

INTERNATIONAL OIL DAILY

Ghana Officials Outline Strategic Oil Vision

With Ghana's first oil production only months away, top energy officials have set out their vision for the future, vowing to build a strong national oil company, welcoming foreign oil firms — provided they play by government rules — and pledging to avoid the oil curse that has afflicted so many other African producers.

Ghana National Petroleum Corp. (GNPC) will become more assertive in determining "which companies enter Ghana as our partner," Managing Director Nana Boakye Asafo-Adjaye told an Accra conference Tuesday. It hopes to take bigger stakes in key projects as well as build local oil capacity.

In another ambitious plan, GNPC will follow the example set by Angola's Sonangol and establish its own trading company to market the state's future share of oil output — starting with the giant Jubilee field of Anglo-Irish Tullow and Dallas-based Kosmos, which is due on stream in the final quarter of 2010 and is set to plateau at 120,000 barrels per day next year.

Ghana plans to set up a separate limited liability company later this year and is already considering hiring Ghanaians with crude trading experience to staff the new

desk, GNPC Chairman Ato Ahwoi told *International Oil Daily* on the sidelines of the CWC Ghana oil conference.

GNPC's preference for a strong national oil firm is in line with the broader political shift that has taken place since the leftist National Democratic Congress government came to power in early 2009. GNPC subsequently expressed interest in buying Kosmos 23.49% stake in Jubilee, and the government then vetoed Kosmos' deal to sell the stake to Exxon Mobil (IOD Jan.11,p6).

The move was interpreted negatively by many in the industry, although Ghanaian officials say their position was misunderstood.

GNPC sources say Kosmos alerted the government to its deal with Exxon very late in the day, and then behaved discourteously towards GNPC officials when they challenged the deal. While the issues have not been resolved, Kosmos apologized directly to Ghanaian President John Atta Mills a few weeks ago and "we are trying to put it behind us and move on," Energy Minister Oteng Adjei said on the conference sidelines.

For all the supposed negative investment signals, Exxon appears undeterred. The US supermajor has sent several executives to the

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conference, who have been assiduously cultivating Ghanaian officials — although they have declined to comment on the status of their bid for Kosmos or other assets in Ghana.

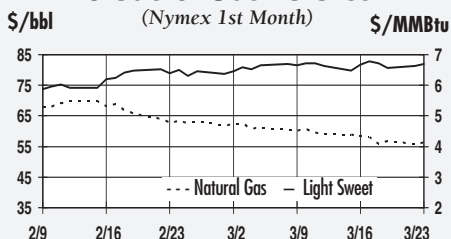
Exxon is not alone. The packed conference — one of the first to focus exclusively on Ghana's oil sector as first production approaches — is testament to industry interest.

Right now, Ghana's sector is dominated by large independents such as Tullow, Anadarko, Hess and Kosmos. The only major operating in the country is Italy's Eni. But several Nigerian companies are knocking at the door — some owned by politically active retired generals — while French Perenco

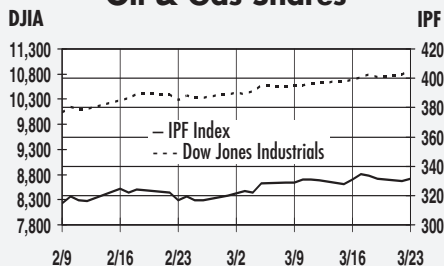
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Latest Market Trends

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Oil & Gas Shares



Shell, CNPC Firm Ties With China Gas Pact

Just a day after wrapping up their joint bid for Australia's Arrow Energy, Royal Dutch Shell and PetroChina have become even closer with a new agreement to work on a tight gas block in China's Sichuan Basin.

Shell said Tuesday it has signed a 30-year production-sharing contract with PetroChina parent China National Petroleum Corp. (CNPC) to appraise and potentially develop the Jinqui Block in central Sichuan province. The onshore block, which covers about 4,000 square kilometers, is characterized by tight reservoirs that have to be fractured before gas can flow.

The announcement follows an agreement between the firms last November to work on another shale gas block in the Sichuan Basin, Fushun-Yongchuan, south of Jinqui.

At a press conference in Beijing, Shell Chief Executive Peter Voser told reporters that China represents an important growth

market for Shell, particularly for gas. "We can make a considerable contribution here in China to the challenging roles which the government has set in terms of reduction of greenhouse gases ... by bringing more gas into China or developing gas in China," he said, adding that gas use is now very low and there is considerable growth potential in the medium to long term.

Commenting on the Arrow deal, where Shell and PetroChina will pay a combined US\$3.2 billion for Arrow's Australian assets, Voser said what normally drives partnerships between national and international oil companies is technology and the skills needed to deliver projects. But PetroChina also brings access to the Chinese market and, with Arrow, Shell will be the biggest LNG seller to China (IOD Mar.23,p1).

Only a handful of foreign firms are now (See Shell, page 2)

BP Chief Executive Says to Keep Climate Change Affordable

BP Chief Executive Tony Hayward said Tuesday that greenhouse gas emissions can be reduced at reasonable cost if governments in the US and elsewhere follow free-market principles and send clear signals about the kind of investments that are needed. The boss of the UK supermajor said politicians and energy firms should acknowledge that affordable methods do exist to reduce the carbon footprint of fossil fuels — but he argued that some strategies may simply be too expensive to pursue.

