owned assets.

Add to all that the drafting of a new land law that threatens to confiscate large tracts of arable but unused land, and business leaders say all those investment dollars are all but waltzing away from this resource-rich Latin American nation.

Indeed, even dollars already in the country are being socked away abroad at a record pace these days.

Demand for the U.S. currency has tripled over the last few months to around \$150 million a day, and not all of it is from big business, according to currency

dealers. Even small savers are selling bolivars, fearing an imminent devaluation.

### Capital Controls Remain Source Of Concern

Teodoro Petkoff, a former Planning Minister and now editor of the colorful Tal Cual daily newspaper, is another pro-business voice calling for Chavez to stop talking so much.

"There was nothing wrong with the bolivar until he started talking," Petkoff said, referring to Chavez's televised comments in early August that he's "watching" currency speculators.

"We're worried that capital flight has increased," Chavez said at the time. "There is a group of Venezuelan capitalists who are buying dollars - in some

cases, it could be in order to destabilize the country."

The bolivar has dropped 2% in the month since then.

Before that, it took the currency three months to devalue 2%, staying in the middle of the sliding band set by the central bank that calls for a programmed 7%

devaluation this year.

"Sometimes, I think he doesn't understand the importance of the things he says," said Petkoff.

"But it's not easy to believe that it's just verbal diarrhea," he added.

Chavez and other government officials have said repeatedly said they won't impose exchange controls, or take any other drastic measures to defend the bolivar.

But few are convinced anymore.

Last year, Chavez ordered state-owned oil company Petroleos de Venezuela - which

supplies most of the country's dollar revenue - to withhold almost \$600 million

in deposits to "punish currency speculators."

Following his August complaints about those very same speculators, the central bank ordered banks to lower their foreign exchange holdings to 12% of net capital from 15%, prohibited foreign currency sales to companies based outside the country and increased to 30% from 17% banks' reserve requirements for public

deposits.

-By Jehan Senaratna, Dow Jones Newswires; 58212-564-1339; jehan.senaratna@dowjones.com Thursday, 6 September 2001 12:19:50

### U.S. SEEKS INDIA'S COOPERATION IN ENERGY SECURITY

BOMBAY, Sept 6 (Reuters) - The United States has sought India's cooperation in protecting oil and gas supplies from the the volatile Middle East region, the main supplier of crude oil for both the countries.

"The Persian Gulf, and the lines of communication connecting that region with the rest of the world remain critical for the security of both countries, " U.S. Ambassador Robert D. Blackwill told a business conference on Thursday.

He said the United States and its allies depended on the Middle East for half of their crude oil imports, while India banked on the region for 90 percent of such imports.

"Consequently, the flow of oil and gas from the Middle East must be safeguarded and free of threats stemming either from military aggression or from acts of terrorism," he said.

"Parallel with efforts by the international community, the United States and India can work more closely together to achieve this objective."

He said both countries wanted a higher global supply of energy as the current production levels were inadequate.

"This implies that there will be increasing joint opportunities to exploit new technologies to increase energy supplies."

Blackwill said American energy firms were world leaders and their investments in the U.S. and abroad enhanced efficiencies.

"Despite current difficulties, we hope those U.S. firms can thrive in India."

U.S. energy firm, Enron Corp <ENE.N>, is embroiled in a bitter payments dispute with a local utility and has declared it wants to sell its 65-percent stake in the \$2.9-billion Dabhol power plant -- the largest direct foreign investment in India.

Another American energy firm, AES Corp <AES.N> is also facing a payments dispute and said recently it wanted to sell its stake in a distribution company in the eastern state of Orissa.

Blackwill said problems faced by multinational investors had "darkened" India's investment climate.

"I know this personally from speaking with some of the premier American business executives with major investments in Asia."

((New Delhi Newsroom +91-11-301-2024, Fax +91-11-301-4043 himangshu.watts@reuters.com)) Thursday, 6 September 2001 10:49:23

# MORE U.S. HEATING OIL SUPPLIES TO LOWER PRICES

By Tom Doggett

WASHINGTON, Sept 6 (Reuters) - U.S. homeowners will be paying less for heating oil this fall and winter compared with last year, thanks to bigger heating fuel inventories, according to the latest government forecast.

Residential heating oil prices should average \$1.30 a gallon in both the fourth quarter

and upcoming first quarter, down 10 cents and 5 cents, respectively, from the same periods a year earlier, according to the Energy Information Administration.

Inventories of distillate fuel currently stand at just over 120 million barrels, about 9 percent above year-ago levels.

By the end of November, when distillate stocks normally reach their peak, inventories should stand at about 126 million barrels, the Energy Department's statistical agency said in its monthly report.

This November's peak inventory should be about 5 percent above last year's level, but still at the low end of the normal range, the agency said.

The low end of the normal distillate inventory range, based on the last three years of EIA data, is 128.1 million barrels, and 124.2 million barrels for the past five years.

A dramatic increase in natural gas supplies is also expected to help keep heating oil prices down, according to EIA.

That's because a plentiful supply of natural gas this winter will keep gas prices low and, therefore, forestall switching by utilities to distillate fuel to run their power plants, the agency said.

Separately, EIA said world oil prices are expected to rise by another \$1.50 per barrel by the fourth quarter as the loss of Iraq exports during June and the Sept. 1 OPEC production cut are expected to further reduce the oil inventories of industrialized nations over the next few months.

However, with lower world commercial oil inventories OPEC is not expected to adhere closely to its quota and the cartel should exceed its official production level by almost 900,000 barrels per day in the fourth quarter, EIA said.

"OPEC production should increase again in 2002, as world oil demand growth will continue to increase by more than non-OPEC production," the agency said.

EIA did not change its projection that world oil demand will grow by 1 million barrels per day this year.

((Tom Doggett, Washington Energy Desk, 202-898-8320)) Thursday, 6 September 2001 14:22:17

# EIA SEES OPEC BUSTING QUOTA BY 900,000 BPD IN Q4

WASHINGTON, Sept 6 (Reuters) - OPEC oil production in the fourth quarter, excluding Iraq, should exceed the cartel's official output quota by almost 900,000 barrels per day (bpd), the U.S. Energy Information Administration said Thursday.

OPEC output is expected to average 24.068 million bpd in the fourth quarter, way above the cartel's new September quota of 23.200 million bpd, the agency said in its monthly OPEC update report.

EIA said OPEC will likely exceed production levels to meet strong petroleum demand in the U.S., tightening world commercial oil inventories and rising crude prices.

Iraq's fourth-quarter oil production, which is overseen by the United Nations and not subject to OPEC quotas, is predicted to average 2.4 million bpd, down about 200,000 bpd from the third quarter, EIA said.

The EIA's latest forecast of OPEC oil production (in million barrels per day) is as follows:

COUNTRY	3Q 2001	40 2001	OPEC	Sept 1 4Q
surplus				P- 1 10
capacity Saudi Arabia	,			quota level
2.328-2.838			.012 1.	341
UAE 0.526		2.167	2.124	2.025
Venezuela 0.346		2.815	2.754	2.670
Nigeria 0.312		2.006	1.988	1.911
Iran 0.296		3.71	9 3.604	3.406
Kuwait 0.230		2.024	1.970	1.861
Libya 0.224		1.359	1.326	1.242
Algeria 0.202		0.813	0.773	0.741

Qatar 0.682 0.654 0.601 0.081 Indonesia 1.208 1.203 1.203 0.047 OPEC 10 24.773 24.068 23.200 4.592-5.092 Iraq 2.597 2.400 NA 27.369 27.468 NA TOTAL OPEC 5.392-5.892 ((Christopher Doering, Washington Energy Desk, 202-310-5683))
Thursday, 6 September 2001 14:11:11

From:

Rao, Geetha

Sent:

Wednesday, September 05, 2001 4:42 PM

To:

Austin, Kenneth; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary; Flynn, Timothy; Hendershot, Karen; Mills, Marshall; Radelet, Steve; Squitieri, Ray; Joldersma, Dirk

Subject:

FW: World Oil Market Update (p.m.)

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>From:
              Hart, James [SMTP: JAMES. HART@HQ. DOE. GOV]
              Wednesday, September 05, 2001 4:45:32 PM
>Sent:
>To: Washington, Charles; Hart, James; Coburn, Leonard; Pumphrey, David; Shages, John;
LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve
Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN;
SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum,
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Mais; Madanat, Jumana; Mournighan, Sarah; Salguero, David; Sanchez, Delano; Shannon,
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>Subject:
             World Oil Market Update (p.m.)
>Auto forwarded by a Rule
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Crude oil was little changed today ahead of this evening's release of American Petroleum Institute (API) stock data for the United States. Crude oil on the New York Mercantile Exchange (NYMEX) ended the day at \$26.95, up 2 cents, while Brent crude in London was up 5 cents to \$26.31. NYMEX gasoline rose 1.99 cents today, closing at 78.83 cents a gallon, on expectations that API will report another draw in U.S. gasoline stocks last week. Reuters survey of traders had expectations of a 1 million barrel build in crude, a 1.3 million draw in gasoline, and a 400,000 barrel draw in distillate. Note: In news just received, API reported crude oil stocks up 499,000 barrels (less than expected), distillate down 1.9 million (a good bit more than expected), and gasoline down 1.9 million (more than expected). On the whole, looks like a bullish report, with distillate not building, gasoline now 5 million barrels below last year's levels.

End-day market analysis from New York

Iraq oil exports dropped to 1.86 million bpd last week

UN still considering Iraq pricing for U.S. oil exports.

4. U.S. urges Mexico to allow foreign energy investment

An analysis of the debate in Mexico over opening the energy sector for private investment

- 6. Saudi says time for the U.S. to restrain Israel
- Gulf Arabs look for ways to press Israel on Palestinians 7.
- 8. Russia and China to sign oil pipeline deal soon
- No boom in UK North Sea oil despite high price 9.
- U.S. says Russia helps Iran with arms programs 10.
- 11. Iranian foreign minister visiting the EU
- 12. Azerbaijan tells Iran needs improved ties
- 13. Today was the debut of the NYMEX Brent crude oil contract

#### NYMEX OIL TRIMS GAINS AT CLOSE, MOGAS UP AHEAD OF API DATA

NEW YORK, Sept 5 (Reuters) - NYMEX crude oil futures pared gains near the close Wednesday while gasoline stayed strong amid forecasts of a stock draw last week ahead of the Labor Day holiday driving spree.

NYMEX October crude closed at \$26.95 a barrel as its gains shriveled to just 2 cents.

It traded as high as \$27.23 and posted a session low of \$26.76.

October gasoline settled at 78.83 cents a gallon, up 1.99 cents, or 2.6 percent, after

extending session highs late to 79.00 cents.

The freshly minted NYMEX Brent November contract settled at \$26.28, after posting a session high of \$26.53, in what traders said was a fairly good opening day for the contract.

Volume on the NYMEX Brent futures, which attracted a wide range of players, was about 13,000 lots.

In London, October Brent trimmed gains and last traded at \$26.31, up 5 cents, while November Brent ended at \$26.25, up 5 cents.

NYMEX October heating oil pared gains, settled at 76.71 a gallon, an 0.60 cent, or 0.8 percent, gain, after trading between 75.30/77.30 cents.

A Reuters poll of six analysts forecast that rising imports and steady refinery utilization rates pushed U.S. crude stocks up by a million barrels last week.

The analysts expected a fall of 1.3 million barrels in gasoline stocks as demand continued strong just before the three-day Labor Day weekend, the traditional end to the summer driving season.

"The expectations of an inventory draw, plus strong demand and refinery outages, are pushing gasoline up," a trader said.

The American Petroleum Institute will release its stocks data for last week on Wednesday, after the trade session closes, delayed for a day because of Monday's Labor Day

News that Conoco <COCa.N> <COCb.N> was having trouble restarting one of two gasolinemaking units at its Ponca City, Oklahoma, refinery, partly supported gasoline's strength.

Another market-moving news involved Lyondell-Citgo Refining <LYO.N>. The company said its 94,000-bpd cat cracker should return to full capacity on Wednesday, after a lightning strike caused the unit to run at reduced rates on Tuesday.

The gasoline-making unit ran at reduced rates of about 75,000 bpd on Tuesday, a

spokeswoman said.

The day's bounce followed moderate losses on Tuesday as the market factored in OPEC's 1.0 million barrel per day (bpd) output reduction, which took effect on Saturday. It was the cartel's third reduction this year, which slashed output of 10 members, excluding Iraq, to 23.2 million bpd.

The cut aims to sustain a \$25-per-barrel export price target within a \$22-\$28 band based on a basket of seven crudes. The basket was valued at \$24.73 Tuesday.

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gene.ramos@reuters.com))

Wednesday, 5 September 2001 15:59:22

### IRAQI OIL EXPORTS DIPPED TO 1.86 MILLION BPD LAST WEEK

NEW YORK, Sept 5 (Reuters) - Iraq's oil exports fell about 550,000 barrels per day (bpd) to 1.86 million bpd in the week ended Aug 31, U.N. officials said Wednesday.

A halving of shipments of Kirkuk crude at Ceyhan, Turkey, during the week was the cause of the overall fall, U.N. figures showed. Exports from Mina al-Bakr of Basrah Light crude

were 9.2 million barrels, down slightly from last week's 10.4 million barrels.

Industry sources said Wednesday that shipments from Ceyhan are expected to return to robust levels of about 6 million barrels in the week that will end Sept 7.

Iraq's four-week export average through Aug 31 is 2.04 million bpd.

The average price for crude exported in the week fell 45 cents to \$23.04 a barrel. ((Bernie Woodall, New York Energy Desk, +1 646 223-6052; fax +1 646

223-6078))

Wednesday, 5 September 2001 11:49:24

#### U.N. PANEL MULLS 15-DAY TERM FOR IRAQ U.S. OIL EXPORTS

UNITED NATIONS (Dow Jones) -- Norway, which chairs the U.N. Iraq Sanctions Committee, has circulated a U.S.-British proposal to approve prices for Iraqi oil exports to the U.S. for only the first two weeks of September, diplomats said Wednesday.

The notice circulated by Norway gives committee members until 6:00 PM EDT (2200 GMT)

Thursday to raise objections to the proposed prices.

Diplomats expect Russia, Iraq's closest veto-wielding U.N. ally, to object to the formula, which shortens the period in which the prices are in effect to 15 days from the full month proposed by Iraq.

"I expect them to be objected," a diplomat said. "The Russians do not agree that

prices be approved for 15 days only."

It wasn't immediately clear how committee members would resolve the impasse over

prices, but diplomats expected the committee to meet again on the issue.

Norway's notice only concerned U.S. prices. Diplomats assumed Iraq's prices for its oil exports to Europe were approved as proposed, as no member objected to them, although Norway has yet to notify the committee.

Under the committee's rules, proposed prices are automatically approved if no member objects within 48 hours of their proposal. The European prices proposed by Iraq's State Oil Marketing Organization were for the first 15 days of September only.

The U.S. and U.K. have pushed for more frequent reviews of Iraqi oil prices in an effort to make it more difficult for Baghdad to impose an illicit surcharge on oil shipments.

Russia, whose companies dominate trade in Iraqi oil, has opposed the change, saying it would create uncertainty in the market and potentially lead to a disruption of Iraq's oil exports.

Iraq cut off its oil exports in December in a dispute over pricing with the Sanctions Committee. Baghdad, however, has given no indication that it would halt oil sales over the latest disagreement.

Iraq's proposed prices for the U.S. are as follows:

-Basrah Light to the U.S.: Second-month West Texas Intermediate minus \$6.80 (previously minus \$6.55)

-Kirkuk to the U.S.: First-month WTI minus \$6.15 (previously minus \$5.90)

-By Masood Farivar, Dow Jones Newswires; 201-938-2094; masood.farivar@dowjones.com Wednesday, 5 September 2001 12:38:42

## U.S. URGES MEXICO TO ALLOW FOREIGN ENERGY INVESTMENT

By Tom Doggett

WASHINGTON, Sept 5 (Reuters) - The Bush administration has pressed Mexico to allow more foreign investment in its state-run oil sector to ensure Mexico remains a reliable crude supplier, a senior U.S. government official said on Wednesday.

U.S. Energy Secretary Spencer Abraham raised the issue on Tuesday with Mexican Energy Minister Ernesto Martens, who was in Washington for the state visit of Mexican President

Vicente Fox, the official said.

Officials at state oil company Petroleos Mexicanos (Pemex) expects Mexican oil output to decline by one-third in the next five years unless it invests \$33 billion in oil and natural gas exploration. Mexico is the second-largest supplier of crude to the United States after Saudi Arabia.

President George W. Bush has proposed measures to boost domestic exploration to keep up with demand for energy and reduce reliance on imports, but analysts expect the plan to meet some opposition in the Senate.

"This is an issue that we're watching closely, because Mexico is a very important supplier of oil to the United States," the U.S. official said of the meeting between Abraham and Martens.

U.S. energy companies are eager to get a piece of the Mexican oil, natural gas and electricity markets, but have been held back by restrictive and sometimes confusing investment rules.

The Fox administration says private investment is needed and it is expected to send an energy reform bill to Mexico's Congress this autumn.

But it is unclear how far Mexican lawmakers will allow private companies into the country's energy sector. Mexico's constitution severely limits foreign investment.

"Clearly this is an issue that Mexico has to decide on its own," the official said. During his meeting with Abraham, Martens described Mexico's short-term and long-term energy plans.

It was clear during the talks that the Fox administration views as a "central concern" the large amount of investment that will be needed to boost production in the country's energy sector, the official said.

There was discussion about foreign companies expanding the use of "service contracts" with Pemex -- mentioned in recent weeks by Pemex officials as a way to lure investment without passing new laws -- but Martens did not offer many details on how such deals would work, the official said.

In addition to the \$33 billion needed for oil and gas exploration, Mexico also requires some \$50 billion over the next decade to expand and modernize its electricity grid and some \$20 billion for refining.

Separately, the United States and Mexico renewed a 1996 agreement to cooperate and share information on the development of energy technology and renewable energy sources. Neither Martens or Abraham spoke to reporters after their meeting.

Last year, Mexico exported an average 1.3 million barrels of crude oil a day to the United States, according to U.S. Energy Department data. Other key international suppliers are Saudi Arabia, Canada and Venezuela.

The Bush administration released a broad-ranging energy proposal in May which called for closer integration of pipelines and electricity transmission lines between the United States, Mexico and Canada. ((Tom Doggett, Washington Energy Desk, 202-898-8320)) Wednesday, 5 September 2001 13:08:37

# ANALYSIS - WITH ENERGY ON THE AGENDA, MEXICO GEARS FOR BATTLE

#### By Susan Schneider

MEXICO CITY, Sept 5 (Reuters) - Mexican President Vicente Fox spent years on the road stumping to take away the nation's top office from the long-ruling Institutional Revolutionary Party.

But this effort may seem like a beach vacation compared with the lobbying and dealmaking Fox will need to convince Congress and the public to pry open an energy industry firmly controlled by the state for decades.

The battle will begin in earnest when Fox energy officials ship Congress a heavily veiled reform package designed to secure tens of billions of dollars in investment needed to salvage a limping oil and gas sector and and a strained power grid.

The fight is not about what must be done. Most officials and lawmakers agree that the state-controlled electricity grid must be expanded and fortified and that oil and gas monopoly Petroleos Mexicanos (Pemex) needs a windfall to keep the oil and gas flowing.

But cracks show when the talk focuses on how it should be done.

"The decision is not going to be easy, it's not going to be brief, so the sooner they send us a document the sooner we can resolve Mexico's energy future," Juan Camilo Mourino, president of the lower house energy committee and a member of Fox's National Action Party (PAN), told Reuters.

Lawmakers from the two most powerful parties say there is consensus on a handful of key points, including the preservation of Pemex as a state-run company.

From there, however, the heavily divided Congress is gearing up for a fight over how far private investment should go, how much weight Pemex and state-run electricity companies should retain and what chunk of the \$100 billion needed in energy investment will come from state coffers.

#### CONSENSUS IN CONGRESS

Foreign involvement in Mexico's oil sector ended in 1938, when Mexico dramatically seized oil wells from U.S. and British companies. The electricity industry was nationalized 22 years later, bringing the final piece of the energy pie under government control.

As a result of these moves, Mexicans are fervently nationalistic about oil, seeing it as a patriotic icon nearly as important as the flag.

Despite the sensitivity of their constituents, however, legislators say there is a foundation for debate how to re-engineer the sector so more private cash will flow in. "There's agreement that greater investment and resources from beyond the budget are

required," PRI deputy and energy committee member Alberto Amador Leal told Reuters. "We think that private investment can contribute to oil exploration and production," though the PRI believes firmly that Pemex must remain 100 percent state-controlled, he

Beyond the shared feeling that Pemex must remain a state entity, legislators also agree

that an opening must not endanger the some 130,000 employees at Pemex and thousands more at state power firms, said Mourino.

Mourino said many camps in Congress also agree that no matter the amount of private investment, the government must maintain its role as steward of the energy sector. "This is fundamental, because there lies the key for defending Mexico's sovereignty,"

he said.

#### PEMEX FINANCIAL NOOSE

Congress has a full agenda this fall with both a tax reform package and the 2002 budget. Legislators say that fleshing out the role of private energy investment will probably not hit the bargaining table until the March-April session of 2002.

But in the near term, lawmakers said Congress could resolve Pemex's financial structure as part of the fiscal reform, aimed at bolstering government income through new taxes on food and medicine and a crackdown on tax evasion.

If the government manages to secure more tax revenue, it could reduce its reliance on Pemex for nearly 40 percent of its income, That would free up the oil giant to spend a greater chunk of its own revenues on exploration and production.

"This may be viable (the fiscal structure) given the nature of this period" and its focus on the fiscal reform and the budget, said Amador.

#### ENIGMATIC ENERGY REFORM

In the months before taking office in December, Fox listed energy reform as one of the top priorities for his six-year term, vowing to carry out a quick, industry-wide opening to investors.

Recently, Fox and his energy officials have been more evasive on their vision of energy reform. Fox may be reluctant to touch the thorny issue in the public realm -- especially when he is trying to gain approval for his unpopular tax reform plan.

Legislators say a serious debate on oil, gas and power cannot be based on what they read in the newspapers.

"We still do not have a clear signal from the federal government," said Armado. "And a lot depends on the transparency and clarity of the information they give us."

Behind the scenes, Energy Minister Ernesto Martens has talked about opening up exploration of dry gas, or gas not found with oil, to private investment. A possible opening of refining and the decrepit petrochemicals sector has also been floated, though with scant details.

Regardless of the finer points, Congress has a tough road ahead. It must find a middle ground between the public and the private sector, opening oil, gas and power enough to interest companies but not so much that Mexicans feel like the industry is being sold off.

Either way, experts say there is no way Mexico's energy sector can remain on its current languid pace.

"The reforms, policy challenges required to get foreign investment involved are crucial," said Michael Stewart, international division president at Canadian energy giant Westcoast Energy Inc.

((--Mexico City newsroom +525 282 7153, mexicocity.newsroom@reuters.com)) Wednesday, 5 September 2001 14:26:43

## SAUDI SAYS IT'S TIME FOR THE U.S. TO RESTRAIN ISRAEL

AMMAN, Sept 5 (Reuters) - Saudi Foreign Minister Prince Saud al-Faisal told Israel on Wednesday "enough is enough" and urged the United States to intervene and restrain the Jewish state from attacking Palestinians.

Faisal, speaking in Jordan on the final leg of a whirlwind Arab tour that also took him to Egypt, Syria and Lebanon, said "the failure" of the Middle East peace process did not lie with the Arabs.

"It lies with the policies of Israel, policies of intimidation, policies of aggression, policies of going back on agreements that were signed, policies of avoiding the responsibilities of peace," he told reporters at Amman airport.

"The Arab countries have patiently waited for this policy to change... As the saying goes, enough is enough. It is time for Israel to bear its responsibility. It is time for the international community to make Israel face its responsibility to the peace process," he said.

"It is time especially for the United States to assume its own responsibility and prevent Israeli aggression against the Arab world."

He said the situation in the Middle East was moving from bad to worse because of Israel's violence against the Palestinians.

The Saudi minister later met Jordan's King Abdullah and delivered a message on Middle

East developments from King Fahd of Saudi Arabia, officials said.

Faisal arrived in Jordan from Beirut where he held talks with Lebanese leaders. "The Israeli violence, violence against innocent Palestinians as well as economic violence... All these matters must stop," Faisal told reporters after meeting Lebanese President Emile Lahoud.

The Saudi prince denied reports that his tour was aimed at paving the way for an Arab summit meeting that would bring together Syria, Saudi Arabia, Egypt, Jordan and the Palestinian Authority.

At least 554 Palestinians and 157 Israelis have been killed since a Palestinian uprising erupted in the West Bank and Gaza Strip last September.

(( Amman newsroom +9626 4623776, fax +9626 4619231, amman.newsroom @reuters.com))

Wednesday, 5 September 2001 07:15:23

## GULF ARABS IN DRIVE TO PRESS ISRAEL ON PALESTINIANS

DUBAI, Sept 5 (Reuters) - Gulf Arab states plan a diplomatic offensive to bring international pressure on Israel to stop its "agression" against the Palestinians, a top Gulf Cooperation Council (GCC) official said in remarks published on Wednesday.

GCC secretary-general Jameel al-Hujailan told the pan Arab Asharq al-Awsat newspaper that the foreign ministers of the six pro-Western states would meet in Saudi Arabia on Friday and Saturday to formulate an action plan.

"The Gulf Arab drive seeks a more intensive role by Middle East peace participants, particularly the United States, Russia and the European Union, to make Israel stop its aggression against Palestinians," he told the London-based Arabic daily.

"We believe that the United States must play a more active and effective role than what it is doing now," he added.

Hujailan said that the GCC foreign ministers would meet their counterparts from the United States, the European Union, Russia, China and Japan in the second half of September on the sidelines of the U.N. General Assembly meeting in New York.

He said the ministers would express their governments' displeasure at the "bloody events in Palestinian territories".

At least 554 Palestinians and 157 Israelis have been killed since the Palestinian uprising against Israeli occupation erupted last September.

The oil-rich GCC alliance groups Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar and Oman -- all allies of the United States and reliant on Western forces for protection.

Some Gulf Arab leaders have criticised President George W. Bush for what they see as blind U.S. support for Israel.

Saudi Foreign Minister Prince Saud al-Faisal is currently on an Arab tour with messages from King Fahd and Crown Prince Abdullah on the deteriorating situation in the Middle East.

The GCC ministers are also scheduled to attend an Arab foreign ministers meeting in Cairo next week to discuss how to support the Palestinians. ((Gulf newsroom,  $+971\ 4\ 391\ 8301$ , fax  $+971\ 4\ 391\ 8335$ ,

dubai.newsroom@reuters.com))

Wednesday, 5 September 2001 08:04:08

## RUSSIA-CHINA TO SIGN OIL PIPELINE DEAL SOON - TASS

MOSCOW, Sept 5 (Reuters) - Russia and China will sign an agreement within days to set out how they will cooperate on building an oil pipeline linking the two countries, Itar-Tass news agency quoted officials as saying on Wednesday.

The decision came after talks were held on Tuesday between Russian Energy Minister Igor Yusufov and representatives of China's National Oil Company, the agency quoted the Energy Ministry as saying. The ministry could not confirm the report.

The Russian government is considering a feasibility study for the pipeline, which would run from western Siberia to China. It is also mulling a project for a possible pipeline to Russia's Pacific coast from the Siberian hinterland, state pipeline monopoly Transneft said last week.

The government will decide whether to build both pipelines or just one sometime after the middle of 2002.

Transneft and Russia's second largest oil producer Yukos <YUKO.RTS> are working together on the idea of building the \$2 billion pipeline, which would ship up to 30 million tonnes of crude annually.

The agency said the two sides also discussed a \$10 billion project for a natural gas

pipeline to link the western Chinese Xinjiang region to Shanghai in the east, which Gazprom <GAZP.MO> GAZPq.L> is one of the shortlisted candidates to build. ((Moscow Newsroom, +7 095 941 8520, moscow.newsroom@reuters.com)) Wednesday, 5 September 2001 08:08:24

# NO BOOM IN UK NORTH SEA DESPITE HIGH OIL PRICE

By Tom Ashby

ABERDEEN, Scotland, Sept 5 (Reuters) - Oil prices may be back up near \$30 a barrel, but boom style spending has not returned to Britain's flagging oil and gas sector.

Still bruised from an oil price collapse in 1998, North Sea oil producers are keeping a

tight rein on investment as forecasts of field exhaustion become a reality.

"When people woke up from their frozen state after the price collapse, they realised the whole North Sea had changed," said James May, director-general of the UK Offshore Operators Association, which represents companies pumping UK oil.

"People now assume there are very few big fields to be discovered in the North Sea and instead there are 200 or 300 sub-commercial small developments which might be made to

work," he said during an industry fair in Britain's oil capital Aberdeen.

UK oil production is expected to fall to an eight-year low of 2.3 million barrels per day this year, down from a record 2.8 million in 1999, as mature fields are exhausted and new start-ups face delays.

The government forecasts this to slump to 1.6 million bpd in five years, although new

discoveries in frontier zones in the north-east Atlantic could slow the fall.

UK oil investment has dropped even more sharply -- by half from 1998 to 2000 to just over three billion pounds (\$4.4 billion) -- as lower prices led to spending cuts.

Despite the latest oil price recovery, which has seen benchmark Brent Blend crude oil return to \$27 per barrel this year, industry executives expect investment to stay around three billion pounds this year and next.

"If the oil price stays where it is now, I would hope to see three billion pounds invested every year in the North Sea for the next three or four years," said Sir Ian Wood, chairman of oil services company Wood Group.

#### GEOLOGICAL DISADVANTAGE

Britain already enjoys one of the most lenient tax regimes on oil production in the world, with no royalty or premium tax rates on new fields, and a low 30 percent corporation tax on oil companies.

However, executives said Britain was now competing with a huge range of prolific oil

provinces which are opening their doors to private investment capital.

"Ten years ago the former Soviet Union, Persian Gulf, South America and West Africa were all closed, and the only opportunities were the North Sea and North America," said

"Now the UK has to compete, but it is competing with one hand tied behind its back

because of its geological nature, it has got into a mature phase," he added.

British Energy Minister Brian Wilson urged companies to do more to unlock the North Sea's remaining oil reserves, using high technology to identify oil pockets which could be developed cheaply.

And he hoped that new licences to the west of the Shetlands Islands, in the north-east Atlantic, would produce big new finds.

"Obviously the projections show a sharp decline in production but the projections aren't static," he said. "Hopefully we can reduce the steepness of the decline."

To encourage companies to reconsider developing discoveries once thought to be uncommercial, Wilson said he was prepared to consider waiving the 12.5 percent royalty on fields discovered before 1982 if the economics made it necessary. ((London newsroom +44 20 7542-8185, fax +44 20 7542 4453, london.energy.desk@reuters.com))

Wednesday, 5 September 2001 09:38:19

### RUSSIANS HELP IRAN WITH ARMS PROGRAMS - U.S. OFFICIAL

#### By Jonathan Wright

WASHINGTON, Sept 5 (Reuters) - Russian companies continue to help Iran develop nuclear, chemical and biological weapons, in some cases by allowing Russian scientists to go to Iran, a senior U.S. official said on Wednesday.

"We still see evidence that Russian enterprises are helping Iran develop the expertise to produce WMD (weapons of mass destruction). ... That still is a sore point in our relations," said the official, who asked not to be named.

Asked what category of weapons he was talking about, he said Russian assistance covered all three. "But maybe nuclear tops the list."

The administration of former U.S. President Bill Clinton imposed sanctions on Russian companies and institutes accused of helping Iran with a nuclear weapons program.

But the U.S. official said he did not think any new U.S. sanctions were under consideration.

"Certainly it's been a major subject of discussion at various levels," he said, including talks between U.S. President George W. Bush and Russian President Vladimir

Bush has met Putin twice, in Italy and in Slovenia. Defense Secretary Donald Rumsfeld and national security adviser Condoleezza Rice have visited Moscow to try to persuade Russia to abandon or amend the Anti-Ballistic Missile treaty.

The U.S. official said the United States believes the Russian government is aware of the assistance to Iran but he did not say the government approved of it.

#### UPHILL CLIMB ON IRAQ

"We think that the Russians need to confront this contradiction in their own policy. On the one hand they say that they are against proliferation, that they are not suicidal ... but the continuing pattern of activity can't be unknown to the Russian special services,"

"So we continue to flog this issue but we haven't made much progress."

The official said the assistance to Iran included Russian scientists but he gave no details. One U.S. aid program that has been under review by the Bush administration aims to prevent proliferation by keeping scientists employed at nuclear sites.

Separately, the senior official said persuading Russia to accept U.S. proposals on U.N.

sanctions against Iraq was also an "uphill climb."

