

11 October 2006

## HIGHLIGHTS

- **Crude futures** held around \$60/bbl in early October as emerging talk of OPEC cuts balanced seasonally weak product demand and a lull in crude buying by refiners ahead of maintenance. However, while crude futures have fallen by \$18/bbl from their peak in early August, they remain historically high in both nominal and real terms.
- Slight downward revisions to the US leave **global oil demand** at 84.6 mb/d (+1.2% y/y) in 2006 and 86.0 mb/d in 2007 (+1.7%). While high oil prices, benign weather and low natural gas prices have contributed to a 0.2% contraction in 2006 OECD oil product demand, non-OECD growth is still robust, driven by China and the Middle East.
- **World oil output** fell 180 kb/d in September to 85.4 mb/d, led by lower OPEC supply. Recovering Alaskan and GOM production keep the non-OPEC 2006 forecast unchanged at 51.0 mb/d, but next year's non-OPEC total is revised 160 kb/d lower to 52.7 mb/d. Downward adjustments are in North America and several smaller non-OECD producers.
- September **OPEC crude supply** fell 155 kb/d to 29.8 mb/d, with reductions from Saudi Arabia, Iran and Nigeria. OPEC is discussing a further 1 mb/d cut which, if implemented, would raise effective spare capacity from its currently low 1.9 mb/d. The 4Q 'call on OPEC crude and stock change' averages 29.5 mb/d and 28.5 mb/d in 2007, subject to perennial winter demand and non-OPEC supply uncertainties.
- Total **OECD industry oil stocks** built by 22 mb in August. Increased refinery runs led to falling crude stocks in all regions but these were offset by higher product inventories. Distillate and 'other products' stocks in North America and the Pacific were notably higher. OECD forward demand cover came to 55 days, on a par with July and one day above last year.
- **OECD crude throughput** reached 40.3 mb/d in August, the third highest monthly average since January 2000. However, increased maintenance and voluntary run cuts in the Asia Pacific region will curtail runs in the short term, but throughput should seasonally rebound in 4Q.

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## A DEFINING WINTER

This month's *Oil Market Report (OMR)* sheds further light on the recent sharp decline in the oil price: stocks are higher, demand is weaker than previously expected, the hurricane risk has been downgraded and recent gasoline tightness has eased. But, while some aspects of the market may be easing, there are others that remain tight.

Comprehensive monthly US demand data have, since last October, come in lower than provisional weekly data and a pattern of downward adjustments to the 2006 forecast has also emerged - effects we have now carried through for the rest of the third quarter and beyond. A small offset from a higher baseline may be seen next month following the release of more accurate US annual data for 2005 (as the *OMR* was going to press), but it should be noted that this report already contains an adjustment to accommodate an upward bias in annual revisions.

OECD demand is projected to be unchanged in 2006, with China and the Middle East largely responsible for this year's 1.0 mb/d of global growth. Even though prices have dampened oil demand growth from 2004's 3.1 mb/d, this year's lower growth will still lead to a record 86.5 mb/d this winter. Some of this demand should be offset by rising non-OPEC supplies, which should see quarterly growth of 1 mb/d and 0.8 mb/d in the fourth quarter and first quarter next year. But there are risks. Although a conservative start-up profile has been employed for the new projects coming on line this winter, the possibility that additional delay or disruption could dampen non-OPEC supplies by up to 400 kb/d each year is flagged every month in this report.

Even excluding an allowance for delays, the 'call on OPEC crude and stock change' reaches 29.5 mb/d in 4Q before easing to 29 mb/d in the first quarter of next year. Allowing for the average 0.7 mb/d statistical difference between supply and demand raises the 'call' to 30.2 and 29.7 mb/d respectively. While the statistical difference appears to be seasonal and lower in the winter months, the concentration of project start-ups in these two quarters increases the potential for delay. Either way, the next six months are likely to see a call on OPEC oil not vastly different from the producer group's current output.

The stock picture, heading into the winter months, appears better than it has for several years. Upward revisions to OECD June and July data raise the baseline and provisional August data post a counter-seasonal build. This trend continued in weekly Japanese and US numbers, which suggests rising stocks in the third quarter. Overall, OECD commercial petroleum stocks have built in recent months to around 55 days of forward supply. Although at the higher end of the five-year range, this comparison is within a period when stocks have generally been tight. Further, heading into winter, forward demand cover of OECD middle distillate stocks is mid-range at 32 days, while those of gasoline remain tight. Brimming fuel oil stocks are of little use considering the structural shifts in oil demand.

Crude stocks are not out of line with winter demand needs and in the current troubled geopolitical climate this is welcome. Negotiations with Iran over nuclear issues and the fall in the gasoline price may have shifted oil market concerns in the past few weeks, but geopolitical risks remain. Further, since forward prices are higher than spot prices, this stock cushion can also be financed by the markets for a considerable forward period, leaving little incentive for the market to use this as a day-to-day source of supply.

Moreover, there are factors beyond the crude balance that explain recent high prices. This report has regularly emphasised the importance of refinery upgrading tightness as a factor in high oil prices and argued that much of the second quarter price rise reflected the challenges of meeting changing product specifications and environmental regulations in the summer months.

Weakening gasoline prices were a major factor behind the fall in the crude market in August and September, but do not in themselves suggest that the crude balance has shifted. While the consequent fall in refining margins, together with seasonal maintenance, triggered weaker crude demand, these are likely to be temporary factors. More certain is that geopolitics, tight upstream capacity and cold weather demand have the potential to inflict more price volatility on a finely balanced market this winter. With or without rumoured OPEC output cuts, the short-term price risks seem skewed to the upside. But ironically the more pervasive factor could be a repeat of the low oil demand growth seen over the past two years - an outcome all the more likely if oil prices return to second quarter peaks, but one that is still possible if prices stay at current levels (which were, after all, considered high just one year ago).

## DEMAND

### Summary

- **Global oil product demand** has been lowered slightly to 84.6 mb/d in 2006 (+1.2% compared to 2005) and to 86.0 mb/d in 2007 (+1.7% versus 2006). This follows a relatively optimistic assessment of the world's economic outlook by the International Monetary Fund, coupled with downward revisions in North America. Global demand is expected to be pulled up by strong non-OECD consumption.

**Global Oil Demand from 2005 to 2007**

|   | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 2007 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Demand (mb/d)                           | 84.6 | 82.4 | 83.2 | 84.0 | 83.5 | 84.9 | 83.0 | 84.2 | 86.2 | 84.6 | 86.5 | 84.5 | 85.8 | 87.4 | 86.0 |
| Annual Change (%)                       | 2.6  | 1.5  | 1.4  | -0.1 | 1.3  | 0.4  | 0.8  | 1.2  | 2.6  | 1.2  | 1.9  | 1.7  | 1.9  | 1.3  | 1.7  |
| Annual Change (mb/d)                    | 2.1  | 1.2  | 1.1  | -0.1 | 1.1  | 0.3  | 0.6  | 1.0  | 2.2  | 1.0  | 1.6  | 1.4  | 1.6  | 1.1  | 1.4  |
| Changes from last month's report (mb/d) | 0.0  | -0.1 | -0.1 | -0.1 | 0.0  | -0.1 | -0.1 | -0.3 | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 |

**Global Oil Demand by Region**

(million barrels per day)

|               | Demand |       | Annual Change |       |       | Annual Change (%) |      |      |
|---------------|--------|-------|---------------|-------|-------|-------------------|------|------|
|               | 2006   | 2007  | 2005          | 2006  | 2007  | 2005              | 2006 | 2007 |
| North America | 25.44  | 25.75 | 0.09          | -0.03 | 0.31  | 0.3               | -0.1 | 1.2  |
| Europe        | 16.20  | 16.18 | 0.01          | 0.00  | -0.02 | 0.1               | 0.0  | -0.1 |
| OECD Pacific  | 8.54   | 8.52  | 0.10          | -0.05 | -0.02 | 1.2               | -0.6 | -0.2 |
| China         | 7.04   | 7.43  | 0.17          | 0.42  | 0.39  | 2.6               | 6.4  | 5.5  |
| Other Asia    | 8.88   | 9.10  | 0.16          | 0.09  | 0.22  | 1.8               | 1.1  | 2.5  |
| Subtotal Asia | 24.46  | 25.05 | 0.43          | 0.46  | 0.59  | 1.8               | 1.9  | 2.4  |
| FSU           | 3.90   | 3.93  | 0.05          | 0.09  | 0.03  | 1.3               | 2.4  | 0.8  |
| Middle East   | 6.45   | 6.80  | 0.32          | 0.33  | 0.35  | 5.6               | 5.4  | 5.4  |
| Africa        | 2.94   | 3.02  | 0.08          | 0.07  | 0.07  | 3.0               | 2.4  | 2.4  |
| Latin America | 5.19   | 5.30  | 0.13          | 0.10  | 0.11  | 2.7               | 1.9  | 2.2  |
| World         | 84.57  | 86.02 | 1.11          | 1.03  | 1.45  | 1.3               | 1.2  | 1.7  |

- **OECD oil product demand** has been revised downwards by 80 kb/d in 2006 and 190 kb/d in 2007, as a result of the IMF's reassessment of the US economy and adjustments to preliminary US data. As such, OECD oil product demand is now forecast to contract by 0.2% in 2006 to 49.4 mb/d, and increase modestly by 0.5% to 49.7 mb/d in 2007. More adjustments to OECD figures may occur, following the release of official revisions to US 2005 demand, a reappraisal of forthcoming winter demand and further signs of a slowing US economy.

**Unadjusted Preliminary Inland Deliveries - August 2006<sup>1</sup>**

|                  | Gasoline     |            | Jet/Kerosene |             | Diesel      |            | Other Gasoil |              | RFO         |              | Other <sup>2</sup> |            | Total Products |             |
|------------------|--------------|------------|--------------|-------------|-------------|------------|--------------|--------------|-------------|--------------|--------------------|------------|----------------|-------------|
|                  | mb/d         | % pa       | mb/d         | % pa        | mb/d        | % pa       | mb/d         | % pa         | mb/d        | % pa         | mb/d               | % pa       | mb/d           | % pa        |
| USA <sup>3</sup> | 9.59         | 1.5        | 1.70         | 2.8         | 3.30        | 7.6        | 0.80         | -12.2        | 0.65        | -35.6        | 5.2                | -0.7       | 21.24          | -0.4        |
| Canada           | 0.76         | 0.0        | 0.13         | -3.8        | 0.52        | 6.2        | 0.04         | -2.8         | 0.12        | -8.7         | 0.3                | 2.3        | 1.87           | 1.1         |
| Mexico           | 0.73         | 7.6        | 0.06         | 1.6         | 0.36        | 7.9        | 0.00         | na           | 0.27        | -23.3        | 0.4                | 0.8        | 1.79           | 0.0         |
| Japan            | 1.14         | -4.1       | 0.24         | -21.5       | 0.61        | -5.0       | 0.36         | -15.0        | 0.38        | -22.9        | 1.6                | 9.5        | 4.30           | -4.1        |
| Korea            | 0.18         | -2.7       | 0.08         | 5.6         | 0.38        | 3.8        | 0.03         | -40.0        | 0.21        | 8.3          | 1.2                | 5.5        | 2.03           | 3.5         |
| France           | 0.25         | -8.7       | 0.15         | 1.1         | 0.62        | 0.7        | 0.24         | -30.0        | 0.05        | 0.9          | 0.4                | -0.6       | 1.73           | -6.7        |
| Germany          | 0.52         | -6.3       | 0.20         | 2.7         | 0.59        | -2.9       | 0.54         | -17.4        | 0.11        | -5.2         | 0.5                | -3.1       | 2.45           | -6.9        |
| Italy            | 0.30         | -7.1       | 0.10         | 0.3         | 0.46        | 3.2        | 0.08         | -3.3         | 0.08        | -17.7        | 0.4                | -6.1       | 1.37           | -3.7        |
| <b>Total</b>     | <b>13.47</b> | <b>0.4</b> | <b>2.64</b>  | <b>-0.4</b> | <b>6.84</b> | <b>4.1</b> | <b>2.07</b>  | <b>-16.6</b> | <b>1.87</b> | <b>-23.5</b> | <b>9.9</b>         | <b>1.3</b> | <b>36.79</b>   | <b>-1.4</b> |

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOG, France CPDP, Germany MWV, Italy Ministry of Industry.

<sup>1</sup> Excludes refinery fuel and bunkers (except US).

<sup>2</sup> Includes direct use of crude oil.

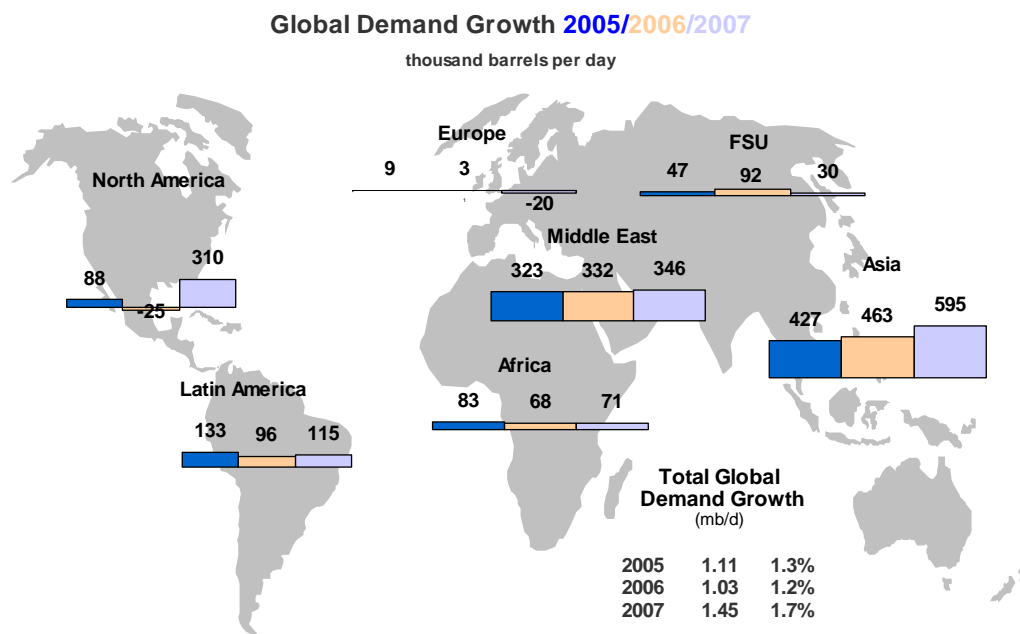
<sup>3</sup> Fifty states only. Diesel's share of total distillate is estimated.

Note: Adjustments may be made to Preliminary Inland Delivery data when used in this report.

- **Non-OECD oil product demand** remains virtually unchanged at 35.1 mb/d in 2006 (+3.3% compared to 2005) and 36.3 mb/d in 2007 (+3.4% versus 2006). Non-OECD consumption continues to be sustained by China's strong demand in most product categories, as well as robust growth in the Middle East. China's apparent consumption is expected to grow by 6.4% in 2006 and by 5.5% in 2007.

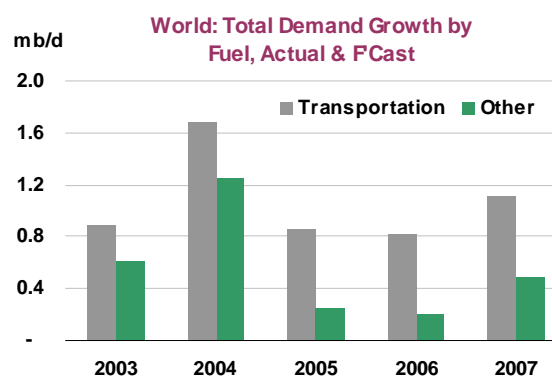
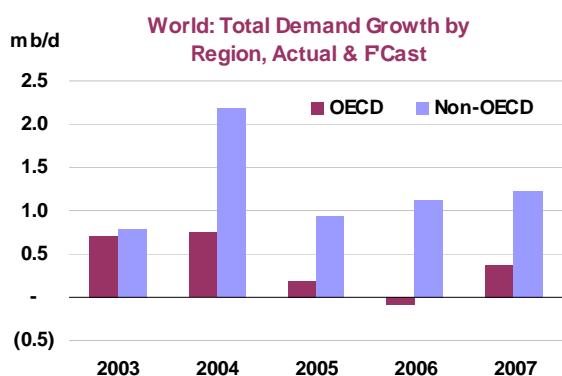
## Worldwide Overview

The latest IMF economic outlook portrays a relatively buoyant global economy despite anecdotal signs of a US slowdown. As noted in the text box below, the Fund made only minor adjustments to its projections, with the major exception of China, the fourth largest economy at market exchange rates. Overall, this economic picture argues for close-to-trend global oil product demand in 2007. Taking into account the Fund's economic outlook, coupled with downward revisions in North America, we have kept our global growth forecasts essentially unchanged compared to our last report: we foresee demand growing by +1.2% in 2006 to 84.6 mb/d, and by +1.7% in 2007 to 86.0 mb/d.



Although in absolute terms global demand growth in 2006 is expected to be similar to that of 2005 (roughly +1.0 mb/d in each year), it now stands to rebound in 2007 by about +1.5 mb/d. The relentless rise of transportation fuel prices (gasoline, jet fuel, diesel and bunkers), coupled with benign weather conditions (no hurricanes and mild temperatures) and lower natural gas prices, has arguably contributed to moderate growth this year. The picture, however, is blurred given the significant differences that can be observed across regions. For example, many small Asian countries were forced to abandon costly subsidies, thereby smothering domestic demand, while other big consumers are reluctant to curb their own consumption for domestic political reasons.

In 2007, demand is expected to be pulled up by strong non-OECD consumption, particularly from China (for which the IMF just raised its GDP forecast over 2007-2011, to roughly 9.5% per year on average). Although OECD consumption accounts for almost 60% of worldwide demand, over 80% of global demand growth is attributable to non-OECD countries (according to 2005 data). This reflects ongoing structural changes in the world economy, since several non-OECD nations will be among the largest economies in the medium term. Moreover, most of these economies are generally much more energy-intensive per unit of GDP.



Meanwhile, the trend in OECD countries over the past few years has been of little or no growth in oil product demand, despite offsetting differences (e.g., gasoline consumption increasing in the US but declining in Europe). Subject to normal winter weather caveats, we also expect total aggregate demand in 2006 to be similar to that observed in 2005.

In terms of fuels, the consumption of transportation fuels is growing much faster than other categories – industrial demand for products such as naphtha and fuel oil is falling as users switch to currently cheaper natural gas or even coal. LNG, in particular, has increased the availability of natural gas in Asia/Pacific. In the US, natural gas has been cheaper than fuel oil for some months, but the discount has increased as prices plummeted because of mild weather, rising stocks and a lacklustre hurricane season (from \$15.8/MBtu in December 2005 to \$4.8/MBtu in October 2006).

## Forecasting the World Economy and Demand Growth

Despite growing concerns about the slowdown of the world economy and its likely consequences for global oil product demand, the IMF's latest *World Economic Outlook*, published in mid-September, is cautiously optimistic. The Fund made only minor revisions to its forecasts, particularly for the largest ten economies, compared to those of April 2006.

Although the IMF has lowered its US forecast for 2007-10, it leaves unchanged its prognosis for 2006. Moreover, over the next four years the US is still seen growing at a respectable 3% annually on average. More significantly, the Fund has raised its Chinese growth forecast by 0.5 percentage point this year and by a full point for the next four years. Improved prospects in France, Japan and Russia will also contribute to offset slower US growth. It should be noted that this report makes interim adjustments to its economic model where appropriate, based on the figures provided by the IMF, the OECD and Consensus Economics.

| The World's Ten<br>Largest Economies | GDP Annual Change, % |       |       |      | Difference vs. Previous (April<br>2006) |        |        | Rank 2005<br>At Mkt<br>Exchange<br>Rates |
|--------------------------------------|----------------------|-------|-------|------|---|--------|--------|--|
|                                      | 2005                 | 2006  | 2007  | 2010 | 2006                                    | 2007   | 2010   |  |
| Brazil                               | 2.28                 | 3.65  | 3.96  | 3.53 | 0.15                                    | 0.45   | 0.03   | 10                                       |
| Canada                               | 2.94                 | 3.10  | 2.95  | 2.90 | 0.02                                    | (0.06) | 0.00   | 8  |
| China                                | 10.20                | 10.00 | 10.00 | 9.00 | 0.50                                    | 1.00   | 1.00   | 4  |
| France                               | 1.19                 | 2.38  | 2.30  | 2.42 | 0.35                                    | 0.17   | 0.20   | 6  |
| Germany                              | 0.87                 | 2.05  | 1.30  | 1.61 | 0.71                                    | 0.29   | (0.35) | 3  |
| Italy                                | (0.04)               | 1.54  | 1.34  | 1.60 | 0.30                                    | (0.06) | (0.14) | 7  |
| Japan                                | 2.62                 | 2.67  | 2.12  | 1.84 | (0.13)                                  | 0.05   | 0.16   | 2  |
| Spain                                | 3.43                 | 3.45  | 2.95  | 3.24 | 0.12                                    | (0.23) | 0.08   | 9  |
| United Kingdom                       | 1.86                 | 2.75  | 2.75  | 2.60 | 0.23                                    | 0.08   | (0.01) | 5  |
| United States                        | 3.22                 | 3.43  | 2.92  | 3.11 | 0.01                                    | (0.41) | (0.12) | 1  |

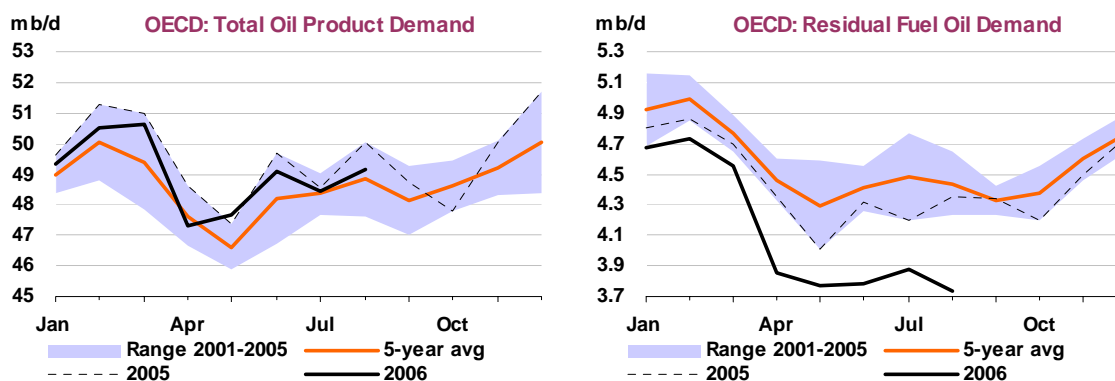
Source: International Monetary Fund, *World Economic Outlook*, 2005 and 2006 editions

But even if the world economy seems to be so far in better shape than anticipated, with the US economy holding its own and China's continuing to roar ahead, the IMF warns about risks of slowdown, notably in the US. Anecdotal evidence – recent, weaker-than-expected manufacturing surveys by the Federal Reserve Bank of Philadelphia and the Institute of Supply Management, falling bond yields and concerns about cooling house prices – suggests a slowing growth trends.

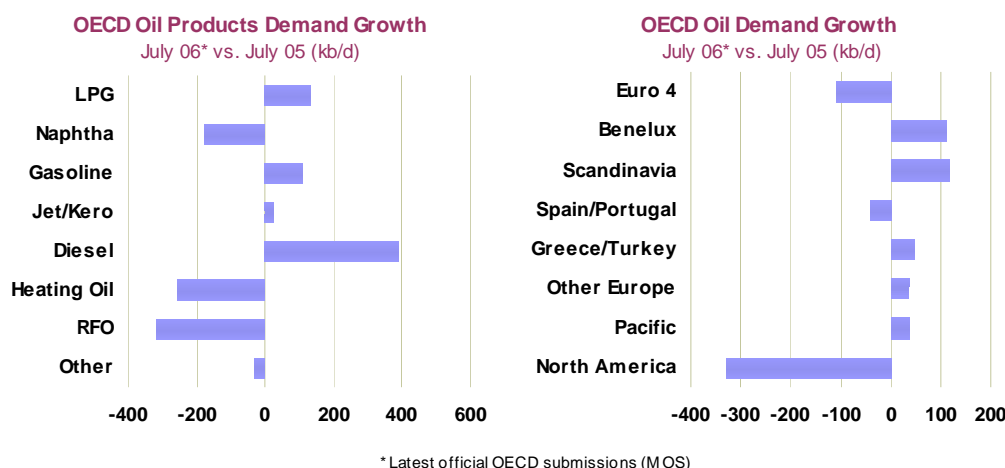
Over the past three years high prices have somewhat dampened oil product demand in several countries, although strong product growth in key economies – in particular the US and China – has sustained overall consumption. Oil product demand growth nowadays depends on non-OECD countries, despite the higher consumption share of the OECD. China, in particular, will likely account for the bulk of demand growth. Most non-OECD countries are generally much more energy-intensive (per unit of GDP), and will probably benefit should a more stable price environment emerge next year, after the swings observed in 2006. In the OECD, by contrast, the trend over the past few years has been little or no growth in oil product demand as a whole.

## OECD

Preliminary August data indicate that inland deliveries in the OECD were weak (-1.9% versus levels of a year ago) across all regions (North America: -1.1%; Europe: -3.1%; Pacific: -2.0%). Nevertheless, demand is more vigorous than it appears if residual fuel oil and heating oil are excluded; indeed, residual use in the OECD fell by 14.1%, compared to August 2005, while heating



oil demand shrank by 9.2%. As noted earlier, the falling demand for industrial products such as fuel oil is arguably related to much cheaper natural gas, particularly in the US. By contrast, gasoline, diesel and jet/kerosene demand held their ground in a month usually characterised by the end of the holiday travel peak and subdued economic activity, particularly in Europe.



\* Latest official OECD submissions (MOS)

With respect to our last report, in the light of the IMF's current assessment of the US economy and adjustments to US data, we have slightly revised downwards our OECD demand forecast for both 2006 (-0.2% year-on-year to 49.4 mb/d) and 2007 (+0.5% to 49.7 mb/d). But, as noted in the following section, more revisions to OECD North America may be forthcoming with the release of official revisions to 2005 US demand by the Energy Information Administration (EIA). Other factors that may impinge on the outcome are whether the winter in the US and Europe will be relatively mild given the weather phenomenon *El Niño*, and whether the US economy will show further signs of slowing. However, it should be noted that this report's forecasts are based on 'normal' weather conditions – that is, historic averages.

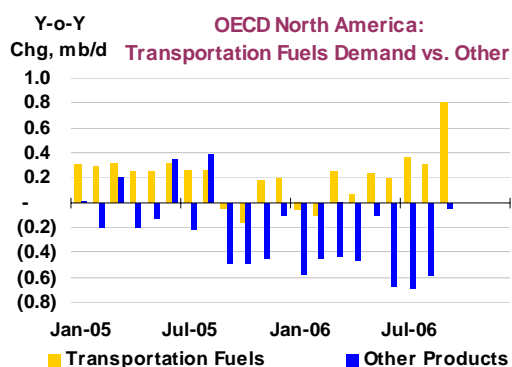
#### Total OECD Demand by Product (million barrels per day)

|                       | 2005         | 2006         | 3Q05         | 4Q05         | 1Q06         | 2Q06         | May 06       | Jun 06       | Jul 06*      | Latest month vs.<br>Jun 06 | Jul 05       |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------------|--------------|
| LPG & Ethane          | 4.69         | 4.67         | 4.31         | 4.73         | 4.98         | 4.40         | 4.38         | 4.46         | 4.38         | -0.08                      | 0.13         |
| Naphtha               | 3.21         | 3.17         | 3.24         | 3.09         | 3.18         | 2.92         | 2.96         | 2.94         | 3.09         | 0.15                       | -0.18        |
| Motor Gasoline        | 14.87        | 14.93        | 15.19        | 14.75        | 14.35        | 14.98        | 14.95        | 15.24        | 15.44        | 0.20                       | 0.11         |
| Jet & Kerosene        | 4.22         | 4.24         | 3.96         | 4.38         | 4.52         | 4.02         | 3.89         | 4.02         | 3.99         | -0.04                      | 0.03         |
| Gas/Diesel Oil        | 13.06        | 13.21        | 12.75        | 13.39        | 13.74        | 12.66        | 12.60        | 12.92        | 12.31        | -0.60                      | 0.13         |
| Residual Fuel Oil     | 4.44         | 4.15         | 4.30         | 4.48         | 4.65         | 3.80         | 3.77         | 3.78         | 3.88         | 0.10                       | -0.32        |
| Other Products        | 5.05         | 5.07         | 5.38         | 5.03         | 4.72         | 5.22         | 5.09         | 5.72         | 5.34         | -0.38                      | -0.03        |
| <b>Total Products</b> | <b>49.53</b> | <b>49.44</b> | <b>49.13</b> | <b>49.86</b> | <b>50.13</b> | <b>48.00</b> | <b>47.64</b> | <b>49.08</b> | <b>48.43</b> | <b>-0.65</b>               | <b>-0.13</b> |

\* Latest official OECD submissions (MOS)

## North America

Provisional figures show that motor gasoline and jet/kerosene deliveries in OECD North America were strong in August, rising by 1.9% and 4.2%, respectively, compared to August 2005, while diesel demand increased by a more modest 0.4%, as weak demand in the US offset strong gains in Canada and Mexico. The region's overall demand, however, was actually negative compared to levels of a year ago (-1.1%), as transportation fuel deliveries were offset by large falls in other categories, particularly residual fuel (-28.9%) and 'other products' (-4.3%). Within the region, transportation fuels represent more than 60% of total consumption, with the US accounting for roughly 90% of that total.



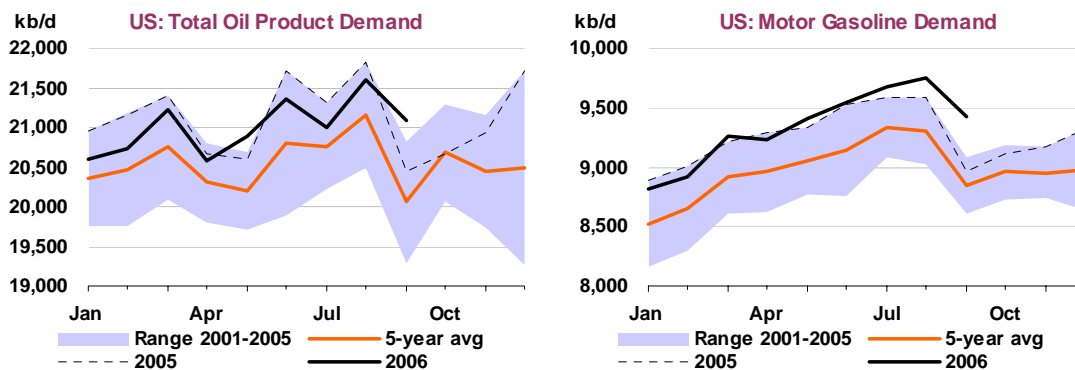
According to preliminary data, deliveries of gasoline and jet fuel in the continental **United States** rose by 1.6% and 5.1%, respectively, compared to August 2005. However, lower deliveries of diesel (-0.6%), residual fuel oil (-37.4%) and other products (-3.0%) offset these gains and pushed total US petroleum deliveries down by 1.1% versus last year's levels.

**OECD North America Demand by Product**  
(million barrels per day)

|                       | 2005         | 2006         | 3Q05         | 4Q05         | 1Q06         | 2Q06         | May 06       | Jun 06       | Jul 06*      | Latest month vs. |              |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|
|                       |              |              |              |              |              |              |              |              |              | Jun 06           | Jul 05       |
| LPG & Ethane          | 2.80         | 2.81         | 2.58         | 2.81         | 2.98         | 2.64         | 2.62         | 2.61         | 2.61         | 0.00             | 0.04         |
| Naphtha               | 0.45         | 0.44         | 0.50         | 0.30         | 0.36         | 0.40         | 0.45         | 0.40         | 0.39         | -0.01            | -0.22        |
| Motor Gasoline        | 10.61        | 10.76        | 10.77        | 10.58        | 10.35        | 10.80        | 10.82        | 10.98        | 11.10        | 0.12             | 0.14         |
| Jet & Kerosene        | 1.93         | 1.93         | 1.93         | 1.97         | 1.87         | 1.95         | 1.92         | 1.98         | 1.96         | -0.02            | -0.02        |
| Gas/Diesel Oil        | 5.08         | 5.18         | 4.93         | 5.14         | 5.35         | 5.01         | 5.06         | 5.01         | 4.84         | -0.17            | 0.09         |
| Residual Fuel Oil     | 1.57         | 1.31         | 1.61         | 1.62         | 1.43         | 1.15         | 1.12         | 1.15         | 1.20         | 0.06             | -0.30        |
| Other Products        | 3.01         | 3.01         | 3.18         | 3.02         | 2.77         | 3.14         | 3.05         | 3.51         | 3.10         | -0.41            | -0.06        |
| <b>Total Products</b> | <b>25.46</b> | <b>25.44</b> | <b>25.50</b> | <b>25.43</b> | <b>25.11</b> | <b>25.09</b> | <b>25.05</b> | <b>25.64</b> | <b>25.21</b> | <b>-0.44</b>     | <b>-0.33</b> |

\* Latest official OECD submissions (MOS)

With the end of the driving season and no major hurricane in sight, retail gasoline prices fell by 20 cents per gallon to \$2.84 at the end of August (and \$2.67 in mid-September) – the most rapid fall off since last year's hurricanes. Retail diesel prices, by contrast, barely budged from \$3/gallon, thus explaining the relative weakness of diesel demand despite a somewhat robust highway freight transport. Demand for transportation fuels is likely to remain relatively strong until the end of year, compared to last year's post-hurricane price spike which, coupled with logistical supply issues, restricted consumption in 4Q05. Meanwhile, the strong rise in jet fuel may indicate some saturation in the drive by airlines to reduce costs and increase revenues by filling more seats per flight. However, it should also be noted that the recent sharp fall in prices may distort buying patterns and end-user stocking, which will be reflected in demand data.



The collapse of residual fuel oil deliveries is explained by lower demand from power generators since mid-August as temperatures became milder in the northeast. Only in Florida was consumption sustained, as temperatures remained higher than normal. These swings in demand are also indicative

of fuel oil's strong linkage to natural gas prices. Last year gas prices were higher than oil on an energy-equivalent basis, but today the reverse is true, thereby encouraging fuel oil substitution by industrial users and utilities.

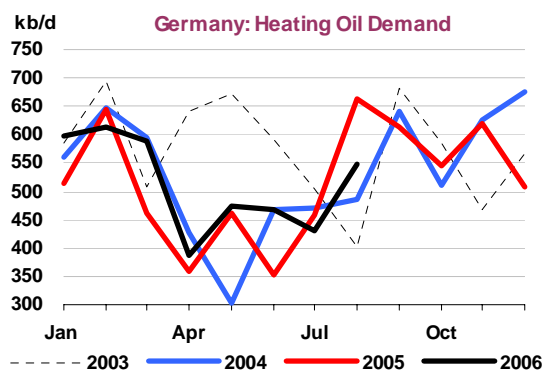
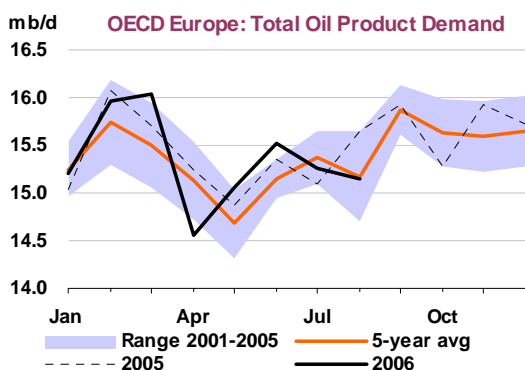
The EIA posted revisions of -285 kb/d to preliminary July data, mostly because of adjustments in naphtha, motor gasoline and diesel demand. It should be noted that at the time this report went to press the EIA was due to release the latest edition of the Petroleum Supply Annual (PSA), which revises 2005 data. As we have noted in previous issues, we have included an estimated revision in our forecast since the release of last year's PSA, based on changes to past annual data. Nevertheless, we may further adjust US figures in next month's report in the light of PSA data.

