

OILGRAM NEWS

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OPEC curbs expectations ahead of cut talks

Producers mindful of last meeting which prompted sell-off

London—With just over two weeks to go before a key November 30 meeting in Vienna to debate the future of their production cut agreement, OPEC officials appear to be wary of overly expectant market sentiment that the deal will be extended through the end of 2018.

- Oil market pricing in nine-month cut extension
- Consensus still elusive, Russia noncommittal

Consensus around such an extension remains elusive, particularly with major non-OPEC player Russia still undecided, even as traders have priced it in, with ICE Brent futures rising more than 7% in the last three weeks.

OPEC sources have told S&P Global Platts that they view current prices as overbought and that they are aware of the prospects of a sell-off should the OPEC/non-OPEC coalition disappoint the market.

At the same time, they said any sentiment-based fall in prices will ultimately be retraced once market fundamentals regain center stage.

“This is a risk, of course,” an OPEC source

said of how traders might react if a nine-month extension were not announced after the meeting. “We are not nervous but more confident in the fact that we will re-establish the balance on the market.”

Russia is noncommittal on continuing the cuts for the full year, with energy minister Alexander Novak on Wednesday offering no assurances after meeting in Moscow with Russian oil companies. Novak and the companies will meet again next week to consult on market conditions, the energy ministry said in a statement.

Besides Russia, Ecuador has said it may seek an exemption from the deal, as it says it can no longer afford to cut production.

The current deal, which expires in March, calls on OPEC and 10 non-OPEC partners, led by Russia, to cut a combined 1.8 million b/d in supplies.

Saudi Arabia and its ally, the UAE, have been pushing behind the scenes to extend the deal for nine months through the end of

Oil prices were boosted after Saudi Crown Prince Mohammed bin Salman, in a rare public statement on oil policy on October 28,

[\(continued on page 9\)](#)

Despite rebound, threat of closure hovers over Europe’s refiners

ANALYSIS Athens—European refiners continue to face an uphill battle in light of mounting costs, even as refining margins have shown massive improvement, according to Platts analysis and refining industry players this week.

- Mounting salaries, costs weigh on margins
- Hellenic, Repsol see benefit from wider slate
- Heavier crudes at clear advantage

S&P Global Platts data shows both ARA and Mediterranean refining margins are greatly improved from levels seen just a few years ago. For example, Brent and Urals ARA cracking margins have averaged between \$7-\$9/b over the second half of 2017. In the same period in 2013, Brent margins were barely positive, averaging around \$1/b, while running Urals cost a refiner money.

A similar pattern can be seen by looking at Azeri Light, CPC Blend and Urals cracking

margins in the Mediterranean.

Nevertheless, a stronger margin does not necessarily make a European refiner profitable. Hellenic Petroleum CEO Grigoris Stergioulis said European refiners have higher costs for salaries and maintenance compared with Middle East refineries.

Costs, including EU regulatory costs, amount to \$8.90/b for a 200,000 b/d EU refiner versus \$2.80/b for a generic Middle East 250,000 b/d refinery, he told the World Refining Association conference in Athens this week.

“Refining in Europe is under pressure,” Stergioulis said, adding that despite improving margins, “we have to compete against the benchmarks” and refineries do not have the “luxury” of unexpected outages or producing off-spec.

Yet Hellenic’s refineries have been recording positive results despite the shrinking domestic market, with one of the strategies being to expand the crude oil slate.

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China's independent refiners' sales rose

As state companies increase purchases of gasoline, gasoil

Singapore—Shandong's independent refiners' sales rose about 8% on the month in October on firm demand for gasoline and gasoil, according to Beijing information provider JLC.

"Demand for gasoil has been strong throughout October as Sinopec and PetroChina have increased their procurement from independent refineries," an analyst with JLC said.

Supported by the strong demand, the average price of gasoil increased by around Yuan 440 (\$64)/mt to around Yuan 5,800/mt in October, though the average gasoline price slipped Yuan 50/mt to around Yuan 5,820/mt, according to JLC data.

Implementation of Phase 5 emission standard gasoil began November 1, and forced consumers of lower grades to switch, but supply was not sufficient, and led to a rise in prices, the analyst added.

The production ratio for gasoil and gasoline at independent refineries dropped to the lowest in four months at 1.56:1, from 1.62:1 in September.

Stocks of the two products were mixed, however, with stocks of gasoil falling around 0.8% on the month, while gasoline stocks increased 9.5% from September.

Looking forward, the strong momentum for gasoil is likely to continue through November and December. Sinopec also expects Q4 gasoil demand to rise from Q3.

Refining margins improve

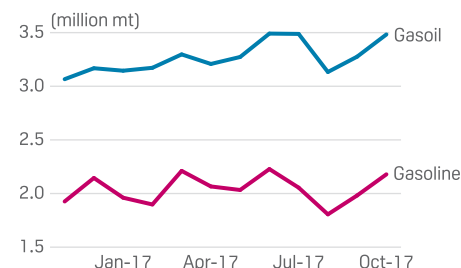
The average margin for cracking imported Oman crude rose to Yuan 314/mt in October, up by Yuan 72/mt from September, while the margin for offshore crude also increased by Yuan 100/mt to around Yuan 353/mt.

As a result, the average run rate at 38 of the surveyed refineries rose to 65% in October from 60% in September, Platts calculations showed.

JLC's survey covered 40 refineries, but Platts calculations took into account only those with a primary processing capacity of more than 1 million mt/year.

Meanwhile, the average combined run rate

SHANDONG REFINERS PRODUCT SALES



Source: JLC

of the 40 refineries increased to 58.4% over January-October, up almost seven percentage points from 51.7% in the same period last year.

Some refineries in Zibo and Binzhou were running at lower rates during the second half of October in order to cut the emissions during the 19th National Congress of the Communist Party of China.

Refineries in those cities were also required to lower operating rates over the heating season from November 15 to March 15.

Fuel oil consumption grows

Residual fuel consumption at the surveyed refineries increased towards the end of the year due to the shortage of crude import quotas.

In October, a total of 250,000 mt of residual fuel was cracked by independent refineries, including 190,000 mt of bitumen blend, and 60,000 mt of fuel oil.

The bitumen blend was consumed by Yuhuang Petrochemical and Qicheng Petrochemical, while ChemChina's refineries processed the fuel oil.

