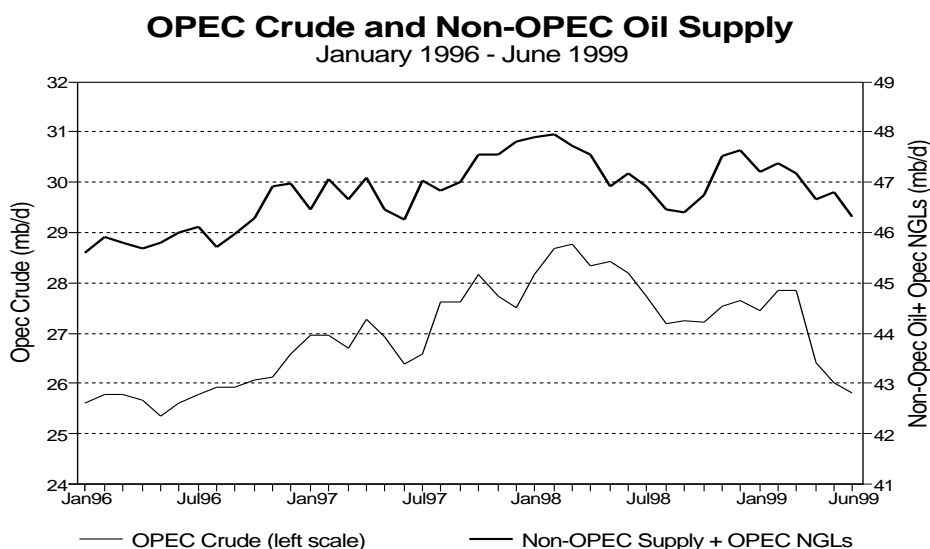


SUPPLY

Summary

- Driven by North Sea maintenance and additional OPEC production cuts, preliminary estimates indicate that **world oil output** fell by 670 kb/d in June from the previous month, to an average of 72.3 mb/d. For the first time since the “Hague Agreement” was reached last March, monthly changes in non-OPEC supply took centre stage. Non-OPEC oil production fell by 500 kb/d, while OPEC oil supply, including NGLs, was reduced by only 170 kb/d. In contrast, three-quarters of June’s year-on-year decrease of 3.2 mb/d was due to lower OPEC crude supply.
- **Non-OPEC** oil supply averaged 43.7 mb/d in June. **OECD** oil production decreased by 450 kb/d, mainly due to planned maintenance in the North Sea. In addition, US output fell due to lower Alaskan supply and Mexico is thought to have cut production in order to meet its export reduction pledge. **Non-OECD** oil supply declined by 50 kb/d, driven by an assumed monthly decline in Russian output.
- **OPEC** crude supply fell to 25.8 mb/d in June from 26.0 mb/d in May. Output from OPEC excluding Iraq was cut by a further 120 kb/d, as implementation of the agreed cutbacks continued. Iran (-50 kb/d) and Saudi Arabia (-40 kb/d) led the reductions, while Nigerian output was adversely affected by community disturbances (-30 kb/d). Total cuts of 3.94 mb/d against the cumulative target of 4.32 mb/d were made in June, representing 91% compliance.
- After a record-high 3.91 mb/d in May, **net FSU exports** fell by 260 kb/d to 3.65 mb/d in June, still a very high level. Strong exports in May and June removed large volumes of crude and products from the Russian domestic market, causing sharp price increases.
- The “**call on OPEC crude plus stock change**” for 1999 has been revised upwards by a modest 50 kb/d, due to slightly higher world demand expected this year.



All world oil supply figures for June discussed in this Report are IEA estimates. Estimates for OPEC countries and Alaska are supported by preliminary June crude supply data.

Note: Random events present downside risk to the non-OPEC production estimates contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. No contingency allowance for random events is subtracted from the supply projections. Although upside variations can occur, experience in recent years indicates that, roughly speaking, the random events listed above may cause supply losses of perhaps 100-300 kb/d for non-OPEC supply each year.

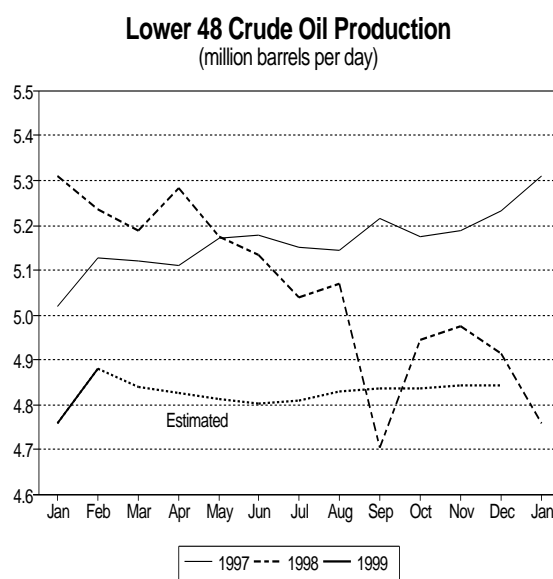
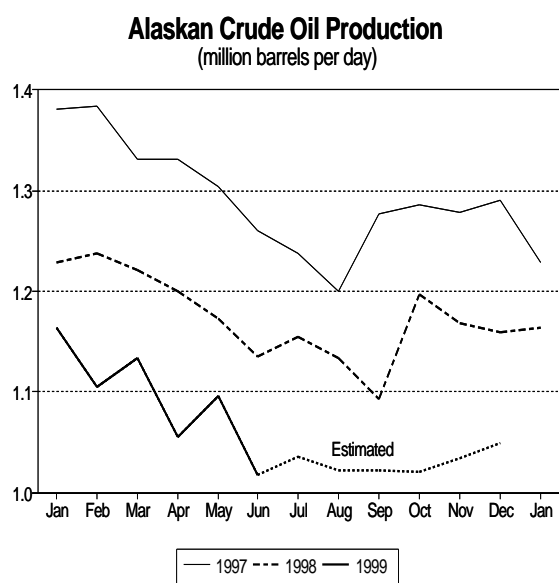
OECD

