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OIL DAILY
Today's complete oil and gas news briefing.

Petrobras Details Capital Spending Plans

Brazil's state-controlled oil giant Petrobras finally released its 2010-14 business plan on Monday — half way through the first year of the five-year plan. The plan calls for capital spending of $224 billion — even higher than the $200 billion-$220 billion range Petrobras indicated in March, and up from a previous projection of $174 billion for 2009-13.

Over half of the planned capital spending — $118.8 billion — will be directed toward upstream activities, including $19 billion for new projects, as Petrobras develops the huge new oil finds in the subsalt zone off its Atlantic coast.

"No other company has such an accelerated E&P program," Chief Executive Jose Sergio Gabrielli boasted during a webcast press conference in Rio de Janeiro.

Petrobras is targeting production of 3.9 million barrels per day in 2014 and 5.4 million b/d in 2020. Most of the company's production through 2014 will come from fields that lie above the salt layer — mainly in the Campos Basin. But new production facilities installed in subsalt blocks already held by the company will contribute a growing share after 2014, Petrobras said.

The company has allocated $77 billion to developing reserves above the salt through 2014 and $31 billion for reserves beneath the salt. In the sub-salt play it will install an average of three new production systems and perform three extended well tests per year.

The plan does not include potential production from areas that may be licensed to Petrobras under the new regulatory framework, which was recently approved by the Senate. Nor does it include potential output from an area holding five billion barrels of oil equivalent that the government has proposed to transfer to Petrobras in exchange for additional shares in the company (OD Jun.11,p1).

Petrobras said its new production target for 2020 is slightly lower than a previous estimate due to a reduction in planned investments overseas. "Because of our opportunities in Brazil, reduced emphasis will be placed on Petrobras' international E&P activities," the company said.

International investments will comprise only 5% of total capital spending, or $11.7 billion, with a focus on developing upstream assets in Nigeria, Peru and the Cascade, Chinook, Saint Malo and Tiber discoveries in the Gulf of Mexico.

As Petrobras focuses on developing its extensive reserves in Brazil, the company says it will significantly increase the use of local suppliers, which will "help consolidate Brazil as a goods and services supplier hub." Two thirds of total investment will be used for local content.

This focus on domestic suppliers is part of the government's plan to use the huge oil discoveries to support different sectors of the Brazilian economy, such as

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News in Review

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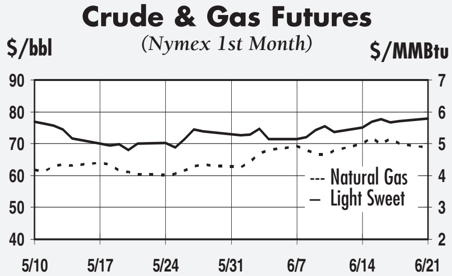
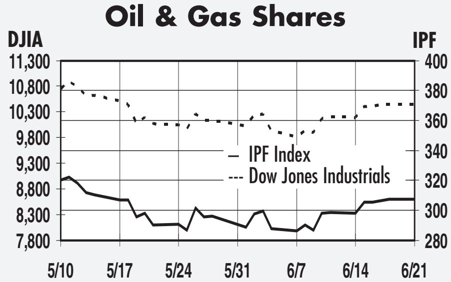
Crude & Gas Futures



Oil & Gas Shares



Costs of US Gulf Clean-Up Reach $2 Billion

BP said on Monday that the estimated costs of responding to the catastrophic oil spill in the Gulf of Mexico to date amounts to about $2 billion.

The UK supermajor said those costs include efforts to contain the uncontrolled flow of oil from the damaged Macondo well, the drilling of two relief wells, grants to Gulf Coast states, claims paid, and costs incurred by the federal government.

To date, more than 65,000 claims have been submitted and more than 32,000 payments have been made, totaling over $105 million, the company said.

BP agreed last week to set up an independently managed $20 billion fund to cover the costs of cleaning up the spill and compensating the victims.

However, the company's ultimate liability could exceed that amount, and BP looks set to be drawn into a lengthy legal battle with its drilling partners and contractors as to whether or not they should foot part of the bill (see p4).

Lawyer Ken Feinberg who was appointed to head the compensation fund said on Monday that he will "err on the side of the claimant" when it comes to making emergency payouts.

"With the emergency payments ... you've got to allow those payments to go out with less corroboration than you would if you're giving a lump-sum payment that is the total compensation," Feinberg told CNN. "For the emergency payments, we've got to err on the side of the claimant."

The spill from BP's Macondo well has hurt the US Gulf Coast fishing and tourism industries and fouled beaches and wetlands.

Feinberg said last week that claims can be filed over lost wages, business interruption, lost profits, personal injuries and even death in some instances.

(See Spill, page 2)

BP Cited for Hundreds of Recent US Refinery Safety Violations

BP accounted for 97% of the most flagrant safety violations reported by federal authorities at US refineries over the past three years — a period during which the company had said it was seeking to improve its safety performance.

BP's safety record has come under close scrutiny since an explosion at a BP-operated well in the Gulf of Mexico killed 11 men Apr. 20, causing the nation's largest oil spill. That incident followed a March 2005 explosion at the UK-based supermajor's Texas City, Texas, refinery which killed 15 workers.

Inspections by the US Labor Department between June 2007 and February 2010 found 862 alleged safety violations at BP refineries in Texas City and Toledo, Ohio, according to documents obtained by the non-profit Center for Public Integrity.

BP operates five US refineries in Texas, Indiana, Ohio, California and Washington state. Last year it received a record $87 million fine for safety violations at its Texas City facility. BP said in October it would contest the fine.

The Labor Department's Occupational Safety and Health Administration (OSHA) has a rating system that ranks the seriousness of safety violations.

The most serious incidents are classed as "egregious willful citations" and BP had 760 citations in this category between June 2007 and February 2010, compared to a single such violation for the rest of the industry.