Last month, only 100,000 mt of bitumen blend was consumed by Yuhuang Petrochemical.

"Due to the tight quotas, the demand of bitumen blend and fuel oil increased slightly," a source said.

Following higher operating rates in September, total feedstock consumed by the 40 refineries rose 1.9% from September to 8.03 million mt last month.

On the other hand, crude oil imports by China's independent refineries rebounded 11% on the month to around 7.435 million mt in October, according to a monthly survey by Platts based on discharged cargoes in the month.

Despite the higher throughput, feedstock stocks increased by 1% at major ports in Shandong to 4.31 million mt as of October 26 from the end of September, according to JLC data.

Major ports in Shandong including Qingdao, Longkou, Laizhou, Rizhao, Dongying and Dongjiakou, have a total storage capacity of 8.77 million mt. — [Analysis by Daisy Xu](#)

NEWS BRIEF

Chevron halts process to sell Myanmar oil and gas assets

Chevron decided not to sell its oil and gas assets in Myanmar, roughly a year after it had put them up for sale, a spokesman said Tuesday.

International oil companies have gone through a phase of reconfiguring upstream spending amid low oil prices, and a shift towards oil and gas investments in North America and US shale, while trimming down in frontier markets such as Southeast Asia.

Chevron, which operates in Myanmar through its subsidiary Unocal Myanmar Offshore Co, had put up its assets in the country for sale around April 2016.

Chevron has a 28.3% non-operating working interest in a production sharing contract for natural gas from the Yadana and Sein fields in block M5 and M6 in the Andaman Sea. Yadana's natural gas production in 2016 averaged 128,000 Mcf/day, according to its website.

The company also has a 28.3% stake in a pipeline company that transports gas from Yadana's offshore facilities to the Myanmar-Thailand border.

China-Russia oil pipeline to startup January 1, 2018

China National Petroleum Corp plans to start commercial operations of its second China-Russia pipeline, an offshoot of the ESPO pipeline, on January 1, 2018, according to a report on CNPC's official website Tuesday.

Construction of the 300,000 b/d pipeline to carry the crude blend from Russia to China was completed on November 12, according to the report.

The new pipeline will double the flow of ESPO Blend crude via pipeline to China to 30 million mt/year (600,000 b/d).

Under agreements signed earlier, Russia's state-owned Rosneft was to increase ESPO Blend delivery via pipeline to CNPC by 5 million mt/year in 2015 and 2016, from the initial 15 million mt/year, and 30 million mt/year in 2018.

ESPO Blend is favored by Chinese state-owned and independent refiners and is mainly sent to China through pipeline. The rest is shipped out from the Russian port of Kozmino on the Pacific coast.

"The pipeline connects to CNPC's Daqing terminal, allowing the Russian crude to make up for the fall in supply from the aging Daqing field," a Beijing-based analyst said.

As of October 31, a total of 107.54 million mt, or an average of 315,800 b/d, of ESPO Blend has reached China via pipeline since 2011, according to the Heilongjiang Entry-Exit Inspection and Quarantine Bureau.

Russia line unclear on longer OPEC cuts

Benefits of weaker ruble a motive for sub-\$60/b oil prices

FEATURE *Moscow*—Two weeks before the OPEC/non-OPEC meeting in Vienna, Russia's key oil players Wednesday discussed the situation on the international and domestic oil markets but have so far failed to formulate a unified approach on a potential extension of the agreement to curb crude production beyond March 2018, and agreed to continue consultations through next week. Russia 'comfortable' with price of \$50-\$55/b. Higher oil prices risk ruble strengthening. Rosneft may delay launch of East Siberian fields.

While the production cut deal has been a positive for Russia — a key initiator of the agreement along with Saudi Arabia — its next steps remain unclear, as oil prices are already

Gazprom Neft to boost 2018 output regardless of OPEC deal

Moscow—Russia's Gazprom Neft will continue boosting crude output in 2018, although at a slower pace than this year, as it plans to proceed with an output ramp-up at its recently launched Arctic fields regardless of whether the OPEC/non-OPEC output cut deal is extended, the company's deputy CEO for economics and finance, Alexei Yankevich, said Wednesday.

"We are considering various scenarios, even in the harshest case where the OPEC 2018 deal is extended, we still plan some growth, although it will be below the 3.7% we expect this year," he said at a conference call on the company's third-quarter results.

Russia's fastest-growing crude producer by volume, Gazprom Neft, plans to produce 62 million mt, or 1.25 million b/d, of crude this year, the company's CEO forecast last month.

The main growth drivers of this and last year, the Arctic onshore Novy Port and Messoyakha fields, as well as Russia's only producing Arctic offshore field Prirazlomnoye are all set to continue raising production, Yankevich said, adding that their targets will not be reconsidered whatever the decision on the production cut deal.

"Production at greenfields will not shrink in 2018 even with OPEC restrictions, the caps we have allow room for greenfields' growth even if the deal is extended," he said.

Such new fields with lower depletion rates, better economics, and lower costs, help improve the company's production structure and will continue raising upstream profitability next year "regardless of the OPEC agreement, even if it is extended through 2018," he added.

In 2018, the company plans to raise output to around 6.8 million mt at Novy Port, to around 4.3 million mt in total at East Messoyakha developed jointly with Rosneft, and to around

above the \$50-\$55/b level that Russian President Vladimir Putin last month called "comfortable" for the country.

A further increase in oil prices at first glance would be also positive for Russia, whose budget is heavily dependent on oil and gas revenue. At the same time, higher oil prices pose the risk of the ruble becoming too strong against the dollar, as this exchange rate closely follows oil prices.

It may also lead to an increase in inflation at a time when the government has identified capping inflation at 3.7% next year — the lowest level in recent Russian history — alongside diversifying the economy as its key goals.

"Russia doesn't want an oil price above

3.6 million mt at Prirazlomnoye, according to Ivan Razdobudko, deputy head of economics and finance at Gazprom Neft Development.

The figures mean a 23% year-on-year output rise at Novy Port and a 43% increase at Messoyakha, based on the company's earlier forecast production at the fields this year. In the first nine months of this year, the company's liquids output rose by 7% to 47.03 million mt, it said.