North America

US - June - Alaska actual, other estimate: US crude supply declined by 88 kb/d to 5.82 mb/d in June, primarily due to lower output from Alaska. Production there fell by 78 kb/d, as various factors caused operators to intentionally restrain output during the month. An outage on the Olympic Pipeline has caused product distribution problems and lowered refinery demand for crude from the Pacific Northwest all the way down to San Francisco. In addition, problems at the Avon and Richmond refineries in the Bay Area have further reduced crude needs in California. These factors, along with shipyard delays on two vessels, have slowed tanker traffic between the US West Coast and Valdez, Alaska. With no place for the oil to go, production has been lowered on the North Slope. The situation has been exacerbated by the fact that two 510,000 barrel storage tanks at Valdez were taken out of service for routine maintenance from 1 June until the end of September, temporarily reducing storage capacity at the port from 8.7 million barrels to 7.7 million barrels. During June, there was also minor planned maintenance at the Prudhoe Bay field.

Elsewhere in the US during June, small declines were estimated for Texas (-8 kb/d), California (-6 kb/d) and Other Lower 48 (-5 kb/d). In California, the operator's share of the offshore Point Arguello field was sold in early July. Production at the field, which produced 26 kb/d in February, had begun to be shut down on 1 May, but was said to be building up again. Crude supply from the Gulf of Mexico is thought to have risen by 9 kb/d to 1.32 mb/d in June, due to increases from deepwater fields brought onstream in recent months. In early June, the Gemini field started up, a notable technological achievement, since it is both a subsalt and a deepwater project. The reservoir lies beneath 3,000 feet of salt, which is difficult to drill through, and the subsea production facilities are at a water depth of 3,400 feet, also operationally challenging. The field primarily produces gas, but a small amount of condensate (1.5 kb/d) is currently being produced as well; this should reach 2-3 kb/d by the end of the year.

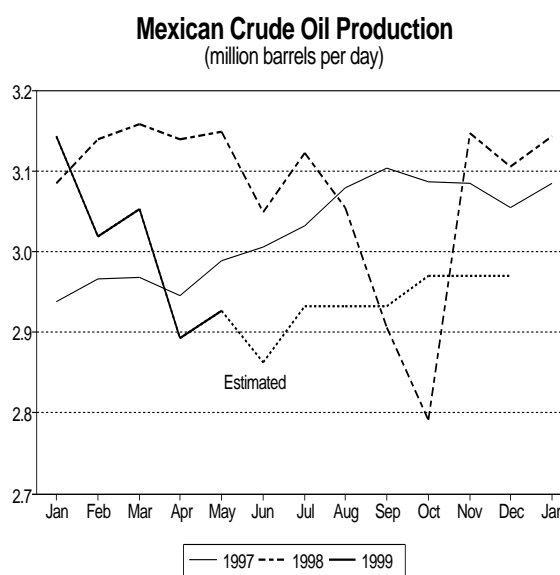
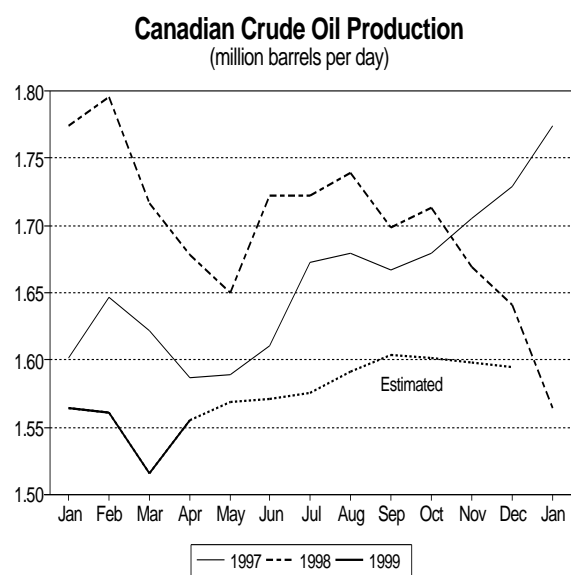
There has been some discussion in the industry trade press of a recent upturn in US upstream activity. A key indicator of wells being drilled is the US rig count, compiled by oilfield services company Baker Hughes. The weekly total rig count, which dropped steadily through 1998 and early 1999, hit a bottom of 488 on 23 April and has since recovered to 580 on 2 July. This compares to an average of 945 in 1997 and 826 in 1998. However, these totals include both oil-directed and gas-directed drilling, and *it has not been sufficiently emphasized that the nascent 1999 recovery has been, so far, solely in gas drilling.*



The gas rig count averaged 566 in 1997, declined slightly to 560 in 1998, and bottomed at 362, also on 23 April of this year. Since then, gas rigs have increased to 467 (+105) on 2 July. Over the same period, oil rigs have decreased from 126 to 112 (-14). In sharp contrast to gas rigs, which changed little from 1997 to 1998, the oil rig count dropped sharply from 376 in 1997 to 264 in 1998, and reached a low of 108 on 26 February. The 2 July figures show almost no improvement from the low. Clearly, a recovery in oil-directed drilling activity has not yet occurred in the US.