"Willfull citations" are the next step down in terms of severity and OSHA applies the term to incidents in which it believes a company has shown an intentional disregard for employee health and safety. BP received 69 such citations while all other refiners received 22 during the period under consideration.

BP tops the list in part because of continuing problems at its Texas City refinery, which was taken off line for about a year as the company spent $1 billion to upgrade the plant's safety.

No other refiner approached the number of OSHA citations that BP has run up since 2007.

Sunoco was cited for 127 alleged violations, but only eight of these were considered serious enough to be classed as "willful", the Center for Public Integrity said. ConocoPhillips was cited for 119 violations, of which only four were deemed willful. Citgo Petroleum was cited for 101 violations, including two willful violations, according to the Center. BP was convicted of a felony violation of the Clean Air Act in the Texas City explosion. It was also found guilty of a misdemeanor violation of the Clean Water Act after a pipeline leak in Alaska caused a 200,000 gallon onshore oil spill in 2006.

Refinery operations are inherently dangerous, as seen in April when a fire at a Tesoro plant in Anacortes on the US West Coast killed seven people. The cause of that fire is still under investigation, according to OSHA. And only last week a contract worker at BP's Rotterdam refinery in the Netherlands was killed after being crushed by a piece of concrete.

BP's safety record came under fire last week when Chief Executive Tony Hayward appeared before a Congressional committee in Washington to testify on the Gulf of Mexico oil spill (OD Jun.18,p1). Hayward was criticized in particular for failing to make good on a promise he made to focus on safety "like a laser" when he became chief executive in May 2007.

Bill Murray, Washington

Spill . . .

(Continued from 1)

The offshore oil and gas industry and its suppliers have also been hit hard by a six-month moratorium on deepwater drilling imposed by President Barack Obama in response to the fatal blowout at Macondo and the subsequent oil spill.

On Monday, a federal judge in New Orleans began hearing a legal challenge to the moratorium which is opposed by industry groups and some members of Congress (OD Jun.21,p1).

US District Judge Martin Feldman heard opening arguments in the case from plaintiff Hornbeck Offshore Services. He indicated that he would issue a ruling on Tuesday or Wednesday.

Meanwhile, Rep. Edward Markey (D-Massachusetts) said internal documents obtained from BP indicated that up to 100,000 barrels of oil per day could spill from the Macondo well under a worst-case scenario. Markey chairs the energy subcommittee of the House Energy and Commerce panel.

BP acknowledged that the document obtained by Markey was genuine, but countered that the worst-case estimate applied only to a situation in which the blowout preventer were removed from the damaged well. "Since there are no plans to remove the blowout preventer, the number is irrelevant," BP spokesman Toby Odone told Reuters.

As the federal government tightens up regulation of the oil and gas industry in response to the crisis in the Gulf, the US Interior Department issued a directive at the weekend requiring all producers to provide details of measures they are taking to prevent blowouts and how they would respond to a major spill caused by the failure of a blowout preventer.

The government recently raised its estimate of the amount of oil gushing from the Macondo well to 35,000-60,000 b/d.

"When the oil spill started, BP said it was only 1,000 barrels a day. Now we know it could end up being 100 times larger than that in a worst-case scenario," Rep. Markey said.

"This document raises very troubling questions about what BP knew and when they knew it. It is clear that, from the beginning, BP has not been straightforward with the government or the American people about the true size of this spill," he added.

John A. Sullivan, Houston, Lauren O'Neil, Washington and Reuters

Petrobras . . .

(Continued from 1)

the shipping industry.

Petrobras said it expects to have access to the largest number of deepwater drilling rigs of any company in the world, with 26 rigs available by 2014 and 53 by 2020.

Analysts say Petrobras will benefit from the offshore drilling moratorium in the Gulf of Mexico, which will likely put downward pressure on daily rental rates for offshore rigs.

In the downstream sector, Petrobras increased its planned investment to $73.6 billion through 2014, compared to $47 billion targeted for 2009-2013.

Refining capacity is projected to reach 2.3 million b/d in 2014, thanks to the start-up of the Abreu e Lima refinery in Pernambuco and the expansion of the Comperj refinery in Rio. By 2020, refining capacity is expected to hit 3.2 million b/d.

Petrobras has also earmarked $17.8 billion for natural gas investments, $5.1 billion for petrochemicals and $3.5 billion for biofuels.

The company said it assumed an oil price of $80 per barrel for its capital spending plan and remains committed to its financial leverage — or ratio of net debt to equity — target of 25-35%.

In July, it plans to hold a public stock offering, which analysts estimate could earn the company around $15 billion to $25 billion from minority shareholders.

The release of the business plan — normally presented several months before the start of the first year — was delayed because of uncertainty about how the company would prioritize investments in its fast-growing portfolio and doubts about how to fund the huge plan.

Lisa Viscidi, New York

Crude Follow Equities Higher on News of Chinese Currency Float

Crude prices finished higher Monday after mirroring equity market volatility that was driven by news China would take steps toward increased exchange rate flexibility and an appreciation of its currency.

July Nymex crude ended the session up 64¢ at $77.82 per barrel after trading as high as $78.92, while the more widely traded August contract rose 35¢ to $78.61. August Brent on ICE Futures climbed 60¢ to $78.82.

Reports over the weekend that China would relax its currency peg produced a wave of bullish trading in global markets as investors saw a possible appreciation of the yuan as a driver of Chinese demand for imports.

Demand for dollar-denominated commodities such as crude could increase if the US currency loses value against its Chinese counterpart, market analysts agreed.

"The one thing I might also note is as we move further away from the European debt crisis, the market's starting to firm up again," said Gene McGillian at Tradition Energy.

Prices remain close to the top of a $70-$80 trading range as data released Friday showed non-commercial investors continuing to add net length to crude futures and options positions.

Yet many observers caution that market fundamentals still appear to worry investors when prices near the $80 level, a sentiment that likely assisted crude's correction later on Monday.