Output rise within limit

Gazprom Neft's third-quarter liquids output rise was also within the limitations of the OPEC/non-OPEC deal in place, the company said earlier in the day in the management analysis of its financial and operating results.

The company produced 16.16 million mt, or 1.29 million b/d, crude and condensate in July-September, up 4% on the quarter and 1.9% on the year, its data showed.

Prirazlomnoye's 90-day maintenance, which halted output for much of the quarter, helped keep the growth within the energy ministry's recommendations, it said.

The field produced 140,000 mt in the third quarter, down 83% on the quarter and 74% on the year, but its output still rose by 22% in the first nine months of the year, to 1.76 million mt, or 47,000 b/d, the company's data showed.

Still, Gazprom Neft accelerated production growth from the second quarter, when daily output was broadly flat on the quarter, based on the company's data.

The sharpest quarter-on-quarter production growth, of 30.3%, came from West Siberian mature fields within the Noyabrskneftegaz subsidiary.

The growth came as a result of the asset taking over the production quota freed by Prirazlomnoye, Yankevich said. — [Nastassia Astrasheuskaya](#)

\$60/b for several reasons," said Chris Weafer, from Macro-Advisory consultancy. "One is that it has learned that a weaker ruble is better for the economy through watching its latest policy at work," he said. Russia has become the world's largest grain exporter, earning some \$20 billion this year, at least partly due to the weak ruble, he said.

"They understood clearly they do not want \$100/b crude."

Another reason is the fear that US shale oil production will start to grow too high again.

Indeed, the Russian energy ministry estimates US crude production has the potential to grow by 500,000 b/d and above in 2018, depending on oil prices, Pavel Sorokin, head of the ministry's analytical center, said late Tuesday.

In early October, Putin indirectly gave his support to an extension of the production cut agreement, saying at the time that if a decision is taken to extend the deal, he believes it should be extended until the end of 2018.

However, energy minister Alexander Novak has repeatedly said a decision should be taken closer to the expiry date.

"We'll need to see how the situation develops in the winter season, when oil demand drops from summer peaks," he said recently.

Russian output

An extension of the deal would pose certain difficulties to the country's oil producers as well, since they would need to reconsider their production plans for next year.

Russia has shown a high level of compliance to its production cut obligations, reducing output by 300,000 b/d by May, in line with the initial agreement.

The cut was achieved mainly through reducing production at lower-margin mature fields, while output at higher-margin greenfields continued to ramp up.

"The extension could dampen production plans at high-margin greenfields in order to comply with the cut agreement," analysts at Aton brokerage said in a research note Tuesday. "Rosneft, which has the largest share of Russian crude output (over 40%), might face a bulky production cut burden next year," they said.

Rosneft has already warned it may postpone development of the major Russkoye or/and Yurubcheno-Tokhomskeye fields in East Siberia if the production cut deal is extended.

Oil producers agreed to "meet again in a week" to continue consultations, Ravil Maganov, first executive vice-president of Lukoil, told reporters as he left the meeting between oil producers and officials Wednesday.

Top officials from companies including Lukoil, Gazprom Neft, Surgutneftegaz, Tatneft, Zarubezhneft and Novatek took part in the meeting, as well as oil pipeline operator Transneft and economic development minister Maxim Oreshkin. — [Nadia Rodova](#), [Rosemary Griffin](#), [Nastassia Astrasheuskaya](#)

Kurdish oil exports slip below 200,000 b/d

Baghdad in talks to export Kirkuk crude via Kurdish pipeline

London—Iraq's northern crude exports by pipeline are running at less than one third of capacity, averaging 180,000-200,000 b/d in the past few days, sources said Wednesday.

This is a fall of more than 100,000 b/d from late last week when they were just above 300,000 b/d.

Flows from the semi-autonomous Kurdistan region via pipeline to the Turkish Mediterranean port of Ceyhan have fallen almost 400,000 b/d since Iraqi federal forces seized key oil facilities and infrastructure from the Kurdistan Regional Government in mid-October.

The pipeline flows tend to fluctuate at different times of the day due to the low pumping rates and instability of flows, sources added.

Nigerian output recovery has 'momentum': Oando CEO

Abu Dhabi—A fall in Nigerian crude production in October was largely due to maintenance, and the reduction in attacks on oil infrastructure has a "momentum which we need to maintain," the chief executive of Lagos-based Oando, Wale Tinubu, said Wednesday.

Speaking on the sidelines of the ADIPEC conference, Tinubu gave an upbeat assessment of Nigerian production, contrasting with a warning by Shell in October that security challenges, including oil theft, sabotage and piracy, remained a problem.

"There are still very rare, rare but sporadic criminal attacks on pipelines, but there is nothing like the orchestrated attacks which we've seen in the past, so it's a good time for Nigeria in that regard," Tinubu, whose company also has trading and fuel retail arms, said.

As for the reduction in output in October, he said: "We had several oil companies doing typical maintenance jobs, where they shut down Floating Production Storage and Offloading vessels for review. I don't think we had any real incidents of sabotage in October."

"We've had a substantial reduction in that happening," he said, noting that the Forcados pipeline is back in operation after attacks last year caused months of disruption.

"The Bonny line was slightly affected, but it was put back into operation within a very short space of time," Tinubu said.

Tinubu also mentioned that Oando had been looking at using drones to ward off security threats, and highlighted plans to increase the company's oil and gas production by 50% over the next three years.

Oando is currently producing almost 50,000 b/d of oil equivalent, of which 60% is gas and 40% oil. With 450 million barrels of proved and probable (2P) reserves, it is keen to increase its production-to-reserves ratio, he said.

The lower exports are due to the shutting in of output from the disputed Kirkuk fields — Avana Dome and Bai Hassan — which have an output capacity of 280,000 b/d.

Output from these fields have been down since October 16, when Iraqi federal forces recaptured these fields giving North Oil Company access to these fields.

But due to technical upgrades conducted by Kurdistan's contractor, NOC have been unable to operate these fields.

Another reason for the fall in pipeline exports is because the Iraqi government is facing difficulty getting crude to market without a deal to allow access to the Kurdistan export pipeline to Turkey. Iraq is hoping for a guarantee

Nigerian production has mostly been recovery this year, but output could again be at risk after the Niger Delta Avengers militant group threatened to resume attacks on oil facilities.