Canada - April actual, May and June estimates: Crude production averaged 1.56 mb/d in April, an increase of 40 kb/d from the previous month. Fluctuations in monthly output at the Atlantic offshore Hibernia field continue to drive monthly Canadian output. April supply from the field was 88 kb/d, up 56 kb/d from the previous month, when repeated power failures caused two lengthy shutdowns on the platform. With no problems reported, Hibernia output is estimated to have increased to 100 kb/d in both May and June, pushing up total Canadian crude production to 1.57 mb/d during the time period.

Western Canadian crude production appears to have held steady in April, May and June. In the key provinces of Alberta and Saskatchewan, supply of crude and bitumen is projected to be essentially flat for the remainder of the year. While the worst seems to be over in the Canadian upstream sector, anecdotal reports of increasing output and pipeline over-nominations are being treated with some caution until confirmed by hard production statistics. However, there may be more upside than downside to short-term projections of Canadian crude output.



Mexico - May actual and June estimate: Crude production rose by 33 kb/d to 2.93 mb/d in May, while crude exports rose by 15 kb/d to 1.54 mb/d. The modest rise in exports put Mexico slightly above its "Hague Agreement" target of 1.52 mb/d. Since the cuts started in April 1998, monthly variations have occurred before; however, on a quarterly basis, Mexico has scrupulously honoured its obligations. Crude output in June is estimated to have been cut by 64 kb/d to 2.86 kb/d, in order to restrain exports. With exports capped for the rest of the year, crude production is expected to rise in line with projected growth in Mexican domestic consumption. Supply is projected to grow from 2.89 mb/d in the second quarter to 2.93 mb/d and 2.97 mb/d in the third and fourth quarters. Domestic stocks and imports into Mexico are assumed to be constant.

North Sea

UK - June estimate: Due to planned maintenance, UK crude production in June is estimated to have dipped to its projected low for the year of 2.33 mb/d, a decrease of 187 kb/d compared to May. The biggest impact from scheduled work programmes was in the Forties System, where supply fell by 111 kb/d from the previous month. In May, Forties System output had

North Sea Oil Production

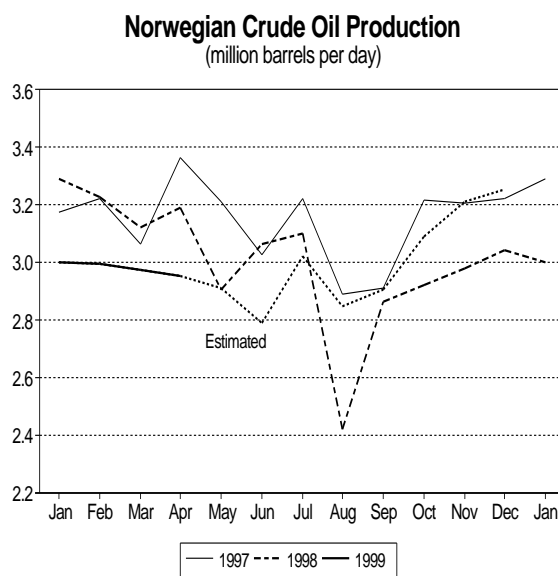
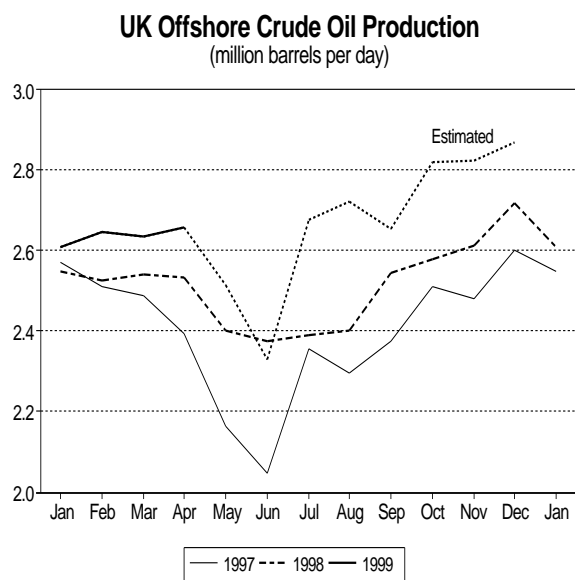
(thousand barrels per day)

	Jun	Jul	Aug	Sep	Oct
UK	2518	2835	2880	2843	3040
Norway	2912	3143	2973	3002	3211
Denmark	282	294	301	313	324
Other*	43	42	42	42	45
Total	5755	6314	6196	6200	6619

* offshore Netherlands crude and NGLs and offshore German crude; actual data in *italics*

already been reduced somewhat because of maintenance, declining 85 kb/d from April's levels. Significant maintenance-related losses in June also took place in the Brent (-38 kb/d) and Ninian (-27 kb/d) Systems, leaving combined Brent Blend output at 478 kb/d.

At the beginning of July, the UK government announced that roll-over relief for capital gains taxes would be granted to companies that realise a gain from selling their interests in oil fields, provided that the companies re-invest the gain in qualifying assets within a specified period. This is expected to simplify and speed up the rationalisation and restructuring of companies' asset portfolios in the UK offshore.