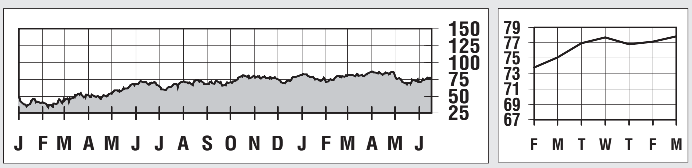
"We have a long week in front of us," said McGillian. "The market is definitely showing some increased volatility in here."

John Galante, New York

Daily Oil & Gas Price Review

Prices for Monday, June 21, 2010

Crude Oil — Nymex Light Sweet ($/barrel)



Light Sweet Futures — Prompt Month ($/barrel)

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	+0.64	77.82	77.28	78.61	79.48
ICE Brent	+0.60	78.82	78.01	79.21	79.67

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	+0.66	77.82	77.25	67.53	72.12
WTI (Midland)	+0.22	77.00	76.72	68.05	71.73
Brent (Dated)	+1.48	78.87	77.20	70.19	70.81

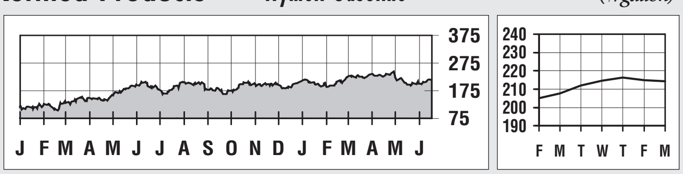
North American Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+0.07	75.45	75.14	66.55
LLS (St. James)	+0.07	81.45	80.66	74.40
ANS (California)	-0.40	78.26	78.22	70.00
Mars (Clovelly)	+0.07	77.20	76.49	71.25
Maya (Mexico)	-0.05	67.46	67.03	60.03

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket[I]	-+0.11	75.13	74.88	69.64[G]
Nigeria Bonny Light	+1.53	80.12	77.90	71.74
Dubai	+0.65	76.64	75.94	70.31
Oman	+2.28	77.15	75.73	69.65
Russia Urals	+1.48	77.82	76.23	68.89

Refined Products — Nymex Gasoline (¢/gallon)



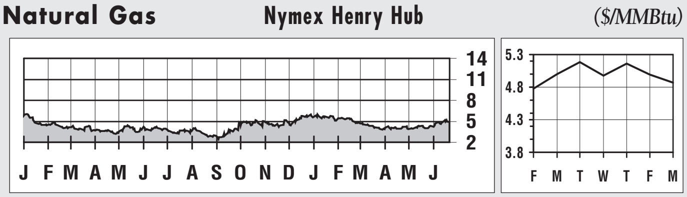
Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	-0.48	214.28	214.42	213.79	213.43
Heating Oil	+1.70	214.59	212.02	216.13	218.13
ICE (London)					
Gasoil ($/ton)	+9.00	690.00	674.60	691.25	694.00
Gasoil (¢/gal.)	+2.86	219.05	214.16	219.44	220.32

US Product Spot Markets[H]

Gasoline (¢/gal.)	Gulf Coast Change	Gulf Coast Spot Price	Gulf Coast 5-Day Avg.	Gulf Coast Month-Ago	New York Change	New York Spot Price	New York 5-Day Avg.	New York Month-Ago	Los Angeles Change	Los Angeles Spot Price	Los Angeles 5-Day Avg.	Los Angeles Month-Ago
Regular Gasoline	-1.64	202.77	203.41	185.17	-1.89	208.27	209.09	187.67	-3.98	222.77	226.26	191.92
Premium Gasoline	-2.39	212.77	213.61	197.17	-1.89	216.77	217.76	199.67	+5.02	240.77	236.26	201.92
Regular RBOB	-2.48	210.02	211.11	191.17	-1.89	214.62	215.37	196.92	+3.52	232.27	229.76	193.92
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	+0.44	209.38	207.50	186.65	+0.44	212.88	210.75	189.05	—	—	—	—
No. 2 Low Sulfur Diesel	+0.44	212.88	210.95	189.15	+0.44	215.63	213.70	192.65	+0.44	221.88	219.35	197.81
Jet Fuel	-0.06	214.13	212.80	191.90	+0.44	217.88	216.85	196.15	+0.77	224.60	222.14	197.90
Residual Fuel ($/bbl)												
No. 6 Oil (low sulfur)	-0.25	70.38[A]	70.04	65.03	+0.16	71.63[B]	70.95	66.03	—	—	—	—
No. 6 Oil 1% S	-0.25	69.38[C]	69.04	64.03	+0.23	69.63[D]	68.84	63.78	—	—	—	—
No. 6 Oil 3% S	-0.15	67.63	67.12	62.13	+0.15	68.53	67.64	62.28	+2.50	450.00[E]	443.50	460.00

Natural Gas — Nymex Henry Hub ($/MMBtu)



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

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex ($/MMBtu)				
Henry Hub	-0.124	4.873	5.040	4.910

Spot Gas Prices ($/MMBtu)[F]

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	+0.03	5.58	5.31	4.49
Henry, Louisiana	-0.02	5.15	4.94	4.11
Chicago	+0.02	5.16	4.94	4.10
Katy, Texas	+0.01	5.07	4.86	4.04
Southern California Border	+0.04	4.47	4.57	3.89
AECO Hub (Canada)	0.01	3.84	3.91	3.43

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

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

Anadarko Says 'Reckless' BP Caused Preventable Disaster in US Gulf

Anadarko Petroleum has accused UK supermajor BP of "reckless" actions that led to a fatal blowout and massive oil spill at the Macondo deepwater well in the US Gulf of Mexico.

Anadarko holds a 25% stake in the BP-operated well, but the US independent's remarks suggest it will hold BP accountable for paying its share of clean-up costs and damages.

"The mounting evidence clearly demonstrates that this tragedy was preventable and the direct result of BP's reckless decisions and actions," Anadarko Chief Executive Jim Hackett said in a statement released late Friday.

BP said it "strongly disagreed" with Anadarko's allegations but that it will not allow them to distract it from its efforts to clean up the spill and compensate the victims.

