



## Drumbeat: March 25, 2009

Posted by [Gail the Actuary](#) on March 25, 2009 - 9:03am

Topic: [Miscellaneous](#)

### [OIL FUTURES: Crude Off Lows Despite Inventories At 16-Yr High](#)

Oil futures pared losses Wednesday after the U.S. government said crude stockpiles at key hub Cushing sank last week, despite overall inventories soaring to 16-year highs.

Light, sweet crude for May delivery was down \$1.14, or 2.1%, at \$52.84 a barrel on the New York Mercantile Exchange, after popping above \$53 a barrel soon after the data release. May Brent crude on the ICE futures exchange was \$1.31 lower at \$52.19 a barrel. . .

"The report looks kind of mixed, but the market seems to be looking at that drop in Cushing and ignoring the fact that the total's up so high," said Gene McGillian, an analyst at Tradition Energy in Stamford, Conn. "They're interpreting the report as not bearish enough to shake us out of the rally we've been in all week." . .

The greenback came under further pressure Wednesday after Treasury Secretary Timothy Geithner said he is open to considering a new global reserve currency, though he added that the dollar will likely remain the world's dominant reserve currency "for a long period of time."

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### [Cellulosic ethanol suffers in down economy](#)

The economic downturn that has slowed the ethanol industry also is putting the brakes on the next generation of biofuels.

Companies that are trying to commercialize cellulosic ethanol are struggling to find investors and lenders.

Poet LLC, which announced plans more than two years ago for a 25-million-gallon-a-year cellulose project at Emmetsburg, Ia., is still seeking a lender to provide a federally guaranteed loan.

Other firms are struggling just to stay in business. Verenium Corp. recently announced plans to build a 36-million-gallon project in Florida, but auditors warned this month that there is substantial doubt about the company's viability.

Another industry leader, Abengoa Bioenergy, is looking to borrow directly from the government. The company is planning a \$300 million plant in Kansas that would produce 12 million gallons of ethanol a year from wheat straw or corn stover.

"Right now at this juncture the biggest barrier we're facing is financing," said Gerson Santos-Leon, an executive vice president of the company. "Private lenders and public lenders are not interested. They don't even want to talk."

### [Oil-and-gas auction in Utah draws few, low bids](#)

Bids at a government oil-and-gas lease auction Tuesday were few and stingy as participants blamed depressed fuel prices for their lack of interest — and fumed about the sabotage of the previous land sale.

Barely half of the 98 parcels sold — more than 76,000 acres of land in southern and eastern Utah — some for as little as \$2 an acre.

"Given the current economic conditions — lower demand for oil products — there's few if any of those parcels bought today that will be drilled this year," said David Terry, a land agent who spent the most of any bidder on a drilling parcel. He spent \$58,000 for 930 acres in Utah's southeast corner on behalf of an oil or gas company he declined to identify.

### [Oil terminal a concern as Alaska volcano rumbles](#)

An Alaska volcano continued to rumble Tuesday amid new concerns that eruptions and mud flows will damage a nearby oil terminal where about 6 million gallons of crude are stored. The 10,200-foot Mount Redoubt volcano, about 100 miles southwest of Anchorage, erupted Sunday night. Since then there have been five more explosions; the latest, on Monday night, shot an ash plume into the air that was 40,000 to 50,000 feet high.

### [Paper makers seek renewable energy credit](#)

U.S. paper makers Tuesday asked Congress for the same credits for making renewable energy that it is considering giving utilities as part of a new mandate that utilities make more electricity from renewable sources. . .

RES proposals would require power generators to produce a certain percent of their electricity from renewable sources like sunlight, wind and biomass, which includes wood chips, sawdust and bark, rather than coal or petroleum. That would increase demand for biomass and thus its cost. . .

However, the paper industry uses biomass to make its products as well as to generate electricity for its facilities, and excess power generated by them is sold on to the local or regional power grid.

The prospect of sharply higher biomass prices comes at a difficult time for the paper industry, said Donna Harman, president of the American Forest & Paper Association. The industry, which currently buys biomass to generate power for 2.7 million homes, has had to cut 190,000 jobs since 2006, she said.

Getting a renewable energy credit provision, which can be traded, in a federal RES "will level the playing field between forest products manufacturers that use wood fiber as a raw material and energy source and generators of new renewable energy," she told meeting participants.