Norway - June estimate: During June, crude output is estimated to have declined by 123 kb/d to 2.79 mb/d. As was the case in the UK, Norwegian production was heavily affected by maintenance and also dropped to its projected low-point for 1999. Supply from the Oseberg-Troll Area fell by 220 kb/d, due to scheduled downtime at the Oseberg and Brage fields. In addition, the Veslefrikk field was taken out of service for three months, as planned, in order to prepare for the tie-in of the Huldra field. Statfjord-Gullfaks Area output gained 43 kb/d, recovering from planned maintenance at the Statfjord C, Statfjord North and Statfjord East fields, as well as the repair of a minor leak at Statfjord A and Snorre. Haltenbanken Area production bounced back by 58 kb/d, as the Draugen field returned from a work programme in May.

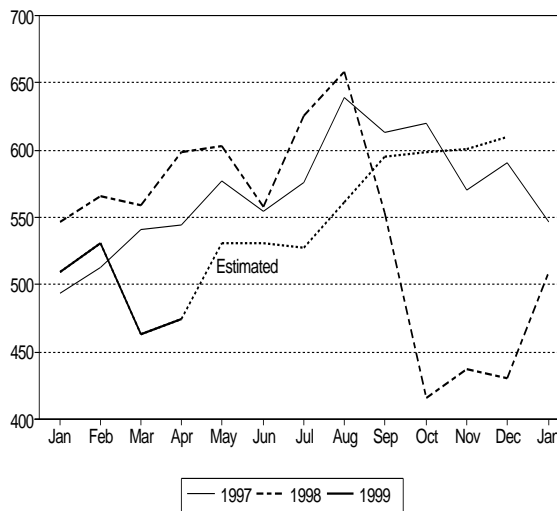
The three new fields that came onstream in May (the 75 kb/d Oseberg East satellite, the 200 kb/d Aasgard A field and the 100 kb/d Visund field) are estimated to have contributed a combined 75 kb/d to Norwegian output during June, up from 45 kb/d in May. A minor pipeline problem was encountered at Aasgard on 9 June, causing production to be shut down, but the field's operator indicated that it would be back up within one day.

Denmark - May actual and June estimate: After setting three consecutive monthly production records, crude production in May unexpectedly fell back to 268 kb/d, a modest decline of 8 kb/d. In its third month of operations, Siri field output grew by a strong 10 kb/d to 29 kb/d. However, this was more than offset by decreases of 6 kb/d each at the Dan, Gorm and Harald fields. Supply from these fields was thought to have rebounded back to normal ranges in June, pushing Danish output up to 282 kb/d. At the end of May, the operator of the 50 kb/d South Arne project stated that the new field was still expected onstream in August. However, the projections contained in this Report continue, conservatively, to assume September instead.

Pacific

Australia - April actual, May and June estimates: Crude output in April averaged 474 kb/d, an increase of 11 kb/d compared to the previous month. Most of the gain was due to the Gippsland Basin, where supply was 10 kb/d higher at 220 kb/d. Carnarvon Basin fields, which had been battered by Cyclone Vance in March, experienced further weather-related disruptions in April, as two smaller cyclones triggered preventive shutdowns. As a result, Carnarvon production only eked out a 2 kb/d increment, rising to 179 kb/d. However, operations there are thought to have returned to normal in May and June, with output rising to 240 kb/d and 239 kb/d. Total Australian production averaged an estimated 531 kb/d and 530 kb/d during the same period. Production from the Wanaea/Cossack project, down for extended maintenance, is still expected to resume in August. First oil from the 140-170 kb/d Laminaria/Corallina project in the Timor Gap Zone of Cooperation (with Indonesia) continues to be scheduled for October.

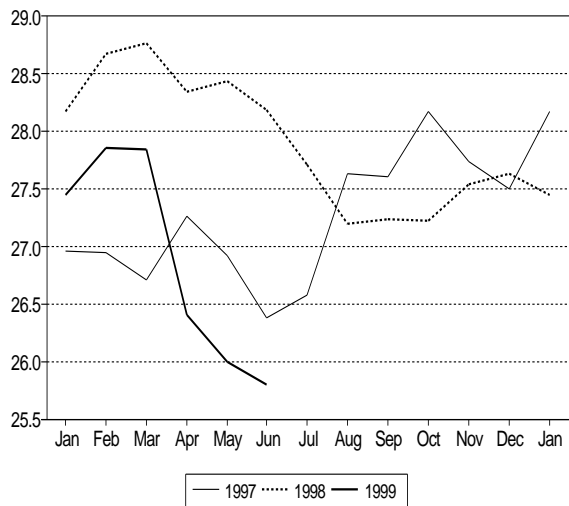
Australian Crude Oil Production
(thousand barrels per day)



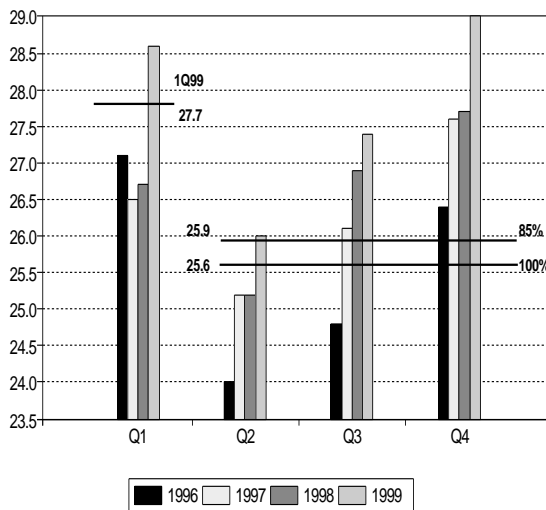
OPEC

The 1999 “call on OPEC crude plus stock change” has been raised by a modest 50 kb/d to 27.8 mb/d. The adjustment resulted from higher projected world consumption this year, mainly due to stronger growth in Brazil. The “call” for the four quarters of this year is currently 28.6 mb/d (unchanged), 26.0 mb/d (+0.2 mb/d), 27.4 mb/d (unchanged) and 29.0 mb/d (-0.1 mb/d). Supply was not a factor, as an upward adjustment to 1999 non-OPEC production of less than 100 kb/d was offset by a similarly-sized downward revision to OPEC NGLs.