Finally, the fall of retail gasoline prices is a welcome relief to most consumers, and by contrast to last year's post-hurricane highs, will help curb inflationary expectations. Nevertheless, economic activity is likely a greater determinant of gasoline consumption (and more generally, of transportation fuels) than shifts in retail prices. As already noted, the IMF has only marginally reduced its short- and medium-term forecast of the US economy, suggesting a resilient view despite recent concerns about stagnating or declining house prices, industrial activity and business and consumer confidence in several key states.

### Europe

In general terms, August – the peak of the summer holiday season in Europe and the trough of economic activity – usually posts low oil product deliveries. This year was no exception. Summer demand for transportation fuels faded in Europe (-5.0% for gasoline and -0.3% for diesel versus August 2005), although jet fuel remained strong (+5.9%). Heating oil fell sharply (-15.1%), while residual fuel oil stagnated.

In terms of the main consuming countries, growth in jet/kerosene sales was relatively low in **France** and **Italy** with respect to levels of a year, as well as in the UK (following disruption from the alleged terrorist plot at Heathrow Airport). Wholesale heating oil deliveries also fell in **France** and **Germany** (mostly because last year's demand was unusually strong), although in Germany the filling of domestic heating oil tanks continues at the highest pace seen in the last three years. In Italy, meanwhile, fuel oil demand for power generation dropped significantly, despite power demand for air-conditioning. Electricity needs were met with greater hydro supplies, as well as by gas-fired plants. The continued forward price discount of natural gas to fuel suggests that the decline of fuel oil use could accelerate.



By early September, Germany's domestic heating oil tanks were filled at 60% versus some 52% a year before and 55% in early August (the 20-year average filling rate ahead of winter is 80% by early autumn). There was ample availability of heating oil from the US Gulf Coast, itself the result of arbitrage conditions that favoured the movement of gasoline to Europe.

Moreover, the impending hike in the consumption tax (VAT) from 16% to 19% and fears of disrupted supplies from Iran likely prompted households to bring forward their restocking, as opposed to the hand-to-mouth pattern of the past years. It should be noted that Germany is the largest heating oil market in Europe, accounting for almost 23% of total heating oil consumption (German tanks have a 3,000-4,000 litre capacity, compared to some 500 litres elsewhere in Europe). The large size of Germany's tanks helps explain the volatility of its heating oil market: households tend to stay out of the market for long periods if prices are high and to buy large volumes when prices fall. In sum, German tank-filling is so far supporting heating oil demand, but could translate into weaker demand early next year when tanks are full.

### OECD Europe Demand by Product

(million barrels per day)

|                       | 2005         | 2006         | 3Q05         | 4Q05         | 1Q06         | 2Q06         | May 06       | Jun 06       | Jul 06*      | Latest month vs. |             |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|-------------|
|                       |              |              |              |              |              |              |              |              |              | Jun 06           | Jul 05      |
| LPG & Ethane          | 1.00         | 0.97         | 0.91         | 1.04         | 1.09         | 0.92         | 0.95         | 0.96         | 0.87         | -0.10            | 0.02        |
| Naphtha               | 1.18         | 1.13         | 1.15         | 1.21         | 1.17         | 1.04         | 1.01         | 1.03         | 1.07         | 0.04             | -0.06       |
| Motor Gasoline        | 2.65         | 2.56         | 2.75         | 2.56         | 2.43         | 2.62         | 2.62         | 2.68         | 2.69         | 0.01             | -0.06       |
| Jet & Kerosene        | 1.24         | 1.30         | 1.33         | 1.23         | 1.23         | 1.32         | 1.31         | 1.39         | 1.34         | -0.05            | 0.04        |
| Gas/Diesel Oil        | 6.10         | 6.18         | 6.07         | 6.34         | 6.47         | 5.86         | 5.85         | 6.05         | 5.81         | -0.23            | 0.10        |
| Residual Fuel Oil     | 1.82         | 1.83         | 1.70         | 1.80         | 2.06         | 1.70         | 1.71         | 1.72         | 1.78         | 0.05             | 0.05        |
| Other Products        | 1.49         | 1.49         | 1.64         | 1.46         | 1.28         | 1.58         | 1.59         | 1.69         | 1.72         | 0.03             | 0.07        |
| <b>Total Products</b> | <b>15.48</b> | <b>15.47</b> | <b>15.55</b> | <b>15.64</b> | <b>15.72</b> | <b>15.04</b> | <b>15.06</b> | <b>15.51</b> | <b>15.26</b> | <b>-0.25</b>     | <b>0.17</b> |

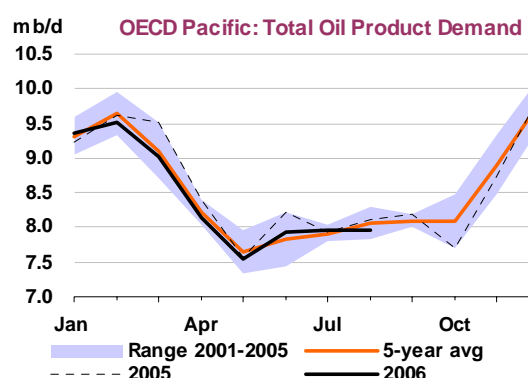
\* Latest official OECD submissions (MOS)

### Pacific

According to preliminary inland delivery figures, oil product demand in OECD Pacific was quite weak in August, falling by 2.0% year-on-year. This sluggish growth was mostly related to bad weather early in the month and high retail prices of gasoline. As such, strong gains in LPG, naphtha and 'other products' were offset by weak demand in gasoline and diesel (-3.0% and -1.8% respectively versus levels of a year ago), particularly in Japan.

Oil product sales in **Japan** fell in August as high prices hit gasoline consumption at the height of the summer holiday season. Gasoline retail prices hit an all-time high of \$1.22/litre, thus discouraging demand despite much better weather than in July.

Strong kerosene demand slowed down as stockpiling got close to completion in anticipation of winter (kerosene is used for heating). Finally, there was continued weak residual and direct-burning crude consumption due to high natural gas imports. Overall, Japanese demand tumbled by 4.3% compared to August 2005.



### OECD Pacific Demand by Product

(million barrels per day)

|                       | 2005        | 2006        | 3Q05        | 4Q05        | 1Q06        | 2Q06        | May 06      | Jun 06      | Jul 06*     | Latest month vs. |             |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|-------------|
|                       |             |             |             |             |             |             |             |             |             | Jun 06           | Jul 05      |
| LPG & Ethane          | 0.89        | 0.89        | 0.82        | 0.88        | 0.92        | 0.84        | 0.81        | 0.88        | 0.90        | 0.02             | 0.08        |
| Naphtha               | 1.58        | 1.60        | 1.58        | 1.58        | 1.65        | 1.48        | 1.49        | 1.51        | 1.63        | 0.12             | 0.10        |
| Motor Gasoline        | 1.61        | 1.61        | 1.66        | 1.61        | 1.57        | 1.56        | 1.52        | 1.58        | 1.65        | 0.07             | 0.03        |
| Jet & Kerosene        | 1.04        | 1.01        | 0.70        | 1.19        | 1.42        | 0.75        | 0.65        | 0.65        | 0.69        | 0.03             | 0.01        |
| Gas/Diesel Oil        | 1.87        | 1.85        | 1.75        | 1.91        | 1.92        | 1.79        | 1.68        | 1.86        | 1.66        | -0.20            | -0.05       |
| Residual Fuel Oil     | 1.05        | 1.02        | 0.98        | 1.07        | 1.16        | 0.95        | 0.94        | 0.91        | 0.90        | -0.01            | -0.07       |
| Other Products        | 0.55        | 0.57        | 0.57        | 0.55        | 0.67        | 0.50        | 0.45        | 0.52        | 0.53        | 0.00             | -0.05       |
| <b>Total Products</b> | <b>8.59</b> | <b>8.54</b> | <b>8.07</b> | <b>8.79</b> | <b>9.30</b> | <b>7.87</b> | <b>7.53</b> | <b>7.92</b> | <b>7.96</b> | <b>0.04</b>      | <b>0.04</b> |

\* Latest official OECD submissions (MOS)

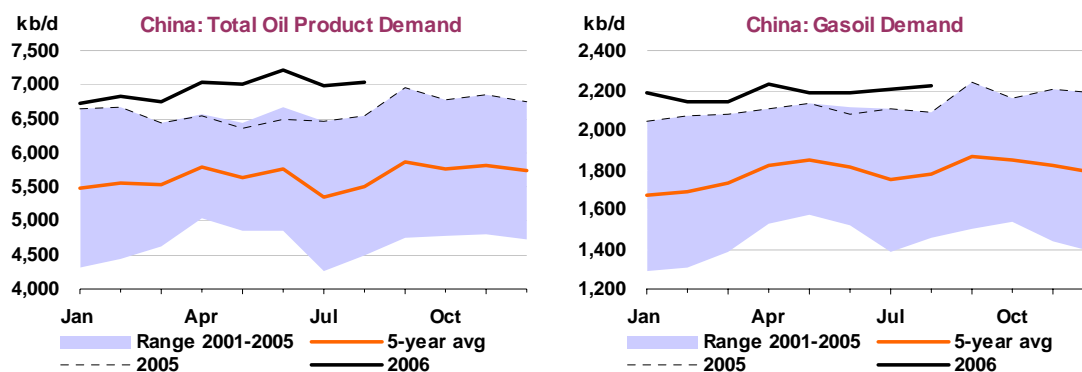
In **Korea**, oil product demand was positive in August (+2.2% versus the previous year), after two months of sluggishness, driven by gains in all product categories bar gasoline and kerosene (-2.7% and -11.0%, respectively). The weakness in kerosene deliveries suggests that consumers may be waiting for better prices before refilling ahead of winter (as in Japan, kerosene is used for heating).

### Non-OECD

Our forecast of non-OECD oil product demand remains essentially unchanged, as very minor revisions to 2005 and 2006 data offset each other. Non-OECD demand is expected to average 35.1 mb/d in 2006 (-27 kb/d compared to our last report, implying a growth rate of 3.3% versus 2005), and 36.3 mb/d in 2007 (-8 kb/d from last month's report and 3.4% higher than this year).

## China

Apparent demand grew by 7.5% on an annual basis in August, broadly in line with projections and driven by all product categories, especially gasoline (+16%), gasoil (6.2%) and fuel oil (27.3%). There was a -135 kb/d revision in July, resulting in a minor downward change to our growth forecast for 2006 (+6.4% year-on-year). For 2007, the forecast is virtually unchanged at +5.5%, reflecting the strong outlook of the Chinese economy.



Jet fuel imports were strong in August, following on from a buoyant July, as a result of both strong passenger traffic and the political decision to maximise diesel production at the expense of aviation fuels. The country's main importer, the Singapore-based Chinese Aviation Oil Corp. (CAO), reportedly purchased record volumes in July (500,000 tonnes) in anticipation of October's Golden Week holiday. CAO's virtual monopoly will now become more explicit: the General Administration of Civil Aviation (CAAC) announced recently that China will get rid of its private aviation fuel market next year, allegedly out of safety concerns (aviation fuel suppliers without the requisite civil aviation fuel licence will be forced out).

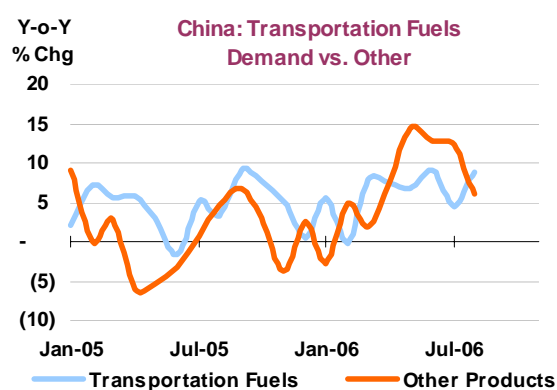
### China Demand by Product

(thousand barrels per day)

|                       | Demand      |             |             | Annual Change |            | Annual Change (%) |            |
|-----------------------|-------------|-------------|-------------|---------------|------------|-------------------|------------|
|                       | 2005        | 2006        | 2007        | 2006          | 2007       | 2006              | 2007       |
| LPG & Ethane          | 638         | 620         | 627         | -18           | 6          | -2.8              | 1.0        |
| Naphtha               | 774         | 885         | 949         | 112           | 63         | 14.5              | 7.1        |
| Motor Gasoline        | 1091        | 1179        | 1264        | 89            | 84         | 8.1               | 7.2        |
| Jet & Kerosene        | 238         | 268         | 286         | 31            | 18         | 12.8              | 6.6        |
| Gas/Diesel Oil        | 2127        | 2239        | 2416        | 112           | 177        | 5.3               | 7.9        |
| Residual Fuel Oil     | 787         | 800         | 792         | 12            | -7         | 1.6               | -0.9       |
| Other Products        | 966         | 1052        | 1098        | 86            | 47         | 8.9               | 4.4        |
| <b>Total Products</b> | <b>6621</b> | <b>7044</b> | <b>7432</b> | <b>423</b>    | <b>388</b> | <b>6.4</b>        | <b>5.5</b> |

Gasoil (diesel) demand normally surges in early August driven by the agricultural cycle (tractors and other machinery) and by the end of the fishing ban (boats). This year, however, demand was somewhat subdued in southern China, as a result of very bad weather (two typhoons – 'Kaemi' and 'Prapiroon' – hit the country in late July and early August), which curbed agricultural and fishing activity, and high prices, which deterred stock building. In Guangdong province, high prices were largely attributable to limited supplies in typhoon-affected areas, strong transportation demand, rumours of an impending price hike and refinery maintenance. As such, diesel shortages were reported in several service stations across the industrial heartlands.

This suggests that the government's efforts to encourage diesel production in August had limited success and that refiners were reluctant to import



diesel that they would sell at a loss domestically (nonetheless, state-owned companies have little choice: over the past two months PetroChina purchased four diesel cargoes to meet Guangdong's peak demand in September and October). Nevertheless, the fall of global crude oil prices, combined by domestic shortage-induced high diesel prices, has reportedly rendered profitable the importation of diesel. In fact, there were reports of diesel smuggling from neighbouring Hong Kong.

**China Crude & Product Trade**  
(thousand barrels per day)

|                                  | 2004 | 2005 | 3Q2005 | 4Q2005 | 1Q2006 | 2Q2006 | Jun 06 | Jul 06 | Aug 06 | Latest month vs.<br>Jul 06 Aug 05 |      |
|----------------------------------|------|------|--------|--------|--------|--------|--------|--------|--------|-----------------------------------|------|
| <b>Net Imports/(Exports) of:</b> |      |      |        |        |        |        |        |        |        |                                   |      |
| <b>Crude Oil</b>                 | 2346 | 2387 | 2294   | 2407   | 2872   | 2821   | 2787   | 2414   | 2618   | 204                               | 668  |
| <b>Products &amp; Feedstocks</b> | 661  | 480  | 445    | 599    | 512    | 772    | 964    | 738    | 754    | 16                                | 401  |
| Gasoil/Diesel                    | 43   | -19  | -40    | -3     | -10    | -14    | -22    | -12    | -12    | 0                                 | 59   |
| Gasoline                         | -125 | -130 | -155   | -55    | -107   | -56    | -34    | -52    | -86    | -34                               | 147  |
| Heavy Fuel Oil                   | 506  | 418  | 397    | 402    | 406    | 522    | 654    | 624    | 578    | -46                               | 204  |
| LPG                              | 201  | 194  | 216    | 182    | 146    | 227    | 238    | 110    | 113    | 3                                 | -118 |
| Naphtha                          | -33  | -35  | -25    | 1      | -15    | -36    | -32    | -23    | -37    | -15                               | 10   |
| Jet & Kerosene                   | 16   | 11   | 2      | 30     | 43     | 33     | 73     | -4     | 75     | 79                                | 50   |
| Other                            | 52   | 41   | 49     | 42     | 49     | 96     | 87     | 94     | 123    | 29                                | 49   |
| <b>Total</b>                     | 3008 | 2867 | 2739   | 3006   | 3384   | 3593   | 3750   | 3152   | 3373   | 220                               | 1069 |

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Higher-than-expected fuel oil imports were also reported in August, but not for electricity generation but rather for use as feedstock in 'teapot' refineries as a result of higher cracking margins. Nevertheless, demand remained somewhat sluggish. Straight-runs by teapot refineries were reported to diminish in the second half of the month in Guangdong, while demand from power utilities remained stable (because of rainy, colder weather in some regions and uncertainties surrounding price subsidies). In late August, however, there were reports of eastern China utilities stepping up their purchases of fuel oil in view of power shortages in south-western China (notably drought-stricken Sichuan province, as well as Guangdong).

Indeed, despite improved electricity generation capacity (mostly coal & hydro), power shortages are expected in Guangdong in 4Q06. This will be the consequence of marginally higher domestic fuel oil prices (as the province is particularly dependent upon oil-fired generation), capped electricity retail prices (despite a recent increase, not high enough to offset generating losses) and higher power demand (mostly from air-conditioning, both in households and offices, as post-typhoon weather returns to warmer patterns). However, while power shortages persist, the incremental use of oil in power generation is expected to fall, on average, after 2006.

### Assessing Chinese 'Teapot' Refineries

'Teapot' refineries are independent units with a processing capacity of some 10 kb/d on average, about one tenth of that of major refineries – which usually lack access to crude supplies (controlled by Chinese oil majors) and therefore use straight-run fuel oil as a feedstock to produce diesel, residual and bitumen. Total teapot capacity is estimated in this report at some 700 kb/d. However, by its very nature, there is considerable uncertainty regarding this figure, which could be higher.

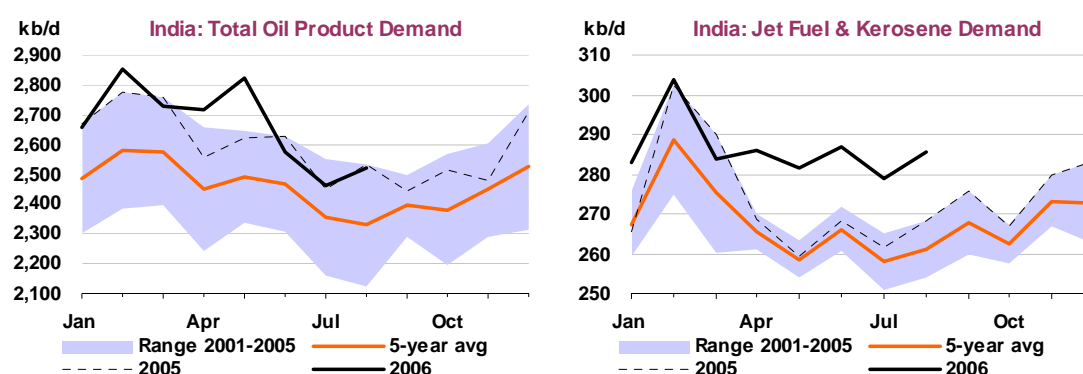
Although these refineries are officially singled out as threats to the country's energy security and environment, they provide a lifeline to farmers and fishermen during demand peaks and to private companies using small electricity generators for air conditioning in summertime.

Teapot refineries thus fill a supply gap of off-specification diesel, low-quality residual and bitumen, and will likely continue to be tolerated. In addition, most teapot refineries are well entrenched in their local economies – they often are a significant source of employment and revenue for local governments. Nevertheless, the gradual liberalisation of China's downstream market may eventually eliminate the less efficient units.

### Other Non-OECD

Preliminary **Indian** data for August were not available at the time of going to press. Nevertheless, we estimate that demand fell slightly in that month by 0.4% on a year-on-year basis, given subdued gasoil consumption during most of August owing to extreme weather. There were reports of more rains, flooding and pest attacks following those of July, which have further curbed sugarcane, cotton and oilseeds crops in western, southern and eastern India. For example, the western, almost arid, state of Rajasthan was flooded by monsoon rains, causing widespread destruction and many casualties.

As in recent months, naphtha exports continued to be strong, suggesting again structurally weak domestic demand, as natural gas continues to make inroads. In fact, the government removed a 5% duty on LNG imports, provided that these are directed to the power sector. Indeed, given gas shortages, some 40% of the country's 12,700 MW of gas-fired generation capacity is unutilised, while several, recently completed petrochemical plants in Pradesh are idle. The move will likely encourage more spot purchases of LNG, which will become competitive compared to coal, and a continued decline in naphtha consumption.



Jet fuel demand has so far been buoyant (+6.4% in August compared to last year's level), despite an increasing fuel surcharge that can exceed low-cost fares (another hike occurred on 5 September, the third in as many months). This raises concerns about the sustainability of growth in India's aviation industry. Costs have significantly increased because of rising jet fuel prices (fuel represents some 33% of operating costs, compared to a worldwide average of 25%), while yields per passenger have plummeted given strong competition. Moreover, the market is de facto controlled by state-owned Indian Oil Corp., with a 67% share of domestic jet fuel sales. As a result, private refiners such as Reliance are obliged to export most of their jet fuel production.

**India Crude & Product Trade**  
(thousand barrels per day)

|                                  | 2004 | 2005 | 3Q2005 | 4Q2005 | 1Q2006 | 2Q2006 | May 06 | Jun 06 | Jul 06* | Latest month vs. Jun 06 | Jul 05 |
|----------------------------------|------|------|--------|--------|--------|--------|--------|--------|---------|-------------------------|--------|
| <b>Net Imports/(Exports) of:</b> |      |      |        |        |        |        |        |        |         |                         |        |
| <b>Crude Oil</b>                 | 1945 | 1927 | 1965   | 1882   | 2216   | 2187   | 2231   | 2528   | 2369    | -159                    | 549    |
| <b>(by Public Oil Cos)</b>       | 1158 | 1131 | 1112   | 1164   | 1427   | 1412   | 1409   | 1734   | 1399    | -336                    | 421    |
| <b>Products &amp; Feedstocks</b> | -176 | -123 | -116   | -201   | -524   | -334   | -427   | -344   | -524    | -180                    | -493   |
| Gasoil/Diesel                    | -139 | -139 | -135   | -224   | -219   | -94    | -101   | -86    | -11     | 74                      | 63     |
| Gasoline                         | -75  | -24  | -35    | 29     | -72    | -62    | -51    | -64    | -199    | -135                    | -160   |
| Heavy Fuel Oil                   | -6   | -5   | 7      | -34    | -31    | -47    | -77    | -52    | -63     | -11                     | -64    |
| LPG                              | 86   | 98   | 98     | 126    | 55     | 22     | 21     | 22     | 23      | 1                       | -50    |
| Naphtha                          | -7   | -32  | -28    | -47    | -149   | -105   | -128   | -121   | -288    | -167                    | -275   |
| Jet & Kerosene                   | -47  | -34  | -33    | -63    | -147   | -43    | -76    | -44    | 27      | 70                      | 17     |
| Other                            | 12   | 14   | 10     | 13     | 39     | -6     | -16    | 0      | -13     | -13                     | -23    |
| <b>Total</b>                     | 1769 | 1804 | 1849   | 1681   | 1692   | 1853   | 1804   | 2184   | 1845    | -339                    | 56     |

\* Preliminary

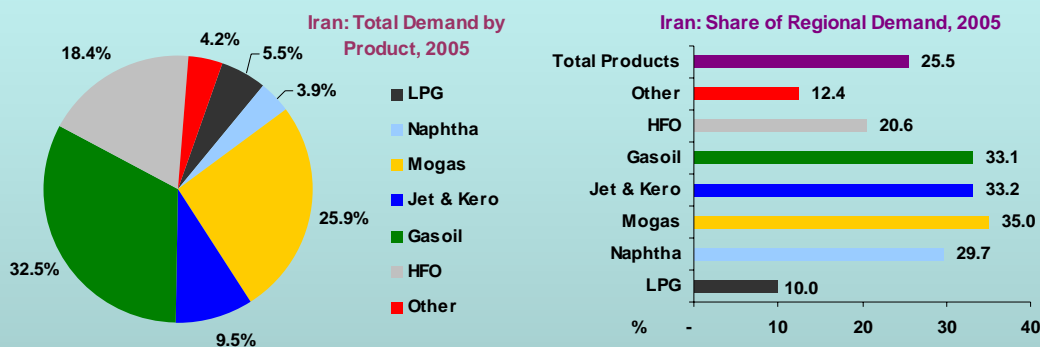
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates.

As we noted in last month's report, there is much talk in the **FSU** about the recent switch to fuel oil and away from natural gas by major utilities such as UES. In the early summer Gazprom told the largest Russian utility to rein in gas consumption, and both companies agreed to reduce gas deliveries to 2004 levels. These 'saved' volumes – approximately 4.5 billion cubic meters (bcm) out of UES's total annual consumption of 143 bcm (2005) – will be instead exported.

### *Distorted Prices and Fuel Demand: The Case of Iran*

Most economists would concur that when oil product prices are artificially low demand tends to be too strong, often encouraging waste and deterring improvements in energy efficiency. In this respect, the case of Iran is paradigmatic. The country features probably the cheapest retail gasoline prices in the world, at about 9 cents per litre (diesel is even cheaper). Demand is estimated to grow at around 10% annually, requiring imports to meet almost half of its 400 kb/d consumption, at a cost of some \$6 billion at current prices.

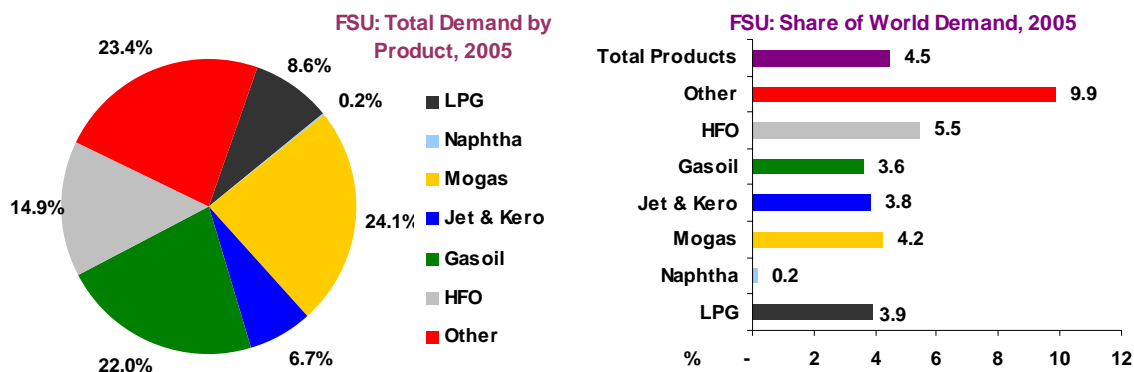
However, the government estimates that about 5% of apparent gasoline demand is actually smuggled out to neighbouring countries (Iraq, UAE, Turkey, Pakistan and Afghanistan) where prices are much higher (for example, prices in Iraq currently stand above \$1/litre) – that is, a loss of roughly 10% of imports or \$600 million per year. Moreover, as much as 250,000 litres per day are spilled in filling stations. In 2005, gasoline represented a quarter of Iranian oil product demand and about a third of total Middle East gasoline consumption. In addition to low prices, demand has been boosted by the increasing number of cars produced mainly by state-owned companies (Iran's vehicle fleet is currently estimated at some 15 million units).



The shortage of gasoline production and lack of refining capacity have become a very sensitive issue. On the one hand, rationing gasoline, either by stopping imports, issuing coupons or increasing prices, would be politically unpalatable and certainly inflationary, given that the Iranian economy is largely dependent upon road transportation. On the other, maintaining subsidies is becoming onerous for the state. A third possibility, building new refineries, would take both time and money (at least five years and several billion dollars), and is therefore not viable in the short-term, and unless prices were liberalised, it would also further add to demand. Finally, converting vehicles to run on cheaper compressed natural gas (CNG costs 3 cents per litre equivalent) would also be a lengthy way of curbing gasoline consumption – the government's target is to reduce demand by 30% – and has a high retrofit cost.

In July, the oil minister announced smart-card rationing, coupled with phased price increases over five years, the launch of an ambitious refinery upgrade and a programme to accelerate the adoption of CNG. These measures would be gradually implemented starting by end September, since the import budget of state-owned oil marketer NIORDC (National Iranian Oil Refining and Distribution Company) was expected to run out of funds by then. Most likely, the Majlis (parliament) will release funds for continuing importing gasoline at least until March 2007 (the end of the Iranian fiscal year) while attempting to implement a few rationing measures. Ironically, any form of rationing is likely to lead to a black market for gasoline that would provide a better reflection of the supply and demand balance. However, with parliament debating a bill for an additional \$3.5-4 billion funding, alongside the introduction of smart cards (scheduled for February 2007), it would seem that any move towards liberalised gasoline prices is still some way off.

Nevertheless, although they represent a minor share of Gazprom's total output, these gas volumes are having a much larger impact in the country's fuel oil market (estimated at almost 15% of total oil product demand in 2005). In terms of calorific content, 4.7 bcm of gas are equivalent to some 3.7 million tonnes of fuel oil – almost 8% of Russia's total production of 50 million tonnes in 2005 or close to 10% of fuel oil exports (31 million tonnes). Given strong domestic demand (largely driven by UES's purchases over the past two months and by sugar refineries), fuel oil exports will likely continue to fall in the months ahead, while domestic prices are likely to remain high (they jumped by almost 6% from July to August to \$240/tonne, instead of falling as they typically do during the summer).

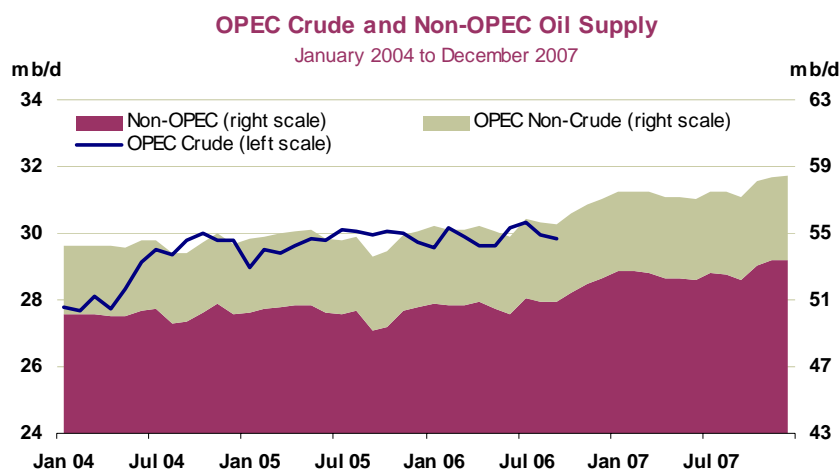


More generally, encouraging fuel oil and coal use is apparently a government policy to discourage consumption of heavily subsidized natural gas, which is obviously much more profitable to export to western markets given very low domestic prices. The president's chief of staff recently argued that building coal power plants would allow domestic savings of 27 bcm by 2015. Thus, fuel oil and coal demand – and domestic prices – will likely keep on increasing, driven by Russia's strong economic growth, and could even result in much higher electricity prices.

## SUPPLY

### Summary

- **World oil supply** declined by 180 kb/d in September to 85.4 mb/d. Adjustments to non-OECD output in August also pulled down that month's production estimate by over 200 kb/d to 85.6 mb/d. Developments in September were driven by lower OPEC crude supply (off by 155 kb/d) and by a 185 kb/d decline across North America. Higher month-on-month supply from Latin America and Africa in September provided a partial offset.
- A yearly comparison shows **September global output some 1.8 mb/d above hurricane-affected 2005 levels**. Accordingly, OECD supply stood 0.9 mb/d higher, but non-OECD supply has also remained strong, and is up by 0.8 mb/d on last September. OPEC oil supply has followed a flatter trend, with crude marginally down on a year ago but OPEC NGLs up slightly.
- **Non-OPEC supply** for 2006 is held largely unchanged at 51.0 mb/d, although downward adjustments to non-OECD production run through the forecast to 2007. However, their impact is initially blunted by upward adjustments to OECD supply between now and 1Q07, centred on higher US supply. GOM and Alaskan supply outages have proved less pervasive than assumed previously. Non-OPEC projections for 2007 are cut by 160 kb/d, mainly in the second half of the year. Weaker North American supply and widespread adjustments throughout the non-OECD drag down supply to 52.7 mb/d, this being nonetheless 1.7 mb/d up on 2006. Despite recent focus on slowing FSU growth and non-OECD project slippage, OECD supply recovery will be crucial in determining whether strong 2007 growth potential is realised.
- **OPEC crude supply** for September declined by 155 kb/d to 29.8 mb/d, compared to 30.0 mb/d in August. There were signs of lower supply from Middle East Gulf producers generally, although Iraqi supply nudged higher to 2.05 mb/d. Nigerian supply is also believed to have slipped below 2.2 mb/d, amid signs of resurgent attacks on oil installations and personnel. OPEC effective spare capacity reached just under 2 mb/d, although marketability and pricing issues continue to render some of this as notional at best.
- **OPEC's 11 September meeting** signalled no immediate change in production limits but referred to rising inventories and uncertain economic prospects as potential rationale for output cuts in months to come. Indeed, at writing there are reports of a plan to cut production by 1 mb/d to stall a downward move that has at times taken prices below \$60/bbl. However, some market analyses see the likely impact of OPEC production curbs as being less than clear cut, with the potential that resultant increases in spare capacity could generate downside price pressures.
- **The 'call on OPEC crude and stock change'** is trimmed by 0.2 mb/d for 3Q 2006 to 28.5 mb/d on weaker late-summer OECD demand. The call stands unchanged at 29.5 mb/d this quarter (versus September OPEC supply of 29.8 mb/d) but is revised up by 0.1-0.2 mb/d in the second half of 2007 when weaker non-OPEC supply outstrips marginally lower North American demand. In all, the 2007 call dips to 28.5 mb/d (29 mb/d in the winter quarters) which is 0.4 mb/d below this year's average. The normal caveats around winter demand and unscheduled outages to non-OPEC supply apply.



All world oil supply figures for September discussed in this report are IEA estimates. Estimates for OPEC countries, Alaska, Russia and Kazakhstan are supported by preliminary September supply data.

**Note: Random events present downside risk to the non-OPEC production forecast contained in this report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply outages (including hurricane-related stoppages) in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.**

## OPEC

OPEC crude supply for September is estimated at 29.8 mb/d, 155 kb/d lower than in August. The August total was revised down by 65 kb/d compared to last month's report, on indications of lower output from Kuwait and Saudi Arabia. In September, supply from Iran, Nigeria and Saudi Arabia was down by around 100 kb/d each, partly offset by increases of 20-50 kb/d each from Algeria, Iraq, Kuwait, Libya and Venezuela. There were renewed signs in late September and early October of an escalation in ethnic violence impeding Nigerian supply. In Iraq, higher September domestic supply and temporary resumption of Ceyhan export liftings offset lower Basrah exports.

### OPEC Crude Production

(million barrels per day)

|  | 1 July 2005<br>Target | September<br>2006<br>Production | Sustainable<br>Production<br>Capacity <sup>1</sup> | Spare Capacity<br>vs Sep 2006<br>Production | Production vs.<br>Target |
|--|-----------------------|---------------------------------|--|---|--------------------------|
| Algeria  | 0.89                  | 1.35                            | 1.39   | 0.04  | 0.46                     |
| Indonesia  | 1.45                  | 0.87                            | 0.95   | 0.09  | -0.59                    |
| Iran   | 4.11                  | 3.90                            | 4.00   | 0.10  | -0.21                    |
| Kuwait <sup>2</sup>                                    | 2.25                  | 2.50                            | 2.60   | 0.10  | 0.25                     |
| Libya  | 1.50                  | 1.75                            | 1.75   | 0.00  | 0.25                     |
| Nigeria  | 2.31                  | 2.19                            | 2.60   | 0.42  | -0.12                    |
| Qatar  | 0.73                  | 0.82                            | 0.87   | 0.05  | 0.09                     |
| Saudi Arabia <sup>2</sup>                              | 9.10                  | 9.20                            | 10.80  | 1.60  | 0.10                     |
| UAE  | 2.44                  | 2.65                            | 2.70   | 0.06  | 0.20                     |
| Venezuela <sup>3</sup>                                 | 3.22                  | 2.55                            | 2.70   | 0.15  | -0.67                    |
| <b>Subtotal</b>  | <b>28.00</b>          | <b>27.76</b>                    | <b>30.36</b>                                       | <b>2.59</b>                                 | <b>-0.24</b>             |
| Iraq   |                       | 2.05                            | 2.50   | 0.45  |                          |
| <b>Total</b>   |                       | <b>29.81</b>                    | <b>32.86</b>                                       | <b>3.04</b>                                 |                          |
| <i>(excluding Iraq, Nigeria, Venezuela, Indonesia)</i> |                       |                                 |  | <i>1.94</i>                                 |                          |

<sup>1</sup> Capacity levels can be reached within 30 days and sustained for 90 days

<sup>2</sup> Includes half of Neutral Zone Production

<sup>3</sup> Includes Orinoco extra-heavy oil assumed at 610 kb/d in September

Production from the OPEC-10 (excluding Iraq) averaged 27.8 mb/d in September, some 200 kb/d below a target of 28.0 mb/d which has been in place since July 2005. While individual quotas have largely been ignored in recent months (see below), aggregate OPEC-10 supply has, more by accident than design, been remarkably consistent and within 300 kb/d of 28.0 mb/d for the entire period. There is growing market speculation however that if OPEC production cuts again become an issue, then the difficult task of quota reallocation may again come to the fore.