The Platts monthly OPEC oil output survey found that Nigerian crude production fell by 60,000 b/d in October to 1.78 million b/d as a shorter export program along with operational and loading delays resulted in a deferral of several cargoes to November. — [Nick Coleman](#), [Adal Mirza](#)

Sonangol set for revamp as president fires chair

London—Angolan President Joao Lourenco began a major shake-up at state-owned Sonangol Wednesday, by dismissing Isabel dos Santos as the chairwoman, and removing other top executives

The news comes almost a month after Dos Santos had insisted that her relations with the new president and government were in "full alignment" on oil policy as well as on her reform plans for Sonangol.

She has been replaced by Carlos Saturnino, who was appointed secretary of state for oil by President Lourenco last month.

Dos Santos was appointed last year by her father, then president Jose Eduardo dos Santos, and she had undertaken an ambitious restructuring overhaul since then.

In mid-September, Lourenco was sworn in as president after his predecessor decided to step down after 38 years in power though the latter remains in charge of the ruling MPLA party.

Most analysts had not expected the Lourenco appointment to cause major changes to Angola's oil policy but the president has taken some bold and gutsy calls, including removing Dos Santos, as he seeks to consolidate his power.

One source noted that Dos Santos had little

of receiving possession of the crude at Ceyhan, where Turkey has given Kurdistan exclusivity over all crude coming from Iraq.

"It has been dealt with through the political channels," Iraqi oil minister Jabbar al-Luaibi recently said. "We tried to export Kirkuk's oil via Kurdistan's pipeline, but there were problems from there so we stopped pumping oil, now there are talks to reach a solution."

NOC is currently producing between 140,000-160,000 b/d, according to two senior company officials and is hoping to further increase that once the Bai Hassan and the Avana Dome fields are reactivated.

NOC production is currently being sent to local and regional refineries in Iraq, with some being reinjected into a reservoir.

The semi-autonomous Kurdistan Regional Government was operating Bai Hassan and Avana Dome from June 2014 when it filled a security vacuum caused by the invasion of the self-proclaimed Islamic State group.

Last week, the Iraqi oil ministry said it had reached a preliminary deal to export between 30,000-60,000 b/d of NOC oil by truck to Iran in exchange for same quantity and quality of crude loading from the Persian Gulf.

Last month, Luaibi ordered the rebuilding of the federal government's separate export pipeline that takes a more convoluted route southwest from Kirkuk to Bajji before turning north through Mosul to the Turkish border. The federal pipeline has been out of service since 2014. — [Eklavya Gupte](#), with [Faleh al-Khayat in Amman](#)

experience in the oil industry while her replacement was a veteran in the sector.

One of the first steps Lourenco took after coming to power was to merge the ministries of mineral resources and petroleum, appointing Diamantino Pedro Azevedo as its head.

This new ministry is now responsible for the two industries that guarantee almost all of Angola's export revenues: oil and diamonds.

Integral to Angola's oil sector is its state-owned national oil company Sonangol, which has endured four very difficult years.

In September, Sonangol had admitted that it was looking to review some of the fiscal terms offered to oil investors to make the country more competitive and reduce the "excessive bureaucracy" in its oil sector. Last month, Dos Santos also said that Sonangol had outstanding loans worth \$3 billion to Chinese banks in China, along with more exposure to Chinese banks based elsewhere.

Angolan oil production has fallen steadily this year due to technical and operational issues, especially at its offshore fields, as well as a lack of upstream investment. This has made it one of the most compliant members in the OPEC cuts. — [Eklavya Gupte](#), with [George Shaw and Gillian Carr](#)

Despite rebound, threat of closure hovers over Europe's refiners

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What “can turn the economics [is...] how many heavy crudes you can process,” Stergioulis said. “We doubled our crude oil slate in the last couple of years.”

Trying to expand as much as possible in terms of crude selection was seen as key to refinery performance by participants at the conference.

Repsol's refineries, for instance, process 70 different types of crude, according to the company's head of refining, Francisco Vazquez.

These advantages are borne out in Platts data. While Mediterranean cracking margins are indeed higher across the board, cracking heavier grades is clearly to a refiner's advantage.

Urals cracking margins have been at a premium to those for Azeri Light since early 2016 after spending much of the prior two years at a discount. Urals recent strength though has reversed this relationship, at least for October and November of this year.

Likewise, the economics for running Iran Heavy over Iran Light have improved steadily since early 2016, with the premium averaging \$1.50/b so far this month.

But the real advantages lie with refiners — like Repsol — with coking units. As good as

Urals cracking margins are, coking margins for Western Canadian Select are more than \$7/b better so far in November.

Europe struggles to compete with US

Disadvantages remain for European refiners, especially in comparison with competitors in the US, according to the conference participants.

Energy costs remained a significant part of European refinery costs at around 50%, versus 28% in North America and South America, which was due to the former increasing utilization and “that drives up energy usage,” Solomon Associates vice president Stephen Wright said at the conference.

This is made clear by looking at the cracking margin spread between running Saudi Arab Light in the ARA against that same grade on the US Atlantic Coast. ARA margins have been at a consistent discount to those in the USAC since Platts began tracking this data in 2013. That spread has averaged around \$3-\$4/b so far in November, but blew out as wide as \$8.35/b in September, a month when margins the world over got a massive boost due to Hurricane

Cepsa ditches Venezuelan crude over reliability

Abu Dhabi—Spanish refiner Cepsa is now using between 40 and 50 different crude oil types a year and has replaced its Venezuelan purchases partly with heavy oil from Albania, chief executive Pedro Miro Roig said Wednesday.

In comments at the ADIPEC conference in Abu Dhabi, Roig also said European regulation was adding a \$2/b “handicap” to the company's refining costs compared with if it operated elsewhere in the world.

Speaking on the sidelines of the event, Roig said Cepsa had previously used Venezuelan crude particularly for asphalt production, but “these days it's not a reliable source.”

In place of Venezuelan crude Cepsa is using some Mexican crude and Albania's Patos-Marinza heavy oil, produced by Chinese-owned upstream company Bankers.

It is also a regular buyer of Middle Eastern crudes, including one-to-two cargoes of Iranian crude a month and Iraqi crude purchased on a term-contract basis and supplemented by

occasional spot cargoes.

