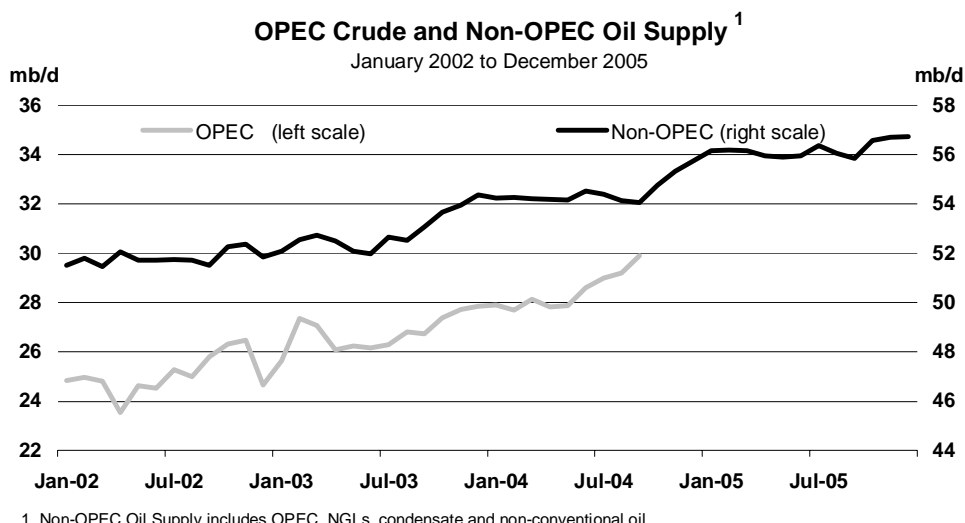


# SUPPLY

## Summary

- **World oil supply** rose by 640 kb/d in September to 84.0 mb/d, recovering from a downward-adjusted August level of 83.3 mb/d. All of the increase came from OPEC, with non-OPEC production falling for the third month in succession. Nonetheless, non-OPEC output of 49.7 mb/d stood 700 kb/d above September 2003 levels, while OPEC crude supply of 29.9 mb/d was 3.2 mb/d higher than a year-ago. OPEC other liquids supply is assessed up by 275 kb/d on last year.
- **Non-OPEC supply** declined by 100 kb/d in September and has fallen by over 565 kb/d since June. This has been due to the impact of summer maintenance in the North Sea and most recently to Hurricane Ivan in the US Gulf of Mexico. The latter resulted in the shut-in of 475 kb/d of September production. As the impact of these events recedes, a sharp rebound in non-OPEC supply is expected through to the end of the year. Ongoing growth in non-OECD production and recovery in the North Sea and North America should see non-OPEC supply reach 51.1 mb/d by December, a rise of 1.4 mb/d from September. Growth in non-OPEC supply is now pegged at 1.2 mb/d for 2004 and 1.3 mb/d for 2005, OPEC other liquids also adding 450 kb/d in both years.
- **OPEC crude supply in September** was 29.9 mb/d, a rise of 710 kb/d from August. Underpinning the rise was a 540 kb/d increase from Iraq, as northern and southern exports rose sharply. Saudi Arabia boosted supply just above 9.5 mb/d while output from Kuwait and Nigeria also increased. Modest declines were seen from UAE, Venezuela and Iran. Total output remained close to sustainable capacity (attainable in 30 days and sustainable for 90 days), but OPEC may still be able to call on an additional 1.5-2.0 mb/d of surge capacity over and above strictly sustainable levels.
- **OPEC-10 supply** (excluding Iraq) averaged 27.6 mb/d in September, an increase of 170 kb/d compared to August. This was 1.6 mb/d higher than the 26.0 mb/d target in force since 1 August. The Organisation's mid-September meeting in Vienna resulted in the raising of the production target by 1.0 mb/d to 27.0 mb/d effective 1 November. A further extraordinary meeting will be held in Cairo on 10 December 2004 to review market developments.
- **The 'call on OPEC crude and stock change'** has been revised up by 300 kb/d for 2004 but has been left unchanged for 2005. The call now averages 27.9 mb/d this year and 27.6 mb/d in 2005. Changes to 3Q and 4Q 2004 derive from a downward adjustment to North American and North Sea supply, allied to upward revised demand. The call through the upcoming winter quarters averages 28.3 mb/d. In comparison, average 3Q 2004 OPEC production was 29.4 mb/d.



*All world oil supply figures for September discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary September crude 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. No contingency allowance for random events is subtracted from the supply forecast. Although upside variations can occur, experience in recent years indicates that, roughly speaking, 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

Crude supply from OPEC reached 29.9 mb/d in September, a rise of 710 kb/d from August, and broke through the previous high of 29.6 mb/d seen in November 2000. Iraq was the main driver of the increase, supply rising by 540 kb/d compared to August due to higher exports from both northern and southern terminals. Kuwait, Saudi Arabia and Nigeria added 50-80 kb/d each while changes in supply elsewhere were limited. OPEC spare capacity on a sustainable basis remains at very low levels, well below 1.0 mb/d. However, as noted in previous editions of the Report, in addition to sustainable capacity, a further 1.5-2.0 mb/d of surge capacity can most likely be called upon in the event of supply disruption. This is held by Saudi Arabia and to a lesser extent, by Iran, Kuwait, Libya, Qatar and UAE. The OPEC President also reiterated in September that spare capacity was likely to increase by a further 1.5 to 2.0 mb/d compared to 2004 levels in 2005. Once again this begs the question whether this will be achieved by new capacity additions or by cutting production. However, as summarised in the Report dated 11 August, at least 1.1 mb/d of this extra spare capacity is likely to come from new capacity start-up.