The United States wants to change the system of sanctions to counter the Iraqi argument that they are harmful to civilians. Russia refused to go along with the U.S. proposals when the food-for-oil program came up for renewal this year. The next renewal is due on Dec. 3.

The government of Iraqi President Saddam Hussein also opposes any change in the present system, short of a complete abolition of the U.N. sanctions, which date back to the Iraqi invasion of Kuwait in 1990.

"We have obviously still a lot of persuading to do to convince them that smart sanctions is a more durable basis for the future," the official said.

"There are differing perceptions of the longevity of the Saddam regime. The Russians may have concluded that Saddam is less susceptible to overthrow than we hope he is, so we're continuing to try to support the Iraqi opposition," he added. ((Jonathan Wright, State Department bureau, +1 202 898 8393, fax +1 202 659 5254, jonathan.wright@reuters.com)) Wednesday, 5 September 2001 13:40:34

## IRANIAN FOREIGN MINISTER TO MAKE LONG-DELAYED EU VISIT

BRUSSELS, Sept 5 (Reuters) - The European Union will take a step towards closer relations with Iran -- shunned by the United States as a rogue state -- when Iranian Foreign Minister Kamal Kharrazi makes a long-delayed visit to Brussels on Monday.

Kharrazi will meet EU foreign policy chief Javier Solana, Belgian Foreign Minister Louis Michel, whose country holds the 15-nation bloc's rotating presidency, and External Relations Commissioner Chris Patten.

Patten's spokesman Gunnar Wiegand told reporters on Wednesday the Commission would use the discussion to help prepare negotiating directives for a trade and cooperation agreement between the EU and the Islamic republic.

Kharrazi had been due to visit Brussels last February, but the trip was postponed at the last minute because of protocol sensitivities, EU diplomats said.

A Commission study on ties with Iran at that time gave an upbeat assessment of political prospects, but EU officials acknowledged that member states differed over the pace of rapprochement.

The visit comes at a time when Iran's conservative clerical establishment appears to have reasserted its control over the main levers of power despite the landslide reelection of reformist President Mohammad Khatami last June.

The hardline judiciary has indicted several reformist members of parliament for espousing their views, closed more reformist newspapers and stepped up public executions and floggings in moves apparently designed to embarrass Khatami.

Diplomats said the EU would raise in a "comprehensive dialogue" with Kharrazi concerns about human rights, Iran's support for militant Palestinian and Lebanese groups fighting

Israel and its alleged pursuit of nuclear weapons.

The U.S. Congress in July renewed for five years a controversial law imposing sanctions on foreign firms that invest in Iran's vital oil and gas sector.

The EU rejects such attempts to impose extra-territorial U.S. jurisdiction and negotiated a deal in 1998 under which the Clinton administration agreed to waive penalties against European companies. It is not clear whether President George W. Bush's Republican administration will honour that accord.

Senior EU foreign ministry officials held talks in Tehran this week to prepare Kharrazi's visit. ((Brussels newsroom +322 287 6801, paul.taylor@reuters.com)) Wednesday, 5 September 2001 09:03:52

# AZERBAIJANI MINISTER TELLS IRAN NEED TO IMPROVE TIES

TEHRAN (AP) -- Azerbaijan's security minister said his government's relations with Iran were poor and needed to be improved, the official Islamic Republic News Agency reported

The minister, Namik Abbasov, met Wednesday in Tehran with Hassan Rowhani, the secretary of Iran's Supreme National Security Council, the agency said.

The two Caspian Sea neighbors exchanged angry words this summer after Iran accused Azerbaijan of exploring for oil in its territorial waters. Azerbaijan claimed Iran had violated its territorial waters and air space.

Abbasov said that improving trust between Iran and Azerbaijan was "very necessary" because the present state of relations was "unsatisfactory," IRNA reported.

For his part, Rowhani said there would be no problem in Iran-Azerbaijan relations as long as others didn't interfere and the interests of Iran weren't jeopardized, the agency said.

Azerbaijani President Geidar Aliev is scheduled to visit Tehran soon for meetings with President Mohammad Khatami, IRNA said. No date has been set.

The Caspian Sea is estimated to hold the world's third-largest oil deposits. However, the five countries around the sea haven't agreed on how to divide its resources. They are Russia, Turkmenistan, Kazakstan, Iran and Azerbaijan. Wednesday, 5 September 2001 15:03:00

## FAST START FOR NYMEX BRENT AS OIL EXCHANGES BATTLE

By Gene Ramos and Gelu Sulugiuc

NEW YORK, Sept 5 (Reuters) - The New York Mercantile Exchange (NYMEX) launched trade in world crude oil benchmark Brent on Wednesday, mounting an assault on Brent's current London home in a fight to become the premier global energy exchange.

NYMEX's new Brent contract secured busy trade on its first day, with volume of more than 13,000 trades, although falling short of Brent's 54,000 total volume at its current stronghold, London's International Petroleum Exchange (IPE).

"It's getting great volume, considering it's the opening day," said one dealer. "Oil companies, banks, local traders have all been in there."

NYMEX's embrace of North Sea Brent -- price marker for millions of barrels a day of Middle Eastern, African and European crudes -- is in response to the IPE's takeover this year by Internet powerhouse IntercontinentalExchange (ICE).

The world's biggest physical commodities exchange, NYMEX believes keeping faith with the traditional trading floor system of open outcry will help it beat off the challenge from the IPE, which is focused on developing its electronic trade.

"I am extremely pleased with the initial results of the first day," said NYMEX President J. Robert "Bo" Collins. "The IPE has a niche different from us."

NYMEX's Brent prices stayed close to their London rival, closing at \$26.28 a barrel in New York, compared with \$26.31 on the IPE's November contract.

#### TEMPTING TRADERS

To tempt traders across the Atlantic, NYMEX has given 15 IPE traders special permits to trade the New York Brent futures contract.

NYMEX will also make it cheaper for dealers to trade the differential, or arbitrage, between Brent and NYMEX's U.S. benchmark light crude. The margin cost on a spread trade was cut to as little as \$500 from the previous \$3,500.

Besides the financial incentives, there is a natural customer base in the U.S. for trading Brent, analysts said.

"It makes sense for all the refiners that are importing Brent-priced barrels to be able to trade it here," said ABN AMRO analyst Jan Stuart.

Even the big oil companies and banks that set up Atlanta-based ICE were also active on

NYMEX Brent during its launch day, brokers said. "ICE players will take whatever's on offer in the market," said a dealer.

#### ENYMEX TO LAUNCH NEXT YEAR

NYMEX has faced repeated delays in its efforts to launch its own Internet trading platform, enymex, which will compete with leading online energy markets EnronOnline and ICE. Collins said enymex should launch in the next four to eight months.

The IPE is already planning new products to try to stop NYMEX from wresting away its

Brent crude futures business.

The IPE plans to dovetail its energy futures contracts with the slate of over-the-

counter energy derivatives offered by ICE.

ICE recently announced it would offer clearing for OTC products through the London Clearing House in the fourth quarter of this year. This will enable traders to offset margins between products on the OTC market and those on the futures exchange.

"The clearing system that ICE is starting will mean a revolution for the OTC markets," Stuart said. "But the IPE Brent contract will remain very much alive. There is an excellent chance to create two very different exchanges, each with their own constituency."

The NYMEX Brent contract began with November as the first listed month. It will initially trade in the WTI light crude futures ring on the NYMEX floor, but could get its own pit if volume and open interest rise enough, the exchange said.

Traders can now play the NYMEX Brent/IPE Brent arbitrage in New York, but analysts

don't expect that to add too much volume to NYMEX Brent.

"It is an arbitrage mechanism but it's hardly going to be the lifeblood of any contract," Stuart said.

((New York Energy Desk, +1 646 223 6053, fax ++646 223 6078, gelu.sulugiuc@reuters.com))

Wednesday, 5 September 2001 15:44:00

From:

Rao, Geetha

Sent:

Wednesday, July 18, 2001 8:30 AM

To:

Austin, Kenneth; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary; Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve; Squitieri, Ray;

Joldersma, Dirk

Subject:

FW: World Oil Market Update (a.m.)

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Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]
                   Wednesday, July 18, 2001 8:32:47 AM
>To: Hart, James; Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat,
Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald;
DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov';
'RoblTL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov';
'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov';
Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN;
Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov';
'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; KILGORE,
CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov'; 'hinckleydd@state.gov';
'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel;
'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Banaszak, Sara; Tomaszewski, Clifford; Neilsen, Jill; Lawson, William; 'Robert_C.
 McNally@opd.eop.gov'; 'cohenle2@state.gov'; 'flooknd@state.gov'; 'terrsc@ucia.gov';
'neilm@ucia.gov'; 'richask@ucia.gov'; 'ellenlj@ucia.gov'; 'kirschde@state.gov'; Ducca,
Ann; Lopez, David; 'wayneea@state.gov'; O'Donovan, Kevin; HUTZLER, MARY;
'hallrm@state.gov'; 'feiserse@state.gov'; Greenhalgh, Diana; Esser, Charles; 'doughertydm@state.gov'; Caliendo, Camille; Abousy, Mais; Madanat, Jumana; Mournighan,
Sarah; Salguero, David; Sanchez, Delano; Shannon, Frederick; Techavalitpongse, Sylvia;
DeVito, Vincent; Lopatto, Jeanne; 'youngdk@state.gov'; Haddad, Zead; Burgeson, Eric;
Baily, Vicky
>Subject:
                World Oil Market Update (a.m.)
>Auto forwarded by a Rule
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Crude oil prices slid again overnight, reacting to yesterday's American Petroleum Institute stock data report which indicated a larger-than-expected build in U.S. crude oil stocks last week. Crude oil on the New York Mercantile Exchange (NYMEX) was trading at \$25.24 this morning at 8:00, down 33 cents from yesterday's close, while Brent crude on the International Petroleum Exchange in London was down 24 cents to \$24.65. OPEC's crude oil basket price was unchanged yesterday at \$23.20. API reported crude stocks last week in the U.S. were higher by 5.6 million barrels, distillate (heating oil, diesel) higher by 2.8 million, while gasoline stocks fell by 2.8 million. Refinery operations also slowed a bit last week, with crude runs down nearly 300,000 bpd. The slide in prices over the past several days is beginning to worry OPEC, as a Saudi source below suggests that OPEC may cut production before its September meeting.

Morning oil market commentary from London

2. Saudi source sees possible OPEC production cut before September

3. Russia talks cooperation with U.S. on Iraq sanctions

Arab foreign ministers holding emergency meeting on

Israeli-Palestinian situation

Russia's Tyumen oil to expand foreign ties

- 6. House committee gives OK to Arctic oil drilling
- 7. Report on last night's API stock data
- Fed Chair Greenspan to update Congress today on state of the economy 8.

### OIL KNOCKED DOWN BY U.S. STOCKS DATA

LONDON, July 18 (Reuters) - Oil prices fell for the eighth day in a row on Wednesday as a sharp and unexpected rise in U.S. crude stocks deepened concerns over waning demand. North Sea bellwether Brent crude last stood 25 cents lower at \$24.64 after falling to \$24.55 a barrel in opening trade. U.S. benchmark light crude fell 17 cents to \$25.40 a barrel.

New data from the American Petroleum Institute (API) recorded a 5.56 million barrel jump in U.S. crude tanks in the week to July 13, far above forecasts of a slim 500,000 barrel decline.

The increase came despite a five-week stoppage of oil exports from Iraq -- one of the biggest suppliers to the United States -- and backed recent signals that consumption was tailing off.

Comments by a Saudi source that the world's biggest oil exporter believes OPEC could cut production before its September 26 meeting offered a brief respite to the downward spiral but prices soon returned their opening levels.

"The numbers being published lately by different international sources indicate weaker demand and excessive supply. In this case OPEC and other producers are likely to reduce supply," the Saudi source told Reuters.

"The reduction is likely to go beyond the amount specified in the price band mechanism (500,000 barrels a day) and might be done before OPEC meets on September 26," he added.

Under an OPEC price stability mechanism, the cartel aims to maintain a reference basket of seven crudes between \$22 and \$28 a barrel. OPEC's president can order an output cut of 500,000 bpd if prices should fall below the bottom limit for 10 consecutive trading days.

OPEC's basket price stood at \$23.20 on Tuesday, down from \$25 on July 6 when world benchmark prices began the recent slide.

Oil has been hammered \$2 to \$3 lower in the last two weeks by growing evidence that demand is being dented by the global economic downturn and as 18 months of high prices curb consumers' appetite for fuel.

The API reported U.S. crude stocks at almost 316 million barrels, more than 24 million barrels above levels at the same time last year.

#### LITTLE TO CHEER OIL MARKETS

Traders will await confirmation of the API data from U.S. government agency, the Energy Information Administration (EIA), which releases similar statistics each Wednesday, a day later than the API.

Last week, the EIA contradicted a 900,000 barrel API crude increase with a near three million barrel decline, leaving traders unsure where stocks were heading this week.

Analysts said there appeared little to turn around the recent downward price trend given the depressed demand picture, which was underpinned by the International Energy Agency (IEA) last week when it sliced in half a forecast for global growth in petroleum use.

The IEA pegged incremental demand in 2001 at 460,000 bpd against an initial forecast late last year of 1.86 million bpd.

Iraq's strong return to the oil market after a five-week stoppage to crude exports, also will do little to cheer prices.

The United Nations, which monitors Iraqi oil sales under the oil-for-food programme, said Baghdad exported about 2.27 million bpd in the first three days after sales resumed

((Duncan Shiels, London newsroom, +44 20 7542 7630)) Wednesday, 18 July 2001 05:58:32

# SAUDI SEES POSSIBLE OPEC CUT BEFORE SEPTEMBER MEETING

### By Michael Georgy

LONDON, July 18 (Reuters) - Saudi Arabia, the world's biggest oil exporter, believes OPEC could cut production before its September meeting to adjust to expected weaker global demand for crude, a Saudi source said on Wednesday.

"The numbers being published lately by different international sources indicate weaker demand and excessive supply. In this case, OPEC and other producers are likely to reduce supply," the Saudi source told Reuters.

The comments came after the International Energy Agency (IEA) last week sliced in half a forecast for global growth in petroleum use.

The West's energy watchdog pegged incremental demand growth in 2001 at 460,000 bpd against an initial forecast late last year of 1.86 million bpd.

The Organisation of the Petroleum Exporting Countries has been watching industry data figures closely in its efforts to keep prices in a target range of \$22-\$28 a barrel for its basket of reference crudes, with \$25 seen as the ideal level.

Under an OPEC price stability mechanism, the cartel's president can order an output cut of 500,000 bpd if the basket price should fall below the bottom limit for 10 consecutive trading days or an increase of the same amount if it climbs above \$28 for 20 consecutive days.

OPEC's basket price stood at \$23.20 on Tuesday, down from \$25 on July 6 when world benchmark prices began their recent slide.

The Saudi source's comments pushed up oil prices by more than 20 cents but international benchmark Brent crude futures were by 0926 GMT trading back at their opening levels 39 cents lower at \$24.50 a barrel, weighed down by a hefty build in U.S. crude stocks.

The American Petroleum Institute (API) recorded a 5.56 million barrel jump in U.S. crude tanks in the week to July 13, far above forecasts of a slim 500,000 barrel decline.

### REDUCTION ABOVE 500,000 BPD POSSIBLE

The Saudi source said OPEC would probably unleash more than 500,000 bpd under a supply cut scenario before the crude exporters' group meets in Vienna on September 26 to review market conditions and decide production policy.

"The reduction is likely to go beyond the amount specified in the price band mechanism (500,000 barrels a day) and might be done before OPEC meets on September 26," he said.

OPEC has tightened its grip on the oil market in a bid to maintain stability and avoid a crash such as the one that shook the economies of producers in late 1998 when prices fell below \$10.

But it is also trying to keep prices sufficiently tame to satisfy customers such as the United States, the world's biggest oil consumer.

Producers are likely to come under pressure to boost supplies in later this year to satisfy higher seasonal demand ahead of the northern hemisphere winter.

But the Saudi source said OPEC is unlikely to pump more later this year given the latest data on market fundamentals and a reduction is more likely if prices do not

"Right now there does not seem to be a need to increase output for the rest of the year

and if prices do not improve the most likely scenario is a supply reduction," he said.

If OPEC does trim output, dealers will watch closely to see if its members can stick to their output quotas, a key step for controlling prices and maintaining credibility in the market.

"Adherence to quotas is good right now. Saudi Arabia is fully complying with its production quota," said the Saudi source.

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Wednesday, 18 July 2001 05:30:16

# RUSSIA TO SEEK AGREEMENT WITH U.S. ON IRAQ SANCTIONS

ROME, July 18 (Reuters) - Russian Foreign minister Igor Ivanov said on Wednesday Moscow would cooperate with the United States to try to work out an agreement over United Nations sanctions on Iraq.

"We agreed to further our close cooperation, including in the (U.N.) Security Council, that would enable us to agree a solution" to the current disagreement over Iraq, he said.

Ivanov made his comments to reporters after a two-hour meeting with U.S. Secretary of State Colin Powell which the Russian minister said included "detailed discussions of the Iraqi settlement". Ivanov gave no details.

The talks took place ahead of a meeting of Group of Eight (G8) foreign ministers in

The United States and Britain have been trying to get the Security Council to adopt a new format for sanctions imposed on Iraq after Baghdad invaded Kuwait in 1990.

The modified so-called smart sanctions would allow the unfettered import of civilian goods to Iraq but still maintain strict control on military-related items.

Russia, an ally of Iraq, threatened to veto the U.S.-British proposal when it was put before the Security Council earlier this month. ((Carol Giacomo, Rome newsroom, tel +39 06 854 0049, fax +39 06 854 0568, rome.newsroom@reuters.com))

Wednesday, 18 July 2001 06:01:31

### ARAB FOREIGN MINISTERS TO ASSESS MIDEAST CRISIS

CAIRO, July 18 (Reuters) - Arab foreign ministers began an emergency meeting at Arab League headquarters on Wednesday to assess the escalating tensions between Israelis and Palestinians, League sources said.

Ministers of the follow-up committee of two recent Arab summits including Egypt, Saudi Arabia, Bahrain, Tunisia, Syria, Lebanon, Jordan, Morocco and Yemen began discussions on ways to end the cycle of violence and the latest Israeli actions against Palestinians.

The meeting was chaired by Jordanian Foreign Minister Abdulilah al-Khatib and attended by Palestinian President Yasser Arafat and new Arab League Secretary-General Amr Moussa, the charismatic former Egyptian foreign minister who wants to inject new life into the 22-member League.

Arafat will give a speech to the foreign ministers on aid needed by the Palestinians. At least 485 Palestinians, 128 Israelis and 13 Israeli Arabs have been killed in nearly 10 months of violence since the uprising erupted in September after peace talks broke down.

Violence has barely abated since a ceasefire was adopted about five weeks ago with the help of CIA Director George Tenet.

An emergency Arab summit in October urged Arabs to back the Palestinian Intifada, or uprising, but stopped short of calling for a complete break of ties with Israel.

The summit also pledged \$1 billion in aid to the Palestinians, little of which has yet materialised.

An Arab summit in Jordan in March drew fire from many parts of the Middle East, with Arabs blasting their leaders for failing to act tough on Israel or to agree on Iraq, which has been a major stumbling block hindering Arab unity.

The summit decided on more financial aid for the Palestinians and chided Israel for its "retreat" from the principles of a Middle East peace process launched in Madrid in 1991 but stopped short of calling for all relations with the Jewish state to be broken.

Egypt, Jordan and Mauritania have signed peace treaties with Israel. Egypt recalled its ambassador to Israel in November in protest at Israel's violent suppression of the Palestinian uprising but has continued some political contacts.

Israel's Foreign Minister Shimon Peres held talks in Cairo on Sunday with Egyptian President Hosni Mubarak and Foreign Minister Ahmed Maher on the Israeli-Palestinian situation.

The issue of the Golan Heights was also due to be discussed by the foreign ministers on Wednesday.

Some 17,000 Israeli Jews live in the Golan, which Israel captured from Syria in the 1967 Middle East war. ((Cairo Newsroom +202 578 3290/1, fax +202 574 7078, cairo.newsroom@reuters.com))
Wednesday, 18 July 2001 05:18:49

INTERVIEW - RUSSIAN TYUMEN OIL SAYS FOREIGN TIES TO GROW

By Sujata Rao

MOSCOW, July 17 (Reuters) - Russia's Tyumen Oil Company said on Wednesday it planned huge expansion of its upstream and downstream profile through ventures with foreign oil majors. Company President Simon Kukes told Reuters in an interview that Tyumen -- Russia's fourth-largest oil producer with output of 800,000 barrels per day (bpd) -- would also seek a New York Stock Exchange listing in 2002 after market conditions improved.

"We aim to be a multi-national company and the first step is in Ukraine, where we will within a year be the number one retailer of oil products," he said.

Kukes said Tyumen was also interested in Eastern Europe and in talks on projects that a included a stake in Lithuania's Mazeikiu refinery <MAZE.VL>, but he declined to elaborate. "Eastern Europe has logistical advantages for Russian firms. We can bring in oil easily and get a significant market share. I also see a role for us in China, India and the Middle East." He said Tyumen, controlled by Russia's Alfa conglomerate, saw foreign oil "Mageira" involvement as a key to its growth.

"We would welcome a strategic partner to take a stake in the firm and, in fact, we are now in talks with several foreign partners, including Texaco <TX.N>," Kukes said.

He added earlier talks with Phillips <P.N> had had no result.

Tyumen is involved in the \$11 billion Kovykta project with BP <BP.L> and several

Russian firms to produce and ship gas to China, as well as in Transneft's Adria pipeline

project to link outlets for Russian crude in north and south Europe.

In August Tyumen will take a key downstream step.

With Texaco in Moscow it will open Russia's first Star Mart convenience store in a partnership expanding its 800-strong filling network by combining them with the U.S. Star Mart brand.

Earlier this year the firms inked a deal to jointly produce lubricants at Tyumen's LINOS refinery in Ukraine. Kukes said total investments in 2001 are planned at \$800 million, with another \$1 billion earmarked for each of the coming years.

Tyumen also got a boost by being rated the World's Best Oil Company in 2000 by Financial Times Energy for "phenomenal growth in the past year, breaking into the world's top 15 oil firms."

"By year end, we could jump from fourth to third place among Russian oil producers," said the U.S.-educated Kukes, who is part of Tyumen's efforts to boost its profile internationally.

#### VERTICALLY INTEGRATED

Tyumen is now eyeing natural gas, angling to up its Kovykta stake and in Rospan, with 600 billion cubic metres in reserves.

Kukes sees gas as part of a strategy to develop Tyumen on the lines of Enron <ENE.N> -- producing crude, gas and power.

"Gas is an essential component of a vertically-integrated oil company and in the way we see ourselves in future," Kukes said. "We aim that in five years, 10-15 percent of our revenues will come from gas and condensate."

But aggressive expansion has brought Tyumen into conflict with competitors. It has locked horns with arch-rival Interros to wrest control over a stake in Kovykta, and its role in oil firm Sidanco -- where BP owns 10 percent -- has been criticised.

"We'd like to get at least 25 percent in Kovykta," Kukes said, noting Tyumen was keen for BP, which has a 31 percent stake, to remain project leader.

Tyumen also angered influential gas trader Itera by trying to obtain control over its bankrupt gas producer, Rospan.

"Rospan is a profitable firm but for some reason was losing money," Kukes said, adding Tyumen would turn the company around. ((Moscow Newsroom +7 095 241 0101 Moscow.newsroom@reuters.com)) Wednesday, 18 July 2001 06:20:58

# U.S. HOUSE PANEL GIVES OK TO DRILLING IN ARCTIC REFUGE

#### By Tom Doggett

WASHINGTON, July 17 (Reuters) - A House committee voted on Tuesday to open the Arctic National Wildlife Refuge to oil and gas drilling over the objections of Democratic lawmakers who want to keep energy companies out of the pristine wilderness.

The move by the House Resources Committee is likely to be a short-lived victory for the Bush administration's plan to boost domestic energy supplies, as the Democratic-controlled Senate and possibly the full Republican-led House of Representatives is expected to vote ultimately against any legislation to drill in the Alaskan refuge.

The House committee passed a bill late on Tuesday that would increase U.S. supplies of oil, natural gas and renewable fuels, as well as provide royalty relief to energy companies that drill in offshore federal leases. The Arctic drilling provision was included in the broader energy bill.

"Unless we as a nation are simply willing to turn our economic fate over to foreign (oil) suppliers such as OPEC...we must change strategy," said the committee's chairman, Republican Rep. James Hansen of Utah.

Democrats offered alternative legislation to the Republican-sponsored bill, focusing more on conservation than drilling, but were defeated.

Rep. Nick Rahall of West Virginia, the ranking Democrat on the committee, said the drilling legislation was a "grab bag of goodies" for oil companies who are already enjoying high gasoline prices and earning record profits.

President George W. Bush welcomed the House committee's vote and said energy firms could explore the wildlife refuge without hurting the environment.

In a statement, Bush said he was pleased the committee acted swiftly "to increase energy efficiency, expand use of renewables and open a small portion of the Arctic National Wildlife Refuge for environmentally responsible exploration."

"For too long America has lacked a comprehensive national energy policy," Bush said, commending the lawmakers for moving forward on his energy plan. "My administration has proposed a plan that will reduce America's reliance on foreign oil through increased conservation and efficiency, improved infrastructure and increased exploration."

The Bush administration wants to open for drilling about 1.5 million acres (600,000 hectares) along the coastal plain of the refuge's 19 million acres (7.7 million hectares). Because of improved drilling technology, the administration claims only 2,000 acres (800

hectares) would be directly affected by exploration activities.

The drilling legislation is one of several related energy bills being debated by other House committees that may eventually be rolled into comprehensive legislation and voted on by the full House of Representatives before lawmakers adjourn for their summer recess in early August.

The House Energy and Commerce Committee is scheduled to finish debate on Wednesday on

an energy efficiency and conservation bill.

Democratic Rep. Edward Markey of Massachusetts plans to offer language to that legislation to increase the federal mileage requirements for passenger cars and gasguzzling sport utility vehicles.

((Tom Doggett, Washington Energy Desk, 202-898-8320)) Tuesday, 17 July 2001 22:19:33

### U.S. OIL BUILD SEEN BEARISH, REFINERS SLOWING

API REPORT FOR WEEK WEEK ENDED 7/13/01 7/14/00	CHANGE	FROM	WEEK	CHANGE 7/6/01	FROM	ENDED
CRUDE315.99 24.12 MLN	MLN			UP 5.56	5 MLN	UP
DISTILLATE119.10 9.36 MLN	MLN		UP	2.75 MLN		UP
GASOLINE217.97 RFG50.74 UP 9.40 MLN IMPLIED GASOLINE DEM	MLN		DOWN	2.76 MLN UP	UP 1.44 MLN	11.48 MLN
9.07 DOWN 0.16 MLN				U	JP 0.21	MLN
UTILIZATION 94.8 1	PCT		DOWN	1.8 PCT		DOWN

NEW YORK, July 17 (Reuters) - A surprising build in U.S. crude oil supplies last week was expected to trigger some selling on the New York Mercantile Exchange (NYMEX) futures market, because it indicates a drop in refining demand, analysts said Tuesday.

"It looks like refineries are making their production cuts because their margins are under pressure," said Peter Beutel, president of Cameron Hanover in Connecticut. "People are going to put most of their focus on crude."

Crude oil supplies grew 5.56 million barrels in the week ended July 13, while gasoline supplies fell 2.76 million and distillates inventories grew 2.75 million barrels, according to the American Petroleum Institute's (API) weekly report.

"This crude build is surprising," said Tim Evans, senior analyst for IFR-Pegasus in New York. "We should be missing Iraqi supply," he added, referring to Iraq's June 4 to July 10 shutoff of exports related to a standoff with the United Nations over the fate of sanctions

Analysts said the report supported concerns that U.S. refiners were purchasing less crude oil to run through their plants as a result of weak profit margins, with a particular emphasis on reducing gasoline output.

At least nine U.S. refiners have reduced their production since June, either by slowing output rates, shutting units for early maintenance, or due to unplanned repairs or glitches -- a trend that could cut more than 750,000 barrels per day (bpd) of gasoline and distillates from the market, according to a Reuters survey.

Refinery utilization fell 1.8 percentage points last week to 94.8 percent, while crude runs dropped by 297,000 bpd, according to the report. Gasoline output, meanwhile, dipped 192,000 barrels per day to 8.3 million.

At the same time, supplies for reformulated anti-smog gasoline -- a blend sold at a third of the nation's pumps -- rose 1.44 million barrels to 50.74 million barrels thanks to higher domestic output for the product.

Implied demand for gasoline increased to 9.07 million bpd from 8.9 million bpd in the previous week, clouding analysts sentiment that the slower U.S. economy was cutting into consumption and giving pause to related concerns that helped pressure gasoline prices off their late-May highs.

"This report will be bearish initially for the obvious reasons," said Beutel, "But anything that cuts into product supplies will be bullish in the longer term. The question of demand remains a wildcard."

Crude oil futures on the NYMEX dropped 39 cents to \$25.18 a barrel after the report was released. Gasoline dropped 0.49 cent to 73.75 cents a gallon, and heating oil fell 1.19 cents to 67.50 cents a gallon.

Analysts said they did not expect refinery utilization, now at 94.8 percent, to fall much below 90 percent over the course of the summer, since oil companies will have to continue to supply gasoline to summer drivers at the same time as gearing up for winter heating season.

((Richard Valdmanis, New York Energy Desk, 646-223-6056)) Tuesday, 17 July 2001

17:36:23

# GREENSPAN TO SET HOPEFUL, CAUTIOUS MOOD ON ECONOMY

By Glenn Somerville

WASHINGTON, July 18 (Reuters) - A dollop of hope seasoned with a pinch of economic caution likely will be key ingredients of Federal Reserve Chairman Alan Greenspan's intensely awaited address to Congress on Wednesday.

The Fed chief goes before the House Financial Services Committee at 10 a.m. EDT (1400 GMT) to deliver the first of his two-part semiannual testimony on monetary policy as financial markets watch for hints that a flood of interest-rate reductions may be drying

Six cuts in short-term rates by the U.S. central bank so far this year -- a total of 2-3/4 percentage points -- have produced only mixed indications that the sluggish U.S. economy may be picking up again.

The Fed's own statistics published on Tuesday showed manufacturing, measured by industrial production, deep in the doldrums in June as output slipped for a ninth straight month, down 0.7 percent after a 0.5 percent drop in May.

#### SPENDING APPETITE STILL THERE

But housing sales and consumer spending held up in May, showing an unsated appetite for consumption spending that fuels two-thirds of national economic activity, possibly enough to keep a record expansion -- which turned 10 years old last March -- on track.

"On balance, Mr. Greenspan is likely going to indicate that a good case can be made for a pickup in economic activity within the next several months," said economist Lynn Reaser of Banc of America Capital management Inc. in St. Louis.

"But he will leave the door open to a possible further rate cut on Aug. 21 and he will still indicate that the economy faces risks in the near term," she added.

Aug. 21 is when the next scheduled meeting of the policymaking Federal Open Market Committee -- the group of Fed governors and regional Fed bank presidents that, along with Greenspan, sets interest rates -- holds its next session.

Reaser said Greenspan could make an effective case that the worst is over for the economy, which has been in a downturn since mid-2000, growing at anemic annual rates of 1 percent in the final three months of last year and 1.2 in the first three months of 2001.

Second-quarter gross domestic product performance won't be published until the end of next week and most forecasters say it likely will be as weak or weaker than the first quarter.

#### WORST IS OVER?

"The most likely situation is that we have bottomed out and are poised for recovery," Reaser said, "The inventory (overhang) is now largely settled, tax cuts are due to start kicking in and we have lower energy prices."

Cheaper energy gives Greenspan room to repeat his recent assertions that inflation is not a threat, and possibly to emphasize other risks such as the danger that weak business confidence and pressure on profits will crimp investment spending and jobs.

The hearing offers a free-ranging chance for questioning by lawmakers, who may be primed by U.S. manufacturers to raise their worry that a high-priced U.S. dollar is gutting exports to foreign markets.

Analysts raise a wider concern that the dollar's value may dent a global recovery since a slower-growing U.S. economy is a less-vibrant market for hard-pressed European and Japanese economies.

Wednesday's testimony is the first leg in a two-step semiannual presentation by Greenspan on monetary policy. He testifies before the Senate Banking Committee on July 24. Analysts warn that, with more than a month to go until the next FOMC meeting, the Fed chief has to strike a cautious tone on economic prospects as he weighs the incoming crop of data.

"It would be hard, risky and somewhat misleading for the Fed to provide a clear direction to future policy since Fed officials are divided over the outlook, and the data have been quite mixed," said economist Charles Lieberman of Advisors Financial Center LLC. ((Washington Financial Desk, 202-898-8377)) Wednesday, 18 July 2001 00:35:27

#### LLR

From:

Rao, Geetha

Sent:

Monday, May 21, 2001 9:58 AM

To:

Austin, Kenneth; Squitieri, Ray; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary;

Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve

Subject:

FW: Re-sending: World Oil Market Update (a.m.)