Hackett said information that has become public in recent weeks indicates that BP "operated unsafely" and failed to respond to several critical warning signs during the drilling of the ill-fated well.

"BP's behavior and actions likely represent gross negligence or willful misconduct and thus affect the obligations of the parties under the [joint] operating agreement," continued Hackett.

Hackett pointed out that the minority partners in the Macondo well – Anadarko and Japanese firm Mitsui (which holds a 10% stake) – can hold BP responsible for any damages caused by gross negligence or willful misconduct.

BP issued a statement rejecting Anadarko's allegations and quoting Chief Executive Tony Hayward as saying: "Other parties besides BP may be responsible for costs and liabilities arising from the oil spill, and we expect those parties to live up to their obligations."

Anadarko's attack on BP came at the end of a week in which BP and its beleaguered chief executive came under heavy fire from industry executives and members of Congress. The company agreed to set up an independently managed $20 billion fund to cover clean-up costs and damages claims (OD Jun.17,p1).

Hayward – who has often been criticized for making insensitive or evasive comments during the crisis – was subject to further scrutiny at the weekend, with news media in the UK and US questioning the public relations impact of his decision to take a day off to attend a boat race in the UK.

Meanwhile, the US Interior Department issued a directive on Friday requiring oil and gas companies filing for a new offshore drilling permit, exploration plan, or development plan to provide details of measures they are taking to prevent blowouts.

The measure is part of a broad review of regulations governing the industry in the wake of the BP blowout and oil spill.

"The BP oil spill has laid bare fundamental shortcomings in the oil and gas industry's ability to prevent and stop catastrophic blowouts," said Interior Secretary Ken Salazar.

"While the challenges of intervening in a catastrophic blowout are significantly greater in deepwater than in shallow water, all operators should provide basic information about potential blowouts, and steps that are being taken to reduce the possibility of a blowout," he said.

Andrew Kelly, Houston

Firm Middle Distillates Bolster Atlantic Basin Refining Margins

Most years, refiners operating in the Atlantic Basin generally breathe easier during the spring and summer as a seasonal increase in demand for gasoline from US consumers boosts margins on both sides of the Atlantic.

This year has also seen margins widen during March and April and then retain their strength, but the driver of this trend is somewhat distinct. Part of the surge is due to a counter-seasonal tightening in the "middle distillate" market for diesel and heating oil.

According to a recent report by Boston-based consultancy Energy Security Analysis Inc. (ESAI), the improvement in middle distillate fundamentals has been precipitated by greater demand from the US, Latin America and even Europe.

The consequences of this include improved margins, increased throughput and a more positive refining outlook, at least for the near-to-medium term.

"[Middle] distillate demand has sprung to life in the US and in other Atlantic Basin markets," says ESAI. Rather than simply showing a year-on-year increase from a dismal 2009, ESAI says "demand truly surged" in the US in May, rising by 600,000 barrels per day to 4 million b/d as the economy picked up and stoked demand for fuel needed to transport goods.

Demand should grow by about 250,000 b/d, or 7%, this year. the report said.

Lower run rates and middle distillate yields prior to the recovery in margins helped reduce inventories in the US and Europe, which often receives excess supply from the US. Meanwhile, "higher demand in several Latin American countries caused a large share of US exports, a surprising 73%, to flow south," notes ESAI.

Even in economically beleaguered Europe, demand for middle distillates is improving in France, Germany and the UK, while Italy is "no longer expected to have negative growth in 2010," says ESAI. Growth in demand for diesel fuel should total 50,000 b/d for 2010, while German demand for heating oil was "unseasonably strong" in May.

Improving middle distillate balances should continue to support refining margins and drive higher refinery utilization rates as the "distillate disincentive" — a reluctance to run plants close to their capacity because of poor margins — dissipates.

In its report, the consultancy revised upward nearly all of its middle distillate margin forecasts, led by an increase in New York Harbor spot heating oil's premium over West Texas Intermediate (WTI) crude in June to $10.50 per barrel from $7.25 in a prior forecast. The June spot margin prediction in Rotterdam for ultra-low-sulfur diesel versus Brent was $14/bbl, up from $10.50. These margins should dip only slightly through the summer and return to similar levels by November.

US refiners are already taking advantage of improved middle distillate margins, increasing yields above 34% for the first time since 2008, says ESAI. Throughput during the three months to May was up 400,000 b/d from a year earlier, all of this along the US Gulf Coast, where refiners are well-placed to service Latin American demand.

In Europe, improved margins also encourage higher runs, but "those refiners with spare capacity that has not been mothballed will be careful to avoid over-producing and undermining margins," according to the report. For the June to November period, throughput should be around 10.9 million b/d, up 200,000 b/d from the prior year.

Asia's export refiners will also look to take advantage of improved margins in Europe, ESAI says.

The downside to this, however, is that the gasoline market could suffer as high retail prices deter demand while higher throughput levels support supply. In the US Northeast, gasoline prices were 70¢ higher year-on-year during the first quarter, although increased supply could lower prices and boost demand, ESAI suggests.

The gasoline outlook is far from bullish and ESAI has revised down its margin forecasts. The New York Harbor Rbob gasoline spread over WTI should increase to an average of $13.50/bbl in July from $12.50 in June, but it could fall to $7 by September and $3 by November according to ESAI.

"Once fall and winter arrive, high supply and declining demand will give way to weaker [gasoline] margins," the consultancy adds.

John Galante, New York

Acergy-Subsea 7 Combo to Create Offshore Engineering Giant

Oslo-listed Acergy is set to acquire rival Subsea 7 in an all-share deal that creates a leading global offshore engineering player with a combined market capitalization of around $5.4 billion.

"This combination will create a global leader in seabed-to-surface engineering and construction that can secure and deliver offshore projects of the size and complexity that will emerge in the coming decade," the two firms said in a statement Monday.