### OPEC Crude Production

(million barrels per day)

	1 Aug 2004 Target	Sep 2004 Production	Sustainable Production Capacity <sup>1</sup>	Spare Capacity vs Sep 2004 Production	Production vs. Target
Algeria	0.83	1.25	1.25	0.00	0.42
Indonesia	1.35	0.97	1.00	0.04	-0.38
Iran	3.82	3.90	4.00	0.10	0.08
Kuwait <sup>2</sup>	2.09	2.45	2.50	0.05	0.36
Libya	1.39	1.59	1.59	0.00	0.20
Nigeria	2.14	2.45	2.50	0.05	0.31
Qatar	0.67	0.80	0.80	0.00	0.13
Saudi Arabia <sup>2,3</sup>	8.45	9.55	9.50	0.00	1.10
UAE	2.27	2.42	2.55	0.13	0.15
Venezuela <sup>4</sup>	2.99	2.21	2.25	0.04	-0.78
<b>Subtotal</b>	<b>26.00</b>	<b>27.58</b>	<b>27.94</b>	<b>0.41</b>	<b>1.58</b>
Iraq		2.33	2.50	0.18	
<b>Total</b>		<b>29.91</b>	<b>30.44</b>	<b>0.58</b>	

1. Capacity levels can be reached within 30 days and sustained for 90 days

2. Includes half of Neutral-Zone production

3. Saudi Arabia indicates it can surge to 10.5 mb/d at short notice and a recent increase in drilling could lead to this becoming sustainable.

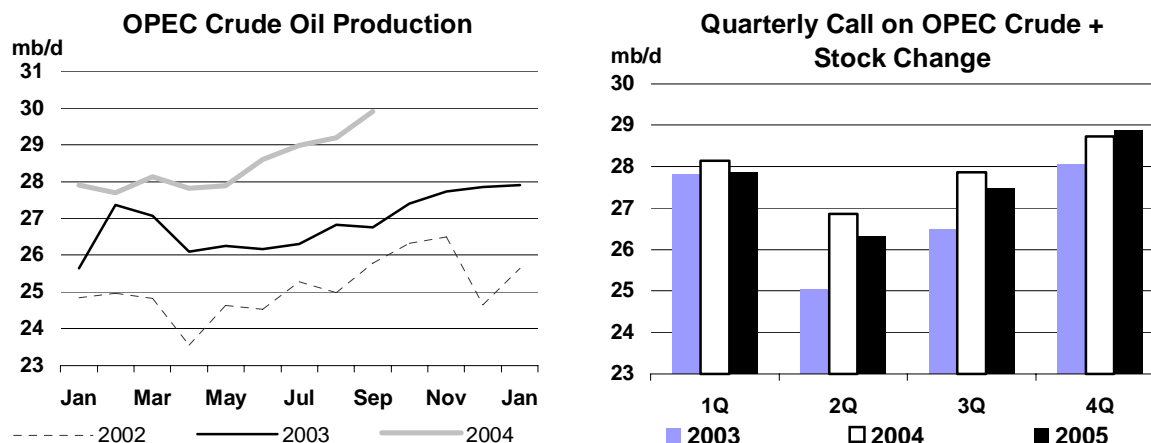
4. Excludes upgraded Orinoco extra-heavy oil, which averaged 398 kb/d in September

OPEC's Ministerial meeting in Vienna on 15 September resulted in agreement to increase the Organisation's production target by 1.0 mb/d to 27.0 mb/d effective 1 November. The move came against a backdrop of concerns over potential supply loss from the US Gulf of Mexico and Nigeria, as marker crude prices began to move higher once more after a late-August/early-September lull. The increase in target levels was widely seen as an attempt to psychologically stem the rise in prices but as being unlikely, of itself, to result in any increase in physical supply. OPEC-10 production in September already stood 1.6 mb/d above the existing target and 600 kb/d above the new November level. The higher target may however provide OPEC with greater leeway to adjust production downward if and when it decides there is a sustained fall-off in demand for its crude. Although not an issue for the time being, the discrepancy between existing quota shares and actual production capacity for several OPEC members may then come to the fore.

The most recent surge in prices to around \$50/bbl for Atlantic Basin marker grades however is likely to ensure at least another month of near-capacity OPEC production. There are expectations of, albeit limited, extra volumes of crude for November lifting from Kuwait and UAE, while Saudi Arabia has

signalled an intent to sustain near-9.5 mb/d production for the time being, and more if the market so requires. Burgeoning light/heavy crude price differentials however call into question the ability of the market to absorb incremental heavy/sour barrels. Recent increases in price discounts versus marker grades for Saudi and other OPEC November term supplies would tend to support this hypothesis. In this context, the gradual rise in North Sea, US Gulf of Mexico and west African volumes expected through end-year could play at least as great a role in satiating demand from distillate-strapped refiners. Temporarily, rising non-OPEC supplies could take on the role of the incremental barrel, traditionally supplied by OPEC.

Any change in OPEC's target price band for the OPEC Basket was deferred, at least until the next Extraordinary Meeting on 10 December in Cairo.