From: Sent:

Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]

Monday, May 21, 2001 9:59:17 AM

To:

Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS: 'CATO, DERRIEL'; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David

Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; 'HINTON, DAVE'; Washington, Charles; Caverly, Jim; 'COSTELLO, DAVE'; 'KREIL, ERIK'; 'Dan Martinez (E-mail)'; Juckett, Donald; 'DEMOUY, LOUIS'; 'COOK, JOHN'; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; 'FELD, LOWELL'; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; 'LIPPERT, ALICE'; 'scottdv@state.gov'; Kripowicz, Robert; 'Alex, AILEEN'; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; 'acdkirsc@us-state.osis.gov'; 'KILGORE, CAL'; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov';

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Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov' Re-sending: World Oil Market Update (a.m.)

Subject:

Auto forwarded by a Rule

NOTE: Got back an inordinate number of "undeliverables" this morning so am re-sending the A.M. Update. Sorry to inconvenience those of you that received the earlier transmission.

Crude oil extended Friday's gains overnight, edging over \$30 a barrel. NYMEX crude was trading around \$30.05 at 8:00 this morning, up 14 cents from Friday's close. NYMEX crude last closed above \$30 in mid-February. NYMEX gasoline was trading around \$1.08 a gallon, up 1.1 cents. There are a number of stories below addressing various supply concerns that are providing price support in the market: the coming OPEC meeting and the assumption that OPEC will not increase output, a sanctions review at the UN could complicate the rollover in Iraq oil-for-food, Israeli-Palestinian tensions are rising even higher, the U.S. energy plan is seen as providing no near-term relief, and there are continuing concerns over U.S. gasoline supplies. So there are a number of factors at the moment that are supporting price, not too many pushing down, and that will impact market psychology. A positive report on U.S. stocks tomorrow could ease things a bit (and vice versa). The OPEC crude basket stood at \$26.92 on Friday.

- Morning market update from London
- 2. NYMEX crude rose over \$30 overnight
- 3. OPEC president says output increase in June unlikely
- Qatari minister says OPEC increase unlikely
- 5. MEES reports OPEC will assess Q3 demand
- 6. OPEC meeting comes amid U.S. gasoline concerns
- ENERGY MATTERS column: Iraq and \$30 oil complicate OPEC's

decision

- 8. VP Cheney U.S. woes not OPEC's fault
- 9. Secretary Abraham downplays embargo possibility
- UN Security Council P5 discussing Iraq sanctions changes

- 11. Iraq's SOMO says export disruption unlikely
- 12. Saddam's second son Qusay emerging as possible heir

13. Iran and Iraq plan linking of power grids

14. Gas exporting countries' meeting in Iran spurs concern over

cartel-building

# IPE BRENT TRIMS GAINS AFTER EARLY ADVANCE LOOSES MOMENTUM

LONDON, May 21 (Reuters) - IPE Brent crude futures extended Friday's advance in early trade on Monday aided by further strong gains in NYMEX crude and products futures in ACCESS trade.

However, despite talk of tightening physical supply and supportive buying for spot cargoes to take transatlantic, though the arbitrage remains at least a dollar out of the money, traders said the early Brent advance had lacked impetus and price eased early in the main session amid thin trading volume.

By 0922 GMT July Brent was trading six cents up at \$29.45 a barrel having pulled back from a \$29.68 high early in the main session. Around 2,200 lots had been traded on the contract.

The July Brent/NYMEX crude arbitrage improved to around \$1 a barrel as Brent pull back from the highs with NYMEX crude having soared through \$30 on renewed mid-East tension, strong gasoline prices, up nearly a cent and a half in ACCESS trade, and growing sentiment that OPEC was unlikely to increase output when it meets in June.

"While gasoline was clearly the main driving force behind the market on Friday, there is little doubt that the Middle East tension also helped to provide some upside momentum for crude, as did technical buying after the 200 day moving average was broken," Lawrence Eagles at GNI Research said in his daily report.

However he added that it would also fair to say that crude is not simply being dragged up by gasoline.

"The crude market is reasonably tight for June and July, and if the price should stay at these levels there may be some pressure on OPEC to raise production at the next meeting," Eagles said.

So far though, all signals have been for maintaining current production levels. OPEC President Chakib Khelil, who is also Algeria's oil minister, said on Sunday an increase was unlikely with current market fundamentals.

"People are not really for an increase in June," Khelil said.

"OPEC must respond to crude, not petroleum products," Khelil said.
"Increasing crude supplies won't solve the problem...and it may come back to haunt us."

U.S. Vice President Richard Cheney said on Sunday the lack of refinery capacity and not OPEC output levels were the root of U.S. energy problems.

"We think the best way to proceed...is to make sure we address our own problems here at home," Cheney said.

The gasoline strength also firmed heating oil prices and despite a fairly slack spot market in Europe, IPE gas oil futures have been strengthened by thoughts of arbitrage opportunities.

The June gas oil contract was trading \$5 firmer at \$246.50.

The July crack from Brent improve to around \$3.25 from just over \$3 late Friday.

((Colin Wooster, London newsroom, +44 20 7542 7456, fax +44 20 7542 4453, email london.energy.desk@reuters.com))
Monday, 21 May 2001 05:28:38

# OIL TOPS \$30 LED BY GASOLINE, OPEC CONCERNS

SINGAPORE, May 21 (Reuters) - Oil prices climbed above \$30 per barrel on Monday as tight gasoline supplies and concerns over OPEC production levels fed buying interest.

Gasoline has led a three-day oil market rally as thin supplies ahead of the summer driving rush spark higher prices.

Adding further support was unrest in the Middle East and doubts the

Organisation of Petroleum Exporting Countries (OPEC) will raise crude output when it meets June 5-6.

U.S. light sweet crude stood at \$30.15 per barrel by 0445 GMT, up 24 cents from Friday's New York settlement of \$29.91, when it gained \$1.00 and reached a three-month high.

OPEC President Chakib Khelil said on Sunday the cartel was unlikely to adjust output at its next meeting given current market fundamentals.

"People are not really for an increase in June," Khelil, Algeria's oil minister, told reporters. "My hunch is we'll agree on letting the (price band) mechanism take its course."

OPEC has an informal agreement whereby output can be raised by 500,000 barrels per day (bpd) if the price of the cartel's basket of seven crudes trades above the \$22-\$28 per barrel range for more than 20 consecutive days.

The oil cartel cut output by 2.5 million bpd earlier this year in a bid to defend its preferred target price of \$25 a barrel.

"OPEC must respond to crude, not petroleum products," Khelil said.
"Increasing crude supplies won't solve the problem...and it may come back to haunt us."

Qatari Energy Minister Abdullah bin Hamad al-Attiyah and Iranian Oil Minister Bijan Zanganeh voiced similar opinions over the weekend.

U.S. Vice President Richard Cheney said on Sunday that the lack of U.S. refinery capacity and not OPEC production levels are at the root of America's energy problems, which have pushed retail gasoline prices to record highs.

"We think the best way to proceed...is to make sure we address our own problems here at home," Cheney said on NBC's "Meet the Press" television program.

Although U.S. refiners are running at 93.5 percent of capacity according to the last American Petroleum Institute (API) data, outages and maintenance shutdowns have slowed the build of gasoline stocks.

#### LEAD BY GASOLINE

Gasoline was leading the oil markets on tight supplies ahead of peak demand driving season starting later this month.

Gasoline futures stood at \$1.084 per gallon, a gain of 1.5 cents over Friday's New York settlement of \$1.069 when they gained 4.78 cents.

While gasoline stocks have risen to nearly two million barrels over last year's slim levels, demand is also expected to be higher. Travel industry surveys last week showed that more Americans plan to drive to vacation this year than last.

U.S. retail gasoline prices hit a record high of \$1.713 a gallon earlier this month, up 22 cents from a year ago.

Growing tensions in the Middle East, a region of heavy oil production, are also helping to support prices on fears that the fighting could disrupt oil flow.

U.S and British planes reportedly bombed areas in southern Iraq, and Israeli warplanes have attacked targets on the West Bank in recent days.

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Monday, 21 May 2001 01:05:30

# OPEC PRESIDENT SAYS OUTPUT CHANGE UNLIKELY AT JUNE MEETING

TEHRAN, May 20 (Reuters) - OPEC President Chakib Khelil repeated on Sunday that the oil cartel was unlikely to adjust output at its June 5-6 meeting in Vienna given current market fundamentals.

"People are not really for an increase in June," Khelil, Algeria's oil minister, told reporters. "My hunch is we'll agree on letting the (price band) mechanism take its course."

The oil cartel has an informal agreement whereby output can be increased by 500,000 barrels per day (bpd) if oil prices stray for more than 20 consecutive trading days above the upper limit of the cartel's \$22-\$28 barrel target range for a basket of seven crudes.

He hinted that if a sustained period of high oil prices triggered the mechanism, OPEC could inject more than 500,000 bpd if market conditions warranted.

Khelil, Algeria's oil minister, was in Tehran for the Gas Exporting Countries' Forum with OPEC colleagues from Nigeria, Qatar and Iran.

Consumer groups have been calling for OPEC to increase output to stop oil prices from rocketing and further damaging economic growth and to build up stocks ahead of winter.

But for now the world is not short of crude oil, Khelil said. Instead, a jittery market is prone to price spikes caused by speculative plays, knee-jerk reactions to Iraq and the Middle East and U.S. refining constraints which have tightened stockpiles of gasoline.

"OPEC must respond to crude, not petroleum products," the Algerian oil minister said. "Increasing crude supplies won't solve the problem...and it

may come back to haunt us."

Khelil's view was echoed by Qatari Oil Minister Abdullah bin Hamad Al-Attiyah.

"As things stand today, I don't think OPEC will take a decision to cut or increase production, but we will wait until June," the Qatari oil minister said.

Attiyah repeated that an OPEC basket price of \$25 a barrel was best for producers and consumers. "We're against high prices," he said.

The ministers downplayed the impact of Iraq on the group's upcoming meeting. Some oil traders fear Iraq may stop exports of more than two million bpd out of protest over so-called smart sanctions proposed by the United States and Britain.

The current phase of the Iraq/United Nations oil-for-food deal will expire just days ahead of the OPEC meeting. Iraq has often disrupted oil sales between phases to make a political point.

Rilwanu Lukman, Nigeria's presidential advisor, said OPEC was taking a long-term view of the market and shrugged off Friday's run-up on oil prices.

"We will look long term, not at temporary aberrations," he said. Lukman said it was too early to predict what course of action OPEC would take at its June session.

Iranian Oil Minister Bijan Zanganeh had the same view.

"It is too early to say what OPEC would do at the June meeting," Zanganeh told Reuters. "We certainly do not need in this situation to reduce our production."

The Iranian minister said an increase in oil prices on Friday was not created by OPEC action.

He said that many things outside OPEC's control were affecting the market, including price speculation, various U.S. refining issues and other political issues.

"We can play only supply. We have no other tools," Zanganeh said. "We cannot do anything in OPEC for something not in our control."

OPEC has cut production by a total 2.5 million barrels per day (bpd) this year in a bid to keep prices firm during the seasonally weak second quarter. ((Peg Mackey, Tehran newsroom, + 00 989 11 203 8917 peg.mackey@reuters.com))
Sunday, 20 May 2001 12:01:56

# OPEC UNLIKELY TO ALTER OUTPUT AT JUNE MEETING - QATAR

TEHRAN, May 20 (Reuters) - Qatari Energy Minister Abdullah bin Hamad al-Attiyah said on Sunday he believed OPEC would not adjust output at its June meeting, saying the global oil cartel was determined to keep the market stable.

"As things stand today, I don't think OPEC will take a decision to cut or increase production, but we will wait until June," Attiyah told reporters at the two-day Gas Exporting Countries' Forum which ends in Tehran on Sunday.

"We want to avoid shocks, its important that OPEC does not limit supply. We will never create a shortage. If we see there is demand, we will meet this demand," he said.

OPEC, which has cut production by a total 2.5 million barrels per day (bpd) this year, is due to meet on June 5-6 in Vienna.

Attiyah repeated that an OPEC basket price of \$25 a barrel was best for producers and consumers. "We're against high prices," he said.

Qatar, which sits on the world's third largest natural gas reserves after Russia and Iran, is seeking to boost its gas exports to the Gulf after investing billions of dollars to tap its vast resources.

Attiyah said Qatar was making progress on gas projects in Kuwait and Bahrain. He said the volumes involved in the potential Kuwait deal were around one billion cubic feet per day (cfd) but volumes for Bahrain had yet to be decided.

Qatar is also seeking to sell gas to the United Arab Emirates and in March signed a "commercial term sheet agreement" with Dolphin Energy Ltd (DEL), which is majority owned by the UAE's Offset Group.

The deal would allow DEL to develop a tract of Qatar's giant North Field and produce up to two billion cfd of gas. The gas is targeted to reach the UAE capital Abu Dhabi as early as 2004.

France's TotalFinalElf <TOTF.PA> and Enron <ENE.N> hold the remaining 49 percent of DEL.

Attiyah said Qatar hoped to sign a production-sharing agreement with the UAE firm before a September deadline.

He also said that he had received no confirmation from DEL or the Offset Group that Enron, which is undergoing a global restructuring, was pulling out of the project.

Market sources had earlier said that the U.S. firm looked set to bow out of the project.

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Sunday, 20 May 2001 02:34:55

# MEES REPORTS OPEC TO STUDY Q3 DEMAND FOR POSSIBLE OUTPUT CHANGES

MANAMA, Bahrain (Dow Jones)—The Organization of Petroleum Exporting Countries isn't expected to take any action on production level before June 5 meeting in Vienna, but OPEC ministers will base the decision on whether to increase production on a number of factors, including inventories, supplies, prices and projections for third quarter crude oil demand, the weekly Middle East Economic Survey reported Monday.

It said that while the stability of oil prices in the past few weeks would affirm OPEC's position in not changing the production level, third quarter demand projections could lead to a very tight market, which might call for a fresh look at the OPEC production agreement.

While OPEC is satisfied with oil prices around \$25.00 a barrel for its basket price, "the likelihood now is for prices to go up rather than down", it said.

OPEC is determined to avoid a repeat of a situation last year when prices soared above \$30/bbl for West Texas Intermediate and Brent crude, the newsletter said.

MEES noted that repeated downward revisions over the last six months in the demand forecasts of the International Energy Agency and Energy Information Administration of the U.S. Department of Energy suggest that OPEC will have a "difficult call to make on June 5."

However, it said most market analysts are expecting a significant boost to demand going from the second quarter to their third quarter despite a continuing global economic slowdown.

According to the IEA, demand in the third quarter is likely to increase from the second quarter by 1.1 million barrels a day, while the EIA forecasts a 1.6 million b/d increase, the newsletter reported.

-By Abdulla Fardan, Dow Jones Newswires; (973) 530758; abdullah.fardan@dowjones.com
-0- 21/05/01 07-50G
Monday, 21 May 2001 03:00:51

#### OPEC MEETING HAS EXTRA TWIST: U.S. GASOLINE

By Thaddeus Herrick

Staff Reporter of The Wall Street Journal

OPEC faces a tough decision when its members meet June 5 for the third time this year: Hold oil production steady or try to respond to a situation that is at least in part beyond their control.

Unusually high gasoline prices in the U.S. - the result of growing demand, tight refining capacity and, of course, current oil prices - have once again made the Organization of Petroleum Exporting Countries the target of consumer and political ire.

Agreeing to increase output could ease that anger in the U.S., though it wouldn't come quickly enough to help the gasoline situation.

"The summer's already lost," says Amy Myers Jaffe, senior energy analyst at Rice University's Baker Institute.

What's more, the price of the U.S. benchmark, West Texas intermediate crude, is just under \$30 a barrel, about where the oil ministers want it. Inventories are about 20 million barrels above year-earlier levels, according to the Energy Department's Energy Information Agency, all but eliminating worries of oil-price spikes.

Gasoline prices, however, have been spiking even before the summer-driving season starts. Nationally, the average retail gasoline price is \$1.71 a gallon, according to the EIA, a 15% jump over this time last year, when oil prices were at about the same level as today. Although gasoline inventories are building, they are still four million barrels behind last year's level.

Sen. Herb Kohl argues that OPEC's actions are a "silent tax that takes hard-earned money away from Americans every time they visit the gas pump." The Wisconsin Democrat and Sen. Mike DeWine, a Republican from Ohio, have introduced legislation for the second consecutive year that would permit the U.S. to "take legal action to combat the illegitimate price-fixing conspiracy of the oil cartel."

Although the Bush administration is divided on whether to push OPEC to increase production, publicly it is taking a hands-off approach. Last week, Vice President Dick Cheney said OPEC isn't causing the high gasoline prices, and warned that "jawboning" the group to bring down oil prices would only lead to volatility, not stable prices.

Rather, low gasoline inventories are largely the result of limited refinery capacity, squeezed even more because so many plants needed maintenance after last year's heavy gasoline and heating-oil runs. Environmental rules that kicked in last year led different states to adopt different standards, resulting in a patchwork of lower-emissions fuels that can't be easily shipped from one part of the country to another. What's more, spiking natural-gas prices have raised the cost of MTBE, the additive used to reduce emissions and raise octane.

Yet OPEC shares some responsibility. The 11-member group, excluding Iraq, agreed twice this year to cut output by 2.5 million barrels a day, checking inventory buildup and keeping prices in the high \$20s instead of closer to \$20 a barrel. But while it made the promises, OPEC members remain about one million barrels above their output target, according to surveys.

OPEC's largest producer and a key U.S. ally, Saudi Arabia, in particular, is concerned about discontent with the cartel. Ali Naimi, the Saudi minister, says OPEC will likely this year restore the 2.5 million barrels a day it has cut since January, and he doesn't rule out a June production increase. But increasingly, OPEC ministers oppose such a move if crude-oil prices and inventories hold.

OPEC members are likely to respond to political pressure in their own countries before responding to pressure from the U.S. The oil-price collapse of 1998 and 1999 hit OPEC countries so hard that most of the OPEC economies are only now emerging from the rubble. Even Saudi Arabia faces a domestic debt of about \$100 billion.

Mr. Naimi says OPEC needs to boost output in coming months to help build inventories as seasonal demand rises in the latter half of the year. If

prices climb, Saudi Arabia could act unilaterally to increase output this summer, as it did last year, when prices were well above \$30 a barrel. But even if supply rises, says Ms. Jaffe, U.S. refineries don't have the near-term capacity to turn extra crude into gasoline.

Instead, she says, the spread in price between gasoline and crude oil could widen, with the profits going to integrated oil companies and refinery operators, not to OPEC.

Sunday, 20 May 2001 23:01:48

#### ENERGY MATTERS SPECIAL: IRAQ, \$30 OIL UPSET OPEC PLAN

By David Bird

A Dow Jones Newswires Column

NEW YORK (Dow Jones)--A funny thing happened on the way to the OPEC meeting...

Just when all signs were pointing to a quick and easy meeting, new worries over

Iraq have pushed U.S. crude prices above \$30 a barrel, setting the stage for

tough talks next month.

Ministers had hoped to leave Vienna after their June 5 and 6 extraordinary

meeting with output quotas unchanged and fingers crossed that prices wouldn't

jump outside their designated price band.

Talks were expected to focus on what intermediate steps the group should take

before their scheduled Sept. 25 gathering, if priced climbed outside the \$22-\$28

target range.

But heightened concerns that the rollover of the next phase of U.N. oil-for-food,

set to begin June 4, may not go smoothly have already forced prices up.

U.S. benchmark crude is priced at its highest level since February, and over \$30

for key summer months is at the red-alert level for both the Bush administration

and the world's biggest oil exporter and OPEC heavyweight, Saudi Arabia.

So far there's just speculation on the issue, but Iraq has denounced the latest

U.S. and British move to loosen some sanctions and get weapons inspectors back

into the country for the first time in more than two years.

Iraq has a history of disrupting oil exports in a continuing effort to try to

break down the U.N. sanctions which have been in place since its August 1990

invasion of Kuwait. Iraq has only in recent weeks restored its exports to an

average of around 2.1 million barrels a day, after effectively shutting down

exports in late November in a dispute with its customers and the U.N. over its

attempt to impose an illegal surcharge on oil sales.

#### Summer NYMEX Crude Over Key \$30 Level

Adding fuel to new concerns that a major diplomatic row - and a halt in exports -

could again be brewing was news that U.S. and British jets on Friday bombed an

Iraqi air defense installation - the first attack since April 19 - in response to

"threatening actions" from Iraqi forces.

Nymex crude oil futures prices, already challenging \$30, surged beyond that

level, with July and August contracts settling up more than \$1 at \$30.34.

With the market firmly in contango, the gains can't be dismissed as position

adjustment ahead of Tuesday's expiration of June futures, which settled up \$1 at

\$29.91.

Sources with Iraqi oil supply contracts say they have been advised by raq's

State Oil Marketing Organization, prior to the latest political troubles,

everything was moving ahead for a smooth transition into the next phase of the

U.N. oil sale plan, without any disruption in exports expected.

"As far as SOMO goes, everything is going smoothly, but you never know what the

political element will be," says a source at an Iraqi oil customer. "Iraq has

never minded stopping the shipments for a while to try to prove a point in their

strategy to unravel the sanctions."

The price spike (embarassingly coming a day after the Bush administration was

widely criticized for having no short-term price initiatives in its new energy

policy and for coddling OPEC) puts crude prices back at their highest levels

since mid-February.

As Energy Matters reported in February, the U.S. and Saudi Arabia have an

understanding that neither wants to see the U.S. crude price above \$30, a position that was reinforced during Oil Minister Ali Naimi's recent Washington

visit with Vice President Dick Cheney and other key Bush administration officials. Cheney has softened the U.S. view toward OPEC in recent days, saving

that jawboning the group for higher output results only in "momentary joy" over

lower prices, which eventually spring back hard.

The Saudis have been the steady hand in OPEC - with U.S. assent -

average price of its basket of crudes at around the \$25 midpoint of its

range since late March, when OPEC moved to implement the second stage of a 9% cut

in output quotas, removing 2.5 million barrels of oil from the market, to hold prices steady.

\$27 Basket Price Will Get OPEC Thinking

But the basket price climbed above \$26 in the past two days, and with Friday's

gain, is likely to jump to \$27 - the highest price since February. Generally, the

OPEC basket trades at about \$2.50 below the price of U.S. benchmark West Texas

Intermediate crude, because of quality differences.

As reported here, \$27 is the level were the Saudis and others in OPEC get worried

and start to think about boosting output to tamp down prices, regardless of

the

group's price-band mechanism.

Under that mechanism, if the basket price moves above \$28 for 20 consecutive

market days, OPEC would implement an increase in quotas of 500,000 b/d shared on

a pro-rata basis. If the price drops below \$22 for 10 straight days, a cut of

500,000 b/d would be implemented on a similar basis. OPEC in March acted to decrease quotas when the price was \$23, confirming our understanding that the

action range within the band is really between \$23 and \$27 a barrel.

The Saudis have left no doubt that they will step in to supply any oil lost due

to political or physical supply disruptions, but they would likely face difficulty getting OPEC approval for a June increase in quotas based solely on

prices moving up toward the upper end of the band.

The Saudis, in typical fashion, haven't yet made known their position for the

June meeting. But Naimi says OPEC is mindful that demand will rise later in the

year and says OPEC could restore the 2.5 million b/d in output quota cuts by year

end, if market conditions allow.

Just about everyone else in OPEC says they don't want an increase in quotas in

June, but the comments came prior to the latest price jump.

Still, there are ample reasons why the Saudis may not be in a hurry to push for a

rise now, without a genuine sustained surge in prices or a real disruption in supply.

supply.

Among them are concerns that world demand outside the U.S. isn't growing

strongly, U.S. crude oil stocks are rising sharply and improved political ties

with Iran, whose president is up for re-election on June 8.

Some in OPEC had already feared that a decision to leave quotas unchanged could

force up prices even before ministers arrived home from Vienna.

"It's going to be more difficult now to see how this plays out," says an OPEC source.

"There is no such thing as a dull OPEC meeting."

-By David Bird, Dow Jones Newswires; 201-938-4423; david.bird@dowjones.com

(David Bird is senior energy correspondent for Dow Jones Newswires.) Friday, 18 May 2001 17:37:33

#### ANSWER FOR U.S. ENERGY WOES AT HOME, NOT OPEC - CHENEY

By Barbara Hagenbaugh

WASHINGTON, May 20 (Reuters) - Pressuring oil-producing nations to expand output is not the answer to America's energy problems that instead must be resolved by increasing domestic output, U.S. Vice President Richard Cheney said on Sunday.

Speaking three days after President George W. Bush unveiled a plan to expand U.S. energy output, Cheney rebuffed suggestions that the administration should also pressure OPEC countries to increase their oil output to address an immediate problem of high gasoline prices.

"We have talked to OPEC, we do it quietly," Cheney said on NBC's "Meet the Press" television program. "We think the best way to proceed...is to

make sure we address our own problems here at home."

Bush himself said during his presidential campaign that the United States should "jawbone" OPEC members to lower oil prices. But Cheney argued that foreign oil output was not the problem. Instead, at issue is the lack of U.S. refinery capacity as well as a disparity in the makeup of gasoline sold at the pump across the country.

Cheney said the administration was in touch with OPEC officials and noted he had met with Saudi Arabian oil minister Ali al-Naimi in Washington less than two weeks ago. Saudi Arabia is the world's biggest oil producer.

Cheney's comments came a little more than two weeks before OPEC next meets. OPEC President Chakib Khelil said on Sunday the oil cartel was unlikely to adjust output at its June 5-6 meeting in Vienna given current market fundamentals.

OPEC has cut production by a total 2.5 million barrels per day (bpd) this year in a bid to keep prices firm during the seasonally weak second quarter.

At the same time, U.S. gasoline supplies have declined, leading to sharp increases in prices paid at the pump. U.S. gasoline prices hit a record high \$1.713 a gallon earlier this month, up 22 cents from a year ago.

That spike in gas costs has led some lawmakers to call for more U.S. pressure on OPEC nations.

"They regularly fix prices, they control supply and demand," Sen. John Breaux, a Democrat from Louisiana, said on Fox News Sunday. "If they did that in this country, they'd go to the penitentiary."

#### ARCTIC REFUGE FUTURE UNCLEAR

Under the backdrop of soaring energy prices as well as very visible electricity shortages in blackout-hit California, Bush unveiled a two-pronged energy plan last week to expand U.S. coal, oil and nuclear power production while at the same time offering conservation incentives.

Administration officials made the rounds on the Sunday talk shows to back the proposals and counter vocal opposition from environmentalists, Californians, Democrats and others who argue the plan threatens the environment and does not do enough to address immediate problems in California and across the nation.

"It's pretty logical that countries are going to...do things in their best interest, that's what the OPEC countries are doing," Energy Secretary Spencer Abraham said on Fox News Sunday. "It's about time America did that, developing more supply here in the United States."

One proposal that drew perhaps the biggest criticism was the White House recommendation that the Arctic National Wildlife Refuge be opened to drilling.

Environmental Protection Agency administrator Christine Todd Whitman said on ABC's "This Week" that a vote in Congress on the ANWR proposal would be "a close one" while Breaux said the measure had little chance of passing.

"It's an uphill battle right now," Breaux said. "If you had to vote today or tomorrow, it would not pass. But I think as the crisis becomes more severe and as people learn more about what you can do and what you can't do, I think it has a chance of passing this year, but only a chance."

Whitman argued that modern technology will allow for drilling in the Arctic refuge without harming the environment.

"You go over the frozen tundra, remove everything as everything starts to melt, and you don't leave behind the kind of footprint we've had in the past," she said.

((Washington newsroom, 202-898-8370, fax 202-898-8383, washington.economic.newsroom@reuters.com))
Sunday, 20 May 2001 14:15:52

### U.S. ENERGY SECRETARY DOES NOT EXPECT OIL EMBARGO

WASHINGTON, May 20 (Reuters) - U.S. Energy Secretary Spencer Abraham said on Sunday he did not believe there would be another oil embargo because of the current tensions in the Middle East.

Appearing on the "Fox News Sunday" program, Abraham said: "The OPEC

countries, Saudi Arabia in particular, have always said that they aren't going to use oil as a bargaining chip. I take ... their word on that."

At the same time, defending Bush's controversial energy plan that called for expanding U.S. coal, oil and nuclear power production, including in Alaska's pristine Arctic National Wildlife Refuge, Abraham said: "But I think nevertheless, the instability of foreign sources justifies increasing domestic production. That's why ANWR makes sense and more supply development at home makes sense."

The energy secretary, a former U.S. senator, restated that the United States was "not going to beg for oil."

"What we are going to do is diversify supplies here at home. It's pretty logical that countries are going to ... do things in their best interest, that's what the OPEC countries are doing. It's about time America did that, developing more supply here in the United States." ((Reuters Americas desk, 202-898-8457)) Sunday, 20 May 2001 09:40:05

### U.N. SECURITY COUNCIL POWERS DISCUSS EASING IRAQ SANCTIONS

#### By Evelyn Leopold

UNITED NATIONS, May 21 (Reuters) - Key members of the U.N. Security Council discuss on Monday new British-U.S. proposals to liberalize sanctions against Iraq, with Russia and China raising doubts a resolution could be adopted within two weeks.

The afternoon meeting among ambassadors from the United States, Britain, France, Russia and China, the council's permanent members with veto power, is the first joint session on the new measures, although experts from the five have spoken informally in various capitals.

The aim to get a vote in the 15-member council by May 31, before the next six-month phase of the U.N.-Iraq humanitarian oil-for-food program begins on June 4.

In an effort to counter critical world opinion of the decade-old sanctions, Britain, working with American officials, last week announced proposals to drop embargoes on all non-military imports to Iraq, from bicycles to whiskey.

Military supplies will still be banned outright, and "dual-use" items will require specific authorization from the council's sanctions committee. The United Nations would still control the bulk of Iraq's oil revenue through an existing escrow account that handles payments for imported goods.

But the proposals, designed to make the Baghdad government responsible for hardships of ordinary Iraqis, will not include any tough monitoring of borders, as the United States wants, because such plans have not gelled yet, council sources said.

However, they said a British-drafted resolution, expected to emerge on Tuesday, is expected to refer to "closer cooperation" with Iraq's neighbors without giving specifics.

U.S. officials have stayed in the background in revealing details of the draft resolution, with Britain doing most of the briefings, despite a U.S. memo distributed last week outlining American policy ideas, some of which will not be in the draft.

### "DUAL-USE" LIST WILL BE FOCUS OF DISPUTE

The British plan expands the so-called fast-track for civilian goods that can go to Iraq without approval from the council's sanctions committee. At the same time a list of items that can be used for military and civilian purposes has been drafted by the United States and Britain.

Despite the seeming concessions to Iraq, Russia and China say there is too little time to adopt a resolution by May 31 and to dissect and agree on the list.

"I am very suspicious that this will not be possible," Russian diplomat Gennady Gatilov told Reuters.

And Moscow's foreign minister, Igor Ivanov, at a news conference with U.S. Secretary of State Colin Powell in Washington on Friday had few

encouraging words. "Our U.S. partners put forth their vision, their approach to this issue. We have also our own proposals," he said.

Russia and China, along with France, have been advocating a suspension of

the sanctions, imposed when Iraq invaded Kuwaiti in August 1990.

To get the embargoes suspended or lifted, Iraq has to cooperate with U.N. arms inspectors to make sure it no longer has programs for weapons of mass destruction. Baghdad has refused to allow the inspectors to return since the December 1998 bombing raids by the United States and Britain.

The new plan would not require Iraq to let arms inspections resume before sanctions on consumer goods could be lifted.

Iraq has never liked the oil-for-food accord, which allows it to sell unlimited amounts of oil, with proceeds put in a U.N. escrow account to pay suppliers of goods Baghdad orders.

It believes any tinkering with the plan would only nail down sanctions for years to come, especially if the five powers took a unified position, which they have not done for years.

"Iraq's main goal is getting control of the oil revenue," said Raad Alkadiri, analyst with Washington-based Petroleum Finance Co. said.

"This will look like a further institutionalization of sanctions rather than a loosening of sanctions," he said. Monday, 21 May 2001 03:00:45

#### IRAQ'S SOMO SUGGESTS EXPORT DISRUPTIONS UNLIKELY

LONDON (Dow Jones)--Iraq's State Oil Marketing Organization has told lifters that exports will be extended under the ninth phase until the end of June, subject to U.N. approval, trade sources said Monday.

Mediterranean crude oil traders said Iraq's willingness to extend their contracts can be taken as a sign that Baghdad isn't planning to stop June oil exports, and dispels earlier fears of disruptions to supply.