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### [Oil Markets Pay Scant Attention to Russia](#)

#### **Top Producers Cut Output, Spending; Higher Prices Ahead?**

Oil markets may not be pricing in the extent of dwindling output in the world's biggest producer, Russia, a factor that could buoy prices later this year, traders and analysts said.

Last week, the Russian government predicted 2009 oil output of 9.68 million barrels a day, a 1.1% annual drop. But a Dow Jones Newswires survey of 12 analysts puts the decline at more than twice that rate, with the most pessimistic predicting a slump of 7%.

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In early January, Russia's five biggest producers -- OAO Rosneft, OAO Lukoil Holdings, TNK-BP Ltd., OAO Surgutneftegas and OAO Gazprom Neft -- announced an average annual reduction in capital spending of 15% for 2009.

But analysts said the industry may cut more spending, crimping new production capacity. . .

Moscow-based Alfa Bank reckons the annual rate of decline in production at Russian oil fields already in operation totals 15% to 17%, compared with a rate of 7% in 1998. The higher rate implies producers would need to bring 1.5 million barrels a day in new output on stream just for production to stay flat.

### [GCC to Extend Deadline For Single Currency - Official](#)

Gulf Cooperation Council states including Saudi Arabia, the United Arab Emirates and Bahrain will extend a deadline to create a single currency beyond the existing 2010 schedule, an official said Tuesday.

"We need a new timeline to introduce the fiscal currency," Nasser Al Kaud deputy assistant general for economic affairs at the Gulf Cooperation Council, or GCC, said at a banking conference in Bahrain.

The creation of a new single currency amongst the oil-rich Arab Gulf states could help bolster the region's global economic influence. The states involved in the currency pump almost a fifth of the world's crude and control vast wealth in foreign assets.

"By 2010 we hope to name the currency, establish its value and prepare for printing it," he added.

### [Kabul Opens Bidding by Energy Firms](#)

Afghanistan is hoping to attract foreign energy companies to look for oil and natural gas in the war-torn country.

The Afghan Ministry of Mines last week announced the first round of bidding to lease three tracts of land near the Turkmenistan border for exploration. The region, by virtue of its location in the far northwest of Afghanistan, is relatively isolated from the security problems that plague much of the country.

Still, oil-industry analysts don't expect much interest, especially from large international oil companies. The area contains oil and gas fields discovered in the 1970s by the Soviet Union; the Afghan government estimates there are recoverable oil and gas reserves equivalent to 370 million barrels -- less than in the fields of North Dakota. But the government is "quite optimistic" there is more to be found.

### [PdVSA Begins Gradual Payment Of Bills To Large Contractors](#)

Petroleos de Venezuela SA, or PdVSA, has begun the gradual payment of outstanding bills to large oil contractors, some of which insist the oil company isn't doing enough.

PdVSA has paid a fraction of its debt to a group of 56 oil-service companies and rig operators struggling to get paid by President Hugo Chavez's cash-strapped government.

PdVSA has paid as much as 7% of total outstanding receivables to some of these companies, industry executives say, but many claim to have received even less.

"We've made very little progress with PdVSA. Under 1% of outstanding receivables have been collected," said Juan Pablo Tardio, a spokesman for U.S. driller Helmerich & Payne Inc.(HP). PdVSA's debt with Helmerich & Payne has now exceeded \$100 million, according to company data. . .

Meanwhile PdVSA plans to continue seizing oil rigs that become idle because of lack of payment. "We won't allow these companies to paralyze the industry," said Eulogio Del Pino, a PdVSA director. Paralyzing equipment, he argues, violates the contracts these companies have signed with PdVSA.

### [UAE OPEC Gov:Oil Prices Much Lower If Not For OPEC](#)

The United Arab Emirates Governor for the Organization of Petroleum Exporting Countries said Tuesday the current low oil price would have been much lower if it wasn't for OPEC's actions over the past five years and high inventories remain an issue.

"The fundamentals of supply, demand and inventories are very important. Currently inventories are at their highest in terms of strategic and commercial. Without OPEC aligning supply to demand we would have seen the level of prices much lower than this," Ali Al Yabhouni told delegates at a conference in Fujairah.

### [E.P.A. Plans Closer Review of Mountaintop Mining Permits](#)

In a sharp reversal of Bush administration policies, the head of the Environmental Protection Agency said Tuesday that the agency planned an aggressive review of permit requests for mountaintop coal mining, citing serious concerns about potential harm to water quality. . .