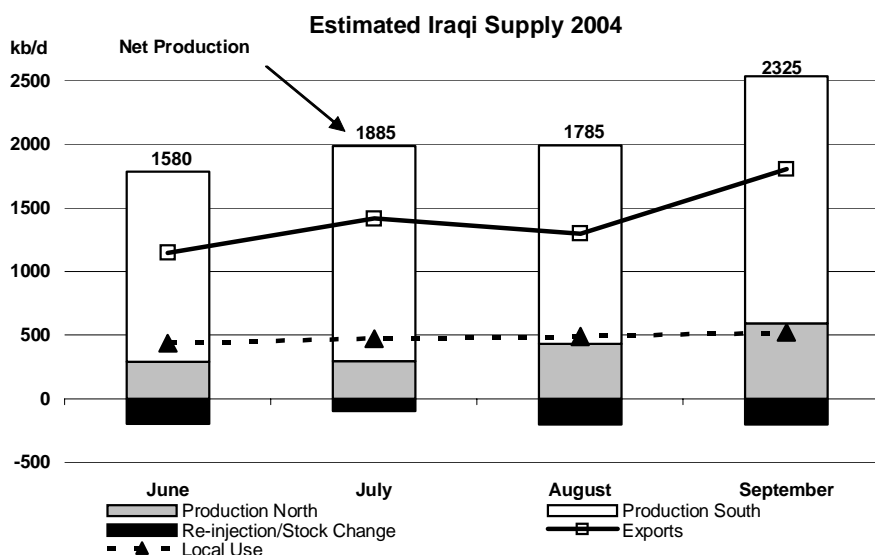
Net supply from **Iraq** increased by 540 kb/d, rising from August's 1.8 mb/d to 2.3 mb/d in September. These numbers exclude estimated pipeline flows into storage and/or field re-injection, believed to be averaging around 200 kb/d. Wellhead production including these volumes therefore averaged 2.0 mb/d in August and 2.5 mb/d in September, the latter being the highest level seen since the removal of the Saddam regime. Given export constraints therefore, the 'spare capacity' itemised for Iraq above needs to be treated with caution. For the time being effective Iraqi capacity equates to current supply, comprising exports plus internal consumption (the latter having risen to an estimated 520 kb/d in September).

In terms of export liftings from Basrah, Khor al Amaya and Ceyhan, there was a marked improvement in performance after August's disrupted supplies. Total crude exports are assessed at 1.8 mb/d compared to less than 1.3 mb/d in August. Southern flows in particular rebounded sharply from August's 1.27 mb/d to reach 1.65 mb/d. Neither weather-related loading delays nor pipeline sabotage played as prominent a role as they had done the month before. The main Kirkuk to Ceyhan pipeline in the north of the country was hit again in early September but staggered flows were continued via secondary pipeline capacity until the main pipeline was reactivated around 20 September. These batched pipeline deliveries, allied to crude already in storage at Ceyhan in late August, facilitated a rise in liftings from Ceyhan from August's 30 kb/d (a single one million bbl cargo loaded on 31 August) to over 140 kb/d in September. Spot liftings from Ceyhan in September amounted to almost 90 kb/d in three cargoes. Term liftings of Kirkuk recommenced, with liftings by Tupras and Cepsa and these amounted to 55 kb/d. Depending upon the security situation and the availability of tankers, scheduled liftings from Ceyhan could amount to at least 7mb (225 kb/d) in October, pushing total Iraqi exports close to 2.0 mb/d.

**Nigerian crude** supply increased from 2.4 mb/d in August to 2.45 mb/d in September. Sustained high levels of export liftings tend to belie widespread reports of an actual or expected cut in Nigerian production for September. However, the potential for disruption to Nigerian supply grabbed more headlines in September than did actual performance here, and indeed overshadowed also the observed rise in Iraqi supply. Rebel groups in the oil production heartland of the Niger Delta threatened a military offensive against government forces and advised foreign oil workers to leave the region. Although Shell evacuated some 300 workers during September and reportedly shut-in some 30 kb/d of liquids production, the threat of disruption receded when a peace deal was signed by government and rebels in early October. For its part, Shell has begun returning workers to their posts west of Port

Harcourt. The company also indicated that shut-in production in September was likely to have been countered by rising output elsewhere.

The potential for regional unrest remains however, and with it the potential for disrupted oil supply. ChevronTexaco still has some 150 kb/d shut-in in the Delta region because of ongoing security concerns. In the longer term however, growth in Nigerian production is likely to derive in increasing proportions from deeper water production, less prone to disruption from civil unrest.



Renewed calls for a nationwide general strike from 11 October emerged as part of union campaign of protests against retail fuel price rises. Separately, strike action involving Shell employees begun on 7 October was called off after negotiations. While strike threats involving a key source of Atlantic Basin light/sweet crude have obviously been a concern for the market, the actual impact on oil production and exports of earlier strike action in 2004 was minimal.

**Saudi Arabian** crude supply for September is assessed up by some 70 kb/d at 9.55 mb/d, representing a second month close to immediately sustainable capacity. However there have been clear signs of increased drilling activity within the Kingdom in recent months. Also a number of statements from Saudi sources indicate that new oil being brought online at the Qatif and Abu Safah fields over the course of late-2004 may be incremental to baseload production, rather than replacing production shut-in elsewhere as had earlier been planned. It is too early to say for sure if this represents a step change in sustainable production capacity to levels in a 10.0-10.5 mb/d range, let alone the 11.0 mb/d target announced just after crude prices pushed through \$50/bbl. Certainly in moving to 9.5 mb/d in the short term, Saudi Arabia has demonstrated a clear desire to moderate recent price rises. Nor is there likely to be much doubt that Saudi Arabia can physically exceed 9.5 mb/d *should the market so require*. The recent spate of drilling activity may well be designed to make higher production levels sustainable. However, there are conflicting reports on the rate of build-up in production from the two new fields, so it is too early to consider full volumes as yet being incremental on a sustainable basis.