It isn't the first time that there have been concerns over Iraq's supply as the end of a phase approaches.

"There are always rumors of possible disruptions whenever we get close to a renewal of the phase, but this time Iraq has sent out notification that they are extending their contracts with lifters until the end of June," said a trader with a European refinery.

The trader said he had seen one of the sales contracts to the lifters, which extends the phase until June 30.

High gasoline prices in the U.S. make it a politically sensitive time for President George Bush's administration to push for tougher sanctions against Iraq, said a trader with a U.S. oil company.

We're hearing that neither side is ready for a big fight, and it would serve everyone to delay the process at least until gasoline prices have settled down," said the trader.

Monday, the U.N. and Iraq begin discussions on the 10th phase of the oil-for-food program. The U.K. has called for tighter restrictions on imports of dual-use goods that could be used for weapons production, while easing restrictions on the import of goods solely for civilian use.

Initially, there were concerns that Iraq would try to disrupt oil supply as a protest to the U.K.'s new proposal.

Late last year, Iraq disrupted oil exports in a continuing effort to try to break down U.N. sanctions, which have been in place since 1990.

Iraq has only recently restored its exports to around 2.1 million barrels a day, after ceasing exports in late November for about six weeks after a spat with its customers and the U.N. over a surcharge on each barrel of oil lifted.

Meanwhile, oil exports at Turkey's Ceyhan oil terminal, Iraq's export outlet on the Mediterranean, were proceeding as normal, with two tankers loading Monday and a heavy loading schedule seen continuing until May 30.

Industry sources said Ceyhan has no indication yet about Iraq's intentions.

"There are market rumors that a few loading nominations were already issued for June," a source said. "However, we can't verify that. Even if

there's any interruption, the current feeling is that it will only be for a few days."

-By Selina Williams, Dow Jones Newswires; 44 (0)20 7842 9262; selina.williams@dowjones.com Monday, 21 May 2001 06:50:33

### ANALYSIS - SADDAM'S SON QUSAY EMERGES AS POSSIBLE HEIR

By Nadim Ladki

BAGHDAD, May 20 (Reuters) - The rise of the youngest son of Iraqi President Saddam Hussein to senior official posts has strengthened speculation that he is being groomed to succeed his father, diplomatic sources said on Sunday.

Qusay Saddam Hussein, who leads elite army and security units, was elected to the leadership of the ruling Baath Party on Thursday, his first official party post.

On Saturday Saddam named 34-year-old Qusay as one of two deputy commanders of the Baath's influential military branch.

"These moves indicate quite clearly that Qusay is being prepared," one source said. "His appointments appear designed to give him the experience and exposure needed for him to succeed his father."

Reports in Western and Arab media have for years speculated that one of Saddam's two sons would emerge as his heir apparent.

His eldest son Uday had been identified as the likely choice until he was badly wounded in an assassination attempt in 1996.

As Uday was recuperating, Qusay's influence increased as he took command of more sections of the country's elite forces and, according to foreign reports, replaced Uday as favourite for the succession.

#### SIDE-BY-SIDE

The two brothers sat side-by-side at the 12th conference of the Baath Party on Thursday. State television footage and local press pictures showed them smiling and exchanging conversation.

At the conference, only the second since the 1991 Gulf War over Kuwait, Saddam was re-elected unanimously as secretary general and Qusay was voted in as a member of the Regional Command.

Saddam's official deputy and number two, Vice-Chairman of the Revolutionary Command Council Izzat Ibrahim, continued in the post of deputy secretary general of the party.

Vice-President Taha Yassin Ramadan, Deputy Prime Minister Tareq Aziz and Ali Hassan al-Majeed were re-elected as senior members of the leadership.

The party elected a woman, Huda Saleh Mehdi Ammash, to its leadership for the first time.

Saddam on Saturday named Qusay and Lateef Jassem as his deputies in charge of the military branch of the party. The Iraqi leader also named other members of the newly elected Regional Command to run the various branches of the Baath.

Qusay had been heading the republican guards and a security service called the "special guards".

#### **INFLUENTIAL BROTHERS**

Qusay, born in 1966, has traditionally kept a lower profile than the more flamboyant Uday, who retains influence through ownership of media outlets, among other roles.

Qusay rarely appeared in the local press or on television and he stayed away from public meetings or talks covered by the press. Uday, on the other hand, makes public appearances and holds well-publicised meetings with visiting dignitaries.

In 1999 a pan-Arab newspaper, Asharq al-Awsat, reported that Saddam granted Qusay wide powers so that he could take on the duties of the president in case of an emergency. A newspaper run by Uday ridiculed the report.

Uday supervises a number of newspapers as well as television and radio

stations. He is also head of Iraq's Olympic committee and journalists' union.

Uday was elected to parliament last year. He portrayed his entry into the 250-member assembly as an introduction of new blood into Iraqi politics and a move to usher in a new generation of politicians untainted with corruption and failings of the past.

Earlier this year he called for greater progress towards multi-party democracy in the country ruled by Saddam since 1979. Monday, 21 May 2001 04:55:09

#### IRAN, IRAQ TO LINK POWER GRIDS - IRNA

TEHRAN, May 19 (Reuters) - Iran and Iraq have reached a preliminary agreement to set up a power transmission line between the two countries, the official Iranian news agency IRNA reported on Saturday.

"The expansion of Iran's electricity network to the neighbouring countries has been on our agenda in the past years," Masoud Hojjat, deputy head of state power company Tavanir, told IRNA after returning from a visit to Iraq.

He said the plan needed further approval on both sides.

Iran said in February it was exporting 45 megawatts (MW) of electricity to Azerbaijan, 40 MW to Turkey and 150 MW to Armenia.

Hojjat said Iran had a surplus of 1,000 MW of electricity for exports in the year which ended in March.
Saturday, 19 May 2001 11:00:53

### GAS EXPORTING COUNTRIES FORUM BORN AMID CARTEL FEAR

By Sarah Moore

Of DOW JONES NEWSWIRES

LONDON (Dow Jones)--The Gas Exporting Countries Forum, or GECF, was born Saturday

amid fears the 11 inaugural members were planning the formation of a cartel controlling more than two-thirds of the world's natural gas reserves.

But delegates to GECF offered assurances that its existence isn't a threat to

consumers. They rebuffed inevitable comparisons with the 40 year-old Organization

of Petroleum Exporting Countries, which adjusts oil supply to control prices and

is often at odds with the U.S.

"The cooperation of gas exporting countries with one another...is by no means

tantamount to the formation of an exclusive power in the energy market," Iran's

Oil Minister and GECF's first President, Bijan Namdar Zangeneh, said. Ministers and high-ranking government delegates from Qatar, Iran, Brunei.

Nigeria, Algeria, Indonesia, Norway, Malaysia, Russia, Turkmenistan and Oman

attended the group's first ministerial level meeting. From January 2002, ministers will meet once a year with a 12-point agenda including upstream and

downstream developments, market and pricing mechanisms, export pipelines and

technology.

If invitations issued Saturday are accepted, the next ministerial meeting will be

in Algeria and the following in Qatar. Consumers and smaller producers will be

welcome at those talks, Zangeneh said. Experts representing the member countries

will gather twice a year. Other gas producers, including the world's largest

oil

producer, Saudi Arabia, may join GECF at a later date, delegates said.

Global demand for natural gas - widely dubbed the fuel of the future - is set to

rise 3.2% a year over the next two decades, Zangeneh predicted. The share that

gas holds of the global energy market will rise to 29% in 2020, from the current

level of 22.7%, he said.

Delegates At Pains To Show How GECF Differs From OPEC

Iran, as host of the meeting, is keen to make clear the GECF isn't involved in

setting prices because it wants World Trade Organization membership.

Far from being a cartel, GECF is a "meeting of minds," said one delegate. "a

brainstorming session," said another, and "a club meeting," said yet another.

Unlike OPEC, it'll have no headquarters, Secretary General, staff or budget, said

Rilwanu Lukman, representing Nigeria and former OPEC Secretary General. "This forum to my mind, is not a cartel or a gang-up of exporters of gas

to exploit the consumer," Lukman said. Rather, the formation of GECF, will help

to

"alleviate U.S. fears of a gas supply crunch in the future," Lukman said. In

speech to delegates, he said the birth of the GECF "couldn't have come at a better time," while the world is focused on the importance of natural gas as an

alternative energy source to oil.

GECF's formation comes just two days after U.S. President George Bush unveiled

his administration's plan to cut dependence on foreign energy imports and boost

sources of alternatives to oil, including natural gas.

The group's formation was spurred by circumstances entirely different from those

that produced OPEC 40 years ago, Qatari Energy Minister Abdulla Bin Hamad Al-Attiyah said. OPEC was "born of a defense stance," he said. Energy markets

have undergone major transformations since then, he said. But he added it would

be useful to be able to draw on OPEC's four decades of experience.

Speaking to delegates, Algeria's Energy Minister Chakib Khelil, who is also OPEC

President, said: "The idea (in establishing GECF) is to defend our interests."

He said producers were unhappy at not being consulted in the process of liberalization of European energy markets and predicted Asia's soon-to-liberalize

markets won't consult producers either.

"It is important to note that this forum comes at an appropriate time because the

world is witnessing a major restructuring of its energy sector due to globalization, liberalization and privatization in the energy sector," he said.

The 11 countries represented at GECF sit on proven gas reserves totaling almost

3,500 trillion cubic feet, out of the world's 5,000 trillion cubic feet, according to the BP Statistical Review.

Russia tops the list with more than 1,700 trillion cubic feet, followed

by Iran

with around 800 trillion cubic feet. The two are the countries away from which

the U.S. is most keen to wrest power in the energy markets.

Delegates in Tehran say they are aware that news of the birth of GECF will cause

jitters among the world's energy policy-makers: "What do you think the Americans

will think about all this then?" one delegate asked reporters late Saturday.

-By Sarah Moore, Dow Jones Newswires, 44 20 7842 9349; sarah.moore@dowjones.com Monday, 21 May 2001 04:24:13

#### LLR

From:

Rao, Geetha

Sent:

Monday, May 21, 2001 8:32 AM

To:

Austin, Kenneth; Squitieri, Ray; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary;

Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve

Subject:

FW: World Oil Market Update (a.m.)

From:

Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]

Sent:

Monday, May 21, 2001 8:34:39 AM

To:

Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail); 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy;

DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; 'acdkirsc@us-state.osis.gov'; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov';

'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Caliendo, Camille; Banaszak, Sara; Tomaszewski, Clifford; DUCCA, ANN; Neilsen,

Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov'

Subject:

World Oil Market Update (a.m.)

Auto forwarded by a Rule

Crude oil extended Friday's gains overnight, edging over \$30 a barrel. NYMEX crude was trading around \$30.05 at 8:00 this morning, up 14 cents from Friday's close. NYMEX crude last closed above \$30 in mid-February. NYMEX gasoline was trading around \$1.08 a gallon, up 1.1 cents. There are a number of stories below addressing various supply concerns that are providing price support in the market: the coming OPEC meeting and the assumption that OPEC will not increase output, a sanctions review at the UN could complicate the rollover in Iraq oil-for-food, Israeli-Palestinian tensions are rising even higher, the U.S. energy plan is seen as providing no near-term relief, and there are continuing concerns over U.S. gasoline supplies. So there are a number of factors at the moment that are supporting price, not too many pushing down, and that will impact market psychology. A positive report on U.S. stocks tomorrow could ease things a bit (and vice versa). The OPEC crude basket stood at \$26.92 on Friday.

- Morning market update from London
- 2. NYMEX crude rose over \$30 overnight
- 3. OPEC president says output increase in June unlikely
- 4. Qatari minister says OPEC increase unlikely
- 5. MEES reports OPEC will assess Q3 demand
- 6. OPEC meeting comes amid U.S. gasoline concerns
- ENERGY MATTERS column: Iraq and \$30 oil complicate OPEC's

#### decision

- 8. VP Cheney U.S. woes not OPEC's fault
- 9. Secretary Abraham downplays embargo possibility
- UN Security Council P5 discussing Iraq sanctions changes
- 11. Iraq's SOMO says export disruption unlikely
- 12. Saddam's second son Qusay emerging as possible heir
- 13. Iran and Iraq plan linking of power grids
- 14. Gas exporting countries' meeting in Iran spurs concern over

# IPE BRENT TRIMS GAINS AFTER EARLY ADVANCE LOOSES MOMENTUM

LONDON, May 21 (Reuters) - IPE Brent crude futures extended Friday's advance in early trade on Monday aided by further strong gains in NYMEX crude and products futures in ACCESS trade.

However, despite talk of tightening physical supply and supportive buying for spot cargoes to take transatlantic, though the arbitrage remains at least a dollar out of the money, traders said the early Brent advance had lacked impetus and price eased early in the main session amid thin trading volume.

By 0922 GMT July Brent was trading six cents up at \$29.45 a barrel having pulled back from a \$29.68 high early in the main session. Around 2,200 lots had been traded on the contract.

The July Brent/NYMEX crude arbitrage improved to around \$1 a barrel as Brent pull back from the highs with NYMEX crude having soared through \$30 on renewed mid-East tension, strong gasoline prices, up nearly a cent and a half in ACCESS trade, and growing sentiment that OPEC was unlikely to increase output when it meets in June.

"While gasoline was clearly the main driving force behind the market on Friday, there is little doubt that the Middle East tension also helped to provide some upside momentum for crude, as did technical buying after the 200 day moving average was broken," Lawrence Eagles at GNI Research said in his daily report.

However he added that it would also fair to say that crude is not simply being dragged up by gasoline.

"The crude market is reasonably tight for June and July, and if the price should stay at these levels there may be some pressure on OPEC to raise production at the next meeting," Eagles said.

So far though, all signals have been for maintaining current production levels. OPEC President Chakib Khelil, who is also Algeria's oil minister, said on Sunday an increase was unlikely with current market fundamentals.

"People are not really for an increase in June," Khelil said.

"OPEC must respond to crude, not petroleum products," Khelil said.
"Increasing crude supplies won't solve the problem...and it may come back to haunt us."

U.S. Vice President Richard Cheney said on Sunday the lack of refinery capacity and not OPEC output levels were the root of U.S. energy problems.

"We think the best way to proceed...is to make sure we address our own problems here at home," Cheney said.

The gasoline strength also firmed heating oil prices and despite a fairly slack spot market in Europe, IPE gas oil futures have been strengthened by thoughts of arbitrage opportunities.

The June gas oil contract was trading \$5 firmer at \$246.50.

The July crack from Brent improve to around \$3.25 from just over \$3 late Friday.

((Colin Wooster, London newsroom, +44 20 7542 7456, fax +44 20 7542 4453, email london.energy.desk@reuters.com))

Monday, 21 May 2001 05:28:38

# OIL TOPS \$30 LED BY GASOLINE, OPEC CONCERNS

SINGAPORE, May 21 (Reuters) - Oil prices climbed above \$30 per barrel on Monday as tight gasoline supplies and concerns over OPEC production levels fed buying interest.

Gasoline has led a three-day oil market rally as thin supplies ahead of the summer driving rush spark higher prices.

Adding further support was unrest in the Middle East and doubts the Organisation of Petroleum Exporting Countries (OPEC) will raise crude output when it meets June 5-6.

U.S. light sweet crude stood at \$30.15 per barrel by 0445 GMT, up 24 cents from Friday's New York settlement of \$29.91, when it gained \$1.00 and

reached a three-month high.

OPEC President Chakib Khelil said on Sunday the cartel was unlikely to adjust output at its next meeting given current market fundamentals.

"People are not really for an increase in June," Khelil, Algeria's oil minister, told reporters. "My hunch is we'll agree on letting the (price band) mechanism take its course."

OPEC has an informal agreement whereby output can be raised by 500,000 barrels per day (bpd) if the price of the cartel's basket of seven crudes trades above the \$22-\$28 per barrel range for more than 20 consecutive days.

The oil cartel cut output by 2.5 million bpd earlier this year in a bid

to defend its preferred target price of \$25 a barrel.

"OPEC must respond to crude, not petroleum products," Khelil said. "Increasing crude supplies won't solve the problem...and it may come back to haunt us."

Qatari Energy Minister Abdullah bin Hamad al-Attiyah and Iranian Oil Minister Bijan Zanganeh voiced similar opinions over the weekend.

U.S. Vice President Richard Cheney said on Sunday that the lack of U.S. refinery capacity and not OPEC production levels are at the root of America's energy problems, which have pushed retail gasoline prices to record highs.

"We think the best way to proceed...is to make sure we address our own problems here at home," Cheney said on NBC's "Meet the Press" television

Although U.S. refiners are running at 93.5 percent of capacity according to the last American Petroleum Institute (API) data, outages and maintenance shutdowns have slowed the build of gasoline stocks.

#### LEAD BY GASOLINE

Gasoline was leading the oil markets on tight supplies ahead of peak demand driving season starting later this month.

Gasoline futures stood at \$1.084 per gallon, a gain of 1.5 cents over Friday's New York settlement of \$1.069 when they gained 4.78 cents.

While gasoline stocks have risen to nearly two million barrels over last year's slim levels, demand is also expected to be higher. Travel industry surveys last week showed that more Americans plan to drive to vacation this year than last.

U.S. retail gasoline prices hit a record high of \$1.713 a gallon earlier

this month, up 22 cents from a year ago.

Growing tensions in the Middle East, a region of heavy oil production, are also helping to support prices on fears that the fighting could disrupt oil flow.

U.S and British planes reportedly bombed areas in southern Iraq, and Israeli warplanes have attacked targets on the West Bank in recent days. ((Cameron Dueck, Asia Energy Desk +65 870 3093, fax +65 870 3015, cameron.dueck@reuters.com)) Monday, 21 May 2001 01:05:30

### OPEC PRESIDENT SAYS OUTPUT CHANGE UNLIKELY AT JUNE MEETING

TEHRAN, May 20 (Reuters) - OPEC President Chakib Khelil repeated on Sunday that the oil cartel was unlikely to adjust output at its June 5-6 meeting in Vienna given current market fundamentals.

"People are not really for an increase in June," Khelil, Algeria's oil minister, told reporters. "My hunch is we'll agree on letting the (price band) mechanism take its course."

The oil cartel has an informal agreement whereby output can be increased by 500,000 barrels per day (bpd) if oil prices stray for more than 20 consecutive trading days above the upper limit of the cartel's \$22-\$28 barrel target range for a basket of seven crudes.

He hinted that if a sustained period of high oil prices triggered the mechanism, OPEC could inject more than 500,000 bpd if market conditions warranted.

Khelil, Algeria's oil minister, was in Tehran for the Gas Exporting

Countries' Forum with OPEC colleagues from Nigeria, Qatar and Iran.

Consumer groups have been calling for OPEC to increase output to stop oil prices from rocketing and further damaging economic growth and to build up stocks ahead of winter.

But for now the world is not short of crude oil, Khelil said. Instead, a jittery market is prone to price spikes caused by speculative plays, knee-jerk reactions to Iraq and the Middle East and U.S. refining constraints which have tightened stockpiles of gasoline.

"OPEC must respond to crude, not petroleum products," the Algerian oil minister said. "Increasing crude supplies won't solve the problem...and it may come back to haunt us."

Kholilo view was asheed by

Khelil's view was echoed by Qatari Oil Minister Abdullah bin Hamad Al-Attiyah.

"As things stand today, I don't think OPEC will take a decision to cut or increase production, but we will wait until June," the Qatari oil minister said.

Attiyah repeated that an OPEC basket price of \$25 a barrel was best for producers and consumers. "We're against high prices," he said.

The ministers downplayed the impact of Iraq on the group's upcoming meeting. Some oil traders fear Iraq may stop exports of more than two million bpd out of protest over so-called smart sanctions proposed by the United States and Britain.

The current phase of the Iraq/United Nations oil-for-food deal will expire just days ahead of the OPEC meeting. Iraq has often disrupted oil sales between phases to make a political point.

Rilwanu Lukman, Nigeria's presidential advisor, said OPEC was taking a long-term view of the market and shrugged off Friday's run-up on oil prices.

"We will look long term, not at temporary aberrations," he said. Lukman said it was too early to predict what course of action OPEC would take at its June session.

Iranian Oil Minister Bijan Zanganeh had the same view.

"It is too early to say what OPEC would do at the June meeting," Zanganeh told Reuters. "We certainly do not need in this situation to reduce our production."

The Iranian minister said an increase in oil prices on Friday was not created by OPEC action.

He said that many things outside OPEC's control were affecting the market, including price speculation, various U.S. refining issues and other political issues.

"We can play only supply. We have no other tools," Zanganeh said. "We

cannot do anything in OPEC for something not in our control."

OPEC has cut production by a total 2.5 million barrels per day (bpd) this year in a bid to keep prices firm during the seasonally weak second quarter. ((Peg Mackey, Tehran newsroom, + 00 989 11 203 8917 peg.mackey@reuters.com))
Sunday, 20 May 2001 12:01:56

### OPEC UNLIKELY TO ALTER OUTPUT AT JUNE MEETING - QATAR

TEHRAN, May 20 (Reuters) - Qatari Energy Minister Abdullah bin Hamad al-Attiyah said on Sunday he believed OPEC would not adjust output at its June meeting, saying the global oil cartel was determined to keep the market stable.

"As things stand today, I don't think OPEC will take a decision to cut or increase production, but we will wait until June," Attiyah told reporters at the two-day Gas Exporting Countries' Forum which ends in Tehran on Sunday.

"We want to avoid shocks, its important that OPEC does not limit supply. We will never create a shortage. If we see there is demand, we will meet this demand," he said.

OPEC, which has cut production by a total 2.5 million barrels per day (bpd) this year, is due to meet on June 5-6 in Vienna.

Attiyah repeated that an OPEC basket price of \$25 a barrel was best for producers and consumers. "We're against high prices," he said.

Qatar, which sits on the world's third largest natural gas reserves after Russia and Iran, is seeking to boost its gas exports to the Gulf after investing billions of dollars to tap its vast resources.

Attiyah said Qatar was making progress on gas projects in Kuwait and Bahrain. He said the volumes involved in the potential Kuwait deal were around one billion cubic feet per day (cfd) but volumes for Bahrain had yet to be decided.

Qatar is also seeking to sell gas to the United Arab Emirates and in March signed a "commercial term sheet agreement" with Dolphin Energy Ltd (DEL), which is majority owned by the UAE's Offset Group.

The deal would allow DEL to develop a tract of Qatar's giant North Field and produce up to two billion cfd of gas. The gas is targeted to reach the UAE capital Abu Dhabi as early as 2004.

France's TotalFinalElf <TOTF.PA> and Enron <ENE.N> hold the remaining 49 percent of DEL.

Attiyah said Qatar hoped to sign a production-sharing agreement with the UAE firm before a September deadline.

He also said that he had received no confirmation from DEL or the Offset Group that Enron, which is undergoing a global restructuring, was pulling out of the project.

Market sources had earlier said that the U.S. firm looked set to bow out of the project.

((Peg Mackey, Tehran newsroom, +989 11 203 8917 peg.mackey@reuters.com))
Sunday, 20 May 2001 02:34:55

# MEES REPORTS OPEC TO STUDY Q3 DEMAND FOR POSSIBLE OUTPUT CHANGES

MANAMA, Bahrain (Dow Jones)--The Organization of Petroleum Exporting Countries isn't expected to take any action on production level before June 5 meeting in Vienna, but OPEC ministers will base the decision on whether to increase production on a number of factors, including inventories, supplies, prices and projections for third quarter crude oil demand, the weekly Middle East Economic Survey reported Monday.

It said that while the stability of oil prices in the past few weeks would affirm OPEC's position in not changing the production level, third quarter demand projections could lead to a very tight market, which might call for a fresh look at the OPEC production agreement.

While OPEC is satisfied with oil prices around \$25.00 a barrel for its basket price, "the likelihood now is for prices to go up rather than down", it said.

OPEC is determined to avoid a repeat of a situation last year when prices soared above \$30/bbl for West Texas Intermediate and Brent crude, the newsletter said.

MEES noted that repeated downward revisions over the last six months in the demand forecasts of the International Energy Agency and Energy Information Administration of the U.S. Department of Energy suggest that OPEC will have a "difficult call to make on June 5."

However, it said most market analysts are expecting a significant boost to demand going from the second quarter to their third quarter despite a continuing global economic slowdown.

According to the IEA, demand in the third quarter is likely to increase from the second quarter by 1.1 million barrels a day, while the EIA forecasts a 1.6 million b/d increase, the newsletter reported.

-By Abdulla Fardan, Dow Jones Newswires; (973) 530758; abdullah.fardan@dowjones.com
-0- 21/05/01 07-50G
Monday, 21 May 2001 03:00:51

# OPEC MEETING HAS EXTRA TWIST: U.S. GASOLINE

By Thaddeus Herrick Staff Reporter of The Wall Street Journal OPEC faces a tough decision when its members meet June 5 for the third time this year: Hold oil production steady or try to respond to a situation that is at least in part beyond their control.

Unusually high gasoline prices in the U.S. - the result of growing demand, tight refining capacity and, of course, current oil prices - have once again made the Organization of Petroleum Exporting Countries the target of consumer and political ire.

Agreeing to increase output could ease that anger in the U.S., though it wouldn't come quickly enough to help the gasoline situation.

"The summer's already lost," says Amy Myers Jaffe, senior energy analyst at Rice University's Baker Institute.

What's more, the price of the U.S. benchmark, West Texas intermediate crude, is just under \$30 a barrel, about where the oil ministers want it. Inventories are about 20 million barrels above year-earlier levels, according to the Energy Department's Energy Information Agency, all but eliminating worries of oil-price spikes.

Gasoline prices, however, have been spiking even before the summer-driving season starts. Nationally, the average retail gasoline price is \$1.71 a gallon, according to the EIA, a 15% jump over this time last year, when oil prices were at about the same level as today. Although gasoline inventories are building, they are still four million barrels behind last year's level.

Sen. Herb Kohl argues that OPEC's actions are a "silent tax that takes hard-earned money away from Americans every time they visit the gas pump." The Wisconsin Democrat and Sen. Mike DeWine, a Republican from Ohio, have introduced legislation for the second consecutive year that would permit the U.S. to "take legal action to combat the illegitimate price-fixing conspiracy of the oil cartel."

Although the Bush administration is divided on whether to push OPEC to increase production, publicly it is taking a hands-off approach. Last week, Vice President Dick Cheney said OPEC isn't causing the high gasoline prices, and warned that "jawboning" the group to bring down oil prices would only lead to volatility, not stable prices.

Rather, low gasoline inventories are largely the result of limited refinery capacity, squeezed even more because so many plants needed maintenance after last year's heavy gasoline and heating-oil runs. Environmental rules that kicked in last year led different states to adopt different standards, resulting in a patchwork of lower-emissions fuels that can't be easily shipped from one part of the country to another. What's more, spiking natural-gas prices have raised the cost of MTBE, the additive used to reduce emissions and raise octane.

Yet OPEC shares some responsibility. The 11-member group, excluding Iraq, agreed twice this year to cut output by 2.5 million barrels a day, checking inventory buildup and keeping prices in the high \$20s instead of closer to \$20 a barrel. But while it made the promises, OPEC members remain about one million barrels above their output target, according to surveys.

OPEC's largest producer and a key U.S. ally, Saudi Arabia, in particular, is concerned about discontent with the cartel. Ali Naimi, the Saudi minister, says OPEC will likely this year restore the 2.5 million barrels a day it has cut since January, and he doesn't rule out a June production increase. But increasingly, OPEC ministers oppose such a move if crude-oil prices and inventories hold.

OPEC members are likely to respond to political pressure in their own countries before responding to pressure from the U.S. The oil-price collapse of 1998 and 1999 hit OPEC countries so hard that most of the OPEC economies are only now emerging from the rubble. Even Saudi Arabia faces a domestic debt of about \$100 billion.

Mr. Naimi says OPEC needs to boost output in coming months to help build inventories as seasonal demand rises in the latter half of the year. If prices climb, Saudi Arabia could act unilaterally to increase output this summer, as it did last year, when prices were well above \$30 a barrel. But even if supply rises, says Ms. Jaffe, U.S. refineries don't have the near-term capacity to turn extra crude into gasoline.

Instead, she says, the spread in price between gasoline and crude oil could widen, with the profits going to integrated oil companies and refinery operators, not to OPEC.

Sunday, 20 May 2001 23:01:48

ENERGY MATTERS SPECIAL: IRAQ, \$30 OIL UPSET OPEC PLAN

By David Bird

A Dow Jones Newswires Column

NEW YORK (Dow Jones)--A funny thing happened on the way to the OPEC meeting...

Just when all signs were pointing to a quick and easy meeting, new worries over

Iraq have pushed U.S. crude prices above \$30 a barrel, setting the stage for

tough talks next month.

Ministers had hoped to leave Vienna after their June 5 and 6 extraordinary

meeting with output quotas unchanged and fingers crossed that prices wouldn't

jump outside their designated price band.

Talks were expected to focus on what intermediate steps the group should take

before their scheduled Sept. 25 gathering, if priced climbed outside the \$22-\$28

target range.

But heightened concerns that the rollover of the next phase of U.N. oil-for-food,

set to begin June 4, may not go smoothly have already forced prices up.

U.S. benchmark crude is priced at its highest level since February, and over \$30

for key summer months is at the red-alert level for both the Bush administration

and the world's biggest oil exporter and OPEC heavyweight, Saudi Arabia.

So far there's just speculation on the issue, but Iraq has denounced the atest

U.S. and British move to loosen some sanctions and get weapons inspectors back

into the country for the first time in more than two years.

Iraq has a history of disrupting oil exports in a continuing effort to try to

break down the U.N. sanctions which have been in place since its August 1990

invasion of Kuwait. Iraq has only in recent weeks restored its exports to an

average of around 2.1 million barrels a day, after effectively shutting down

exports in late November in a dispute with its customers and the U.N. over its

attempt to impose an illegal surcharge on oil sales.

Summer NYMEX Crude Over Key \$30 Level

Adding fuel to new concerns that a major diplomatic row - and a halt in exports -

could again be brewing was news that U.S. and British jets on Friday bombed an

Iraqi air defense installation - the first attack since April 19 - in response to

"threatening actions" from Iraqi forces.

Nymex crude oil futures prices, already challenging \$30, surged beyond that

level, with July and August contracts settling up more than \$1 at \$30.34.

With the market firmly in contango, the gains can't be dismissed as position

adjustment ahead of Tuesday's expiration of June futures, which settled up \$1 at

\$29.91.

Sources with Iraqi oil supply contracts say they have been advised by raq's

State Oil Marketing Organization, prior to the latest political troubles, that

everything was moving ahead for a smooth transition into the next phase of the

U.N. oil sale plan, without any disruption in exports expected.

"As far as SOMO goes, everything is going smoothly, but you never know what the

political element will be," says a source at an Iraqi oil customer. "Iraq

never minded stopping the shipments for a while to try to prove a point in their

strategy to unravel the sanctions."

The price spike (embarassingly coming a day after the Bush administration was

widely criticized for having no short-term price initiatives in its new energy

policy and for coddling OPEC) puts crude prices back at their highest levels

since mid-February.

As Energy Matters reported in February, the U.S. and Saudi Arabia have an

understanding that neither wants to see the U.S. crude price above \$30, a position that was reinforced during Oil Minister Ali Naimi's recent Washington

visit with Vice President Dick Cheney and other key Bush administration officials. Cheney has softened the U.S. view toward OPEC in recent days, saying

that jawboning the group for higher output results only in "momentary joy" over

lower prices, which eventually spring back hard.

The Saudis have been the steady hand in OPEC - with U.S. assent - keeping the

average price of its basket of crudes at around the \$25 midpoint of its target

range since late March, when OPEC moved to implement the second stage of a 9% cut

in output quotas, removing 2.5 million barrels of oil from the market, to hold

prices steady.

### \$27 Basket Price Will Get OPEC Thinking

But the basket price climbed above \$26 in the past two days, and with Friday's

gain, is likely to jump to \$27 - the highest price since February. Generally, the

OPEC basket trades at about \$2.50 below the price of U.S. benchmark West Texas

Intermediate crude, because of quality differences.

As reported here, \$27 is the level were the Saudis and others in OPEC get worried

and start to think about boosting output to tamp down prices, regardless of the

group's price-band mechanism.

Under that mechanism, if the basket price moves above \$28 for 20 consecutive

market days, OPEC would implement an increase in quotas of 500,000 b/d shared on

a pro-rata basis. If the price drops below \$22 for 10 straight days, a cut of

500,000 b/d would be implemented on a similar basis. OPEC in March acted to decrease quotas when the price was \$23, confirming our understanding that the

action range within the band is really between \$23 and \$27 a barrel.

The Saudis have left no doubt that they will step in to supply any oil lost due

to political or physical supply disruptions, but they would likely face difficulty getting OPEC approval for a June increase in quotas based solely on

prices moving up toward the upper end of the band.

