Energy Intelligence

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OIL DAILY

Today's complete oil and gas news briefing.

BP Fined Again for Refinery Safety Lapses

The US Occupational Safety & Health Administration (OSHA) fined UK supermajor BP a record $87 million on Friday, citing further safety failings over four years after the Texas City refinery disaster that killed 15 people.

After a six-month investigation, OSHA said it had identified 270 areas where BP had failed to comply with the terms of a plea agreement hammered out in 2005.

That agreement ended US government investigations into BP relating to the explosion and fire at Texas City but required that the company meet a series of safety standards.

However, OSHA said it found 439 new "willful" violations where the company failed to follow industry-accepted controls on the pressure relief safety systems, as well as other process safety management violations.

BP responded by saying that it was in full compliance with the 2005 agreement and that it formally contest all of the accusations.

The company paid $21.4 million to OSHA back in 2005 — the previous record for a fine handed down by the agency — and it has also paid out over $1 billion in compensation to families of the victims of the explosion.

There were several internal and external investigations into the accident, including a report from federal investigators that found a "broken safety culture" at BP (OD Mar.21'07,p1).

OSHA announced the new fine prior to a ruling from the Occupational Health and Safety Review Commission (OHSRC) — a body independent of OSHA — which is considering the case after the two sides failed to reach agreement on the new safety concerns.

BP is now looking to bring the case before an administrative law judge.

The acrimonious dispute was further inflamed by US Labor Secretary Hilda Solis, who told reporters on Friday that the safety failures found at Texas City "could lead to another catastrophe" like the 2005 explosion.

"BP was given four years to correct the safety issues identified pursuant to the settlement agreement, yet OSHA has found hundreds of violations of the agreement and hundreds of new violations. BP still has a great deal of work to do to assure the safety and health of the employees who work at this refinery," Assistant Secretary of Labor for OSHA Jordan Barab said in a statement.

The unprecedented fine followed a bad-tempered exchange of petitions and letters between the two after OSHA wrote to BP in early August warning that the company was in danger of failing to comply with the 2005 agreement.

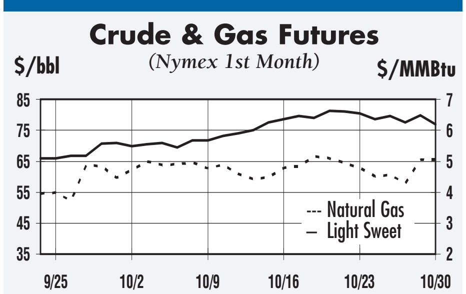
The letter cited consultant reports on boilers, pressure vessels and instruments.

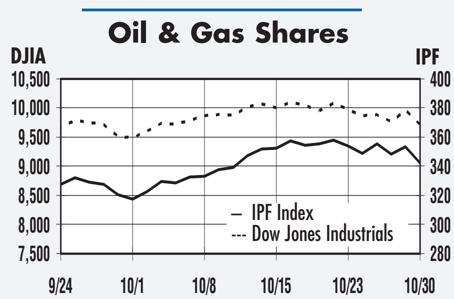
(See BP, page 2)

News in Review

In This Issue:

Latest Market Trends





Cost Cutting Cushions Chevron's Bottom Line

Aggressive cost-cutting measures helped Chevron deliver a better-than-expected earnings performance during the third quarter. The California-based firm is the second integrated major to see its cost reduction efforts soften the impact of lower oil and gas prices.

Chevron posted third-quarter net profits of $3.83 billion ($1.92/share), well ahead of analyst expectations of $1.47 per share. The company earned $7.89 billion ($3.85/share) in the same quarter of last year.

Although earnings for the period were cut by more than half, Chevron's performance was solid compared to the declines of over 60% incurred by larger rivals Exxon Mobil and Royal Dutch Shell. Third-quarter revenues slid 41% to $46.6 billion, in line with Chevron's peers.

A key factor behind the earnings beat was the widespread success Chevron has had in lowering its operating and administrative expenses. The US major has achieved $3.5 billion in savings so far this year, far outpacing its $2.5 billion cost reduction goal for all of 2009.

The ahead-of-schedule pace with which Chevron has captured cost savings mirrors that of UK rival BP, which saw its third-quarter net profits fall just 35%.

The European supermajor set an initial cost reduction goal of $2 billion for 2009 but has since increased its target to $4 billion after hitting the $2 billion mark in the second quarter of this year (OD Oct.28,p2).

However, there are differences in the way Chevron and BP have reached their respective goals.

Around half of BP's reductions have resulted from layoffs and lower supply chain costs, but the remaining savings came from favorable currency rate move-

(See Chevron, page 2)

Canadian Oil Sands Still Showing Signs of Life Despite Slowdown

The past year has been a rough one for companies involved in the development of Canada's vast oil sands deposits, a source of petroleum exceeded only by Saudi Arabia's conventional oil reserves.

However, the recent improvement in the global economy and the accompanying recovery in crude oil prices have provided some encouragement for an industry that is heavily dependent on US demand and high prices to offset steep operating costs.

Fortunately, it appears that one bottleneck — a shortage of pipeline infrastructure — will be alleviated before the end of the year as shipments start on the Keystone pipeline that will increase delivery of Canadian crude to the US Midcontinent region.

Investment and development in Alberta's oil sands "came to a grinding halt" this year, says Robert Mason, head of oil sands in the investment banking group of TD Securities.

"The sector was already showing signs of a significant slowdown in early 2008," he told the Global Refining Strategies conference which was held outside Houston last week

Escalating costs were outpacing the rise in oil prices, while new royalty and environmental regulations introduced by the Alberta government compounded the slowdown. The "land rush" to secure oil sands leases started to slow down and environmental groups stepped up their attacks.

Mason said this created "an atmosphere of increased uncertainty" in which it became increasingly difficult to secure financing for oil sands projects.

Early this year, financing dried up completely and estimates of future production were reduced accordingly. Mason said further downward revisions were likely, also noting that the current narrow light-heavy crude spread has made development of heavy Canadian crudes less profitable.

As this year has progressed there have been signs of resurgent interest in oil sands, highlighted by PetroChina's recent $1.7 billion purchase of majority stakes in two projects (OD Sep.1,p5).

Mason says most companies holding oil sands assets in Canada are still sitting back to see how economic, financial and market conditions develop, but adds that "we have started to see a resurgence of new activity and new interest."

TD's index of the stock prices of Canadian oil sands players is up 35% this year, while around 10 companies have raised capital through equity issues since May. US financiers have tiptoed back into the sector, while Canadian investors remain eager to provide capital.