OPEC sustainable capacity is assessed at 32.9 mb/d for September, modest increases accruing from Algeria and Libya after recent field build-up. This suggests notional spare capacity of over 3 mb/d, but less than 2 mb/d if Indonesia, Iraq, Nigeria and Venezuela are excluded. As ever, constraints of pricing, refinery processing capability and marketability at times render a more market-sensitive measure of spare capacity at still lower levels. Interestingly, OPEC's President, in the aftermath of the 11 September Vienna meeting, cited levels in excess of 4 mb/d as being likely optimal for effective spare capacity and saw this being attainable in months to come. While wary of citing any such optimal level, this report would nonetheless see potential net OPEC crude capacity additions of some 900 kb/d over the next 15 months as suggesting some easing from the currently exceptionally tight situation. Much will depend on whether OPEC producers (and for that matter their non-OPEC counterparts) follow through on schedule with plans for increased investment and capacity.

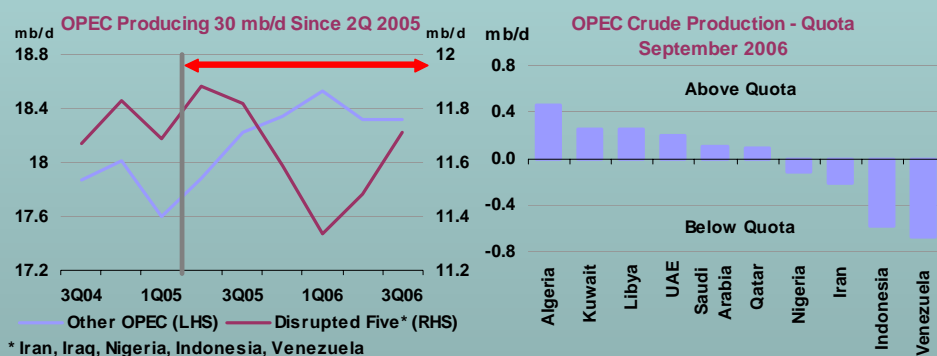
### Between a Rock and a Hard Place

Oil markets currently resound with renewed talk of OPEC production cuts and potential reallocation of quotas. OPEC's 11 September Vienna meeting saw no change in output targets but flagged potential future production cuts in light of rising inventories. The Organisation sees commercial stocks now more than adequate to offset concerns over potential supply disruptions or geopolitical risks. Although this appears to ignore the short term nature of a supply cushion entirely reliant upon inventory as opposed to spare capacity, this was followed at the end of September by Nigerian and Venezuelan plans to enact unilateral supply cuts of some 150 kb/d from 1 October to stem declining prices. Now, market reports suggest OPEC is close to formalising a 1.0 mb/d production cut, possibly at an extraordinary meeting rescheduled ahead of the original 14 December date in Abuja, Nigeria.

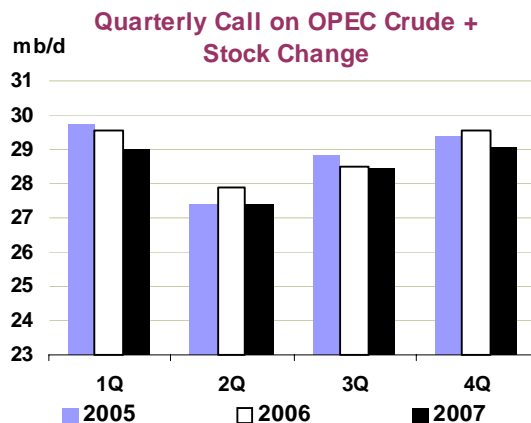
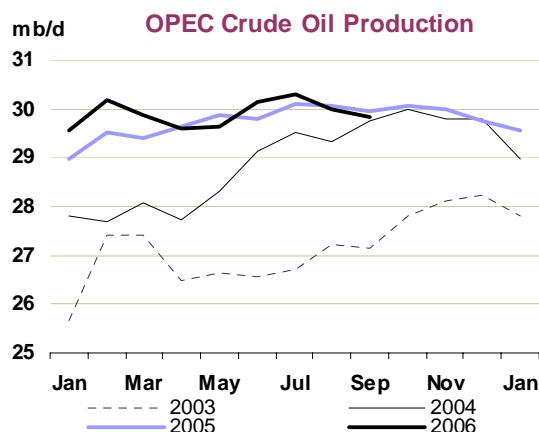
So what has happened recently to cement an apparent consensus among otherwise divergent OPEC delegation viewpoints on price and supply? Or are the latest rumours merely that, aimed at placing a floor under prices, thereby obviating the need to do very much at all? Certainly, implicit cuts so far from Saudi Arabia, the UAE and Kuwait - by way of pricing policies for heavier crudes grades - have done little to curb falling prices, which in turn have been driven by gasoline supply issues. Nor have involuntary cuts from Nigeria, Iran and Iraq had a noticeable impact. OPEC production fell by 300 kb/d in April, and is down by 500 kb/d since July, but a 25% price slide since early August seems now to be prompting a more proactive response.

In some senses, OPEC is in a bind. Downside economic risks do exist, but geopolitical risks are recurrent, as recent events in Iraq and Nigeria show. The US hurricane season, while past its peak, still has some six weeks to run and colder winter weather approaches. Key Gulf producers, concerned that prices above \$60/bbl impede economic growth and undermine demand, are reluctant to enact production cuts which might implicate OPEC as a driver of economic downturn.

The counter argument is that failing to cut production now risks requiring more extensive supply adjustments later on, perhaps too late to avoid still weaker prices. In this context the apparent emergence of a \$55/bbl-\$60/bbl floor for prices may be a revenue-driven line in the sand for OPEC's more hawkish members. Claims by OPEC's President that prices below this undermine upstream investment seem disingenuous on a marginal supply cost basis. Given the divergence between quota overproducers and underproducers (see below), and an allocation mechanism that has remained unchanged since 2000, next year is likely to see some difficult reallocation negotiations. Some reports suggest that Indonesia will now join Iraq in being excused from restraint measures. Saudi Arabia, the UAE and Kuwait may again be left to shoulder the burden of cuts if producers of premium grades such as Algeria, Libya and Nigeria prove less willing to put announced cuts into practice.



Notwithstanding, there is no certainty that OPEC production cuts now will have the intended effect, especially if market focus were to centre on spare capacity rather than absolute OPEC volumes. Inventories are high partly because there is little or no spare capacity. Indeed, to some analysts, OPEC's bottom line sustainable capacity is closer to 30 mb/d than to this report's 33 mb/d, since this is the best they have managed in the past year (see above). That a core of producers has had to make up for erratic output from a 'disrupted five' only helps reinforce the view of zero effective spare capacity. Cutting production now, so the argument runs, may actually push prices lower in the short term as it will finally liberate some genuine spare capacity into the system. In the longer term, a tightening of the prompt crude market might unwind some of the present market contango, reducing demand for stocks. Much depends on the path of autumn demand, non-OPEC supply recovery and inventories. But for now, OPEC may indeed be confronting a *Catch 22* situation.



**Iran** curbed September supply by around 100 kb/d to 3.9 mb/d based on initial indications for tanker sailings and domestic refinery use. This was despite reports that it has overcome earlier resistance to sales of heavy/sour production from the offshore Soroush and Nowruz fields. Output here was reported to have risen to some 150 kb/d out of nameplate capacity of 190 kb/d.

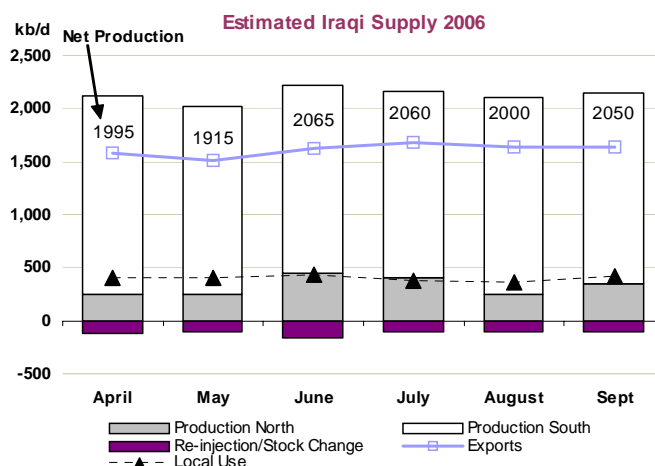
However, renewed question marks have emerged over Iran's total operational capacity, with the oil minister admitting that Iran is grappling with oilfield decline amounting to an annual 500 kb/d. Official capacity targets for 2010 have been lowered from 5.0 mb/d to 4.66 mb/d and progress on the key 260 kb/d Azadegan project is stalled as Japan's Inpex has relinquished operatorship and reduced its stake from 75% to 10%. Success in raising capacity from current levels (this report sees 4.0 mb/d as against government claims of 4.2 mb/d) depends on progress in diffusing the current foreign investment hiatus. This in turn hinges on the outcome of the current nuclear issue standoff, and on reform of upstream terms. For the upcoming third bidding round, Iran no longer requires full up-front financial commitment for new projects, allowing expenditure to be spread over exploration and development phases.

**Saudi Arabia** too was seen trimming supply in September from a downward adjusted August level of 9.3 mb/d to 9.2 mb/d. Relatively robust pricing for heavier grades sold into the Atlantic Basin has been seen by some traders and analysts as further evidence of the general downward trend in Saudi supply. Up to now, so the analytical argument runs, the Kingdom has preferred this low-key approach to supply adjustment to a higher profile cutting of contract volumes which might have an exaggerated impact on crude prices generally.

Saudi Aramco announced at the end of September that it expected development work at the offshore Manifa field to begin in first quarter 2007, with initial output targeted for mid-2011. The project, which will generate 900 kb/d of Arab Heavy crude, 120 mmcf/d of gas and 50 kb/d of condensate, was excluded from the IEA's *Medium-Term Oil Market Report (MTOMR)* projections due to uncertainty as to whether Saudi Arabia might defer work on this second generation expansion project against a back-drop of potentially slowing oil demand growth. It now appears that plans to harness both Manifa's natural gas and heavy crude, for processing in new domestic refineries, are proceeding apace.

**Iraqi** crude supply appears to have hit something of a glass ceiling at or slightly above 2.0 mb/d (see right). September saw mixed performance, although total supply nudged higher from 2.0 mb/d to 2.05 mb/d. Domestic crude use rose from very low August levels to around 415 kb/d, although refinery utilisation rates still average barely 50%. Tacit acknowledgement of refinery operational problems came with the government's doubling of the current \$213 million per month available for oil products imports.

Around 1.6 mb (or 53 kb/d) of northern Kirkuk crude was shipped from Ceyhan, compared to zero in August, but this was nevertheless well below the initially planned



6 mb. Ongoing attacks on the northern export pipeline kept Ceyhan crude storage at minimal levels, with currently only some 300 kb in tank versus capacity of some 8 mb. Southern exports actually slipped from August levels on weather related loading delays and averaged 1.57 mb/d, giving a total September Iraqi export level of 1.64 mb/d. Early October has seen ongoing northern pipeline problems and low Ceyhan storage, signs of renewed weather difficulties at Basrah and the continued non-availability of the neighbouring port of Khor al-Amaya. All in all, Iraqi supply looks unlikely to rise substantially this month, making an end-2006 Oil Ministry target of 3 mb/d production appear remote.

**Nigerian** September supply is assessed at 2.19 mb/d, some 85 kb/d below August. Earlier outages affecting ENI's Brass River facilities and maintenance at the offshore Antan field underpinned some of the fall. An early September oil workers' strike was called off before making any substantial impact on exports after government commitments to improve Niger Delta security. Earlier-shuttered Brass River and Bonny production was also reinstated during early September. Nonetheless, some 600 kb/d of clearly identifiable production remains shut-in due to unrest in the Niger Delta, broken out as follows:

- Shell, with 365 kb/d of Forcados, plus 110 kb/d of EA production in the western delta;
- Eastern Delta production from Shell, which in early October stood at some 27 kb/d following latest attacks on Cawthorne Channel installations;
- Around 70 kb/d of Chevron production which has been shut-in since 2003;
- Sporadic attacks on ENI's Brass River facilities, which during August and September at times closed 50 kb/d of output (though this has now been restored).

Interestingly, Nigerian government sources have cited levels well above 800 kb/d being shut-in. Superficially, this seems high and is difficult to justify based on operating company reports of shuttered output. It might also be regarded as pre-positioning by Nigeria ahead of any future OPEC quota renegotiation, suggesting that Nigeria's real capacity, absent temporary security-related outages, is around 3 mb/d (current 2.2 mb/d production plus 0.8 mb/d shut-in). However, while this report persists for now with observed outages being nearer 600 kb/d, a sharp decline in apparent September export liftings and Nigeria's unilateral late-September decision to cut October export allocations by 5%, may suggest more deep-rooted upstream problems than have been so far verified. Either way, neither government nor operating companies expect substantial reinstatement of shuttered production in the immediate future.

**Venezuelan** crude supply nudged higher in September, this report's estimate rising 25 kb/d from August to reach 2.55 mb/d. This resulted from ongoing recovery in output after earlier maintenance at the Hamaca heavy oil upgrader facility, but a combination of declining heavy conventional crude output and strike action at the Petrozuata upgrader limited the rise.

The Venezuelan government confirmed that it aims to take over a majority equity stake in the four, currently minority interest, upgrader projects which account for over 600 kb/d of current Venezuelan supply. Joint venture partner Total meanwhile announced that plans to expand the 180 kb/d Sincor upgrader project are on hold, pending resolution of ongoing discussions with Venezuelan authorities over fiscal and ownership changes.

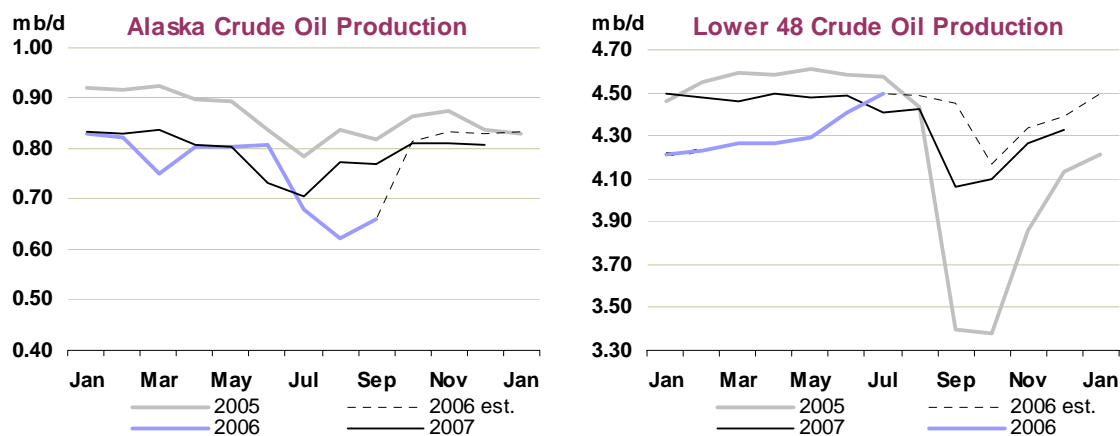
In a separate but related development, Venezuela announced that it will discontinue production of Orimulsion boiler fuel at the end of 2006 (see report dated 12 May 2006). Long standing questions over Orimulsion's economic viability (priced as a coal substitute) seem to have been the prime rationale. Freed-up Orinoco ultra-heavy oil volumes will now reportedly be used to augment declining production of conventional 16° API Merey crude which obtains better returns. Production from a newly inaugurated Sino-Venezuelan joint venture Orimulsion plant has reportedly been cut to 40 kb/d and will cease entirely at the end of the year. This move has the effect of cutting this report's estimate for 2007 OPEC NGL/non-conventional supply by 110 kb/d although, as noted above, much of this oil will likely find its way back into the market in the form of conventional Venezuelan crude supply.

## OECD

### *North America*

**US – Alaska September actual, others estimated:** Previous downward revisions made to US supply projections after last year's intense hurricane activity and this summer's Alaskan pipeline closures now appear to have been overly pessimistic. Preliminary indications for US crude supply for July and August show supply close to last month's estimates, but weekly data suggest a September crude level of some 5.1 mb/d, 265 kb/d higher than our earlier forecast. In all, US oil supply is revised up by over

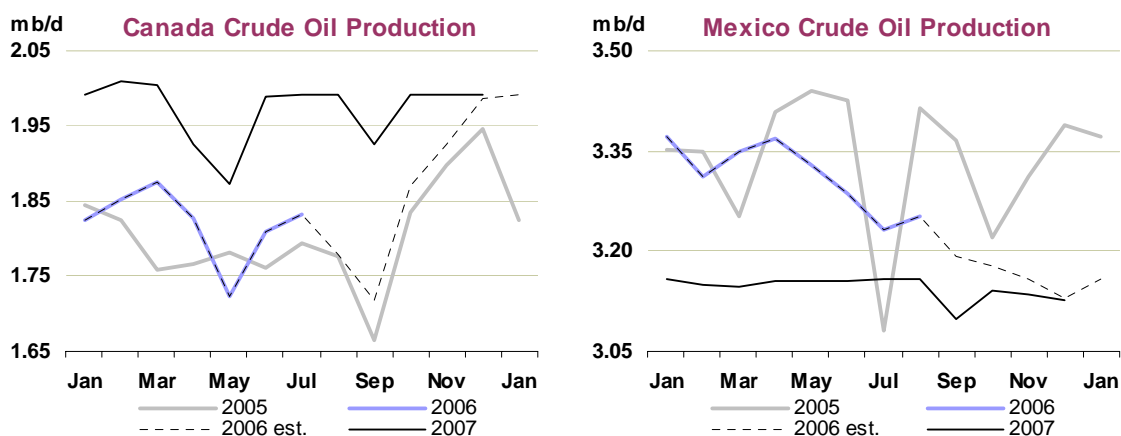
100-150 kb/d for 3Q06 through 1Q07, before downward adjustments for US Gulf (GOM) supply feed through to curb 2007 supply overall by 60 kb/d. US production now averages 7.32 mb/d in 2006 and 7.4 mb/d in 2007 (with crude oil at 5.11 mb/d in 2006 and 5.17 mb/d in 2007). However, an initial look at US final monthly data for 2005 (only available since this report's own data were frozen) suggests that some of this month's downward adjustment to 2007 may be reversed in due course.



Alaska underpins most of the upward revision through 1Q07, with output from the Prudhoe Bay field back at 355 kb/d in early October and reportedly scheduled to regain 400 kb/d by the end of October. This follows BP's successful bypass of stricken crude transit pipelines and diversion of Prudhoe crude via neighbouring Endicott and Lisburne field facilities. Ongoing pipeline work at the Prudhoe Bay, Lisburne, Alpine and Milne Point fields is likely to continue through the winter and into next summer, curtailing mid-2007 Alaskan supply by 25 kb/d compared to last month's forecast. However, upward adjustments of over 100 kb/d to Prudhoe Bay supply for the next six months outstrip this, leaving an Alaskan crude forecast revised up by 35 kb/d in 2006, to 770 kb/d, and by 15 kb/d in 2007, to 795 kb/d.

GOM supply projections are revised up for the short term, but have been revised down for 2007. September US supply data indicate GOM production of around 1.48 mb/d, 275 kb/d higher than estimated last month. This follows minimal September hurricane activity, negating what had previously been a 385 kb/d downward adjustment to GOM supply in line with the five year average trend. With expectations also for minimal hurricane activity through to the end of the season in November, assumed seasonal outages (currently 385 kb/d in October and 200 kb/d in November) are also prone to later downward adjustment. That notwithstanding, GOM supply for 2007 has been revised down by 80 kb/d, largely to account for BP's announcement that subsea manifold problems on the Thunder Horse project will defer start-up to mid-2008 at the earliest. However the impact is markedly less than suggested by headline 250 kb/d Thunder Horse capacity, since this report was previously counting on a net 2007 contribution of only 75 kb/d from Thunder Horse.

**Canada – July actual:** Canadian oil supply is again revised down, this time by some 20 kb/d for both 2006 and 2007, with adjustments centred on the second half of the year in both cases. Higher-than-expected synthetic crude output in August initially offsets lower offshore Newfoundland supply. Weaker east coast offshore supply is likely to carry into September when maintenance curbs output markedly. Going forward however, the situation reverses, and Syncrude Canada's output has been

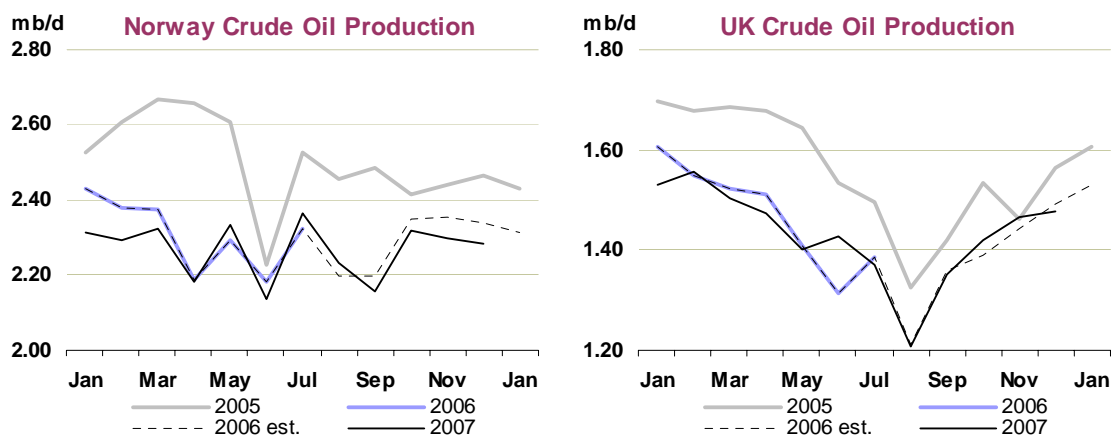


revised down by 20-30 kb/d in light of now lower production targets for this year and next. Despite this, the Canadian oilsands remain the driver of likely Canadian supply growth, which averages close to 150 kb/d in both 2006 and 2007.

**Mexico – August actual:** Stronger-than-expected August production of both crude (3.25 mb/d) and NGL (445 kb/d) add some 15 kb/d to total Mexican output for the forecast period. Exports of heavy Maya crude, notably to the Americas, also rebounded in July. However, the output projections remain in line with the generally weaker profile adopted in last month's report. Crude supply falls to 3.26 mb/d in 2006 from 3.33 mb/d in 2005 and further to 3.15 mb/d in 2007. NGL supply is seen stabilising at just under 450 kb/d. Declining production of 12-15% from the Cantarell field in 2007 is partly offset by new field developments, including increased supply at the Ku-Maloob-Zaap complex.

### North Sea

**Norway – July actual, August provisional:** Final field data for July confirm that month's rebound in total oil supply to 2.87 mb/d (2.32 mb/d of crude and 550 kb/d of gas liquids) while provisional indications show a maintenance-induced dip to some 2.75 mb/d in August and September. Despite evidence of increased activity in the Norwegian offshore sector, including sharply higher exploration spending for 2006 and 2007, forecast output in this report has been trimmed by 15-20 kb/d for the period through 1Q07. This follows reports by key operators Statoil and Norsk Hydro of lower expectations for short-term production growth. Notably, plateau volumes of 75 kb/d from the Kristin project have been pushed back to 1Q07 and start-up of the 11 kb/d Gulltop satellite of the Gullfaks field is deferred until 2Q07.



**UK – July actual:** Forecast UK offshore crude production remains largely unchanged at 1.43 mb/d for both 2006 and 2007, although evidence of higher-than-expected August maintenance activity trims third quarter output by some 25 kb/d in both years. This is offset by marginally higher output in intervening quarters. June field-by-field data point to slightly higher than expected Brent and Ninian system supply, but weaker Forties production. These minor adjustments to baseload supply carry through the forecast.

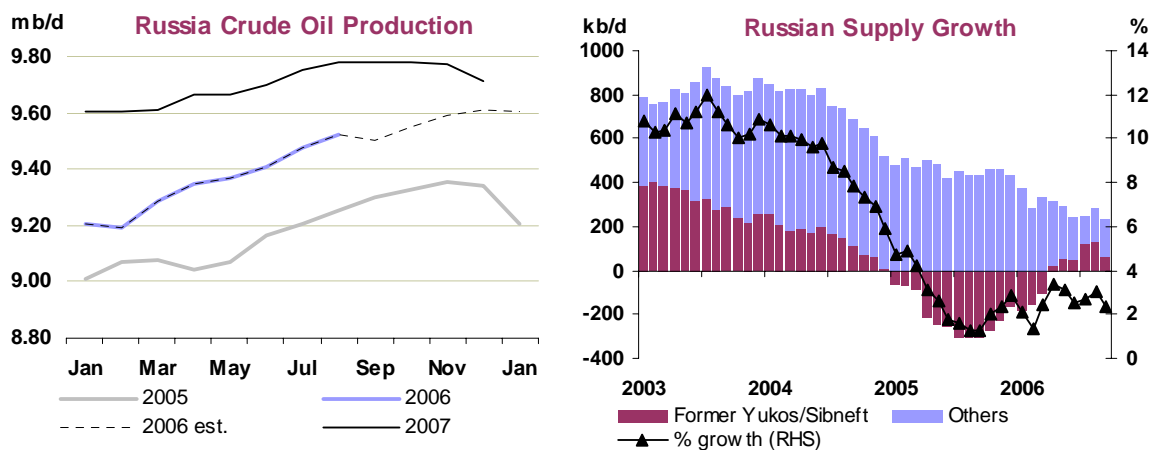
Early September saw threats that some 800 diving personnel may take industrial action in November in the absence of an improved pay offer from employers. The move risks undermining repair capability in the event of oil and gas field outages.

### Former Soviet Union (FSU)

**Russia – August actual, September provisional:** Against a backdrop of continuing uncertainty over the eventual fate of three key Production Sharing Agreements (PSAs) involving Shell, ExxonMobil and Total, the Russian production forecast is held largely unchanged at 9.7 mb/d for 2006 and 10.0 mb/d for 2007 (including some 300 kb/d of condensate and gas liquids). Growth averages 2.6% in 2006 and 2.9% in 2007, after attaining 2.7% in 2005. August final data came in some 25 kb/d higher-than-expected, but September supply levelled off. 4Q 2006 supply has been trimmed by 25 kb/d to reflect expectations of lower BP-TNK supply and delays in build-up from ExxonMobil's Sakhalin 1 project. However, stronger performance from Rosneft helps offset these downside adjustments.

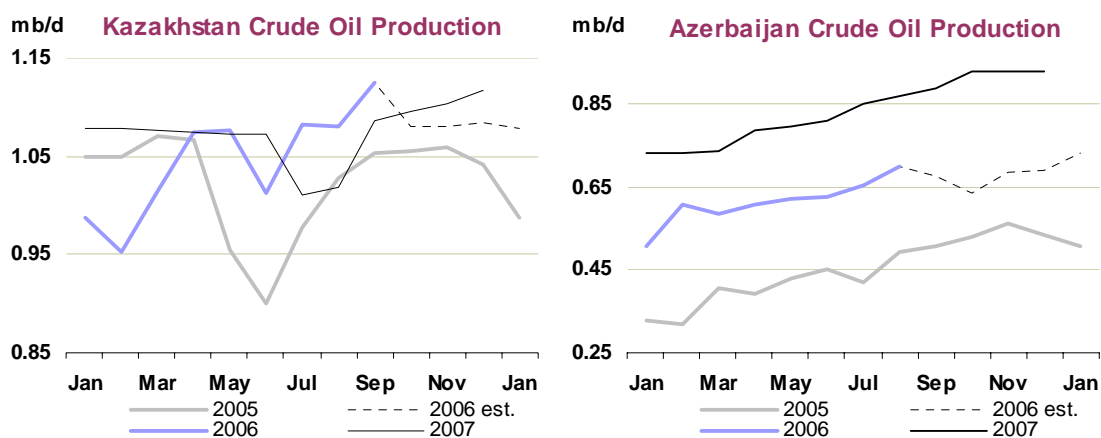
The Russian authorities have denied that they are seeking to squeeze out foreign involvement in the three PSA projects, which in August saw a seasonal rise in output to 145 kb/d. Government sources

suggest that they are seeking to preserve state revenues in the face of sizeable cost over-runs at the projects. However, the raft of regulatory and environmental hurdles being laid ahead of full project output from each of the schemes only seems likely to further impede revenue flows for all concerned. Recent announcements concerning delayed output schedules for Sakhalin 1 and Sakhalin 2 however do not materially affect this report's projections since we were already assuming fairly conservative production profiles to take account of project uncertainty. Nonetheless, any further material project dislocation places at risk the expected build in supply from these projects to some 325 kb/d next summer and 400 kb/d by the end of 2008.



August net FSU exports reached 8.41 mb/d, with a 70 kb/d increase in products shipments outstripping a 60 kb/d dip in crude. Overall, exports stand some 600 kb/d above levels of a year ago. Sharply lower products exports in September are likely to have dragged down overall exports, despite what would normally be the impetus provided by increases in export duties from 1 October (changes in Russian export duties for crude and products have now been harmonized to the same date, with current record levels equivalent to some \$238/tonne for crude, \$172/tonne for gasoline and diesel and \$93/tonne for fuel oil). September crude volumes were also affected by lower CPC liftings. This month's crude exports may remain close to lower September volumes, based on Transneft schedules (which show markedly lower Baltic Pipeline System deliveries) and likely lower BTC pipeline movements.

Ongoing checks by Russian authorities at the newly-started De Kastri terminal suggest a slower than originally anticipated build in exports of Sokol crude from the Sakhalin project. So far two cargoes have been scheduled for October lifting and three in November. Operator ExxonMobil had originally planned to attain nameplate 250 kb/d production capacity by end-2006, which is indicative of up to ten cargoes. This report has for some time assumed a slower build in supply, capacity output and exports being deferred until 2007/2008.



**Kazakhstan – September actual:** Recent production data suggest heavier underlying maintenance activity for the key Tengiz and Karachaganak fields. A maintenance-related adjustment nets 10 kb/d off 2006 supply, and 20 kb/d from the 2007 projection. Total oil production averages close to 1.3 mb/d for both years. Looking further ahead, the Energy Ministry in early September predicted a 36% increase in crude and condensate production during the 2005-2010 period. Central to this plan is the development of the Kashagan field in the Caspian Sea, where project complexity has contributed to a 50% increase in investment costs for the initial, 450 kb/d production phase. July's *MTOMR* assumed a fairly conservative production schedule, with Kashagan only coming onstream in 2010, thereby limiting Kazakhstan total oil production to 1.6 mb/d in 2010. This represents a 25% increase on 2005 levels, a less ambitious target than latest Kazakh government plans.

#### FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

|                            | 2004 | 2005 | 3Q2005 | 4Q2005 | 1Q2006 | 2Q2006 | Jun 06 | Jul 06 | Aug 06 | Latest month vs.<br>Jul 06 Aug 05 |       |
|----------------------------|------|------|--------|--------|--------|--------|--------|--------|--------|-----------------------------------|-------|
| <b>Crude</b>               |      |      |        |        |        |        |        |        |        |                                   |       |
| Black Sea                  | 2.20 | 2.27 | 2.30   | 2.23   | 2.25   | 2.26   | 2.16   | 2.29   | 2.36   | 0.07                              | 0.04  |
| Baltic                     | 1.51 | 1.59 | 1.57   | 1.55   | 1.54   | 1.73   | 1.79   | 1.59   | 1.42   | -0.17                             | -0.17 |
| Arctic/FarEast             | 0.25 | 0.19 | 0.22   | 0.17   | 0.10   | 0.11   | 0.12   | 0.17   | 0.24   | 0.07                              | 0.03  |
| BTC                        | 0.00 | 0.00 | 0.00   | 0.00   | 0.00   | 0.01   | 0.03   | 0.18   | 0.27   | 0.09                              | 0.27  |
| <b>Crude Seaborne</b>      | 3.96 | 4.05 | 4.08   | 3.95   | 3.89   | 4.11   | 4.11   | 4.24   | 4.29   | 0.05                              | 0.16  |
| Druzhba Pipeline           | 1.10 | 1.15 | 1.14   | 1.23   | 1.20   | 1.16   | 1.20   | 1.29   | 1.17   | -0.12                             | 0.05  |
| Other Routes               | 0.23 | 0.25 | 0.24   | 0.26   | 0.31   | 0.38   | 0.42   | 0.36   | 0.37   | 0.01                              | 0.12  |
| <b>Total Crude Exports</b> | 5.29 | 5.45 | 5.46   | 5.44   | 5.39   | 5.65   | 5.73   | 5.89   | 5.83   | -0.06                             | 0.34  |
| Of Which: Transneft        | 3.76 | 4.04 | 4.02   | 4.07   | 4.05   | 4.23   | 4.25   | 4.26   | 4.11   | -0.15                             | 0.01  |
| <b>Products</b>            |      |      |        |        |        |        |        |        |        |                                   |       |
| Fuel oil                   | 0.90 | 0.93 | 1.02   | 1.04   | 0.87   | 1.05   | 0.97   | 0.94   | 0.99   | 0.05                              | 0.02  |
| Gasoil                     | 0.84 | 0.87 | 0.85   | 0.95   | 1.01   | 0.95   | 0.92   | 0.91   | 0.95   | 0.05                              | 0.13  |
| Other Products             | 0.46 | 0.58 | 0.58   | 0.60   | 0.60   | 0.70   | 0.67   | 0.70   | 0.66   | -0.04                             | 0.12  |
| <b>Total Product</b>       | 2.19 | 2.38 | 2.45   | 2.58   | 2.47   | 2.69   | 2.56   | 2.54   | 2.61   | 0.06                              | 0.27  |
| <b>Total Exports</b>       | 7.48 | 7.83 | 7.91   | 8.02   | 7.87   | 8.34   | 8.29   | 8.43   | 8.44   | 0.01                              | 0.61  |
| Imports                    | 0.01 | 0.02 | 0.02   | 0.02   | 0.03   | 0.03   | 0.03   | 0.05   | 0.03   | -0.02                             | 0.00  |
| <b>Net Exports</b>         | 7.47 | 7.81 | 7.89   | 8.00   | 7.84   | 8.31   | 8.26   | 8.38   | 8.41   | 0.03                              | 0.61  |

Sources: Petro-Logistics, IEA estimates

Note: Transneft data has been revised to exclude Russian CPC volumes.

**Azerbaijan – August actual:** August production of Azeri Light crude by the AIOC consortium came in some 40 kb/d higher than expected, although the impact of this on 2006 supply is negated by inclusion in our forecast of a similar magnitude downturn in October. The Chirag field will undergo maintenance this month to install water injection equipment. Flows of Azeri Light via the BTC pipeline reportedly dropped by some 65 kb/d to 220 kb/d in September and will likely remain below 250 kb/d in October, partly as a result of the Chirag work. Nonetheless, AIOC production drives the near 200 kb/d annual increases in Azeri supply expected for both 2006 and 2007. Production averages 640 kb/d this year and 840 kb/d next year, with a modest increment also deriving from start-up of liquids supply at the Shah Deniz gas project, due onstream at end-September 2006.

## Other Non-OPEC

### Revisions to Other Non-OPEC Estimates

In all, non-OPEC supply is revised down by 30 kb/d for 2006 to 51.0 mb/d and by 160 kb/d in 2007 to 52.7 mb/d. Lower-than-expected offshore supply from both **China** and **India** cut forecast production by 20-25 kb/d each. Included in the Indian adjustment is a lower expectation for NGL supply, in part following August/September outages at the Hazira gas processing plant.

