SUPPLY

Summary

- **World oil supply** increased by 1.3 mb/d in November from October, to reach 85.0 mb/d. A rebound in North American supply, following earlier hurricane-related and technical disruptions, accounted for 1.1 mb/d of the change, with increases from the US, Canada and Mexico. Norway, Brazil and Angola are also believed to have boosted supply in November.

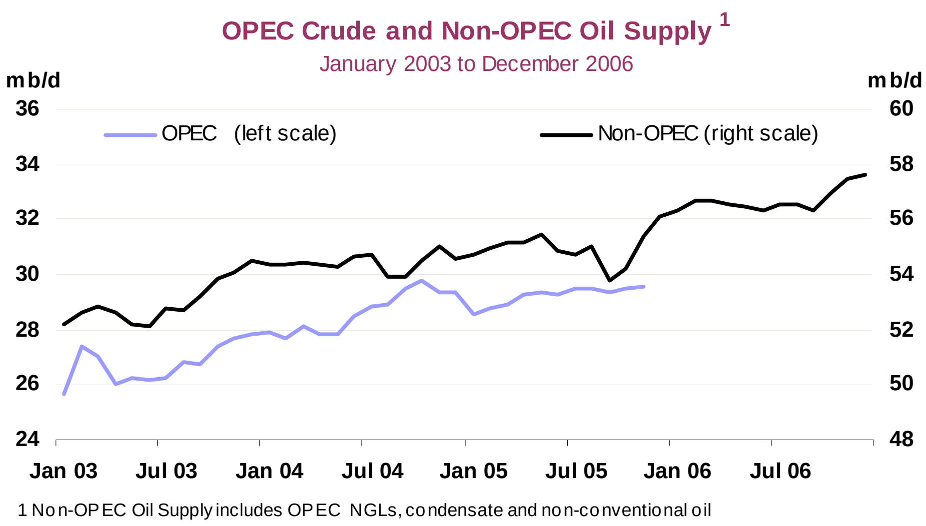
- Annual growth in world supply for November stood at 600 kb/d (0.7%) versus last year. Ongoing outages in the US Gulf of Mexico and the North Sea held OECD production 1.25 mb/d below last year's levels. However, strong yearly growth from the FSU, China, Latin America and Africa leaves non-OECD supply up by a similar amount from November 2004. Combined OPEC crude and other liquids supply stood 630 kb/d higher than a year ago.

- Total oil production still off line in November after the 2005 hurricane season in the **US Gulf of Mexico (GOM)** averaged 1.1 mb/d, down from 1.6-1.7 mb/d in September and October. This total comprised 705 kb/d of Federal GOM crude, 115 kb/d of Louisiana crude and an estimated 300 kb/d of NGL. The Federal GOM figure had fallen to 447 kb/d on 9 December, with total oil volumes shut in from all three sources assumed to average 675 kb/d in December, falling to 150 kb/d by March. This lower level of outage is extended throughout second quarter 2006.

- **Non-OPEC supply** for 2005 now averages 50.2 mb/d, with downward revisions for the US, Mexico, Norway and Africa knocking 70 kb/d off last month's projection. Supply is seen reaching 51.6 mb/d in 2006, despite downward revisions for the North Sea, Russia and Asia Pacific. Growth in 2005 averages 110 kb/d followed by 1.4 mb/d in 2006, although non-OECD supply growth has remained robust and averages 1.0 mb/d-plus in both years. OPEC other liquids add a further 350-400 kb/d of growth in 2005 and 2006, over and above non-OPEC increases.

- **OPEC crude supply** came to 29.6 mb/d in November, a rise of 120 kb/d from October. The October total was revised down 150 kb/d to 29.5 mb/d on evidence of lower supply from Iraq, Saudi Arabia, Venezuela, Nigeria and Kuwait. Increased supplies in November came from Saudi Arabia, Nigeria and Venezuela (although total Venezuelan oil supply fell due to reduced synthetic crude output). Disrupted crude exports underpinned November's drop in Iraqi supply to 1.7 mb/d.

- **The 'call on OPEC crude and stock change'** for the current quarter remains at 29.6 mb/d, close to prevailing OPEC crude production. Demand side revisions for the first and third quarters 2005 raise this year's call by 0.1 mb/d to 28.4 mb/d and those for next year add 0.2 mb/d, resulting in a 2006 call of 28.5 mb/d. The call dips to 27 mb/d in second quarter 2006 but rises to 29.8 mb/d by end year.



All world oil supply figures for November discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary November 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, or for exceptional weather-related disruptions in excess of historical norms, is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above can potentially cause losses of 300 kb/d to 400 kb/d for non-OPEC supply in a given year.

OPEC

OPEC crude supply averaged 29.6 mb/d in November, a rise of 120 kb/d from October. The October total was revised down 150 kb/d to 29.5 mb/d on evidence of lower supply from Iraq, Saudi Arabia, Venezuela, Nigeria and Kuwait. Increased supplies in November came from Saudi Arabia, Nigeria and Venezuela (for conventional crude, as Venezuelan synthetic crude output fell). Iraqi supply fell to 1.7 mb/d in November due to disrupted crude exports. OPEC spare capacity averaged 2.2 mb/d. Excluding capacity in Indonesia, Iraq, Nigeria and Venezuela, all facing constraints on immediately raising or sustaining higher production, effective spare capacity is nearer 1.3 mb/d. As noted last month, installed OPEC capacity should rise by nearly 1.0 mb/d in 2006 compared to average 2005 levels.