The main driver of this renewed interest has been the increase in crude prices, although the appreciation of the Canadian dollar against the US currency has countered that somewhat.

Costs are another important variable, and Mason noted that Exxon Mobil has decided to press ahead with its Kearl oil sands project, following a decline in the cost of materials and labor.

In a further encouraging development, pipeline projects connecting the oil sands region with the US have continued to move forward despite the downturn.

Robert Jones, vice president of TransCanada's Keystone project, said the pipeline will start operating later this year, carrying up to 435,000 barrels per day from Hardisty, Alberta to refineries and transit hubs in Illinois. In early 2011, the company expects pipeline throughput to increase to 590,000 b/d and the completion of an extension to Cushing, Oklahoma.

Jones, speaking at the same conference, admitted that postponement of some large development projects by the likes of Total and StatoilHydro will reduce oil sands output, but said growth would continue "although slower than in previous years."

Producers and refiners are both supporting pipeline development, so TransCanada is pressing ahead with plans to extend Keystone all the way to the US Gulf Coast. Jones expects approval for that part of the project in the second quarter of 2010, with crude deliveries starting by 2012.

John Galante, Houston

BP . . .

(Continued from 1)

Though BP had identified some hazards, it had not yet stated what measures it planned in order to control those hazards, OSHA area director Mark Briggs wrote.

BP then submitted a "petition for modification of abatement request" to OSHA. Such petitions are lodged when a "good-faith effort" has been made to comply but factors beyond the "reasonable control" of the petitioner intervene.

OSHA rejected this petition in an Oct. 15 letter, describing BP's claims as invalid. The agency said the appeal would then go to the OHSRC.

"We continue to believe we are in full compliance with the settlement agreement, and we look forward to demonstrating that before the review commission [OHSRC]," BP Texas City Refinery Manager Keith Casey said.

BP Chief Executive Tony Hayward told Energy Intelligence in late September that it would take another couple of years to fully address all of the safety-related issues at the Texas City refinery (OD Sep.28,p1).

James Batty, London

Chevron . . .

(Continued from 1)

ments and lower energy costs.

For Chevron, reduced fuel and energy costs account for less than 10% of the total cost savings thus far. And the company has incurred $677 million in foreign currency charges since January due to a weakening dollar.

Chevron's savings have instead resulted largely from contract renegotiations for labor, materials, supplies and services across its business segments, Chief Financial Officer Pat Yarrington said on the firm's conference call with analysts and investors.

In fact, Yarrington says about two-thirds of the savings attained thus far are "sustainable" moving forward.

"I think we have a tremendous amount of momentum behind us as well…so I would look forward to further positive results in this dimension going forward," said Yarrington.

The CFO stopped short, however, of providing a revised cost-reduction target for the remainder of the year.

Chevron's cost savings were largely recognized on the operations side of its business. Yarrington said little impact will be seen in the company's capital spendng, at least for this year.

"A large portion of [Chevron's capital spending] was already ... pre-committed before coming into the 2009 calendar year," she said. "So the cost-reduction activity you'll see is going to be some in 2009 but really in 2010 and going forward."

Chevron also reported an 11% surge in production volumes for the third quarter, with output rising to 2.7 million barrels of oil equivalent per day from 2.44 million boe/d in the same period of last year.

Chevron's Agbami oil project offshore Nigeria, which came on line four months ahead of schedule, helped drive the better-than-expected output growth (OD Sep.10,p7).

The third-quarter performance leaves the US major well on track to meet its 2.66 million boe/d production outlook for 2009, which the company increased last quarter (OD Aug.3,p1).

Casey Sattler, Houston

Nymex Crude Futures Finish Wobbly Week Markedly Lower at $77

The Nymex December light, sweet crude oil contract picked up downward momentum on Friday as it snowballed to an intraday low of $76. 85 before ending $2.87 lower at $77.00 per barrel — a loss of $3.50 on the week.

A stronger dollar and falling equities provided the trigger for massive sales of oil contracts, traders said, with volumes picking up as the day wore on.

The December future clocked up 350,000 contracts on Nymex, the highest since Jun. 5, with an additional 90,000 contracts traded in its sister contract on ICE Futures. December Brent on ICE Futures fell $2.84 to $75.20 — a drop of $3.72 on the week.

Contradictory macro-economic signals took their toll on Friday, and Thursday's boost from strong GDP growth data in the US was more than offset by Friday's news that US business loan defaults are rising.

What would otherwise have been a quiet day of squaring the books at the end of a trading month turned into a volatile session — a repeat of what happened just two days earlier.

Expiring product futures lent no support to crude. Nymex November gasoline fell 7.58¢ to $1.9432 per barrel while heating oil dropped 7.31¢ to $1.9811.

Although oil market fundamental still seem to have little effect on oil prices, it will not help that US oil demand was assessed 580,000 barrels per day lower in August than initially thought.

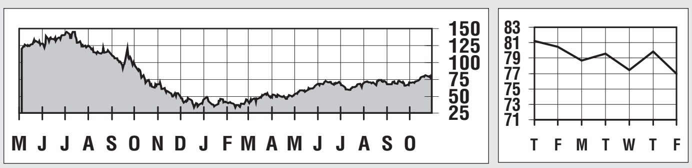
A growing chorus of analysts fear that the economic recovery might be accompanied by little or no growth in oil de-

(See Futures, page 4)

Daily Oil & Gas Price Review

Prices for Friday, October 30, 2009

Crude Oil — Nymex Light Sweet ($/barrel)



Light Sweet Futures — Prompt Month ($/barrel)

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	-2.87	77.00	78.51	77.64	78.27
ICE Brent	-2.84	75.20	76.86	76.00	76.76

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	-2.80	77.01	78.44	69.77	61.92
WTI (Midland)	-2.99	76.46	78.08	69.09	60.95
Brent (Dated)	-2.27	75.10	76.26	66.84	59.74

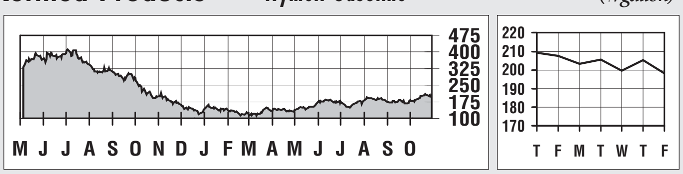
North American Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	-2.89	74.76	76.34	66.69
LLS (St. James)	-2.89	77.96	79.43	70.04
ANS (California)	-3.02	74.94	76.37	68.43
Mars (Clovelly)	-2.99	73.56	75.26	65.46
Maya (Mexico)	-2.44	69.70	71.06	62.67