OPEC Crude Oil Production
(million barrels per day)



Quarterly Call on OPEC Crude + Stock Change
(million barrels per day)



Based on initial assessments, OPEC crude supply in June was reduced by 200 kb/d to 25.8 mb/d, as implementation of the latest round of production cutbacks continued. Crude production from OPEC excluding Iraq (the OPEC 10) averaged 23.36 mb/d in June, a reduction of 120 kb/d from the May figure. Total crude production cutbacks of 3.94 mb/d made by the OPEC 10 compare to the current cumulative target of 4.32 mb/d, resulting in June compliance of 91%. Compliance during May was revised downwards from 90% to 88%, due primarily to an 80 kb/d upward revision in Iranian crude supply.

Crude output in Saudi Arabia and Iran was reduced by 40 kb/d and 50 kb/d in June, reflecting continuing efforts in both countries to meet their cutback obligations. **Saudi Arabian** supply (including 150 kb/d of output from the Abu Safah field produced on behalf of Bahrain, but excluding supply from the Neutral Zone) averaged 7.21 mb/d. Including half of June Neutral Zone production of 0.47 mb/d, Saudi Arabian output averaged 7.45 mb/d, comparing closely to a target of 7.44 mb/d. Saudi Arabia is responsible for just over one-third of the total "Hague Agreement" reductions of 1.72 mb/d, so its performance is critical to overall compliance. **Iranian** supply is thought to have been reduced to 3.41 mb/d, with crude exports averaging 2.01 mb/d during the month; Iran's target is 3.36 mb/d.

Crude production in **Nigeria** fell by 30 kb/d to 2 mb/d, due to community disturbances that affected output of the Pennington grade and, to a lesser degree, the Bonny/Forcados and Brass River crude streams. In addition, the supply of Odudu crude was cut by the operator in anticipation of labour union action at the Port Harcourt refinery. Production allowances for the main joint-venture projects may be higher than Nigeria's target would dictate, possibly as insurance against frequent disruptions at production facilities. When disruptions are moderate but not severe, as was the case in June, the extra output will result in over-production by Nigeria. **Venezuelan** crude supply was cut by 10 kb/d to 2.73 mb/d, bringing the country to within 10 kb/d of its target.

Minor increases of crude output were registered in the UAE (+20 kb/d), in Kuwait (+15 kb/d) and in Indonesia (+10 kb/d). In **Indonesia**, the production-sharing contractors continue to disagree with state oil company Pertamina regarding their individual quotas. It was also reported that the revenue-starved government has not been aggressively discouraging producers from pumping at full-capacity.

OPEC Crude Production 1998-1999

(million barrels per day)

	OPEC excl. Iraq	Cutback vs Baseline	Cutback Target	Percent of Target	Iraq	OPEC
February	26.96				1.72	28.68
March	26.91				1.85	28.76
April	26.34	0.65	1.25	46%	2.01	28.35
May	26.17	0.82	1.25	61%	2.27	28.43
June	26.32	0.67	1.25	47%	1.86	28.18
July	25.40	1.59	2.60	59%	2.32	27.72
August	24.76	2.23	2.60	85%	2.43	27.19
September	24.81	2.18	2.60	83%	2.43	27.24
October	24.79	2.20	2.60	84%	2.43	27.22
November	25.09	1.90	2.60	71%	2.45	27.54
December	25.27	1.72	2.60	64%	2.36	27.63
January	25.04	1.95	2.60	73%	2.41	27.45
February	25.31	1.68	2.60	62%	2.54	27.85
March	25.35	1.64	2.60	61%	2.50	27.84
April	23.73	3.57	4.32	82%	2.67	26.40
May	23.48	3.82	4.32	88%	2.53	26.00
June	23.36	3.94	4.32	91%	2.44	25.80

Notes: (a) all production numbers are IEA figures
 (b) from April 1998 to March 1999, cutbacks are measured against OPEC's original February 1998 "baseline" of 26.99 mb/d; from April 1999 onwards, cutbacks are measured against OPEC's revised February 1998 "baseline" of 27.29 mb/d
 (c) the production figures used to calculate the "percent of target" exclude 150 kb/d of crude output from the Abu Safah field; elsewhere in the table and in the Report, this output is considered to be part of Saudi Arabia's production