OPEC Crude Production

(million barrels per day)

	1July 2005 Target	November 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs November 2005 Production	Production vs. Target
Algeria	0.89	1.37	1.37	0.00	0.48
Indonesia	1.45	0.95	0.98	0.04	-0.51
Iran	4.11	3.87	4.00	0.13	-0.24
Kuwait[2]	2.25	2.48	2.60	0.12	0.23
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.47	2.56	0.09	0.16
Qatar	0.73	0.83	0.83	0.00	0.10
Saudi Arabia[2]	9.10	9.55	10.50	0.95	0.45
UAE	2.44	2.60	2.65	0.05	0.16
Venezuela[3]	3.22	2.14	2.20	0.06	-1.08
Subtotal	**28.00**	**27.90**	**29.34**	**1.44**	**-0.10**
Iraq		1.70	2.50	0.80	
Total		**29.60**	**31.84**	**2.24**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.25)*	

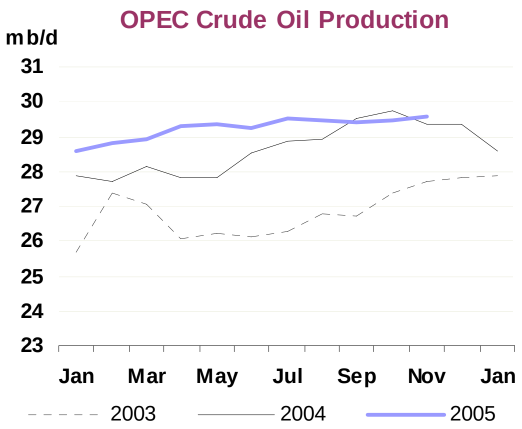
1Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Excludes upgraded Orinoco extra-heavy oil which averaged 468 kb/d in November

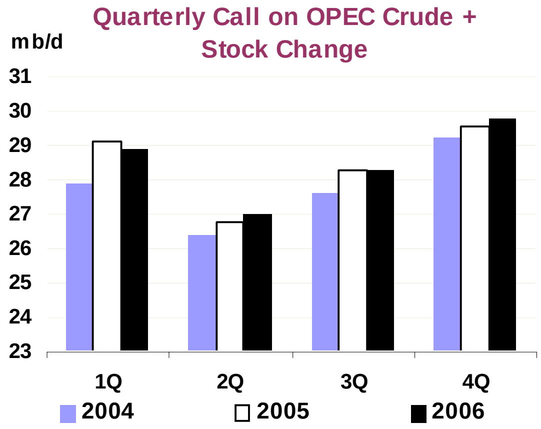
The past month has seen a number of statements from OPEC sources highlighting the evolution of output and pricing policy. Although final decisions from the group's 12 December meeting in Kuwait were not known at the time of writing, most analysts saw little change in production given near-$60/bbl marker crude prices. There has also been speculation that OPEC's offer to make 2 mb/d of spare capacity available to the market might be extended beyond end-December. Signals from OPEC sources have continued to stress that crude supplies are ample and that downstream bottlenecks are a key source of recent high and volatile prices. In response to calls for accelerated investment in upstream capacity, OPEC representatives have raised the concept of a road map for future demand growth to help justify capacity expansions and have called for reduced consumer country oil taxes.

Regarding production, the OPEC President in late-November suggested that output could be maintained at recent levels until consumer stocks attain 56 days' supply, versus 52 days at end-September. Most analyses of supply/demand balances for the current winter suggest that, if a true reflection of OPEC policy, this could signal sustained near-30 million b/d supply through first quarter 2006 in the absence of a sharp drop in prices. The statement also suggests that OPEC may continue to pursue for some months a volumetric, as opposed to price-based, policy. That said, it is not entirely clear if such a specific inventory target will be adopted by the OPEC conference. Nor does a definitive price floor appear to have been agreed which OPEC would defend in future. The more hawkish elements within OPEC may see $50/bbl as a new floor, while others appear prepared to accept levels in a $35-$40/bbl range. Just ahead of the meeting, the OPEC Basket stood at $54/bbl.

Spare capacity remains the key issue. Even with sustained 30 mb/d production, impending OPEC capacity additions suggest that some incremental upstream flexibility could materialise. Nigeria's recently-started Bonga field (225 kb/d) and the 300 kb/d Haradh development from Saudi Arabia early in 2006 could coincide with a seasonal easing in demand for OPEC crude. This raises the prospect of a further increase in spare capacity if broader OPEC production levels are trimmed in the spring. OPEC does not appear to be investing at a rate that will see the re-emergence of early-decade levels near 6 mb/d of spare capacity. However, recent statements from the OPEC Secretariat, suggest acceptance of levels up to 4 mb/d for the period through 2010.

If non-OPEC supply grows as expected early in 2006, and winter heating demand remains close to historical norms, the long-deferred issues of quota allocation and production discipline to support a yet-to-be-defined price floor could re-emerge. Furthermore, there are suggestions that Saudi Arabia will no longer be content to shoulder on its own the role of swing supplier.





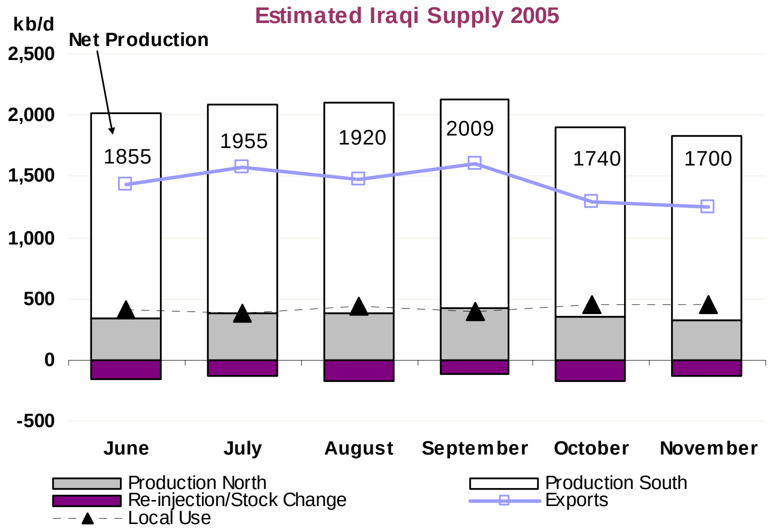
STOP PRESS: 138th Meeting of the OPEC Conference, 12 December, Kuwait