Furthermore, the extent of the discounts which Saudi Arabia is offering, notably for its heavier crude grades, raises questions over market demand for such extra oil. Revealingly, Saudi Arabia reportedly rebutted calls for an increase now in OPEC's price band by questioning whether there has genuinely been a structural, upward shift in the market. This not only has implications for the price band discussions themselves, whenever these take place. It also tacitly raises the issue of Saudi Arabia's perception of the future underlying demand for its own crude. If the Saudis do not perceive there to be a sustainable demand for 9.0-9.5 mb/d of their crude in the short to medium term, then one might question, on a commercial rather than physical basis, the sustainability of the upper end of recent claims for installed production capacity. Clearly, the build up in supplies from Qatif and Abu Safah in coming months, together with ongoing drilling to sustain production levels at other fields, could lead to upward revisions in assessments of Saudi capacity. However, the intense uncertainty over market fundamentals going forward renders substantial changes in capacity premature for now. Commercial rather than physical factors are likely to be the real constraint however.

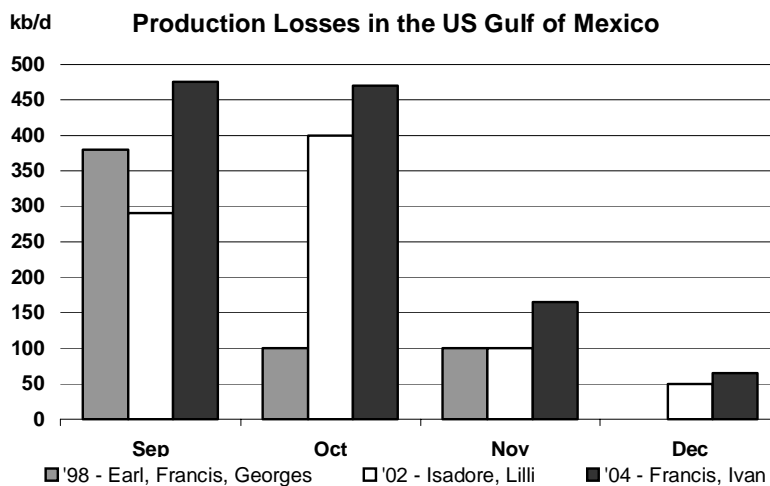
Supply from **Kuwait** rose an estimated 80 kb/d in September to 2.45 mb/d. With full-term contract volumes being supplied to Asian buyers, officially from October, but tacitly also in September, and the restart from the end of October of the long-idled gathering centre number 15 in the north of the country, Kuwait's sustainable capacity has been increased in this Report to 2.5 mb/d. The Emirate's plans to sustain capacity at a rather higher level of 2.7-2.8 mb/d could however take until the end of 2004 or early 2005 to realise, assuming northern crude output increases on a gradual basis.

September production declined modestly in **UAE, Venezuela and Iran**. However there are reports that limited extra volumes of October and November loading crude for Asian customers may come from Abu Dhabi National Oil Company (ADNOC). In the case of **Venezuela**, October is scheduled to see the start-up of the Hamaca upgrading project, the fourth such venture producing synthetic crude from ultra-heavy Orinoco crude. The fall in conventional crude output is however likely to be counteracted by a 45 day outage at the nearby Sincor upgrader from mid-October, effectively freeing up conventional heavy crude. Although this Report earlier increased forecast production from a third upgrader, the Petrozuata unit, in light of widespread press reports of an increase in capacity, this now appears to have been overstated. Discussions with operator ConocoPhillips suggest that while output of 140 kb/d was tested in July, production in the months to come is unlikely to exceed around 120 kb/d. Historical production levels have however been adjusted upwards for 2002-2004.

## OECD

### North America

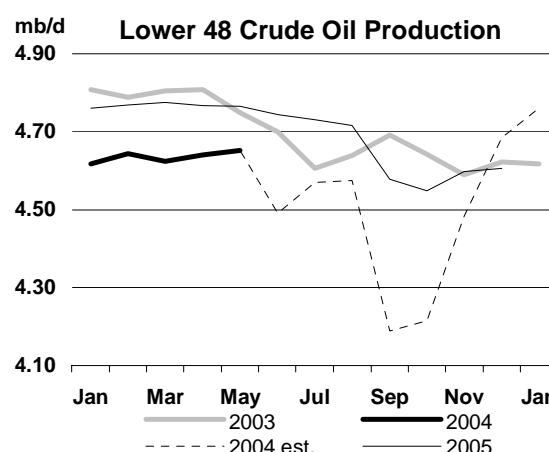
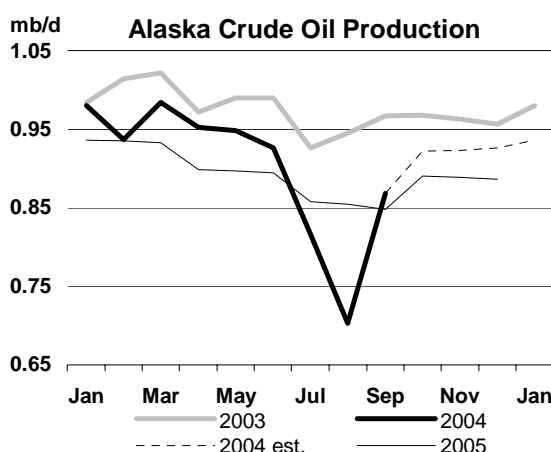
**US – September Alaska actual, others estimated:** June and July total US output levels were revised upwards by some 20 kb/d each. However, these revisions were completely over-shadowed by sizeable downward adjustments to US supply for the period from August 2004 onwards. The key factor has been the impact of September's Hurricane Ivan on US Gulf of Mexico (GOM) production. Sizeable amounts of production are likely to be out of action until end-year 2004 because of the storm. US crude production fell from 5.4 mb/d in June and July, to less than 5.3 mb/d in August and dropped towards 5.0 mb/d in September. The latter is the lowest monthly US crude production level since 1950. August's fall derived from outages in Alaska, although a rebound was seen here in September, which partly counteracted GOM outages.