He said he had no concerns about purchases from Iraq or reports of changes in Iraqi sales strategy, saying, “We are delighted with people from this area [of the world].”

In terms of refining profitability, Roig said Cepsa had reduced its break-even oil price by \$1.50/b in two years due to greater efficiency.

Noting the regulatory cost of operating in Europe, he also highlighted uncertainties surrounding the International Maritime Organization's plans to cut sulfur emissions in shipping worldwide from 2020.

Given worries about how the change will be implemented, he speculated that a meeting of the IMO due in June 2019 might issue a waiver for certain regions of the world, and described the situation as a “poker game.”

However since one of Cepsa's refineries, San Roque, lies close to the Straits of Gibraltar, “this is a very relevant market for us,” Roig said.

Given weak market conditions in Europe, Cepsa relies partly on other nearby markets, and could in future look further afield to Asia, he said.

The company is 100% owned by Abu Dhabi investment company Mubadala, which has its own overseas refining operations, including a 40% stake in Pakistan's Pak-Arab refinery and 24.9% of Austria's OMV.

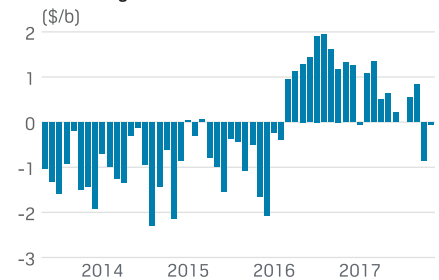
For now, CEPESA supplements its European sales with sales in North Africa, Morocco and Nigeria, Roig said. — [Nick Coleman, Adal Mirza](#)

CORRECTION

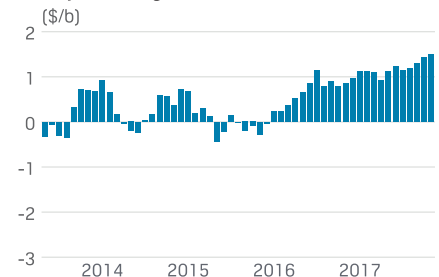
The API gravity and sulfur of Upper Zakum and Al Shaheen crudes in a table of a story published in the November 15 issue of Oilgram News was incorrect. The correct Upper Zakum and Al Shaheen API and sulfur data should read as 33.90 and 1.83, and 27.97 and 2.37 respectively.

HEAVY CRUDES MORE PROFITABLE

Urals vs Azeri Light



Iran Heavy vs Iran Light



Source: Platts; Turner, Mason & Co.

Harvey's decimation of Gulf Coast utilization.

“European refineries are competitively weak and threat of closure returns in the long term,” according to Alan Gelder, VP for refining at WoodMac told the event.

But there is still hope for European refiners, Wright said.

“As energy costs reduce, labor costs differentiate between regions,” Wright said.

As a result, the US has started to lose its advantages amid “pretty high” labor costs and a “much higher cost of maintenance.”

Low labor costs in central and southern Europe have also seen the “best refineries in Europe moving from western to central and southern Europe,” Wright said. — [Elza Turner, with James Bambino in New York](#)

S&P Global

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OPEC OUTLOOK

Ever wonder what it's like to cover an OPEC meeting in Vienna?

With the oil producer group meeting on November 30, this month's S&P Global Platts OPEC Outlook podcast takes you behind the scenes for an insider view of how journalists and analysts spend OPEC week.

Listen to the podcast here:

<http://plts.co/dxmW30gmj0>

Atlantic Canada bids reflect offshore disinterest

Newfoundland sees low investments in licensing round despite drop in breakevens

Houston—The lackluster response to last week's offer of parcels offshore Newfoundland and Labrador after three years of hefty investments is seen as reflective of wider global trends, as companies reallocate spending after more than three years of low prices.

- Producers focus on greenfield developments
- S&P Ratings sees bottoming out of offshore

A joint venture of Husky Energy and BP Canada submitted a bid last week of about C\$15 million (\$12 million) for parcel 1, spread over 121,453 hectares in the Jeanne d' Arc Basin, the Canada-Newfoundland and Labrador Offshore Petroleum Board said.

Two more parcels in the same basin and spread over a total of 195,954 hectares were also on offer. But they received no bids.

The 2017 licensing round stands in stark

contrast with work commitments of C\$597 million for three parcels spread over 663,877 hectares in 2014, followed by C\$1.2 billion for seven parcels spread over 1.63 million hectares in 2015 and C\$758 million for eight parcels over 1.53 million hectares last year, C-NLOPB spokeswoman Leslie Rideout said in an email.

Rideout said that as a regulator, it would not be appropriate for the C-NLOPB to attempt to characterize or otherwise comment on the low response. She said any potential resources in parcel 1 for which Husky and BP will be awarded the license in January are "still considered prospective rather than proven."

"Producers do not doubt about the potential of Newfoundland's offshore basins," Paul Barnes, manager for Atlantic Canada and Arctic with the Canadian Association of Petroleum Producers, said Monday.

But the Husky/BP bid will probably go down as one of the lowest offers in the recent past and "is a sign of the times," he said.

"With several years of low oil prices, producers are under pressure for higher rate of returns and investment in safe areas. The oil produced in Atlantic Canada is light, sweet and fetches a premium. But it may not as entice investments in greenfield projects," Barnes said.

"We believe the offshore deepwater market [globally] has bottomed out and won't experience a rebound anytime soon because oil prices remain far below breakeven to justify a greenfield project and there's still too much rig supply in the market," S&P Global Ratings said in a report Monday.

Despite maintaining an average output of some 150,000 b/d to 200,000 b/d since the early 1980s, when oil production started, offshore Newfoundland will likely be a marginal basin, according to Travis Whalen of Platts Analytics.

"There is potential, but not enough refinery demand [in its hinterland]," Whalen said. "Output from the province is not advantaged in its position that it will be able to price out other grades."

Canadian rules adds to woes

Canadian home-grown issues like uncertainties about carbon pricing and a ruling this summer making it mandatory to consult a wider network of stakeholders, particularly First Nations bands in Eastern Canada for offshore Newfoundland projects, is also coming in the way of investments, Barnes said.

On November 8 and coinciding with the deadline for submission of bids for the 2017 licensing round, the Canadian Environmental Assessment Agency unveiled the latest round of recipients of federal funds to take part in regulatory hearings, said Andrew Bell, chairman of the Newfoundland and Labrador Oil and Gas Industries Association.