The decision to merge comes as the offshore oil industry faces mounting pressure over safety and environmental concerns following BP's catastrophic oil spill in the US Gulf.

The bigger combo, which will be known as Subsea 7, will employ around 12,000 workers and have an order backlog of $5.3 billion. It will stand to make savings of at least $100 million within three years of completion through cuts in overheads, operating and tendering costs, more efficient supply chain management and a bigger fleet of 43 vessels.

The new entity will be positioned to serve key geographic markets. London-based Acergy has been particularly successful in West Africa and Asia, while Subsea 7, which is listed on the US Nasdaq exchange and has its headquarters in the Cayman Islands, is strong in the North Sea and Brazil.

"We have long argued the industrial logic of a deal given it would create a subsea player which could provide the full host of services," UK investment bank Evolution Securities said in a note to clients. "The interesting part though is the timing and we believe that the fallout from the Gulf of Mexico disaster and feared slowdown in deep water activity has accelerated the need for the two to take pre-emptive action."

BP's Macondo spill in April led to a six-month ban on deepwater drilling in the US Gulf pending an investigation, and plans to open new areas for offshore drilling were also put on ice. The value of oil-services stocks has since plunged amid fears the spill will curb worldwide demand for offshore contracting services.

The new management team will be led by Acergy Chief Executive Jean Cahuzac. On a conference call Monday, he told investors the deal was driven by demand for bigger and more complex projects as operators seek greater access to remote reserves and harsher environments.

Cahuzac said he is encouraged by the growing number of projects in Africa, Australia and Brazil and is monitoring the timing of North Sea activity. "The global capex forecast has increased too ... we are encouraged by what we hear."

On Monday, the stock market responded favorably to the deal. Subsea 7 shares rose more than 11% — albeit still 11% lower than in April — while Acergy's stock price was up almost 12% in trading on the Oslo stock exchange — 8% lower than in April.

Both companies' boards have agreed to recommend the deal to their shareholders. The merger is expected to close before the end of this year or early next but must still be approved by regulators and antitrust authorities.

Under the terms of the agreement, Acergy shareholders will own 54% of the new entity, while Subsea 7 stakeholders will have 46% — based on current market value. Subsea 7 common shareholders will receive 1.065 Acergy common shares for each Subsea 7 common share.

Kristian Siem, who is Subsea 7's founder, chairman and biggest owner, will chair the combined company. His investment vehicle, Siem Industries, will hold around 20% of the combined firm's outstanding shares.

Deb Kelly, London

BP's Gaffe-Prone Chief Executive Sails Into Another Controversy

With oil continuing to spew from the catastrophic Macondo leak in the US Gulf and costs mounting by the hour, BP Chief Executive Tony Hayward sailed straight into another controversy over the weekend when he was photographed taking part in a yacht race off the southern coast of England.

BP said Hayward's decision to spend his first day off since the disaster began on Apr. 20 on his yacht was a "private matter." But the images further enraged US politicians and the American public, and drew criticism from White House Chief of Staff Rahm Emanuel.

The photos mark the latest in a series of public relations gaffes that have dogged the stricken UK oil company. Some high-profile faux pas by Hayward and BP Chairman Carl-Henric Svanberg have exacerbated US anger, providing a series of sound bites that have portrayed both men in a very unsympathetic light.

When the Deepwater Horizon exploded in late April and oil began spilling into the Gulf of Mexico, Hayward was quick on the scene and took personal charge of the response effort. He became the public face of BP's efforts to avert disaster, taking on a much more visible role than that of his predecessor, John Browne, after the Texas City refinery explosion in 2005.

But this visibility meant he was in the constant glare of a ferocious US and international media spotlight.

His first slip-up came in comments made to the UK Guardian newspaper in which he described the volume of oil and dispersant being pumped into the US Gulf as "tiny" compared to the total water volume of what is "a very big ocean."

He then told UK TV network Sky News that the environmental impact of the disaster would likely be "very, very modest."

At the time he made the comments in mid-May, there was still uncertainty about how long the leak would last and how much oil was being spilled. Subsequent revelations about the scale of the disaster have proven Hayward wrong on both counts.

Then, on May 30, the BP boss told reporters in the US Gulf he was "sorry for the massive disruption" caused to people on the Louisiana coastline. "There's no one who wants this over more than I do," he said. "I would like my life back." That again triggered massive criticism, given that 11 people had lost their lives on the *Deepwater Horizon* rig, and social media websites across the US began buzzing with anger.

Svanberg added to the anger last week when he referred to residents of the Gulf Coast as "small people" in a press conference after meeting with US President Barack Obama.

What do public relations professionals make of the mistakes and the anger they have triggered? Most say the hostility exhibited toward BP and its executives simply reflects the sheer scale of what has become the worst environmental disaster in US history.

"They're doing everything they should be doing," one source at a large UK-based PR firm told Oil Daily. "This is just such a big disaster, it's like defending the bankers at the height of the credit crunch."

BP's press team is headed by Andrew Gowers, a former editor of the *Financial Times* and ex-head of corporate communications at Lehman Brothers. The company is also being advised by UK-based PR firm Brunswick.

James Batty, London

NEWS ALERT

From staff and wire reports

Alternatives

Petrobras Invests in Ethanol

Brazil's state-run oil company Petrobras said on Monday it will invest 420 million reals ($239 million) in two units of the Sao Martinho milling group, the second major tie-up for the oil company in ethanol in as many months.

The all-share deal will give Petrobras a 49% stake in the Usina Boa Vista mill and SMBJ Agroindustrial project of Sao Martinho and guarantee rights to 49% of the ethanol from the units that will feed Petrobras' aggressive pipeline and export goals.

"This is strategic for us because of the (mills') location in the center-west," the head of Petrobras' Biofuels division, Miguel Rossetto, told Reuters at a conference.

Boa Vista currently crushes 2.5 million tons of sugar cane a year and should reach crushing capacity of 7 million tons annually by the 2014/15 (April/March) crop year with investments already in place.