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket I	+0.41	75.94	77.05	67.70G
Nigeria Bonny Light	-2.27	76.30	77.09	67.94
Dubai	-2.83	74.52	75.63	67.67
Oman	+0.95	76.62	77.13	68.86
Russia Urals	-2.27	74.40	75.56	66.27

Refined Products — Nymex Gasoline (¢/gallon)



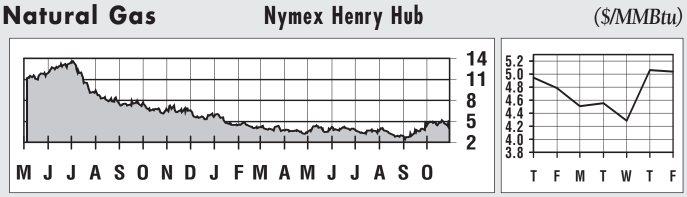
Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	-7.58	194.32	201.06	195.95	198.13
Heating Oil	-7.31	198.11	202.42	200.52	203.81
ICE (London)					
Gasoil ($/ton)	-19.25	624.75	634.15	632.25	641.00
Gasoil (¢/gal.)	-6.11	198.33	201.32	200.71	203.49

US Product Spot Markets H

	Gulf Coast				New York				Los Angeles			
Gasoline (¢/gal.)	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago
Regular Gasoline	-6.69	193.10	198.50	172.80	-6.94	197.60	204.14	174.80	-6.69	188.60	196.14	183.55
Premium Gasoline	-6.69	202.35	207.55	182.05	-6.23	212.52	218.21	187.55	-6.69	212.10	219.94	207.55
Regular RBOB	-6.69	194.10	199.59	169.80	-7.19	194.35	201.04	172.30	-6.69	200.10	207.94	195.55
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	-7.17	195.51	199.28	174.01	-8.33	196.22	200.55	176.01	—	—	—	—
No. 2 Low Sulfur Diesel	-7.17	197.01	200.28	176.76	-8.08	197.47	202.40	178.76	-7.17	201.51	205.48	179.76
Jet Fuel	-7.17	197.51	201.48	177.76	-8.17	200.76	205.08	179.76	-7.17	203.51	207.78	183.76
Residual Fuel ($/bbl)												
No. 6 Oil (low sulfur)	-1.75	71.78A	72.84	63.97	-1.75	74.13B	75.61	63.72	—	—	—	—
No. 6 Oil 1% S	-1.75	71.03C	72.11	63.72	-1.59	71.13D	72.07	63.38	—	—	—	—
No. 6 Oil 3% S	-1.75	68.88	69.93	63.13	-1.65	69.38	70.55	63.17	0.00	460.00E	460.00	435.00

Natural Gas — Nymex Henry Hub ($/MMBtu)



Nymex Henry Hub — Prompt Month ($/million Btu)

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex ($/MMBtu)				
Henry Hub	-0.017	5.045	4.693	5.390

Spot Gas Prices ($/MMBtu) F

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	+0.09	4.57	5.22	2.55
Henry, Louisiana	+0.03	4.13	4.90	2.31
Chicago	+0.04	4.38	5.14	2.42
Katy, Texas	+0.03	4.12	4.92	2.27
Southern California Border	-0.07	4.25	5.10	2.45
AECO Hub (Canada)	0.05	3.92	4.50	2.33

Produced by Oil Daily in cooperation with Reuters. All spot assessments are bid prices published by Reuters at 5.30 p.m. ET.

Notes: A—0.7% sulfur low pour.
B—0.3% sulfur high pour.
C—Low pour.
D—High pour.
E—Price is for 380 CST, given in $/metric ton.
F—Source: *Natural Gas Week*
G—20-day avg.
H—Bid prices for latest spot deals at press time.
I—Opec basket price is for previous day.

Volatile Natgas Futures End Week Lower But Front-Month Contract Holds Above $5

Volatility was the watchword in the natural gas market last week, but oscillating December gas futures were ultimately driven lower by forecasts for above-average temperatures, a rebounding dollar, sinking equities and falling crude oil prices.

"For gas, the action we're seeing now is more focused on storage and the winter outlook, but also GDP growth to a degree," said a gas futures trader in Texas.

The US Commerce Department said last week that the country's gross domestic product expanded at a 3.5% annual pace from July through September, though the news was tempered by those who said the GDP was goosed by the "Cash for Clunkers" program.

Bullishness was also blunted by the Conference Board's consumer confidence index, which dropped to 47.7 from a revised 53.4 in September.

Meanwhile, the US dollar rebounded in large part because of smaller-than-expected Chinese GDP growth and disappointing UK GDP data, which fell 0.4% rather than rising an expected 0.2%.

"Energy is responding to economics not just in the US, but also to what is happening around the globe," said another trader in New York. "When you start to see ugly economic data coming from other countries, then it results in a flight back into US dollars, even though we're facing a mountain of problems, too. And of course, when the dollar strengthens, energy commodities typically fall in price."

Fundamentals also played into last week's gas market fragility, as EarthSat Energy Weather called for normal to above-normal temperatures this week across most of the US. The forecaster also said, on average, temperatures in November and December will probably be above normal.

"The EarthSat forecast really took the wind out of the sails of some of the market bulls that have been looking for very cold temperatures over the next couple of months," said a gas futures trader in Colorado. "If they're correct, and the gas market is unable to take a sizeable bite out of this enormous surplus, then we're setting up for a potential sub-$3 gas market next year."

On the storage front, a modest natural gas storage build produced yet another record. The Energy Information Administration reported a 25 billion cubic foot injection for the week ended Oct. 23, bringing total working gas in storage to 3,759 Bcf.

While the build was seasonably light — the five-year average was around 42 Bcf — storage operators are curtailing flows into brimming facilities. Both the West and Producing regions are now around operational capacity. Preliminary forecasts for this week's report is for a build ranging from 27 Bcf to 33 Bcf. The EIA reported a 12 Bcf build last year.

On the Nymex, December gas futures inched 1.7¢ lower Friday to close at $5.045/MMBtu, down 43.9¢ of the week. On Wednesday, the November gas futures tumbled 26.8¢ for a $4.289/MMBtu expiration. The Nymex three-day settlement average was $4.453. Meanwhile, December crude futures lost $2.87 Friday to close at $77/bbl, down $3.50 for the week.

Technical indicators for December gas remain mixed. On the downside, key support is seen at $4.95, followed by $4.476, $4.33 and $4.05. Key resistance is seen at $5.12, followed by $5.27, $5.35, $5.41 and $5.525.

Friday's Commodity Futures Trading Commission's Commitment of Traders report for the week ended Oct. 27 showed non-commercials in about 75% short futures-only positions for the week.