"We are fully supportive of meaningful consultations," Bell said. "But we don't understand the relevance of consulting First Nations bands that are some 300 miles off the coast and in other provinces like Quebec and New Brunswick. This is adding to the red tape and will slow down regulatory approvals."

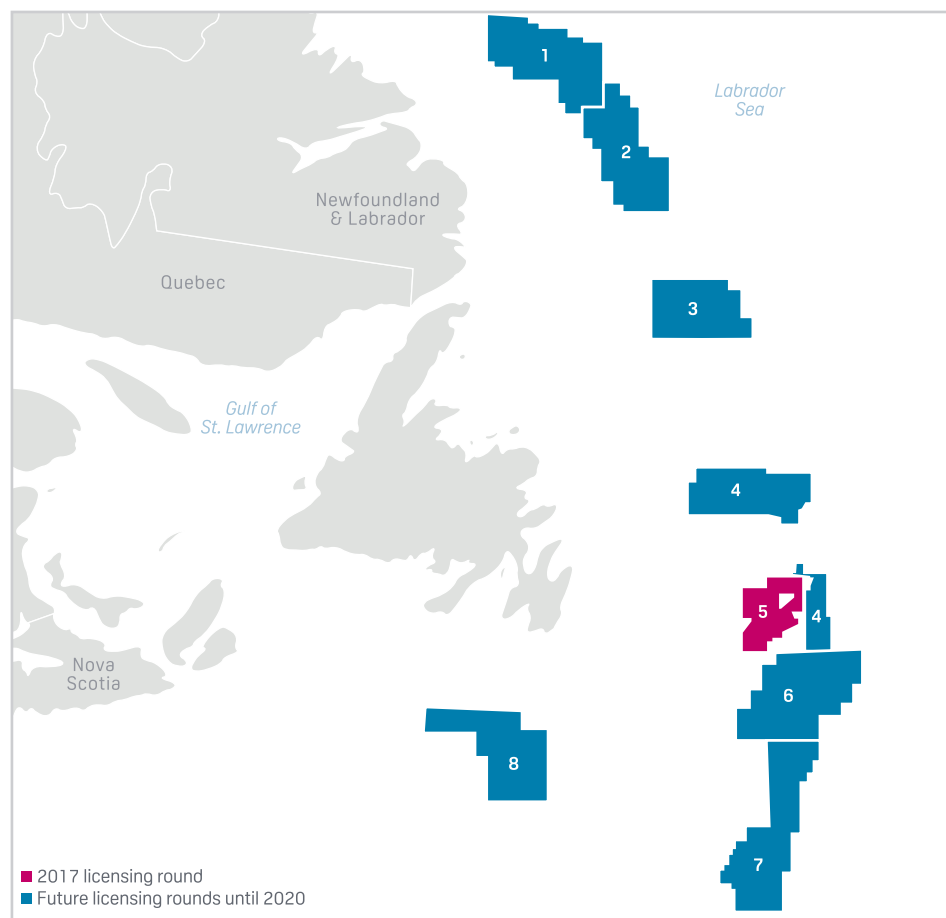
Under the "duty to consult" mandate so far in the current year, the CEAA has made available a total of C\$860,000 for First Nations bands to participate in regulatory hearings to be held by the C-NLOPB, Bell said.

"The federal government is saying there is a need to consult First Nations bands in even the hinterland areas [like Quebec and New Brunswick] as they lie on the migratory paths of the salmon from the Atlantic Coast. However, the new hydrocarbon basins are not in those areas and there is also no scientific evidence of a salmon highway," Bell said.

While C-NLOPB's Rideout said as a regulatory agency it is bound to obey federal government rules, no comments were available from the CEAA, despite repeated attempts. —

[Ashok Dutta](#)

STATUS OF LICENSING ROUNDS OFFSHORE NEWFOUNDLAND AND LABRADOR



Source: C-NLOPB

Crude futures decrease on stock build

US crude oil, gasoline inventories show surprise increase

New York—Oil futures were lower Wednesday after US Energy Information Administration data showed surprise builds in gasoline and crude inventories, as well as a smaller-than-expected draw in distillate stocks.

- **USAC refinery utilization at 99.8%**
- **Gasoline stocks snap streak of draws**
- **Crude exports rise, but far off recent levels**

A rally that ran from October through early November has shown signs of exhaustion, with the oil complex turning sharply lower this week.

The initial market reaction to Wednesday's EIA weekly inventory report suggested the data wasn't perceived by traders as the bullish antidote needed to stem the selling pressure dragging prices lower.

Oil futures stayed in negative territory right after the data release, led by NYMEX December RBOB, which settled 2.24 cents lower at \$17.388/gal.

The RBOB crack spread against WTI fell to \$17.53/b at one point, but pared declines by the afternoon. Around the market close, the RBOB crack was \$17.70/b, down 57 cents from Tuesday.

The NYMEX RBOB crack had been stable at around \$19-\$20/b this month, until the move lower this week. For comparison, in mid-November 2016, the crack was around \$10-\$11/b.

Gasoline stocks rose 894,000 barrels to 210.431 million barrels the week ending November 10, according to EIA data.

Analysts surveyed Monday by S&P Global Platts expected gasoline stocks fell by 1 million barrels.

Inventories had fallen by nearly 12.8 million barrels over three weeks ending November 3. Compared with the five-year average, stocks went from a surplus of 4.2% to a deficit of 0.2%.

On the Atlantic Coast, home to the New York Harbor-delivered NYMEX RBOB contract, gasoline stocks increased 525,000 barrels to 52.941 million barrels, a 1.1% surplus to the five-year average.

USAC refinery utilization, which averaged 88.2% just three weeks ago, jumped 3 percentage points last week to 99.8% of capacity.

Refiners have been exiting autumn maintenance, pushing the utilization rate higher, while the solid cracks have provided further incentive.

Total refinery utilization rose 1.4 percentage points to 91% of capacity, up from a recent low of 84.5% the week ending October 13. The last time utilization topped 90% was the week ending August 25.

"If utilization stays above 90% and this results in builds in gasoline and distillates, then we could retrace the rally," said Gene McGillian, senior energy analyst at Tradition Energy.