"The deal consolidates our presence in ethanol: Guarani in Sao Paulo and Sao Martinho in the center-west," said Rossetto.

On Apr. 30, the state oil company said it was investing 1.6 billion reais to gain a 46% stake in one of the country's largest sugar and ethanol groups, Acucar Guarani, to expand in biofuels production (OD May4,p6).

Petrobras is not the only oil major to delve into Brazil's biofuels sector. Shell said in February that it would team with Brazilian ethanol and sugar giant Cosan (OD Feb.2,p1).

International

Europe Eyes Maghreb Power

European Energy Commissioner Gunther Oettinger met Sunday with energy ministers from Algeria, Morocco and Tunisia, announcing that the three Maghreb countries "have strongly confirmed their common will in Algiers today to create an electricity market in the Maghreb, with a view to integration into the European market."

A new 400 kV transmission line linking the three countries is due for completion this year, the European Commission said. But rising domestic demand in the region could mean there's little to spare for export.

Oettinger also expressed his support for the Desertec solar energy scheme, telling Reuters that initial volumes of renewable energy could be exported from North Africa to Europe in five years, though from smaller pilot projects — with Desertec itself seen as a vision for the next 20 to 40 years.

Saudis Head China Import List

Saudi Arabia regained pole position from Angola as China's main crude oil supplier in May, according to data released Monday by China's General Administration of Customs. Total Chinese imports averaged 4.218 million b/d, 4% up on year-earlier levels, but a big drop from April's record-high 5.17 million b/d.

Despite falling to the No. 2 spot in May, Angola was China's top crude supplier for the first five months of the year, averaging 872,000 b/d, compared to Saudi Arabia's 805,000 b/d.

Iranian imports have taken a serious hit since January, despite China's growing thirst for oil and Iran's rising volumes of crude in storage. Imports from Iran were down 193,000 b/d, or 35%, in the first five months to average 354,000 b/d.

Imports from Kazakhstan were boosted over the five months by the start-up of the Dushanzi refinery in Xinjiang, in northwestern China. Meanwhile, imports from Brazil have more than doubled so far this year as part of a $10 billion oil-for-loan deal signed in 2009.

China's crude imports for the first five months of the year averaged 4.645 million b/d, up 29% from the same period last year.

Kazakhs: Tengiz Overproducing

Kazakhstan's oil and gas minister on Monday said the Chevron-led Tengiz oil field venture had produced more crude than agreed and that the owners might need to pay extra into the state budget as a result.

Sauat Mynbayev told reporters that prosecutors were investigating the case. He said he believed that the Tengiz field had produced "significant volumes" above the level agreed with the government.

"We have passed our findings to the prosecutor," Mynbayev said. "In the case that we are proven correct, then there will be additional payments to the budget," he said.

Apart from Chevron, Tengiz shareholders are Exxon Mobil, Lukoil and Kazakh state energy firm KazMunaiGas.

Stock Market Scorecard

Integrated Majors	Close 6/21	1-Day Chg.	% Chg.	% Chg. 10-Day	% Chg. 52-Wk	% Chg. YTD
Marathon	34.11	+0.32	+0.95%	+11.11%	+10.39%	+9.26%
Chevron	75.72	+0.20	+0.26	+6.23	+10.01	-1.65
Shell-B	52.35	+0.04	+0.08	+4.72	-0.23	-9.94
Exxon Mobil	63.13	+0.03	+0.05	+6.06	-11.61	-7.42
Eni	39.64	-0.01	-0.03	+11.72	-17.61	-21.68
Repsol YPF	21.99	-0.02	-0.09	+15.43	+0.87	-17.52
Total	49.69	-0.13	-0.26	+9.81	-8.25	-22.41
Hess	56.01	-0.17	-0.30	+10.91	+5.42	-7.42
ConocoPhillips	55.80	-0.21	-0.37	+11.47	+31.20	+9.26
Shell-A	54.44	-0.21	-0.38	+5.14	+5.91	-9.43
Suncor	33.70	-0.13	-0.38	+9.95	+10.86	-4.56
Statoil	21.36	-0.09	-0.42	+7.28	+1.57	-14.25
BP	30.33	-1.43	-4.50	-18.38	-37.33	-47.68
EIF Index	**307.31**	**-0.19**	**-0.06**	**+7.47**	**-3.27**	**-10.27**
Large Producers						
Anadarko	43.45	+0.88	+2.07	-3.70	-8.37	-30.39
EOG Resources	110.61	+0.39	+0.35	+7.40	+51.00	+13.68
XTO Energy	44.74	+0.02	+0.04	+6.22	+11.74	-3.85
Murphy Oil	55.64	-0.06	-0.11	+10.77	+0.40	+2.66
EnCana	34.32	-0.14	-0.41	+4.54	+26.85	+5.96
Nexen	22.14	-0.10	-0.45	+2.59	+0.87	-7.48
Chesapeake	24.49	-0.12	-0.49	+1.66	+10.61	-5.37
Talisman	17.25	-0.13	-0.75	+3.36	+21.39	-7.46
Canadian Natural	37.02	-0.32	-0.86	+7.24	+42.03	+2.90
Pioneer	71.03	-0.62	-0.87	+12.32	+162.88	+47.46
Devon Energy	69.01	-0.91	-1.30	+5.99	+12.05	-6.11
Occidental	85.80	-1.18	-1.36	+9.41	+34.48	+5.47
Apache	95.55	-2.02	-2.07	+9.11	+21.12	-7.39
Refiners						
Valero	18.14	+0.15	+0.83	+5.04	+5.22	+8.30
Sunoco	34.98	-0.03	-0.09	+20.04	+40.20	+34.02
Frontier Oil	14.06	-0.08	-0.57	+5.08	+4.23	+16.78
Tesoro	12.19	-0.11	-0.89	+5.45	-11.41	-10.04
Holly	27.07	-0.34	-1.24	+8.28	+43.99	+5.62
Alon	6.63	-0.12	-1.78	+3.92	-40.64	-3.07
Integrated Energy						
Enbridge	48.64	+0.39	+0.81	+6.57	+42.81	+5.24
El Paso	12.68	0.00	0.00	+14.13	+36.93	+28.99
Oneok	46.98	-0.02	-0.04	+8.32	+61.89	+5.41
TransCanada	36.00	-0.06	-0.17	+8.04	+30.06	+4.74
Duke Energy	16.59	-0.05	-0.30	+6.28	+16.10	-3.60
Williams	21.18	-0.24	-1.12	+10.08	+34.31	+0.47
Sempra	49.33	-0.77	-1.54	+10.82	+2.20	-11.88
Service Companies						
Halliburton	27.05	+0.07	+0.26	+17.05	+23.91	-10.10
Ensco	40.74	-0.08	-0.20	+16.07	+9.11	+2.00
Schlumberger	60.33	-0.20	-0.33	+8.23	+7.77	-7.31
Patterson-UTI	14.76	-0.17	-1.14	+6.19	+17.05	-3.84
Transocean	53.91	-0.70	-1.28	+7.39	-30.51	-34.89
Baker Hughes	44.09	-0.58	-1.30	+14.61	+15.57	+8.92
Nabors	21.20	-0.31	-1.44	+9.39	+31.27	-3.15