Officials of the National Mining Association, an industry group, said the action amounted to a moratorium on the 200 pending mining permits throughout Appalachia — a view the agency categorically denied — and jeopardized thousands of mining jobs. The group says that mountaintop mining in the region produces about 10 percent of all coal mined in the United States.

"E.P.A.'s announcement is especially troublesome from an administration that with one hand proposes enormous fiscal stimulus to put Americans back to work and with the other hand takes their jobs away," Hal Quinn, president and chief executive of the group, said in a statement.

But Jennifer Chavez, a lawyer with EarthJustice, a law firm that has sued to stop mountaintop mining, said the E.P.A. was only reversing a practice of issuing permits "like hotcakes" under the Bush administration.

### [China raises gasoline, diesel benchmark prices](#)

The government raised the benchmark retail prices of gasoline by 290 yuan (US\$42.46) per ton, or 5 percent, and diesel by 180 yuan per ton, or 3.7 percent, as of midnight yesterday. . .

It is the second oil price revision this year. The NDRC cut benchmark pump prices of gasoline and diesel by 140 yuan and 160 yuan per ton, or 2 percent and 3.2 percent, on Jan 14.

Experts said the frequent price revisions show the government can respond quicker to international oil price changes after a new pricing mechanism took effect on Jan 1.

### [Oil Price Slump Pressures Iraq to Re-assess Reconstruction, Military Spending](#)

Iraqi leaders are under pressure to re-assess their reconstruction plans after the collapse in oil prices slashed the country's main source of revenue. U.S. officials say Iraq also may have to scale back its military modernization program due to a lack of funds. The oil price plunge is challenging Iraq's efforts to further stabilize itself as U.S. forces gradually withdraw.

Iraqi lawmakers cut billions of dollars from the government's 2009 budget this month in response to a dramatic fall in oil prices.

Iraq relies on oil exports for 90 percent of its revenue. The price of crude has fallen from a record high \$147 a barrel last July, to around \$50 in recent weeks due to a slump in global energy demand.

Michael O'Hanlon, a senior fellow at the Brookings Institution in Washington, warns that next year, Iraq could run out of cash needed to rebuild infrastructure for electricity, water and schools. "Over the last few months Iraq is certainly, on balance, losing money. In other words, they are spending faster than they are earning.

### [Baghdad rejigs model contracts](#)

The Iraqi Oil Ministry has sent out a revised copy of a model contract for the eight oil and gas fields included in its landmark first bidding round, in an effort to make sure it hands out contracts to international oil companies by the end of June.

The most important change the directorate had made to the original model contract was that oil companies would have a 75% stake in the joint ventures with state-owned Iraqi operators at the fields holding the rest.

That is up from 49% to 51% equity stake initially proposed.

### ['Kurd move throws doubt on Iraq exports'](#)

Iraq's semi-autonomous Kurdish region will not allow oil from its territory to be piped through Iraq's national oil network, Oil Minister Hussain Shahrstani claimed today, throwing into doubt exports from the area. . .

Shahrstani has rejected deals signed by the KRG and foreign oil players, saying they were not put to tender to allow competition and they give companies a share of the oil produced, a deal structure the government in Baghdad rejects.

"Work is continuing to connect the (northern oilfields) to the Iraqi network. But there are objections from the KRG to handing over the oil, claiming that companies that developed the oilfields should be rewarded," Reuters quoted Shahrstani saying in an interview published in today's pan-Arab Asharq al-Aswat A newspaper.



### [Local debts stymies Naftogaz](#)

Ukraine's state-run energy company Naftogaz said today local utilities owed it 5 billion hryvnias (\$650 million), which made payments to Gazprom more complicated.

The company made a similar statement last month but paid up in full for Russian gas supplies on time.

Naftogaz said the debts had more than doubled so far this year.

"The rising debts of utilities significantly complicates Naftogaz payments for imported gas," it said in a statement.

### [Petrobras Makes Overture to Brazil's Striking Oil Workers](#)

State-controlled Petrobras said Tuesday that it is prepared to offer Brazil's striking oil workers a bigger share of the company's healthy profits.

"We are open to dialogue with the unions," Petrobras CEO Jose Sergio Gabrielli said during an appearance before the Economic Affairs Committee of the Brazilian Senate.



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