Alan Lammey, Houston

Baker Hughes Drilling Report

Rig Count Rises by 21

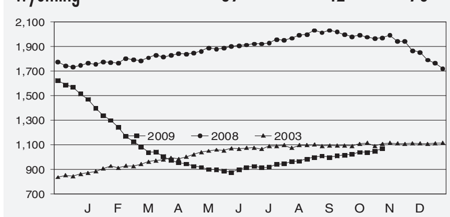
The number of drilling rigs searching for oil and gas in the US rose by 21 last week to 1,069, Baker Hughes said. During the same week last year, there were 1,971 rigs at work.

The number of rigs searching for oil in the US rose by 18 to 330. The number of rigs searching for natural gas rose by three to 728, while the number of miscellaneous rigs held steady at 11.

The number of rigs working in Texas rose by 13 to 411, while the number of rigs at work in Louisiana rose by one to 164. The number of rigs at work in Oklahoma rose by four to 77.

Week Ended Oct. 30

Rotary Rigs	Current Week	Previous Week	Year Ago
Total US	1,069	1,048	1,971
Land	1,021	1,003	1,887
Inland Waters	13	11	19
Offshore	35	34	65
Gulf of Mexico	34	33	62
Total Canada	249	244	443
U.S. Rigs Exploring for:			
Oil	330	312	408
Gas	728	725	1,552
Unspecified	11	11	11
U.S. Rigs by State:			
California	22	23	45
Louisiana	164	163	190
New Mexico	48	47	91
Oklahoma	77	73	197
Texas	411	398	911
Wyoming	39	42	78



Source: Baker Hughes

Futures . . .

(Continued from 3)

mand, especially because the developed OECD economies are pushing to reduce their consumption of petroleum.

But that does not deter speculators who are expecting demand for crude to pick up again soon, which in their view should lead to another supply crunch and a steep rise in oil prices.

Anticipating the crunch, they have directed lots of money towards commodities. On Friday, oil for December 2017 delivery closed at $96.39 — nearly a $20 premium over the current oil price.

In the shorter term, there is little agreement on where prices are headed in the next few months. Some see $100 as a distinct possibility while others argue that $30 would better reflect the current glut of oil in inventories.

"Oil fundamentals are not driving oil prices, financial considerations are," PVM Brokerage said in a note. "If the performance of the market this month is anything to go by then the next $25 move is more likely to be to the upside. "

From a technical perspective, crude oil and products failed to close above their eight-day averages, which, according to technical charts, means that oil has lost its upward price momentum.

Physical oil traders wonder why oil prices are holding up when there is plenty of oil in the market, but they say they cannot predict where the price of oil is going as long as it remains linked to financial trades.

John van Schaik, New York

Total Chief Executive Slams Iraq's Upstream Licensing Terms

Christophe de Margerie, chief executive of France's Total, says the financial terms of Iraq's oil licensing round are not attractive and risk damaging the financial performance of international oil companies if they are imitated elsewhere.

The Total boss maintains that Iraq's service contract is not suited to an "investment company" like Total and he is concerned the fees may not be enough to cover overheads.

"If we only sign deals like this it will be a problem for Big Oil," de Margerie said in an interview with *Oil Daily* sister publication *Petroleum Intelligence Weekly*.

"I've been a little surprised and upset by the terms," De Margerie said of the first licensing round, which was bid on Jun. 30 and featured mostly producing oil fields.

The $15 billion Rumaila contract was the sole award on the day to BP and its partner China National Petroleum Corp. (CNPC).

Total ranked a lowly fourth in the bidding for West Qurna-1, the only field it contested, which is being fought over by Exxon Mobil and Lukoil with ConocoPhillips on the basis of revised offers (OD Oct.20,p1).

"These were brown fields, so you can't expect the same remuneration as for deals linked with exploration, delineation and development. There is less risk, so less reward," De Margerie said.

"But there is a limit. If there is an insufficient reward, it's difficult to cover your overheads ... everything that's bringing added value. To reduce it to a contract, you have to offer it to a contracting company, not an investment company."

The Total chief said that the fixed margins in the contracts would decline in value during the 20-year term and only made sense on such terms if they led to better opportunities at a later date. "If it's only part of what you sign, if it's an entry fee for something else, then okay," he said.

"Definitely it's not with this that you will make long-term profits — for the simple reason that there is no exposure to the price of oil. We can have some fixed margins but this one is decreasing in real value over time."

BP/CNPC accepted a remuneration fee of $2 per barrel to nearly triple Rumaila's production to 2.85 million barrels per day and Italy's Eni recently agreed $2/bbl at Zubair, where it will hike output from 195,000 b/d to 1.125 million b/d within seven years, working with partners Occidental Petroleum, South Korea's Kogas and Iraq's South Oil Co.

BP Chief Executive Tony Hayward has predicted a 15%-20% return from the Rumaila contract and Eni boss Paulo Scaroni said the Zubair contract meets "our requirements in terms of return on investment."

"I don't want to get into a debate with BP or Eni on what is the rate of return — I leave that to them," De Margerie said. "But they cannot say they have access to the same rent as in other countries."

If such contracts were to become the norm he fears that IOCs would be hurt financially: "We have to be careful in the mix of our portfolio that if we do such deals we still have deals that really give access to the rent for the benefit of the company and the shareholders."

Total is preparing for the second round, due to be bid Dec. 11-12, which will include Majnoon, one of two fields it has studied for many years. Because the second-round fields are largely untapped, Baghdad is expected to offer higher fees than in the first round to reflect the higher investment required.

Eni is expected to ink its initial Zubair deal this week and BP/CNPC are due also to sign a final contract for Rumaila after it was approved by the Iraqi cabinet.

Peter Kemp, London

Producers Confident They Can Beat Challenges, Make Marcellus Work

Despite relatively low natural gas prices and the fragile economy, producers operating in the Marcellus Shale are optimistic that hurdles to development can be overcome as they ramp up activity and learn more about the potentially huge Appalachian Basin gas play.

Nevertheless, the pioneering producers face many challengers, including competition for local resources and finding partners to share development costs, independent producers told McGraw Hill's Appalachian Gas Conference in Pittsburgh last week.

There are also political and regulatory challenges, including the possible introduction of a production tax in Pennsylvania and rules to prevent water from being contaminated by chemicals used in hydraulic fracturing, something which has become a hot-button issue in New York state.

Meanwhile, regulators from both Pennsylvania and New York told the conference that the processing of Marcellus Shale drilling permits is running at a much faster pace than they had expected.