The Conference left production targets unchanged at 28.0 mb/d for the first quarter of 2006, but will convene a further, extraordinary meeting on 31 January 2006 in Vienna to decide on, potentially lower, production levels for the second and third quarters. The Conference noted that stocks, notably of crude, have been building, although no mention was made of specific levels of forward demand cover. The Conference cited market stability and the maintenance of prices at reasonable levels as key elements in production policy, noting that refinery bottlenecks are a key driver of recent high prices. The Organisation plans to publish further information regarding member countries' upstream and downstream capacity expansion plans.

Supply from **Iraq** for October has been revised down by 50 kb/d to 1.74 mb/d following downward revision to southern export data. October exports are now estimated at 1.29 mb/d, the lowest since August 2004. Further problems were encountered in November, notably in the first two weeks of the month when exports from southern ports fell to 1.1 mb/d. Several late-November cargoes were also reportedly delayed into December. November average exports came in at 1.25 mb/d. A combination of pipeline leakage, weather-related loading delays at Basrah and power outages capped southern production at 1.5 mb/d compared to a third quarter average of 1.7 mb/d and year-ago levels of 1.8-1.9 mb/d. Pipeline shipments northward to Ceyhan in Turkey also remained sporadic and for the second successive month there was insufficient oil in storage at Ceyhan to allow tanker liftings.

A measure of the problems Iraq has encountered in re-instating production to pre-war levels is the shifting target envisaged for 2006. Government expectations in late-2004 saw average 2006 production at 3.5 mb/d and US sources cited a more cautious target of 3.0 mb/d in early-2005. The

Oil Minister Ibrahim Bahr al-Uloum said in early-December that he now expects Iraq to be able to boost production in 2006 to only 2.6 mb/d. This follows an announcement by Japan's Ministry of Economy, Trade and Industry that Japan will assist Iraq in rehabilitating southern export facilities and refineries. These aim to boost exports to 2.0 mb/d. Attaining both targets will require concerted action to curb attacks by insurgents on export, production and refining facilities.



Supply from **Saudi Arabia** is assessed lower at 9.45 mb/d in October, rising to 9.55 mb/d in November. Preliminary tanker data suggesting a more substantial monthly rise in November export shipments are countered in part by maintenance at the Yanbu refinery, which likely capped total Saudi supply for the month. During inauguration of the International Energy Forum headquarters in Riyadh on 19 November, Oil Minister Ali al-Naimi suggested that consuming countries should provide a demand-side road map, allowing producers to invest in new production capacity against a more solid back-drop of likely future demand growth. However, he reiterated that plans to increase Saudi capacity to 12.5 mb/d by 2009 were not contingent on this. Indeed Saudi sources were quick to refute claims by a former Aramco executive that the Kingdom would struggle to attain its capacity goal due to shortages of drilling and service equipment and personnel.

Iranian supply is estimated at close to 3.9 mb/d in November, albeit export indications suggesting a drop of some 50 kb/d from October levels. There were renewed suggestions that capacity production from the offshore Soroush and Nowruz fields may be some months off and Iranian capacity is held unchanged at the reduced 4.0 mb/d level put in place by this Report last month. Delays in the appointment of a new Oil Minister were reported to be causing some foreign operators to delay upstream investments. Further, some analyses have suggested that sustaining capacity around 4 mb/d may be a more realistic task for NIOC than the substantial expansion beyond 5 mb/d envisaged by the previous government.

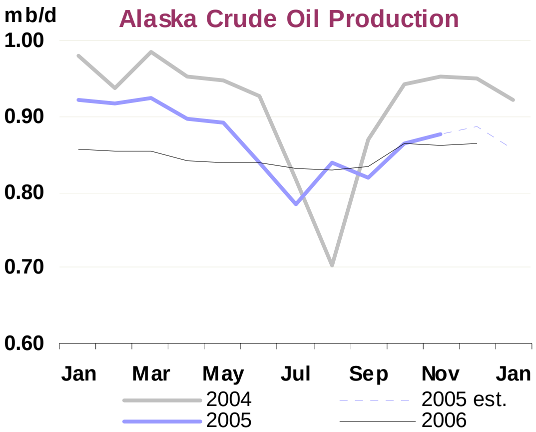
Production for **Venezuela** has been revised down 20-30 kb/d for 2005 after recent reports of lower joint venture operator production due to ongoing uncertainty over operating terms. However, production of conventional crude (net of Orinoco belt synthetic crude) is assessed up by 70 kb/d in November, at 2.14 mb/d. Syncrude output from the Petrozuata unit dropped by some 110 kb/d in November due to plant maintenance (taking total synthetic crude production down to 470 kb/d for the month), but heavy feedstock was reportedly sold in a blend with lighter Mesa crude. Conventional crude output likely will drop again in December as the Petrozuata unit returns. A pipeline explosion on 3 December near the Amuay refinery is reported as unlikely to have significantly affected crude production.