Prior to last week, USAC gasoline stocks had fallen four straight weeks by 5.8 million barrels, aided by relatively low imports.

Last week saw the first arrival of European gasoline into the Atlantic Coast in 14 days, which was the longest period without a delivery since Platts started tracking US Customs data in June 2015.

Still, USAC gasoline imports fell 57,000 b/d last week to 312,000 b/d. Imports have averaged 349,000 b/d over the last four weeks, compared with 591,750 b/d over the same period a year ago.

USAC diesel stocks rise

US distillate stocks declined 799,000 barrels last week to 124.763 million barrels, though the size of the draw fell short of the 2 million-barrel decline that analysts had expected.

Inventories have fallen four straight weeks and 10 of the last 11 weeks. In mid-September, stocks flipped to a deficit to the five-year average for the first time this year.

However, diesel stocks on the Atlantic Coast rose last week, putting pressure on ULSD futures.

The NYMEX ULSD crack against WTI fell right after the data release, touching an intraday low

of \$24.16/b. By the afternoon, the crack had bounced off that low to \$24.95/b, up 56 cents.

NYMEX December ULSD settled nearly flat, up 17 points at \$1.9087/gal.

USAC stocks of low and ultra low sulfur diesel built 1.64 million barrels last week to 42.54 million barrels.

That represents a deficit of nearly 26% to the year-ago level, which was skewed by a warmer-than-usual winter that dampened heating fuel demand. USAC combined stocks still sit 18.6% above the five-year average.

Demand for distillates in the US Northeast has helped strengthen the value for space on Colonial Pipeline's Line 2, which begins on the Gulf Coast and terminates in Linden, New Jersey.

Crude exports above 1 million b/d

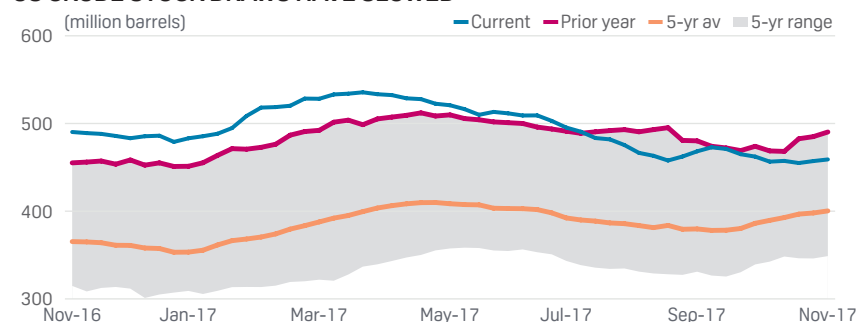
US crude stocks rose last week by 1.854 million barrels to 458.997 million barrels, compared with analysts' expectation of a drop of 1 million barrels.

American Petroleum Institute data released Tuesday evening showed a build of 6.5 million barrels last week, causing expectations to shift.

Even though EIA data wasn't as bearish, crude futures stayed in negative territory Wednesday. NYMEX December crude fell 37 cents to settle at \$55.33/b. ICE January Brent settled 34 cents lower at \$61.87/b.

Crude inventories have built by 4 million barrels over the last two weeks, even as refinery activity accelerates. — [Geoffrey Craig](#)