In the Middle East, **Syrian** supply has been revised down by 15 kb/d for 2006 and by 35 kb/d in 2007 to account for apparently steeper decline rates. Annual oil output including NGL now comes in at 415 kb/d in 2006 and 380 kb/d in 2007, compared to 460 kb/d in 2005. Recent reports on mid-year production from Chad and Sudan also suggest lower than expected output. An earlier standoff between the government in **Chad** and operators Chevron and Petronas over unpaid taxes seems to have receded, but production is reported below earlier levels of 170 kb/d and some 15 kb/d has been cut from forecast production. In **Sudan** earlier optimism about production continuing to push higher beyond 500 kb/d has been replaced by concerns about decline from early production at blocks 1, 2 and 4. Some 20 kb/d has been trimmed from 2007 Sudanese supply, leaving production at 570 kb/d.

## Revisions to Non-OPEC Oil Supply

(million barrels per day)

|                       | Last Month's OMR |              |              |              |             | This Month's OMR |              |              |              |             | This Month vs. Last Month |              |              |              |              |
|-----------------------|------------------|--------------|--------------|--------------|-------------|------------------|--------------|--------------|--------------|-------------|---------------------------|--------------|--------------|--------------|--------------|
|                       | 2005             | 2006         | 2007         | 06 v 05      | 07 v 06     | 2005             | 2006         | 2007         | 06 v 05      | 07 v 06     | 2005                      | 2006         | 2007         | 06 v 05      | 07 v 06      |
| North America         | 14.09            | 14.16        | 14.41        | 0.07         | 0.25        | 14.09            | 14.21        | 14.35        | 0.12         | 0.13        | 0.00                      | 0.05         | -0.06        | 0.05         | -0.12        |
| Europe                | 5.60             | 5.32         | 5.35         | -0.28        | 0.03        | 5.60             | 5.30         | 5.35         | -0.30        | 0.05        | 0.00                      | -0.02        | 0.00         | -0.02        | 0.02         |
| Pacific               | 0.58             | 0.55         | 0.64         | -0.04        | 0.09        | 0.58             | 0.56         | 0.65         | -0.02        | 0.09        | 0.00                      | 0.01         | 0.01         | 0.01         | 0.00         |
| <b>Total OECD</b>     | <b>20.28</b>     | <b>20.03</b> | <b>20.40</b> | <b>-0.25</b> | <b>0.37</b> | <b>20.28</b>     | <b>20.08</b> | <b>20.35</b> | <b>-0.20</b> | <b>0.27</b> | <b>0.00</b>               | <b>0.05</b>  | <b>-0.05</b> | <b>0.05</b>  | <b>-0.09</b> |
| Former USSR           | 11.64            | 12.08        | 12.62        | 0.45         | 0.53        | 11.64            | 12.07        | 12.60        | 0.43         | 0.53        | 0.00                      | -0.02        | -0.02        | -0.02        | 0.00         |
| Europe                | 0.16             | 0.15         | 0.13         | -0.01        | -0.01       | 0.16             | 0.15         | 0.13         | -0.01        | -0.01       | 0.00                      | 0.00         | 0.00         | 0.00         | 0.00         |
| China                 | 3.62             | 3.71         | 3.75         | 0.09         | 0.04        | 3.62             | 3.70         | 3.73         | 0.08         | 0.02        | 0.00                      | -0.01        | -0.02        | -0.01        | -0.01        |
| Other Asia            | 2.68             | 2.73         | 2.76         | 0.04         | 0.04        | 2.68             | 2.70         | 2.73         | 0.02         | 0.03        | 0.00                      | -0.02        | -0.03        | -0.02        | -0.01        |
| Latin America         | 4.30             | 4.48         | 4.71         | 0.18         | 0.23        | 4.30             | 4.48         | 4.74         | 0.18         | 0.26        | 0.00                      | 0.00         | 0.03         | 0.00         | 0.03         |
| Middle East           | 1.86             | 1.76         | 1.72         | -0.10        | -0.04       | 1.86             | 1.75         | 1.69         | -0.12        | -0.06       | 0.00                      | -0.02        | -0.03        | -0.02        | -0.02        |
| Africa                | 3.72             | 4.04         | 4.57         | 0.33         | 0.53        | 3.72             | 4.03         | 4.53         | 0.32         | 0.50        | 0.00                      | -0.01        | -0.04        | -0.01        | -0.03        |
| <b>Total Non-OECD</b> | <b>27.97</b>     | <b>28.95</b> | <b>30.26</b> | <b>0.98</b>  | <b>1.31</b> | <b>27.97</b>     | <b>28.87</b> | <b>30.15</b> | <b>0.90</b>  | <b>1.27</b> | <b>0.00</b>               | <b>-0.08</b> | <b>-0.11</b> | <b>-0.08</b> | <b>-0.03</b> |
| Processing Gains      | 1.86             | 1.90         | 1.92         | 0.04         | 0.02        | 1.86             | 1.90         | 1.92         | 0.04         | 0.02        | 0.00                      | 0.00         | 0.00         | 0.00         | 0.00         |
| Other Biofuels        | 0.12             | 0.15         | 0.26         | 0.04         | 0.11        | 0.12             | 0.15         | 0.26         | 0.04         | 0.11        | 0.00                      | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Total Non-OPEC</b> | <b>50.23</b>     | <b>51.04</b> | <b>52.84</b> | <b>0.81</b>  | <b>1.80</b> | <b>50.23</b>     | <b>51.00</b> | <b>52.68</b> | <b>0.77</b>  | <b>1.67</b> | <b>0.00</b>               | <b>-0.03</b> | <b>-0.16</b> | <b>-0.03</b> | <b>-0.13</b> |

OMR = Oil Market Report

Bucking the trend in other non-OECD regions, supply for Latin America is revised up for the forecast period. Offshore production outside of the Campos Basin in **Brazil** is trending higher than anticipated and adds marginally to expected 2007 output. The incorporation of two-to-three months of recently available data for **Argentina, Colombia, Peru** and **Trinidad** pushes forecast regional supply for 4Q 2006 onwards up by a combined 30 kb/d.

## OECD STOCKS

### Summary

- **Total OECD oil inventories** built by 22 mb in August as declining crude stocks were largely offset by increasing product and 'other oils' inventories. Crude stocks fell in all regions following increased refinery throughput as scheduled maintenance reached a seasonal low. Product inventories built with increases in distillates and 'other products' stocks in North America and the Pacific accounting for most of the change. Days of forward demand cover came to 55 days for the OECD as a whole, on par with July and one day higher than last year.

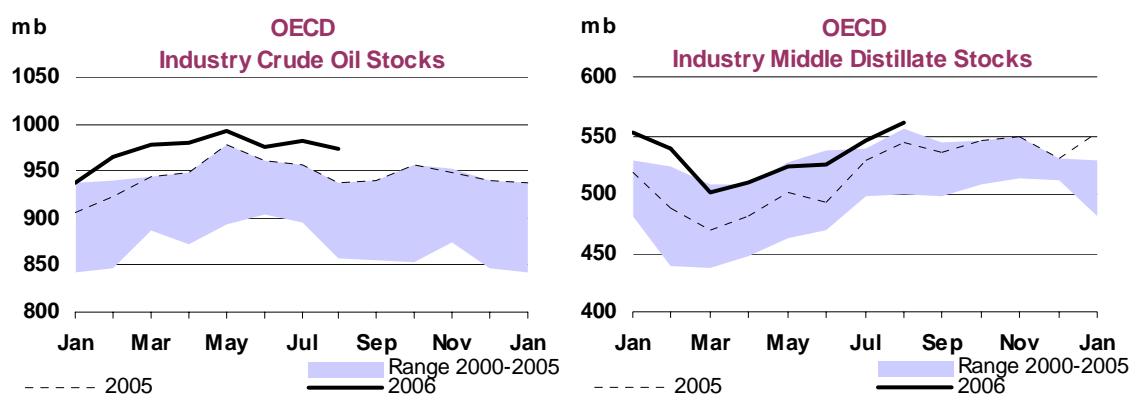
#### Preliminary Industry Stock Change in August 2006 and Second Quarter 2006

(million barrels per day)

|                         | August (preliminary) |              |              |              | Second Quarter 2006 |              |             |              |
|-------------------------|----------------------|--------------|--------------|--------------|---------------------|--------------|-------------|--------------|
|                         | North America        | Europe       | Pacific      | Total        | North America       | Europe       | Pacific     | Total        |
| <b>Crude Oil</b>        | <b>-0.19</b>         | <b>-0.04</b> | <b>-0.10</b> | <b>-0.33</b> | <b>-0.07</b>        | <b>-0.08</b> | <b>0.11</b> | <b>-0.04</b> |
| Gasoline                | -0.08                | -0.01        | 0.01         | -0.07        | -0.01               | -0.12        | 0.00        | -0.12        |
| Distillates             | 0.29                 | -0.03        | 0.20         | 0.46         | 0.06                | 0.09         | 0.10        | 0.26         |
| Residual Fuel Oil       | 0.01                 | -0.06        | 0.00         | -0.06        | 0.02                | 0.06         | 0.04        | 0.13         |
| Other Products          | 0.20                 | -0.02        | 0.18         | 0.36         | 0.30                | -0.01        | 0.02        | 0.31         |
| <b>Total Products</b>   | <b>0.42</b>          | <b>-0.12</b> | <b>0.39</b>  | <b>0.70</b>  | <b>0.37</b>         | <b>0.03</b>  | <b>0.17</b> | <b>0.57</b>  |
| Other Oils <sup>1</sup> | 0.05                 | -0.03        | 0.31         | 0.33         | 0.08                | -0.02        | 0.02        | 0.08         |
| <b>Total Oil</b>        | <b>0.28</b>          | <b>-0.18</b> | <b>0.60</b>  | <b>0.70</b>  | <b>0.38</b>         | <b>-0.07</b> | <b>0.30</b> | <b>0.61</b>  |

<sup>1</sup> Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude oil stocks** fell by 10 mb in August to 973 mb or 35 mb higher than last year. Stocks fell in all regions, although the main changes were seen in North America and in Japan where higher refinery throughput increased crude demand. In Europe, lower Italian, German and UK stocks were mostly offset by increases in 'other EU' and Norwegian inventories.
- **OECD industry middle distillate stocks** built by 14 mb in August as Japanese and US refiners cranked up throughput to build stocks ahead of the winter heating season. Although higher than last year and their five-year average in volumetric terms, OECD distillate stocks were trending in the middle of their range in terms of forward demand cover. Weekly data from the US and Japan show distillates continued to rise in September, while stocks in independent storage in ARA and Singapore fell from recent highs following increased demand and reduced runs.
- **OECD industry gasoline stocks** trended generally sideways in August as increased refinery output was offset by continued robust driving demand. With Labor Day marking the end to the US driving season in early September, the hurricane season largely over and total OECD gasoline stocks at 7 mb above last year's level, earlier concerns over the adequacy of supplies have mostly dissipated - but much will depend on the extent of seasonal maintenance. Preliminary weekly data for US and Japanese inventories moved higher in September.



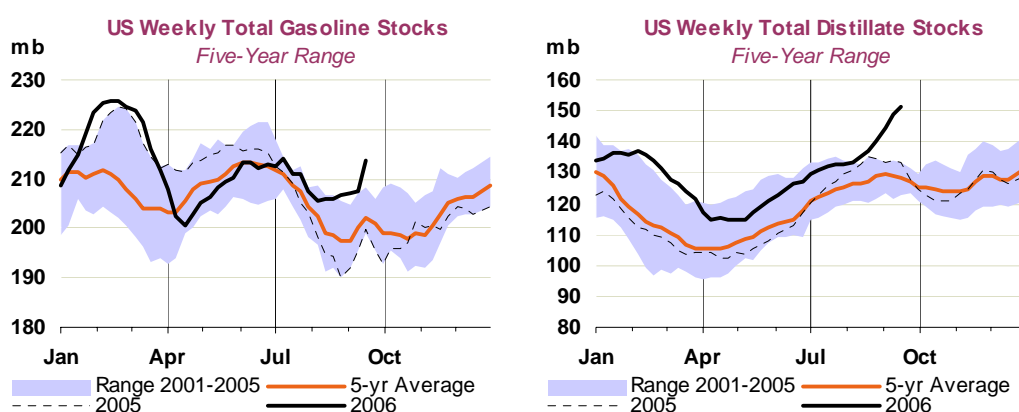
## OECD Industry Stock Changes in August 2006

### OECD North America

North American crude oil stocks fell by 6 mb in August as both US and Mexican inventories moved lower. US crude stocks fell by only 2.5 mb in August despite the partial shutdown of the 400 kb/d Prudhoe Bay oil field as higher production in the US Gulf of Mexico and continued strong imports offset the outage.

In September, US-50 crude stocks moved slightly lower as continued high throughput were mostly countered by strong imports. Total US crude imports averaged 10.7 mb/d for the four weeks ending 29 September, more than 250 kb/d higher than the previous four weeks and 1.5 mb/d higher than the hurricane-reduced levels of last year. In the last week of September, the downward trend in crude stocks since early June was reversed when US crude runs fell by almost 600 kb/d. The impact on stocks was low, however, as crude oil imports fell by a similar amount.

North American product stocks built by 13 mb in August. The increase was mostly centred in the US, where distillate and 'other product' stocks rose by a combined 14 mb. US gasoline stocks were down by 2 mb despite higher crude runs and continued strong imports, as demand reached its seasonal peak.



In September, US-50 product stocks continued to rise. Preliminary weekly data show that total products built by a combined 24 mb, with increases in all major product categories, following higher refinery runs in the early part of the month and seasonally weaker demand in the pre-winter shoulder period and ahead of seasonal maintenance. Lower gasoline demand, following the end of the US driving season, generally considered the early September Labor Day holiday, allowed total gasoline stocks to build by 8 mb. Stocks of both finished gasoline and blending components increased, despite lower imports.

Total US distillate stocks added close to 12 mb in September as refiners were maximizing output to turn over tanks for new specification material and build heating oil inventories ahead of winter. Ultra-low-sulphur diesel (ULSD), which has to replace 80% of regular on-road diesel by the 15<sup>th</sup> of October at the retail level, built by 10 mb while regular diesel fell by 2 mb. Heating oil inventories added close to 4 mb, predominantly in the main-consuming Northeast region.

### OECD Europe

European crude oil inventories trended largely sideways in August as lower Italian, German and UK stocks were offset by increases in 'other EU' and Norwegian inventories. Higher European refinery runs increased crude demand, while North Sea production was again affected by scheduled maintenance. Benchmark BFO volumes were at their lowest level since the three grades were combined to form the North Sea benchmark in July 2002. Competing Nigerian supplies were also lower due to continued outages in the Niger Delta. Following the lower supplies of Brent-related material in August, the WTI-Brent spread was negative for the first half of the month, lowering spot exports out of the region. Narrowing refinery margins in both Northwest Europe and in the Mediterranean in September could have lowered crude demand, especially from simple hydroskimming units.

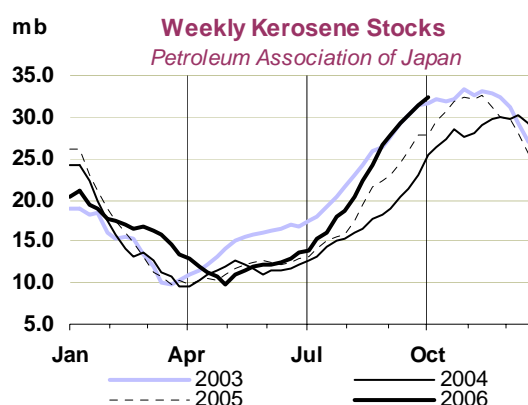
European product inventories fell by 4 mb in August to 536 mb or 3 mb lower than last year. The decline came in all product categories and despite both higher refinery throughput and lower inland

deliveries in main consuming countries, suggesting a sharp rise in exports. French product stocks were higher (+6.3 mb), offsetting lower German stocks, which fell by 5 mb. Refinery throughput for OECD Europe as a whole were sharply higher (+330 kb/d) than last month but were still 30 kb/d lower than last year. Preliminary data show inland deliveries for main consuming countries were weak in August with France, Germany and Italy all posting year-on-year declines. German domestic heating oil stocks rose to 60% of capacity at the end of August from 55% one month earlier and 52% last year.

### OECD Pacific

In the Pacific, crude stocks fell by 3 mb in August to 173 mb or 9 mb below last year. An 8 mb stock draw in Japan was partly offset by higher Korean inventories. Korean crude runs were mostly unchanged from July but were still almost 250 kb/d higher than August last year. Imports however were 170 kb/d higher than July and 320 kb/d higher than August last year. In Japan, crude stocks fell by 8 mb following sharply higher throughput. These increased by 375 kb/d from July and were 50 kb/d higher than August last year. The Petroleum Association of Japan reported that domestic crude stocks trended sideways in September as lower crude runs were offset by reduced imports. In addition to scheduled maintenance in Japan, reports were made of economic run cuts due to negative refinery margins in Japan, Korea, Singapore and Taiwan, reducing regional crude demand.

Pacific product inventories built by 12 mb in August to 205 mb, or 17 mb higher than a year ago. Japanese product stocks saw a 15 mb increase, of which 9 mb came from middle distillates. The build followed sharply higher refinery throughput and weak demand. Preliminary indications of Japanese inland deliveries show kerosene deliveries down more than 20% from last year and total gasoil 9% lower. Weekly data from the Petroleum Association of Japan show that product inventories continued to build in September, despite lower refinery runs. In particular, kerosene stocks rose faster than normal and are currently 5 mb higher than last year. In contrast, Korean product stocks fell by 3 mb in August. The stock draw was driven by increased product exports and stronger demand.



### OECD Inventory Position at End-August and Revisions to Preliminary Data

OECD total industry oil stocks closed August at 2727 mb, 22 mb higher than July and 89 mb higher than last year. The year-on-year surplus is largely centred in North America, where both crude and product inventories are trending above last year's level. In Europe, product stocks are currently lower than one year ago, while in the Pacific crude stocks are below those seen at the same time last year. Days of forward demand cover came to 55 days for the OECD as a whole, on par with July and one day higher than last year. Regionally, cover stood at 51 days for North America, 61 days for Europe and 54 days for the Pacific.

#### Year-on-Year OECD Industry Stock Comparisons for August 2006

|                         | (million barrels) |             |             |             |                       | (Days of Forward Demand) |             |            |            |
|-------------------------|-------------------|-------------|-------------|-------------|-----------------------|--------------------------|-------------|------------|------------|
|                         | North America     | Europe      | Pacific     | Total       |                       | North America            | Europe      | Pacific    | Total      |
| <b>Crude Oil</b>        | <b>30.9</b>       | <b>12.9</b> | <b>-9.0</b> | <b>34.8</b> | <b>Total Oil</b>      | <b>0.9</b>               | <b>0.6</b>  | <b>0.5</b> | <b>0.7</b> |
| Total Products          | 26.7              | -3.2        | 16.7        | 40.2        | Versus 2004           | 3.3                      | 1.0         | 3.4        | 2.5        |
| Other Oils <sup>1</sup> | 3.3               | 1.9         | 8.9         | 14.1        | Versus 2003           | 2.3                      | 1.1         | 0.7        | 1.6        |
| <b>Total Oil</b>        | <b>60.9</b>       | <b>11.6</b> | <b>16.6</b> | <b>89.0</b> | <b>Total Products</b> | <b>0.3</b>               | <b>-0.3</b> | <b>1.4</b> | <b>0.2</b> |
| Versus 2004             | 96.9              | 6.6         | 37.3        | 140.8       | Versus 2004           | 1.1                      | -0.9        | 2.2        | 0.6        |
| Versus 2003             | 118.4             | 15.1        | 7.3         | 140.7       | Versus 2003           | 1.0                      | -0.5        | 0.2        | 0.3        |

<sup>1</sup> includes feedstocks, NGLs and other hydrocarbons

Preliminary July stock data for OECD countries have been revised upwards by 37 mb since last month's report. The revisions were centred in crude and 'other oils' inventories in North America and Europe. The upward adjustments to crude came in Canada, the US, Italy, the Netherlands and other European countries. Only UK crude stocks were revised lower. 'Other oils' were revised upward in Canada, the US and Europe. Product inventories were revised upward by a total of 5 mb, as upwards adjustments to distillates were partly offset by lower gasoline stocks. A 6 mb downwards revision to US 'other products' was offset by upwards revisions for this category elsewhere.

## Revisions versus 12 September 2006 Oil Market Report

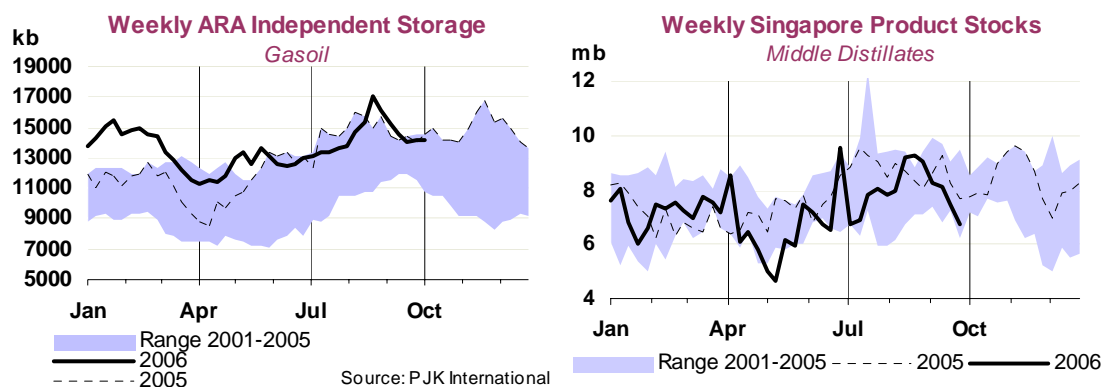
|                         | (million barrels) |             |             |             |            |            |            |             |
|-------------------------|-------------------|-------------|-------------|-------------|------------|------------|------------|-------------|
|                         | North America     |             | Europe      |             | Pacific    |            | OECD       |             |
|                         | Jun 06            | Jul 06      | Jun 06      | Jul 06      | Jun 06     | Jul 06     | Jun 06     | Jul 06      |
| <b>Crude Oil</b>        | <b>2.3</b>        | <b>8.2</b>  | <b>2.1</b>  | <b>11.7</b> | <b>0.5</b> | <b>0.5</b> | <b>4.9</b> | <b>20.4</b> |
| Gasoline                | 0.1               | -0.3        | -1.0        | -2.7        | 0.2        | 0.4        | -0.7       | -2.6        |
| Distillates             | 0.2               | 4.7         | -0.2        | 3.4         | 0.2        | -0.5       | 0.2        | 7.7         |
| Residual Fuel Oil       | 0.1               | -0.1        | 0.0         | 0.6         | 0.1        | 0.3        | 0.2        | 0.8         |
| Other Products          | -0.8              | -6.1        | 1.1         | 3.8         | 0.6        | 1.8        | 0.9        | -0.5        |
| <b>Total Products</b>   | <b>-0.3</b>       | <b>-1.8</b> | <b>-0.2</b> | <b>5.1</b>  | <b>1.0</b> | <b>2.0</b> | <b>0.5</b> | <b>5.3</b>  |
| Other Oils <sup>1</sup> | 0.2               | 8.5         | 0.1         | 3.1         | 0.2        | -0.1       | 0.5        | 11.6        |
| <b>Total Oil</b>        | <b>2.2</b>        | <b>14.9</b> | <b>2.1</b>  | <b>19.9</b> | <b>1.7</b> | <b>2.5</b> | <b>5.9</b> | <b>37.4</b> |

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

## Recent Developments in ARA Independent Storage

According to PJK International, total oil product stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area trended largely sideways in September as a decline in gasoil stocks was mostly offset by increasing gasoline and, to a lesser extent, naphtha stocks. Gasoil stocks continued to fall from the peak seen in late August, mostly supported by strong pre-winter consumer demand for heating oil from Germany, France and Switzerland. Favourable arbitrage economics led to arrivals from India, South Korea, the US and the Baltics, outpacing outflows to the Rhine barge market, the UK and at times, to the US.

Gasoline stocks rose in ARA in September amid seasonally weaker demand. The stock increase came despite steady flows of transatlantic exports and reduced supplies as regional refineries started or planned for autumn maintenance. Towards the end of the month, refiners also switched to maximize gasoil production, at the expense of gasoline, but a widening contango end-month encouraged stock building. Fuel oil and jet-kerosene stocks were largely unchanged since the end of August. Preliminary data for FSU product exports in September show sharply lower seaborne shipments for all products, bar gasoil, leading to lower arrivals in ARA tanks. The fall in exports came despite another tax increase taking effect from 1 October, making it more expensive to export products after this date.



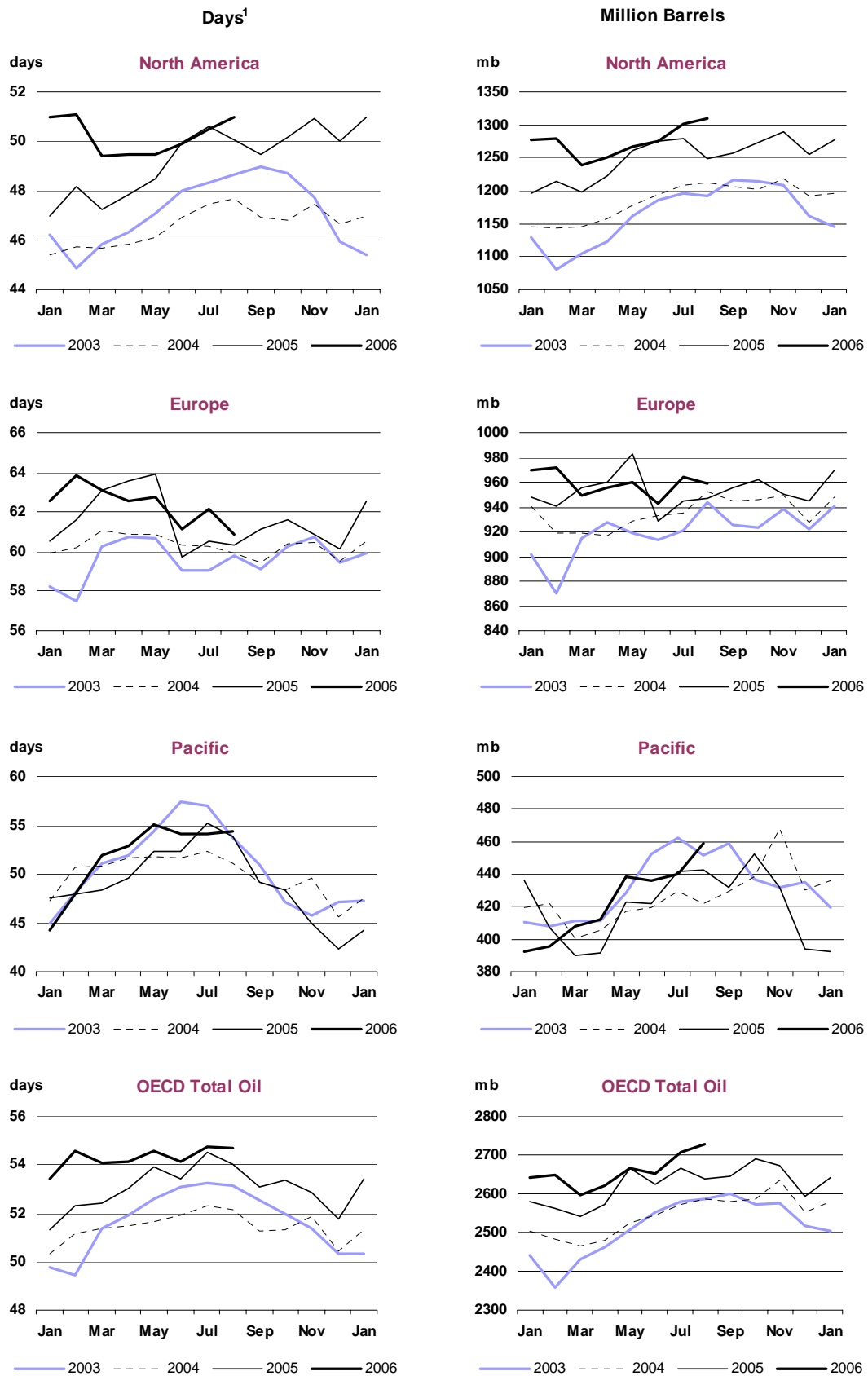
## Recent Developments in Singapore Stocks

Singapore oil product inventories, as surveyed by International Enterprise, fell sharply in September as a result of regional economic refinery run cuts and lower arrivals from the West. The steepest declines were seen in middle distillates, but also residues and light distillates fell sharply. Middle distillate stocks lost more than 25% during September, falling from the top to the bottom of their five-year range. Stocks moved lower on a combination of easing arbitrage arrivals and reduced regional refinery runs as well as tightening Chinese supplies ahead of their harvest. Low demand from Indonesia and Vietnam and a flood of low-sulphur supplies from India offset some of the decline.

Light distillates also fell despite lower regional naphtha demand and a closed arbitrage for shipping gasoline to the US. Naphtha cracker outages in China and Japan as well as planned maintenance in Korea and Taiwan reduced demand. Steady Korean demand for naphtha offset some of the decline however. Residue stocks continued to slide from the record levels seen in late July and early August, losing almost 30% from early-August highs. In addition to lower regional supplies, fewer western cargoes, in particular from the FSU, arrived.

### Regional OECD End-of-Month Industry Stocks

(in days of forward demand and millions barrels of total oil)



1 Days of forward demand are based on average demand over the next three months

## PRICES

### Summary

- **Short-term fundamental weakness ensured that oil prices continued their downward slide in September.** With the peak of the hurricane season past, forecasts that no more storms are to be expected, coupled with unusually high US gasoline and distillate stocks, offset upward pressure from bargain hunting. After dipping below \$60/bbl prices levelled off in early October when talk of OPEC cuts emerged. However, while crude futures have fallen by \$18/bbl from their peak in early August, they are \$3-4/bbl above the 2005 average and remain historically high in both nominal and real terms.
- **Crudes with high gasoline and fuel oil yields declined more** than distillate-rich grades in September, as refiners build heating oil stocks ahead of the winter. The relative weakness of Dated Brent opened up a variety of arbitrage options, and in particular is likely to prompt an increase in shipments of West African crudes to Asia.
- **Product prices tumbled more rapidly than crude, ensuring weaker refining margins,** most noticeably in the US Gulf Coast, where cracking margins dipped into negative territory. Weakest of all remain Asian margins, dragged down by higher fuel oil yields.
- **Most dirty and clean freight rates remained firm throughout September,** but dipped in early October on talk of an OPEC cut.

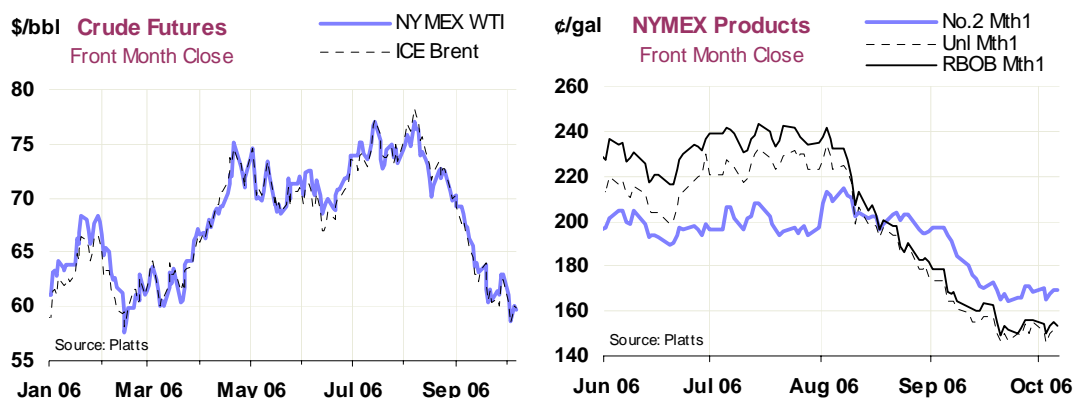
### Overview

The absence of any hurricane-related support, weak product fundamentals and a temporary sidelining of geopolitical issues as the core market focus allowed oil prices to continue their downward slide in most of September and early October. Crude futures reached their lowest level since mid-February, dipping below \$60/bbl, but downside momentum flagged as bargain hunters returned and talk of possible OPEC output cuts emerged.

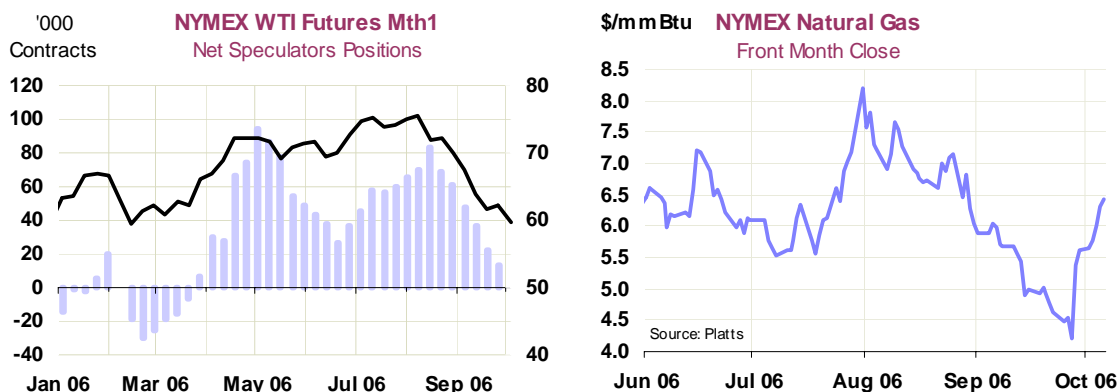
NYMEX Natural Gas, which had shown an even more dramatic fall than crude of 49% since late July on recovering US Gulf production, very high stocks and milder weather, evidenced an about-face in late September, shooting up again when some US producers hinted at output cuts. The price shift also contributed to large losses by an energy hedge fund that was betting on a hurricane-related price spike, but the unwinding of the position appeared to be accommodated by existing liquidity without undue market distortion.

Crude and distillate futures have now fallen 22% since their early-August peaks, but remain overshadowed by Unleaded Gasoline's 33% plummet. Unusually high global refinery throughput with few hitches enabled product stocks to rise in August, a trend which continued in the US in September, putting pressure on product prices. This in turn has put pressure on a spot crude market already weakened as refiners ease up on purchases ahead of seasonal maintenance.

BP's announcement that it would be able to restart most of its Prudhoe Bay output sooner than expected, combined with lower hurricane risks to Gulf of Mexico supply, further dented crude market sentiment. The hurricane season in the US is past its peak, and most forecasters now consider that El



Niño conditions in the Pacific make further hurricanes this year unlikely. Others also indicate that the El Niño weather phenomenon can be associated with milder winter weather in the northern hemisphere, although this is far from certain. These fundamentally weaker trends have contributed to further reductions in net-long positions held by non-commercials (funds and large speculators) on the NYMEX, and likely contributed to some price weakening. However, we note that despite this decline, total open interest in WTI futures has remained more or less steady, suggesting that there has been a shift in the market structure rather than wholesale liquidation.

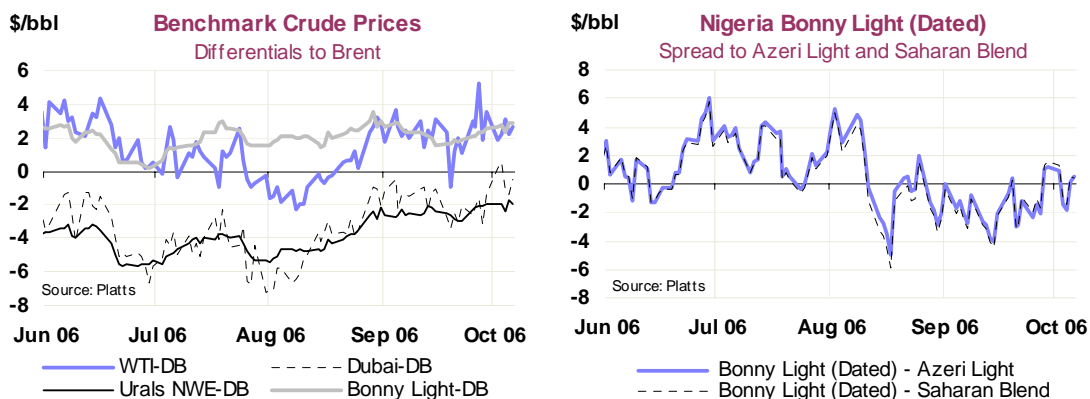


All near-term futures contracts remain in contango. But in order to accommodate a fall in spot crude prices, arbitrage economics mean that the forward premium has to be extended further along the futures curve. This has pushed the contango in WTI futures out to June 2008, and has left even the seven-year forward price higher than the spot contract.