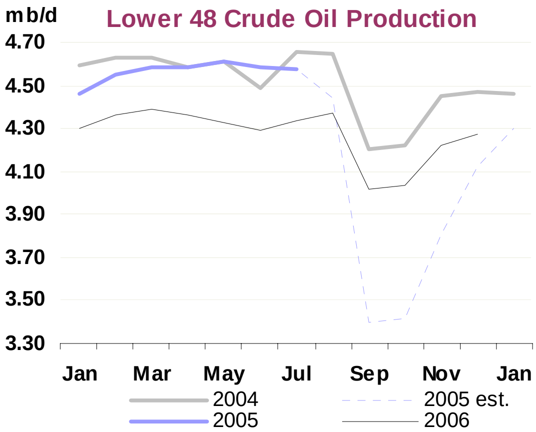
Downward revisions to official production data for the third quarter, and indications of lower export levels for October result in a 35 kb/d downward revision to October **Nigerian** supply to 2.42 mb/d. Export liftings appear to have picked up in November, and supply for the month is estimated at 2.47 mb/d. The long-delayed deepwater Bonga project entered service on 28 November with operator Shell announcing it will attain 200 kb/d output levels by end-2006. A rise in Nigerian sustainable capacity to 2.56 mb/d to reflect impending Bonga start-up was included in the last Report.

OECD

North America

US – November Alaska actual, others estimated: Alaskan crude production came in 25 kb/d higher than expected for November at 875 kb/d (plus an additional 35 kb/d of Prudhoe Bay NGL). Safety work on a number of Prudhoe Bay wells scheduled to run through 4Q 2005 and 2006 has not yet impacted upon production, although some reduction is assumed for December onwards. Despite stronger than expected November performance, Alaskan supply continues to decline, with an expected drop of 40 kb/d in 2005 and 25 kb/d in 2006. Provisions allowing drilling in the Arctic National Wildlife Refuge (ANWR) were dropped from a budget bill put before the US House of Representatives.





State-by-state data for July now suggests higher levels of lower-48 state production and an upward revision for the US as a whole of some 130 kb/d. This partly reverses a downward revision made for last month's Report. Although too early to discern a trend, it would appear that production outside of Alaska and the US Gulf may be responding in part to the stimulus of higher prices. Output for these areas has been revised up by some 40 kb/d for second half 2005 and by 20 kb/d for 2006. However, expectations for the GOM and for NGL supply have been revised down from last month's levels (as described overleaf), resulting in a net downward revision to forecast US oil supply of 25 kb/d for 2005 and 15 kb/d for 2006. Annual estimates now show US crude declining by nearly 300 kb/d in 2005 to 5.1 mb/d, remaining broadly flat in 2006 despite a partial rebound from the GOM. Absolute levels of lower 48 production for 2005 are now higher, but decline is likely to continue, albeit at a slower rate.

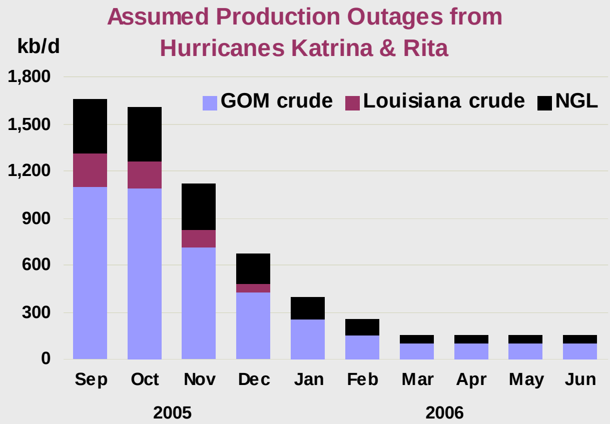
Canada –Newfoundland and syncrude October actual, others September actual: There were indications in October of a long-delayed recovery in Canadian oil production, which since autumn 2004 has been constrained by scheduled and unscheduled outages affecting heavy oil upgrader units and offshore Newfoundland production. Total oil supply is estimated at 3.1 mb/d in October, the highest since November 2004. Data for September point to a sixth straight month at 3.0 mb/d, despite higher Alberta production, as the offshore Terra Nova field saw reduced production due to maintenance. Higher Alberta and NGL production result in 10-15 kb/d upward revisions to Canadian supply for 2005 and 2006. Total production now averages 3.0 mb/d for 2005 and 3.25 mb/d in 2006.

As expected, production from Husky Energy's White Rose field offshore Newfoundland began on 12 November. Early December production was reported at 75 kb/d, slightly higher than previously anticipated by this Report. Production via the floating production, storage and offloading (FPSO) system is expected to reach 90-100 kb/d in the first half of 2006.

US Gulf Production Recovery - Crude On-Track but Higher NGL Outages

As of 9 December, shut-in Federal Gulf of Mexico oil production totalled 447 kb/d (30% of pre-hurricane production) while natural gas shut-ins totalled 2.35 bcf/d (23%). Data on 2 December from Louisiana's Department of Natural Resources showed a further 90 kb/d of oil (44%of pre-hurricane production) and 0.84 bcf/d of natural gas (38%) shut-in. Production recovery for regional crude oil, natural gas and natural gas liquids capacity remains much slower than after storms in previous years. This results from the extensive damage caused by Hurricanes Katrina and Rita to onshore processing and storage facilities, and to offshore production installations and pipelines.

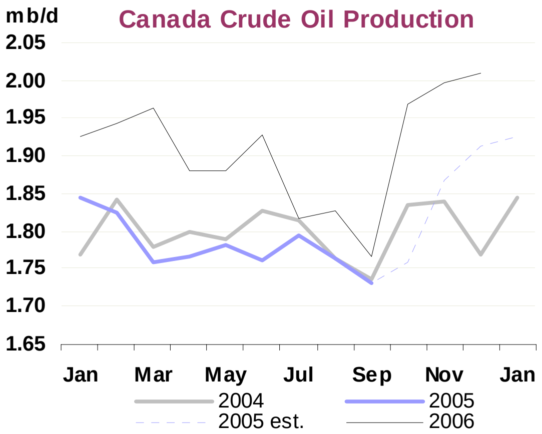
This Report's working assumptions for potential crude oil supply recovery through mid-2006 have been described in previous Reports (see Oil Market Reports dated 11 October and 10 November). Updated assumptions are illustrated below, with crude oil outages largely unchanged from last month. Some 425 kb/d of GOM crude and 50 kb/d of Louisiana production is forecast offline in December, following November outages of 705 kb/d and 115 kb/d respectively. By way of comparison, peak November GOM storm outages for previous years lie in the 100-200 kb/d range.