The Saudis, in typical fashion, haven't yet made known their position for the

June meeting. But Naimi says OPEC is mindful that demand will rise later in the

year and says OPEC could restore the 2.5 million b/d in output quota cuts by year

end, if market conditions allow.

Just about everyone else in OPEC says they don't want an increase in quotas in

June, but the comments came prior to the latest price jump.

Still, there are ample reasons why the Saudis may not be in a hurry to push for a

rise now, without a genuine sustained surge in prices or a real disruption in

supply.

Among them are concerns that world demand outside the U.S. isn't growing

strongly, U.S. crude oil stocks are rising sharply and improved political ties

with Iran, whose president is up for re-election on June 8.

Some in OPEC had already feared that a decision to leave quotas unchanged could

force up prices even before ministers arrived home from Vienna.

"It's going to be more difficult now to see how this plays out," says an OPEC source.

"There is no such thing as a dull OPEC meeting."

-By David Bird, Dow Jones Newswires; 201-938-4423;

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(David Bird is senior energy correspondent for Dow Jones Newswires.) Friday, 18 May 2001 17:37:33

ANSWER FOR U.S. ENERGY WOES AT HOME, NOT OPEC - CHENEY

By Barbara Hagenbaugh

WASHINGTON, May 20 (Reuters) - Pressuring oil-producing nations to expand output is not the answer to America's energy problems that instead must be resolved by increasing domestic output, U.S. Vice President Richard Cheney said on Sunday.

Speaking three days after President George W. Bush unveiled a plan to expand U.S. energy output, Cheney rebuffed suggestions that the administration should also pressure OPEC countries to increase their oil output to address an immediate problem of high gasoline prices.

"We have talked to OPEC, we do it quietly," Cheney said on NBC's "Meet the Press" television program. "We think the best way to proceed...is to make sure we address our own problems here at home."

Bush himself said during his presidential campaign that the United States should "jawbone" OPEC members to lower oil prices. But Cheney argued that foreign oil output was not the problem. Instead, at issue is the lack of

U.S. refinery capacity as well as a disparity in the makeup of gasoline sold at the pump across the country.

Cheney said the administration was in touch with OPEC officials and noted he had met with Saudi Arabian oil minister Ali al-Naimi in Washington less than two weeks ago. Saudi Arabia is the world's biggest oil producer.

Cheney's comments came a little more than two weeks before OPEC next meets. OPEC President Chakib Khelil said on Sunday the oil cartel was unlikely to adjust output at its June 5-6 meeting in Vienna given current market fundamentals.

OPEC has cut production by a total 2.5 million barrels per day (bpd) this year in a bid to keep prices firm during the seasonally weak second quarter.

At the same time, U.S. gasoline supplies have declined, leading to sharp increases in prices paid at the pump. U.S. gasoline prices hit a record high \$1.713 a gallon earlier this month, up 22 cents from a year ago.

That spike in gas costs has led some lawmakers to call for more U.S.

pressure on OPEC nations.

"They regularly fix prices, they control supply and demand," Sen. John Breaux, a Democrat from Louisiana, said on Fox News Sunday. "If they did that in this country, they'd go to the penitentiary."

#### ARCTIC REFUGE FUTURE UNCLEAR

Under the backdrop of soaring energy prices as well as very visible electricity shortages in blackout-hit California, Bush unveiled a two-pronged energy plan last week to expand U.S. coal, oil and nuclear power production while at the same time offering conservation incentives.

Administration officials made the rounds on the Sunday talk shows to back the proposals and counter vocal opposition from environmentalists, Californians, Democrats and others who argue the plan threatens the environment and does not do enough to address immediate problems in California and across the nation.

"It's pretty logical that countries are going to...do things in their best interest, that's what the OPEC countries are doing," Energy Secretary Spencer Abraham said on Fox News Sunday. "It's about time America did that, developing more supply here in the United States."

One proposal that drew perhaps the biggest criticism was the White House recommendation that the Arctic National Wildlife Refuge be opened to drilling.

Environmental Protection Agency administrator Christine Todd Whitman said on ABC's "This Week" that a vote in Congress on the ANWR proposal would be "a close one" while Breaux said the measure had little chance of passing.

"It's an uphill battle right now," Breaux said. "If you had to vote today or tomorrow, it would not pass. But I think as the crisis becomes more severe and as people learn more about what you can do and what you can't do, I think it has a chance of passing this year, but only a chance."

Whitman argued that modern technology will allow for drilling in the Arctic refuge without harming the environment.

"You go over the frozen tundra, remove everything as everything starts to melt, and you don't leave behind the kind of footprint we've had in the past," she said.

((Washington newsroom, 202-898-8370, fax 202-898-8383, washington.economic.newsroom@reuters.com)) Sunday, 20 May 2001 14:15:52

### U.S. ENERGY SECRETARY DOES NOT EXPECT OIL EMBARGO

WASHINGTON, May 20 (Reuters) - U.S. Energy Secretary Spencer Abraham said on Sunday he did not believe there would be another oil embargo because of the current tensions in the Middle East.

Appearing on the "Fox News Sunday" program, Abraham said: "The OPEC countries, Saudi Arabia in particular, have always said that they aren't going to use oil as a bargaining chip. I take ... their word on that."

At the same time, defending Bush's controversial energy plan that called for expanding U.S. coal, oil and nuclear power production, including in

Alaska's pristine Arctic National Wildlife Refuge, Abraham said: "But I think nevertheless, the instability of foreign sources justifies increasing domestic production. That's why ANWR makes sense and more supply development at home makes sense."

The energy secretary, a former U.S. senator, restated that the United States was "not going to beg for oil."

"What we are going to do is diversify supplies here at home. It's pretty logical that countries are going to ... do things in their best interest, that's what the OPEC countries are doing. It's about time America did that, developing more supply here in the United States." ((Reuters Americas desk, 202-898-8457)) Sunday, 20 May 2001 09:40:05

# U.N. SECURITY COUNCIL POWERS DISCUSS EASING IRAQ SANCTIONS

By Evelyn Leopold

UNITED NATIONS, May 21 (Reuters) - Key members of the U.N. Security Council discuss on Monday new British-U.S. proposals to liberalize sanctions against Iraq, with Russia and China raising doubts a resolution could be adopted within two weeks.

The afternoon meeting among ambassadors from the United States, Britain, France, Russia and China, the council's permanent members with veto power, is the first joint session on the new measures, although experts from the five have spoken informally in various capitals.

The aim to get a vote in the 15-member council by May 31, before the next six-month phase of the U.N.-Iraq humanitarian oil-for-food program begins on June 4.

In an effort to counter critical world opinion of the decade-old sanctions, Britain, working with American officials, last week announced proposals to drop embargoes on all non-military imports to Iraq, from bicycles to whiskey.

Military supplies will still be banned outright, and "dual-use" items will require specific authorization from the council's sanctions committee. The United Nations would still control the bulk of Iraq's oil revenue through an existing escrow account that handles payments for imported goods.

But the proposals, designed to make the Baghdad government responsible for hardships of ordinary Iraqis, will not include any tough monitoring of borders, as the United States wants, because such plans have not gelled yet, council sources said.

However, they said a British-drafted resolution, expected to emerge on Tuesday, is expected to refer to "closer cooperation" with Iraq's neighbors without giving specifics.

U.S. officials have stayed in the background in revealing details of the draft resolution, with Britain doing most of the briefings, despite a U.S. memo distributed last week outlining American policy ideas, some of which will not be in the draft.

#### "DUAL-USE" LIST WILL BE FOCUS OF DISPUTE

The British plan expands the so-called fast-track for civilian goods that can go to Iraq without approval from the council's sanctions committee. At the same time a list of items that can be used for military and civilian purposes has been drafted by the United States and Britain.

Despite the seeming concessions to Iraq, Russia and China say there is too little time to adopt a resolution by May 31 and to dissect and agree on the list.

"I am very suspicious that this will not be possible," Russian diplomat Gennady Gatilov told Reuters.

And Moscow's foreign minister, Igor Ivanov, at a news conference with U.S. Secretary of State Colin Powell in Washington on Friday had few encouraging words. "Our U.S. partners put forth their vision, their approach to this issue. We have also our own proposals," he said.

Russia and China, along with France, have been advocating a suspension of the sanctions, imposed when Iraq invaded Kuwaiti in August 1990.

To get the embargoes suspended or lifted, Iraq has to cooperate with U.N. arms inspectors to make sure it no longer has programs for weapons of mass destruction. Baghdad has refused to allow the inspectors to return since the December 1998 bombing raids by the United States and Britain.

The new plan would not require Iraq to let arms inspections resume before

sanctions on consumer goods could be lifted.

Iraq has never liked the oil-for-food accord, which allows it to sell unlimited amounts of oil, with proceeds put in a U.N. escrow account to pay suppliers of goods Baghdad orders.

It believes any tinkering with the plan would only nail down sanctions for years to come, especially if the five powers took a unified position,

which they have not done for years.

"Iraq's main goal is getting control of the oil revenue," said Raad Alkadiri, analyst with Washington-based Petroleum Finance Co. said.

"This will look like a further institutionalization of sanctions rather than a loosening of sanctions," he said.

Monday, 21 May 2001 03:00:45

### IRAQ'S SOMO SUGGESTS EXPORT DISRUPTIONS UNLIKELY

LONDON (Dow Jones)--Iraq's State Oil Marketing Organization has told lifters that exports will be extended under the ninth phase until the end of June, subject to U.N. approval, trade sources said Monday.

Mediterranean crude oil traders said Iraq's willingness to extend their contracts can be taken as a sign that Baghdad isn't planning to stop June oil exports, and dispels earlier fears of disruptions to supply.

It isn't the first time that there have been concerns over Iraq's supply

as the end of a phase approaches.

There are always rumors of possible disruptions whenever we get close to a renewal of the phase, but this time Iraq has sent out notification that they are extending their contracts with lifters until the end of June," said a trader with a European refinery.

The trader said he had seen one of the sales contracts to the lifters,

which extends the phase until June 30.

High gasoline prices in the U.S. make it a politically sensitive time for President George Bush's administration to push for tougher sanctions against Iraq, said a trader with a U.S. oil company.

"We're hearing that neither side is ready for a big fight, and it would serve everyone to delay the process at least until gasoline prices have

settled down," said the trader.

Monday, the U.N. and Iraq begin discussions on the 10th phase of the oil-for-food program. The U.K. has called for tighter restrictions on imports of dual-use goods that could be used for weapons production, while easing restrictions on the import of goods solely for civilian use.

Initially, there were concerns that Iraq would try to disrupt oil supply

as a protest to the U.K.'s new proposal.

Late last year, Iraq disrupted oil exports in a continuing effort to try to break down U.N. sanctions, which have been in place since 1990.

Iraq has only recently restored its exports to around 2.1 million barrels a day, after ceasing exports in late November for about six weeks after a spat with its customers and the U.N. over a surcharge on each barrel of oil lifted.

Meanwhile, oil exports at Turkey's Ceyhan oil terminal, Iraq's export outlet on the Mediterranean, were proceeding as normal, with two tankers loading Monday and a heavy loading schedule seen continuing until May 30.

Industry sources said Ceyhan has no indication yet about Iraq's intentions.

"There are market rumors that a few loading nominations were already issued for June," a source said. "However, we can't verify that. Even if there's any interruption, the current feeling is that it will only be for a few days."

-By Selina Williams, Dow Jones Newswires; 44 (0)20 7842 9262; selina.williams@dowjones.com

### ANALYSIS - SADDAM'S SON QUSAY EMERGES AS POSSIBLE HEIR

By Nadim Ladki

BAGHDAD, May 20 (Reuters) - The rise of the youngest son of Iraqi President Saddam Hussein to senior official posts has strengthened speculation that he is being groomed to succeed his father, diplomatic sources said on Sunday.

Qusay Saddam Hussein, who leads elite army and security units, was elected to the leadership of the ruling Baath Party on Thursday, his first official party post.

On Saturday Saddam named 34-year-old Qusay as one of two deputy commanders of the Baath's influential military branch.

"These moves indicate quite clearly that Qusay is being prepared," one source said. "His appointments appear designed to give him the experience and exposure needed for him to succeed his father."

Reports in Western and Arab media have for years speculated that one of Saddam's two sons would emerge as his heir apparent.

His eldest son Uday had been identified as the likely choice until he was badly wounded in an assassination attempt in 1996.

As Uday was recuperating, Qusay's influence increased as he took command of more sections of the country's elite forces and, according to foreign reports, replaced Uday as favourite for the succession.

#### SIDE-BY-SIDE

The two brothers sat side-by-side at the 12th conference of the Baath Party on Thursday. State television footage and local press pictures showed them smiling and exchanging conversation.

At the conference, only the second since the 1991 Gulf War over Kuwait, Saddam was re-elected unanimously as secretary general and Qusay was voted in as a member of the Regional Command.

Saddam's official deputy and number two, Vice-Chairman of the Revolutionary Command Council Izzat Ibrahim, continued in the post of deputy secretary general of the party.

Vice-President Taha Yassin Ramadan, Deputy Prime Minister Tareq Aziz and Ali Hassan al-Majeed were re-elected as senior members of the leadership.

The party elected a woman, Huda Saleh Mehdi Ammash, to its leadership for the first time.

Saddam on Saturday named Qusay and Lateef Jassem as his deputies in charge of the military branch of the party. The Iraqi leader also named other members of the newly elected Regional Command to run the various branches of the Baath.

Qusay had been heading the republican guards and a security service called the "special guards".

### INFLUENTIAL BROTHERS

Qusay, born in 1966, has traditionally kept a lower profile than the more flamboyant Uday, who retains influence through ownership of media outlets, among other roles.

Qusay rarely appeared in the local press or on television and he stayed away from public meetings or talks covered by the press. Uday, on the other hand, makes public appearances and holds well-publicised meetings with visiting dignitaries.

In 1999 a pan-Arab newspaper, Asharq al-Awsat, reported that Saddam granted Qusay wide powers so that he could take on the duties of the president in case of an emergency. A newspaper run by Uday ridiculed the report.

Uday supervises a number of newspapers as well as television and radio stations. He is also head of Iraq's Olympic committee and journalists'

Uday was elected to parliament last year. He portrayed his entry into the 250-member assembly as an introduction of new blood into Iraqi politics and

a move to usher in a new generation of politicians untainted with corruption and failings of the past.

Earlier this year he called for greater progress towards multi-party democracy in the country ruled by Saddam since 1979. Monday, 21 May 2001 04:55:09

#### IRAN, IRAQ TO LINK POWER GRIDS - IRNA

TEHRAN, May 19 (Reuters) - Iran and Iraq have reached a preliminary agreement to set up a power transmission line between the two countries, the official Iranian news agency IRNA reported on Saturday.

"The expansion of Iran's electricity network to the neighbouring countries has been on our agenda in the past years," Masoud Hojjat, deputy head of state power company Tavanir, told IRNA after returning from a visit to Iraq.

He said the plan needed further approval on both sides.

Iran said in February it was exporting 45 megawatts (MW) of electricity to Azerbaijan, 40 MW to Turkey and 150 MW to Armenia.

Hojjat said Iran had a surplus of 1,000 MW of electricity for exports in the year which ended in March.

Saturday, 19 May 2001 11:00:53

#### GAS EXPORTING COUNTRIES FORUM BORN AMID CARTEL FEAR

By Sarah Moore

Of DOW JONES NEWSWIRES

LONDON (Dow Jones)--The Gas Exporting Countries Forum, or GECF, was born Saturday

amid fears the 11 inaugural members were planning the formation of a cartel controlling more than two-thirds of the world's natural gas reserves.

But delegates to GECF offered assurances that its existence isn't a

consumers. They rebuffed inevitable comparisons with the 40 year-old Organization

of Petroleum Exporting Countries, which adjusts oil supply to control prices and

is often at odds with the U.S.

"The cooperation of gas exporting countries with one another...is by no means

tantamount to the formation of an exclusive power in the energy market," Iran's

Oil Minister and GECF's first President, Bijan Namdar Zangeneh, said.

Ministers and high-ranking government delegates from Qatar, Iran, Brunei,

Nigeria, Algeria, Indonesia, Norway, Malaysia, Russia, Turkmenistan and Oman

attended the group's first ministerial level meeting. From January 2002, ministers will meet once a year with a 12-point agenda including upstream and

downstream developments, market and pricing mechanisms, export pipelines and

technology.

If invitations issued Saturday are accepted, the next ministerial meeting will be

in Algeria and the following in Qatar. Consumers and smaller producers will

welcome at those talks, Zangeneh said. Experts representing the member countries

will gather twice a year. Other gas producers, including the world's largest

producer, Saudi Arabia, may join GECF at a later date, delegates said.

Global demand for natural gas - widely dubbed the fuel of the future - is set to

rise 3.2% a year over the next two decades, Zangeneh predicted. The share that gas holds of the global energy market will rise to 29% in 2020, from the current level of 22.7%, he said.

Delegates At Pains To Show How GECF Differs From OPEC

Iran, as host of the meeting, is keen to make clear the GECF isn't involved in

setting prices because it wants World Trade Organization membership.

Far from being a cartel, GECF is a "meeting of minds," said one delegate. "a

brainstorming session," said another, and "a club meeting," said yet another.

Unlike OPEC, it'll have no headquarters, Secretary General, staff or budget, said

Rilwanu Lukman, representing Nigeria and former OPEC Secretary General. "This forum to my mind, is not a cartel or a gang-up of exporters of gas

exploit the consumer," Lukman said. Rather, the formation of GECF, will help to

"alleviate U.S. fears of a gas supply crunch in the future," Lukman said. In

speech to delegates, he said the birth of the GECF "couldn't have come at a better time," while the world is focused on the importance of natural gas as an

alternative energy source to oil.

GECF's formation comes just two days after U.S. President George Bush

his administration's plan to cut dependence on foreign energy imports and boost

sources of alternatives to oil, including natural gas.

The group's formation was spurred by circumstances entirely different from those

that produced OPEC 40 years ago, Qatari Energy Minister Abdulla Bin Hamad Al-Attiyah said. OPEC was "born of a defense stance," he said. Energy markets

have undergone major transformations since then, he said. But he added it would

be useful to be able to draw on OPEC's four decades of experience.

Speaking to delegates, Algeria's Energy Minister Chakib Khelil, who is also OPEC

President, said: "The idea (in establishing GECF) is to defend our interests."

He said producers were unhappy at not being consulted in the process of liberalization of European energy markets and predicted Asia's soon-to-liberalize

markets won't consult producers either.

"It is important to note that this forum comes at an appropriate time because the

world is witnessing a major restructuring of its energy sector due to globalization, liberalization and privatization in the energy sector," he said.

The 11 countries represented at GECF sit on proven gas reserves totaling almost

3,500 trillion cubic feet, out of the world's 5,000 trillion cubic feet, according to the BP Statistical Review.

Russia tops the list with more than 1,700 trillion cubic feet, followed by Iran

with around 800 trillion cubic feet. The two are the countries away from

the U.S. is most keen to wrest power in the energy markets.

Delegates in Tehran say they are aware that news of the birth of GECF will cause jitters among the world's energy policy-makers: "What do you think the Americans will think about all this then?" one delegate asked reporters late Saturday.

-By Sarah Moore, Dow Jones Newswires, 44 20 7842 9349; sarah.moore@dowjones.com Monday, 21 May 2001 04:24:13

#### LLR

From:

Subject:

Rao, Geetha

Sent:

Wednesday, May 16, 2001 8:34 AM

To:

Austin, Kenneth; Squitieri, Ray; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary;

Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve

FW: World Oil Market Update (a.m.)

From:

Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]

Sent:

Wednesday, May 16, 2001 8:31:23 AM

To:

Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS, COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; 'acdkirsc@us-state.osis.gov'; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov'; 'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Caliendo, Camille; Banaszak, Sara; Tomaszewski, Clifford; DUCCA, ANN; Neilsen, Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov'

World Oil Market Update (a.m.) Subject:

Auto forwarded by a Rule

Crude oil was trading around yesterday's closing level this morning despite higher stocks reported in yesterday's API report. NYMEX crude was trading around \$28.97 this morning at 8:00, one cent down from yesterday's close. Last evening's API stocks report had crude oil stocks up last week by 1.97 million barrels, gasoline stocks up by 2.39 million, and distillate down by 2.09 million. API reported refinery utilization last week down by 2.1 %. Indonesia has added its voice (again) to those OPEC members calling for no increase in output when OPEC meets on June 5. A story below reports that the U.S. has approached UN Security Council members on new proposals for Irag sanctions, with the aim to get some of these proposals included under the next phase of the oil-for-food program, which begins June 4 (the day before the OPEC meeting). The first week in June looks to be particularly interesting in the oil market. As yesterday afternoon's Update was sent a bit early. I've included a couple of late afternoon stories in this morning's Update, including the end-day NYMEX analysis.

- 1. Morning market update from London
- 2. End-day Tuesday market analysis from New York
- 3. A fire yesterday at Hovensa's St. Croix refinery
- Indonesia wants OPEC to keep current quota
- 5. IEA seen taking more of a lead in confronting OPEC
- 6. The White House says President is talking to OPEC leaders
- 7. House Democrats talk on OPEC and energy proposals
- 8. Norway says it will keep its output unchanged
- 9. Iraq threatens to stop oil sales to Jordan, Turkey
- U.S. starts talk at UN on new Iraq policy
- 11. Saudi gas project memoranda to be signed June 6
- 12. EIA says gasoline prices should peak by end-May
- 13. Report on yesterday's API data

#### OIL EDGES DOWN ON U.S. STOCKS BUT STILL ABOVE \$28

LONDON, May 16 (Reuters) - Oil prices continued to cruise above \$28 a barrel on Wednesday despite new data showing U.S. fuel stocks rising across the board.

July Brent stood eight cents higher at \$28.55 a barrel and U.S. light crude eased three cents to \$28.95.

Figures from the American Petroleum Institute (API) showing gasoline at a year-on-year surplus for the first time in two months may dampen concerns of a summer supply crunch in the United States when the summer holiday driving season gets under way.

The API reported gasoline stocks rising 2.39 million barrels to just over 203 million barrels in the week to May 11, giving a surplus of 1.93 million barrels years and levels

barrels versus year-ago levels.

But the worry was not entirely over, said analyst Adam Sieminski of Deutsche Banc Alex Brown.

"Even as inventories continue to loosen, oil prices remain high as a result of panic buying for U.S. gasoline," he said.

Gasoline inventories in the United States, the world's biggest consumer, have been running at a deficit since mid-March, falling at one point to 10 million barrels below the same point in 2000.

The closely watched API report recorded a rise in crude stocks by almost two million barrels to nearly 322.50 million barrels, 17.6 million barrels above last year.

Despite gains in overall nationwide gasoline stocks, analysts sounded a note of caution that inventories of anti-smog reformulated gasoline (RFG) rose by just 960,000 barrels and remain more than four million barrels under a year ago.

A shortage of cleaner-burning RFG led to last summer's run up in pump prices to a record at \$1.68 a gallon. Average retail unleaded prices are already running above that at \$1.713 a gallon last week, according to the U.S. Department of Energy.

The DOE forecast on Tuesday that motor fuel prices should peak before the May 26-28 Memorial Day weekend start to the vacation season, then decline in June.

U.S. unleaded gasoline futures, the wholesale price for gasoline, have fallen more than 4.5 cents so far this week to \$1.0090 a gallon, well off the all-time record at \$1.16 set in mid-April.

It generally takes two weeks for wholesale price movements to reach the pumps.

Siemenski said he expected an easier gasoline supply situation to bring oil prices down ahead of an OPEC meeting in June which is expected to leave crude output levels unchanged.

"We expect strong domestic gasoline production and surging imports to ease U.S. gasoline's tightness and bring crude with it, especially if OPEC leaves quotas unchanged at its June 5 meeting," he said.

((Duncan Shiels, London newsroon, +44 20 7542 7630)) Wednesday, 16 May 2001 07:57:29

#### NYMEX OIL ENDS HIGHER, JUNE MOGAS SLIPS, AWAITS API DATA

NEW YORK, May 15 (Reuters) - NYMEX crude oil futures finished higher for the fifth straight session Tuesday ahead of weekly industry data which are forecast to show a draw in crude oil stocks.

Front month June gasoline slipped amid expectations of another stock build, just two weeks before the start of the summer driving season over the Memorial Day weekend holiday, on May 26-28 this year.

June crude settled at \$28.98 a barrel, gaining 27 cents or almost one percent on the day after hitting \$29.07, the highest since March 8. It advanced 79 cents in five sessions.

June gasoline finished at \$1.0036 a gallon, down 0.62 cent after bouncing from its session low of 99.10 cents.

Some traders said the U.S. Fed's decision to cut interest rates by half a percentage point was positive for the market since it could improve demand for oil products as the economy is reinvigorated.

June Brent crude in London last traded in negative territory, at \$28.15 a barrel, down 13 cents -- putting the trans-Atlantic arbitrage at 83 cents, widening from around 40 cents at the NYMEX opening.

NYMEX June heating oil finished at 76.63 cents a gallon, down 1.38 cents, off its session low of 75.10 cents.

The market is awaiting release by the American Petroleum Institute (API) of its weekly inventory data between 4:30-5:00 p.m. EDT (2030-2100 GMT).

In a Reuters poll on Monday, traders and analysts forecast a draw of 2.5 million barrels in crude stocks, saying refineries sucked up more supply in the breakneck pace of gasoline and diesel fuel production.

Those polled forecast another build of 2.2 million barrels in gasoline stocks and a 1.0 million increase in distillate stocks, including diesel fuel and heating oil.

On Monday, gasoline futures slumped to 97.50 cents a gallon, after staying above \$1.00 for more than a month amid concerns over a possible shortages and price spikes during the summer driving season.

Gasoline peaked at an all-time high of \$1.163 on April 30 after a fire at a Midwest refinery.

But the supply situation appears to be improving, with refineries running at more than 95 percent of capacity and with no major glitches in recent days.

Gasoline stocks were nearly 200 million barrels in the May 4 week, with the year-on-year deficit cut down to 842,000 barrels, after a 1.1 million build that week, API data showed.

Despite rising stocks, gasoline prices rose to record levels in the past two weeks, according to the U.S. Energy Information Administration.

Last week, the price of retail gasoline rose 1 percent to a record high of \$1.713 a gallon, up 22 cents from a year ago. It was the second week in a row that a record price was reached after breaking the old record of \$1.68 set last June.

President George W. Bush has blamed the high prices on a lack of enough refining capacity in the United States.

Bush said conservation and increased domestic energy supplies were needed to wean the nation from dependence on foreign oil -- the main feature of his energy policy to be unveiled on Thursday.

Early Tuesday, U.S. Energy Secretary Spencer Abraham said from Paris that OPEC should raise output well before the seasonal upturn "so we don't end up with supply being increased too late."

But Vice President Dick Cheney, the Bush administration's point man on energy policy, said jawboning OPEC to raise output and reduce the price of crude would have market consequences.

Cheney reiterated that record-high U.S. gasoline prices cannot be blamed on the global price of crude, but rather on a shortage of refineries in the U.S. to process oil into gasoline.

OPEC ministers, who will next meet on June 5 in Vienna, have said there is no need to raise output at the meeting, but they might open up the taps later if market demand rose.

The cartel already has cut output by a total of 2.5 million bpd this year to keep prices within a \$22-\$28 a barrel range using a reference basket of seven crudes. The basket price eased further to \$25.88 a barrel on Monday, from \$25.99 Friday, the OPEC news agency said on Tuesday.

((Gene Ramos New York Energy Desk, ++646-223-6054, fax ++646-223-6078)) Tuesday, 15 May 2001 16:08:11

## HOVENSA SAYS ST. CROIX REFINERY FIRE IN PLATFORMER

NEW YORK, May 15 (Reuters) - Hovensa LLC said Tuesday a fire at its 545,000 barrel per day (bpd) refinery in St. Croix in the U.S. Virgin

Islands was located in a platformer unit.

"The unit hit by the fire was a platformer unit," a company spokesman said. "It's one of several platformers at the refinery. It's much smaller than a reformer."

Traders had earlier pointed to the refinery's 120,000 bpd reformer as the troubled unit.

The platformer produces high-octane blendstock for the manufacture of gasoline.

The company could not comment on specific capacity, and added that the fire was under control.

Hovensa LLC is a 50-50 joint venture with Venezuela's state owned oil company, Petroleos de Venezuela (PDVSA) and Amerada Hess <AHC.N>.

--((Soo Youn, New York Energy Desk, 646-223-6057, soo.youn@reuters.com))
Tuesday, 15 May 2001 16:37:22

#### INDONESIA WANTS OPEC TO KEEP CURRENT QUOTA

JAKARTA (Dow Jones)--Indonesian Mines and Energy Minister Purnomo Yusgiantoro said Wednesday that he will propose to the Organization of Petroleum Exporting Countries to maintain its current production level at its next meeting in June.

"Indonesia wants the current quota to be maintained, as oil prices are at the desired level of around \$24 per barrel," he told journalists.

Purnomo said global oil demand will increase during the summer and winter.

Indonesia's is OPEC's only Asian member.

-By Farida Husna, Dow Jones Newswires; 62-21 39831277

Farida.Husna@dowjones.com

-0- 16/05/01 04-28GDow Jones Newswires

Wednesday, 16 May 2001 00:13:34

### ENERGY WATCHDOG IEA TAKING LEAD TO COMBAT OPEC

By Jonathan Leff

PARIS, May 16 (Reuters) - The International Energy Agency (IEA) appears to be shouldering a bigger political burden at its biennial meeting on Wednesday as the new U.S. administration tones down earlier efforts to coax additional oil from OPEC.

Although the United States has taken centre stage at the meeting of ministers this week -- plugging its new energy policy aimed at meeting a 30 percent rise in energy requirements over the next two decades -- it seems to be easing out of the spotlight.

With mending California's power woes, cooling red-hot gasoline prices and boosting its energy independence, Washington has had a full plate.

It now appears to be down to the IEA, formed in 1974 as the Western world's energy watchdog, to tackle the core global issue — the Organisation of the Petroleum Exporting Countries, which controls two-thirds of the world's crude exports.

Despite its usual reticence to address OPEC directly, the IEA in recent months has stepped up its lobbying for increased supplies ahead of the third quarter -- effectively asking OPEC to unravel some of the year's earlier production constraints that totalled 2.5 million barrels per day (bpd).

The Paris-based agency in the past has attempted to exert relatively little influence over the producers' cartel, preferring to let the United States — its largest member and the world's biggest energy consumer — lead the charge.

Unlike its predecessor, whose frequent and public pleading with OPEC contributed to last year's steady production increases, the administration of George W. Bush has favoured a much more restrained approach.

"We happen to think that if you engage in too much public, high-profile discussion it tends to bind parties a bit more tightly," Secretary of Energy Spencer Abraham told Reuters on Tuesday, ahead of the meeting. Administration officials have taken sides with OPEC by saying that the

4

lack of U.S. refining capacity -- not lack of crude supplies -- is behind sky-high gasoline prices.

While Abraham said greater production would allow refiners greater ability to deal with seasonal ebbs and flows in supply, he was careful not to pin any blame.

They're doing what's in their best interest," he said.

#### ALLIES TICKED?

But it remains to be seen whether the rest of the world will have a sympathetic ear for America's woes, particularly as the U.S. about-face on OPEC leaves them with precious few arguments to convince the cartel to open its spigots.

The United States, the world's biggest polluter, is also likely to find itself defending the administration's decision to withdraw from the Kyoto climate change accord aimed at reducing greenhouse gases, which incurred the irritation and anger of much of the world.

Bush said the deal would put too great a burden on America.

With a comprehensive but inward-looking energy policy set to be unveiled later this week, the U.S. is likely to be asked by its energy-consuming allies for assurances that it is not giving up its role as a leading player on the world energy stage.

Abraham was quick to say that is not the case.

"We recognise and hold strongly to the view that energy issues are global by their very nature and there's much to be gained by international collaboration such as the IEA," he told Reuters. "We believe that kind of engagement should be continued and if possible expanded."

Oil prices not far from \$30 a barrel on both sides of the Atlantic, a level that rings alarm bells with oil importing nations, have kept worries of a potential global energy crisis in the making on the burner.

And as OPEC has clearly signalled it does not intend to change output at its own meeting in three weeks, there remains room for more lobbying to be done.

The IEA was established in 1974 under the auspieces of the Organisation for Economic Cooperation and Development after the Arab oil embargo. ((Jonathan Leff, Paris, +44 779 56 8978))

Wednesday, 16 May 2001 05:05:18

## WHITE HOUSE SAYS BUSH IS TALKING TO OPEC LEADERS

WASHINGTON (Dow Jones)--The Bush administration said Tuesday that President George W. Bush is pursuing quiet diplomatic efforts with key players in the Organization of Petroleum-Exporting Countries to make sure crude oil continues to flow.