Spot crude demand is reported to be weak on lower refiner demand due to a combination of weak refining margins and seasonal maintenance, with the latest US weekly data showing an unexpected dip below 90% utilisation for the first time since mid-May. However, this is likely to be temporary as refiners typically lift throughput to the highest levels of the year in the fourth quarter to meet peak winter demand. Geopolitical risks are still present in the market, albeit pushed into the background. New attacks were reported in Nigeria and the Iran issue remains far from resolved. News at the time of going to press that North Korea had tested an apparent nuclear device had little effect on prices. If autumn refinery maintenance turns out to be heavier than expected, perhaps motivated by low or negative margins, the product market could soon become tighter. Meanwhile, confusion over proposed OPEC output cuts and suggestions that some members of the producer group favour defending a basket price of \$50-55/bbl (around \$55 to \$60/bbl on WTI and Brent futures) are offering psychological, if not yet physical, support to prices.

**Crude Oil Prices**

Crude prices all fell in September, though like last month, those with higher gasoline or fuel oil yields tended to suffer more. Dated Brent remained relatively weak on soft demand, opening up a variety of arbitrage options. Physical Brent/Dubai spreads have remained quite narrow, even briefly dipping into negative territory on 3 October, a rare occurrence. After a hiatus, West African (WAF) and other Brent-related crude flows to Asia look set to pick up again, with refiners reportedly upping purchases to over 1 mb/d for October. This is still relatively low compared to 1.7 mb/d seen earlier this year, but



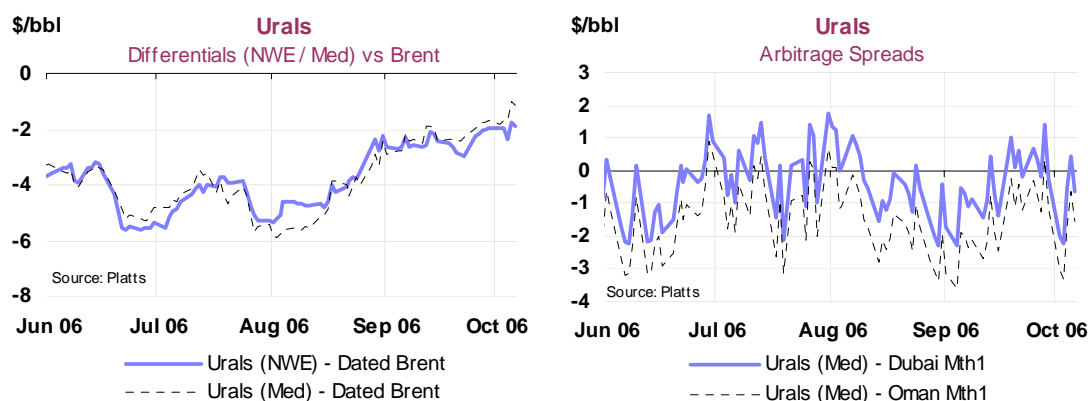
more than in September. Lower demand for WAF crudes in the US, where gasoline margins tumbled most, have kept Nigerian grades at a discount to Mediterranean competitors Saharan Blend and Azeri Light. WTI overall maintained its premium versus Dated Brent, sustaining the possibility of transatlantic shipments.

### Spot Crude Oil Prices and Differentials

(monthly and weekly averages, \$/bbl)

|                                    | Jul   | Aug   | Sep   | Sep-Aug<br>Avg Change | %     | Week Commencing: |        |        |        |        |
|------------------------------------|-------|-------|-------|-----------------------|-------|------------------|--------|--------|--------|--------|
|                                    |       |       |       |                       |       | 04 Sep           | 11 Sep | 18 Sep | 25 Sep | 02 Oct |
| <b>Crudes</b>                      |       |       |       |                       |       |                  |        |        |        |        |
| Dated Brent                        | 73.66 | 73.11 | 61.71 | -11.40                | -15.6 | 65.20            | 61.60  | 60.20  | 58.72  | 57.33  |
| Brent (Asia) Mth1 adjusted         | 74.78 | 74.06 | 64.63 | -9.42                 | -12.7 | 68.79            | 65.09  | 62.29  | 61.02  | 61.28  |
| WTI (Cushing) Mth1 adjusted        | 74.38 | 73.01 | 63.74 | -9.27                 | -12.7 | 67.41            | 63.94  | 61.32  | 61.96  | 59.72  |
| Urals (Northwest Europe)           | 69.19 | 68.97 | 59.24 | -9.73                 | -14.1 | 62.64            | 59.21  | 57.43  | 56.61  | 55.33  |
| Urals (Mediterranean)              | 69.20 | 68.49 | 59.47 | -9.02                 | -13.2 | 62.68            | 59.47  | 57.84  | 56.91  | 55.85  |
| Dubai Mth1 adjusted                | 69.17 | 68.77 | 59.82 | -8.95                 | -13.0 | 63.77            | 60.27  | 57.46  | 56.51  | 56.85  |
| Dubai Swaps Mth1 adjusted          | 69.50 | 69.20 | 60.58 | -8.62                 | -12.5 | 64.38            | 61.00  | 58.34  | 57.35  | 57.55  |
| Minas (Dated)                      | 74.13 | 75.21 | 63.32 | -11.89                | -15.8 | 65.52            | 64.23  | 62.16  | 60.05  | 57.69  |
| Tapis (Dated)                      | 78.16 | 78.53 | 69.03 | -9.50                 | -12.1 | 72.98            | 69.36  | 67.08  | 65.43  | 63.97  |
| <b>Differential to Dated Brent</b> |       |       |       |                       |       |                  |        |        |        |        |
| WTI (Cushing) Mth1 adjusted        | 0.72  | -0.10 | 2.03  | 2.13                  |       | 2.21             | 2.34   | 1.12   | 3.24   | 2.39   |
| Urals (Mediterranean)              | -4.46 | -4.62 | -2.24 | 2.38                  |       | -2.52            | -2.13  | -2.36  | -1.81  | -1.48  |
| Urals (Northwest Europe)           | -4.47 | -4.14 | -2.47 | 1.67                  |       | -2.56            | -2.39  | -2.77  | -2.11  | -2.00  |
| Dubai Mth1 adjusted - Dated Brent  | -4.49 | -4.34 | -1.89 | 2.45                  |       | -1.43            | -1.33  | -2.74  | -2.21  | -0.47  |
| Dubai Swaps - Brent Asia           | -5.28 | -4.86 | -4.06 | 0.80                  |       | -4.41            | -4.09  | -3.95  | -3.67  | -3.73  |
| Tapis (Dated)                      | 4.50  | 5.42  | 7.32  | 1.90                  |       | 7.78             | 7.76   | 6.89   | 6.71   | 6.64   |
| <b>Prompt Month Differential</b>   |       |       |       |                       |       |                  |        |        |        |        |
| Forward Cash Brent Mth1-Mth2 adj.  | -0.46 | -0.59 | -1.02 | -0.43                 |       | -0.91            | -1.04  | -1.04  | -1.13  | -0.99  |
| Forward WTI Cushing Mth1-Mth2 adj  | -1.12 | -1.08 | -0.87 | 0.22                  |       | -1.13            | -0.90  | -0.51  | -0.92  | -1.28  |

Urals differentials to Dated Brent decreased to their narrowest since February, hovering around \$2/bbl, as the winter approaches, and the Russian crude's popularity as a distillate-rich grade increased. In addition, the first delays through the Turkish Straits have appeared as daylight hours shrink and passages are limited. Russian export volumes are expected to dip slightly in October on high domestic refining margins and a higher export duty from 1 October. Despite the fall in prices, the retrospective calculation of the tax means it will lag spot market developments. Meanwhile, Urals's spreads against Oman and Dubai were favourable in terms of moving crude eastwards.



Middle Eastern crude differentials weakened, with many producers feeling the pinch from fuel oil's weakness. Oman's September official selling price (OSP) was retrospectively set at its lowest premium since October 2001, and other producers, such as Qatar and the UAE, made similar cuts. Distillate-rich Murban was also under pressure from Japanese stocks of winter fuel kerosene being at the top end of their three-year range.

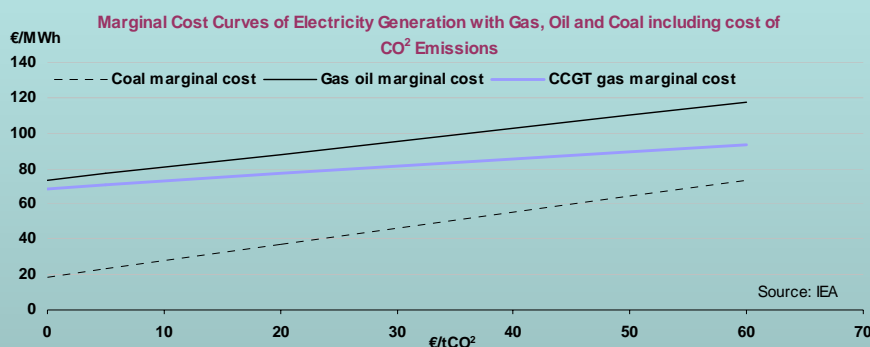
## Another Look at Fuel Switching

Rapidly sliding oil prices have pushed fuel oil prices below those of natural gas in continental Europe, opening up, on paper at least, the potential for fuel switching by utilities. Large consumers such as Germany have deliberately pegged their natural gas prices to oil, but with a time lag of 3-6 months. Therefore, while the world petroleum market has seen the largest nominal downward price correction for many years and US and UK utilities are seeing spot natural gas prices at unusually low levels, some European utilities are starting to pay gas prices related to the second-quarter price spike.

This situation is a sea change from when we last looked at this in July 2005 (see report dated 13 July 2005), when natural gas prices had a distinct advantage over fuel oil. But the relative price of fuel oil and natural gas is only one factor in the decision to switch. Switching costs, infrastructure constraints and the cost of CO<sub>2</sub> emissions (as oil-fired plants release more than gas-fired ones) are other factors to consider.

Therefore, despite the potentially attractive economics, it remains far from certain that any switching would actually take place. Of total operational European electricity-generating capacity (around 695 GW), some 21% is gas-fired. Of this share, only around 20 GW of advanced, combined cycle gas turbine (CCGT) plants – so less than 3% of the total – can actually physically switch to oil intake. From a technical perspective switching from natural gas to even low-sulphur fuel oil (LSFO) is unlikely. CCGT plants are typically restricted to burning gas oil as an alternative due to technical difficulties, such as corrosion from the heavy metals content in fuel oil. Gas oil however is approximately twice the price of LSFO in Northwest Europe. Assuming an early-October German gas price of \$8.68/MBtu, and a gas oil price CIF NWE 0.2% of \$12.26/MBtu, our calculation shows that in this case electricity produced from gas is still cheaper.

Perhaps a more significant barrier to fuel oil switching is that many utilities are locked into long-term gas supply contracts. Many such contracts involve a base load amount that consumers must take, with only relatively small swing volumes in order to adapt to demand fluctuations. Moreover, there are often contractual restrictions preventing the resale of the gas, and more importantly there are also logistical hurdles such as lack of third-party access to gas pipelines across much of Europe. This means that in practice, the only switching that might take place would be on marginal or surge demand – always a possibility during winter, but a factor that may prevent a significant uptick in fuel oil demand.



Fuel switching is however taking place in other regions, particularly in the world's largest fuel oil exporter, Russia. Giant power utility UES has started to use more fuel oil instead of natural gas due to pressure from Gazprom. A glut of increasingly unpopular fuel oil on world markets – much of it from Russia – is one of the main reasons for its depressed price, and the challenge ahead for the refining industry is effectively fuel oil destruction. From a domestic perspective, using more fuel oil internally would likely lift the price of fuel oil exports, while at the same time freeing more natural gas supply for export. Reportedly, additional consumption by UES will raise Russian fuel oil demand by some 70 kb/d, which will not enough to cause a substantial change in fuel oil economics, but could have an effect at the margin. In terms of demand shifts, this in itself is probably as significant as fuel oil switching potential in Europe.

It could be argued that much of the potential for switching in Europe is due to regional methods of pricing natural gas, and in this regard, the recent temporary move to negative natural gas prices in the UK could prompt switching in the other direction. In the US, where prices for natural gas and fuel oil are market based, the sharp fall in natural gas prices has led to a decline in fuel oil burning by utilities. On the other side of the world, the Japan Gas Association registered a 13% year-on-year increase in industrial gas demand for the first half of 2006, as the indexation in gas import contracts has favoured its use over oil, though it is not yet clear whether fuel oil demand has been affected by this.

Ultimately, while there could be some increase in fuel oil switching in Europe over the fourth quarter, the weather is likely to be a bigger driver of fuel oil demand in the region. Fuel oil demand typically fluctuates between 1.6 mb/d in the weak third-quarter demand period, before rising to around 2.1 mb/d in peak winter months (December through February). Any switching in addition to this effect is likely to be marginal and could be offset by switching in the other direction in other parts of the world.

### Delivered Crude Prices in July

The price paid by IEA countries for an average barrel of delivered crude climbed by almost \$3 in July, reaching \$68.67/bbl. This reflected the rising cost of crude types favoured by IEA importers in the second quarter combined with firmer freight rates in May and June. European IEA countries experienced a delivered price rise of \$3.83/bbl in July, compared to increases of \$2.97/bbl and \$1.25/bbl in North American and Pacific member countries respectively. Average CIF crude prices for July were at \$69.71/bbl in IEA Europe, \$67.48 in IEA North America and \$68.88/bbl in IEA Pacific, the highest monthly levels in all three regions for 2006 so far.

### Refining Margins

With product prices falling more rapidly than crude, most crack spreads narrowed in September, as did refining margins. This was most evident on the US Gulf Coast, where cracking and coking margins fell by nearly \$6/bbl on average. Weakest of all was Brent cracking, which moved sharply into negative territory on gasoline's weakness, and contributed to the marker crude's decline in price. LLS cracking on the US Gulf also turned negative briefly but made a modest recovery by the end of the month. In Europe, cracking margins fell too, but remain positive, unlike hydroskimming margins, which stayed negative on fuel oil's weakness. In Asia, despite some gains through September, all refining margins except Dubai hydrocracking remain well below zero. This is what tempted some refiners in Singapore, Japan and Korea to cut runs already in September, and more could potentially follow suit. Having said that, heavy fuel oil prices in Singapore actually stayed steady in September after lower arbitrage volumes from the west led to a sharp fall in stocks.

#### Selected Refining Margins in Major Refining Centres

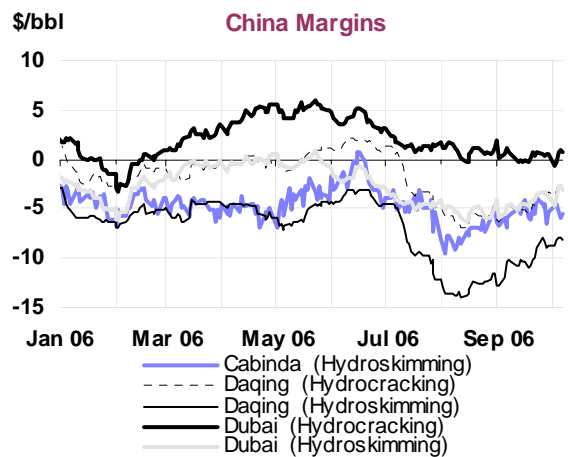
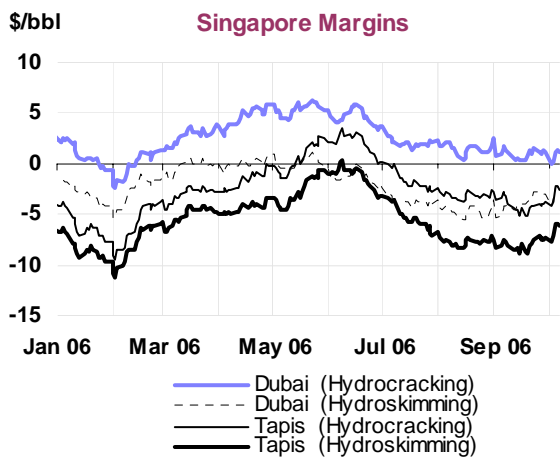
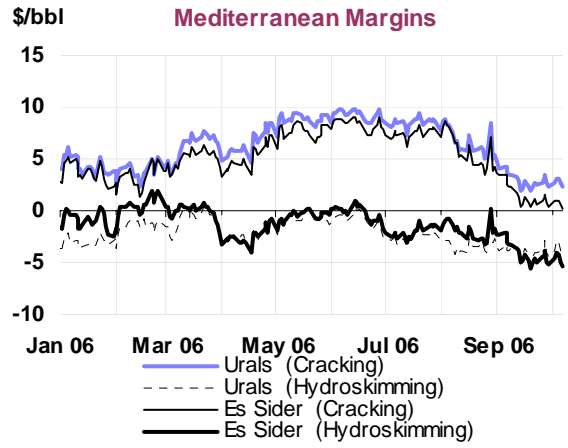
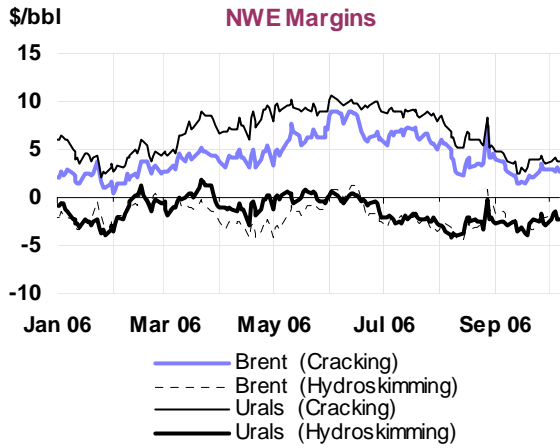
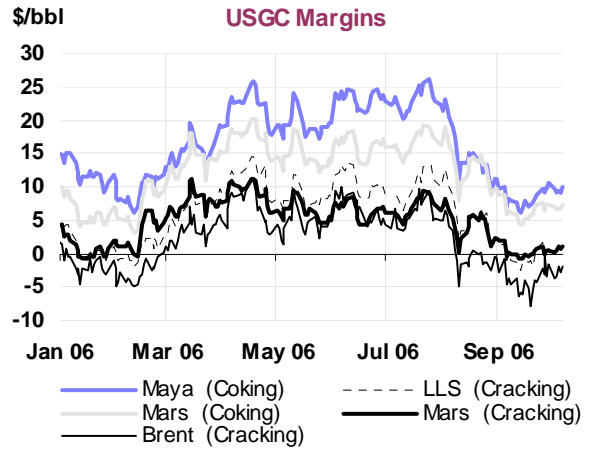
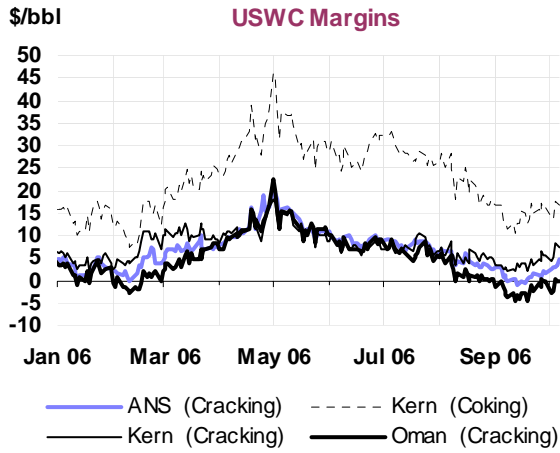
|                      |                          | (\$/bbl)        |        |        |               |        |              |        |        |        |
|----------------------|--------------------------|-----------------|--------|--------|---------------|--------|--------------|--------|--------|--------|
|                      |                          | Monthly Average |        |        | Change        |        | Week Ending: |        |        |        |
|                      |                          | Jul 06          | Aug 06 | Sep 06 | Sep 06-Aug 06 | 08 Sep | 15 Sep       | 22 Sep | 29 Sep | 06 Oct |
| <b>NW Europe</b>     | Brent (Cracking)         | 6.49            | 4.17   | 2.59   | -1.58         | 3.33   | 1.81         | 1.92   | 3.02   | 2.86   |
|                      | Urals (Cracking)         | 8.82            | 6.37   | 3.77   | -2.59         | 4.30   | 3.07         | 3.54   | 3.99   | 3.89   |
|                      | Brent (Hydroskimming)    | -2.43           | -2.82  | -2.52  | 0.31          | -1.81  | -2.94        | -3.42  | -2.07  | -1.86  |
|                      | Urals (Hydroskimming)    | -2.24           | -2.86  | -2.79  | 0.08          | -2.67  | -3.03        | -3.06  | -2.40  | -2.01  |
| <b>Mediterranean</b> | Es Sider (Cracking)      | 7.46            | 5.68   | 1.52   | -4.17         | 2.83   | 1.08         | 0.74   | 1.03   | 0.69   |
|                      | Urals (Cracking)         | 8.50            | 6.54   | 2.97   | -3.57         | 3.78   | 2.61         | 2.37   | 2.88   | 2.80   |
|                      | Es Sider (Hydroskimming) | -2.02           | -1.89  | -4.09  | -2.19         | -2.77  | -4.32        | -5.05  | -4.57  | -4.68  |
|                      | Urals (Hydroskimming)    | -2.53           | -3.26  | -3.91  | -0.65         | -3.64  | -3.86        | -4.40  | -3.74  | -3.58  |
| <b>US Gulf Coast</b> | Brent (Cracking)         | 5.92            | 0.18   | -4.06  | -4.24         | -3.70  | -5.27        | -5.39  | -2.14  | -2.73  |
|                      | LLS (Cracking)           | 10.04           | 5.74   | -0.48  | -6.23         | -0.36  | -1.64        | -0.83  | 0.55   | 0.73   |
|                      | Mars (Cracking)          | 6.98            | 4.28   | 0.15   | -4.13         | 0.32   | -0.45        | 0.05   | 0.34   | 0.68   |
|                      | Mars (Coking)            | 16.71           | 13.02  | 6.36   | -6.66         | 6.75   | 4.92         | 6.16   | 7.12   | 6.91   |
|                      | Maya (Coking)            | 23.09           | 14.95  | 8.21   | -6.73         | 8.07   | 6.95         | 7.83   | 9.70   | 9.46   |
| <b>US West Coast</b> | ANS (Cracking)           | 7.86            | 4.41   | 0.63   | -3.78         | 0.79   | -0.37        | 0.42   | 1.27   | 3.22   |
|                      | Kern (Cracking)          | 7.51            | 5.41   | 3.53   | -1.87         | 2.52   | 3.03         | 3.35   | 5.31   | 6.56   |
|                      | Oman (Cracking)          | 6.36            | 1.81   | -2.22  | -4.03         | -2.15  | -3.62        | -2.81  | -0.48  | -1.14  |
|                      | Kern (Coking)            | 28.45           | 21.65  | 14.29  | -7.36         | 13.47  | 12.71        | 14.63  | 15.84  | 15.79  |
| <b>Singapore</b>     | Dubai (Hydroskimming)    | -3.70           | -4.72  | -3.82  | 0.91          | -4.40  | -4.18        | -3.53  | -2.85  | -2.93  |
|                      | Tapis (Hydroskimming)    | -5.34           | -7.73  | -7.98  | -0.25         | -7.83  | -8.41        | -8.24  | -7.39  | -6.58  |
|                      | Dubai (Hydrocracking)    | 2.07            | 1.46   | 0.98   | -0.48         | 1.35   | 0.47         | 0.98   | 1.17   | 0.79   |
|                      | Tapis (Hydrocracking)    | -1.65           | -3.13  | -4.07  | -0.94         | -3.25  | -4.62        | -4.55  | -3.98  | -3.00  |
| <b>China</b>         | Cabinda (Hydroskimming)  | -4.81           | -7.38  | -5.37  | 2.01          | -6.01  | -4.82        | -5.24  | -5.15  | -5.19  |
|                      | Daqing (Hydroskimming)   | -8.48           | -12.98 | -10.10 | 2.88          | -10.66 | -10.53       | -10.16 | -8.53  | -8.17  |
|                      | Dubai (Hydroskimming)    | -4.37           | -5.31  | -4.38  | 0.94          | -4.90  | -4.71        | -4.15  | -3.45  | -3.42  |
|                      | Daqing (Hydrocracking)   | -2.32           | -5.93  | -4.60  | 1.33          | -4.66  | -5.22        | -4.76  | -3.44  | -2.93  |
|                      | Dubai (Hydrocracking)    | 1.44            | 0.86   | 0.35   | -0.51         | 0.79   | -0.14        | 0.29   | 0.49   | 0.22   |

For the purposes of this report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

\*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.

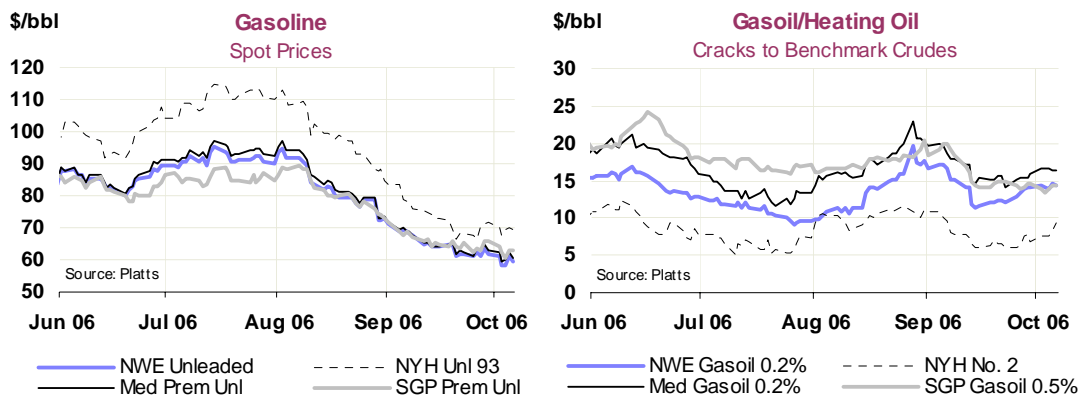
Sources: IEA, Purvin & Gertz Inc.

### Regional Full-Cost Refining Margins



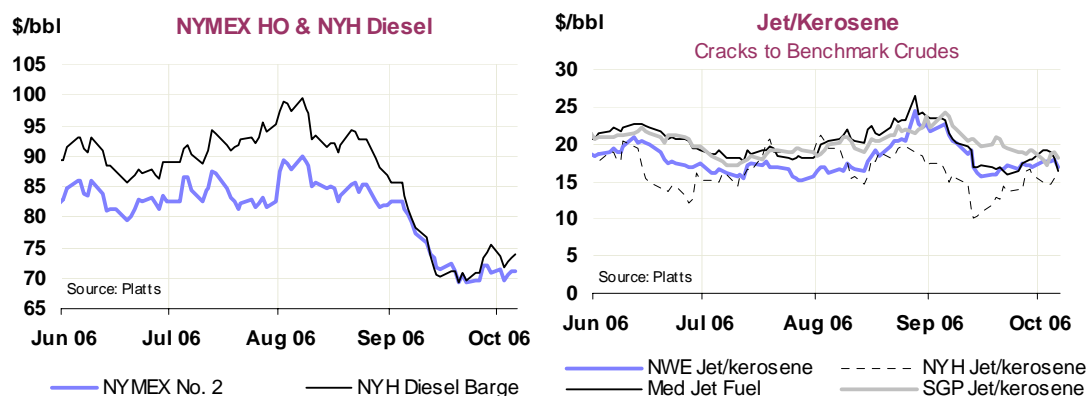
## Product Prices

All refined products fell in September and early October, but gasoline fell most on low seasonal demand and high stocks. The flows of European barrels across the Atlantic started to dry up, pressuring prices in Europe too, and causing ARA stocks to rise. In Asia, the situation was somewhat similar, where the arbitrage to the US West Coast was also closed, pressuring prices.



Despite their slide, distillates are seeing the greatest strength in all regions. In the US, ULSD values are being shored up by the 15 October deadline for retailers to provide the material. After that (and so far no problems have been reported), the switch to the new specifications will be completed, at least until 2009, when 100% rather than the current 80% of on-road diesel must have a maximum sulphur content of 15 ppm. Refiners appear to have coped well, boosting ULSD output, which caused its premium to heating oil to narrow by mid-September. Heating oil cracks however remain higher in Europe, which is structurally tighter. In September the US moved some 1 million tonnes of higher-sulphur distillate, i.e. heating oil, to Europe, but this flow could also dry up as winter approaches. Strong demand for heating oil came from German and other domestic consumers, continuing seasonal tank refilling that started in June. Distillates are also tight in Singapore, where in early October stocks fell to their lowest in three months.

Jet cracks remained highest, rising again in the second half of September and into October on healthy demand. The exception was to some extent Asia, where Japanese winter heating fuel kerosene stocks are high. China Aviation will reportedly buy fewer barrels for October and November, after record monthly purchases for September of 542,000 tonnes, though demand in Vietnam remained firm.



Fuel oil is generally still suffering from oversupply and falling demand, though the reduction in flows from Europe to Singapore stemmed its price fall in Singapore. October flows are expected to be only around 1.1 million tonnes, well below the three-million-tonne levels seen in June to August. As a result, Singapore high-sulphur 380cst has managed to stay constant at around \$45/barrel from early September, and saw its discount to Dubai narrow markedly. In turn, this is likely to open the arbitrage again from Northwest Europe, where independent ARA stocks have remained above their five-year average. This is in contrast to Singapore, where they have fallen back to a more normal level, though there are reports of some barrels in floating storage in the region. Any refinery run cuts ahead would trim fuel oil output more than other products, and South Korean exports in October are expected to be lower.

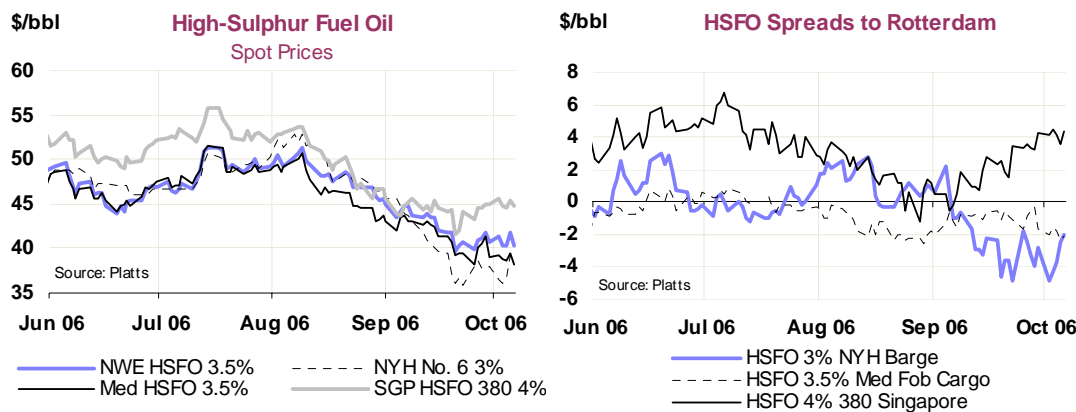
**Spot Product Prices**

(monthly and weekly averages, \$/bbl)

|                                   | Jul    | Aug   | Sep   | Sep-Aug |       | Week Commencing: |        |        |        |        | Jul                          | Aug    | Sep    |
|-----------------------------------|--------|-------|-------|---------|-------|------------------|--------|--------|--------|--------|------------------------------|--------|--------|
|                                   |        |       |       | Change  | %     | 04 Sep           | 11 Sep | 18 Sep | 25 Sep | 02 Oct |                              |        |        |
| <b>Rotterdam, Barges FOB</b>      |        |       |       |         |       |                  |        |        |        |        |                              |        |        |
|                                   |        |       |       |         |       |                  |        |        |        |        | <b>Differential to Brent</b> |        |        |
| Premium Unleaded                  | 92.90  | 84.58 | 65.96 | -18.61  | -22.0 | 69.90            | 65.76  | 63.92  | 62.92  | 60.77  | 19.24                        | 11.47  | 4.25   |
| Naphtha                           | 71.04  | 68.45 | 57.65 | -10.80  | -15.8 | 60.20            | 56.84  | 56.65  | 55.87  | 55.76  | -2.62                        | -4.66  | -4.06  |
| Jet/Kerosene                      | 89.93  | 91.93 | 79.93 | -12.00  | -13.1 | 86.53            | 78.92  | 76.67  | 75.77  | 74.85  | 16.27                        | 18.82  | 18.22  |
| ULSD                              | 87.80  | 89.75 | 77.31 | -12.44  | -13.9 | 83.14            | 75.61  | 73.98  | 74.74  | 73.55  | 14.14                        | 16.65  | 15.60  |
| Gasoil .2%                        | 84.65  | 86.61 | 75.50 | -11.11  | -12.8 | 81.37            | 74.16  | 72.38  | 72.38  | 71.58  | 10.99                        | 13.50  | 13.79  |
| LSFO 1%                           | 47.93  | 48.22 | 43.71 | -4.51   | -9.3  | 46.36            | 45.23  | 41.96  | 40.62  | 38.17  | -25.73                       | -24.89 | -18.00 |
| HSFO 3.5%                         | 48.78  | 48.39 | 42.41 | -5.99   | -12.4 | 44.17            | 43.22  | 40.86  | 40.86  | 40.83  | -24.88                       | -24.72 | -19.30 |
| <b>Mediterranean, FOB Cargoes</b> |        |       |       |         |       |                  |        |        |        |        |                              |        |        |
|                                   |        |       |       |         |       |                  |        |        |        |        | <b>Differential to Urals</b> |        |        |
| Premium 50 ppm                    | 91.74  | 83.31 | 64.09 | -19.22  | -23.1 | 67.60            | 63.34  | 62.23  | 61.91  | 59.74  | 22.54                        | 14.81  | 4.62   |
| Naphtha                           | 69.73  | 67.35 | 56.55 | -10.79  | -16.0 | 59.16            | 55.75  | 55.53  | 54.76  | 54.94  | 0.53                         | -1.15  | -2.92  |
| Jet Aviation fuel                 | 87.76  | 90.39 | 78.14 | -12.24  | -13.5 | 84.51            | 77.43  | 74.35  | 74.33  | 74.13  | 18.56                        | 21.89  | 18.67  |
| Gasoil .2%                        | 82.58  | 85.99 | 75.92 | -10.07  | -11.7 | 81.48            | 75.28  | 72.94  | 72.35  | 72.39  | 13.37                        | 17.50  | 16.45  |
| LSFO 1%                           | 51.56  | 51.84 | 42.56 | -9.28   | -17.9 | 46.17            | 42.95  | 40.00  | 40.12  | 38.91  | -17.65                       | -16.65 | -16.91 |
| HSFO 3.5%                         | 48.79  | 46.90 | 41.41 | -5.49   | -11.7 | 43.06            | 42.38  | 40.04  | 39.86  | 38.87  | -20.41                       | -21.59 | -18.06 |
| <b>New York Harbour, Barges</b>   |        |       |       |         |       |                  |        |        |        |        |                              |        |        |
|                                   |        |       |       |         |       |                  |        |        |        |        | <b>Differential to WTI</b>   |        |        |
| Super Unleaded                    | 111.10 | 99.35 | 72.83 | -26.52  | -26.7 | 77.79            | 73.94  | 68.94  | 69.54  | 69.37  | 36.72                        | 26.35  | 9.09   |
| Unleaded                          | 94.28  | 85.55 | 66.77 | -18.78  | -22.0 | 69.31            | 67.32  | 64.35  | 65.02  | 64.64  | 19.90                        | 12.55  | 3.03   |
| Jet/Kerosene                      | 92.15  | 91.28 | 77.65 | -13.63  | -14.9 | 83.06            | 75.28  | 74.33  | 77.28  | 74.74  | 17.77                        | 18.28  | 13.91  |
| No. 2 (Heating Oil)               | 80.71  | 83.21 | 71.10 | -12.11  | -14.6 | 76.29            | 70.72  | 67.81  | 68.84  | 67.77  | 6.33                         | 10.20  | 7.36   |
| LSFO 1%                           | 48.51  | 50.32 | 39.91 | -10.41  | -20.7 | 43.88            | 40.69  | 37.05  | 37.61  | 37.01  | -25.87                       | -22.69 | -23.83 |
| No. 6 3%                          | 48.71  | 49.51 | 39.97 | -9.54   | -19.3 | 43.88            | 40.60  | 37.05  | 38.00  | 37.37  | -25.67                       | -23.50 | -23.77 |
| <b>Singapore, Cargoes</b>         |        |       |       |         |       |                  |        |        |        |        |                              |        |        |
|                                   |        |       |       |         |       |                  |        |        |        |        | <b>Differential to Dubai</b> |        |        |
| Premium Unleaded                  | 85.50  | 81.22 | 65.86 | -15.36  | -18.9 | 68.21            | 65.35  | 64.53  | 64.11  | 62.49  | 16.34                        | 12.46  | 6.04   |
| Naphtha                           | 70.55  | 66.59 | 57.32 | -9.26   | -13.9 | 59.90            | 56.94  | 55.91  | 55.43  | 56.08  | 1.38                         | -2.18  | -2.49  |
| Jet/Kerosene                      | 87.57  | 89.47 | 80.55 | -8.93   | -10.0 | 86.96            | 80.60  | 77.61  | 75.46  | 75.06  | 18.41                        | 20.71  | 20.73  |
| Gasoil .5%                        | 86.27  | 86.29 | 75.85 | -10.44  | -12.1 | 83.02            | 75.55  | 72.20  | 70.90  | 70.81  | 17.11                        | 17.52  | 16.03  |
| LSWR Cracked                      | 57.59  | 51.77 | 44.45 | -7.32   | -14.1 | 45.72            | 45.05  | 43.19  | 43.34  | 41.40  | -11.58                       | -16.99 | -15.37 |
| HSFO 180 CST                      | 53.53  | 50.68 | 44.29 | -6.39   | -12.6 | 45.21            | 44.99  | 42.63  | 44.04  | 44.79  | -15.64                       | -18.09 | -15.52 |
| HSFO 380 CST 4%                   | 53.16  | 49.90 | 44.27 | -5.63   | -11.3 | 44.57            | 44.66  | 43.20  | 44.40  | 44.95  | -16.00                       | -18.86 | -15.55 |

**End-User Product Prices in September**

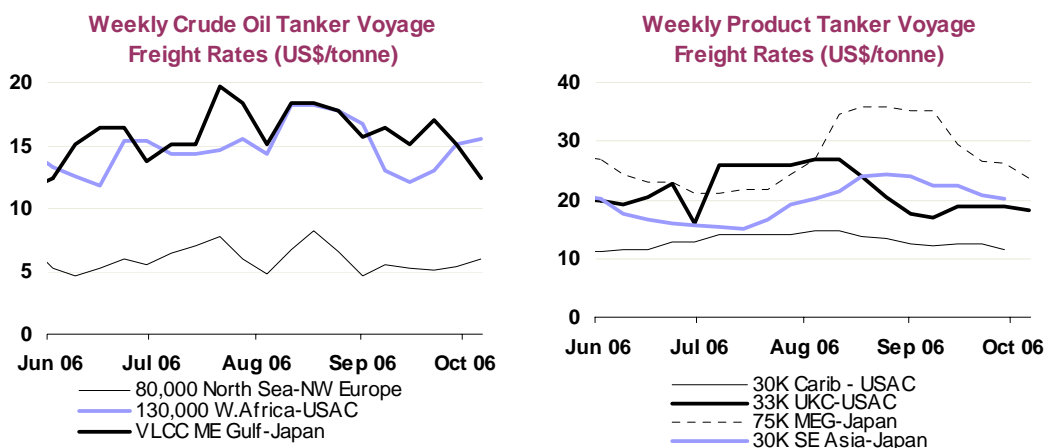
Falling product prices brought relief to consumers in all OECD countries surveyed in September. The switch to winter-grade specification product, coupled with the US driving season coming to a close led to a strong decline in gasoline futures. These fed through into lower September retail prices, particularly for gasoline, falling by 15-22% in Europe and North America on the prior month, on an ex-tax, US-dollar basis. Diesel losses were in comparison only 5-10%, on a similar basis, while heating oil fell by up to 9% month-on-month. Fuel oil price declines were more mixed, with UK industry paying 18% less for low-sulphur fuel oil in September, the largest monthly drop observed for this product in the survey. Consumer price declines were less dramatic in Japan, where net gasoline and heating oil prices fell by only 1% in US dollar terms, while diesel prices were flat at the pump compared to August.