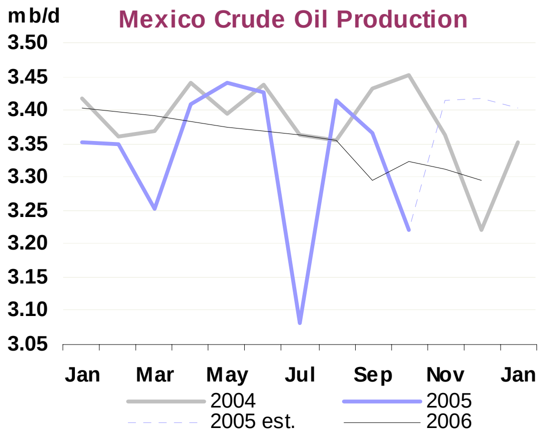


While most Louisiana production is assumed to return in January, a tail of GOM crude outages averaging 250 kb/d in January, 150 kb/d in February and 100 kb/d for March to June, extends the impact to mid-year 2006. Compared to last month's Report, greater NGL supply disruption is now envisaged. September NGL outages are now assessed at 355 kb/d, nearly double previous estimates. Assumed NGL supply losses now average 350 kb/d in October, 300 kb/d in November and 200 kb/d in December. NGL outages then fall gradually, reaching 50 kb/d for the March to June period.

The long tail for crude outages derives from damage affecting Shell's Mars system and Chevron's Typhoon. More positively, Murphy re-instated production at the 35 kb/d Medusa facility in early-December. Meanwhile Chevron announced construction start at the new Tahiti floating production system, with initial supplies from the 125 kb/d facility due at mid-2008. Earlier projections had this coming online by 2007, although it is uncertain whether the storms *per se* have deferred start-up. BHP announced that storm impact could defer first oil from the Atlantis field from an original schedule of third quarter 2006. This Report has therefore pushed back initially assumed August output at the 200 kb/d field to October.

The storms are clearly causing delays and adding to costs. Drilling costs, already at record levels for offshore rigs, could rise further subject to redesign or retrofit requirements imposed by the authorities. Recent reports also suggest a near-doubling of insurance rates for offshore oil and gas facilities. With this in mind, the Report maintains a conservative forecast for GOM production overall in 2006. Crude output recovers to 1.45 mb/d by August, before a recently inflated, five-year average storm outage assumption is applied for the autumn and winter. Clearly, all production estimates are subject to further revision in the months ahead, although greater potential downside risk for production in the near months may be replaced by upside potential for second half 2006.





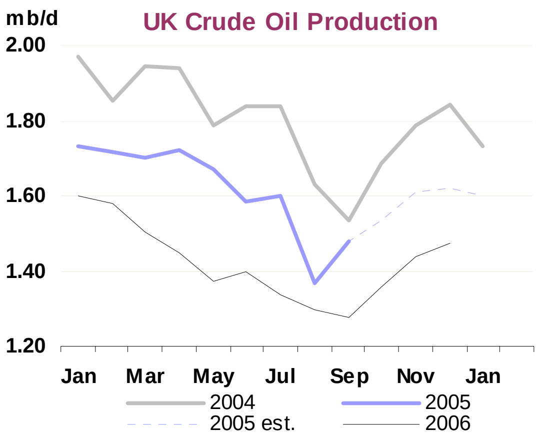
Mexico – October actual: It now appears that production shut-ins resulting from the hurricane season were markedly more pronounced in October than those in September and compared to earlier expectation. Crude production fell to 3.2 mb/d in October from prevailing levels closer to 3.4 mb/d. Initial indications were that production shut-ins resulted more from a lack of markets for heavy/sour Maya crude. However, October exports of Mexican crude rose by some 230 kb/d to 1.9 mb/d. While lighter Isthmus and Olmeca crude accounted for much of the rise, it is possible that October production data signals more serious outages at Mexican infrastructure than originally thought. For now, we continue to assume a recovery in November crude production towards 3.4 mb/d, although this may be subject to subsequent downward revision.

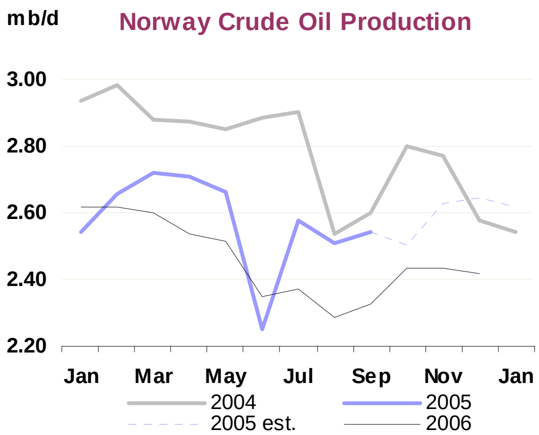
Plans to boost exports by 100 kb/d in 2006 to 2.05 mb/d look ambitious, given that baseload Cantarell field production is expected to be in decline. Much will depend on Pemex's ability to obtain extra investment capital. In mid-November the country's senate approved a tax reform bill which could raise the company's 2006 investment budget by 25% to $10 billion.