Note: Ranked by daily percentage change.

CNPC Drops Natuna Bid

China National Petroleum Corp. (CNPC) has reportedly pulled out of talks to participate in development of the giant Natuna D-Alpha gas block off Indonesia. Karen Agustiawan, head of Indonesian state Pertamina, said last week that the Chinese state firm has withdrawn as a potential partner for the project, estimated to cost some $40 billion.

CNPC was one of eight potential partners short-listed in 2008, including Exxon Mobil, Chevron, Statoil, Total, Petronas and Eni. A decision on the winner or winners is expected by the second half of the year, according to an official with Indonesian upstream regulator BP Migas.

Latin America

Santos Wins Colombia Election

Juan Manuel Santos won Colombia's presidential election by a landslide on Sunday. He has promised to maintain his predecessor Alvaro Uribe's focus on attracting foreign investment to the country's energy industry and maintaining strong security policies.

"Now thanks to the security we have, we can focus on prosperity, in creating more jobs, in fighting poverty and generating opportunities for all," Santos said during his victory speech.

Santos served as defense minister under Uribe, who has been credited with boosting Colombia's oil and gas sector through low taxes and royalties, political and legal stability and improvements in security (OD Jun.19,p1).

Santos won 69% of the votes in the runoff election against former Bogota Mayor Antanas Mockus, who won 27%.

Mexico May Shutter LNG Plant

A dispute over property rights near Sempra Energy's Costa Azul LNG terminal in Baja California has led a Mexican judge to call for the plant's temporary shutdown. Sempra, for its part, has contested the decision and says the facility continues to operate normally.

The judge's ruling, made last Thursday, is the latest event in a four-year dispute between Sempra and Ramon Eugenio Sanchez Ritchie, a local rancher. Sanchez Ritchie says Sempra fraudulently acquired a plot of land he owned in order to build the LNG plant. Sempra, however, says it purchased the plot legally in 2006.

Thursday's ruling required Sanchez Ritchie to post security in the amount of 5 million pesos (about $399,000) to indemnify Sempra if the company eventually wins the case.

C.E. Cortes, a spokesperson with Gateway Media Group, which is representing Sanchez Ritchie, says the rancher has since posted the guarantee.

Meanwhile, Kathleen Corbin Teora, a Sempra spokesperson, said on Monday that the company had still not received any official notification of Thursday's ruling.

"At this time, we only have knowledge of the order, but we don't know yet what it means or what effect it will have (on) our operations," she said. "But we have a ship in port right now and will continue operations until we have officially received notice."

Sempra says that, whatever the final disposition of the disputed land, which is adjacent to the LNG terminal, it will not affect the plant's ability to operate.

Litigation

Anadarko Takes Driller to Court

Anadarko Petroleum has filed a lawsuit against Noble Drilling in an attempt to terminate a pricey contract for an offshore rig that it leased to drill in the deepwater Gulf of Mexico.

Anadarko maintains that a six-month government ban on deepwater drilling in the Gulf of Mexico constitutes a *force majeure* event that prevents it from making use of the rig. Force majeure refers to an event beyond a company's control that frees it from certain contractual obligations.

Under the terms of Anadarko's contract with Noble, Anadarko would be required to pay a force majeure rate for a maximum of 15 consecutive days if such an event occurred. However, Noble has said it does not view the drilling ban as a force majeure event because it does not prevent Anadarko from re-deploying the rig elsewhere.

Anadarko contracted the use of the *Noble Amos Runner* rig through March 2011 at an estimated cost of nearly $440,000 per day. The semi-submersible rig can drill in up to 8,000 feet of water.

The lawsuit was filed in federal court in Houston on Jun. 18.

Anadarko is also seeking to invoke force majeure on contracts for two additional deepwater rigs it is leasing from Transocean and Diamond Offshore (OD Jun.18,p4). Transocean, like Noble, has said it does not view the six-month drilling ban as a force majeure event.

US President Barak Obama announced a six-month, deepwater drilling moratorium in late May, after an explosion and fire at BP's Macondo prospect resulted in a massive, ongoing oil spill that is fouling coastlines from Louisiana to Florida.

Anadarko holds a 25% working interest in the leaking Macondo well but the extent of its liability remains unclear (see p4).

Mergers & Acquisitions

Hess Ups North Sea Field Stakes

Hess will acquire additional interests in two offshore North Sea fields — Valhall and Hod — after it preempted the sale of the assets by Total to BP. Hess will gain additional interests of 7.85% in Valhall and 12.5% in Hod for $496 million in cash. Total had originally agreed to sell BP its entire interests of 15.72% of Valhall and 25% of Hod for $991 million in April (OD Apr.28,p7).