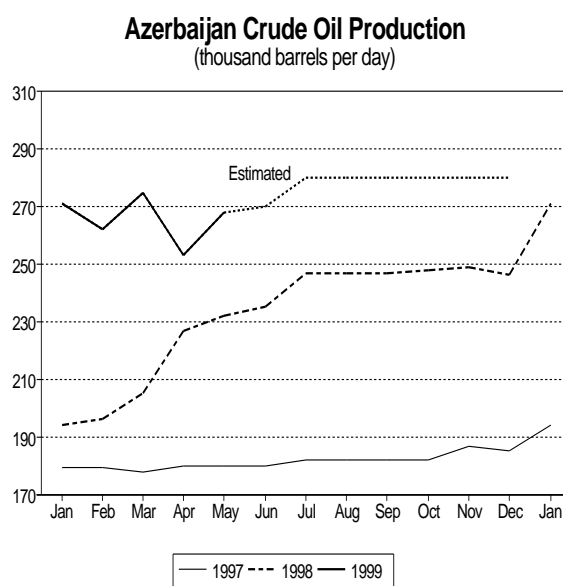
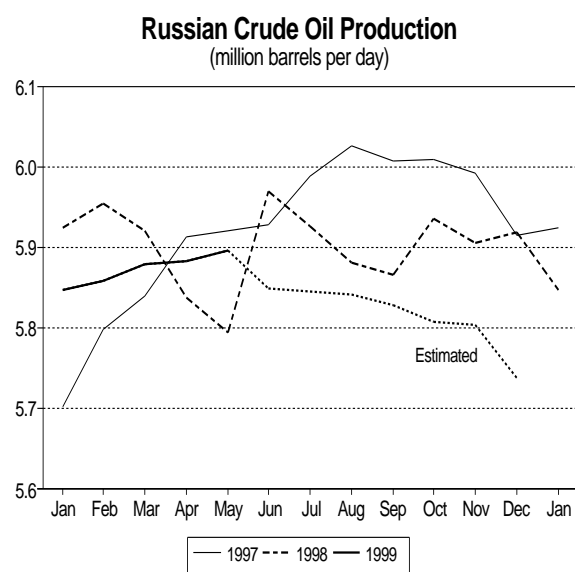
According to the UN Office of the Iraq Programme, **Iraq's** oil-for-food exports during June fell to 1.78 mb/d from 1.97 mb/d in May. The transition to a new phase of the oil-for-food programme apparently resulted in lower export volumes during the first eleven days of the month. Weekly export data covered the period up to 25 June, with export volumes for the last five days of the month assumed at recently typical levels of 2.1 mb/d. As was the case during previous rollovers, significant volumes were produced during the gap in loadings and were put into storage. During June, this amounted to 3 million bbls, or 100 kb/d. Total Iraqi crude production averaged 2.44 mb/d, including exports, volumes used to build inventory, and 560 kb/d for domestic refinery inputs, exports to Jordan and "other uses". In recent months, a severe drought in Iraq has caused domestic refinery runs to be reduced due to cooling water restrictions, in order to conserve water for the agricultural sector.

Former Soviet Union (FSU)

Production

Russia - May actual and June estimate: Crude production in May unexpectedly increased by a modest 12 kb/d to 5.9 mb/d. Aggregate joint-venture output grew by 9 kb/d to 422 kb/d, while other gains were smaller. The only significant loss was in LUKoil supply, which fell by 12 kb/d. June crude supply is estimated to have fallen to 5.85 mb/d, due to widely scattered declines.

In mid-July, the Sakhalin-2 offshore project is expected to come onstream in Russia's Far East. Initial output of the light-medium, low-sulfur crude is expected to be 30 kb/d, growing to 60-90 kb/d by December. Production volumes will flow into a floating storage and offloading vessel. The field will only produce for roughly six months a year, since it will have to be shut down for six months starting each December because of ice. Sakhalin-2 supply is expected to be sold primarily into the Asian market. Output from Sakhalin is expected to grow in the medium term, with the 150 kb/d Sakhalin-1 development possibly next in the sequence. However, Sakhalin-1 development has been delayed until sometime after 2000, because the appraisal programme last year indicated that the fields contain predominantly gas, not oil as previously thought. As a result, technical and marketing issues have had to be re-evaluated.



Azerbaijan - May actual and June estimate: Based on data for fields operated by state oil company Socar, crude production averaged 268 kb/d in May, an increase of 15 kb/d over the previous month. The entire gain was accounted for by estimated output from the Chirag field, which is thought to have averaged 87 kb/d. Chirag production, which has been running at around 100 kb/d recently, was shut down at the end of May and the beginning of June, due to one week of planned maintenance work on the offshore platform, the pipeline terminal and the Baku-Supsa pipeline. Chirag supply is assumed to have increased to 90 kb/d in June, pushing overall output up to 270 kb/d.

Since the beginning of May, all Chirag output has been shipped through the Supsa line, known as the "Western route". As a result, production was not affected by a mid-June explosion on the Baku-Novorossiysk pipeline (the "Northern route"). The explosion, which took place in the politically unstable Dagestan-Chechnya border area, is thought to have been caused either by a bomb or an attempt to illegally tap the pipeline. Regardless of the cause, the increasingly unreliable line - which had already been out of operation for roughly 70 days this year - was shut down indefinitely by Transneft, the Russian pipeline operator. In order to avoid Chechnya, starting at the beginning of July, other crude from Azerbaijan (that had been shipped on the Northern route) will be piped to Makhachkala in Dagestan, sent by rail to Tikhoretsk, and then mixed into Urals export blend and pumped by pipeline to Novorossiysk.