## Freight

VLCC freight rates in the Middle East Gulf were firm in September but fell substantially in early October following the prospect of reduced OPEC output. Conversely, Atlantic basin crude tanker rates were weak mid-September but rebounded significantly by October as fourth-quarter demand began to support shipping rates. Elsewhere, falling product prices and the closure of certain arbitrage opportunities undermined dirty and clean tanker rates in early September, ending a summer of above-average rates caused by healthy August crude runs, Alaskan outages and high US product imports.

From mid-August to October, tumbling product prices eroded refining profitability. Several Asian refiners reportedly responded by reducing runs in September, denting spot crude tanker demand. Nevertheless, healthy interest for vessels loading in October in the Middle East drove a mid-September eastbound VLCC rate spike. Middle East Gulf to Japan rates started and ended September at \$15/tonne but peaked at over \$18/tonne mid-month. VLCC rates to the US Gulf were also resilient, staying around \$26/tonne for the whole of September. US refinery runs and crude imports remained above seasonal norms throughout the month and tanker sailings data suggested that Middle East Gulf sailings to the US remained high until the end of September. In early October, VLCC rates fell significantly in anticipation of OPEC supply cuts, with routes to Japan sinking below \$12/tonne by 5 October.



Crude freight rates in the Atlantic Basin weakened in early September. Large declines in gasoline prices reduced the appeal of light, sweet cargoes from West Africa and North Europe. Further downward pressure to spot tanker rates came from continued Nigerian outages, BP's announcement of an early recovery in Prudhoe Bay output, North Sea field maintenance and an abundance of vessels looking to backhaul on their ballast journey from the US. VLCC freight from West Africa to the US Gulf fell by a third in the first half of September, to \$13/tonne. Mid-month Suezmax rates on the same route had dropped \$5 to \$12/tonne and, for Northwest Europe to US Atlantic Coast, by \$6 to an \$11/tonne low. Eastbound VLCC rates from West Africa also fell over this period despite a narrowing premium of Brent over Dubai in September, which on paper makes trade to the East more favourable. By the start of October, however, Atlantic basin freight had regained much of the early-September loss as Eastern interest in Atlantic grades grew and seasonal fourth quarter demand in Western markets began to support vessel interest.

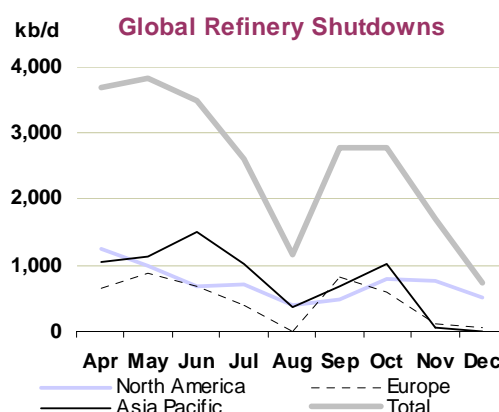
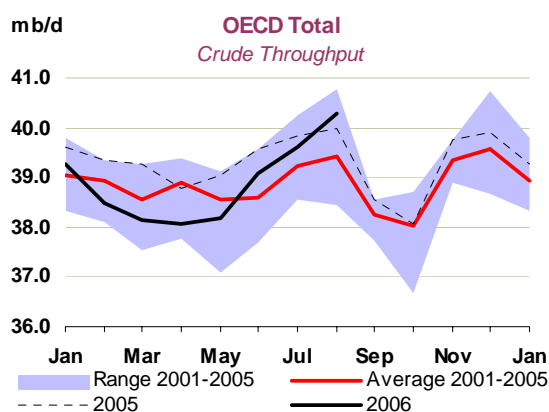
Panamax rates in all regions were undermined by falling gas prices, as industry in the western hemisphere switched away from burning fuel oil, a popular Panamax cargo, to increasingly cheaper gas. Caribbean to US dirty rates for 50,000-tonne cargoes, for example, dropped by 50% in September.

Clean rates fell from high August levels, although remain firm for the season. Shipping 30,000 tonnes of clean cargo from Singapore to Japan cost \$23/tonne at the start of October, down from \$27/tonne one month earlier. Transatlantic clean product rates for 25,000 tonnes rebounded to \$22/tonne by early October after several weeks in decline, which culminated in a mid-September low of \$18/tonne.

## REFINERY ACTIVITY

### Summary

- **OECD refinery throughput reached 40.3 mb/d in August.** This is the third-highest level of crude runs since January 2000 and the highest since December 2004. The increase of 663 kb/d from July was driven by gains in Europe and the Pacific, while North American runs were flat versus the previous month.
- **OECD refinery runs are expected to have fallen in September.** The weaker margin environment has encouraged some refiners to expand planned maintenance work and prompted some refiners in the Pacific to introduce voluntary run cuts.
- **OECD yield data for July suggest that jet yields** remain under pressure in North America, but have risen to above seasonal norms in Europe and the Pacific. Gasoil/diesel yields continue to register strong gains versus last year and the five-year average as refiners in North America complete the introduction of ULSD.
- **Offline refinery capacity in the OECD** is projected decline from the October peak, potentially raising crude runs by up to 1.5 mb/d over the balance of the fourth quarter, ahead of peak winter oil demand. Offline OECD capacity is estimated to have increased from 1.7 mb/d in September to its seasonal peak of 2.2 mb/d in October as maintenance work and voluntary run cuts curtail crude runs.



### Refinery Throughput

OECD refinery throughput in August was 40.27 mb/d, the third highest monthly average since January 2000 and the highest level since December 2004. The increase of 663 kb/d from July's upwardly revised (+79 kb/d) figure of 39.61 mb/d was due to gains equally split between the Pacific and Europe, as maintenance work dropped to its lowest level of the year. Average August OECD throughput was 297 kb/d above the level in August 2005, the first time since June 2005 that runs have registered a year-on-year increase.

Average OECD capacity utilisation increased to 89.3% in August, up from 87.9% in July and this compares with 89.4% this time last year. Weekly data for the US and Japan suggest that OECD crude runs declined in September and early October due to autumn maintenance and economic run cuts in the Pacific. Furthermore, while unplanned shutdowns may have reduced crude runs in recent weeks, problems appear to have been more prevalent in upgrading and hydrotreating capacity, rather than crude distillation.

## Refinery Crude Throughput and Utilisation in OECD Countries

|                           | million barrels per day |              |              |              |              |              | Change from |             | Utilisation rate <sup>2</sup> |              |
|---------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------------------------|--------------|
|                           | Mar 06                  | Apr 06       | May 06       | Jun 06       | Jul 06       | Aug 06       | Jul 06      | Aug 05      | Aug 06                        | Aug 05       |
| <b>OECD North America</b> |                         |              |              |              |              |              |             |             |                               |              |
| US <sup>3</sup>           | 14.58                   | 14.94        | 15.52        | 15.84        | 15.67        | 15.76        | 0.10        | 0.14        | 90.64                         | 91.19        |
| Canada                    | 1.80                    | 1.52         | 1.49         | 1.79         | 1.84         | 1.76         | -0.08       | -0.07       | 87.14                         | 90.48        |
| Mexico                    | 1.19                    | 1.26         | 1.22         | 1.22         | 1.25         | 1.22         | -0.03       | -0.06       | 72.58                         | 71.96        |
| Total                     | 17.58                   | 17.71        | 18.22        | 18.85        | 18.75        | 18.74        | -0.01       | 0.01        | 88.87                         | 89.90        |
| <b>OECD Europe</b>        |                         |              |              |              |              |              |             |             |                               |              |
| France                    | 1.57                    | 1.49         | 1.49         | 1.64         | 1.72         | 1.81         | 0.09        | 0.03        | 91.26                         | 91.13        |
| Germany                   | 2.08                    | 2.30         | 2.37         | 2.34         | 2.37         | 2.42         | 0.06        | -0.02       | 99.74                         | 99.48        |
| Italy                     | 1.82                    | 1.81         | 1.50         | 1.87         | 1.87         | 1.92         | 0.05        | 0.01        | 82.75                         | 82.46        |
| Netherlands               | 1.00                    | 0.88         | 0.92         | 0.99         | 0.94         | 0.99         | 0.05        | -0.06       | 80.66                         | 84.85        |
| Spain                     | 1.24                    | 1.20         | 1.22         | 1.26         | 1.19         | 1.24         | 0.05        | 0.05        | 97.73                         | 94.05        |
| UK                        | 1.44                    | 1.51         | 1.59         | 1.60         | 1.61         | 1.68         | 0.06        | -0.01       | 89.31                         | 92.59        |
| Other OECD Europe         | 4.01                    | 4.18         | 4.21         | 4.23         | 4.18         | 4.15         | -0.02       | -0.02       | 86.11                         | 89.48        |
| Total                     | 13.16                   | 13.37        | 13.30        | 13.92        | 13.88        | 14.21        | 0.33        | -0.03       | 89.22                         | 90.58        |
| <b>OECD Pacific</b>       |                         |              |              |              |              |              |             |             |                               |              |
| Japan                     | 4.31                    | 3.96         | 3.50         | 3.51         | 3.84         | 4.22         | 0.38        | 0.05        | 90.33                         | 88.59        |
| Korea                     | 2.41                    | 2.33         | 2.52         | 2.14         | 2.43         | 2.41         | -0.02       | 0.25        | 93.47                         | 83.89        |
| Other OECD Pacific        | 0.69                    | 0.69         | 0.62         | 0.65         | 0.70         | 0.69         | -0.01       | 0.02        | 85.30                         | 77.99        |
| Total                     | 7.41                    | 6.98         | 6.64         | 6.30         | 6.97         | 7.31         | 0.34        | 0.31        | 90.83                         | 85.99        |
| <b>OECD Total</b>         | <b>38.15</b>            | <b>38.06</b> | <b>38.17</b> | <b>39.08</b> | <b>39.61</b> | <b>40.27</b> | <b>0.66</b> | <b>0.30</b> | <b>89.34</b>                  | <b>89.43</b> |

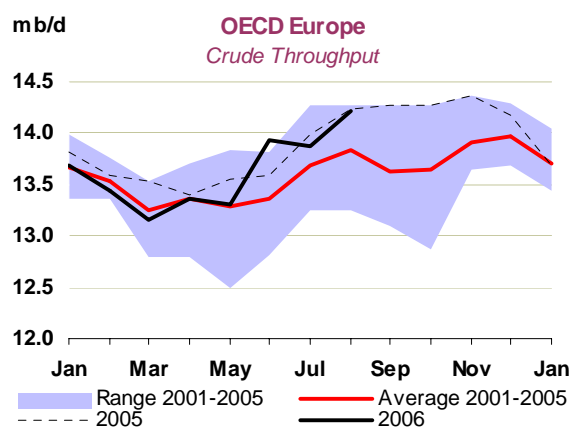
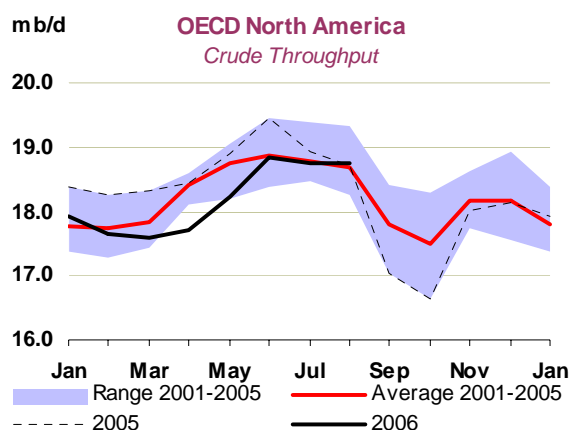
1 Estimate

2 Based on crude throughput and current operable refining capacity

3 US\$50

## OECD North America

Provisional data for August show that North American crude throughput was essentially flat from July, falling by 9 kb/d to an estimated 18.74 mb/d. The decline from July's upwardly revised level of 18.75 mb/d (+68 kb/d) was the result of higher throughput in the US (+96 kb/d) but these were more than offset by planned maintenance activity in Canada and a slight decline in Mexican throughput. Consequently North American capacity utilisation in August was unchanged from July at 88.9%.



August US throughput increased by 96 kb/d to an average of 15.76 mb/d as unplanned outages receded (with the exception of the West Coast). Average capacity utilisation increased to 90.6%, from July's 90.1%. US crude runs registered their first increase against levels of the previous year since June 2005, although it should be noted that August 2005 crude runs were curtailed at the end of the month by the impact of Hurricane Katrina. Crude runs on the East Coast and Midwest recovered from the disruptions seen in July and early August while West Coast runs declined over the course of the month with reports indicating that problems at Shell and ExxonMobil plants in California curtailed throughput.

## Constraints on Spare Refining Capacity

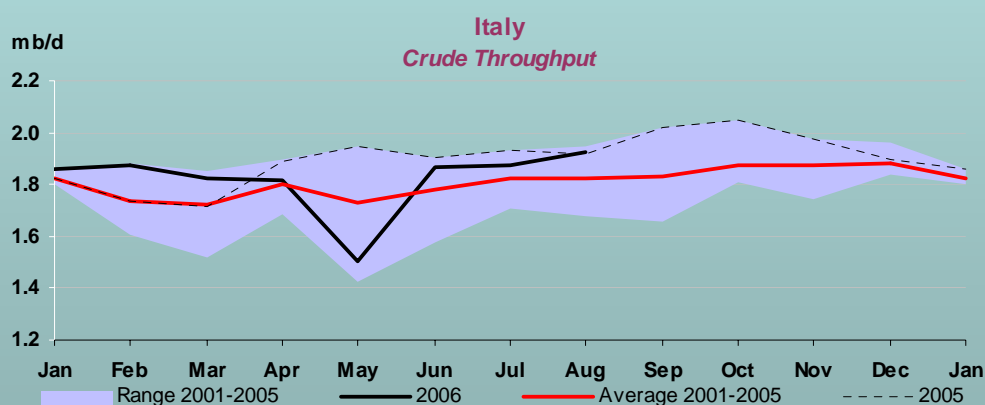
It has become increasingly clear that new product specification and broader environmental regulations have changed the refining landscape around the world. Not only have they led to diverging refinery margins and new trading patterns, but they may also change the way in which we look at spare refinery capacity.

Italy is a case in point. Its spare capacity, as measured by average crude runs compared to nameplate capacity, is notionally the largest in OECD Europe at over 500 kb/d. However, the publication of the 2006 annual report by Italy's Unione Petrolifera provides an insight into the issue of which benchmark one should assess refiners against when considering spare capacity.

Traditionally we have assessed Italian crude throughput against an effective atmospheric distillation capacity of 2,324 kb/d, in line with the *Oil and Gas Journal* and slightly ahead of the *BP Statistical Review of World Energy* assessment of 2,294 kb/d. The Unione Petrolifera report highlights that while total distillation capacity is indeed 118 MT per annum (equivalent to 2,382 kb/d), only 101.9 MT, or 2,058 kb/d, of this capacity is 'supported by secondary units that can produce petrol and gasoil according to specifications'.

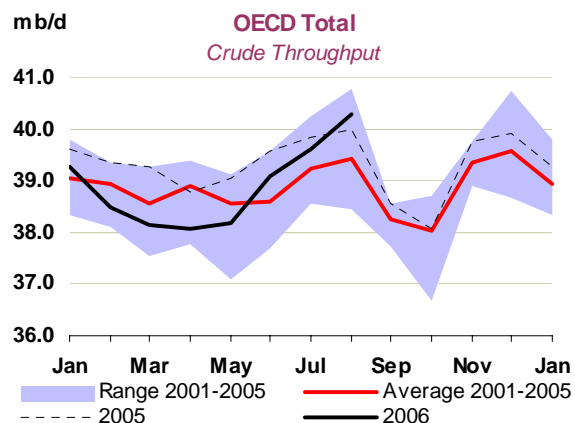
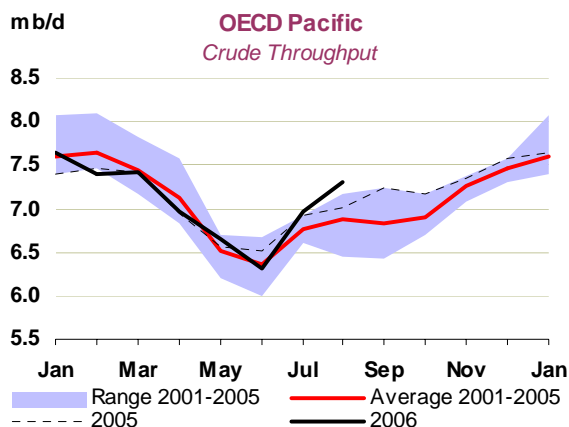
This raises the question of whether nameplate capacity provides an accurate reflection of refineries' flexibility to meet the requirements of the current market conditions. In particular it is questionable whether all CDU capacity can be used to increase production of transportation fuels, given the tight product specifications now prevalent in much of the OECD. Realistically, if refiners have reached the limit of hydrotreating capacity then incremental crude runs would yield at best off-spec product, and possibly merely produce intermediary components which would need further processing by third parties. This in turn suggests significantly lower financial returns for what would effectively be refinery feedstock.

An examination of Italian monthly crude runs shows that the five-year average is 1,821 kb/d, equivalent to a capacity utilisation rate of 78% against the nameplate capacity of 2,324 kb/d. This is a full ten percentage points below the average utilisation rate in the rest of Europe. Assessing runs against the Unione Petrolifera capacity of 2,058 kb/d suggests utilisation of 88%, which is in line with the rest of Europe. Further evidence of domestic refinery constraints is revealed by the maximum monthly throughput achieved in the last five years. These occurred last September and October, when hydroskimming margins were over \$2.50/bbl, and runs peaked at 2,047 kb/d.



But, while it would seem reasonable to assess effective Italian spare capacity against the capacity supported by secondary units, this definition would not necessarily be appropriate outside of the region. This report certainly includes much less sophisticated capacity in many developing countries than that operated by Italian refiners, but in Europe, tight product specifications may limit the effectiveness of spare hydroskimming capacity to meet incremental demand for light products.

However, while it is simple to apply such criteria to today's spare capacity, the real difficulty is in assessing the exact point in history that this capacity was no longer readily usable. Maintaining a consistent historical series, while understanding the limitations of such data, is perhaps a more important analytical approach than making an arbitrary adjustment. Better still, market transparency would be improved if other countries, within the OECD and elsewhere, made similar efforts to clarify the extent to which their nominal domestic refining capacity truly reflects industry operating practice.



Weekly US data indicate that crude throughput fell towards the end of September as planned maintenance work started again. Having reached 16 mb/d early in the month runs fell to 15.27 mb/d in the last week in September, with the Midwest accounting for much of the drop. Despite this, average crude runs should post only a marginal decline from the August average. Some refiners took the opportunity to expand the scope of work being undertaken in light of the weaker margin environment, and the lull in demand ahead of the peak winter demand season. During the first quarter of 2006 when gasoline stocks increased sharply US refiners demonstrated their ability to manage inventories ahead of a turnaround season and the recent increase in US stocks may indicate the potential for heavier than anticipated work by US refiners, raising the prospect of a counter-seasonal draw in US gasoline stocks in the coming weeks.

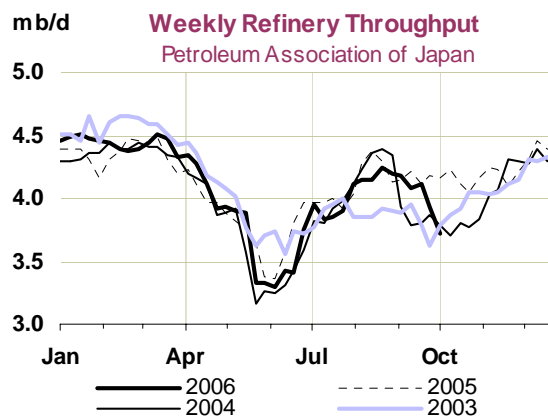
### OECD Europe

European crude throughput averaged 14.21 mb/d in August, an increase of 330 kb/d from July's upwardly revised (+123 kb/d) level of 13.88 kb/d and broadly in line with August 2005's level. Increases were seen in the UK (+62 kb/d), Italy and Spain (+50 kb/d), France (+89 kb/d) and Germany (+55 kb/d). European refinery runs almost certainly declined in September with the start of autumn maintenance work at several refineries. Industry reports suggest that October should see slightly less offline capacity. However, market reports also highlight several refineries buying ULSD and jet fuel, which provides anecdotal evidence that some refiners who have not publicly announced turnaround programmes are preparing for maintenance work, albeit possibly only on hydrotreating capacity.

### OECD Pacific

OECD Pacific crude throughput increased by 342 kb/d in August to average 7.31 mb/d from the downwardly revised (-112 kb/d) July estimate of 6.97 mb/d. The increase was centred in Japan where runs were 4.22 mb/d. The Japanese increase of 375 kb/d from July's downwardly revised (-125 kb/d) level was due to the end of seasonal maintenance and increased throughput in anticipation of peak gasoline demand. The increase is almost exactly in line with our expectations given that Japanese offline capacity was projected to have declined by 376 kb/d month-on-month. However, Japan's August crude runs remain almost 200 kb/d below the three-year high seen in January 2006. Industry reports in August highlighted that some refiners were importing gasoline blending components from Singapore rather than running additional crude during the month, due to weak naphtha and fuel oil cracks and this may have contributed to the shortfall.

Weekly data from the Petroleum Association of Japan show that crude runs dipped in September, reaching 3.72 mb/d at the end of the month, over 500 kb/d below their August peak. Two factors are behind this decline. First the start of autumn maintenance work has had an impact on runs and second, in common with refiners in Singapore,



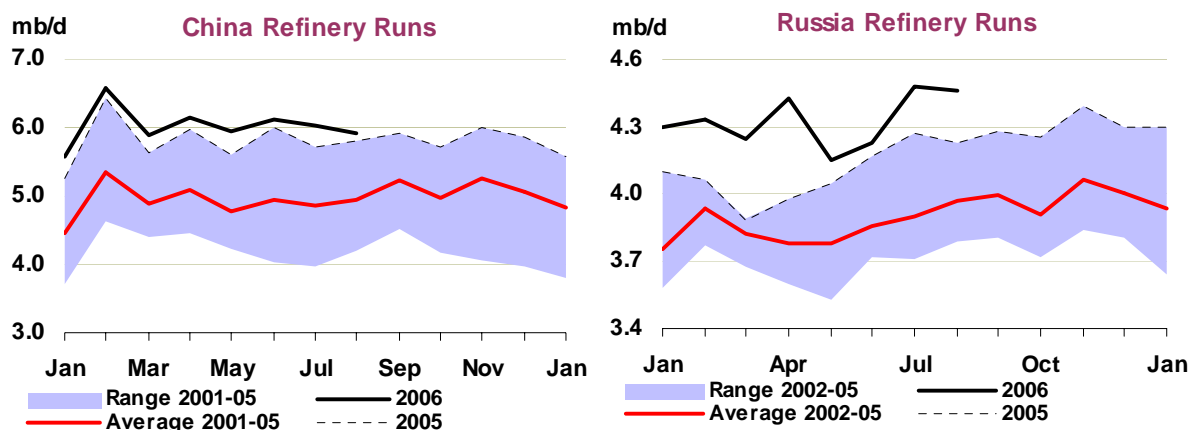
Taiwan and Korea, weak margins have prompted run cuts. Nippon Oil, (which operates about a quarter of Japan's refining capacity) cut runs by 23 kb/d in September and expects to keep runs nearly 300 kb/d below capacity in October. Planned maintenance work may account for almost 250 kb/d of this reduction, suggesting economic runs cuts may account for only around 50 kb/d, or 1% of Japanese refinery capacity.

Korean refinery activity in August dipped by 20 kb/d, to average 2.41 mb/d, some 247 kb/d above the August 2005 level. Industry reports suggest crude run cuts have been implemented at S-Oil's Inchon subsidiary in September and we have assumed these continue at around the 20 kb/d level in October, although recent improvements in hydroskimming margins may allow runs to be increased before the end of the month.

### Non-OECD Refinery Throughput

Chinese crude runs in August averaged 5.92 mb/d, which is 100 kb/d lower than in July, but some 3.5% above the August 2005 level. Lower runs at several of PetroChina's refineries due to maintenance work limited increases elsewhere. Hainan refinery has started product exports, with crude runs estimated at around two-thirds of its 160 kb/d capacity. Chinese crude runs are expected to have recovered in September, possibly hitting a new record level, as refiners face strong demand for gasoil related to harvest activities and further increases should be seen over the balance of the year as Hainan reaches full capacity and the Guangzhou refinery brings its second crude unit into service.

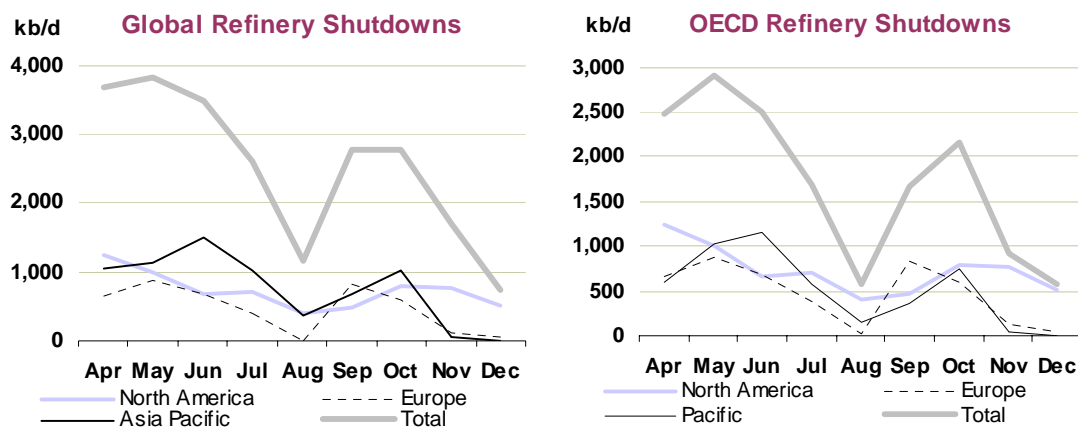
While refiners elsewhere in Asia have cut runs on the back of a weak margin environment, comments from Sinopec highlight the improvement in Chinese refinery economics following the decline in crude prices. Given domestic prices, the refinery netback for light products is around \$58/bbl, and Sinopec therefore assesses the breakeven point for its refineries at \$55/bbl for benchmark crudes.



Russian crude runs dipped slightly in August to 4.46 mb/d from July's record level of 4.48 mb/d. The completion of maintenance work at Lukoil's 359 kb/d Nizhny Novgorod refinery allowed the plant to increase crude runs by 80 kb/d, while lower runs at Surgutneftgaz's Kirishi refinery and the Nizhnehamnsk refinery suggests maintenance has started at these locations.

### Offline Refinery Capacity

Offline capacity estimates have been increased for the fourth quarter following the announcement of run cuts in Asia and the inclusion of previously unannounced work. August remains the low point for maintenance so far this year. However, the rapid increase in work, both within the OECD and elsewhere, is likely to tighten product markets over the coming weeks. Voluntary run cuts in Asia are also expected to curb supply in October. Reports indicate that ExxonMobil's 600 kb/d Singapore refinery has cut runs by around 8% to minimise naphtha production given weak naphtha cracks in the region as Indian refiners have increased exports recently. Global offline capacity is now expected to reach 2.8 mb/d in October up from 2.5 mb/d last month. The estimate for OECD offline distillation capacity has been revised up for October, to 2.2 mb/d from 1.9 mb/d last month.



### OECD Refinery Yields

OECD refinery yield data for July point to gasoline and jet yields remaining under pressure and continued strength in middle distillate production at the expense of the former grades. North American gasoline yields slipped to 45% in July, from the 2006 high of 46% reached in June. Gasoline yields remain well above the lows reached in April due to heavy spring maintenance work. Elsewhere in the OECD weaker-than-average yields continue to be seen in Europe and the Pacific. Jet/kero yields have recovered to 8.9% in North America, having fallen to 8.4% in May, as refiners have moved away from maximising gasoil/diesel yields ahead of the introduction of ULSD in June. Jet/kero yields in the Pacific have moved above their five-year range in July, supported by high jet/kero production in Japan and Korea, reaching 15.1% for the region as a whole.

North American gasoil/diesel production continues to run well above five-year average and prior year levels with gains in Mexico, Canada and the US. This has boosted North American gasoil/diesel yields to 26.7%, some 1.4% above the five-year average and raised average OECD gasoil/diesel yields to 31.6%.