The new transaction brings Hess's interest interests in Valhall and Hod to 64.1% and 62.5%, respectively. In December, Hess traded its stakes in a UK field and three projects in Gabon in exchange for Royal Dutch Shell's interest in Valhall and Hod (OD Dec.22'09,p6).

Natural Gas

China Eyes More Gas Use

China plans to boost use of natural gas so it accounts for 8% of total energy consumption over the next five years. At a conference last week outlining energy goals under the 12th five-year economic plan that starts in 2011, the local media reported Energy Bureau officials as saying Beijing is targeting greater use of gas in the energy mix. Right now, gas accounts for about 4%.

China is last year estimated to have used nearly 90 Bcm (8.7 Bcf/d) of gas and PetroChina has predicted this could reach 300 Bcm by 2020 if the fuel's share of the energy mix hits 8%-10%. The National Development and Reform Commission (NDRC) this month hiked onshore gas prices at the wellhead by 25% in an effort to stimulate investment and help increase domestic supply. State firms are also aggressively scouring the globe for piped gas and LNG.

Gazprom Cuts Belarus Gas

Gazprom started cutting natural gas supplies to neighboring Belarus on Monday over its growing debt, but the Russian state gas giant said it hopes to maintain full volumes to Europe.

Gazprom said it cut deliveries by 15% on Monday morning and may reduce supplies by up to 85% after Belarus failed to meet a deadline to pay the $192 million it owes the Russian firm for supplies since the start of 2010.

Russian President Dmitry Medvedev ordered Gazprom Chief Alexei Miller to make the cut after Belarus — which reportedly admits it owes the money — offered to pay the debt in machinery, equipment and other products. About one-fifth of Europe's supplies of Russian gas is pumped through Belarus.

Gazprom spokesman Sergei Kupriyanov says Minsk could owe at least $250 million for gas deliveries in January-June, while its total debt could reach more than $500 million by the end of the year. He said Gazprom is open to talks, but the best way to resolve the problem is to pay the money.

The Russian firm said it had informed the European Commission about possible disruptions to gas supplies through Belarus, while Prime Minister Vladimir Putin said Monday that Gazprom could redirect the European volumes via Ukraine's gas pipeline system. About 80% of Europe's gas supplies come through Ukraine and the rest through Belarus.

A European Commision spokeswoman said Brussels does not expect the dispute to affect supplies to Europe.

Offshore

Oil Spill Response Team Eyed

Helix Energy Services is spearheading an effort to create a first line of defense that could respond quickly to an oil spill or loss of well control in the Gulf of Mexico.

The scheme could include fabricating specialized vessels and subsea equipment that could be staged in the Gulf and ready to respond on short notice, Helix spokesman Cameron Wallace told *Oil Daily* Monday.

Wallace and Helix Chief Executive Owen Kratz planned to meet with Gulf Coast legislators to discuss the idea on Tuesday.

Ideal partners in the endeavor would include offshore service companies that operate in extreme water depths and purveyors of seismic equipment for use at those depths, Wallace said.

Industry trade and professional groups like the Society of Petroleum Engineers and the International Association of Drilling Contractors could also play a role in establishing best practices, enabling the industry to work out certain areas of its response in advance "so in the event of a spill we're not trying to figure out what to do as we go along," Wallace said.

Houston-based Helix is a marine contractor and operator of offshore oil and gas properties and production facilities.

Three Helix-owned vessels are presently working with BP to help contain and mitigate the impact of the ongoing spill in the deepwater Gulf of Mexico.

"There are definitely some lessons to be learned from this event that can be applied to other spills," Wallace said.

Personnel

Ex-Aramco CEO Joins Halliburton

Oil services giant Halliburton has appointed Abdallah Jumah, former president and CEO of Saudi Aramco, to its board effective Jul. 14.

Jumah, who retired from the Saudi oil giant last year after a 40-year career, now serves on the JP Morgan Chase International Advisory Board; previous posts include the International Business Council of the World Economic Forum.

A native of Saudi Arabia's Eastern Province, Jumah studied political science at the American University in Cairo and at the American University in Beirut, and later completed the Program for Management Development at Harvard University in the US.

Pipelines

Alaska Pipeline Restarts

Alyeska Pipeline Service said it restarted the Trans Alaska crude oil pipeline late on Sunday after 36 hours of scheduled maintenance.

The operator of the 800-mile (1,280 km) line worked on five pumping stations as well as the Valdez, Alaska, marine terminal.

Trans Alaska will be shut down for upkeep again from Jul. 31 to Aug. 1, a period that coincides with maintenance work planned by Alaska North Slope oil producers, the company said.

The line is owned by BP, ConocoPhillips and Exxon Mobil, as well as two smaller companies.

The Trans Alaska line is the artery shipping North Slope crude oil to Valdez for loading onto tanker vessels. Daily flow through the pipeline has averaged 651,380 bbl so far in 2010, according to Alyeska.

Refining

SK Seeks Refining Partner

South Korea's largest refiner, SK Energy, is looking to restructure in a bid to boost efficiency and growth. Chief Executive Koo Ja-young said it will spin off its refining and petrochemical businesses as early as next January and will seek a global partner for its new 1.1 million b/d refining subsidiary in an attempt to secure stable crude supplies. "We are the only one which has no global partner compared with other local refiners," he said. Korean refiners S-Oil and GS Caltex are partly owned by Saudi Aramco and US Chevron, respectively. Last October, SK Energy spun off its lubricants business to create a wholly owned unit, SK Lubricants.

Following the spinoffs, SK Energy will focus on exploration and production and research and development. Koo said the company intends to increase its exploration success rate to 20% from the current 10% and expand the upstream business by adopting different approaches, including mergers and acquisitions. SK Energy has just opened a new research center to produce the secondary cells used for powering hybrid and electric cars.

In addition, SK Energy will from Jul. 1 move its petrochemical business headquarters to China, where it is building a petrochemical complex with Chinese refiner Sinopec. The company is also in talks with South African Sasol on clean coal production.

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