“It is advisable that as we gear up to address climate change, we need the lowest-cost pathways available,” the BP chief said in remarks to the Peterson Institute for International Economics in Washington. “Energy efficiency, natural gas, low-carbon vehicles and advanced biofuels offer carbon reductions at relatively low cost.” However, “using carbon capture to make clean coal is very expensive,” Hayward countered. “Offshore wind is also very expensive, especially when compared to onshore wind.”

BP’s chief said the most direct way to encourage low-carbon energy investments in the US is through the launch of a cap-and-trade regime, under which greenhouse gas emissions are capped and reduced over time and emissions credits can be freely traded (IOD Feb. 5, p7).

“The rationale remains that a cap reduces

emissions, and the trading mechanism allows capital to flow to the most efficient ways of reducing emissions,” Hayward said. “I profoundly believe cap-and-trade is the only way we can go. The problem with a carbon tax is that one can’t conceive of a tax high enough that would be sufficient enough to change behavior,” he added. However, Hayward criticized the cap-and-trade bill passed by the US House of Representatives last year, which has been slammed for placing a disproportionate burden on oil refiners while giving the coal-dominated electric utility sector a much easier ride (IOD Feb. 17, p1).

“The issue we need to deal with is how to create a level playing field such that all forms of carbon dioxide are priced equitably, whether from a smoke stack or a tailpipe,” Hayward said.

BP is already factoring in existing and potential carbon constraints “both into our investment choices and the engineering designs of new projects.”

“This is our way of ensuring our investments are competitive, not only in today’s world, but in the future where carbon is a factor in price,” he said. Hayward said greater fuel economy in US vehicles is one realistic and affordable way for the US to stunt the growth of emissions and oil consumption.

“The average fuel efficiency of passenger vehicles has improved from 16 miles per gal-

lon in the 1970s to 24 miles per gallon more recently in the US — but in Europe, the average fuel efficiency achieved by Germany, France, Italy and the UK is closer to 36 miles per gallon,” the chief executive said.

“I recently bought my young son a car that will go 50 miles per gallon,” Hayward added. “The US has a long way to go.”

Hayward also listed several other affordable means of cutting emissions, including the use of natural gas in the electric power sector to replace coal-fired generation capacity.

However, he said that continued access to unexplored hydrocarbon deposits will be crucial to obtaining gas and other affordable resources that will be necessary to bring down emissions. “It’s important to open up areas that have been previously closed to exploration, which will allow for competition, and often leads to partnerships and innovative combinations of skills,” he said.

Hayward drew attention to International Energy Agency (IEA) data which suggests that improvements in energy efficiency — in electricity and transportation fuels — can do more to reduce emissions by 2030 than new nuclear capacity, clean coal plants, and renewable energy sources combined. “In all circumstances, energy efficiency is the number one priority — more efficient vehicles, buildings, electronic applications. It’s the lowest-cost scenario,” he said.

📍 **Lauren O’Neil, Washington**

Ghana . . .

(Continued from 1)

and Canada’s Nexen are said to be lobbying behind the scenes.

In allocating new blocks, the key question is whether the government will favor state players — particularly Asian firms — over Western companies. GNPC has held talks with China National Offshore Oil Corp. about the Kosmos stake, and has also talked to India’s Oil and Natural Gas Corp. about gas projects, Ghanaian sources say.

Some tend to equate a strong national oil company and emphasis on local content with the patronage and corruption commonly associated with the oil curse. But Oteng Adjei vowed that Ghana would avoid the curse: “Whether [oil] turns out a curse or a blessing is a matter of choice,” he said, and Ghanaians will not let it happen.

Safeguards include a new petroleum revenue management bill and plans to comply with the Extractive Industries Transparency Initiative, to which Ghana already adheres for hard minerals. The government says it is consulting civil society and other stakeholders about the bill and hopes to enact it

soon — although critics say there is still some way to go and a number of the goals are far too ambitious.

📍 **Christina Katsouris, Accra**

Shell . . .

(Continued from 1)

involved in projects onshore China, as blocks are jealously guarded by CNPC and rival Sinopec. The few that have been offered to foreign partners are technically challenging and require significant capital investment.

Upstream, Shell’s involvement in China has focused almost entirely on gas development.

“We are very active in tight and shale gas — the difficult gas resources — in China,” Voser said. This is in line with the firm’s medium-term growth strategy, under which gas production is set to outstrip crude oil output by 2012 (IOD Mar. 17, p1).

Voser said Shell has gained a great deal of experience from its shale and tight gas divisions in North America, where it has aggregated more than 20 trillion cubic feet of re-

sources. “Why we’re also a very keen partner to CNPC is that the exploration and technology knowledge on how to explore and produce such gas will definitely be of use in the long term.”

Shell and CNPC are already partners in the Changbei tight gas field in the Ordos Basin in Shaanxi province. Production began in 2007 and about 3 billion cubic meters per year (290 million cubic feet per day) of gas is now sold to Beijing and other cities in eastern China. Changbei was the first onshore block to be developed with horizontal and dual lateral wells.

Shell is also operator of the North Shilou coalbed methane block in the Ordos Basin, partnering with China United Coal Bed Methane.

Lim Haw Kuang, chairman of Shell China, said the firm will now focus on exploration in the Sichuan blocks. “These are two big blocks so there’s a lot of exploration expected and after the first two years we’ll have a better idea of what investment is needed and what production will be like.”

📍 **Song Yen Ling, Beijing**