North Sea

UK – September actual: Indications of higher Forties system production and of higher tanker loadings for November push up fourth quarter UK offshore production by 15 kb/d compared to last month's forecast. BP also initiated production at the 18 kb/d Farragon field in November, although this was already included in earlier forecasts. No change is made to overall 2006 production. Total oil output averages 1.85 mb/d for 2005 and 1.67 mb/d in 2006. The only significant increment to supply in 2006 is Nexen's late-year start up at the 100 kb/d Buzzard field. Overall, UK supply is expected to continue a pattern of near-200 kb/d decline for the fourth year running in 2006.

Despite a rise in 2005 upstream spending, it is difficult to see a rapid turnaround in the declining trend in UK oil production without substantial new discoveries. UK Chancellor of the Exchequer Gordon Brown announced on 5 December that tax on oil and gas production will rise by a further 10%, taking the effective tax rate to 50%. Although the UK remains one of the more benign investment regimes by international standards, the tax increase is seen hastening a relative shift out of the North Sea by the major IOCs, and a corresponding shift towards smaller, independent producers.

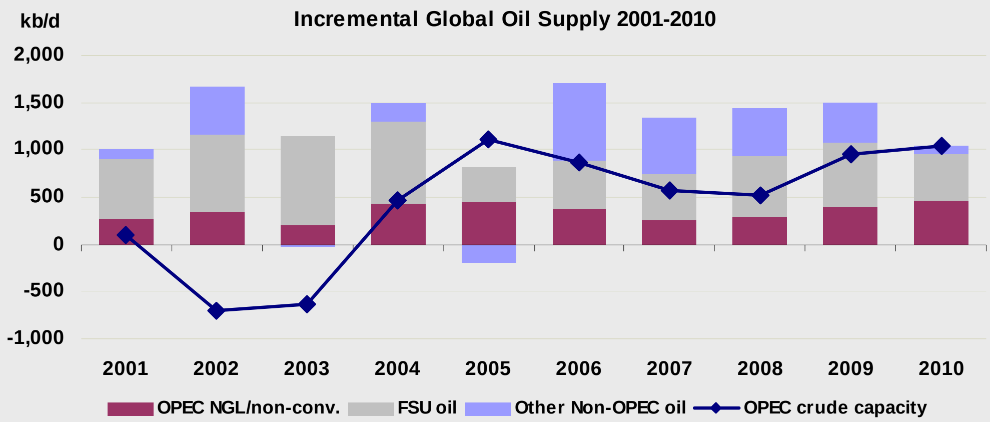




Renewed Growth for OPEC and Non-OPEC Supply Capacity for 2006-2010

The IEA's Oil Market Report team each year generates medium term oil supply projections as an input to the longer term-focussed World Energy Outlook. From 2006 these projections, plus a corresponding five year demand outlook, will be published twice yearly alongside the Oil Market Report. Provisional projections below are subject to revision during first-half 2006.

The methodology for projecting medium term supply differs from shorter term analysis, although both depend on the slate of active investment projects due on line over the outlook period, plus assumed decline rates on a field, basin, country or regional-specific basis. Upstream project lead times vary from 2-7 years, so the outer years of the forecast may be adjusted after analysing typical historical exploration success rates and reserve-production ratios. Underlying the mid-term forecast is an assumption that projects are subject to recent oil company planning/budgeting price assumptions (still below $30/bbl on an aggregate basis), and that existing technological, regulatory and fiscal regimes prevail. As such, there is a risk that the forecast does not fully capture either the potentially negative short term impact of drilling and service capacity shortages and cost increases, or the potential stimulus to longer term production of recent high prices.



That said, our provisional projections for 2005-2010 suggest:

- continued rebound in OPEC crude capacity after limited 2001-2004 additions;
- steady growth in OPEC NGL/non-conventional supply as gas projects proceed apace;
- persistent 500-700 kb/d annual FSU growth, focus shifting from Russia to the Caspian;
- resumed growth from the rest of non-OPEC (centred on Brazil, Angola and Canadian oil sands), which averages 500-800 kb/d per annum after negligible growth in 2003-2005.

After several weak years, there has been a temptation to write-off non-OPEC supply prospects. In part this stems from a temptation to extrapolate the most recent trend, using the pretext of accelerating decline rates and resource depletion. These issues are likely of genuine longer term relevance but our analysis suggests that, at least for 2005, the bulk of non-OPEC supply shortfall compared to projections of 18 months ago derives from:

1. the exceptional hurricane season and associated outages affecting the US Gulf;
2. a spate of delays to new field start-ups affecting, amongst others, Brazil, the US Gulf, Sudan, the UK and Australia;
3. the unexpected pace of investment and production slowdown from two specific Russian producers which, as noted below, could now abate.

Such factors can of course recur in any given year to derail otherwise expected capacity expansion. Nonetheless there is a large number of active upstream investment projects imminently coming to fruition for both OPEC and non-OPEC countries. Given a more normalised operating environment than has prevailed these past two years, these should add significantly to global supply potential. Most, moreover, were initiated during a phase of lower oil prices, suggesting that it is delays in, rather than an absolute lack of, upstream investment that has squeezed spare upstream capacity since 2003.

Norway – September actual, October provisional: Lower than expected provisional October output data, and tanker loading data for November/December, result in a 45 kb/d downward revision to Norwegian liquids production for the fourth quarter of 2005. The bulk of the downward revisions occur for the central Sleipner/Frigg and northerly Haltenbanken areas, with lower output carried through in the forecast for 2006. However, in aggregate the downward revision for supply in 2006 is restricted to 20 kb/d as Ekofisk system production has been revised up by 20 kb/d. This follows Total's announcement in late November that five new wells at the Ekofisk Area Growth project had come onstream and that system production could increase by up to 100 kb/d. November also saw the start-up of the Kristin condensate field and the Urd project (covering the Staer and Svale fields). Already captured in this Report's previous forecasts, a combined 150 kb/d of liquids could come from these projects in 2006.