"There are a series of ongoing discussions with leaders of OPEC, and they will continue to take place. They are quiet, they're diplomatic, and that's the focus of the president's efforts," White House spokesman Ari Fleischer said.

Fleischer also said that these efforts have yielded some results.

"Saudi Arabia has already indicated publicly, several months ago, that they will seek to keep the price of petroleum at \$28 a barrel. And so there have been some indications that OPEC nations and other nations understand that we are an interrelated world when it comes to America's energy use and their decisions they make about production," Fleischer said.

Fleischer made the comments in response to questions about whether Bush was living up to his campaign pledge to make sure that OPEC "opens up the spigot" and lets more oil flow into the market.

Friday, Bush said there was only a limited connection between crude oil prices and high gasoline prices. Bush blamed the spikes higher in gasoline prices on a lack of refining capacity in the U.S.

On a related issue, Fleischer played down the idea that one way to lower gasoline prices in some parts of the country was to offer some waivers for gasoline reformulation requirements.

"Suffice it to say the president is very concerned also about the state

of the environment. And reformulated gasoline is one of many items that serves as an environmental protection as we develop America's energy resources, and the president is mindful of that," Fleischer said.

A study by the Federal Trade Commission into last year's price spikes in the Chicago area blamed reformulation requirements in part for making it difficult to ship gasoline prices into some parts of the country.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex Keto@Dowjones.com

Tuesday, 15 May 2001 15:02:09

## HOUSE DEMOCRATS WANT BUSH TO ASK OPEC FOR MORE OIL

By Tom Doggett

WASHINGTON, May 15 (Reuters) - House Democrats called Tuesday for the Bush administration to pressure OPEC to pump more oil and to be ready to tap the nation's own emergency oil reserves if necessary to ease record high gasoline prices.

With auto fuel costs taking a bigger bite out of family budgets and California facing a summer of electricity blackouts, energy issues have jumped to the top of the agendas of both political parties.

President George W. Bush was scheduled to release a set of wide-ranging energy recommendations on Thursday. The president, a former Texas oilman who draws heavy political and financial support from the industry, was expected to focus on boosting American production of oil, natural gas and coal.

House Democrats, along with their supporters in environmental and consumer groups, prefer more conservation and fuel efficiency measures. They sought to upstage the president on Tuesday by presenting their own list of national energy "principles" two days ahead of the White House's scheduled release of its energy plan.

Standing in front of an Exxon Mobil <XOM.N>gasoline station near Capitol Hill, House Minority Leader Richard Gephardt said the Bush administration has not done enough to give consumers immediate relief this summer from soaring fuel prices and rolling power blackouts.

#### EMERGENCY STOCKPILE NEEDED NOW?

Gephardt, a Missouri Democrat, outlined changes Democrats want in national energy policies, including having Bush announce he is prepared to release crude oil from the Strategic Petroleum Reserve to counter OPEC's attempt to restrict oil supplies.

"President Bush's pronouncement that he will not use the reserve to combat manipulation of energy markets amounts to unilateral disarmament in talks with oil producing countries," the Democrats said in a summary of their plan.

Congress created the emergency stockpile in the mid-1970s after the Arab oil embargo and holds 543 million barrels of crude in underground sites in Texas and Louisiana.

However, Vice President Dick Cheney told Reuters in an interview that soaring fuel prices were not the fault of the Organization of Petroleum Exporting Countries. He blamed record high prices on a lack of refineries to process gasoline, and strict requirements to make cleaner gasoline.

By holding a news conference at a gasoline station owned by the world's largest energy company, Democrats drew attention to the oil industry backgrounds of Bush and Cheney, who headed energy company Haliburton Co. before Bush selected him as his vice-presidential running mate in last year's campaign.

"The President has a highly flawed agenda focused more on the needs of the energy lobby than average consumers and small businesses," Gephardt said.

The White House said it welcomed the Democrats' energy proposals, which it said included some provisions in line with the president's views.

There are "several interesting overlaps," including promoting energy conservation and increasing funds for poor families to pay their energy bills, White House spokesman Ari Fleischer said.

But using the nation's oil stockpile is not one of them.

"If tapping the Strategic Petroleum Reserve worked, we wouldn't be in the mess we're in now," Fleischer said.

### POLITICAL BACKLASH FROM ENERGY?

Recent polls show that nine out of ten Americans believe the United States faces a serious energy crisis.

Republicans in particular are worried energy prices will hurt the party in next year's congressional elections, and have urged the White House to provide some short-term relief.

However, the Bush plan will offer mostly long-term solutions to the country's energy problems, which the president has said cannot be solved overnight.

Like their Democratic colleagues in the Senate, the House lawmakers said they wanted to protect the Arctic National Wildlife Refuge in Alaska from drilling. Bush wants to give energy firms access to the Arctic refuge and other western lands to boost domestic oil and natural gas supplies.

The Democrats said their energy "principles" would not be offered to Congress in a single comprehensive bill.

Instead, the House Democrats said they will seek to pass individual bills that have already been introduced and promote their energy goals. Among the House Democrats' other recommendations:

\* Limit through 2003 the wholesale power prices generating firms can charge in the West to the actual costs of production plus a small profit.

\* Require the Federal Energy Regulatory Commission to order refunds of unjust overcharges for power sales that have already occurred in the California market.

\* Provide a consumer tax credit of up \$4,000 for hybrid fuel vehicles and energy-efficient homes, and for retrofitting homes with energy-savings appliances and equipment.

\* Improve the gasoline mileage of sports utility vehicles, light trucks and minivans.

\* Provide an additional \$200 million in emergency funds to help public schools in the West pay for rising energy costs.

\* Provide a tax credit to keep small wells operating when oil and natural gas prices fall dramatically.

\* Provide a tax credit to promote the development of a new Trans-Alaskan pipeline to bring natural gas on Alaska's North Slope to the continental United States.

((Tom Doggett, Washington Energy Desk, 202-898-8320)) Tuesday, 15 May 2001 17:27:50

### NORWAY SAYS TO KEEP OIL OUTPUT UNCHANGED

PARIS, May 16 (Reuters) - Norway's Oil Minister Olav Akselsen said on Wednesday oil output from the world's top non-OPEC exporter had plateaued and that there were no plans to raise or lower production in concert with OPEC.

"Seen from our perspective there are no plans, there is no way, to do anything with our production. It will be about the same this year as last year," he told journalists at the start of the International Energy Agency's biennial meeting in Paris.

"We have to monitor the situation -- stock levels, production rates -but there are no concrete plans for any changes in Norway."

OPEC meets June 5-6 to decide output policy, but most member states have already signalled their preference to maintain this year's two previous cuts totalling 2.5 million barrels per day (bpd), about nine percent.

"We make our own decisions when it comes to how to react to the market but we think it is important to have stability in the market and try to avoid volatility in oil prices," Akselsen said.

Norway, which in the past has collaborated loosely with OPEC but did not participate in this year's two cutbacks, earlier this month trimmed its estimated oil production this year to 3.1 million bpd from 3.4 million.

"Probably the (production) peak will be in a year or two, now we're at a plateau in our oil production and it will slowly decline from about 2004, but slowly," Akselsen said.

Akselsen spoke on the second day of the IEA meeting, following Tuesday's briefing of ministers by U.S. Secretary of Energy Spencer Abraham, who sketched out the administration's new energy plan focused on diversifying sources and boosting supply.

"It's difficult at this stage to say anything concrete (about the U.S. plan)...but they have work to do to secure their own supply and probably one of the most important issues in the future will be security of supply," he said.

"I hope that those who are very in favour of liberalising markets also think about security of supply."

((Jonathan Leff, Paris, +44 7990 56 8978)) Wednesday, 16 May 2001 04:28:41

# IRAQ THREATENS TO STOP OIL SALES TO JORDAN, TURKEY

By Hassan Hafidh

BAGHDAD, May 16 (Reuters) - Iraq has threatened to halt oil exports to Jordan and Turkey if they cooperate with a new U.S. plan for "smart sanctions" — a tighter arms embargo coupled with relaxed controls on civilian goods imports.

Iraq's Deputy Prime Minister Tareq Aziz was quoted by Iraqi television as saying that Baghdad would have to stop deliveries to the two countries if their oil purchases were brought under the United Nations oil-for-food exchange

Both countries import Iraqi oil outside the terms of the humanitarian deal, an exception to Gulf War sanctions, paying cash directly to Baghdad government instead of through a U.N. escrow account.

Iraq exports oil to Turkey through trucks that cross the border between the two neighbours and via a pipeline that supplies about 40 percent of Iraq's 2.2 million barrels per day of U.N.-monitored oil sales.

Iraq has supplied Jordan with all its crude oil and petroelum products needs since 1990. The oil sales to Jordan are exempted by the U.N. from sanctions.

Iraq delivers to Jordan annually 4.8 million tonnes of crude oil and products, about 95,000 barrels a day worth around \$600 million, under undisclosed concessionary terms, easing the burden of Jordan's deficit ridden budget.

"Half of Iraq's oil exports to Jordan is free of charge...while the rest is sold at discounted prices," Aziz said.

Iraq sells some oil to Turkey under oil-for-food but trucks extra volumes illicitly.

"If revenues of oil sales go to the escrow account, why should we sell oil at discounted prices or give it out free of charge?" Aziz asked.

Aziz made no mention of Syria which also buys Iraqi oil out side the U.N. arrangements. Neither country has admitted the trade.

According to the new U.S. sanctions plan, Iraq's illicit oil exports through Turkey, Syria, Jordan and Iran would be brought under the U.N. system which means depositing revenues of these sales under the U.N. escrow account.

"If our trade with Jordan comes under the oil-for-food deal and under the influence of America, it will become meaningless," Aziz said.

"The same thing applies to Turkey," he added.

The U.S. sanctions plan includes U.N. inspectors for Iraq-bound planes, discounted pricing for Iraqi oil sold to "frontline" states and possibly oil subsidies from Gulf states to Iraq's poorer neighbours. Wednesday, 16 May 2001 04:31:51

## U.S. STARTS TALKS IN U.N. COUNCIL ON NEW IRAQI POLICY

By Evelyn Leopold

UNITED NATIONS, May 16 (Reuters) - The United States has approached U.N. Security Council members on its new Iraqi sanctions policy, aimed at freeing Baghdad's civilian economy but keeping key financial controls in place, diplomats said.

A Washington memorandum given to the other four permanent council members -- Britain, France, Russia and China -- includes many of the proposals disclosed earlier this year by Bush administration officials, which seek to restore fraying international support for banning arms-related materials.

Some of the measures will be incorporated into a British-drafted resolution, expected to be circulated next week to all 15 council members, in time for a new six-month phase of the oil-for-food program, which begins on June 4, diplomats said on Tuesday.

That plan, instituted in late 1996, allows Iraq to sell unlimited amounts of oil, with proceeds put in a U.N. escrow account. The funds are then used to purchase food, medicine and other goods Baghdad has ordered to ease the impact of the sanctions, imposed in August 1990 after Iraq invaded Kuwait.

But the United States has no intention of relinquishing the escrow account, which means Iraqi contracts for supplies probably will still move through the United Nations machinery, albeit at a faster place, the envoys said.

Nevertheless, Washington wants to shift gears and wind down parts of the oil-for-food program so civilian goods go to Iraq without approval by a council sanctions committee except for "dual use" items that also can be used for weapons.

Agreeing on such a list is expected to be a point of contention, the diplomats said. Currently, more than \$3 billion worth of contracts are blocked, most of them by the United States, some because of faulty paperwork, others because of possible dual-use purposes.

The United States and Britain have been at odds for years with France, Russia and China, which want the embargoes suspended. Although the new U.S. positions do not go far enough for nations sympathetic to Iraq, French foreign ministry officials have indicated they liked the approach but needed to see details. Russia is expected to have the toughest stand.

The new U.S. proposals would also forbid foreign investments and loans to lraq, once considered in council resolutions, except those already approved for upgrading Baghdad's oil industry, the diplomats said.

# COOPERATION NEEDED FROM IRAQ'S NEIGHBORS

But council sources said a big question was whether Iraq's neighbors could be persuaded to cooperate. Among the ideas floated by the United States is for countries in the region to police their borders with Iraq and, in return, receive some discounted pricing for Iraqi oil.

Such measures, however, are not expected to be spelled out in the initial draft resolution.

In response, Iraq's deputy prime minister, Tareq Aziz warned on Monday Baghdad would halt oil exports to Jordan and Turkey if they cooperated with U.S. sanctions plans.

"We will close the pipelines, stop the trucks and there will be no trade," he said, according to extracts of his speech broadcast on Iraqi television.

Calling again for a lifting of sanctions against Iraq, Jordan denied it was in collusion with the United States, according to the newspaper al-Arab al-Yawn on Tuesday.

Wasef Azzar, the minister of trade and industry, was quoted as saying there was no "Jordanian-U.S. committee" in charge of enforcing the sanctions and Amman wanted the blockade imposed on Iraq lifted rather than replaced with other embargoes.

The diplomats said that if council members could not agree on a text of a resolution this month, the oil-for-food program would be extended on the same terms while talks continued.

A key requirement in post-Gulf War resolutions for lifting the sanctions is for arms inspections to resume to determine if Iraq still has weapons of mass destruction. Baghdad has rejected inspections since U.S.-British

bombing raids in December 1998. Wednesday, 16 May 2001 01:00:09

## SAUDI GAS PROJECT MOUS EXPECTED TO BE SIGNED JUNE 6

DUBAI (Dow Jones)--Memoranda of understanding between international oil companies and Saudi Arabia on three gas ventures on offer in the kingdom are expected to be signed June 6, industry sources told Dow Jones Newswires Wednesday.

Saudi Arabia's Supreme Petroleum Council met Tuesday and endorsed a final selection of international oil companies for each of the three projects, which have been estimated at a combined investment value of \$25 billion, the sources said.

The companies concerned are expected to be notified any time on whether

they have been selected and given about 10 days to respond.

The 11 companies being considered are Royal Dutch/Shell Group (RD), BP PLC (BP), Exxon Mobil Corp. (XOM), Chevron Corp. (CHV), Total Fina Elf S.A. (TOT), ENI SpA (E), Enron Corp. (ENE) and Occidental Petroleum Corp. (OXY), who are bidding jointly, Marathon Oil Canada Inc. (T.M), Conoco Inc. (COCA) and Phillips Petroleum (P).

Saudi Arabia invited international oil companies in October 1998 to participate in proposals for downstream gas projects and upstream gas

enhancement.

-By Dyala Sabbagh; Dow Jones Newswires; 9714 3314260; dyala.sabbagh@dowjones.com -0- 16/05/01 07-07G Wednesday, 16 May 2001 03:07:46

## U.S. GASOLINE PRICES SHOULD PEAK BY END-MAY

WASHINGTON, May 15 (Reuters) - Record-high U.S. gasoline prices should peak before the Memorial Day start of the summer vacation season, now less than two weeks away, then decline in June, a U.S. Energy Department expert said on Tuesday.

The new price forecast came as the Bush administration prepares to release a set of broad proposals aimed at boosting U.S. production of oil, natural gas and coal. Democrats have criticized the administration for not offering immediate steps to curb soaring gasoline prices.

"We may see prices peaking soon," John Cook, petroleum division director at the department's Energy Information Administration, told a House Energy subcommittee. "We should see prices begin to drop by the first week of June."

Regular-grade unleaded gasoline sold for an average \$1.713 a gallon, up one cent from the record set the previous week, EIA reported on Monday. It was 22 cents higher than a year ago.

The agency has forecast the monthly average price for gasoline to peak at \$1.65-\$1.75 a gallon.

In testimony prepared for the hearing, Cook said U.S. oil refineries were increasing production after the usual spring maintenance period.

"Production has increased almost 650,000 barrels per day since the end of March as refineries ramp up to full capacity," Cook said.

The Wood River, Illinois, refinery, which was damaged by fire in April, should be "fully operational shortly and with no major refinery problems, we may see prices peak sometime this month," Cook said.

"However, we are projecting continued low inventories, which ... keeps us exposed to further volatility, particularly during summer when demand peaks," he added.

((washington.commodsenergy.newsroom@reuters.com)) Tuesday, 15 May 2001 17:24:11

API SHOWS GASOLINE BUILD, ERASING YEARLY DEFICIT

API REPORT FOR WEEK

CHANGE FROM WEEK

CHANGE FROM

WEEK ENDED 5/11/01

ENDED 05/04/01

ENDED 5/12/00

CRUDE......322.47 MLN

**UP 1.97 MLN** 

UP

UP 17.59 MLN

DISTILLATE....102.59 MLN

DOWN 2.09 MLN

4.29 MLN

GASOLINE.....203.27 MLN

UP 2.39 MLN

UP 1.93 MLN

RFG..... 41.07 MLN

0.96 MLN

DOWN 4.11 MLN

UTILIZATION... 93.5 PCT

DOWN 0.3 PCT

DOWN 2.1 PCT

NEW YORK, May 15 (Reuters) - U.S. gasoline stocks rose for a fourth straight week creating a year-on-year gasoline surplus and further dampening summer supply concerns, the American Petroleum Institute (API) on said on Tuesday.

Gasoline stocks gained 2.4 million barrels to 203.3 million barrels in the week ended May 11, the API, an industry group. said in its weekly supply report.

Crude stocks, meanwhile, rose 2 million barrels to 322.5 million barrels, still about 17.6 million barrels above year-ago levels, the API showed.

Gasoline supplies are now almost 2 million barrels more than this time last year buoyed by the highest first-half May gasoline production on record, API statistician Ron Planting

Inventories were further swelled by a 1 million barrel upward revision to last week's figures.

The builds have eased the threat of a severe gasoline shortage this summer, concerns that at one point sent gasoline futures to all-time record highs. Just over a month ago supplies were 11 million barrels below the same time last year.

Despite the swelling supplies, gasoline remains tight. especially of the clean-burning reformulated gasoline (RFG), said Jim Ritterbusch, president of Ritterbusch and Associates.

"You have to remember that we're still 4 million barrels, or 9 percent, below last year's levels for reformulated gasoline." he said.

Nationwide, stocks of reformulated gasoline (RFG) built 960,000 barrels last week, but supplies on the East coast remain some 3.4 million below levels at this time last year.

Gasoline supply headed into storage as implied demand fell to 8.3 million barrels per day (bpd) from the previous week's 8.8 million bpd, Ritterbusch said.

Yet gasoline's futures price was being held up mainly by news of a platformer unit fire at the biggest oil refinery in the Western hemisphere, the Hovensa LLC refinery in St. Croix in the Caribbean, said Tom Bentz of BNP Paribas Commodity Futures.

Hovensa said Tuesday that the fire was under control, but the fact that it's at the St. Croix refinery has traders nervous. Bentz said.

"There is enough nervousness because it's such a large refinery. This market doesn't want to sell," in case the Hovensa problem turns out to be more than first reported. Bentz said.

U.S. distillate stocks dropped 2.1 million barrels to 102.6 million barrels, mainly due to a steep 55 percent fall in imports to 229,000 barrels per day, the API said.

Shortly after the API released its data, crude and gasoline futures fell.

June crude futures were down 17 cents to \$28.81 a barrel and unleaded gasoline futures were up 0.57 cent to \$1.0093 a gallon.

The gasoline price is up from the Tuesday close of the New York Mercantile Exchange but down from an afterhours ACCESS trading high of \$1.0250 per gallon struck on first news of the Hovensa fire.

((Bernie Woodall, New York Energy Desk, +1 646 223-6052; fax +1 646 223-6078))

Wednesday, 16 May 2001 03:46:44

#### LLR

From:

Rao, Geetha

Sent:

Tuesday, May 15, 2001 8:18 AM

To:

Austin, Kenneth; Squitieri, Ray; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary;

Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve

Subject: FW: Wor

FW: World Oil Market Update (a.m.)

From: Sent: Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]

Sent: To: Tuesday, May 15, 2001 8:20:29 AM

Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD,

michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AllEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; 'acdkirsc@us-state.osis.gov'; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov';

'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Caliendo, Camille; Banaszak, Sara; Tomaszewski, Clifford; DUCCA, ANN; Neilsen,

Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov' World Oil Market Update (a.m.)

Subject:

Auto forwarded by a Rule

Crude oil was steady overnight, trading this morning around \$28.75, up 4 cents from yesterday's close. Not much news to move the market this morning, with tonight's API data eagerly awaited. Reuters poll of traders and analysts (which has missed the mark the past couple weeks) suggests that crude stocks will be down, as refineries boosted production of gasoline, which the poll says should be up. The OPEC basket price stood at \$25.88 yesterday. I've added a NYMEX crude oil price chart this morning.

1. Morning market update from London

2. Yesterday's EIA gasoline retail price report showed another

record high for last week

3. Forecast of tonight's API stock data

4. Senator Lott suggests the Administration energy plan will move

quickly

Vice President comments on energy solutions

6. Saudi may not announce winners of their gas opening today

7. Infighting stirs up Kazakh energy sector

8. And a NYMEX crude oil price chart

# OIL PRICES EASE, U.S. GASOLINE STOCKS SEEN UP

LONDON, May 15 (Reuters) - Oil prices were slightly easier on Tuesday ahead of weekly inventory figures for the United States which are expected to show gasoline storage tanks rising ahead of peak demand summer driving season.

Brent blend crude oil was down 11 cents at \$28.17 during morning trading in London.

Prices have climbed \$4 a barrel over the past couple of months, largely on fears of a shortage of U.S. gasoline.

Gasoline prices have been volatile in recent days, recovering late on Monday after early sharp losses.

"Stability is the most likely outcome today," said Lawrence Eagles in a report for GNI Research.

Pump prices hit a record high for the second week in a row, rising to \$1.713 a gallon which is 22 cents above year ago levels, said the U.S. Energy Department on Monday.

With just two weeks to go before the U.S. vacation season kicks off, refiners have been cranking up production to ensure enough supplies of motor fuel

Analysts polled by Reuters predicted the new data from the American Petroleum Institute (API) would show a rise in U.S. gasoline stocks of about 2.2 million barrels, taking inventories to the first year-on-year surplus since mid-March.

The API publishes its closely-monitored fuel stocks report after the close of New York markets each Tuesday.

Expectations of easier supplies knocked down benchmark U.S. unleaded gasoline futures by more than four cents on Monday to below \$1.00.a gallon for the first time in a month.

Gasoline on the New York Mercantile Exchange was trading a slim 0.02 cents up at \$1.01 per gallon in electronic dealings.

#### CRUDE STOCKS FORECAST DOWN

Analysts forecast U.S. crude inventories to decline by 2.5 million barrels as refiners turned up production to 96 percent to build a supply cushion ahead of strong U.S. summer demand.

Last week's API report showed a small gasoline build of just over one million barrels, leaving stocks 840,000 barrels below levels at the same time last year but far above the 10 million deficit recorded at the end of the first quarter.

"Sentiment has changed in gasoline as refineries are hitting near maximum capacity and not breaking as often," said Simon Games-Thomas at Rothschild & Sons in Sydney.

This week's API figures may offer some comfort to American motorists, who are already paying record pump prices even though demand is not due to hit the peak until early July.

The U.S. Department of Energy said on Monday that retail gasoline price set a new record for the second week in a row, climbing one cent a gallon to \$1.713 in the last week.

Average U.S. pump prices now stand 22 cents above year-ago levels and more than three cents over the record set last June at \$1.68.

On Friday, President George W. Bush blamed the high prices on a lack of refining capacity in the U.S. and not on producer group OPEC, affirming a view aired previously by Vice President Dick Cheney, the administration's point man on energy policy.

OPEC ministers have said there is no need to raise production in June but that they might open up the taps later if market demand warranted such a move.

OPEC's policy is to keep oil prices within a \$22-\$28 a barrel range using a reference basket of seven crudes produced by different countries in the cartel.

The basket price fell slightly to \$25.88 on Monday. OPEC ministers next meet June 5-6 in Vienna. Tuesday, 15 May 2001 06:20:28

## U.S. DRIVERS HIT WITH RECORD-HIGH GASOLINE PRICE

By Tom Doggett

WASHINGTON, May 14 (Reuters) - U.S. drivers found no relief at the pump as the national price for gasoline hit a record high for the second week in a row, rising a penny to \$1.713 a gallon, the Energy Department reported on

Monday.

The latest price for conventional unleaded gasoline, based on the Energy Information Administration's weekly survey of 800 service stations nationwide, is up 22 cents from a year ago.

It marked the second consecutive week that a record fuel price was reached after breaking the old record of \$1.68 a gallon set last June.

The department's statistical agency has forecast the national gasoline price could climb as high as \$1.75 a gallon this summer, and there are fears that some parts of the country could see prices as high as \$3 a gallon.

The price for cleaner-burning reformulated gasoline, sold at about a third of the nation's pumps, rose 2.6 cents from last week to a new record high of \$1.831 a gallon.

While gasoline inventories have increased in the last few weeks, below-average fuel supplies and strong consumer demand have pushed up prices at the pump.

The most recent data from EIA shows U.S. gasoline supplies at 200 million barrels, down 8 million barrels from a year ago. One barrels holds 42 gallons.

The agency has warned that a disruption in tight fuel supplies from a pipeline problem or refinery shutdown could could cause price spikes this summer.

Motorists in the Midwest continued to pay the most for gasoline, with prices in the region averaging \$1.813 a gallon, up almost a penny. The Midwest's reformulated gasoline increased 3.6 cents a gallon to \$1.939.

Consumers in the lower Atlantic states paid the least for gasoline, with prices there decreasing half a penny to \$1.565 a gallon. The region's reformulated gasoline jumped a penny to \$1.644.

Separately, the national price for diesel fuel increased 2.1 cents to \$1.491 a gallon, up 7.6 cents from a year ago.

Truckers in the Rocky Mountain states paid the most for diesel fuel at \$1.586 a gallon, up 3 cents from last week, while the lower Atlantic states had the least expensive diesel at \$1.405 a gallon, up half a penny.

((Tom Doggett, Washington Energy Desk, 202-898-8320 fax:

898-8490, e-mail: tom.doggett@reuters.com)

Monday, 14 May 2001 18:42:47

### FORECAST - GASOLINE STOCKS UP AS REFINERS LIFT RUNS

REUTERS FORECAST FOR WEEK ENDED 5/11/01 CRUDE.......DOWN 2.50 MLN DISTILLATE.....UP 1.00 MLN GASOLINE......UP 2.20 MLN UTILIZATION....UP 0.05 PCT PT ACTUAL FOR WEEK ENDED 5/04/01 321.71 MLN DOWN 0.27 MLN 104.68 MLN DOWN 1.04 MLN 199.87 MLN UP 1.12 MLN 95.6 PCT DOWN 0.2 PCT

NEW YORK, May 14 (Reuters) - U.S. refineries continued to produce more gasoline last week in a bid to provide enough supply cushion ahead of the summer driving season that begins in two weeks, oil market traders and analysts said on Monday.

Ahead of weekly inventory data from the American Petroleum Institute (API), traders and analysts forecast in a Reuters poll that refiners bolstered gasoline inventories by 2.2 million barrels in the week ended May 11.

The refiners cranked up runs by another 0.5 percentage points to lift the pace of production to 96.1 percent of capacity, they said.

Crude stocks were drained by 2.5 million barrels as refineries sucked up more supply in the break-neck pace of gasoline and diesel fuel production, they added.

Lower crude oil imports may have caused a greater draw on inventories, they said. The trans-Atlantic arbitrage became unpalatable as the West Texas Intermediate (WTI) premium over Brent crude turned negative last week, discouraging shipping of oil to the U.S. for the time being, they noted.

"But the crude numbers doesn't really matter here...it is gasoline data that matters," said Tim Evans, senior energy market analyst at IFR-Pegasus.

In particular, the market will be looking to see if refineries produced more cleaner-burning reformulated gasoline stocks, which are required in about a third of the nation's pumps, mostly in smog-prone cities.

Evans forecast an increase in RFG stocks by 1-1.5 million barrels, compared with an increase of about 800,000 barrels in the week ended May 4.

"Traders will be looking for signs that RFG production is starting to catch up with needs," said Peter Beutel, president of Cameron Hanover, a Connecticut-based oil consultant.

Despite rising stocks, gasoline prices have risen to record levels in the past two weeks, according to the U.S. Energy Information Administration (EIA).

Last week, the price of retail gasoline rose 1 percent to a new record high of \$1.713 a gallon, up 22 cents form a year ago. It was the second week in a row that a record price was reached after breaking the old record of \$1.68 set last June.

Those polled said they expected demand for gasoline to hew close to the 8.949 million barrels per day logged for the May 4 week. Some bottlenecks from the refineries to the pump could have caused the spike to fresh record prices, one trader said.

Meanwhile, distillates stocks, including heating oil and diesel fuel, were expected to show an increase of 1.0 million barrels in the API data.

Production of diesel fuel is increasing to meet demand for spring agricultural plantings, they added.

((Gene Ramos, New York Energy Desk, +1 646-223-6054)) Monday, 14 May 2001 17:09:34

## BUSH ENERGY PLAN TO MOVE FAST IN SENATE, LOTT SYAS

WASHINGTON, May 14 (Reuters) - White House proposals to overhaul the nation's energy policies and boost U.S. production of oil, gas and coal will move swiftly to the Senate Energy Committee, which will hold hearings on it as early as next week, Senate Majority Leader Trent Lott said on Monday.

Proposals for U.S. energy production, conservation and research measures are expected to be unveiled by President George W. Bush on Thursday.

Lott, a Mississippi Republican, said he hoped to have an energy bill ready for debate by the full Senate by the third week of June.

"I will ask the Senate Energy Committee to begin hearings next week on the president's energy proposal and the situation in the energy area in our country," Lott told reporters on Capitol Hill.

Lott also said a short-term measure might include a temporary cut in the federal gasoline tax. The White House has not embraced the idea of rolling back a portion of the 18.4-cent-a-gallon fuel tax.

"There are lots of arguments against that, but it is one of several things we could consider, depending on how things develop," Lott said.

The funds collected are used to pay for highway maintenance and improvements.

The average U.S. retail price of gasoline has risen to a record \$1.713 per gallon, the Energy Information Administration said on Monday in its weekly report.

Bush's energy proposals will emphasize offering tax incentives and streamlining federal regulations to produce more oil, natural gas, coal, nuclear power and hydroelectric power. The recommendations will also include some conservation measures, but the president last week blamed record-high gasoline prices on the lack of new refineries and said conservation would not lower the prices.

The White House proposals are expected to be incorporated into the Republican energy bill.

#### **LEGISLATION BY JULY 4?**

The head of the Senate Energy panel, Alaska's Republican Sen. Frank Murkowski, earlier this year introduced legislation to open the Arctic National Wildlife Refuge and other Western lands to oil and gas drilling. Democrats and some Republicans in the Senate are expected to block any

attempt to open the refuge for drilling.

Senate Democrats recently offered their own energy bill, which offers some incentives to increase production but emphasizes conservation.

House Democrats on Tuesday will unveil their own energy bill, which will largely mirror the Senate Democrats' version, with a strong emphasis on tax credits to spur energy efficiency by individuals and businesses.

"Hopefully, we will have legislation about ready by the Fourth of July," Lott said. "The timing is going to be interesting because it could be a long, hot summer."

Similar legislation would also have to be passed by the House of Representatives.

Lott said the energy problem was long in coming and virtually ignored during the past eight years by the Clinton administration.

That administration offered legislation concerning the nation's energy supplies, but Republicans blocked it from going forward.

Brushing off Senate Democratic Leader Tom Daschle's call for an investigation of rising energy prices, Lott said: "All the Democrats want to do so far is to try to figure out who to blame. They might want to look in the mirror. It'd be a good start."

### NO ELECTRICITY PRICE CAPS

Lott also echoed the Bush administration's rejection of wholesale electricity price caps for California and its Western neighbors.

Democrats, California state lawmakers and even giant utilities have urged the federal government to impose limits on electricity prices for a few

"You wind up by encouraging more usage by capping the prices, and the supply will not be provided," Lott said.

California, the nation's most populous state, is facing an estimated 30 days of rolling blackouts this summer because of lack of electricity and soaring wholesale prices.

((Julie Vorman, 202 898 8467 email:

commodsenergy.washington.newsroom@reuters.com))

Monday, 14 May 2001 22:18:11

## VICE PRESIDENT - NO SIMPLE, FAST SOLUTION TO U.S. ENERGY PROBLEMS

WASHINGTON (AP)--U.S. Vice President Dick Cheney, pointman for the administration's new energy policy, said Monday there are no easy or quick solutions to rising U.S. energy bills and accused the Clinton administration of doing "stupid things" like tapping the Strategic Petroleum Reserve to cope with shortages.

In unusually blunt terms, he also dismissed Democratic demands for price caps and a federal investigation into alleged price gouging by gasoline companies. "That's exactly the kind of misguided -I'm trying to think how to state this gracefully -politically motivated policies we've had in the past," he said.