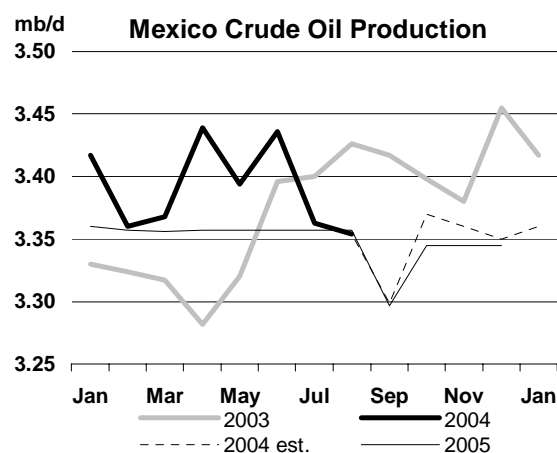
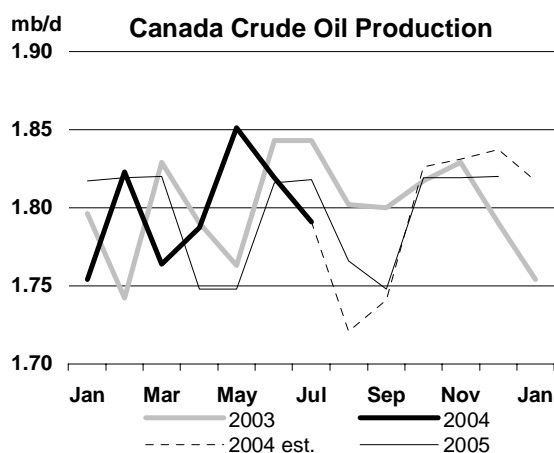
US GOM production and the impact of Hurricanes Francis and Ivan were clearly the focus of September developments. After the 40 kb/d of production shut in August as a precaution ahead of storms Charley and Bonnie, some 475 kb/d was shut in during September. Damage reports suggest that, unlike the aftermath of Hurricane Lilli in 2002, production recovery will be slow. Lost production in October is likely to be close to September levels, with at least 170 kb/d to remain offline on average in November and 70 kb/d in December. Several facilities are not expected back until early-2005. Furthermore, reactivation of production facilities is being impeded by pipeline damage in certain instances. In total, 2004's exceptionally heavy GOM storm season (not yet over) has caused us to revise the area's production down by 110 kb/d, with a 50 kb/d reduction applied for 2005. Next year's downward adjustment derives from deferred start-up of new fields, or build-up from recently started fields, and an upward adjustment in assumed storm outages. GOM output is now forecast at

1.46 mb/d for 2004, 120 kb/d below the 2003 average, while new field start-ups see production average 1.74 mb/d in 2005.

September Alaskan production was up by 165 kb/d compared to August, but at 870 kb/d was still well off the 950 kb/d average seen in the first half of the year. Output remained suppressed in the Prudhoe Bay area as scheduled and unscheduled outages continued to play a role. Production however recovered at the Alpine field after July/August upgrading work, averaging 109 kb/d compared to 50 kb/d in the prior two months. For now the pronounced dip in 3Q 2004 Alaskan supplies is seen as being temporary rather than signalling the onset of more protracted outages from a mature producing area. Total Alaskan crude output is therefore seen stabilising in 2005 at some 895 kb/d after a fall from 975 kb/d to 905 kb/d in 2003/2004. Nonetheless, the 2005 total has been revised down 20 kb/d from last month's Report.



**Canada – August Newfoundland actual, others July actual:** Canadian conventional crude production has fallen back from a May peak of 1.85 mb/d, reaching 1.79 mb/d in July and an estimated 1.72 mb/d in August. A sharp fall in production at the offshore Terra Nova field in August resulted from maintenance at the field's FPSO, although production is likely to have rebounded towards 150 kb/d in September as work was completed. In contrast, synthetic crude production recovered in August from outages at the Shell and Suncor facilities in July and June respectively. Total syncrude production is thought to have hit 650 kb/d in August, some 22% of total liquids output compared to 12% in 2000. Production of syncrude should dip below 600 kb/d in October again however as Shell undertakes two weeks of maintenance at the Athabasca facility. Syncrude and bitumen production nonetheless account for all of the expected growth in Canadian liquids production in 2004 and 2005.



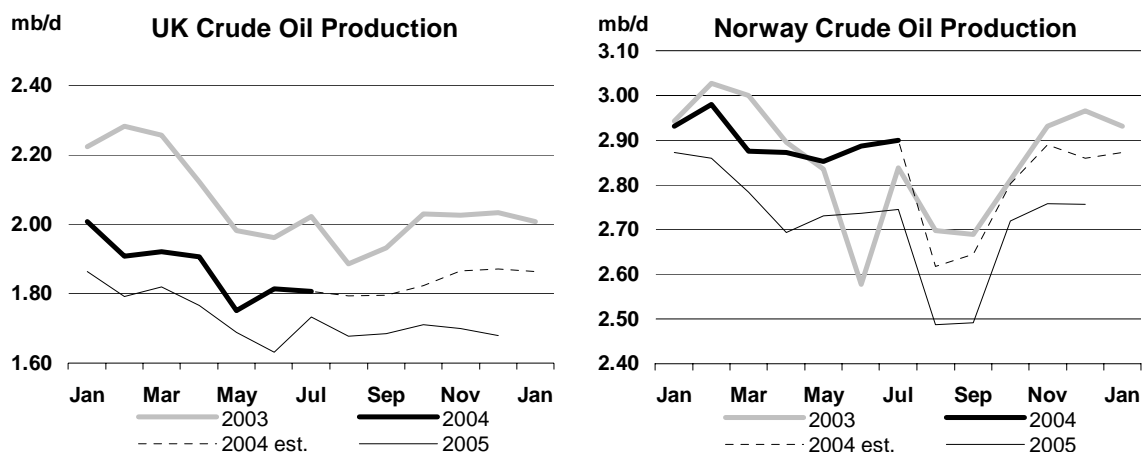
**Mexico – August actual:** Mexican crude production fell for the second consecutive month in August, albeit less sharply than in July, and reached 3.35 mb/d. NGL output also fell to around 425 kb/d. Crude exports were largely unchanged from July's 1.8 mb/d, although deliveries to European and eastern markets were cut by over 100 kb/d in favour of sales into the Americas. The