Pennsylvania has processed 1,500 applications for Marcellus Shale permits so far this year, exceeding its expectation of 700 for the year. And New York will start tackling nearly 60 backlogged applications once it finalizes a regulatory framework in early 2010.

The Marcellus Shale is found in western Pennsylvania and New York, along with parts of Ohio and West Virginia. Resources estimates vary, with some as high as 400 trillion cubic feet of gas.

Randy Albert, a senior vice president at CNX Gas, said Marcellus operators are constantly learning how to produce more gas for less money.

"We are seeing lower costs while reducing well-spacing and lowering our acreage position," Albert told the conference.

"Wells cost us around $5.2 million in 2008, but are down to $3.5 million today. Our spacing was 160 acres at first, and its down to 40 acres now. Our acreage began at 186,000, and we'll be down to 50,000 by the end of the year," he added.

Henry Harmon, chief executive of independent producer Triana Energy, said he expects to see increasing competition among producers for pipeline capacity, drilling and completion services and water management and disposal.

"I do think a lot of innovative strategies are going to occur going forward," Harmon said. "Producers are going to learn to acquire service providers, and are going to be searching to capture markets as demand issues become critical."

Michael John, president of Northeast Natural Energy, said new markets may open up for Marcellus Shale gas, particularly as utilities continue to shift their electric capacity from coal to gas plants.

"Shale development could make Pennsylvania a net gas exporter in five years," said John, who recently stepped down from a position at Chesapeake to start his own firm. "Or Pennsylvania can elect to use its own gas to power its electric grid."

The Marcellus may also attract the attention of the major oil companies and spur new joint venture deals, said Scott Richardson of RBC Richardson Barr.

"It's just a matter of time before the majors, and the internationals, get into the Marcellus in a big way. The challenges of resource plays are so capital-intensive that you almost need a major," he said.

Companies like Exxon Mobil, Hess, Marathon and StatoilHydro have been seeking opportunities in the play, he noted.

Lauren O'Neil, Pittsburgh

Economic Growth Not Showing Up Yet in US Oil Demand Statistics

Oil prices have consistently reacted strongly to any signs of economic recovery on the assumption that rekindled economic growth would quickly translate into higher demand for energy and oil, particularly in the US.

Thursday was the most recent in a long list of examples, when an announcement by the Commerce Department of higher than expected GDP growth for the third quarter helped spark a gain of$2.41 in the front-month crude contract on the New York Mercantile Exchange.

The effect was both direct and indirect as the prospect of stronger economic growth in the US triggered a rise in equity prices and a decline in the dollar, both of which serve to bolster oil prices.

But there are a couple of relationships that are being overlooked when it comes to the connection between economic growth and growth of oil demand: the link between energy consumption and the broader economy and oil's share of any growth in demand for energy.

Both of these relationships are in a state of flux, with signs pointing to weaker correlations as the US economy becomes less energy-intensive and oil's share of the energy mix comes under pressure from shifting consumer and government preferences.

Thursday's GDP data coincided with a significant downward revision in estimated US oil consumption for August in the US Energy Information Administration's (EIA's) *Petroleum Supply Monthly*.

While things were looking better for the US economy, the oil demand picture was even worse than initially expected based on EIA's weekly data for the same month.

What had been expected to be a marginally up month for US oil demand — a year-on-year rise of 0.2%, according to EIA's weekly data — has ended up to be down by nearly 3% compared to August 2008 and almost 11% below pre-recession August 2007.

US Oil Demand Still Under the Weather

'000 b/d	Aug.'09			% Change vs.	
	PSM*	**WPSR†**	**Rev.**	**Aug.'08**	**Aug.'07**
Gasoline	9,250	9,194	56	1.3%	-3.5%
Jet Fuel	1,450	1,449	1	-11.7	-16.3
Gas Oil	3,383	3,402	-19	-7.5	-18.4
Fuel Oil	493	516	-23	-3.5	-35.2
Other‡	1,964	2,559	-595	-9.7	-25.7
Total	**18,732**	**19,314**	**-582**	**-2.8%**	**-10.9%**

*US EIA, Petroleum Supply Monthly, October 2009. †US EIA, Weekly Petroleum Status Reports. various issues. ‡Naphthas, LPGs, petroleum coke, asphalt, still gas

The culprit in all of this is the economically sensitive "Other" petroleum products category that includes liquefied petroleum gases like propane, ethane and butane and various naphtha-based feedstocks for the petrochemicals industry.

These products, along with gas oil and jet fuel, are all relatively sensitive to the economic situation and in particular to the oil-intensity of economic recovery.

Even though the combined revisions for the major products were positive — as a bump up in gasoline more than compensated for cutbacks for gas oil and fuel oil — the year-on-year comparisons remain pretty dismal.

Jet fuel is still down by 11.7% and gas oil is off by 7.5% with only gasoline managing any sort of growth on the year — a relatively paltry 1.3%. And even gasoline is down by 3.5% compared to two years earlier.

The declines versus August 2007 — a more valid comparison for looking at longer term trends — show losses of more than 15% for the remaining product categories, with fuel oil down 35.2% as it lost share to cheap natural gas.

As with the "jobless recovery" some economists fear that the numbers so far suggest an economic recovery that is not accompanied by a recovery in demand for oil, although comparisons with last year's hurricane-constrained September will undoubtedly restore some hopes.

David Knapp, New York

Japan Crude Imports Slide

Japanese crude oil imports averaged 3.276 million b/d in September, a drop of 18.7% from the same month last year. Japanese crude import volumes have fallen every month this year as refiners have trimmed runs in response to weak product demand.

Looking ahead, imports in October could be even lower, as refinery runs have fallen since September. Japanese refiners have recently been running at roughly 68% of capacity, down from a range between 72% and 77% in September.

Mideast crudes accounted for 90.6% of Japan's imports in September, up from 86.2% the same month last year.

Oman defied the general drop in Mideast volumes for the second month in a row, with imports rising 62.4% year-on-year to 166,000 b/d. Imports from Saudi Arabia and Kuwait remained essentially flat.

Crude from United Arab Emirates, Qatar and Iran all fell more than 25% each from last year's volumes. Russian volumes fell nearly 22% to 109,000 b/d.