Net Exports

Net FSU exports remained high in June, averaging 3.65 mb/d for the month. Although June volumes were 260 kb/d lower than the record-high 3.91 mb/d seen in May, they were still 420 kb/d higher than a year earlier. Crude exports fell by 190 kb/d from the previous month, while product exports declined by 60 kb/d. Among products, the picture was mixed: fuel oil exports increased from 500 kb/d in May to 560 kb/d in June, while gasoil exports decreased from 600 kb/d to 510 kb/d. Despite strong demand in Northwest Europe, large volumes of fuel oil and gasoil reportedly were sold to the US, reflecting attractive price differentials. There were concerns over June crude deliveries to refiners located along the Druzhba pipeline. Although supplies were sufficient to meet their requirements, there was little excess, and no volumes were available for export from the German port of Rostock or the Polish port of Gdansk, both of which are supplied by Druzhba.

The high level of exports removed large volumes of crude and products from the Russian domestic market, resulting in sharp domestic price increases in May and June. This is thought to be one of the factors behind a freeze on domestic energy prices sought by the Russian Government. On 16 June, more than 50 Russian companies in the energy, pipeline, railroad, metallurgical, automobile, machine-building and chemical sectors signed a price and rate control agreement aimed at containing inflation. The agreement took effect on 1 June and will last until 31 December.

There were many criticisms of this market intervention, along with skepticism regarding its effectiveness. In the case of gasoline, for example, the oil companies that signed the agreement control only one-third of the country's retail gasoline markets. It is also believed that the price freeze was needed to persuade the Duma to pass a package of government revenue-raising measures proposed by the IMF, including a tax on petrol stations.

1997-1999 Net FSU Exports

(million barrels per day)

	1997	1998	1999 ^f	4Q98	1Q99	2Q99	Feb 99	Mar 99	Apr 99	May 99 ^f	Jun 99 ^p
Black Sea Exports ¹	1.19	1.19		1.21	1.28	1.59	1.14	1.54	1.55	1.68	1.54
Baltic Sea Exports	0.90	0.94		1.13	0.95	1.18	0.99	0.92	1.25	1.20	1.09
Total Seaborne	2.09	2.13		2.35	2.24	2.77	2.13	2.47	2.79	2.88	2.64
Druzhba Pipeline ²	0.84	0.98		1.02	0.96	1.05	0.99	0.92	1.07	1.06	1.03
Total Exports	2.92	3.11		3.37	3.20	3.83	3.11	3.38	3.86	3.94	3.67
Imports	0.06	0.08		0.08	0.05	0.03	0.06	0.04	0.04	0.04	0.02
Net FSU Exports	2.86	3.03	3.40	3.28	3.15	3.80	3.06	3.35	3.83	3.91	3.65
NB: Crude	2.14	2.35		2.42	2.39	2.72	2.38	2.49	2.85	2.75	2.56
Products	0.73	0.68		0.86	0.76	1.07	0.68	0.86	0.98	1.15	1.09

1 includes a small amount of non-Russian crude oil exports
r revised
f forecast

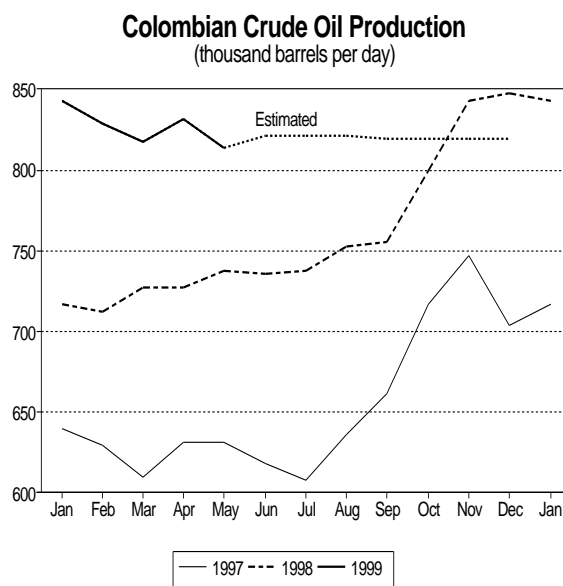
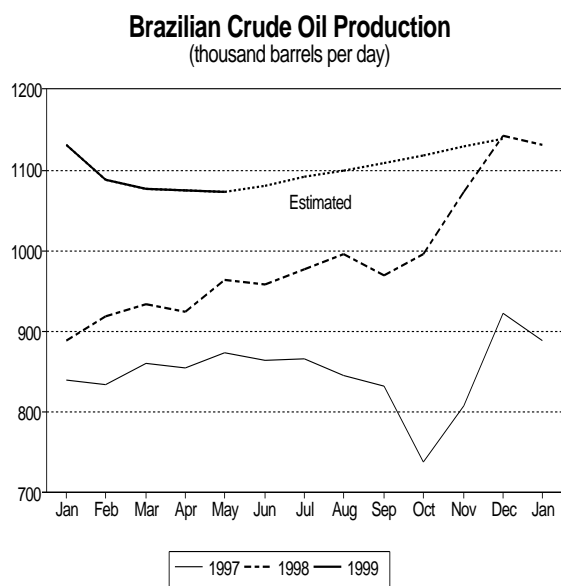
2 crude oil only
p preliminary