country's Federal budget for 2005 contains a scaled down target from Pemex for crude production of 3.44 mb/d. Earlier plans had targeted 4.0 mb/d production for 2006. Pemex investment in 2005 is also reduced from this year's \$12.5 billion to \$10.9 billion. This Report's forecast for Mexican output in 2005 was already running below the new, downward-revised government projections. However, recent performance suggests little need to upwardly adjust the forecast from 3.35 mb/d. The prognosis for decline from established producing areas in Mexico stands in sharp contrast to the estimated potential of the deepwater Gulf of Mexico, mentioned in last month's Report.

### North Sea

**UK – July actual:** July data point towards a bottoming-out in UK offshore crude production for now. Crude output averaged 1.8 mb/d and total liquids supply 2.0 mb/d. Loading schedules for the key systems and summer maintenance (the latter estimated to have cut supplies by an average of 75 kb/d for July-September) suggest supply holding close to these levels through September. Crude output however should rise from October onwards, potentially reaching 1.87 mb/d by December. Nonetheless, UK liquids supply remains on a downward trend which limited new start-ups such as the Goldeneye, Howe, Clair and Glenelg fields can do little to stem. Total output is seen falling by some 160-170 kb/d in both 2004 and 2005.

The results of the UK's 22nd licensing round were announced in mid-September and were broadly interpreted as signalling increased interest in the area. Key features were an additional 25 applications received compared to the 21st round, the creation of new frontier licences, which helped sustain interest in areas to the north and west of Shetland, and further interest from new players in Promote licences, introduced in 2003 and giving licence holders two years at low acreage rent levels to assess existing information on a block.



**Norway – July actual, August provisional:** In a reversal of last month's upward adjustments, Norwegian liquids output data for July and August have led to a downward adjustment of some 20 kb/d for 2004 and 35 kb/d for 2005. Annual liquids production is now expected to fall from 3.26 mb/d in 2003 to 3.18 mb/d in 2005. However, increased condensate supply curbs the extent of any fall in 2005. Although turnaround schedules amounting to 300-350 kb/d for August and September were known well in advance, output from the Troll and Oseberg systems now appears to be running at a lower level than previously anticipated. Another factor reducing forecast 4Q 2004 production levels is the ongoing drilling strike which has afflicted Norway's continental shelf for over three months. This forced the shutdown of the 20 kb/d Glitne field in early September and was extended to the 30 kb/d Varg field in early October. Likely start-up of the Oseberg South J satellite development has been assumed deferred from October to November as a result to the dispute, and further delays in other new field start-ups in future cannot be discounted. Although this Report assumes resumption of production at Glitne and Varg from November onwards, there is a possibility that disruption could spread, although further field shut-ins require two weeks' notice.

In a more positive vein, Statoil began production at end-September at the Kvitebjorn gas and condensate field, likely to produce a peak of 62 kb/d of condensate in addition to NGLs separated out at the Kollsnes gas processing plant.

## Former Soviet Union (FSU)

**Russia – August final, September provisional:** Preliminary August production data were revised up by 25 kb/d to 9.38 mb/d and a further rise in Russian production of 50 kb/d was seen in September, taking total output to 9.43 mb/d. This Report now expects production growth of 740 kb/d in 2004 and 435 kb/d in 2005. The Industry and Energy Ministry in mid-September announced it expected Russian production to rise 200 kb/d in the fourth quarter to 9.5 mb/d. Government forecasts have in the past erred on the conservative side, so this Report's expectation of 9.46 mb/d in 4Q, versus a higher base of 9.36 mb/d in 3Q, does not look over-optimistic. Further sign of the slow-down expected for Russian output was apparent however from Surgutneftegaz' announcement that it expected 6% growth in 2005 compared to 10% in 2003 and 2004. Surgutneftegaz is Russia's fourth largest producer.

### FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

	2002	2003	4Q03	1Q04	2Q04	3Q04	Jul 04	Revised Aug 04	Prelim. Sep 04	Latest month vs. Aug 04 Sep 03	
Black Sea Exports	2.52	2.80	2.68	2.84	2.75	2.90	2.98	2.99	2.63	-0.36	-0.31
Baltic/Arctic Exports	2.02	2.43	2.61	3.03	3.11	3.15	3.18	3.02	3.14	0.12	0.64
<b>Total Seaborne</b>	<b>4.54</b>	<b>5.24</b>	<b>5.29</b>	<b>5.87</b>	<b>5.87</b>	<b>6.05</b>	<b>6.16</b>	<b>6.01</b>	<b>5.77</b>	<b>-0.24</b>	<b>0.33</b>
Druzhba Pipeline	1.04	1.05	1.08	1.09	1.04	1.10	1.07	1.07	1.12	0.05	0.10
Other	0.35	0.46	0.49	0.48	0.53	0.51	0.54	0.49	0.49	0.00	0.00
<b>Total Exports</b>	<b>5.93</b>	<b>6.75</b>	<b>6.87</b>	<b>7.44</b>	<b>7.43</b>	<b>7.66</b>	<b>7.77</b>	<b>7.57</b>	<b>7.37</b>	<b>-0.20</b>	<b>0.44</b>
Imports	0.01	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.04	0.03	0.00
<b>Total Net Exports</b>	<b>5.92</b>	<b>6.73</b>	<b>6.86</b>	<b>7.43</b>	<b>7.42</b>	<b>7.64</b>	<b>7.76</b>	<b>7.56</b>	<b>7.34</b>	<b>-0.22</b>	<b>0.44</b>
Crude	4.04	4.68	4.82	5.14	5.18	5.26	5.36	5.17	5.08	-0.08	0.32
<i>of which: Russian Crude</i>	<i>3.02</i>	<i>3.38</i>	<i>3.38</i>	<i>3.65</i>	<i>3.82</i>	<i>3.75</i>	<i>3.84</i>	<i>3.64</i>	<i>3.65</i>	<i>0.01</i>	<i>0.30</i>
Products	1.89	2.07	2.05	2.30	2.25	2.39	2.41	2.40	2.29	-0.11	0.12

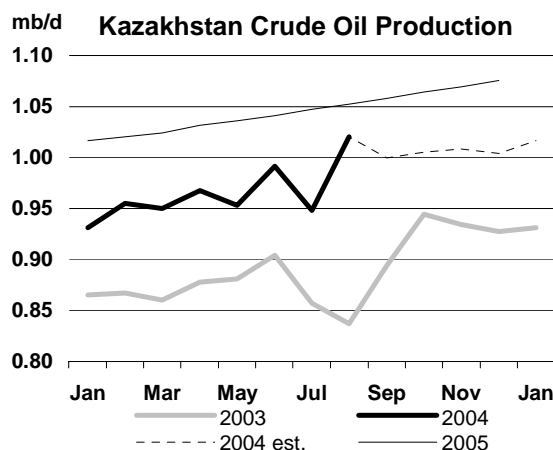
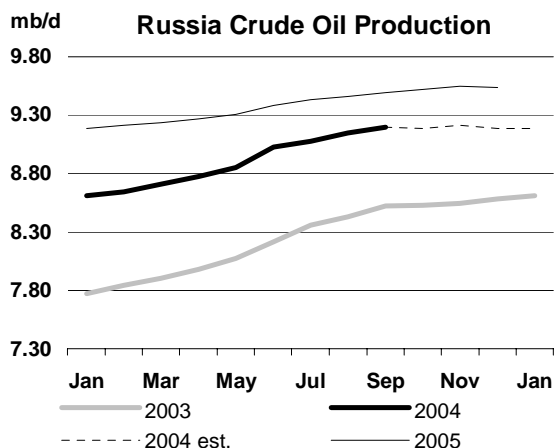
Sources: Petro-Logistics, IEA estimates

FSU net exports fell 220 kb/d in September on the basis of preliminary data. The fall was concentrated in shipments from Black Sea ports, although Russian crude exports remained high. The bulk of the drop came from non-Russian crude and from products. Rising Russian crude export duties from early-October are likely to have encouraged September exports to be maximised. For October, Russian export schedules for main ports suggest a rebound in deliveries from the Black Sea, centred on Novorossiysk and also up to 95 kb/d from Yuzhny. The latter reflects use of the long-idled Odessa to Brody pipeline now shipping Russian crude south to the Black Sea. Russian crude will also find a new outlet to export markets when volumes of up to 60 kb/d begin to move via the CPC pipeline, starting in November. Liftings from Black Sea ports however then face potential transit delays in the Turkish Straits as winter navigation restrictions come into force.

Deliveries of crude using non-Transneft routes may be headed lower. There are signs that lower volumes are being shipped south to Iran, and Yukos also announced in September that it would curb rail shipments to China's CNPC, believed to amount to around 80 kb/d.

The fate of Yukos continued to hang in the balance in September. The curbs on Chinese rail shipments followed news that Yukos had not yet covered its rail tariffs for October. However, Russian railway authorities remained bullish on the prospects for deliveries to recommence after an offer from China to cover October rail shipment costs for Yukos oil. Yukos also secured agreement for pipeline exports via the Transneft network to continue in exchange for 100 kb/d of crude rather than cash. Yukos' alleged back-tax liabilities amount to around \$8.5 billion for 2000-2002, of which less than \$3 billion are believed to have been paid to date. However the Natural Resource Ministry announced in September that key subsidiary Yuganskneftegaz would retain its production licences for at least three months, despite alleged infringement of licence agreements arising from the tax arrears.