EIA Natural Gas Production Report - August

Area	Gulf of Mexico		Louisiana		New Mexico		Oklahoma		Texas		Wyoming		Other States		Lower 48	
Report Month	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.	(Bcf/d)	% Chg.
Aug. '08	7.00	-6.7	3.90 R	0.9	4.09 R	-3.3	5.26	0.7	21.68 R	-0.8	6.84 R	-2.1	14.18	2.6	62.94 R	-0.8
Sep. '08	2.21 R	-68.4	2.96 R	-24	4.07 R	-0.6	5.17	-1.8	20.33 R	-6.2	6.45 R	-5.7	14.21	0.2	55.40 R	-12
Oct. '08	4.55	105.6	3.72 R	25.6	4.17 R	2.4	4.94 R	-4.3	21.85 R	7.5	6.91	7.2	14.35	1	60.49 R	9.2
Nov. '08	5.53 R	21.7	3.92 R	5.3	4.08 R	-2.2	5.15 R	4.1	22.11 R	1.2	7.13	3.1	14.54	1.3	62.45 R	3.2
Dec. '08	5.80 R	4.8	3.80 R	-2.9	3.96 R	-3	5.32 R	3.4	21.94 R	-0.8	6.97 R	-2.1	14.49	-0.3	62.29 R	-0.3
Jan. '09	6.33	9.1	3.87	1.8	3.95	-0.2	5.23	-1.7	22.14	0.9	7.05	1.1	14.34	-1	62.91	1
Feb. '09	6.53	3.2	3.90	0.8	4.09	3.5	5.32	1.7	21.99	-0.7	7.19	2	14.56	1.5	63.58	1.1
Mar. '09	6.77	3.7	3.95	1.3	4.09	0	5.10	-4.1	22.01	0.1	7.17	-0.3	14.47	-0.6	63.55	0
Apr. '09	6.94	2.5	4.06	2.8	4.06	-0.7	5.10	0	21.74	-1.2	7.08	-1.3	14.47	0	63.44	-0.2
May '09	6.71	-3.3	4.16	2.5	4.04	-0.5	5.18	1.6	21.30	-2	7.02	-0.8	14.56	0.6	62.96	-0.8
Jun. '09	7.21	7.5	4.22	1.4	3.89	-3.7	5.21	0.6	21.08	-1	7.12	1.4	14.52	-0.3	63.24	0.4
Jul. '09	7.42 R	2.9	4.37	3.6	3.92	0.8	5.17 R	-0.8	20.84 R	-1.1	6.48 R	-9	14.49 R	-0.2	62.68 R	-0.9
Aug. '09	7.03	-5.3	4.57	4.6	4.01	2.3	5.14	-0.6	20.78	-0.3	6.81	5.1	14.82	2.3	63.17	0.8

Notes: R = Revised, % Change is versus previous month

Source: Energy Information Administration

Mexico's Pemex Pledges Big Investments But Crude Oil Production Keeps Tumbling

Pemex, Mexico's state oil company, is budgeting between $18 billion and $20 billion for capital spending next year, Chief Financial Officer Esteban Levin Balcells said Friday.

That would be in line with this year's projected investment of $20.4 billion and last year's expenditure of $18 billion.

Balcells also said Pemex will likely seek between $8 billion and $10 billion in new funding from the capital markets, banks, and export-credit agencies next year.

Balcells' comments came during a conference call on Pemex's results for the quarter ending Sep. 30.

The company had earlier announced that it lost almost 3.7 billion pesos (US$ 279 million) during the quarter, down from a 14.4 billion peso loss during the corresponding quarter of 2008 (OD Oct.30,p8).

In the most recent quarter, total sales revenues were 293.445 billion pesos (US$22.2 billion), down 20.7% from the third quarter of 2008.

At the same time, total crude production averaged 2.567 billion barrels per day, down 186,000 b/d from the corresponding period last year.

Carlos Morales Gil, director of Pemex Exploration and Production, said output of heavy crude was down 235,000 b/d, largely due to declining production at Mexico's offshore Cantarell field.

Cantarell, once Pemex's flagship field, has seen output fall steadily over the past several years. As recently as 2005, Cantarell produced over 2 million b/d. However, in the most recent quarter, output was just 583,000 b/d.

By comparison, in the third quarter of 2008, Cantarell produced 954,000 b/d.

Pemex said lower crude prices and a fall in exports contributed to the sales decline.

For the most recent quarter, export revenues were 131.336 billion pesos, down 31.3% from 191.074 billion in the year-earlier period. About 84% of exports went to the US.

Despite the drop in oil output, production of natural gas rose somewhat over last year's level, rising 1.5% to 7.066 billion cubic feet per day.

At the same time, Pemex said it has markedly reduced its flaring of natural gas, from 1.338 Bcf/d in the third quarter of 2008 to 1.097 Bcf/d this year.

In recent years, Pemex's efforts to boost Cantarell's output led the firm to flare and burn large amounts of associated gas, as Pemex lacked the infrastructure for gas processing and reinjection (OD Jun.16,p1).

Pemex has come under harsh criticism from President Felipe Calderon and environmental groups because of this.

Jason Fargo, Washington

Southwestern Hits Production Milestone

Southwestern Energy reached an important milestone last week when its combined production of natural gas and crude oil broke through 1 billion cubic feet of equivalent per day (bcfe/d).

Southwestern attributed the production milestone to earlier-than-expected resumption of operations at the Texas Gas Transmission Pipeline which carries gas from the company's largest operating region — the Fayetteville Shale in Arkansas.

Initially, it was thought that the pipeline could be down for several months, causing Southwestern to lower its production guidance for 2009 to 278-288 Bcfe.

With the pipeline back up, Southwestern raised its production guidance for 2009 to 297-300 Bcfe for 2009, about 53% higher than 2008 levels.

Despite the pipeline outage, Southwestern's third-quarter production rose 38% versus the same period of last year to 73.2 Bcfe mostly thanks to booming Fayetteville Shale output.

During the third quarter, Southwestern added three wells in the play with initial production rates of over of 6.0 million cubic feet per day, and in October it added a well with an inital rate of 6.7 MMcf/d — its highest rate in the play to date.

Depressed natural gas prices hurt Southwestern's bottom line, with third-quarter net income falling to $118 million (34¢/share) from $218 million (63¢/share) a year earlier. Revenues fell15% to $370 million.

Chief Executive Harold Korell thinks the price environment will turn around and said he does not expect gas prices tol weigh as heavily on fourth-quarter results.

Meanwhile, the company plans to continue expanding in the Fayetteville Shale, bumping its well count up from 324 to 575 by year-end.

In East Texas, the company is looking to grow its operations in the Haynesville Shale where it hopes to complete a fifth and sixth well by year-end. The four wells Southwestern already has in play have shown strong results, with an average initial production rate of 14.5 MMcf/d.

Korell said Southwestern should start drilling its undeveloped Marcellus Shale acreage in Pennsylvania early next year. Southwestern expects to run a three-rig program in the play.