Other Non-OPEC

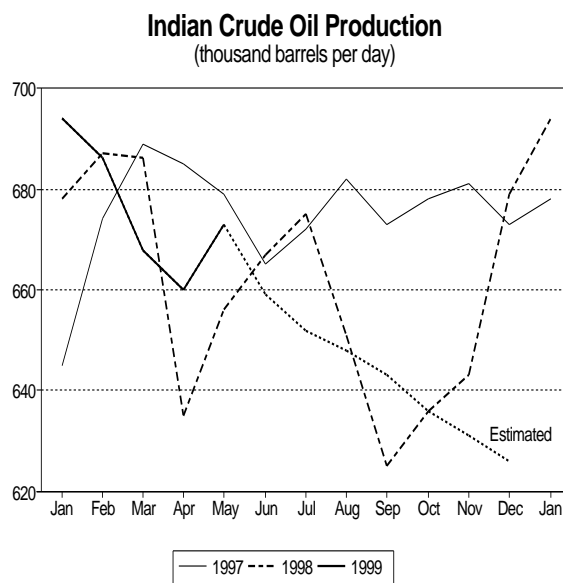
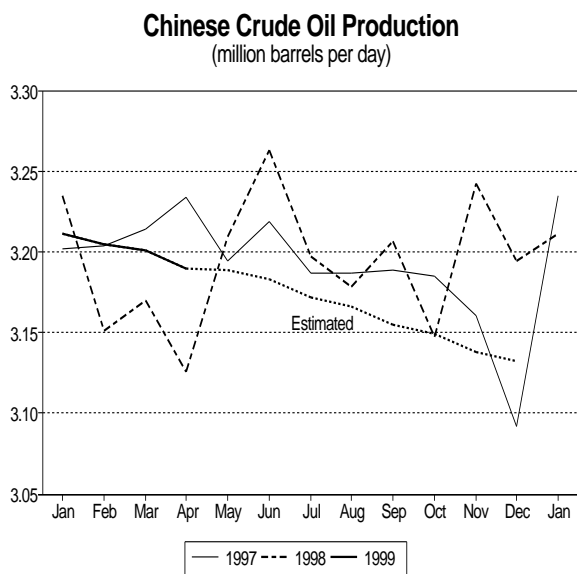
Brazil - May actual and June estimate: Preliminary figures indicate that Brazilian crude production in May averaged 1.07 mb/d, down slightly compared to an estimated 1.08 mb/d in April. It is assumed that output in the key offshore Campos Basin was 822 kb/d. An 8 kb/d increment from this growth area is thought to have pushed Brazilian supply back up to 1.08 mb/d in June.

In light of lacklustre performance since last December and January, when crude production averaged 1.13-1.14 mb/d, state oil company Petrobras has revised its production goals downwards, admitting that its previous annual average targets of 1.2 mb/d for 1999 and 1.5 mb/d for 2000 will not be reached. Negative factors cited include delays in platform construction, problems with existing equipment, lack of new equipment and the generally weak economic situation in the country. The official target for this year is now 1.11 mb/d of crude. This assumes the installation of two new production units at the Marlim and Roncador deepwater fields in the Campos Basin. The latest estimates include an allowance for 12 periods of scheduled maintenance at various production units, of which four were completed in May.

Colombia - May actual and June estimate: Colombian crude production fell by 18 kb/d to 813 kb/d in May. Output from the important Cusiana-Cupiagua fields, which is currently considered to be at its plateau, was 427 kb/d. June supply is estimated to have averaged 821 kb/d, including 430 kb/d from Cusiana. Flat production of around 820 kb/d is projected for the remainder of the year, assuming a steady 430 kb/d from Cusiana and a continuation of recent levels of bombing-related disruptions on the Cano Limon pipeline.



India - May actual and June estimate: In May, Indian crude production gained 13 kb/d to 673 kb/d, due to an 11 kb/d uptick in offshore Bombay High output. This was not thought to have been sustained in June, however, with Bombay High falling by 19 kb/d and India as a whole declining by 14 kb/d. During the month, India's Oil and Natural Gas Corporation (ONGC) warned that inadequate and unreliable electricity supply in the state of Gujarat could endanger oil production at the Gandhar field there.



China - April actual, May and June estimates: Chinese crude production in April averaged 3.19 mb/d. The monthly decline of 11 kb/d was driven by the Daqing area, where normally steady output fell by an unexpected 19 kb/d. This was partly offset by an equally surprising increase of 11 kb/d at the Liaohe area. At both of these mature areas, supply is usually little changed, following a long-term declining trend. In May and June, output at these and other onshore areas is estimated to have returned to typical ranges, while offshore production fell by 5 kb/d to 335 kb/d during the two months. In total, Chinese supply was nearly flat at 3.19 mb/d in May and 3.18 mb/d in June.

China National Offshore Oil Corporation (CNOOC) alerted the Government that offshore production is expected to fall this year. Most of CNOOC's major fields, located in the South China Sea off the Pearl River Mouth delta, have entered into decline. Five small new fields with a combined capacity of up to 60 kb/d are planned to start up this year, but they will not be enough to make up the difference.

Upstream Developments

Sudan: In June, a 1,600 km crude oil export pipeline, connecting oil fields in the southwestern part of the country to the Red Sea port of Bashayer in the north, was completed. Production of new Nile Blend crude was reported to have begun in July from six fields (Heglig, Unity, El Toor, El Nar, El Harr and Toma South). Nile Blend is a light sweet grade, with 34°API gravity and 0.025% sulfur content. Given that it will take some time to fill the new pipeline, exports are not expected until late summer. Production is expected to reach 150 kb/d by the end of this year. The projections in this Report assume Sudanese output of 50 kb/d in July, increasing by 20 kb/d each month to a level of 150 kb/d in December. Previous first-phase production from the same fields averaged an estimated 10 kb/d in 1998 and during the first half of 1999. In the absence of a pipeline, this output was transported via truck, although only during the dry season. The capacity of the pipeline is 250 kb/d, with future expansions possible up to 450 kb/d.