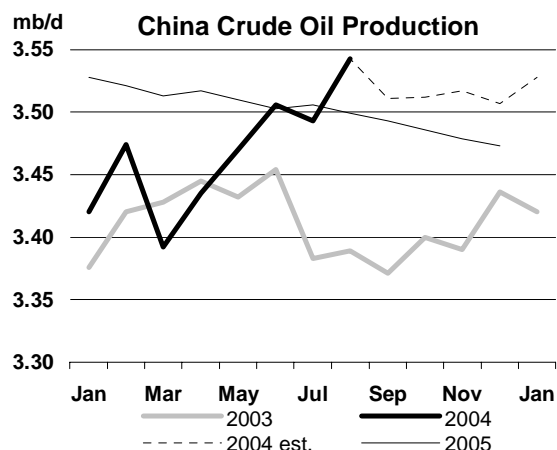
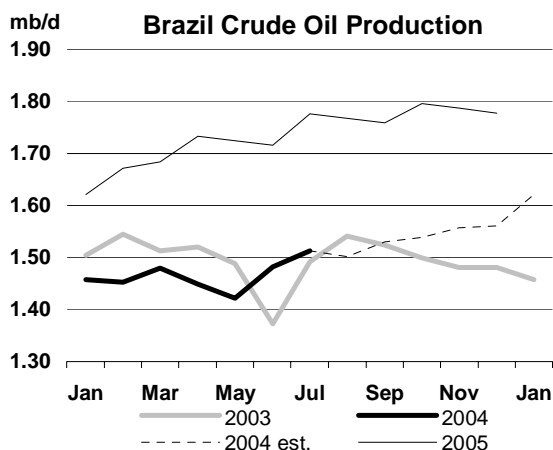
The Yukos affair does not so far appear to be reducing prospects for foreign investment in the Russian upstream. ConocoPhillips in late September won an auction to buy 7.6% of Lukoil, with an option to increase this to 20%. A government decision in September to merge Gazprom and Rosneft, creating a state-controlled 650 kb/d liquids producer, also lifted a bar on foreign investors purchasing Gazprom shares.



**Kazakhstan – August actual:** Kazakh crude production increased by some 70 kb/d in August, to 1.02 mb/d, in large part due to higher Tengiz supplies after July maintenance. However, the rise in crude was counteracted by a near-100 kb/d drop in supplies of Karachaganak condensate, which fell back to 170 kb/d. During September, the government's budget proposal projected that liquids production in 2005 would reach 1.2 mb/d from 1.10-1.14 mb/d in 2004. This Report's forecast for 2005 production has been revised up 20 kb/d in line both with higher baseload supply and with the government projection for incremental supply in 2005. Export options for Kazakh liquids remain a key concern however. Construction began in September on a pipeline from central Kazakhstan to western China which is likely to be used to send Russian and Kazakh oil eastwards after completion in December 2005. Initial flows of 200 kb/d will later rise to 400 kb/d. Operator Eni also announced that a decision on the route for an export pipeline for the Kashagan field development is needed by early-2006 if production targets are to be met. Initial crude production from Kashagan is expected in 2008, rising to an eventual 1.2 mb/d in the next decade. Pipeline options are believed to comprise a link to the BTC pipeline feeding the Mediterranean, a route to the Black Sea at Novorossiysk, a pipeline to the Baltic port of Primorsk or a line running east to China.

### Other Non-OPEC

**Brazil – July actual:** Brazilian crude output increased by 30 kb/d in July but provisional data suggest that an outage at the Marlim Sul field may have seen a drop of around 10 kb/d in August. Petrobras reports on progress at the Baracuda and Caratinga developments now indicate likely start-up in November 2004 and January 2005 respectively. These dates represent a deferral of one month compared to this Report's earlier projections for start-up. These delays, combined with lower August supply, have led to a downward revision in forecast Brazilian crude output of 10 kb/d in 2004 and 5 kb/d in 2005. 2004 production is now seen remaining unchanged at 2003's level of 1.5 mb/d, while output in 2005 rises by 240 kb/d to just over 1.7 mb/d. The forecast production levels pre-suppose that strike action currently underway by certain Petrobras personnel does not intensify and have an impact upon crude output or exports.



**China – August actual:** Chinese production increased by 50 kb/d in August, in part due to the build-up in production from the newly-started offshore Caofeidian field. The field, developed by CNOOC and Kerr McGee, is due to reach peak 40 kb/d production in mid-2005. Total Chinese output has now recovered to around 3.55 mb/d from a March low of 3.4 mb/d, largely as the result of growing offshore supply. A levelling-off in offshore growth may materialise by mid-2005 however and with declining production from mature onshore fields, total Chinese output growth may be limited to some 40 kb/d in 2005. Production is seen averaging 3.46 mb/d in 2004 and 3.5 mb/d in 2005.

### Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last month's OMR			This month's OMR			This month vs. last month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.75	14.92	0.18	14.60	14.87	0.26	-0.14	-0.05	0.09
Europe	6.21	6.02	-0.19	6.19	5.97	-0.22	-0.01	-0.05	-0.03
Pacific	0.57	0.51	-0.06	0.57	0.53	-0.04	0.01	0.02	0.02
<b>Total OECD</b>	<b>21.52</b>	<b>21.45</b>	<b>-0.07</b>	<b>21.37</b>	<b>21.37</b>	<b>0.00</b>	<b>-0.15</b>	<b>-0.08</b>	<b>0.07</b>
Former USSR	11.13	11.74	0.61	11.19	11.82	0.62	0.06	0.07	0.01
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.45	3.49	0.03	3.46	3.50	0.04	0.01	0.02	0.01
Other Asia	2.72	2.72	-0.01	2.74	2.74	0.00	0.02	0.02	0.00
Latin America	4.05	4.35	0.30	4.04	4.35	0.31	-0.01	0.00	0.01
Middle East	1.89	1.85	-0.04	1.89	1.86	-0.03	0.00	0.01	0.00
Africa	3.41	3.80	0.39	3.42	3.76	0.35	0.00	-0.04	-0.04
<b>Total Non-OECD</b>	<b>26.83</b>	<b>28.11</b>	<b>1.28</b>	<b>26.92</b>	<b>28.19</b>	<b>1.28</b>	<b>0.09</b>	<b>0.08</b>	<b>-0.01</b>
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
<b>Total Non-OPEC</b>	<b>50.18</b>	<b>51.43</b>	<b>1.24</b>	<b>50.12</b>	<b>51.43</b>	<b>1.31</b>	<b>-0.06</b>	<b>0.00</b>	<b>0.06</b>

OMR = Oil Market Report