Deirdre Daly, New York

Petrobras to Start Importing Heavy Crude Into Asia via Japan

Brazil's Petrobras said last week it is set to start importing heavy oil next year at its refinery in Okinawa, Japan, where it has 9.6 million barrels of storage capacity. The crude will be resold rather than processed by the 100,000 b/d refinery, which is only able to handle lighter, low-sulfur crudes.

Petrobras plans to use very large crude carriers to import crude from Brazil and elsewhere to Okinawa, from where it would be sold to smaller regional markets that are unable to receive such huge tankers, a company source said.

The Brazilian company has not yet decided which crudes it will import into Japan. Petrobras' export crudes typically have low sulfur content and an API gravity as low as 19° for its Brazilian Marlim grade.

More storage space has become available at the refinery site after a lease with the Japanese government for storing oil reserves expired earlier this year, the source said.

Petrobras Chief Executive Jose Sergio Gabrielli reiterated his company's ambitions for the Okinawa refinery to become the firm's main distribution center in Asia. Petrobras owns 87.5% of the refinery, since it bought Exxon Mobil's stake last year (OD Apr.2'08,p7).

Petrobras will mainly target the spot market since Unipec, Chinese refiner Sinopec's trading arm, is its only Asian term buyer so far. Petrobras will supply Unipec with 150,000 b/d in the first year as part of a 10-year deal signed in May. Petrobras currently sells 50,000-100,000 b/d of spot crude in Asia.

Petrobras had planned to upgrade the Okinawa refinery to process Brazilian heavy crudes, but the recent thinning of spreads between Brent and Dubai crudes led the company to reconsider its initial plan.

One industry observer notes that this recent market trend reduces Petrobras' urgency to upgrade the refinery, and the company may choose to prioritize upstream projects in Brazil, where it is busy developing huge subsalt oil reserves.

Gabrielli said Petrobras has commissioned a study on consumption trends in Asia that would provide guidance for the revamp project.

Petrobras is also pushing ahead with introducing ethanol-blended gasoline in Japan.

The firm started marketing ethanol-blended gasoline to a second Japanese service station this week.

In March, Brazil Japan Ethanol, a joint venture between Petrobras and Japan Alcohol Trading, started selling E3, gasoline blended with 3% ethanol, by blending gasoline produced at the Okinawa refinery.

Clara Tan, Singapore

NEWS ALERT

From staff and wire reports

Earnings

Berry's Profits Shrink

Berry Petroleum reported net income of $19 million (41¢/share) for the third quarter of 2009, compared to net income of $53.3 million ($1.16/share) in the same period of 2008.

Items that affected net income for the quarter included a non-cash gain on hedges, the write-off of certain costs related to Berry's credit facility, a net gain on asset sales, and inventoried volumes from the company's Poso Creek property that were sold in the third quarter.

In total these items increased net income for the third quarter of 2009 by about $3.3 million (7¢/share) for an adjusted third-quarter net income of $15.7 million (34¢/share).

Berry's third-quarter production averaged 19,310 boe/d of oil and 9,107 boe/d of natural gas, down from 21,162 boe/d of oil and 13,988 boe/d of natural gas in the third quarter of 2008.

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Sinopec Earnings Rise

Thanks to lower oil prices and domestic pricing reforms, China's largest refiner Sinopec reported a third-quarter profit of 16.55 billion yuan ($2.42 billion), up 124% from the same period in 2008.

In its results for the first nine months of the year released late Thursday, the firm said domestic product pricing and taxation reforms implemented by the government have improved the "operational environment" of the refining segment while domestic demand for oil products has also "stopped falling and begun to rebound."

Compared with rivals PetroChina and China National Offshore Oil Corp, Sinopec was hit severely in 2008 by the huge disparity between record international crude prices and capped retail product prices at home.

In the retail segment, Sinopec said that although total oil product sales fell 5.5% to 89.57 million tons in the first nine months of the year, sales in the third quarter were up 1.85% compared to the second quarter.

Sinopec's third-quarter refining throughput rose 5.2% year-on-year to 47.5 million tons (3.79 million b/d), with gasoline output up 3.2% to 8.58 million tons (789,000 b/d) and jet kerosene production up 42% to 2.86 million tons (249,000 b/d). However, gas oil output fell 4.2% to 18.16 million tons (1.49 million b/d).

Upstream crude output rose 1.5% to 827,800 b/d in the third quarter, while gas output rose 2.9% to 799 million cubic feet per day. All of Sinopec's output is domestic as international assets are controlled by parent Sinopec Group.

Exploration & Production

Chesapeake Production Rises

Chesapeake Energy said its third-quarter production rose 7% versus the same period of last year, at a time where low natural gas prices prompted the company to slow down its drilling.

Chesapeake, based in Oklahoma City, said its quarterly output averaged 2.483 Bcfe/d, an increase of 1% over the prior quarter.

Chesapeake began the third quarter of 2009 with estimated proved reserves of 12.5 Tcfe and ended the period with 12 Tcfe, a decrease of 4%.

The decline in reserves was due to a drop in natural gas prices and divestitures, the company said.