**Table 1**  
**WORLD OIL SUPPLY AND DEMAND**  
(million barrels per day)

|   | 2003        | 2004        | 1Q05        | 2Q05        | 3Q05        | 4Q05        | 2005        | 1Q06        | 2Q06        | 3Q06        | 4Q06        | 2006        | 1Q07        | 2Q07        | 3Q07        | 4Q07        | 2007        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>OECD DEMAND</b>                          |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| North America                               | 24.5        | 25.4        | 25.6        | 25.3        | 25.5        | 25.4        | 25.5        | 25.1        | 25.1        | 25.5        | 26.0        | 25.4        | 25.7        | 25.4        | 25.8        | 26.1        | 25.7        |
| Europe                                      | 15.4        | 15.5        | 15.6        | 15.1        | 15.6        | 15.6        | 15.5        | 15.7        | 15.0        | 15.4        | 15.7        | 15.5        | 15.5        | 15.1        | 15.5        | 15.7        | 15.4        |
| Pacific                                     | 8.6         | 8.5         | 9.4         | 8.1         | 8.1         | 8.8         | 8.6         | 9.3         | 7.9         | 8.0         | 8.9         | 8.5         | 9.2         | 7.9         | 8.1         | 8.9         | 8.5         |
| Total OECD                                  | 48.6        | 49.3        | 50.6        | 48.5        | 49.1        | 49.9        | 49.5        | 50.1        | 48.0        | 49.0        | 50.6        | 49.4        | 50.5        | 48.4        | 49.4        | 50.6        | 49.7        |
| <b>NON-OECD DEMAND</b>                      |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| FSU   | 3.6         | 3.8         | 3.8         | 3.7         | 3.8         | 3.9         | 3.8         | 3.9         | 3.7         | 3.9         | 4.1         | 3.9         | 4.0         | 3.7         | 3.9         | 4.1         | 3.9         |
| Europe                                      | 0.7         | 0.7         | 0.8         | 0.7         | 0.7         | 0.7         | 0.7         | 0.8         | 0.7         | 0.7         | 0.7         | 0.7         | 0.8         | 0.7         | 0.7         | 0.7         | 0.7         |
| China                                       | 5.6         | 6.5         | 6.6         | 6.5         | 6.7         | 6.8         | 6.6         | 6.8         | 7.1         | 7.1         | 7.2         | 7.0         | 7.2         | 7.4         | 7.5         | 7.6         | 7.4         |
| Other Asia                                  | 8.1         | 8.6         | 8.9         | 8.9         | 8.7         | 8.7         | 8.8         | 8.9         | 8.9         | 8.7         | 9.0         | 8.9         | 9.1         | 9.1         | 9.0         | 9.2         | 9.1         |
| Latin America                               | 4.7         | 5.0         | 5.0         | 5.1         | 5.2         | 5.1         | 5.1         | 5.1         | 5.2         | 5.3         | 5.2         | 5.2         | 5.2         | 5.3         | 5.4         | 5.3         | 5.3         |
| Middle East                                 | 5.4         | 5.8         | 6.0         | 6.1         | 6.3         | 6.1         | 6.1         | 6.4         | 6.4         | 6.7         | 6.4         | 6.5         | 6.7         | 6.7         | 7.0         | 6.7         | 6.8         |
| Africa                                      | 2.7         | 2.8         | 2.9         | 2.9         | 2.8         | 2.9         | 2.9         | 3.0         | 3.0         | 2.9         | 3.0         | 2.9         | 3.0         | 3.0         | 2.9         | 3.0         | 3.0         |
| Total Non-OECD                              | 30.7        | 33.1        | 34.0        | 33.8        | 34.1        | 34.2        | 34.0        | 34.7        | 35.0        | 35.2        | 35.6        | 35.1        | 36.0        | 36.1        | 36.4        | 36.7        | 36.3        |
| <b>Total Demand<sup>1</sup></b>             | <b>79.3</b> | <b>82.4</b> | <b>84.6</b> | <b>82.4</b> | <b>83.2</b> | <b>84.0</b> | <b>83.5</b> | <b>84.9</b> | <b>83.0</b> | <b>84.2</b> | <b>86.2</b> | <b>84.6</b> | <b>86.5</b> | <b>84.5</b> | <b>85.8</b> | <b>87.4</b> | <b>86.0</b> |
| <b>OECD SUPPLY</b>                          |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| North America                               | 14.6        | 14.6        | 14.4        | 14.6        | 13.7        | 13.6        | 14.1        | 14.2        | 14.2        | 14.2        | 14.3        | 14.2        | 14.6        | 14.3        | 14.1        | 14.3        | 14.3        |
| Europe                                      | 6.3         | 6.1         | 5.9         | 5.7         | 5.4         | 5.5         | 5.6         | 5.5         | 5.1         | 5.1         | 5.4         | 5.3         | 5.5         | 5.3         | 5.2         | 5.4         | 5.4         |
| Pacific                                     | 0.7         | 0.6         | 0.5         | 0.6         | 0.6         | 0.6         | 0.6         | 0.5         | 0.5         | 0.6         | 0.6         | 0.6         | 0.7         | 0.6         | 0.7         | 0.7         | 0.7         |
| Total OECD                                  | 21.6        | 21.2        | 20.9        | 20.9        | 19.7        | 19.7        | 20.3        | 20.2        | 19.8        | 19.9        | 20.4        | 20.1        | 20.8        | 20.2        | 20.0        | 20.4        | 20.4        |
| <b>NON-OECD SUPPLY</b>                      |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| FSU   | 10.3        | 11.2        | 11.5        | 11.5        | 11.7        | 11.9        | 11.6        | 11.7        | 12.0        | 12.2        | 12.3        | 12.1        | 12.4        | 12.5        | 12.6        | 12.8        | 12.6        |
| Europe                                      | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| China                                       | 3.4         | 3.5         | 3.6         | 3.6         | 3.6         | 3.6         | 3.6         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         | 3.7         |
| Other Asia                                  | 2.6         | 2.7         | 2.7         | 2.6         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.7         | 2.8         | 2.7         |
| Latin America                               | 4.0         | 4.1         | 4.2         | 4.4         | 4.3         | 4.3         | 4.3         | 4.4         | 4.4         | 4.5         | 4.7         | 4.5         | 4.7         | 4.6         | 4.7         | 4.9         | 4.7         |
| Middle East                                 | 2.0         | 1.9         | 1.9         | 1.9         | 1.9         | 1.8         | 1.9         | 1.8         | 1.7         | 1.7         | 1.7         | 1.7         | 1.7         | 1.7         | 1.7         | 1.7         | 1.7         |
| Africa                                      | 3.0         | 3.4         | 3.5         | 3.6         | 3.8         | 3.9         | 3.7         | 4.0         | 3.9         | 4.1         | 4.2         | 4.0         | 4.3         | 4.4         | 4.6         | 4.8         | 4.5         |
| Total Non-OECD                              | 25.6        | 27.0        | 27.5        | 27.7        | 28.2        | 28.5        | 28.0        | 28.4        | 28.6        | 29.0        | 29.5        | 28.9        | 29.7        | 29.9        | 30.3        | 30.7        | 30.1        |
| Processing Gains <sup>2</sup>               | 1.8         | 1.8         | 1.9         | 1.9         | 1.8         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         | 1.9         |
| Other Biofuels <sup>3</sup>                 | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         |
| Total Non-OPEC <sup>4</sup>                 | 49.1        | 50.1        | 50.4        | 50.5        | 49.8        | 50.1        | 50.2        | 50.7        | 50.5        | 51.0        | 51.9        | 51.0        | 52.7        | 52.3        | 52.4        | 53.3        | 52.7        |
| <b>OPEC</b>                                 |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Crude <sup>5</sup>                          | 27.1        | 28.9        | 29.3        | 29.8        | 30.0        | 29.9        | 29.8        | 29.9        | 29.8        | 30.0        |             |             |             |             |             |             |             |
| NGLs  | 3.7         | 4.2         | 4.4         | 4.4         | 4.5         | 4.5         | 4.5         | 4.6         | 4.7         | 4.7         | 4.8         | 4.7         | 4.8         | 4.8         | 4.9         | 5.0         | 4.9         |
| Total OPEC                                  | 30.8        | 33.1        | 33.7        | 34.2        | 34.5        | 34.5        | 34.2        | 34.5        | 34.5        | 34.8        |             |             |             |             |             |             |             |
| <b>Total Supply<sup>6</sup></b>             | <b>79.8</b> | <b>83.2</b> | <b>84.1</b> | <b>84.8</b> | <b>84.4</b> | <b>84.6</b> | <b>84.5</b> | <b>85.2</b> | <b>84.9</b> | <b>85.7</b> |             |             |             |             |             |             |             |
| <b>STOCK CHANGES AND MISCELLANEOUS</b>      |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| <b>Reported OECD</b>                        |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Industry                                    | 0.1         | 0.1         | -0.1        | 0.9         | 0.2         | -0.6        | 0.1         | 0.0         | 0.6         |             |             |             |             |             |             |             |             |
| Government                                  | 0.2         | 0.1         | 0.1         | 0.3         | 0.0         | -0.1        | 0.1         | 0.0         | 0.1         |             |             |             |             |             |             |             |             |
| Total                                       | 0.3         | 0.2         | 0.0         | 1.2         | 0.2         | -0.6        | 0.2         | 0.0         | 0.7         |             |             |             |             |             |             |             |             |
| Floating Storage/Oil in Transit             | 0.2         | 0.0         | -0.4        | 0.1         | 0.0         | 0.1         | -0.1        | 0.1         | -0.1        |             |             |             |             |             |             |             |             |
| Miscellaneous to balance <sup>7</sup>       | 0.1         | 0.5         | -0.1        | 1.0         | 1.0         | 1.1         | 0.8         | 0.1         | 1.3         |             |             |             |             |             |             |             |             |
| <b>Total Stock Ch. &amp; Misc</b>           | <b>0.5</b>  | <b>0.8</b>  | <b>-0.5</b> | <b>2.4</b>  | <b>1.2</b>  | <b>0.5</b>  | <b>0.9</b>  | <b>0.3</b>  | <b>1.9</b>  | <b>1.5</b>  |             |             |             |             |             |             |             |
| <b>Memo items:</b>                          |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Call on OPEC crude + Stock ch. <sup>8</sup> | 26.6        | 28.1        | 29.7        | 27.4        | 28.9        | 29.4        | 28.9        | 29.6        | 27.9        | 28.5        | 29.5        | 28.9        | 29.0        | 27.4        | 28.4        | 29.0        | 28.5        |
| Total Demand ex. FSU                        | 75.7        | 78.7        | 80.7        | 78.7        | 79.4        | 80.2        | 79.7        | 81.0        | 79.3        | 80.3        | 82.1        | 80.7        | 82.5        | 80.8        | 81.9        | 83.2        | 82.1        |
| Total demand exc. FSU (% ch) <sup>9</sup>   | 1.9         | 3.9         | 2.3         | 1.6         | 1.5         | 0.1         | 1.4         | 0.3         | 0.8         | 1.1         | 2.4         | 1.2         | 1.9         | 1.8         | 2.0         | 1.4         | 1.8         |

<sup>1</sup> Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply

<sup>2</sup> Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses

<sup>3</sup> Biofuels from sources outside Brazil and US.

<sup>4</sup> Non-OPEC supplies include crude oil, condensates, NGL and non-conventional sources of supply such as synthetic crude, ethanol and MTBE.

<sup>5</sup> No allowance is made in the non-OPEC forecast for exceptional events which have, at certain times historically, reduced non-OPEC supply by 300-400 kbd on an annual basis

<sup>6</sup> As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category.

<sup>7</sup> Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply

<sup>8</sup> Includes changes in non-reported stocks in OECD and non-OECD areas

<sup>9</sup> Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs

<sup>9</sup> Year on year % growth in global oil demand excluding FSU

**Table 1A**  
**WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1**  
(million barrels per day)

|  | 2003 | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 2007 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <b>OECD DEMAND</b>                     |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| North America                          | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.2 | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.1 | -0.2 |
| Europe                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | -    | -    | -    | -    | -    | -    |
| Pacific                                | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -    | -    | -    | -    | -    | -    |
| <b>Total OECD</b>                      | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.2 | -0.1 | -0.1 | -0.1 | -0.3 | -0.2 | -0.1 | -0.2 |
| <b>NON-OECD DEMAND</b>                 |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| FSU                                    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | -    | -    | -    | -    | -    |
| Europe                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| China                                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | -0.1 | -    | -    |
| Other Asia                             | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Latin America                          | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Middle East                            | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Africa                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total Non-OECD</b>                  | -    | -    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -    | -    | -    | -    | 0.1  | -    | -0.1 | -    | -    |
| <b>Total Demand</b>                    | -    | -    | -    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 |
| <b>OECD SUPPLY</b>                     |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| North America                          | -    | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | 0.1  | 0.1  | 0.1  | -0.1 | -0.1 | -0.2 | -0.1 |
| Europe                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -    | -    | -    | -    | -    | -    |
| Pacific                                | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total OECD</b>                      | -    | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | 0.1  | -0.1 | -0.1 | -0.1 | -    | -    |
| <b>NON-OECD SUPPLY</b>                 |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| FSU                                    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -    | -    | -0.1 | -    | -    |
| Europe                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| China                                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Other Asia                             | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -    | -    | -    | -    | -    | -    |
| Latin America                          | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Middle East                            | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Africa                                 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -0.1 | -    |
| <b>Total Non-OECD</b>                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 | -0.1 | -0.1 |
| Processing Gains                       | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Other Biofuels                         | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total Non-OPEC</b>                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -    | 0.1  | -0.1 | -0.3 | -0.2 | -0.2 |
| <b>OPEC</b>                            |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Crude                                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| NGLs                                   | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -0.1 | -    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| <b>Total OPEC</b>                      | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total Supply</b>                    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>STOCK CHANGES AND MISCELLANEOUS</b> |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>REPORTED OECD</b>                   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Industry                               | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | -    | -    | -    | -    | -    | -    | -    |
| Government                             | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total</b>                           | -    | -    | -    | -    | -    | -    | -    | -    | 0.1  | -    | -    | -    | -    | -    | -    | -    | -    |
| Floating Storage/Oil in Transit        | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Miscellaneous to balance               | -    | -    | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | -    | -0.1 | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Total Stock Ch. &amp; Misc</b>      | -    | -    | -    | 0.1  | 0.1  | 0.1  | 0.1  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Memo items:</b>                     |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Call on OPEC crude + Stock ch.         | -    | -    | -    | -0.1 | -0.1 | -0.1 | -0.1 | -    | -    | -0.2 | -    | -    | -0.1 | -    | 0.2  | 0.1  | 0.1  |
| Total Demand ex. FSU                   | -    | -    | -    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 | -0.1 | -0.1 | -0.1 | -0.2 | -0.3 | -0.3 | -0.2 |

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

**Table 2**  
**Summary of Global Oil Demand**

|   | 2004         | 1Q05         | 2Q05         | 3Q05         | 4Q05         | 2005         | 1Q06         | 2Q06         | 3Q06         | 4Q06         | 2006         | 1Q07         | 2Q07         | 3Q07         | 4Q07         | 2007         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Demand (mb/d)</b>  |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| North America   | 25.37        | 25.57        | 25.34        | 25.50        | 25.43        | 25.46        | 25.11        | 25.09        | 25.55        | 25.98        | 25.44        | 25.71        | 25.41        | 25.80        | 26.06        | 25.75        |
| Europe  | 15.48        | 15.59        | 15.15        | 15.55        | 15.64        | 15.48        | 15.72        | 15.04        | 15.41        | 15.71        | 15.47        | 15.54        | 15.06        | 15.49        | 15.68        | 15.44        |
| Pacific   | 8.49         | 9.45         | 8.06         | 8.07         | 8.79         | 8.59         | 9.30         | 7.87         | 8.04         | 8.95         | 8.54         | 9.22         | 7.91         | 8.08         | 8.88         | 8.52         |
| <b>Total OECD</b>   | <b>49.35</b> | <b>50.60</b> | <b>48.55</b> | <b>49.13</b> | <b>49.86</b> | <b>49.53</b> | <b>50.13</b> | <b>48.00</b> | <b>49.00</b> | <b>50.64</b> | <b>49.44</b> | <b>50.47</b> | <b>48.38</b> | <b>49.37</b> | <b>50.61</b> | <b>49.71</b> |
| FSU   | 3.76         | 3.82         | 3.71         | 3.79         | 3.89         | 3.80         | 3.88         | 3.72         | 3.89         | 4.10         | 3.90         | 3.96         | 3.71         | 3.91         | 4.12         | 3.93         |
| Europe  | 0.70         | 0.77         | 0.71         | 0.66         | 0.72         | 0.72         | 0.79         | 0.72         | 0.67         | 0.73         | 0.73         | 0.79         | 0.74         | 0.68         | 0.74         | 0.74         |
| China   | 6.45         | 6.58         | 6.46         | 6.65         | 6.79         | 6.62         | 6.77         | 7.08         | 7.13         | 7.19         | 7.04         | 7.20         | 7.43         | 7.51         | 7.58         | 7.43         |
| Other Asia  | 8.63         | 8.90         | 8.86         | 8.65         | 8.73         | 8.79         | 8.88         | 8.94         | 8.73         | 8.96         | 8.88         | 9.12         | 9.13         | 8.96         | 9.20         | 9.10         |
| Latin America   | 4.96         | 4.96         | 5.12         | 5.19         | 5.10         | 5.09         | 5.07         | 5.20         | 5.27         | 5.22         | 5.19         | 5.16         | 5.31         | 5.42         | 5.32         | 5.30         |
| Middle East   | 5.80         | 6.03         | 6.05         | 6.33         | 6.06         | 6.12         | 6.37         | 6.38         | 6.65         | 6.40         | 6.45         | 6.70         | 6.73         | 7.01         | 6.74         | 6.80         |
| Africa  | 2.79         | 2.90         | 2.91         | 2.79         | 2.90         | 2.88         | 2.97         | 2.98         | 2.86         | 2.97         | 2.94         | 3.05         | 3.04         | 2.93         | 3.05         | 3.02         |
| <b>Total Non-OECD</b>   | <b>33.09</b> | <b>33.97</b> | <b>33.84</b> | <b>34.06</b> | <b>34.18</b> | <b>34.01</b> | <b>34.73</b> | <b>35.03</b> | <b>35.19</b> | <b>35.57</b> | <b>35.13</b> | <b>35.99</b> | <b>36.09</b> | <b>36.42</b> | <b>36.74</b> | <b>36.31</b> |
| <b>World</b>  | <b>82.43</b> | <b>84.57</b> | <b>82.39</b> | <b>83.19</b> | <b>84.04</b> | <b>83.54</b> | <b>84.86</b> | <b>83.02</b> | <b>84.19</b> | <b>86.21</b> | <b>84.57</b> | <b>86.46</b> | <b>84.47</b> | <b>85.79</b> | <b>87.35</b> | <b>86.02</b> |
| <b>of which:</b>  |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| US50  | 20.73        | 20.80        | 20.66        | 20.86        | 20.75        | 20.77        | 20.48        | 20.60        | 20.89        | 21.17        | 20.79        | 20.97        | 20.80        | 21.08        | 21.20        | 21.01        |
| Euro4   | 8.27         | 8.25         | 7.94         | 8.24         | 8.19         | 8.15         | 8.37         | 7.90         | 8.08         | 8.20         | 8.14         | 8.24         | 7.87         | 8.11         | 8.16         | 8.10         |
| Japan   | 5.29         | 6.00         | 4.94         | 5.03         | 5.46         | 5.35         | 5.96         | 4.78         | 4.94         | 5.52         | 5.30         | 5.80         | 4.75         | 4.93         | 5.46         | 5.23         |
| Korea   | 2.16         | 2.40         | 2.07         | 2.01         | 2.23         | 2.18         | 2.28         | 2.03         | 2.03         | 2.32         | 2.16         | 2.34         | 2.08         | 2.07         | 2.31         | 2.20         |
| Mexico  | 2.00         | 2.04         | 2.11         | 2.06         | 2.10         | 2.08         | 2.08         | 2.01         | 2.03         | 2.16         | 2.07         | 2.11         | 2.07         | 2.09         | 2.17         | 2.11         |
| Canada  | 2.30         | 2.36         | 2.24         | 2.24         | 2.23         | 2.27         | 2.18         | 2.15         | 2.28         | 2.29         | 2.22         | 2.25         | 2.19         | 2.28         | 2.31         | 2.26         |
| Brazil  | 2.15         | 2.12         | 2.18         | 2.25         | 2.21         | 2.19         | 2.17         | 2.19         | 2.27         | 2.26         | 2.22         | 2.21         | 2.25         | 2.34         | 2.30         | 2.27         |
| India   | 2.58         | 2.73         | 2.60         | 2.48         | 2.57         | 2.59         | 2.74         | 2.70         | 2.52         | 2.66         | 2.66         | 2.84         | 2.75         | 2.59         | 2.72         | 2.72         |
| <b>Annual Change (% per annum)</b>                                    |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| North America   | 3.5          | 1.2          | 1.1          | 0.2          | -1.1         | 0.3          | -1.8         | -1.0         | 0.2          | 2.1          | -0.1         | 2.4          | 1.3          | 1.0          | 0.3          | 1.2          |
| Europe  | 0.3          | 0.5          | 0.6          | 0.5          | -1.6         | 0.0          | 0.9          | -0.7         | -0.9         | 0.5          | -0.1         | -1.2         | 0.1          | 0.5          | -0.2         | -0.2         |
| Pacific   | -1.6         | 2.3          | 2.3          | -0.5         | 0.6          | 1.2          | -1.6         | -2.4         | -0.4         | 1.8          | -0.6         | -0.9         | 0.6          | 0.5          | -0.8         | -0.2         |
| <b>Total OECD</b>   | <b>1.5</b>   | <b>1.2</b>   | <b>1.1</b>   | <b>0.2</b>   | <b>-1.0</b>  | <b>0.4</b>   | <b>-0.9</b>  | <b>-1.1</b>  | <b>-0.3</b>  | <b>1.6</b>   | <b>-0.2</b>  | <b>0.7</b>   | <b>0.8</b>   | <b>0.8</b>   | <b>-0.1</b>  | <b>0.5</b>   |
| FSU   | 4.7          | 8.7          | -0.2         | 0.0          | -2.7         | 1.3          | 1.6          | 0.1          | 2.6          | 5.2          | 2.4          | 2.1          | -0.1         | 0.6          | 0.5          | 0.8          |
| Europe  | 2.2          | 2.1          | 2.1          | 1.7          | 1.6          | 1.9          | 2.5          | 1.4          | 1.6          | 1.6          | 1.8          | 0.7          | 1.7          | 1.8          | 1.4          | 1.4          |
| China   | 15.8         | 4.5          | -1.3         | 5.0          | 2.5          | 2.6          | 2.9          | 9.6          | 7.2          | 5.9          | 6.4          | 6.4          | 4.9          | 5.3          | 5.5          | 5.5          |
| Other Asia  | 6.9          | 4.3          | 2.4          | 2.5          | -1.6         | 1.8          | -0.2         | 0.9          | 0.9          | 2.7          | 1.1          | 2.6          | 2.1          | 2.7          | 2.6          | 2.5          |
| Latin America   | 5.9          | 3.1          | 3.0          | 2.4          | 2.1          | 2.7          | 2.2          | 1.5          | 1.6          | 2.3          | 1.9          | 1.8          | 2.2          | 2.9          | 1.9          | 2.2          |
| Middle East   | 6.9          | 5.8          | 5.8          | 5.3          | 5.4          | 5.6          | 5.5          | 5.4          | 5.1          | 5.6          | 5.4          | 5.3          | 5.4          | 5.3          | 5.4          | 5.4          |
| Africa  | 4.1          | 3.3          | 3.3          | 2.5          | 2.7          | 3.0          | 2.4          | 2.3          | 2.4          | 2.4          | 2.4          | 2.7          | 2.1          | 2.4          | 2.5          | 2.4          |
| <b>Total Non-OECD</b>   | <b>7.7</b>   | <b>4.8</b>   | <b>2.1</b>   | <b>3.2</b>   | <b>1.2</b>   | <b>2.8</b>   | <b>2.2</b>   | <b>3.5</b>   | <b>3.3</b>   | <b>4.0</b>   | <b>3.3</b>   | <b>3.6</b>   | <b>3.0</b>   | <b>3.5</b>   | <b>3.3</b>   | <b>3.4</b>   |
| <b>World</b>  | <b>4.0</b>   | <b>2.6</b>   | <b>1.5</b>   | <b>1.4</b>   | <b>-0.1</b>  | <b>1.3</b>   | <b>0.4</b>   | <b>0.8</b>   | <b>1.2</b>   | <b>2.6</b>   | <b>1.2</b>   | <b>1.9</b>   | <b>1.7</b>   | <b>1.9</b>   | <b>1.3</b>   | <b>1.7</b>   |
| <b>Annual Change (mb/d)</b>   |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| North America   | 0.85         | 0.31         | 0.27         | 0.06         | -0.28        | 0.09         | -0.45        | -0.24        | 0.04         | 0.55         | -0.03        | 0.60         | 0.32         | 0.25         | 0.08         | 0.31         |
| Europe  | 0.05         | 0.08         | 0.09         | 0.08         | -0.26        | 0.00         | 0.14         | -0.11        | -0.14        | 0.08         | -0.01        | -0.18        | 0.02         | 0.08         | -0.04        | -0.03        |
| Pacific   | -0.14        | 0.21         | 0.18         | -0.04        | 0.06         | 0.10         | -0.15        | -0.19        | -0.04        | 0.16         | -0.05        | -0.08        | 0.04         | 0.04         | -0.07        | -0.02        |
| <b>Total OECD</b>   | <b>0.75</b>  | <b>0.59</b>  | <b>0.54</b>  | <b>0.10</b>  | <b>-0.48</b> | <b>0.18</b>  | <b>-0.47</b> | <b>-0.55</b> | <b>-0.13</b> | <b>0.78</b>  | <b>-0.09</b> | <b>0.33</b>  | <b>0.38</b>  | <b>0.38</b>  | <b>-0.03</b> | <b>0.26</b>  |
| FSU   | 0.17         | 0.31         | -0.01        | 0.00         | -0.11        | 0.05         | 0.06         | 0.00         | 0.10         | 0.20         | 0.09         | 0.08         | 0.00         | 0.02         | 0.02         | 0.03         |
| Europe  | 0.02         | 0.02         | 0.01         | 0.01         | 0.01         | 0.01         | 0.02         | 0.01         | 0.01         | 0.01         | 0.01         | 0.01         | 0.01         | 0.01         | 0.01         | 0.01         |
| China   | 0.88         | 0.28         | -0.09        | 0.31         | 0.16         | 0.17         | 0.19         | 0.62         | 0.48         | 0.40         | 0.42         | 0.43         | 0.35         | 0.38         | 0.39         | 0.39         |
| Other Asia  | 0.56         | 0.37         | 0.20         | 0.21         | -0.14        | 0.16         | -0.02        | 0.08         | 0.07         | 0.24         | 0.09         | 0.23         | 0.19         | 0.24         | 0.24         | 0.22         |
| Latin America   | 0.28         | 0.15         | 0.15         | 0.12         | 0.11         | 0.13         | 0.11         | 0.07         | 0.08         | 0.12         | 0.10         | 0.09         | 0.11         | 0.15         | 0.10         | 0.11         |
| Middle East   | 0.37         | 0.33         | 0.33         | 0.32         | 0.31         | 0.32         | 0.33         | 0.33         | 0.32         | 0.34         | 0.33         | 0.34         | 0.35         | 0.35         | 0.34         | 0.35         |
| Africa  | 0.11         | 0.09         | 0.09         | 0.07         | 0.08         | 0.08         | 0.07         | 0.07         | 0.07         | 0.07         | 0.07         | 0.08         | 0.06         | 0.07         | 0.07         | 0.07         |
| <b>Total Non-OECD</b>   | <b>2.38</b>  | <b>1.54</b>  | <b>0.70</b>  | <b>1.05</b>  | <b>0.42</b>  | <b>0.93</b>  | <b>0.76</b>  | <b>1.18</b>  | <b>1.13</b>  | <b>1.38</b>  | <b>1.12</b>  | <b>1.26</b>  | <b>1.07</b>  | <b>1.23</b>  | <b>1.18</b>  | <b>1.18</b>  |
| <b>World</b>  | <b>3.13</b>  | <b>2.14</b>  | <b>1.25</b>  | <b>1.15</b>  | <b>-0.06</b> | <b>1.11</b>  | <b>0.30</b>  | <b>0.64</b>  | <b>0.99</b>  | <b>2.17</b>  | <b>1.03</b>  | <b>1.59</b>  | <b>1.44</b>  | <b>1.61</b>  | <b>1.15</b>  | <b>1.45</b>  |
| <b>Revisions to Oil Demand from Last Month's Report (mb/d)</b>        |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| North America   | -            | -            | -            | -            | -            | -            | -            | -0.01        | -0.18        | -0.09        | -0.07        | -0.10        | -0.24        | -0.20        | -0.08        | -0.15        |
| Europe  | -            | 0.01         | -            | -            | -            | -            | -            | -            | 0.05         | -0.01        | 0.01         | -            | -0.02        | -0.03        | -0.02        | -0.01        |
| Pacific   | -            | -            | -            | -            | -            | -            | -0.01        | -            | -0.08        | -            | -0.02        | -0.03        | -0.02        | -0.02        | -0.02        | -0.02        |
| <b>Total OECD</b>   | <b>-</b>     | <b>0.01</b>  | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-0.01</b> | <b>-0.01</b> | <b>-0.21</b> | <b>-0.10</b> | <b>-0.08</b> | <b>-0.13</b> | <b>-0.27</b> | <b>-0.25</b> | <b>-0.12</b> | <b>-0.19</b> |
| FSU   | -            | -            | -            | -            | -            | -            | -            | -            | 0.05         | 0.07         | 0.03         | 0.03         | 0.03         | 0.03         | 0.03         | 0.03         |
| Europe  | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| China   | -            | -            | -            | -            | -            | -            | -            | -            | -0.03        | 0.01         | -0.01        | 0.02         | 0.05         | 0.01         | -0.10        | -            |
| Other Asia  | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -            | -0.02        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        |
| Latin America   | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -            | -0.03        | -            | -0.01        | -            | -            | -            | -            | -            |
| Middle East   | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        | -0.02        |
| Africa  | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        | -0.01        |
| <b>Total Non-OECD</b>   | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.04</b> | <b>0.03</b>  | <b>-0.03</b> | <b>0.02</b>  | <b>0.05</b>  | <b>-</b>     | <b>-0.10</b> | <b>-0.01</b> |
| <b>World</b>  | <b>-0.05</b> | <b>-0.04</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.05</b> | <b>-0.06</b> | <b>-0.06</b> | <b>-0.25</b> | <b>-0.06</b> | <b>-0.11</b> | <b>-0.11</b> | <b>-0.22</b> | <b>-0.25</b> | <b>-0.22</b> | <b>-0.20</b> |
| <b>Revisions to Oil Demand Growth from Last Month's Report (mb/d)</b> |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| <b>World</b>  | <b>-0.05</b> | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  | <b>-0.01</b> | <b>-0.01</b> | <b>-0.20</b> | <b>-0.01</b> | <b>-0.06</b> | <b>-0.05</b> | <b>-0.16</b> | <b>0.01</b>  | <b>-0.16</b> | <b>-0.09</b> |

**Table 3**  
**WORLD OIL PRODUCTION**  
(million barrels per day)

|                                | 2005         | 2006         | 2007         | 2Q06         | 3Q06         | 4Q06         | 1Q07         | 2Q07         | Jul 06       | Aug 06       | Sep 06       |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>OPEC</b>                    |              |              |              |              |              |              |              |              |              |              |              |
| Crude Oil                      |              |              |              |              |              |              |              |              |              |              |              |
| Saudi Arabia                   | 9.06         |              |              | 9.02         | 9.00         |              |              |              | 9.07         | 9.02         | 8.91         |
| Iran                           | 3.88         |              |              | 3.78         | 4.05         |              |              |              | 4.25         | 4.00         | 3.90         |
| Iraq                           | 1.81         |              |              | 1.99         | 2.04         |              |              |              | 2.06         | 2.00         | 2.05         |
| UAE                            | 2.46         |              |              | 2.63         | 2.65         |              |              |              | 2.67         | 2.65         | 2.65         |
| Kuwait                         | 2.13         |              |              | 2.22         | 2.20         |              |              |              | 2.19         | 2.20         | 2.21         |
| Neutral Zone                   | 0.58         |              |              | 0.58         | 0.57         |              |              |              | 0.57         | 0.57         | 0.58         |
| Qatar                          | 0.80         |              |              | 0.82         | 0.83         |              |              |              | 0.84         | 0.84         | 0.82         |
| Nigeria                        | 2.40         |              |              | 2.19         | 2.24         |              |              |              | 2.26         | 2.27         | 2.19         |
| Libya                          | 1.64         |              |              | 1.70         | 1.73         |              |              |              | 1.72         | 1.72         | 1.75         |
| Algeria                        | 1.34         |              |              | 1.36         | 1.34         |              |              |              | 1.33         | 1.33         | 1.35         |
| Venezuela                      | 2.71         |              |              | 2.61         | 2.51         |              |              |              | 2.47         | 2.52         | 2.55         |
| Indonesia                      | 0.94         |              |              | 0.91         | 0.87         |              |              |              | 0.89         | 0.86         | 0.87         |
| <b>Total Crude Oil</b>         | <b>29.76</b> |              |              | <b>29.80</b> | <b>30.03</b> |              |              |              | <b>30.30</b> | <b>29.97</b> | <b>29.81</b> |
| Total NGLs <sup>1</sup>        | 4.46         | 4.69         | 4.89         | 4.66         | 4.72         | 4.75         | 4.79         | 4.82         | 4.73         | 4.73         | 4.70         |
| <b>Total OPEC</b>              | <b>34.23</b> |              |              | <b>34.46</b> | <b>34.75</b> |              |              |              | <b>35.03</b> | <b>34.70</b> | <b>34.51</b> |
| <b>NON-OPEC<sup>2</sup></b>    |              |              |              |              |              |              |              |              |              |              |              |
| <b>OECD</b>                    |              |              |              |              |              |              |              |              |              |              |              |
| <b>North America</b>           | 14.09        | 14.21        | 14.35        | 14.18        | 14.17        | 14.33        | 14.62        | 14.31        | 14.24        | 14.22        | 14.04        |
| United States                  | 7.27         | 7.32         | 7.40         | 7.36         | 7.37         | 7.35         | 7.54         | 7.50         | 7.46         | 7.35         | 7.29         |
| Mexico                         | 3.76         | 3.70         | 3.59         | 3.77         | 3.67         | 3.59         | 3.60         | 3.60         | 3.68         | 3.70         | 3.63         |
| Canada                         | 3.06         | 3.19         | 3.36         | 3.05         | 3.13         | 3.38         | 3.48         | 3.21         | 3.10         | 3.18         | 3.12         |
| <b>Europe</b>                  | 5.60         | 5.30         | 5.35         | 5.13         | 5.10         | 5.44         | 5.51         | 5.29         | 5.22         | 5.02         | 5.07         |
| UK                             | 1.83         | 1.70         | 1.73         | 1.66         | 1.57         | 1.73         | 1.85         | 1.72         | 1.60         | 1.48         | 1.63         |
| Norway                         | 2.97         | 2.84         | 2.87         | 2.70         | 2.80         | 2.94         | 2.90         | 2.81         | 2.87         | 2.77         | 2.75         |
| Others                         | 0.80         | 0.76         | 0.76         | 0.77         | 0.74         | 0.76         | 0.76         | 0.75         | 0.76         | 0.77         | 0.69         |
| <b>Pacific</b>                 | 0.58         | 0.56         | 0.65         | 0.50         | 0.61         | 0.63         | 0.66         | 0.64         | 0.63         | 0.60         | 0.61         |
| Australia                      | 0.54         | 0.52         | 0.61         | 0.46         | 0.57         | 0.59         | 0.62         | 0.60         | 0.59         | 0.56         | 0.57         |
| Others                         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         | 0.04         |
| <b>Total OECD</b>              | <b>20.28</b> | <b>20.08</b> | <b>20.35</b> | <b>19.82</b> | <b>19.89</b> | <b>20.39</b> | <b>20.79</b> | <b>20.23</b> | <b>20.10</b> | <b>19.84</b> | <b>19.72</b> |
| <b>NON-OECD</b>                |              |              |              |              |              |              |              |              |              |              |              |
| <b>Former USSR</b>             | 11.64        | 12.07        | 12.60        | 12.02        | 12.22        | 12.30        | 12.42        | 12.55        | 12.19        | 12.30        | 12.16        |
| Russia                         | 9.48         | 9.72         | 10.01        | 9.67         | 9.80         | 9.89         | 9.91         | 9.98         | 9.75         | 9.83         | 9.82         |
| Others                         | 2.16         | 2.34         | 2.59         | 2.35         | 2.42         | 2.41         | 2.51         | 2.56         | 2.44         | 2.47         | 2.34         |
| <b>Asia</b>                    | 6.30         | 6.40         | 6.46         | 6.38         | 6.38         | 6.43         | 6.45         | 6.44         | 6.42         | 6.32         | 6.41         |
| China                          | 3.62         | 3.70         | 3.73         | 3.70         | 3.70         | 3.72         | 3.72         | 3.72         | 3.71         | 3.69         | 3.72         |
| Malaysia                       | 0.77         | 0.74         | 0.74         | 0.71         | 0.74         | 0.73         | 0.74         | 0.73         | 0.74         | 0.74         | 0.73         |
| India                          | 0.78         | 0.79         | 0.80         | 0.79         | 0.78         | 0.80         | 0.80         | 0.80         | 0.80         | 0.76         | 0.78         |
| Others                         | 1.13         | 1.18         | 1.19         | 1.18         | 1.16         | 1.18         | 1.19         | 1.19         | 1.18         | 1.14         | 1.18         |
| <b>Europe</b>                  | 0.16         | 0.15         | 0.13         | 0.15         | 0.14         | 0.14         | 0.14         | 0.14         | 0.15         | 0.14         | 0.14         |
| <b>Latin America</b>           | 4.30         | 4.48         | 4.74         | 4.42         | 4.47         | 4.67         | 4.69         | 4.65         | 4.46         | 4.43         | 4.53         |
| Brazil                         | 1.99         | 2.15         | 2.40         | 2.08         | 2.12         | 2.33         | 2.34         | 2.31         | 2.11         | 2.08         | 2.19         |
| Argentina                      | 0.78         | 0.77         | 0.76         | 0.78         | 0.77         | 0.76         | 0.76         | 0.76         | 0.77         | 0.77         | 0.77         |
| Colombia                       | 0.53         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         | 0.54         |
| Ecuador                        | 0.53         | 0.55         | 0.56         | 0.55         | 0.55         | 0.56         | 0.56         | 0.56         | 0.55         | 0.55         | 0.55         |
| Others                         | 0.47         | 0.48         | 0.48         | 0.47         | 0.48         | 0.48         | 0.49         | 0.48         | 0.48         | 0.48         | 0.48         |
| <b>Middle East<sup>3</sup></b> | 1.86         | 1.75         | 1.69         | 1.75         | 1.73         | 1.71         | 1.71         | 1.70         | 1.74         | 1.73         | 1.72         |
| Oman                           | 0.79         | 0.74         | 0.71         | 0.74         | 0.73         | 0.72         | 0.71         | 0.71         | 0.73         | 0.73         | 0.73         |
| Syria                          | 0.46         | 0.42         | 0.38         | 0.42         | 0.41         | 0.40         | 0.39         | 0.38         | 0.42         | 0.41         | 0.41         |
| Yemen                          | 0.42         | 0.40         | 0.41         | 0.39         | 0.39         | 0.39         | 0.42         | 0.41         | 0.40         | 0.39         | 0.39         |
| <b>Africa</b>                  | 3.72         | 4.03         | 4.53         | 3.88         | 4.09         | 4.21         | 4.31         | 4.41         | 4.02         | 4.08         | 4.16         |
| Egypt                          | 0.70         | 0.69         | 0.68         | 0.68         | 0.69         | 0.69         | 0.69         | 0.68         | 0.69         | 0.69         | 0.69         |
| Angola                         | 1.25         | 1.42         | 1.72         | 1.33         | 1.45         | 1.45         | 1.53         | 1.60         | 1.46         | 1.45         | 1.45         |
| Gabon                          | 0.23         | 0.23         | 0.23         | 0.24         | 0.23         | 0.23         | 0.23         | 0.23         | 0.23         | 0.23         | 0.23         |
| Others                         | 1.54         | 1.69         | 1.90         | 1.63         | 1.71         | 1.83         | 1.86         | 1.90         | 1.63         | 1.70         | 1.79         |
| <b>Total Non-OECD</b>          | <b>27.97</b> | <b>28.87</b> | <b>30.15</b> | <b>28.59</b> | <b>29.04</b> | <b>29.46</b> | <b>29.72</b> | <b>29.88</b> | <b>28.98</b> | <b>29.00</b> | <b>29.13</b> |
| Processing Gains <sup>4</sup>  | 1.86         | 1.90         | 1.92         | 1.89         | 1.88         | 1.92         | 1.92         | 1.92         | 1.88         | 1.88         | 1.88         |
| Other Biofuels <sup>5</sup>    | 0.12         | 0.15         | 0.26         | 0.15         | 0.15         | 0.15         | 0.26         | 0.26         | 0.15         | 0.15         | 0.15         |
| <b>TOTAL NON-OPEC</b>          | <b>50.23</b> | <b>51.00</b> | <b>52.68</b> | <b>50.45</b> | <b>50.95</b> | <b>51.92</b> | <b>52.69</b> | <b>52.29</b> | <b>51.10</b> | <b>50.87</b> | <b>50.87</b> |
| <b>TOTAL SUPPLY</b>            | <b>84.46</b> |              |              | <b>84.92</b> | <b>85.70</b> |              |              |              | <b>86.13</b> | <b>85.57</b> | <b>85.39</b> |

<sup>1</sup> Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco extra-heavy oil), and non-oil inputs to Saudi Arabian MTBE

<sup>2</sup> Comprises crude oil, condensates, NGLs and oil from non-conventional sources. No allowance is made in the non-OPEC forecast for exceptional events, which have, at certain times historically, reduced non-OPEC supply by 300-400 kbd on an annual basis

<sup>3</sup> Includes small amounts of production from Israel, Jordan and Bahrain

<sup>4</sup> Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

<sup>5</sup> Comprises Fuel Ethanol and Biodiesel supply from outside Brazil and US.