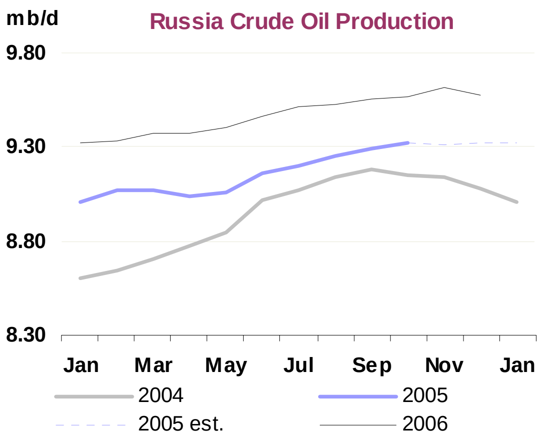
Former Soviet Union (FSU)

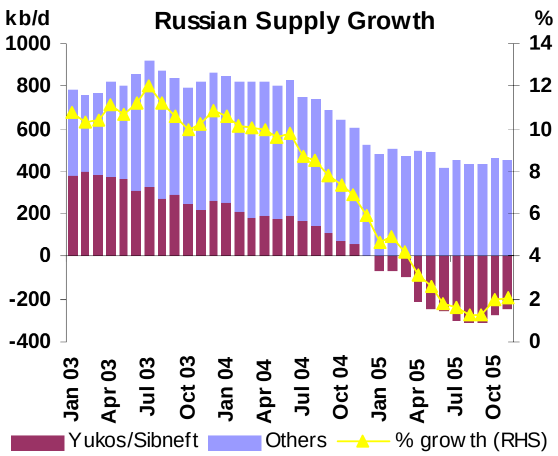
Russia – October actual, November provisional: A combination of lower than expected October and November production levels, plus consideration of latest company production growth plans for 2006, results in modest downward revisions to Russian supply for 2005 and 2006. Fourth quarter 2005 output is revised down 20 kb/d, largely the result of lower expectations for Lukoil and BP-TNK. Both companies are now forecast in this Report to see 2006 growth rates at or slightly below the 5-7% levels seen in 2005. In contrast, a 20 kb/d upward revision to Gazprom fourth quarter output is carried through 2006. Forecast Russian production of 9.47 mb/d in 2005 and 9.78 mb/d in 2006 still represents growth of 2.7% and 3.2% respectively, higher than various government growth projections.

Yukos and Rosneft 2006 production levels are also revised up by around 20 kb/d each compared to last month's Report. This may appear counter-intuitive, as Yukos has seen a decline in production since its Yuganskneftegaz subsidiary was taken over by Rosneft at end-2004, and both face constraints on capital available for upstream investment. Indeed, Yukos production could continue to decline unless its remaining production assets are bought out (also potentially by Rosneft). However, with the slide in Yukos production having halted for the time being in October and November, and amidst recent reports of a return to profitable operations, the worst of the slide in upstream investment for the company may be behind it. We have therefore restricted the 2006 decline in Yukos output to some 170 kb/d, similar to likely 2005 performance. There could be some upside to this assumption if Yukos assets are indeed bought out and upstream investment is reinvigorated.

For its part, Rosneft has overseen a turnaround in its Yuganskneftegaz subsidiary's production. Renewed maintenance and service company activity have seen growth of 70 kb/d in production since April. While a 9% growth target for Rosneft in 2006 may prove over-ambitious, an acceleration in growth to 6% from 2005's 3%,as assumed by this Report, appears feasible.

The graphs below illustrate that the slide in Russian production growth to sub-2% levels may indeed have abated. Indeed there could be upside potential compared to this Report's forecasts for a number of companies including Yukos and Rosneft. We have also taken a conservative view regarding production build-up from two recently started projects involving joint venture partners - Shell's West Salym project and ExxonMobil's Sakhalin I. Actual increases in production could be more rapid than assumed here.





FSU net exports stabilised in October close to 8.0 mb/d, with a 110 kb/d fall in crude exports being countered by an 80 kb/d increase in products. Higher crude export duty appeared to have greatest impact in curbing Baltic supplies, which fell by 110 kb/d to 1.53 mb/d. Black Sea liftings remained close to September's 2.23 mb/d. As an indicator of November FSU exports, Russian crude exports via the Transneft pipeline system increased by 180 kb/d month-on-month. However, there are early indications that growing shipping delays in the Turkish Starits and other seasonal factors may limit any further increase in December.

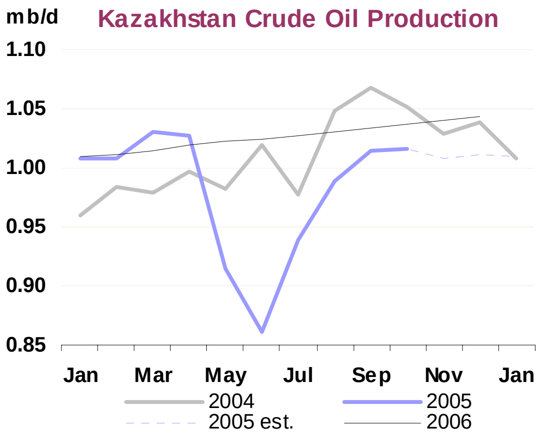
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