Stock Market Scorecard

Integrated Majors	Close 10/30	1-Day Chg.	% Chg.	% Chg. 10-Day	% Chg. 52-Wk	% Chg. YTD
Chevron	76.54	-1.41	-1.81%	-0.20%	+9.31%	+3.47%
ConocoPhillips	50.18	-1.15	-2.24	-3.07	+0.04	-3.13
BP	56.62	-1.68	-2.88	+3.40	+21.71	+21.14
Exxon Mobil	71.67	-2.29	-3.10	-1.74	-4.26	-10.22
Shell-A	59.41	-1.95	-3.18	-1.77	+14.94	+12.22
Hess	54.74	-1.83	-3.23	-9.63	+8.37	+2.05
Shell-B	58.16	-1.97	-3.28	-1.24	+14.96	+13.09
Total	60.07	-2.41	-3.86	-4.64	+18.39	+8.63
Repsol YPF	26.60	-1.07	-3.87	-5.67	+51.91	+23.66
Marathon	31.97	-1.43	-4.28	-8.79	+28.14	+16.85
Statoil	23.66	-1.10	-4.44	-4.79	+34.89	+42.02
Suncor	33.02	-1.54	-4.46	-15.40	+66.60	+69.33
Eni	49.58	-2.72	-5.20	-7.95	+20.75	+3.68
IPF Index	**341.95**	**-11.31**	**-3.20**	**-2.94**	**+7.06**	**+0.67**
Large Producers						
Apache	94.12	-2.97	-3.06	-8.33	+31.64	+26.28
XTO Energy	41.56	-1.56	-3.62	-7.17	+29.47	+17.83
Murphy Oil	61.14	-2.35	-3.70	-5.44	+36.17	+37.86
Occidental	75.88	-3.26	-4.12	-8.73	+52.68	+26.49
EnCana	55.39	-2.39	-4.14	-11.64	+26.72	+19.17
Devon Energy	64.71	-3.18	-4.68	-9.71	-7.86	-1.52
Canadian Natural	64.67	-3.21	-4.73	-15.01	+61.51	+61.76
Anadarko	60.93	-3.05	-4.77	-7.46	+104.05	+58.05
Talisman	16.97	-0.86	-4.82	-12.07	+114.00	+69.87
EOG Resources	81.66	-4.18	-4.87	-12.33	+20.92	+22.65
Nexen	21.47	-1.27	-5.58	-14.77	+70.53	+22.13
Chesapeake	24.50	-1.54	-5.91	-15.31	+25.83	+51.52
Pioneer	41.11	-2.99	-6.78	-3.23	+73.09	+154.08
Refiners						
Sunoco	30.80	-1.15	-3.60	-6.10	+13.19	-29.13
Valero	18.10	-0.84	-4.44	-10.17	+7.67	-16.36
Tesoro	14.14	-0.67	-4.52	-10.68	+47.14	+7.37
Holly	29.01	-1.51	-4.95	-2.49	+75.61	+59.13
Frontier Oil	13.86	-0.79	-5.39	-8.09	+33.27	+9.74
Alon	8.40	-0.60	-6.67	-15.66	+19.32	-8.20
Integrated Energy						
TransCanada	30.54	+0.04	+0.13	-3.99	+13.32	+12.53
Enbridge	38.84	-0.05	-0.13	-5.87	+26.68	+19.62
Sempra	51.45	-0.72	-1.38	-2.87	+20.94	+20.69
Duke Energy	15.82	-0.29	-1.80	-0.19	-5.16	+5.40
Oneok	36.21	-0.94	-2.53	-5.41	+22.00	+24.35
Williams	18.85	-0.67	-3.43	-6.82	+9.15	+30.18
El Paso	9.81	-0.51	-4.94	-12.02	+18.62	+25.29
Service Companies						
Transocean	83.91	-2.93	-3.37	-8.28	+26.01	+77.59
Halliburton	29.21	-1.12	-3.69	-2.14	+60.05	+60.67
Schlumberger	62.20	-2.60	-4.01	-9.58	+29.58	+46.94
Baker Hughes	42.07	-2.18	-4.93	-11.75	+35.23	+31.18
Ensco	45.79	-2.39	-4.96	-5.28	+21.11	+61.29
Nabors	20.83	-1.50	-6.72	-9.12	+70.32	+74.02
Patterson-UTI	15.58	-1.16	-6.93	-10.97	+35.01	+35.36

Note: Ranked by daily percentage change.

International

Size of Ormen Lange in Doubt

The Norwegian Petroleum Directorate (NPD), for the first time, has acknowledged "uncertainty" over the size of reserves at the Ormen Lange field, the country's second-largest gas field, discovered in 1997.

Norwegian press reports two months ago suggested that estimated reserves at

Ormen Lange — a key gas supply source for the UK — may need to be downgraded by as much as 25%.

In a statement issued Friday about appraisal well 6305/5-3 S, drilled by Ormen Lange's operator Royal Dutch Shell to delineate the northern extent of the field, NPD said that "water-gas contact was found at a shallower point than in the main part of the field."

NPD continued: "The result of this appraisal well will be incorporated into a major interpretation task aimed at providing a better resource estimate for the Ormen Lange field. It is uncertain whether the original upside potential can be realized."

Fresh Ormen Lange gas reserve data have not been issued, so NPD's official figures remain at 394.7 Bcm (14 Tcf) of "original reserves," with 381.6 Bcm still remaining at end-2008. NPD said that Shell would be best placed to say when a revised figure might be released.

But Norske Shell spokeswoman Kitty Eide said that any new reserve figures would come from NPD.

Transneft Slashes Investments

Russian national pipeline operator Transneft said Friday that its investment program for 2010 will total between 190 billion rubles ($6.5 billion) and 200 billion rubles. This compares with 217 billion rubles announced by the company earlier.

The funds will be used to finance the expansion of the company's crude transportation network, Transneft Vice President Vladimir Kushnaryov was quoted as saying Friday.

Meanwhile, the company said its net profit dropped almost 6% to 2.6 billion rubles in January-September year-on-year.

But Transneft says it doesn't expect an increase in net profit in the future due to huge investments into the building of new oil transportation facilities. "The pipeline's development is the key target for the monopoly," Kushnaryov said.

Transneft said last month it plans to launch the first 600,000 b/d phase of its massive East Siberia-Pacific Ocean (Espo) pipeline, designed to supply Asia with crude, on Dec. 25. It intends to start building Espo's 1 million b/d second stage in January, gradually ramping up to its full capacity.

China's Oil Demand Inches Up

China's overall apparent oil demand rose 1.6% year-on-year to 7.96 million barrels per day in the first three quarters of 2009, Energy Intelligence calculations suggest.

Crude oil output was flat at 3.8 million b/d while crude imports were up 8.6% at 3.92 million b/d compared with the same period of 2008. Imports of major oil products fell 2.7% to 836,000 b/d while product exports rose 40% year-on-year to 496,000 b/d.

Demand growth now looks likely to take off again. This is partly because macroeconomic activity is picking up following efforts by Beijing to boost domestic consumption, with the economy growing 8.9% in the third quarter versus last year.

It is also because of the low base against which comparisons will be made: Oil demand dropped in the fourth quarter of 2008 as a direct result of the economic downturn. This September alone, oil demand rose 5.1% to 8.13 million b/d, as crude imports expanded 14.5% to 4.2 million b/d.

This week, Sinopec's senior vice president, Zhang Jianhua, said the state refiner expects fuel sales in the fourth quarter to surpass 2008 levels. Reuters also quoted him as saying that sales of oil products have been growing since August.

Refining

Shell, Essar in Refinery Talks

Royal Dutch Shell said it had entered exclusive talks with India's Essar Oil on the sale of three European refineries, as the oil major refocuses its downstream operations on the US and Asia.

"We are only talking to Essar," a spokesman said on Friday.

Shell put the plants at Stanlow in northwest England and at Heide and Hamburg in Germany on the market earlier this year and media reports have valued them at between £1 billion and £1.5 billion ($2.48 billion).

Tight margins and falling fuel demand have prompted many big oil companies to offload European refineries and Shell's Chief Executive Peter Voser said earlier this month it was a challenging time at which to sell refineries.

The spokesman said it was unclear whether a sale would be concluded. Shell has said it could close refineries that it fails to sell, or convert them into storage terminals.