**Table 4**  
**OECD INDUSTRY STOCKS<sup>1</sup> AND QUARTERLY STOCK CHANGES**

|                             | RECENT MONTHLY STOCKS <sup>2</sup> |         |         |         |          | PRIOR YEARS' STOCKS <sup>2</sup> |         |         | STOCK CHANGES |        |        |        |
|-----------------------------|------------------------------------|---------|---------|---------|----------|----------------------------------|---------|---------|---------------|--------|--------|--------|
|                             | in Million Barrels                 |         |         |         |          | in Million Barrels               |         |         | in mb/d       |        |        |        |
|                             | Apr2006                            | May2006 | Jun2006 | Jul2006 | Aug2006* | Aug2003                          | Aug2004 | Aug2005 | 3Q2005        | 4Q2005 | 1Q2006 | 2Q2006 |
| <b>North America</b>        |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                       | 475.5                              | 461.7   | 456.9   | 457.9   | 452.0    | 390.6                            | 390.5   | 421.2   | -0.15         | 0.25   | 0.08   | -0.07  |
| Motor Gasoline              | 236.3                              | 242.3   | 241.6   | 238.1   | 235.8    | 222.4                            | 237.9   | 222.8   | -0.19         | 0.08   | 0.08   | -0.01  |
| Middle Distillate           | 190.1                              | 195.9   | 199.9   | 209.8   | 218.9    | 199.6                            | 203.9   | 212.5   | 0.08          | 0.16   | -0.21  | 0.06   |
| Residual Fuel Oil           | 49.2                               | 49.7    | 52.3    | 52.2    | 52.5     | 39.0                             | 44.6    | 41.3    | -0.04         | 0.03   | 0.07   | 0.02   |
| Total Products <sup>3</sup> | 632.9                              | 658.4   | 669.2   | 687.2   | 700.3    | 644.1                            | 665.7   | 673.6   | -0.16         | -0.06  | -0.25  | 0.37   |
| Total <sup>4</sup>          | 1251.0                             | 1267.5  | 1274.0  | 1301.0  | 1309.6   | 1191.2                           | 1212.7  | 1248.7  | -0.19         | -0.02  | -0.18  | 0.38   |
| <b>Europe</b>               |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                       | 334.4                              | 345.7   | 336.8   | 348.9   | 347.8    | 329.3                            | 327.9   | 334.9   | 0.01          | -0.12  | 0.20   | -0.08  |
| Motor Gasoline              | 105.6                              | 104.1   | 100.6   | 98.4    | 98.2     | 108.5                            | 114.0   | 105.2   | 0.02          | 0.08   | -0.02  | -0.12  |
| Middle Distillate           | 262.1                              | 260.5   | 254.9   | 261.4   | 260.5    | 258.4                            | 260.8   | 257.9   | 0.18          | -0.03  | -0.11  | 0.09   |
| Residual Fuel Oil           | 76.2                               | 73.5    | 75.7    | 75.6    | 73.7     | 69.6                             | 77.6    | 73.5    | 0.05          | -0.03  | -0.04  | 0.06   |
| Total Products <sup>3</sup> | 545.1                              | 540.2   | 532.3   | 539.8   | 536.2    | 544.8                            | 556.3   | 539.4   | 0.24          | 0.05   | -0.18  | 0.03   |
| Total <sup>4</sup>          | 955.8                              | 960.4   | 942.6   | 964.3   | 958.8    | 943.7                            | 952.2   | 947.2   | 0.30          | -0.12  | 0.05   | -0.07  |
| <b>Pacific</b>              |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                       | 170.9                              | 185.5   | 181.1   | 176.1   | 172.9    | 176.3                            | 167.5   | 181.9   | -0.09         | -0.12  | 0.15   | 0.11   |
| Motor Gasoline              | 24.5                               | 24.8    | 24.6    | 23.4    | 23.9     | 25.4                             | 23.3    | 22.9    | -0.02         | 0.00   | 0.02   | 0.00   |
| Middle Distillate           | 58.0                               | 67.0    | 69.8    | 75.4    | 81.7     | 78.7                             | 69.6    | 73.8    | 0.21          | -0.18  | -0.01  | 0.10   |
| Residual Fuel Oil           | 22.4                               | 24.5    | 23.1    | 25.1    | 25.0     | 25.3                             | 23.3    | 23.5    | 0.01          | -0.04  | -0.01  | 0.04   |
| Total Products <sup>3</sup> | 170.3                              | 180.5   | 183.1   | 192.5   | 204.6    | 202.1                            | 182.2   | 187.9   | 0.20          | -0.26  | 0.00   | 0.17   |
| Total <sup>4</sup>          | 412.3                              | 438.1   | 435.5   | 440.4   | 458.9    | 451.7                            | 421.6   | 442.3   | 0.11          | -0.42  | 0.16   | 0.30   |
| <b>Total OECD</b>           |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                       | 980.8                              | 992.8   | 974.8   | 982.9   | 972.8    | 896.3                            | 886.0   | 938.0   | -0.23         | 0.01   | 0.42   | -0.04  |
| Motor Gasoline              | 366.5                              | 371.2   | 366.8   | 360.0   | 357.9    | 356.2                            | 375.1   | 350.8   | -0.19         | 0.16   | 0.08   | -0.12  |
| Middle Distillate           | 510.2                              | 523.4   | 524.6   | 546.6   | 561.0    | 536.7                            | 534.3   | 544.2   | 0.46          | -0.05  | -0.32  | 0.26   |
| Residual Fuel Oil           | 147.8                              | 147.7   | 151.1   | 152.8   | 151.1    | 133.9                            | 145.5   | 138.3   | 0.01          | -0.04  | 0.01   | 0.13   |
| Total Products <sup>3</sup> | 1348.3                             | 1379.1  | 1384.6  | 1419.5  | 1441.1   | 1390.9                           | 1404.1  | 1400.9  | 0.28          | -0.27  | -0.43  | 0.57   |
| Total <sup>4</sup>          | 2619.1                             | 2666.1  | 2652.1  | 2705.7  | 2727.3   | 2586.6                           | 2586.5  | 2638.3  | 0.22          | -0.55  | 0.03   | 0.61   |

**OECD GOVERNMENT-CONTROLLED STOCKS<sup>5</sup> AND QUARTERLY STOCK CHANGES**

|                      | RECENT MONTHLY STOCKS <sup>2</sup> |         |         |         |          | PRIOR YEARS' STOCKS <sup>2</sup> |         |         | STOCK CHANGES |        |        |        |
|----------------------|------------------------------------|---------|---------|---------|----------|----------------------------------|---------|---------|---------------|--------|--------|--------|
|                      | in Million Barrels                 |         |         |         |          | in Million Barrels               |         |         | in mb/d       |        |        |        |
|                      | Apr2006                            | May2006 | Jun2006 | Jul2006 | Aug2006* | Aug2003                          | Aug2004 | Aug2005 | 3Q2005        | 4Q2005 | 1Q2006 | 2Q2006 |
| <b>North America</b> |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                | 687.9                              | 688.6   | 687.9   | 687.9   | 687.6    | 618.3                            | 669.0   | 700.7   | -0.03         | -0.10  | 0.02   | 0.02   |
| Products             | 2.0                                | 2.0     | 2.0     | 2.0     | 2.0      | 2.0                              | 2.0     | 2.0     | 0.00          | 0.00   | 0.00   | 0.00   |
| <b>Europe</b>        |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                | 171.0                              | 171.9   | 173.4   | 174.5   | 174.5    | 152.0                            | 158.1   | 165.6   | 0.02          | 0.01   | 0.04   | 0.04   |
| Products             | 233.5                              | 233.1   | 236.3   | 235.8   | 235.8    | 210.8                            | 208.2   | 239.3   | 0.03          | 0.02   | -0.03  | 0.00   |
| <b>Pacific</b>       |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                | 380.5                              | 380.5   | 380.9   | 382.2   | 382.2    | 382.8                            | 386.7   | 383.5   | -0.01         | -0.01  | -0.01  | 0.00   |
| Products             | 11.4                               | 11.7    | 11.8    | 11.8    | 11.9     | 10.3                             | 11.0    | 11.5    | 0.00          | 0.00   | 0.00   | 0.00   |
| <b>Total OECD</b>    |                                    |         |         |         |          |                                  |         |         |               |        |        |        |
| Crude                | 1239.3                             | 1241.0  | 1242.1  | 1244.6  | 1244.3   | 1153.1                           | 1213.7  | 1249.9  | -0.03         | -0.10  | 0.04   | 0.06   |
| Products             | 246.9                              | 246.8   | 250.1   | 249.7   | 249.7    | 223.1                            | 221.2   | 252.7   | 0.03          | 0.02   | -0.04  | 0.01   |
| Total <sup>4</sup>   | 1487.2                             | 1488.7  | 1493.2  | 1495.3  | 1495.0   | 1377.1                           | 1435.9  | 1503.6  | 0.00          | -0.08  | 0.01   | 0.07   |

\* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

**Table 5**  
**TOTAL STOCKS ON LAND IN OECD COUNTRIES<sup>1</sup>**

(millions of barrels<sup>3</sup> and 'days')

|  | End June 2005 |                              | End September 2005 |                 | End December 2005 |                 | End March 2006 |                 | End June 2006 <sup>3</sup> |                 |
|--|---------------|------------------------------|--------------------|-----------------|-------------------|-----------------|----------------|-----------------|----------------------------|-----------------|
|  | Stock Level   | Days Fwd <sup>2</sup> Demand | Stock Level        | Days Fwd Demand | Stock Level       | Days Fwd Demand | Stock Level    | Days Fwd Demand | Stock Level                | Days Fwd Demand |
| <b>North America</b>                       |               |                              |                    |                 |                   |                 |                |                 |                            |                 |
| Canada                                     | 164.7         | 73                           | 170.5              | 77              | 178.1             | 82              | 169.7          | 79              | 168.0                      | -               |
| Mexico                                     | 45.6          | 22                           | 52.8               | 25              | 43.9              | 21              | 41.7           | 21              | 42.1                       | -               |
| United States <sup>4</sup>                 | 1740.5        | 84                           | 1707.4             | 82              | 1697.9            | 83              | 1693.7         | 83              | 1731.6                     | -               |
| <b>Total<sup>4</sup></b>                   | <b>1972.9</b> | <b>78</b>                    | <b>1952.9</b>      | <b>77</b>       | <b>1942.0</b>     | <b>78</b>       | <b>1927.2</b>  | <b>77</b>       | <b>1963.8</b>              | <b>77</b>       |
| <b>Pacific</b>                             |               |                              |                    |                 |                   |                 |                |                 |                            |                 |
| Australia                                  | 35.7          | 40                           | 34.1               | 37              | 32.7              | 36              | 35.5           | 39              | 38.9                       | -               |
| Japan                                      | 629.4         | 125                          | 637.9              | 117             | 612.1             | 103             | 620.1          | 130             | 627.2                      | -               |
| Korea                                      | 142.5         | 71                           | 145.4              | 65              | 134.9             | 59              | 137.4          | 68              | 155.4                      | -               |
| New Zealand                                | 9.0           | 62                           | 7.9                | 48              | 7.2               | 44              | 6.8            | 45              | 6.7                        | -               |
| <b>Total</b>                               | <b>816.6</b>  | <b>101</b>                   | <b>825.3</b>       | <b>94</b>       | <b>786.8</b>      | <b>85</b>       | <b>799.8</b>   | <b>102</b>      | <b>828.2</b>               | <b>103</b>      |
| <b>Europe<sup>5</sup></b>                  |               |                              |                    |                 |                   |                 |                |                 |                            |                 |
| Austria                                    | 20.2          | 66                           | 19.8               | 68              | 20.4              | 72              | 18.7           | 66              | 19.2                       | -               |
| Belgium                                    | 27.8          | 57                           | 30.3               | 51              | 28.6              | 45              | 27.3           | 53              | 28.5                       | -               |
| Czech Republic                             | 15.9          | 70                           | 16.7               | 79              | 18.8              | 98              | 19.6           | 90              | 19.5                       | -               |
| Denmark                                    | 17.2          | 96                           | 20.5               | 111             | 20.3              | 102             | 19.5           | 99              | 20.4                       | -               |
| Finland                                    | 27.0          | 122                          | 27.3               | 123             | 25.1              | 113             | 26.7           | 120             | 30.5                       | -               |
| France                                     | 185.6         | 93                           | 191.4              | 97              | 195.6             | 93              | 196.2          | 104             | 188.7                      | -               |
| Germany                                    | 279.5         | 102                          | 275.8              | 105             | 282.6             | 111             | 279.9          | 110             | 281.4                      | -               |
| Greece                                     | 32.6          | 85                           | 34.6               | 75              | 33.1              | 69              | 35.4           | 94              | 35.1                       | -               |
| Hungary                                    | 17.0          | 105                          | 17.1               | 104             | 17.6              | 120             | 20.8           | 127             | 17.6                       | -               |
| Ireland                                    | 11.6          | 63                           | 13.2               | 65              | 11.6              | 55              | 13.1           | 72              | 12.6                       | -               |
| Italy                                      | 132.1         | 78                           | 137.0              | 77              | 132.0             | 71              | 131.5          | 81              | 126.0                      | -               |
| Luxembourg                                 | 0.8           | 13                           | 0.8                | 12              | 0.8               | 11              | 0.9            | 15              | 1.0                        | -               |
| Netherlands                                | 116.6         | 114                          | 115.7              | 115             | 116.4             | 116             | 120.5          | 121             | 123.1                      | -               |
| Norway                                     | 21.0          | 98                           | 30.2               | 108             | 30.7              | 123             | 21.9           | 91              | 21.8                       | -               |
| Poland                                     | 34.5          | 70                           | 33.8               | 69              | 35.2              | 79              | 35.5           | 74              | 35.7                       | -               |
| Portugal                                   | 26.5          | 78                           | 26.8               | 82              | 25.7              | 78              | 24.7           | 83              | 24.7                       | -               |
| Slovak Republic                            | 6.4           | 80                           | 5.1                | 59              | 6.5               | 83              | 8.3            | 102             | 7.7                        | -               |
| Spain                                      | 129.4         | 82                           | 131.7              | 84              | 128.6             | 79              | 130.2          | 84              | 129.2                      | -               |
| Sweden                                     | 35.4          | 100                          | 34.6               | 95              | 38.0              | 102             | 38.4           | 109             | 39.6                       | -               |
| Switzerland                                | 38.0          | 134                          | 38.9               | 137             | 37.7              | 128             | 37.7           | 147             | 39.3                       | -               |
| Turkey                                     | 52.2          | 76                           | 50.8               | 81              | 51.2              | 100             | 51.6           | 79              | 51.6                       | -               |
| United Kingdom                             | 102.3         | 57                           | 108.7              | 60              | 95.6              | 52              | 97.8           | 53              | 100.0                      | -               |
| <b>Total</b>                               | <b>1329.6</b> | <b>85</b>                    | <b>1360.8</b>      | <b>87</b>       | <b>1351.8</b>     | <b>86</b>       | <b>1356.4</b>  | <b>90</b>       | <b>1353.3</b>              | <b>88</b>       |
| <b>Total OECD</b>                          | <b>4119.1</b> | <b>84</b>                    | <b>4138.9</b>      | <b>83</b>       | <b>4080.6</b>     | <b>82</b>       | <b>4083.4</b>  | <b>85</b>       | <b>4145.3</b>              | <b>85</b>       |
| <b>DAYS OF IEA Net Imports<sup>6</sup></b> | <b>-</b>      | <b>116</b>                   | <b>-</b>           | <b>116</b>      | <b>-</b>          | <b>114</b>      | <b>-</b>       | <b>115</b>      | <b>-</b>                   | <b>116</b>      |

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.

2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.

3 End June 2006 forward demand figures are IEA Secretariat forecasts.

4 US figures exclude US territories. Total includes US territories.

5 Data not available for Iceland.

6 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

### TOTAL OECD STOCKS

| CLOSING STOCKS | Total                              |          |          | Total                                  |          |          |
|----------------|------------------------------------|----------|----------|--|----------|----------|
|                | Government <sup>1</sup> controlled | Industry | Industry | Government <sup>1</sup> controlled     | Industry | Industry |
|                | <i>Millions of Barrels</i>         |          |          | <i>Days of Fwd. Demand<sup>2</sup></i> |          |          |
| 2Q2003         | 3916                               | 1365     | 2551     | 81                                     | 28       | 53       |
| 3Q2003         | 3983                               | 1383     | 2600     | 80                                     | 28       | 53       |
| 4Q2003         | 3928                               | 1411     | 2517     | 79                                     | 28       | 50       |
| 1Q2004         | 3888                               | 1423     | 2465     | 81                                     | 30       | 51       |
| 2Q2004         | 3974                               | 1429     | 2545     | 81                                     | 29       | 52       |
| 3Q2004         | 4016                               | 1435     | 2581     | 80                                     | 29       | 51       |
| 4Q2004         | 4001                               | 1450     | 2551     | 79                                     | 29       | 51       |
| 1Q2005         | 4005                               | 1462     | 2543     | 83                                     | 30       | 53       |
| 2Q2005         | 4119                               | 1494     | 2625     | 84                                     | 30       | 54       |
| 3Q2005         | 4139                               | 1494     | 2645     | 83                                     | 30       | 53       |
| 4Q2005         | 4081                               | 1487     | 2594     | 82                                     | 30       | 52       |
| 1Q2006         | 4083                               | 1487     | 2596     | 85                                     | 31       | 54       |
| 2Q2006         | 4145                               | 1493     | 2652     | 85                                     | 30       | 54       |

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

2 Days of forward demand calculated using actual demand except in 2Q2006 (when latest forecasts are used).

**Table 6**  
**IEA Member Country Destinations of Selected Crude Streams<sup>1</sup>**  
(million barrels per day)

|                                       | 2003 | 2004 | 2005 | 3Q05 | 4Q05 | 1Q06 | 2Q06 | May 06 | Jun 06 | Jul 06 | Year Earlier |        |
|---------------------------------------|------|------|------|------|------|------|------|--------|--------|--------|--------------|--------|
|                                       |      |      |      |      |      |      |      |        |        |        | Jul 05       | change |
| <b>Saudi Light &amp; Extra Light</b>  |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.64 | 0.55 | 0.46 | 0.41 | 0.52 | 0.51 | 0.68 | 0.82   | 0.57   | 0.62   | 0.59         | 0.03   |
| Europe                                | 1.00 | 1.03 | 0.90 | 0.92 | 0.91 | 0.83 | 0.80 | 0.83   | 0.84   | 0.66   | 0.83         | -0.17  |
| Pacific                               | 1.18 | 1.24 | 1.31 | 1.25 | 1.37 | 1.40 | 1.33 | 1.25   | 1.20   | 1.28   | 1.24         | 0.03   |
| <b>Saudi Medium</b>                   |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.83 | 0.80 | 0.81 | 0.58 | 0.81 | 0.65 | 0.61 | 0.60   | 0.50   | 0.67   | 0.76         | -0.09  |
| Europe                                | 0.11 | 0.11 | 0.16 | 0.20 | 0.16 | 0.17 | 0.14 | 0.12   | 0.15   | 0.13   | 0.24         | -0.11  |
| Pacific                               | 0.24 | 0.23 | 0.26 | 0.27 | 0.32 | 0.38 | 0.35 | 0.34   | 0.35   | 0.36   | 0.25         | 0.11   |
| <b>Saudi Heavy</b>                    |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.30 | 0.22 | 0.17 | 0.20 | 0.16 | 0.21 | 0.21 | 0.14   | 0.28   | 0.18   | 0.26         | -0.08  |
| Europe                                | 0.19 | 0.23 | 0.23 | 0.27 | 0.26 | 0.14 | 0.22 | 0.17   | 0.25   | 0.22   | 0.21         | 0.01   |
| Pacific                               | 0.16 | 0.15 | 0.25 | 0.26 | 0.29 | 0.25 | 0.20 | 0.20   | 0.19   | 0.20   | 0.21         | -0.02  |
| <b>Iraqi Basrah Light<sup>4</sup></b> |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.44 | 0.71 | 0.60 | 0.56 | 0.59 | 0.44 | 0.60 | 0.56   | 0.72   | 0.60   | 0.85         | -0.25  |
| Europe                                | 0.09 | 0.21 | 0.23 | 0.24 | 0.31 | 0.24 | 0.29 | 0.32   | 0.23   | 0.37   | 0.31         | 0.06   |
| Pacific                               | 0.03 | 0.12 | 0.06 | 0.06 | 0.06 | 0.08 | 0.09 | ..     | 0.14   | 0.03   | 0.06         | -0.03  |
| <b>Iraqi Kirkuk</b>                   |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.06 | 0.02 | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| Europe                                | 0.12 | 0.08 | 0.05 | 0.13 | 0.03 | ..   | ..   | ..     | ..     | 0.06   | 0.14         | -0.08  |
| Pacific                               | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| <b>Iranian Light</b>                  |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| Europe                                | 0.19 | 0.24 | 0.20 | 0.16 | 0.22 | 0.20 | 0.27 | 0.24   | 0.30   | 0.36   | 0.14         | 0.22   |
| Pacific                               | 0.17 | 0.16 | 0.15 | 0.14 | 0.15 | 0.19 | 0.12 | 0.18   | 0.03   | 0.08   | 0.14         | -0.06  |
| <b>Iranian Heavy<sup>3</sup></b>      |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| Europe                                | 0.59 | 0.57 | 0.63 | 0.71 | 0.57 | 0.48 | 0.57 | 0.60   | 0.72   | 0.67   | 0.84         | -0.17  |
| Pacific                               | 0.69 | 0.65 | 0.62 | 0.52 | 0.63 | 0.64 | 0.48 | 0.54   | 0.35   | 0.52   | 0.58         | -0.07  |
| <b>Venezuelan Light &amp; Medium</b>  |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.69 | 0.67 | 0.82 | 0.79 | 0.81 | 0.76 | 0.68 | 0.73   | 0.59   | 0.61   | 0.83         | -0.22  |
| Europe                                | 0.02 | 0.01 | 0.04 | 0.06 | 0.07 | 0.12 | 0.15 | 0.10   | 0.22   | 0.06   | 0.01         | 0.04   |
| Pacific                               | 0.00 | ..   | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| <b>Venezuelan 22 API and heavier</b>  |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.60 | 0.88 | 0.72 | 0.66 | 0.56 | 0.72 | 0.72 | 0.71   | 0.73   | 0.66   | 0.77         | -0.11  |
| Europe                                | 0.06 | 0.05 | 0.06 | 0.08 | 0.06 | 0.08 | 0.05 | 0.06   | 0.05   | 0.05   | 0.07         | -0.01  |
| Pacific                               | ..   | ..   | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| <b>Mexican Maya</b>                   |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 1.32 | 1.36 | 1.27 | 1.17 | 1.25 | 1.26 | 1.24 | 1.22   | 1.26   | 1.33   | 1.11         | 0.22   |
| Europe                                | 0.16 | 0.16 | 0.17 | 0.16 | 0.18 | 0.13 | 0.20 | 0.18   | 0.21   | 0.17   | 0.13         | 0.04   |
| Pacific                               | 0.00 | 0.00 | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| <b>Mexican Isthmus</b>                |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.00 | ..   | 0.03 | 0.02 | 0.10 | 0.09 | 0.03 | ..     | 0.01   | 0.01   | ..           | ..     |
| Europe                                | 0.00 | 0.01 | 0.03 | 0.02 | 0.05 | 0.01 | 0.00 | ..     | ..     | ..     | 0.03         | ..     |
| Pacific                               | 0.00 | 0.00 | ..   | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |
| <b>Russian Urals</b>                  |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.14 | 0.12 | 0.13 | 0.16 | 0.09 | ..   | 0.16 | 0.19   | 0.24   | 0.10   | 0.20         | -0.09  |
| Europe                                | 1.62 | 1.86 | 1.77 | 1.76 | 1.69 | 1.68 | 1.83 | 1.88   | 1.90   | 1.48   | 1.67         | -0.19  |
| Pacific                               | 0.00 | 0.01 | 0.00 | 0.01 | ..   | ..   | ..   | ..     | ..     | 0.03   | 0.03         | 0.00   |
| <b>Nigerian Light<sup>2</sup></b>     |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.63 | 0.80 | 0.90 | 0.94 | 0.90 | 0.87 | 0.79 | 0.65   | 0.78   | 0.84   | 0.99         | -0.15  |
| Europe                                | 0.41 | 0.28 | 0.35 | 0.41 | 0.41 | 0.28 | 0.27 | 0.21   | 0.30   | 0.44   | 0.38         | 0.06   |
| Pacific                               | 0.08 | 0.11 | 0.05 | 0.07 | 0.02 | 0.09 | 0.03 | ..     | 0.06   | 0.03   | 0.10         | -0.07  |
| <b>Nigerian Medium</b>                |      |      |      |      |      |      |      |        |        |        |              |        |
| North America                         | 0.17 | 0.23 | 0.17 | 0.13 | 0.15 | 0.19 | 0.17 | 0.16   | 0.23   | 0.22   | 0.13         | 0.09   |
| Europe                                | 0.06 | 0.04 | 0.07 | 0.08 | 0.07 | 0.08 | 0.08 | 0.06   | 0.13   | 0.05   | 0.06         | -0.01  |
| Pacific                               | 0.01 | 0.01 | 0.01 | ..   | ..   | ..   | ..   | ..     | ..     | ..     | ..           | ..     |

<sup>1</sup> Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.

IEA North America includes United States and Canada.

IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.

IEA Pacific data includes Australia, New Zealand, Korea and Japan.

<sup>2</sup> Iraqi Total minus Kirkuk.

<sup>3</sup> Iranian Total minus Iranian Light.

<sup>4</sup> 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

**Table 7**  
**Regional OECD Imports<sup>1,2</sup>**  
(thousand barrels per day)

|                             | 2003         | 2004         | 2005         | 3Q2005       | 4Q2005       | 1Q2006       | 2Q2006       | May-06       | Jun-06       | Jul-06       | Year Earlier |             |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                             |              |              |              |              |              |              |              |              |              |              | Jul-05       | % change    |
| <b>Crude Oil</b>            |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 8069         | 8431         | 8384         | 8251         | 8101         | 7740         | 8265         | 8175         | 8642         | 8479         | 8697         | -3%         |
| Europe                      | 9096         | 9478         | 9811         | 10082        | 9955         | 9382         | 9624         | 9667         | 9926         | 10335        | 10033        | 3%          |
| Pacific                     | 6711         | 6659         | 6801         | 6643         | 6967         | 7399         | 6511         | 6841         | 5947         | 6625         | 6948         | -5%         |
| <b>Total OECD</b>           | <b>23876</b> | <b>24569</b> | <b>24997</b> | <b>24975</b> | <b>25023</b> | <b>24521</b> | <b>24399</b> | <b>24683</b> | <b>24515</b> | <b>25439</b> | <b>25679</b> | <b>-1%</b>  |
| <b>LPG</b>                  |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 27           | 24           | 18           | 18           | 30           | 8            | 8            | 9            | 10           | 16           | 12           | 28%         |
| Europe                      | 193          | 225          | 231          | 218          | 230          | 280          | 242          | 260          | 251          | 201          | 187          | 7%          |
| Pacific                     | 541          | 541          | 527          | 500          | 486          | 651          | 575          | 581          | 547          | 544          | 547          | 0%          |
| <b>Total OECD</b>           | <b>760</b>   | <b>790</b>   | <b>776</b>   | <b>735</b>   | <b>746</b>   | <b>939</b>   | <b>824</b>   | <b>851</b>   | <b>808</b>   | <b>761</b>   | <b>745</b>   | <b>2%</b>   |
| <b>Naphtha</b>              |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 67           | 99           | 110          | 151          | 76           | 41           | 49           | 78           | 36           | 47           | 188          | -303%       |
| Europe                      | 305          | 282          | 281          | 297          | 287          | 342          | 267          | 412          | 232          | 258          | 351          | -36%        |
| Pacific                     | 770          | 769          | 746          | 693          | 760          | 692          | 731          | 616          | 844          | 830          | 674          | 19%         |
| <b>Total OECD</b>           | <b>1142</b>  | <b>1150</b>  | <b>1137</b>  | <b>1142</b>  | <b>1123</b>  | <b>1074</b>  | <b>1046</b>  | <b>1106</b>  | <b>1112</b>  | <b>1135</b>  | <b>1213</b>  | <b>-7%</b>  |
| <b>Gasoline<sup>3</sup></b> |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 669          | 794          | 1016         | 1046         | 1148         | 1113         | 1361         | 1568         | 1267         | 1116         | 984          | 12%         |
| Europe                      | 150          | 137          | 172          | 208          | 122          | 194          | 143          | 220          | 180          | 174          | 217          | -25%        |
| Pacific                     | 70           | 105          | 102          | 93           | 90           | 86           | 145          | 161          | 160          | 96           | 97           | -1%         |
| <b>Total OECD</b>           | <b>888</b>   | <b>1035</b>  | <b>1291</b>  | <b>1346</b>  | <b>1360</b>  | <b>1393</b>  | <b>1648</b>  | <b>1950</b>  | <b>1606</b>  | <b>1386</b>  | <b>1298</b>  | <b>6%</b>   |
| <b>Jet &amp; Kerosene</b>   |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 97           | 101          | 130          | 139          | 268          | 79           | 191          | 227          | 139          | 175          | 160          | 9%          |
| Europe                      | 271          | 293          | 375          | 449          | 371          | 319          | 380          | 348          | 419          | 319          | 422          | -33%        |
| Pacific                     | 102          | 77           | 66           | 48           | 49           | 131          | 39           | 48           | 38           | 44           | 47           | -6%         |
| <b>Total OECD</b>           | <b>470</b>   | <b>471</b>   | <b>571</b>   | <b>636</b>   | <b>688</b>   | <b>529</b>   | <b>610</b>   | <b>623</b>   | <b>596</b>   | <b>538</b>   | <b>630</b>   | <b>-17%</b> |
| <b>Gasoi/Diesel</b>         |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 126          | 123          | 142          | 99           | 267          | 210          | 173          | 285          | 128          | 159          | 69           | 57%         |
| Europe                      | 652          | 751          | 857          | 812          | 869          | 1073         | 931          | 911          | 812          | 1033         | 814          | 21%         |
| Pacific                     | 73           | 74           | 79           | 79           | 83           | 80           | 94           | 113          | 96           | 64           | 83           | -30%        |
| <b>Total OECD</b>           | <b>850</b>   | <b>947</b>   | <b>1079</b>  | <b>989</b>   | <b>1218</b>  | <b>1363</b>  | <b>1198</b>  | <b>1308</b>  | <b>1036</b>  | <b>1256</b>  | <b>965</b>   | <b>23%</b>  |
| <b>Heavy Fuel Oil</b>       |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 326          | 453          | 525          | 566          | 610          | 481          | 320          | 331          | 371          | 317          | 534          | -68%        |
| Europe                      | 398          | 405          | 491          | 526          | 470          | 521          | 474          | 442          | 501          | 463          | 496          | -7%         |
| Pacific                     | 88           | 76           | 85           | 90           | 82           | 122          | 105          | 110          | 107          | 93           | 111          | -20%        |
| <b>Total OECD</b>           | <b>812</b>   | <b>935</b>   | <b>1101</b>  | <b>1182</b>  | <b>1163</b>  | <b>1124</b>  | <b>899</b>   | <b>882</b>   | <b>979</b>   | <b>873</b>   | <b>1141</b>  | <b>-31%</b> |
| <b>Other Products</b>       |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 680          | 872          | 1005         | 1166         | 1049         | 972          | 1162         | 1183         | 1149         | 1279         | 1114         | 13%         |
| Europe                      | 690          | 676          | 796          | 807          | 801          | 888          | 860          | 861          | 827          | 920          | 830          | 10%         |
| Pacific                     | 235          | 256          | 247          | 225          | 263          | 271          | 208          | 203          | 185          | 269          | 246          | 9%          |
| <b>Total OECD</b>           | <b>1605</b>  | <b>1805</b>  | <b>2048</b>  | <b>2197</b>  | <b>2113</b>  | <b>2131</b>  | <b>2230</b>  | <b>2247</b>  | <b>2161</b>  | <b>2469</b>  | <b>2190</b>  | <b>11%</b>  |
| <b>Total Products</b>       |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 1991         | 2466         | 2947         | 3185         | 3447         | 2903         | 3264         | 3681         | 3099         | 3110         | 3060         | 2%          |
| Europe                      | 2657         | 2767         | 3204         | 3315         | 3151         | 3619         | 3296         | 3453         | 3222         | 3368         | 3318         | 1%          |
| Pacific                     | 1879         | 1898         | 1852         | 1728         | 1812         | 2032         | 1896         | 1832         | 1977         | 1940         | 1804         | 7%          |
| <b>Total OECD</b>           | <b>6527</b>  | <b>7132</b>  | <b>8003</b>  | <b>8228</b>  | <b>8410</b>  | <b>8554</b>  | <b>8457</b>  | <b>8967</b>  | <b>8298</b>  | <b>8417</b>  | <b>8182</b>  | <b>3%</b>   |
| <b>Total Oil</b>            |              |              |              |              |              |              |              |              |              |              |              |             |
| North America               | 10061        | 10897        | 11332        | 11436        | 11548        | 10643        | 11529        | 11856        | 11741        | 11589        | 11758        | -1%         |
| Europe                      | 11753        | 12246        | 13015        | 13397        | 13106        | 13001        | 12920        | 13120        | 13149        | 13702        | 13351        | 3%          |
| Pacific                     | 8590         | 8558         | 8653         | 8370         | 8779         | 9431         | 8407         | 8673         | 7924         | 8565         | 8752         | -2%         |
| <b>Total OECD</b>           | <b>30403</b> | <b>31700</b> | <b>33000</b> | <b>33203</b> | <b>33433</b> | <b>33075</b> | <b>32856</b> | <b>33650</b> | <b>32813</b> | <b>33856</b> | <b>33861</b> | <b>0%</b>   |

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

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## Users' Guide to the IEA Oil Market Report

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