Cheney left open the possibility of President George W. Bush backing a reduction of the federal gasoline tax and spoke positively about fuel economy standards for automobiles. But the underlyling theme of his 25-minute interview with the Associated Press was patience: Cheney argued that there is little Bush can do to keep a lid on energy prices this summer.

"These problems did not arise overnight. They're not something that just suddenly dropped out of the sky," Cheney said three days before the release date of his task force's much-awaited energy report.

Cheney also said jawboning OPEC may bring the U.S. the "momentary joy" of lower prices but the market would quickly respond with increases. The remarks are in contrast to Bush, who promised during the campaign to use his presidential influence to tell OPEC, "Open your spigots!"

Cheney's report will offer strategies for increasing U.S. energy supplies through expansion of nuclear power, increased domestic oil drilling and more efficient movement of energy, including electricity, natural gas

and petroleum. Bush, armed with polls showing conservation is popular, also will discuss alternative energy sources when he unveils the report Thursday.

Democrats and environmentalists are accusing Bush and Cheney, both former oilmen, of catering to the energy industry. Even some Republicans, fearing political backlash in the 2002 elections, have demanded the White House act quickly to lower energy prices this summer.

"Just remember that we had a Democratic administration for eight years that didn't touch any of these problems and when they did they did stupid things like releases from the Strategic Petroleum Reserve, which was purely symbolic and had absolutely no impact whatsoever on the overall situation,"

Cheney said.

Former President Bill Clinton, with the backing of then-Vice President Al Gore, opened the reserve to ease gasoline prices during the heat of the presidential campaign. Bush denounced the action.

Excerpts from an Associated Press interview Monday with Vice President Dick Cheney:

ROLLING BACK THE FEDERAL GAS TAX

"I don't know if the president's taken a firm position on this at this point. ... I think over time, if you repeal the gas tax or set it aside, you're still going to get prices going to some level where the market clears. And economists tell us to some extent, when you take the gas tax out of the equation, the price will go back to that market-clearing level but then revenue will flow to the companies instead of the government."

INVESTIGATING PRICE GOUGING BY GAS AND OIL COMPANIES
The Federal Trade Commission has "the authority to go do the
investigation if they want. But it conveys the notion to people that somehow
you can solve the problem without having to address the real issues. That's
exactly the kind of misguided - I'm trying to think how to state this
gracefully - politically motivated policies we've had in the past. ... We're
trying to address the fundamental underlying causes of the problems and not
respond to the political quick fix because we don't think that's what we get
paid to do."

JAWBONING OPEC PRODUCERS TO HELP

"Our experience has been when you get the international price down, it gets down to \$10, there's momentary joy. But it's always, always followed then by a subsequent run-up in prices, because the market responds. What we really need long-term is stability.... So you've got to be careful also about jawboning. We might get some temporary relief for a month or two. But the problem on gasoline taxes today is probably more a function of our own decisions we've made. Lack of refinery capacity, and so forth, and the price of growth."

PERMANENT NUCLEAR WASTE REPOSITORY

"The Yucca Mountain (in Nevada) is the one that's most, that's farthest along and most advanced. ... It's been drawn out for a long time and if we want to promote the use of nuclear energy then clearly we've got to address the waste question and get it resolved."

ENERGY-POLICY CONSULTATIONS WITH CAMPAIGN CONTRIBUTORS "I think it's perfectly, first of all, perfectly legitimate for people to make campaign contributions. It's still a part of our system that is allowed and simply because somebody makes a campaign contribution doesn't

mean that they should be denied the opportunity to express their views to government officials. I just don't buy that argument."

CALIFORNIA ELECTRICITY CRISIS

"The reason California has problems is because of the unwise policies adopted and pursued by the state of California. As Governor Davis has said on many occasions, this is primarily a homegrown problem in California. They caused it themselves."

Monday, 14 May 2001 17:46:33

SAUDI WON'T ANNOUNCE WINNERS OF GAS PROJECTS ON TUESDAY - REPORT

MANAMA, Bahrain (Dow Jones)--Saudi Arabia's supreme petroleum council is expected to hold a meeting Tuesday evening, but it's unlikely to declare its choice of international oil companies to participate in downstream gas projects, Arabic al-Hayat newspaper reported.

The newspaper quoted sources at the government's technical committee overseeing the proposed projects as saying that the committee hasn't

completed its final report concerning the oil companies' offers.

"Studies and recommendations haven't been completed yet and they need some time in order to present the project at its final structure, attached with recommendations from the technical committee," the sources said, according to the newspaper.

However, the oil council "might endorse some balances concerning the

offers," the newspaper said but didn't elaborate further.

Sources in Saudi Arabia have said the oil companies were expected to be notified soon on whether they have been selected to participate in the gas projects.

Saudi Arabia invited international oil companies in October 1998 to participate in proposals for downstream gas projects and upstream gas enhancement.

After a series of meetings between the negotiating committee and the oil companies in the past year, several companies were shortlisted for each project.

The companies shortlisted for Core Venture 1, the \$15 billion South Ghawar Area Development were Royal Dutch/Shell Group (RD), BP PLC (BP), Exxon Mobil Corp. (XOM), Chevron Corp. (CHV), Total Fina Elf S.A. (TOT) and ENI SpA (E).

For Core Venture 2, the Red Sea Development, Enron Corp. (ENE) and Occidental Petroleum Corp. (OXY) are bidding jointly and Exxon Mobil, Total Fina Elf, Marathon Oil Canada Inc. (T.M), Shell and Conoco Inc. (COCA) were shortlisted.

And for Core Venture 3, the Shaybah area, Total Fina Elf, Conoco, Phillips Petroleum (P), Enron and Occidental, Exxon Mobil, Shell and Marathon Oil were shortlisted.

-By Abdulla Fardan, Dow Jones Newswires; 973-530758; abdullah.fardan@dowjones.com Tuesday, 15 May 2001 04:11:59

## ANALYSIS - GOVERNMENT INFIGHTING STIRS UP KAZAKH ENERGY SECTOR

By Sebastian Alison

KARACHAGANAK, Kazakhstan, May 15 (Reuters) - Kazakhstan's Prime Minister, Kasymzhomart Tokayev, is the most urbane of men, a former diplomat and foreign minister, fluent and charming in English, Russian, Chinese and Kazakh.

So when in April he turned on Karachaganak Integrated Organisation (KIO), a consortium developing a huge oil and gas field in northwestern Kazakhstan and hurled accusations at it in highly undiplomatic language, he took a few people by surprise.

KIO, uniting BG plc <BG.L>, ENI <ENI.MI>, Texaco <TX.N> and LUKOIL <LKOH.RTS> is one of the largest foreign investors in the huge former Soviet Central Asian state.

It is now spending over \$3.5 billion on a six-year development programme which started in 1998.

And as an energy group, it is spending its money on precisely the sector which the potentially huge oil producer depends on to drag itself away from its Soviet past and into the league of wealthy countries.

This did not stop Tokayev from weighing in, telling the consortium and its general director, John Morrow, that he was extremely dissatisfied with KIO's perceived failure to employ enough Kazakh labour, goods and services.

"Let me tell you straight, Mr Morrow - we're not happy with the situation at Karachaganak," he said on a visit to this remote spot. "We have come a long way by air and by road and we can dispense with diplomatic niceties." KIO says it already gives considerable emphasis to boosting local

content, and set up a department devoted to import substitution -- using Kazakh-made goods instead of imported equipment -- before Tokayev spoke out.

"Import substitution has one of the highest profiles of the project,"
Howard Burrows, KIO import substitution manager told Reuters. "It's the number one issue that everyone is focusing on."

Morrow told Reuters that KIO started its import substitution programme in January 2000, although he said that remarks by Tokayev and other senior ministers had given it a push.

"It has sharpened us up, it's accelerated the appointment of specific managers here," he said.

#### GOVERNMENT INFIGHTING

Industry analysts say the highly public row owes as much to infighting within the government as it does to the issue itself.

Until recently, they say, foreign oil firms in Kazakhstan were largely supervised by state oil company Kazakhoil, which is run by Nurlan Balgimbayev, himself a former prime minister.

But Deputy Prime Minister Danial Akhmetov has recently appeared to be trying to extend his own sector of responsibility, and several times this year has spoken as if he is in charge of foreign oil investors.

Akhmetov first raised the issue of KIO's failure to use enough Kazakh contractors in late March, telling a government meeting that "the government cannot tolerate the current situation."

Analysts say he said this knowing that KIO was boosting its use of local content, and within a few months was likely to announce several awards to local contractors -- so allowing Akhmetov to seem to take credit for boosting Kazakh industry.

Akhmetov is seen as increasingly important in the energy sector, and industry analysts say his outspoken remarks may have provoked Tokayev into apparently jumping on the same bandwagon when he was at the field in April.

The issue has sent jitters through the foreign oil community, a group Kazakhstan can ill afford to upset.

Foreign minister Yerlan Idrisov was at pains to say Tokayev's remarks did not represent a change in policy, telling journalists in Washington this month that his comments should not be singled out as representative of the government's attitude.

He added that Kazakhstan had attracted \$13 billion in investment in the last eight years, most of it in energy, a measure of the sector's importance to the country.

Akhmetov is due back in Karachaganak on Friday. Since he last spoke out on KIO, the consortium has awarded a number of contracts to local firms.

Some analysts expect the deputy prime minister to adopt a more conciliatory, perhaps even congratulatory, tone this time round, and then quietly claim the credit.

((Almaty Newsroom, +7 3272 508 500 moscow.newsroom@reuters.com))
Tuesday, 15 May 2001 07:56:31

<<...OLE Obj...>>

### LLR

From:

Rao, Geetha

Sent:

Monday, May 14, 2001 8:30 AM

To:

Austin, Kenneth; Squitieri, Ray; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy;

Cononi, Rachel; Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary;

Flynn, Timothy; Grewe, Maureen; Hendershot, Karen; Mills, Marshall; Radelet, Steve

Subject:

FW: World Oil Market Update (a.m.)

From:

Hart, James[SMTP:JAMES.HART@HQ.DOE.GOV]

Sent:

Monday, May 14, 2001 8:32:43 AM

To:

Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVE; KREIL, ERIK; 'Dan Martinez (E-mail)'; Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD,

LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; 'acdkirsc@us-state.osis.gov'; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov';

'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Caliendo, Camille; Banaszak, Sara; Tomaszewski, Clifford; DUCCA, ANN; Neilsen,

Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov'

World Oil Market Update (a.m.)

Auto forwarded by a Rule

Quiet morning in the market, with NYMEX crude trading around \$28.65 a barrel at 8:00, up 10 cents from Friday's close. The market seems to be beginning to take for granted that OPEC will not be increasing output in June. Qatari minister al-Attiyah today restated his position that current market conditions don't justify an increase. OPEC meets three weeks from tomorrow. Much attention will be paid this week to the release of the Administration's energy strategy.

Morning market update from London

2. Qatari minister reiterates belief that no OPEC output adjustment

is needed

Subject:

3. Saudi expected to announce foreign gas project winners on

Tuesday

- 4. GCC leaders meeting in Bahrain
- 5. Japan upgrading its strategic oil stocks
- 6. Analysis on why gasoline prices got so high
- 7. Analysis on the logistics challenge of regional gasoline recipes
- 8. Administration getting lots of advice on energy policy

## IPE BRENT FIRMER IN LIGHT VOLUME TRADING

LONDON, May 14 (Reuters) - IPE Brent crude futures traded firmer in the main session on Tuesday, holding a narrow range as the market looked for fresh direction after Friday's pull-back.

By 0928 GMT, June Brent was trading 12 cents firmer at \$28.31 a barrel in a \$28.19/\$28.31 range. Contract volume was light at under 600 lots.

The June/July contango was steady around eight cents, while recent focus

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the July/August spread deepened its backwardation by eight cent to 63 cents a barrel.

Lawrence Eagles at GNI research said in his daily report that the sell-off on Friday may have been the first sign that traders were preparing themselves for a series of negative API reports for U.S. crude and product stocks.

"If so that could start to pressure crude prices, but we have to say independently that the strength of the July/August Brent spread is reflecting some very good demand at present and looks as if it has further to climb." Eagles said.

The June/July backwardation widened to around 55 cents a barrel on Friday, compared with 36 cents last Wednesday and 11 cents on April 24.

Active crack spread trading on NYMEX futures on Friday saw products under pressure but boosted NYMEX crude to restore a 33 cent premium for the U.S. contract over Brent.

In ACCESS trade on Monday this was stretched to 49 cents at one point. June gas oil traded firmer to stand \$1 a tonne up at \$230.75, its crack from Brent worth about \$2.62 a barrel.

((Colin Wooster, London newsroom, +44 20 7542 7456, fax +44 20 7542 4453, email london.energy.desk@reuters.com)) Monday, 14 May 2001 05:37:19

# QATARI MINISTER - NO NEED TO CHANGE OUTPUT IF CRUDE AROUND \$25

SEOUL (Dow Jones)--Qatari Oil Minister Abdulla Bin Hamad Al-Attiyah said Monday that he doesn't expect a change to crude oil output by the Organization of Petroleum Exporting Countries during its June meeting.

"It is clear if the price falls below \$22 (a barrel), we'll cut output...but if it stays around \$25, we won't cut nor increase (output)," Al-Attiyah told Dow Jones Newswires, referring to the basket price of crudes that OPEC uses as a reference.

OPEC will raise output by 500,000 barrels a day if the price of its basket of crudes remains above \$28 a barrel for more than 20 straight business days and lower output by the same amount if the basket price falls below \$22 a barrel for 10 straight business days.

OPEC has already lowered its output ceiling this year by 2.5 million barrels a day, or 9%, to support prices. Friday, the group's basket price stood at \$25,99/bbl.

"We don't want a crisis...our job is to balance supply and demand," Al-Attiyah said.

Both OPEC's President Chakib Khelil and Secretary General Ali Rodriguez said last week they were "happy" that OPEC's reference basket of crudes is hovering around the group's desired target of \$25.00/bbl.

Qatar's crude output quota under OPEC's latest accord stands at 653,000 b/d, and the group's quota is 25.2 million b/d.

The Organization of Petroleum Exporting Countries is scheduled to hold an extraordinary meeting June 5-6 in Vienna.

-By Nara Han, Dow Jones Newswires; 822-732-2165; nara.han@dowjones.com or DJN.Seoul@DowJones.com -0- 14/05/01 08-44G

Monday, 14 May 2001 04:00:55

# SAUDI EXPECTED TO NAME GAS RACE WINNERS ON TUESDAY

By Peg Mackey

DUBAI, May 14 (Reuters) - Saudi Arabia's Supreme Petroleum Council (SPC) is expected to meet on Tuesday and announce the oil majors chosen for its multi-billion dollar gas investment opening, industry sources familiar with the negotiations said on Monday.

The sources said the SPC is expected to name ExxonMobil <XOM.N> and Royal Dutch/Shell <RD.AS> <SHEL.L> as lead players in three so-called core projects involving the kingdom's upstream gas sector -- off-limits to foreign oil firms since nationalisation in 1975.

Signing of memoranda of understanding (MOUs) would most probably take place in early June, the sources said.

The anticipated announcement would mark the biggest advance in the kingdom's gas initiative, valued at an initial \$25 billion, since Riyadh unveiled its energy investment opening over two years ago.

But the hard work has yet to start on the opening of Saudi Arabia's gas sector, the world's fourth biggest. "The fiscal regime and regulatory details have not been developed," said one source.

#### FINAL CUT

Riyadh is expected to trim back its original shortlist of 11 potential foreign investors revealed last summer. Those companies had been grouped under three core venture consortia -- South Ghawar, Red Sea and Shaybah.

For ExxonMobil and Royal Dutch/Shell, securing the lead role in Saudi Arabia's core ventures would entitle them to operate the package and get the biggest slice of the projects, analysts said.

Other industry sources said ExxonMobil, the world's biggest energy company, was tipped for the top slot in core venture 1 (South Ghawar) as well as in core venture 2 (Red Sea).

Royal Dutch/Shell was in pole position for core venture 3 (Shaybah), the sources added.

Both oil supermajors already have significant foreign investment in the kingdom and feature as top customers of Saudi oil, the analysts said.

#### **ENERGY DRIVERS**

An urgent need to create jobs and grow the economy are driving Saudi Arabia's landmark energy opening.

And analysts said big oil companies were prepared to help the kingdom achieve those aims even if the return on their investment was relatively

"Major oil companies just cannot miss this opportunity," a source said. "The gas projects will show profits."

But just how much revenue oil companies will generate by selling water and electricity in the Saudi domestic market remains to be seen.

On paper, at least, the kingdom's domestic gas sector looks set for impressive growth.

Domestic gas demand, now running at about 3.4 billion cubic feet per day, is forecast to grow at more than seven percent a year over the coming decade.

Saudi Arabia has meanwhile made clear that its prized oil sector, the world's biggest, remains off limits.

Even so, oil companies still hold out hope for eventual involvement in oil, the kingdom's lifeblood.

"The companies are just as happy with gas, but oil remains the ultimate objective," a regional analyst said.

Saudi Aramco is still putting up strong defence barriers, but eventually they could open up the oil sector once they feel comfortable working with the majors."

The Saudi gas initiative seeks foreign oil companies' help in developing the kingdom's known gas reserves as well as investment in downstream projects fed by gas supplies, such as power and desalination.

The following companies have been shortlisted for the gas projects: Core venture 1 (South Ghawar Area) -- ExxonMobil, Royal Dutch/Shell, BP <BP.L>, TotalFinaElf <TOTF.PA>, Chevron <CHV.N> and ENI <ENI.MI>.

Core venture 2 (Red Sea Area) - TotalFinaElf, ExxonMobil, Marathon <MRO.N>, Enron/Oxy <ENE.N>, Conoco <COCa.N>, Royal Dutch/Shell.

Core venture 3 (Shaybah Area) -- Royal Dutch/Shell, ExxonMobil, Marathon, Conoco, TotalFinaElf, Phillips < P.N > and Enron/Oxy.

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Monday, 14 May 2001 05:57:17

GULF ARAB LEADERS IN BAHRAIN FOR BI-ANNUAL TALKS

MANAMA, May 14 (Reuters) - Gulf Arab leaders gathered in Bahrain on Monday to coordinate policies amid calls by the International Monetary Fund (IMF) for them to open their economies and lure more foreign investment.

Officials said there was no agenda for the "consultative" summit of leaders of the six-member Gulf Cooperation Council (GCC).

But they expected the one-day meeting to be dominated by the bloody seven-month Palestinian uprising against Israel and steps needed to unify the six members' economies.

"There will be no agenda or official opening of the summit. There will also be no statement issued after the meeting," one official told Reuters.

GCC Secretary-General Jameel al-Hujailan said the leaders were free to exchange views on any regional or international issue.

It is the third consultative meeting for the GCC leaders since they agreed to hold a bi-annual summit in 1999.

The GCC was set up in 1981 by Saudi Arabia, Bahrain, Oman, Qatar, the United Arab Emirates and Kuwait to protect the states from the 1980-1988 Gulf War between their powerful neighbours Iraq and Iran. The six sit on more than half of the world's oil reserves.

### IMF URGES MORE REFORMS

The IMF has urged the GCC states to eliminate subsidies and open their economies to foreign investments to meet the growing challenge of creating new jobs for their nationals.

The call came during a rare meeting between IMF Managing Director Horst Koehler and Gulf Arab finance ministers and central bank governors in Bahrain on Saturday.

"I do think that the region has to attract even more foreign direct investment, and (it) can do this... (by) first demonstrating that (it) is politically stable," Koehler said after the meeting.

Leaders of Gulf Arab states approved at a summit in Manama in December 2000 steps to issue a unified currency. They also agreed the U.S. dollar would be the common denominator for the planned single currency.

Currencies of all GCC states, with the exception of Kuwait, are pegged to the U.S. dollar, in which their crude oil exports, their main source of revenue, is traded. Kuwait's dinar is currently linked to a basket of currencies.

In 1999, GCC leaders agreed to unify their customs tariffs at between 5.5 percent and 7.5 percent by March 2005.

The move to create common tariffs is part of a wider plan by the GCC for a regional currency and a unified trade zone, and is designed to speed up free trade talks with the region's biggest trading partner, the European Union.

Monday, 14 May 2001 05:35:26

### JNOC ISSUES TENDER TO REPLACE PETROLEM RESERVES

TOKYO, May 14 (Reuters) - Japan National Oil Corp (JNOC) has issued a tender to release its petroleum stocks for July lifting and procure light crudes for July-December loadings, a JNOC spokesman said on Monday.

The tender, issued on Friday, was in line with an announcement in March that Japan plans to change some 18.2 percent of the crude oil in its state stockpile to a lighter crude grade over the next 10 years.

JNOC said it plans to release 110,000 kilolitres (kl) of its reserve medium to heavy crudes for July lifting, including Mexican Isthmus, Neutral Zone Khafji and Abu Dhabi upper Zakum.

JNOC will purchase the same amount of light crudes through the tender, such as Abu Dhabi's Murban, Lower Zakum, Umm Shaif and Saudi Arabia's Berri for July-December loadings.

The tender will close on May 17.

The government decided to increase the share of lighter crude grades, which has a higher yield of gasoline and kerosene than heavy crude grades to better reflect Japan's consumption needs.

The government plans to replace about 600,000 kl in the first year and the tender will be the first one for the move.

((Tokyo Energy Desk +81-3 5473 3706 tokyo.energy.newsroom@reuters.com))

Monday, 14 May 2001 00:17:36

## WONDER WHY GASOLINE PRICES GOT SO HIGH?

By Alexei Barrionuevo

Staff Reporter of The Wall Street Journal

Over the past few weeks, small fires slowed production at Tosco Corp. refineries in Illinois and California. Meanwhile, a kink at a Venezuelan refinery stalled some gasoline imports to the U.S.

In short order, gasoline futures prices soared. Prices at gas stations nationwide jumped to an average of \$1.70 a gallon for regular unleaded gasoline from \$1.57 in mid-April. In the Midwest, prices reached nearly \$2 a gallon.

The sudden response to seemingly minor glitches has shocked drivers -but they'll have to get used to it. The movement to regulate gasoline more stringently, begun in the mid-1990s, is colliding head-on with a still-strong economy and the arrival of gas-guzzling vehicles that have pushed up demand faster than domestic refining capacity could match.

The result: tight supply, not enough extra capacity and prices that the

slightest worries can send soaring.

"There are going to be pockets of the country . . . that could face this kind of volatility for some time to come," warned Lee Raymond, Exxon Mobil Corp.'s chairman and chief executive, speaking at a recent meeting of analysts.

The crunch will likely get worse. One culprit: America's reignited love affair with gas-hungry vehicles, which are dragging down overall fuel efficiency. Sport-utility vehicles, pickups and minivans make up 43% of vehicles on the road today, up from 30% in 1990, a trend that is dragging down overall fuel efficiency. As a result, gasoline demand has risen about 2% so far this year and currently stands at a strong 8.6 million barrels a day.

The problem is most severe on the West Coast and in the third of the country where Environmental Protection Agency regulations require the sale of lower-emissions gasoline, which helps keep the air clean but is harder and more costly to produce. The states have adopted more than a dozen different recipes for the gas, tailored to budget and availability of ingredients. That means states aren't able to swap and share when supplies get tight.

Making matters more complicated, Unocal Corp. has patents on the blending methods for some lower-emissions gasolines. After the Supreme Court let stand its patents earlier this year, Unocal began licensing the methods to other companies. But a range of companies, from small operators that blend ingredients to the nation's largest refiner, Exxon Mobil, balked at paying one cent to three cents a gallon for licensing fees, which has tightened supplies of lower-emissions gasoline in regions such as the Northeast.

Unlike electricity, gasoline can be stored and imported, which means other countries can help out if prices are high enough. In recent weeks, imports have picked up from Europe and Latin America as traders sought to take advantage of rocketing prices. Gasoline inventories have begun to climb, though they are still about 4% below the level a year ago. But they'll need to climb more to give the nation a cushion for summer - unless consumers dramatically change their driving habits.

That's what happened after the Arab oil embargo in the early 1970s. Demand for gasoline dropped sharply in the late 1970s and early 1980s after upheaval in Iran and Iraq crimped oil supplies, the U.S. government lifted price controls on gasoline and consumers switched to more-fuel-efficient cars. Demand dropped 12% from 1978 to 1982 before it started steadily ascending again. Refining capacity also grew, as small, inefficient refiners

popped up to take advantage of government entitlements for small refineries to do simple crude-oil distillation.

Still, for much of the 1990s, domestic refining capacity exceeded demand. Profits for refiners, who take crude oil and convert it into gasoline, diesel, heating oil and other products, averaged less than 4% in the 1990s, making refining by far the worst-performing segment of the oil and natural-gas industry.

In response, some of the nation's biggest oil companies have moved away from refining, which is particularly hard-hit by swings in crude-oil prices. Exxon Corp. and Mobil Corp. sold some refineries in the early 1990s to focus more on their higher-return exploration and production operations. In the past two years, Shell Oil Co. and Texaco Inc., which together own a massive refining and marketing joint venture, sold two U.S. refineries. BP PLC, based in London, sold one refinery last year and plans to sell three more.

BP thinks the business works only if it is supplying its own service stations. "We don't want to be a merchant refiner, in the business to sell to others," says Allen Kozinski, BP's group vice president for refining.

Most of the buyers have been fast-growing independents, such as Tosco and Valero Energy Corp. of San Antonio. Many independents lack the deep pockets to weather big busts, never mind the capacity to finance big capital projects. Premcor Inc., St. Louis, chose to close its Blue Island, III., plant in January rather than invest more than \$70 million in upgrades it would need to meet stricter gasoline regulations in 2004. The refinery didn't return a positive cash flow to the company from 1995 to 2000, despite \$70 million in upgrades during that time.

Jim Joyce, a Premcor vice president, says the company wants to sell the refinery but doesn't expect to find any takers. The refinery has a troubled history, including a 1995 explosion that killed two workers and a \$2 million environmental fine in 2000.

Tosco recently agreed to be acquired by Phillips Petroleum Corp. for \$7.49 billion, while Valero this week said it would acquire its cross-town rival Ultramar Diamond Shamrock for \$3.91 billion in cash and stock. Both deals should give the industry more heft in dealing with rising demand for refined products, which has grown 11% since 1995.

In contrast, refinery capacity has grown only 8% since 1995 as companies expanded and sought to improve existing plants. As a result, plants today are trying harder and harder to meet demand. The industry's capacity utilization - the measure of how close a plant is running to its capability - rose to 93% last year, up six percentage points from 1990. Capacity utilization across all U.S. industries in 2000 was 82%, federal statistics show.

In the past two years, many refiners started to defer regular maintenance to try to keep running to meet demand and cash in on fatter profit margins. Currently, refineries are operating at 96% capacity, leaving precious little room for fires or other unplanned outages.

Now refiners are worried that they won't be able to find new ways to expand, and a major new refinery - which would be the first since 1976 - is considered unlikely. A new refinery today is estimated to cost about \$3 billion, including about \$300 million in environmental equipment, and to take at least five years to build.

Valero has added 185,000 barrels a day of capacity to its plants since 1997 through upgrades and maintenance projects. But it says it may have nearly hit its limit. "There are diminishing returns on expanding units," says Gene Edwards, a Valero senior vice president. "Once you have put in the latest, state-of-the-art technology, you just can't keep growing."

Mr. Edwards says he doesn't see much expansion potential left for Valero's two best plants, in Corpus Christi, Texas, and in Benicia, Calif. Valero applied several months ago to add 5,000 barrels a day to its Paulsboro, N.J., plant, but it still hasn't gotten a green light to go ahead with the project. An EPA spokeswoman said Valero had committed to install a pollution-reducing scrubber at the plant but wouldn't comment on the company's pending permit.

Monday, 14 May 2001 00:18:17

## WONDER WHY REGIONAL GASOLINE RECIPES CLOG THE SYSTEM?

From The Wall Street Journal

Refiners say that delays in granting permits and an EPA crackdown on possible past emissions violations are making it tougher to expand capacity. Exxon Mobil, for one, is reconsidering whether to go ahead with several capacity-expansion projects because it says it believes the EPA has reinterpreted the agency's own rules. "Their objective is to force refineries to agree to install significant emissions-reduction facilities that aren't really required by law," said Don H. Daigle, director of Americas refining for Exxon Mobil's Refining & Supply Co.

Tina Kreisher, an EPA spokeswoman, says the agency is enforcing pollution rules that are on the books. So far this year, the agency reached settlements for new emissions equipment with BP, Koch Industries Inc., Motiva Enterprises LLC and Marathon Ashland Petroleum LLC. The companies, which represent about 30% of the country's total refining capacity, promised to spend a total of \$1.3 billion to improve existing equipment. An EPA enforcement official says a stricter emissions-permit process has increased the time it takes to get expansion permits to between six and 18 months, from several months. BP's Mr. Kozinski called the EPA's program "heavy handed" but said, "We can't deny the fact that the plants have the emissions."

In addition to trying to increase capacity, almost every refinery in the country will need upgrades to meet 2004 deadlines for making lower-sulfur gasoline. Some refiners have asked the Bush administration to speed up the permitting process and relax EPA policies so they can boost supply now.

Meanwhile, refiners and other smaller gasoline producers are struggling to make enough of the new lower-emissions blend introduced in smoggy cities last summer, which costs an extra five cents to eight cents a gallon to produce. Because the blend is more complicated to produce and requires more processing, refiners typically can't make as much of it as they could conventional gasoline.

While the production of all gasoline is up about 1% this year over last year, production of the lower-emissions blend is up only 0.5%. Some of the nation's small "blenders," a group that produces about 8% of total U.S. production, have simply shied away from making the new low-emissions blend.

Unocal's patents have made it tougher. Some blenders, including Northville Industries Corp., Melville, N.Y., say the complexity coupled with the financial risk of violating the gasoline patents is simply too much. "Four years ago, I would have been blending more than 30,000 barrels a day," virtually all of it reformulated gas, said one senior Northville executive, who asked not to be named. "Unocal was the nail in the coffin."

Exxon Mobil, which sued Unocal unsuccessfully over the patent, has asked

Exxon Mobil, which sued Unocal unsuccessfully over the patent, has asked the Federal Trade Commission to investigate whether Unocal practiced unfair competition in seeking the patent. Exxon Mobil said its effort to blend around the patent is limiting its production, particularly in the Midwest, an area hard-hit by high prices.

The patent even complicates how gasoline is shipped, says John Seddelmeyer, assistant chief counsel for Exxon Mobil. If a legal blend mixes with a patent-infringing blend, he says, "the whole batch infringes." A lawyer for Unocal says he doesn't think there would be a problem mixing batches because the gasoline is "certified at the refinery before it goes into the pipeline."

Exxon Mobil acknowledges that its refusal to consider a licensing agreement with Unocal is limiting its production at a time when the market is tight. But, says Mr. Seddelmeyer, "We aren't in it to make the maximum amount of gasoline this year if it means sacrificing something that is important long-term. We think that laws were violated here."

Unocal spokesman Barry Lane says the company is prepared to negotiate "fair and reasonable" licenses and has already signed licensing agreements with Citgo Petroleum Corp. and Tesoro Petroleum Corp. "The decision to make or not make [lower-emissions fuel] are business decisions that these

companies are making," Mr. Lane says. "The patents are not an obstacle."

Despite struggles to keep up with demand, refiners are making the bulk of the profits from the runup in gasoline prices. The Department of Energy's Energy Information Administration estimates that service stations are being squeezed. In 1999 and 2000, 12% to 14% of the retail cost of a gallon of gasoline went to transporting and selling it, while about 14% went to the refiner. In March, distributers and marketers were getting just 7%, while the share for refiners surged to 19%. (Nearly three-quarters of the price of a gallon goes to state, federal and local taxes and to cover the cost of crude oil.)

Prices have been most volatile in the West and Midwest over the past few years, but two federal investigations - including one concluded by the Federal Trade Commission last week - failed to find collusion or price-fixing, though they found evidence that when supplies tightened, oil companies took advantage of the situation. In the West especially, some companies shipped oil to Asia that might have been bound for West Coast refiners in times of tight supply. In a confidential 1996 report prepared for one of the oil companies involved in Alaska North Slope production, a consultant recommended that the company "export to keep market tight." Last year, exports of Alaskan oil were banned.

Mostly, regulators found a dysfunctional market. California requires a unique gasoline blend that is available only in a handful of places outside the state. To make that gas, refiners spent more than \$3 billion to upgrade their plants. Four smaller producers that couldn't afford to upgrade closed

during the 1990s, further constraining supply.

Western states also are isolated from the rest of the nation's pipeline network. Gulf Coast refiners must send gasoline by tanker since no pipelines there link the West with the gulf. And an obscure federal maritime law, the Jones Act of 1920, forces companies to use U.S.-built tankers and union labor, adding four cents a gallon to West Coast prices during times of year when western states must import gas, FTC economists found. In Oregon, self-service stations are prohibited, adding as much as 3.5 cents a gallon to consumer costs, the FTC review found. Gasoline taxes are also higher on average in the West.