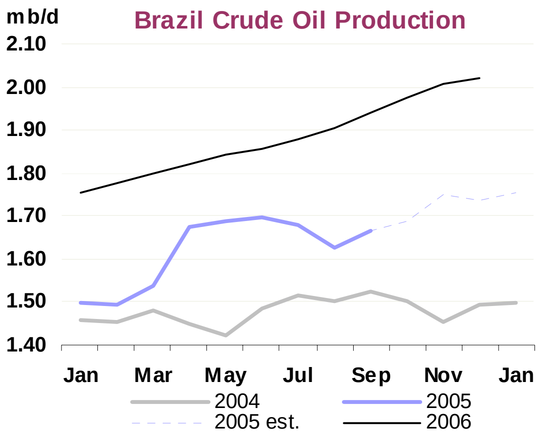
	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Aug-05	Sep-05	Oct-05	Latest month vs. Sep-05	Latest month vs. Oct-04
Crude											
Black Sea	2.21	2.20	2.28	2.22	2.38	2.30	2.32	2.23	2.24	0.02	-0.18
Baltic	1.06	1.51	1.48	1.64	1.61	1.57	1.59	1.64	1.53	-0.12	0.02
Artic/FarEast	0.21	0.25	0.30	0.19	0.19	0.22	0.22	0.21	0.21	0.00	-0.09
Crude Seaborne	3.47	3.96	4.06	4.04	4.18	4.08	4.12	4.08	3.98	-0.10	-0.25
Druzba Pipeline	1.07	1.10	1.14	1.13	1.10	1.14	1.12	1.17	1.17	0.00	0.04
Other Routes	0.17	0.23	0.25	0.28	0.35	0.35	0.37	0.37	0.36	-0.01	0.09
Total Crude Exports	4.71	5.29	5.46	5.45	5.64	5.58	5.61	5.62	5.51	-0.11	-0.13
Of Which: Transneft	na.	3.76	3.86	4.01	4.26	4.26	4.33	4.30	4.19	-0.10	0.27
Products											
Fuel oil	0.83	0.90	0.87	0.78	0.91	1.02	0.97	0.98	0.97	-0.01	0.13
Gasoil	0.82	0.84	0.78	0.89	0.80	0.85	0.83	0.88	0.93	0.04	0.17
Other Products	0.41	0.46	0.42	0.58	0.56	0.58	0.54	0.59	0.64	0.05	0.25
Total Product	2.05	2.19	2.07	2.25	2.27	2.45	2.34	2.45	2.53	0.08	0.55
Total Exports	6.76	7.48	7.52	7.70	7.90	8.02	7.95	8.07	8.04	-0.04	0.43
Imports	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.00	0.00
Net Exports	6.74	7.47	7.51	7.69	7.90	8.00	7.94	8.06	8.03	-0.04	0.43

Sources: Petro-Logistics, IEA estimates

Kazakhstan – October actual: Total oil production from Kazakhstan reached 1.24 mb/d in October, its highest level since April. Spring and summer output was blighted by unscheduled outages affecting the Karachaganak and Tengiz fields and political manoeuvring over gas flaring restrictions affecting other producers. Provisional indications for November suggest a continued increase in supply.

Gas utilisation issues may re-emerge as a more genuine constraint on oil production growth in future, as could the availability of sufficient crude pipeline export capacity. Delays in expanding the CPC pipeline via Russia's Novorossiysk have caused partners in the Tengiz field to turn to expanded southern shipments via Aktau, Baku and Batumi. While CPC expansion should proceed eventually, a stop-gap route is required to accommodate an expected doubling in Tengiz production to 530 kb/d by 2007. Stage one of the Kazakhstan to China crude pipeline was also completed in November and initial capacity of 200 kb/d could be available by end-year.





Other Non-OPEC

Brazil – September actual: Brazilian crude production for September came in stronger than expected at 1.67 mb/d although provisional indications for October suggest generally flat output rather than the sharp increase expected by this Report last month. However, a renewed build-up in supplies from the deepwater Campos Basin is expected from November and running through 2006. September data suggests higher baseload supply which carries through the forecast. In all, Brazilian crude is seen growing by 235 kb/d in 2006, to reach 1.9 mb/d.

Marginally higher Brazilian fuel ethanol production is now expected for 2005 and 2006. Output could reach 270 kb/d in 2005 and nearly 290 kb/d in 2006, with ambitious expansion plans in place both for domestic consumption and exports. This represents growth of 7-8% per annum since 2000.

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	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.13	14.38	0.25	14.09	14.38	0.29	-0.04	0.00	0.04
Europe	5.70	5.46	-0.24	5.68	5.44	-0.25	-0.01	-0.02	-0.01
Pacific	0.59	0.58	-0.01	0.58	0.58	-0.01	0.00	0.00	0.00
Total OECD	**20.42**	**20.42**	**0.01**	**20.36**	**20.40**	**0.04**	**-0.05**	**-0.03**	**0.03**
Former USSR	11.60	12.12	0.52	11.60	12.10	0.51	0.00	-0.01	-0.01
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.63	3.63	0.00	3.63	3.63	0.00	0.00	0.00	0.00
Other Asia	2.74	2.84	0.11	2.73	2.83	0.10	0.00	-0.01	-0.01
Latin America	4.30	4.50	0.20	4.30	4.52	0.22	0.00	0.02	0.02
Middle East	1.86	1.81	-0.05	1.86	1.81	-0.05	0.00	0.00	-0.01
Africa	3.72	4.25	0.53	3.70	4.25	0.55	-0.01	0.01	0.02
Total Non-OECD	**28.00**	**29.30**	**1.30**	**27.99**	**29.31**	**1.32**	**-0.02**	**0.00**	**0.02**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.28**	**51.63**	**1.35**	**50.21**	**51.61**	**1.39**	**-0.07**	**-0.02**	**0.04**

OMR = Oil Market Report