In fact, Western production costs are so high that California recently experienced an odd phenomenon: In April, gas-station owners were losing as much as nine cents on every gallon they sold. While wholesale prices have zoomed up, prices at stations haven't gone up as much on competitive street corners. Integrated oil companies, which own production, refining and marketing businesses, can afford losses at retail stations because their profits are so great in the refining and production businesses. But some independents were finding they were paying more for their gasoline than they could charge consumers.

John Wilke contributed to this article. Monday, 14 May 2001 00:19:50

# PRESIDENT BUSH FACES NEW PRESSURE FOR ENERGY POLICY ACTION

WASHINGTON (AP)—U.S. President George W. Bush is preparing to roll out his long-term energy strategy with a behind-the-scenes appeal for labor union support and hopes of using diplomacy to tap overseas oil. But with rising gasoline prices and more blackouts likely in California, Bush faced growing pressure Sunday for immediate federal action.

California Gov. Gray Davis pleaded for federal price caps on wholesale energy caps and accused the White House of ignoring "the greed of these Texas energy companies." The Democratic governor singled out electricity

generator Reliant Energy (REI) for "gouging" the largest state.

"It's a big, big buddy of President Bush and Vice President Cheney,"
Davis said on ABC's "This Week." The Bush administration "can't just sit

back there and say, 'Hey, it ain't our problem,' " Davis said.

Sen. John McCain, R-Ariz., endorsed a reduction in the federal gasoline tax, saying it would "provide very temporary relief." Bush has resisted that idea. McCain also said on NBC's "Meet the Press" that the president should

ask Middle East petroleum producers for "temporary help" in slowing the rise of oil prices.

Sen. Charles Schumer, D-N.Y., urged the president to tap the nation's strategic oil reserve - an approach Bush rejected last year as a candidate.

Bush directed Vice President Cheney on Jan. 29 to study the nation's energy needs, and in the ensuing weeks, California's electricity woes have deepened and gas prices have climbed toward \$3 a gallon. Bush has warned of a looming energy "crisis," and on Thursday, he will unveil his long-range plan.

Lawmakers up for re-election next year are growing increasingly anxious about being blamed for the rising costs of energy, and they are beginning to pressure the president.

But Bush has made it clear that his plan contains no quick fixes. Sunday, new details of the plan emerged. Administration officials said it will:

- Call for reauthorization of the 1988 Price-Anderson Act, which limits the liability of nuclear plant operators in major accidents. The law requires nuclear utilities to pool their money to compensate victims in major accidents.
- Seek to provide increased stability in the nuclear power industry by offering safe operators increased certainty that their plants' licenses will be renewed, and provide tax incentives to encourage smooth transfers during sales of plants with strong safety records.
- Direct Secretary of State Colin Powell to step up diplomatic efforts to expand oil production in Latin America, Asia and Caspian Sea nations such as Azerbaijan.
- Urge continuation of existing tax credits that encourage development of biomass energy generation, in which burning grass, trees and waste produces electricity.

The administration will try to lay the groundwork by courting a key labor group on Monday when Teamsters President James Hoffa visits Cheney and Labor Secretary Elaine Chao. Bush wanted to "prebrief (Hoffa) as to what's coming out so they have comprehensive understanding and can make a judgment if this is something they want to support," said Cheney spokeswoman Juleanna Glover Weiss.

Though they endorsed Democrat Al Gore in the presidential race last year, the Teamsters sometimes tilt Republican. Bush's plan will call for opening new federal lands, including now off-limits areas of the Rocky Mountains and the Arctic National Wildlife Refuge in Alaska to oil and gas development. The Teamsters view those proposals as job producers.

AFL-CIO President John Sweeney wasn't attending Monday. He sharply criticized the Bush White House in an Associated Press interview last week, saying it has "favored business and employers far more than it has addressed the issues of workers."

Bush is hitting the road to build public support for his plan, emphasizing high-technology and conservation components.

Thursday, Bush will travel to Minnesota to unveil the substance of the proposals. He will visit District Energy in St. Paul, which uses a "closed-loop" hot water heating system. It winds throughout the city and uses less expensive coal and wood chips to generate heat for hundreds of businesses and homes.

Later Thursday he is to visit the Iowa Energy Center's biomass energy conversion laboratory in Nevada, Iowa, which works to bridge the gap between laboratory research and "real-world" applications in renewable biomass and biofuel technologies.

Friday, Bush travels to the Safe Harbor Hydroelectric Plant near Lancaster, Pa.

Pennsylvania was also the site of the Three Mile Island nuclear reactor meltdown.

Sunday, 13 May 2001 19:01:08

### LLR

From: Rao, Geetha

Sent: Monday, August 06, 2001 8:15 AM

To: Austin, Kenneth; Auten, John; Byrne, Kathleen; Cetina, Jill; Chryst, Nancy; Cononi, Rachel;

Corfield, Anna; Cumby, Robert; 'Cumby, Robert'; Flanagan, Rosemary; Flynn, Timothy; Hendershot, Karen; Mills, Marshall; Radelet, Steve; Squitieri, Ray; Joldersma, Dirk

Subject: FW: WORLD OIL MARKET UPDATE, August 6, 2001, Monday Morning

From: Washington, Charles[SMTP:CHARLES.WASHINGTON@HQ.DOE.GOV]

Sent: Monday, August 06, 2001 8:18:14 AM

To: Hart, James; Coburn, Leonard; Brodman, John; Pumphrey, David; Shages, John; LeMat, Lynnette; MACINTYRE, DOUGLAS; CATO, DERRIEL; Rasmussen, Erik; Smith, Hilary; 'Steve Gallogly (E-mail)'; 'silkworthwr@state.gov'; 'David Schwartz (E-mail)'; 'Matt McManus (E-mail)'; 'Cynthia Akuetteh (E-mail)'; Sacks, Steve; HINTON, DAVE; Washington, Charles; Caverly, Jim; COSTELLO, DAVÉ; KREIL, ERIK; Dan Martinez (Email); Juckett, Donald; DEMOUY, LOUIS; COOK, JOHN; SHORE, JOANNE; White, Thomas; Johnson, Nancy; Braitsch, Jay; Silva, Robert; Transtrum, Trudy; DeHoratiis, Guido; Pyrdol, John; 'Anna Borg (E-mail)'; 'dunnpm@state.gov'; Thompson, Kay; 'michael.burdette@eia.doe.gov'; 'spechtsh@state.gov'; 'RobITL@state.gov'; 'robertsonfe@state.gov'; FELD, LOWELL; 'geetha.rao@do.treas.gov'; 'tara.billingsley@eia.doe.gov'; 'eighmiejw@state.gov'; Furiga, Richard; Konar, Victoria; Chilman, Walter; 'marshall.mills@do.treas.gov'; Melvin, Dan; 'lisanneg@state.gov'; Wilkens, Katherine; LIPPERT, ALICE; 'scottdv@state.gov'; Kripowicz, Robert; Alex, AILEEN; Marland, Nancy; Giles, Harry; Harvey, Nathan; 'robert.scavotto@occ.treas.gov'; 'laurie.falter@eia.doe.gov'; 'tuckerjc@state.gov'; Mackey, James; Bell, Joan; KILGORE, CAL; 'lkrauss@omb.eop.gov'; 'beecroftrs@state.gov'; 'hinckleydd@state.gov'; 'elizabeth.campbell@eia.doe.gov'; James, Wynne; 'lukers@state.gov'; Hudome, Randa; Angulo, Veronica; Person, George; Dukes, Thomas; Benson, Erika; Lahood, Samuel; 'gregoirejp@state.gov'; 'orourkebj@state.gov'; 'dudleyjl@state.gov'; Erickson, Gina; Deutsch, Kathleen; 'billigm@state.gov'; Billig, Michelle; Gay, Carolyn; McMonigle, Joe; Banaszak, Sara; Tomaszewski, Clifford; Neilsen, Jill; Lawson, William; 'Robert\_C.\_McNally@opd.eop.gov'; 'cohenle2@state.gov'; 'flooknd@state.gov'; 'terrsc@ucia.gov'; 'neilm@ucia.gov'; 'richask@ucia.gov'; 'ellenlj@ucia.gov'; 'kirschde@state.gov'; Ducca, Ann; Lopez, David; 'wayneea@state.gov'; O'Donovan, Kevin; HUTZLER, MARY; 'hallrm@state.gov'; 'feiserse@state.gov'; Greenhalgh, Diana; Esser, Charles; 'doughertydm@state.gov'; Caliendo, Camille; Abousy, Mais; Madanat, Jumana; Mournighan, Sarah; Salguero, David; Sanchez, Delano; Shannon, Frederick; Techavalitpongse, Sylvia; DeVito, Vincent; Lopatto, Jeanne; 'youngdk@state.gov'; Haddad, Zead; Burgeson, Eric; Johnson, David; Bailey,

Subject: WORLD OIL MARKET UPDATE, August 6, 2001, Monday Morning Auto forwarded by a Rule

## WORLD OIL MARKET UPDATE

August 6, 2001, Monday Morning

Crude is trading on the NYMEX at \$27.58, down from Friday's close. Brent is trading at \$25.68 in London. Cheney declines to turn over documents sought by Congress in an inquiry into how the Administration's energy policy was formed; Zimbabwe's Nicholas Kitikiti, who was Chairman of the Zimbabwe oil company and permanent secretary in the mines and energy ministry, was arrested on Saturday for defrauding the oil agency of \$4 million; OPEC's basket of crudes rose to \$24.48 on Friday; a ship allegedly smuggling Iraqi crude sank while trying to evade a U.S. warship; EPA is considering cutting the number of boutique gasoline blends; the United Arab Emirates has short listed five energy majors for a stake in Dolphin, and Egypt plans to refine Libyan crude. This report contains 12 articles.

Click on colored text to navigate this report.

- 1. LONDON UPDATE
- 2. ZINBABWEAN ENERGY OFFICIAL ARRESTED IN OIL SCAM
- 3. OPEC BASKET ROSE SLIGHTLY TO \$24,48 ON FRIDAY
- 4. SHIP SMUGGLING IRAQI OIL SINKS IN GULF FLEEING US PATROL
- 5. CZECH GOVT TO SALE UNIPETROL IN PRIVATIZATION EFFORT
- 6. EPA CHIEF CONSIDERS LIMITING BOUTIQUE FUELS
- 7. TROPICAL STORM PUTS BIG DENT IN US GULF OIL OUTPUT
- 8. UAE SHORTLISTS 5 ENERGY MAJORS FOR DOLPHIN STAKE
- 9. US SANCTIONS HURT IRAN'S DRIVE FOR FOREIGN OIL INVESTMENTS
- EGYPT, LIBYA TO SET UP OIL-GAS COMPANY
- 11. CHENEY DECLINES TO GIVE CONGRESS ENERGY DOCUMENTS
- 12. MCCAIN & LIEBERMAN WANT CARBON EMISSIONS CAP

#### ARTICLES

### 1. LONDON UPDATE

LONDON, Aug 6 (Reuters) - IPE Brent crude futures were little changed in early trade on Monday, its initial seven cent losses reversed by some very light short covering.

Traders said prices had drifted back in electronic trading on news that tropical storm Barry, a recent supportive factor, had veered away from hitting key oil and gas installations in the Gulf of Mexico, but light buying early in the main session had steadied the market.

By 0930 GMT September Brent was trading three cents up at \$25.72 a barrel with around 600 lots traded on the contract.

Deeper losses on NYMEX crude in ACCESS trade left the September arbitrage four cents narrower at \$1.83 a barrel.

Gas oil slipped \$1.75 a tonne to \$226.50 in catch-up to Brent's late losses on Friday. But its September crack from Brent improved by eight cents to \$4.50 a barrel.

Analysts said the correction to last Thursday's \$1 plus bounce on Brent was likely to be extended on Monday, but once it is complete, possibly near support at \$25.50 the market was likely to test a higher again, targeting previous highs at \$26.65 from July 6 and \$26.80 from June 26.

However, they said this move was likely to run into strong resistance at \$27 with the market having failed to push back above the level on two occasion since topping out above \$28 and falling sharply to below \$26 in June.

Monday, 6 August 2001 05:37:25

RTRS [nL0614345]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 2. ZINBABWEAN ENERGY OFFICIAL ARRESTED IN OIL SCAM

HARARE, Aug 6 (Reuters) - A top Zimbabwean official has been arrested and a newspaper said he would face charges of allegedly defrauding the beleaguered state oil procurement agency National Oil Company of Zimbabwe (NOCZIM) of some US\$4 million.

Police confirmed on Monday that Nicholas Kitikiti, who was the chairman of the oil company and permanent secretary in the mines and energy ministry, was arrested on Saturday.

"Some other people from NOCZIM were also arrested on Thursday and we expect some of them to appear in court today. I'm not sure what the charges are," a spokesman said.

The privately owned Daily News said Kitikiti would appear in court on Monday to face charges

involving fraud of over Z\$218 million (\$4 million).

Last year, top NOCZIM officials were charged of defrauding the agency of more than one billion Zimbabwean dollars. The money has not been recovered.

Zimbabwe's fuel supplies have been erratic since December 1999 after NOCZIM's credit lines were severed over a Z\$9 billion debt which has since more than doubled.

Last month, local industry was crippled by a two-day national strike called by labour unions to protest against a 70 percent fuel price hike NOCZIM said was necessary to offset increased procurement costs. Monday, 6 August 2001 06:18:46

RTRS [nL06415591]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 3. OPEC BASKET ROSE SLIGHTLY TO \$24,48 ON FRIDAY

LONDON, Aug 6 (Reuters) - The price of OPEC's basket of crudes rose to \$24.48 a barrel on Friday from \$24.42 on Thursday, the OPEC news agency said on Monday.

Under an OPEC price stability mechanism, if the basket stays below \$22 for 10 consecutive trading days OPEC's president can order a 500,000 bpd supply cut to try and bring the price back into the \$22-\$28 band.

If prices stay above \$28 above for 20 days, OPEC says it will add 500,000 barrels a day.

Two weeks ago, OPEC announced, without waiting for the mechanism, that it would cut output by one million bpd from September 1 to ensure market stability.

The OPEC basket comprises Algeria's Saharan Blend, Indonesia's Minas, Nigeria's Bonny Light, Saudi Arabian Light, Dubai of the UAE, Venezuela's Tia Juana and Mexico's Isthmus.

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Last 20 basket prices:
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July 11 : \$23.89 July 12 : \$23.44 July 13 : \$23.53 July 16 : \$23.20 July 17 : \$23.20

July 10 : \$24.11

July 18 : \$22.64 July 19 : \$22.78

July 20 : \$22.93 July 23 : \$23.50

July 24 : \$23.46 July 25 : \$23.78

July 26 : \$23.91

July 27 : \$23.87

July 30 : \$23.63 July 31 : \$23.48

Aug 1 : \$23.49 Aug 2 : \$24.42

Aug 3 : \$24.48

Monday, 6 August 2001 04:45:22

RTRS [nL06187601]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 4. SHIP SMUGGLING IRAQI OIL SINKS IN GULF FLEEING US PATROL

DUBAI, Aug 6 (Reuters) - A ship apparently smuggling Iraqi oil sank in the Gulf, with all 12 crew rescued, after it was intercepted by a U.S.-led naval force monitoring U.N. sanctions against Baghdad, a force spokeswoman said on Monday.

The Multinational Interception Force spokeswoman told Reuters by telephone from Bahrain that the Honduras-flagged Georgios went down on Sunday in international waters some 60 nautical miles (111 km) off the coast of Kuwait while trying to evade the navy ships.

A U.S. ship rescued all 12 crew members, who were "oil- soaked but in good condition", she added without giving further details.

An official at the Bahrain-based Marine Emergency Mutual Centre (MEMC) said the ship had been carrying around 900 tonnes of crude, but added that the resulting oil slick posed no danger to any nearby countries.

"It sank right in the middle of the Gulf. According to our modelling, the slick would not reach any coast in the Gulf," the official added.

Iraq often uses aged vessels to smuggle crude in violation of the U.N. oil-for-food programme, which allows Baghdad to sell oil to offset the effect of the 11-year-old sanctions imposed on it for its 1990 invasion of Kuwait.

The U.S. spokeswoman said the Georgios had been intercepted three times in the past. The MEMC official said the ship had no log and lacked safety standards.

In April, a tanker smuggling Iraqi fuel oil sank off the United Arab Emirates, causing the Gulf state's worst environmental disaster in decades.

Monday, 6 August 2001 04:42:07

RTRS [nL06304578]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 5. CZECH GOVT TO SALE UNIPETROL IN PRIVATIZATION EFFORT

PRAGUE, Aug 6 (Reuters) - The Czech government will trigger the further privatisation of the country's largest chemicals group, Unipetrol<UNPEsp.PR>, this week by posting advertisements asking investors to show preliminary interest, a Czech daily reported on Monday. The state holds 63 percent stake in the refinery, petrochemicals and agrochemicals conglomerate and will sell it off by next year. HSBC is the government's sale adviser.

"The ads in which we are urging investors to express their preliminary interest, have been put out and will be released at the end of this week," Jana Viskova, presswoman for the state selloff agency, the National Property Fund, told the daily Mlada Fronta Dnes.

Unipetrol has market capitalisation of 8.43 billion crowns (\$219 million). Analysts say the group could be split into several parts after the sale.

The paper said the selling price for the stake could range between nine and 16 billion crowns. Monday, 6 August 2001 04:40:46

RTRS [nL06374570]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 6. EPA CHIEF CONSIDERS LIMITING BOUTIQUE FUELS

WASHINGTON, Aug 5 (Reuters) - U.S Environmental Protection Agency Administrator Christie

Whitman said in an interview published on Monday that she was considering cutting the number of pollution-fighting gasoline blends which the industry partially blames for seasonal price spikes.

Whitman said in a USA Today interview that the EPA was considering limiting states to three or four so-called "boutique fuels" instead of about a dozen formulas currently available.

Whitman also told the newspaper that she was not considering a requirement that all states use only one formula.

"It is very much a states' rights issue," Whitman was quoted as saying. "Boutique fuels are a result of states making independent decisions about (meeting) their clean-air requirement. ... That's not to say we wouldn't eventually cut the number of fuels."

The 1970 Clean Air Act requires drivers in polluted urban areas to use fuels with special additives like MTBE or ethanol that burn cleaner and reduce smog.

The regulations have caused a balkanization of the U.S. gasoline market, and require refiners to tailor gasoline for cities with specialized fuel regulations.

Some oil industry experts blame boutique fuel requirements for spikes in high pump prices as refiners switch to producing them each summer and fall.

Refiners have also said the number of blends required by the EPA reduces storage capacity and leads to shortages.

Whitman told USA Today the problem could be fixed by easing rules on keeping different blends of gas in the same storage tank.

Monday, 6 August 2001 01:37:20

RTRS [nN06174255]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 7. TROPICAL STORM PUTS BIG DENT IN US GULF OIL OUTPUT

(Adds new Chevron figures paragraph 4, storm position paragraph 6)

By Andrew Kelly

HOUSTON, Aug 5 (Reuters) - Tropical Storm Barry veered away from oil and natural gas fields in the Gulf of Mexico on Sunday, but by that point the erratic tempest had already knocked a big dent in U.S. offshore energy production, at least temporarily.

Two of the biggest players in the Gulf of Mexico energy industry said that as a precaution against the storm they had suspended large volumes of oil and gas production, which taken together, represent a big slice of total output from the Gulf.

Shell Oil Co. -- the main U.S. subsidiary of European oil giant Royal Dutch/Shell <RD.AS> <SHEL.L> -- said it suspended or "shut in" gross daily production of more than 300,000 barrels of crude oil and 1.2 billion cubic feet of gas.

Chevron Corp. <CHV.N> said it shut in gross daily production of 118,000 barrels of oil and 452 million cubic feet of gas.

The Gulf of Mexico provides about one quarter of U.S. domestic production of both natural gas and crude oil -- some 13 billion cubic feet of gas and 1.4 million barrels of oil a day.

Shell and Chevron on Sunday began sending workers back to the offshore platforms they had abandoned for the safety of dry land, so they could start getting the lost production back on line.

By Sunday afternoon Barry's center was 95 miles (153 km) south-southeast of Fort Walton Beach, Florida, after turning to the northeast from its original northwesterly course which had it heading straight for the oil and gas fields of the central Gulf.

Meteorologists said the storm, whose winds were just below hurricane strength at 70 mph (110 kph), could become a hurricane before coming ashore, probably in Florida or Alabama.

# NO PRODUCTION IN EASTERN GULF

Barry's new path ran through the eastern Gulf of Mexico, where there is currently no offshore energy

production but where a controversial oil and gas lease sale, opposed by Florida Gov. Jeb Bush, is due to be held in December.

Oil and gas production is concentrated in the central and -- to a lesser extent -- western sections of the Gulf.

Shell and Chevron evacuated a combined total of 2,700 workers from offshore production platforms in an operation that began on Thursday when Barry formed off Florida's western coast and appeared to be on a crash course for southeast Louisiana.

Chevron said on Sunday it was implementing a hurricane plan at its 295,000 barrel-per-day oil refinery in Pascagoula, Mississippi, which was at the western limit of a hurricane warning issued by the National Hurricane Center.

"We have a hurricane procedure that we're following and I'm not going to comment beyond that," said spokesman Steve Renfroe.

The Pascagoula refinery was closed down for two months after being flooded during Hurricane Georges in September 1998.

Officials at Exxon Mobil Corp. <XOM.N> and Motiva Enterprises LLC refineries near New Orleans said their refineries had not taken any measures in connection with Barry. A tropical storm warning for the area was withdrawn on Sunday afternoon.

Exxon Mobil has a 183,000 barrel-per-day refinery at Chalmette, Louisiana, while Motiva has a 225,000 barrel-per-day refinery at Convent, Louisiana. Motiva is a joint venture between Royal Dutch/Shell <RD.AS>, Texaco Inc. <TX.N> and Saudi Aramco.

The Louisiana Offshore Oil Port (LOOP) said it had continued to offload crude oil tankers on Saturday and Sunday because Barry had not come close enough to cause problems.

On Friday officials had said that LOOP's marine terminal, located 20 miles (32 km) south of Grand Isle, Louisiana, would probably have to close over the weekend because of the storm. In June LOOP was closed

Sunday, 5 August 2001 17:57:32

RTRS [nN05162294]

- 1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA
- 7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 8. UAE SHORTLISTS 5 ENERGY MAJORS FOR DOLPHIN STAKE

DUBAI, Aug 4 (Reuters) - The United Arab Emirates Offset Group (UOG) said on Saturday it has shortlisted five energy majors for a stake in Dolphin Energy Ltd (DEL).

The firms are British Petroleum International <BP.L>, Conoco <COCa.N> <COCb.N>, Exxon Mobil Corp <XOM.N>, Occidental Petroleum Corp <OXY.N> and Royal Dutch/Shell <SHEL.L>, said UOG, DEL's majority stake holder.

"UOG will now hold detailed negotiations with the shortlisted companies to ensure that the new partner will add significant commercial and strategic value," it said.

"The new partner, scheduled to be selected during the last quarter of the current year, will acquire a portion of UOG's stake (in DEL)," it said.

UOG currently owns 75.5 percent of DEL, with the remainder held by France's TotalFinaElf <TOTF.PA>.

In May, U.S. Enron Corp <ENE.N> has opted out of the project and sold its stake to UOG. Enron said then it did not believe it could add much to the project in its current stage.

DEL oversees the \$3.5-4 billion first phase of the project which involves transporting Qatari liquified

natural gas (LNG) to Oman and the United Arab Emirates.

The project represents the first cross-border gas pipeline in the Middle East.

In March, Qatar Petroleum (QP) and DEL inked a detailed term sheet agreement outlining the terms of a development and production sharing agreement -- which the two sides aim to sign by the end of the third quarter 2001.

The gas deal would entitle DEL to develop a tract of Qatar's giant North Field and produce up to two billion cubic feet per day (CFD) of gas.

Saturday, 4 August 2001 10:43:33

ENDS [nL04296610]

1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA

7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 9. US SANCTIONS HURT IRAN'S DRIVE FOR FOREIGN OIL INVESTMENTS

TEHRAN, Aug 4 (Reuters) - Oil Minister Bijan Zanganeh said on Saturday that U.S. sanctions were hampering Iran's drive for foreign investment and technology to modernise its ageing oil sector.

Zanganeh's remarks came a day after U.S. President George W. Bush signed a five-year extension of sanctions against Iran and Libya to curb foreign investment in their oil and gas sectors.

Although there have been some foreign venture in Iran's oil and gas industries in the form of "buy-back" deals, Tehran is keen for cooperation with U.S. companies.

"Eighty percent of oil companies in the world are American. Neither us nor American firms are benefiting from these sanctions," Zanganeh said told Iran's official news agency IRNA.

The U.S. Iran Libya Sanctions Act (ILSA), first imposed in 1996, seeks to penalise any non-U.S. oil firm that invest more than \$20 million in Iran.

The measure is intended to punish the Islamic republic for its alleged support for international terrorism.

Zanganeh said Iran needed foreign investment and technological assistance to boost its oil production capacity and develop its vast untapped natural gas reserves.

"To maintain our OPEC quota and share of the world market, we have no choice but make new investment in the upstream oil sector," he said. "If we do not do so, our neighbours will continue to develop (offshore) fields they have in common with us. They are not going to wait for us to start."

The minister said Iranian oil facilities were at least 30 years old, adding that production had fallen by 1.5 million barrels a day in the past five years because of ageing facilities.

Some 80 percent of an estimated one million square kilometre (386,000 square mile) of fossil layers in Iran remain unexplored due to lack of investment, he said.

The situation is equally dismal in the gas sector.

"We have the world's second largest gas reserves, but we are exporting little gas due to the lack of investment," Zanganeh said, putting Iran's gas reserves at 26 trillion cubic metres (910 cubic feet).

## ZANGANEH DEFENDS FOREIGN DEALS

The minister defended the award of "buy-back" oil and gas contracts with foreign companies, dismissing a barrage of internal criticism as motivated by personal reasons.

"The buy-back deals provide us with the financing, the latest technology and superb management," he said, quoted by Iran's student news agency ISNA. "Those who oppose them do so because their personal interests are at stake."

Under buy-back terms, a company recoups its capital expenditure and profits by receiving payment taken in the form of oil or gas output.

Iran adopted this formulation in the mid-1990s to skirt a constitutional ban on foreign ventures in major sectors.

Zanganeh said since 1997 Iran had drawn \$22 billion in buy-back ventures, adding that \$2.5 billion of it had already been paid back (in output). He did not elaborate further.

He said Iran hoped to increase its crude output to 4.7 million barrels a day in four years from less than four million barrels a day now.

The minister said with modern technology Iran could improve the present oil recovery rate of about 20 percent.

"We have an estimated 500 billion barrels of crude in place. If we can increase the recovery rate by

even one percent, that will give us five billion barrels of new oil worth \$100 billion," he told ISNA. Saturday, 4 August 2001 12:04:06

ENDS [nL04297228]

1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA

7. TROPICAL 8. UAE 9. US 10. EGYPT 11. CHENEY 12. MCCAIN

# 10. EGYPT, LIBYA TO SET UP OIL-GAS COMPANY

CAIRO, Aug 4 (Reuters) - Egypt and Libya are to form a joint company which will see Egypt refine Libyan crude and supply Libya with natural gas, Egyptian papers reported on Saturday.

Libya's National Oil Company (NOC) and the Egyptian General Petroleum Corporation (EGPC) will each provide 50 percent of the \$100 million capital of the Arab Company for Oil and Gas Lines, Oil Minister Sameh Fahmy was quoted saying in the state-owned Akhbar al-Youm.

"A pipeline will be built to transfer Libyan crude to Egyptian facilities and Egyptian natural gas to Libyan cities. Initial investment will be around \$20 million," Fahmy said.

The Libyan oil will be refined in Cairo and Alexandria, he said, and work is to begin immediately on fixing the route of the pipeline. Oil ministry officials were unavailable to give more details.

Egypt, with a host of maturing oil fields, wants to establish itself as a gas export hub. Egypt's proven gas reserves stand around 50 trillion cubic feet and were expected to ultimately reach 110 tcf.

Libya has an average oil output of 1.3 million barrels per day.

Egypt, Syria, Lebanon and Jordan signed an agreement in January to build a \$1 billion pipeline to take Egyptian and Syrian natural gas to Lebanon, Jordan and Turkey.

Egypt is leading current efforts to reduce trade barriers and strengthen commercial relations between Arab countries.

Saturday, 4 August 2001 04:56:19

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# 11. CHENEY DECLINES TO GIVE CONGRESS ENERGY DOCUMENTS

By Randall Mikkelsen

WASHINGTON, Aug 3 (Reuters) - Vice President Dick Cheney has declined to turn over documents sought by Congress in an inquiry into how the Bush administration's energy policy was formed, according to letters from Cheney released on Friday.

Cheney said in letters to the House of Representatives and the Senate that the request for meeting records of President George W. Bush's energy task force, which was headed by the vice president, "would unconstitutionally interfere with the functioning of the executive branch."

An aide to California Democratic U.S. Rep. Henry Waxman, one of the lawmakers who originally requested the information, said Cheney appeared to be heading for a legal showdown.

"It looks like they are sort of intent on going to court," said the aide, speaking on condition of anonymity.

A senior Cheney aide said Cheney's office had already provided "substantial information" and that the task force had acted properly.

Cheney's office said the letters were delivered to Congress Thursday night, ahead of an August 7 deadline for a response and the same day as the U.S. House of Representatives approved legislation embodying major elements of the energy plan that task force developed.

"Preservation of the ability of the executive branch to function effectively requires respecting the confidentiality of communications among a president, the vice president, the president's senior advisors and others," Cheney's letter said in an attached appendix.

It said the GAO lacked authority to investigate the performance of the president or vice president in

carrying out their constitutional duties.

The request was made by Comptroller General David Walker, head of Congress' General Accounting Office, which had been asked by Waxman and Michigan Democratic Rep. John Dingell to investigate the work of the energy policy task force.

The force has been criticized for its closed-door meetings and meetings with industry officials as it developed the energy policy Bush unveiled May 17. Bush called for stimulating production of coal, oil and nuclear power as well as conservation measures.

Cheney in June turned over records relating to the costs of the energy task force, but the GAO sought additional records, raising the possibility of taking the issue to court.

The agency sought names of people attending the energy policy group meetings and of panel staff workers. It also sought records of meetings that energy panel staff or Cheney had with people to gather information relevant to the energy plan.

The Waxman aide said any decision on going to court would be up to Walker, who was quoted in Friday's Washington Post as saying Cheney's attorneys were waging a "frontal assault" on the GAO's authority. "We cannot let that stand," Walker said.

Senior Cheney aide Mary Matalin said the panel had done its work properly.

"The National Energy Policy Development Group produced a balanced, comprehensive, environmentally-friendly energy policy in remarkably short time," Matalin said in a written statement.

"The House of Representatives just passed much of that plan along bipartisan lines. We would encourage the Senate to act quickly on the president's energy proposals. The sooner the president can sign his energy policy into law the sooner Americans will enjoy affordable, reliable, clean energy," she said.

Friday, 3 August 2001 19:22:37

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1. LONDON 2. ZINBABWEAN 3. OPEC 4. SHIP 5. CZECH 6. EPA

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# 12. MCCAIN & LIEBERMAN WANT CARBON EMISSIONS CAP

By Patrick Connole

WASHINGTON, Aug 3 (Reuters) - U.S. senators John McCain and Joseph Lieberman said on Friday the marketplace must be unleashed to reduce the nation's carbon dioxide emissions blamed for causing global warming, even if the United States remains out of the Kyoto climate pact.

The bipartisan pair -- McCain the Arizona Republican and Lieberman the Connecticut Democrat who ran for vice president in 2000 -- want to develop an "economy-wide cap-and-trade system." This would help the country take responsibility for its leading 25 percent share of global greenhouse gas emissions, they said.

"The agreement reached last week in Bonn, Germany on the Kyoto Protocol means that the rest of the world is moving forward to address this important problem," McCain said during a Senate floor address with Lieberman.

"The United States must realize that when it comes to the climate, there are no boundaries. Therefore, climate change is a global problem and must be resolved globally," he said.

McCain is often at odds with the leadership of his party and President George W. Bush.

The president in March rejected the Kyoto treaty process, saying the framework to have industrialized nations reduce carbon dioxide emissions would harm the American economy and was "fatally flawed."

Most man-made greenhouse gas emissions come from power plants, heavy industry and transportation pollution.

Lieberman said the legislation envisioned by McCain and himself would include a comprehensive cap on greenhouse gas emissions, but would be paired with an allowance trading system to encourage innovation by companies in reducing emissions.

"This is a win-win approach for the environment and for American industry," Lieberman said.