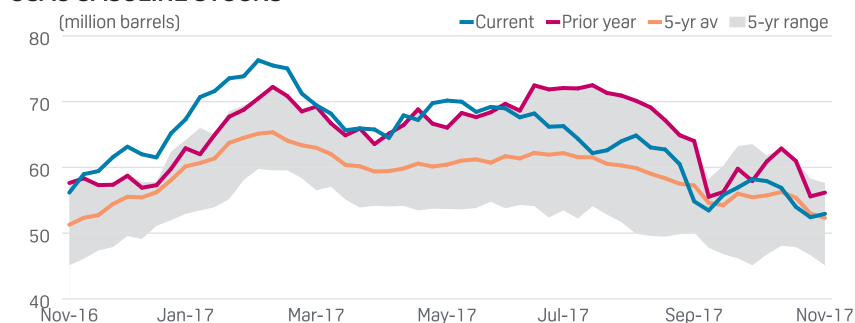
US CRUDE STOCK DRAWS HAVE SLOWED



Data up to September 30, 2016 includes lease sale stocks

Source: US Energy Information Administration

USAC GASOLINE STOCKS



Source: US Energy Information Administration

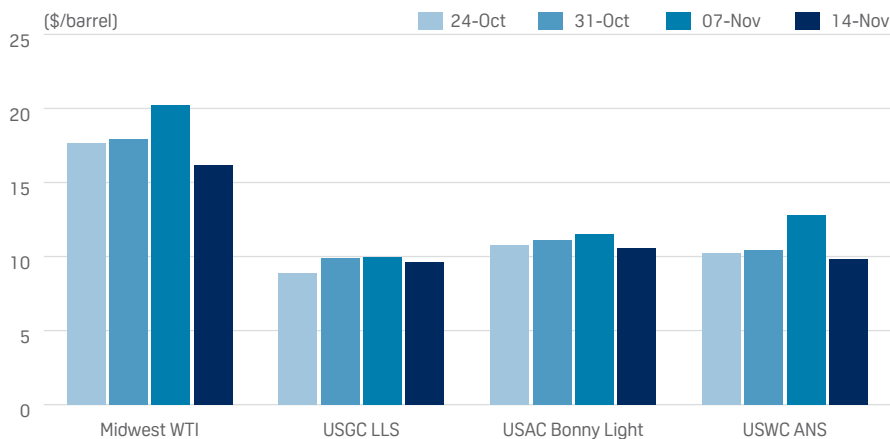
PLATTS PRICESCORE

Week ending		10-Nov	03-Nov
Crude oil:			
Dated Brent	(\$/b)	64.17	60.80
Dubai (First month)	(\$/b)	61.69	58.76
WTI (Cushing) (First month)	(\$/b)	57.05	54.60
ANS (California)	(\$/b)	63.62	61.27
Mars (MOC)	(\$/b)	59.58	57.09
Products:			
NWE (CIF cargoes)			
Naphtha (physical)	(\$/mt)	580.20	558.20
Diesel 10PPM NWE	(\$/mt)	570.10	552.70
Diesel 10ppm UK	(\$/mt)	571.20	553.80
Fuel Oil 3.5%	(\$/mt)	349.60	335.25
Jet Kerosene	(\$/mt)	610.90	587.50
Singapore (FOB cargoes)			
Kerosene (physical)	(\$/b)	74.46	71.51
Kerosene (paper)	(\$/b)	74.46	71.50
Gasoil 0.5%	(\$/b)	72.80	70.99
HSFO 180cst	(\$/mt)	375.35	360.35
LSWR mixed/cracked	(\$/b)	60.47	58.11*
C&F Japan			
Naphtha (physical)	(\$/mt)	595.38	567.00
US Atlantic Coast (Barge)			
RBOB 87	(¢/gal)	187.02	181.50
No. 6 1.0% (Cargo)	(\$/b)	58.11	55.51
US Gulf (Pipeline)			
Unleaded 87	(¢/gal)	182.12	176.80
No. 2	(¢/gal)	175.85	170.94
US Gulf (Waterborne)			
USGC HSFO	(\$/b)	56.99	54.21
Average settlement prices:			
NY Mercantile Exchange			
Light Sweet Crude	(\$/b)	57.03	54.45
No. 2 oil	(¢/gal)	192.89	187.09
RBOB	(¢/gal)	181.72	176.46
Natural Gas	(\$/MMBtu)	31.53	29.37
IntercontinentalExchange			
Gasoil	(\$/mt)	5.66	5.50
Brent	(\$/b)	0.64	0.61

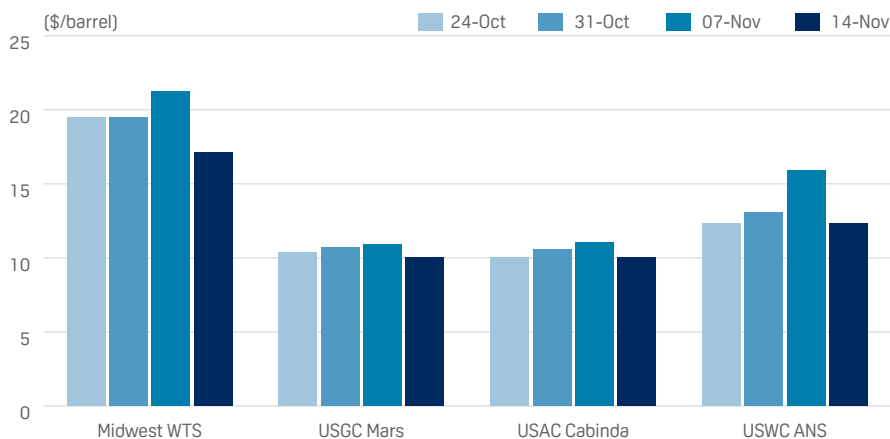
The averages in this table are the mean of Platts low and high daily quotations, or exchange settlements, calculated on a 5-day week basis, Monday through Friday. Saturdays and Sundays are excluded; *LSWR assessment is FOB Indonesia.

WEEKLY REFINERY MARGINS

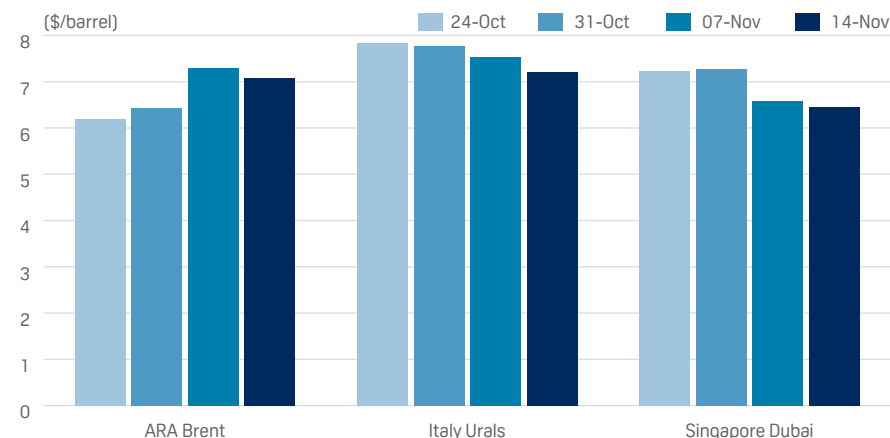
US CRACKING MARGINS



US COKING MARGINS



INTERNATIONAL CRACKING MARGINS



Refinery margins are derived from a weekly average of Platts daily spot assessments, and coking and cracking netbacks. For additional details, please contact Jeff Mower at jeff_mower@platts.com.

Source: Platts; Turner, Mason & Company

OPEC curbs expectations ahead of cut talks

[...from page 1](#)

endorsed extending the cuts, leading many market watchers to believe that the nine-month extension was a done deal.

But the management of expectations began last week, with OPEC Secretary General Mohammed Barkindo in Vienna telling reporters that while all OPEC ministers were on board with an extension, the length and any additional terms were still very much up in the air.

UAE energy minister Suhail al-Mazrouei then said Monday in Abu Dhabi that he was not pleased at the recent surge in oil prices, saying the volatility was harmful to attracting sorely needed investment.

"We cannot be less than \$40/b within a year and more than \$60/b within the same year," he said. "That fluctuation is not helping."

Joe McMonigle, an analyst with Hedgeye, said he expects similar talk to emerge as the meeting approaches and no deal is imminent, as ministers will want to manage market sentiment and prevent a major fall in prices after the meeting.

"They might be looking to reset expectations," he said. "We can be sure they

realize there will some negative reaction if they don't do an extension, [but] the nine-month [extension] was far from a sure thing."

A three-month extension may be more likely, he added — a partial victory for Saudi Arabia as it looks to keep the oil market stable while it embarks on major economic reforms, including a potential public offering of state oil company Aramco, while also not locking in reluctant members to the full year of cuts.

Other analysts, however, remain convinced that a nine-month extension is coming, given that the Saudi crown prince, known colloquially by his initials, MbS, has publicly staked his opinion on the matter amid domestic and regional turmoil.

"I think MbS would not be pleased with another post meeting sell-off as he seeks to reassure his citizens that all is well," RBC Capital Markets analyst Helima Croft said. "The Russians are providing all the suspense this time around. In the end I think they will [extend the cuts] all the way in [2018], but they are

making everyone nervous."

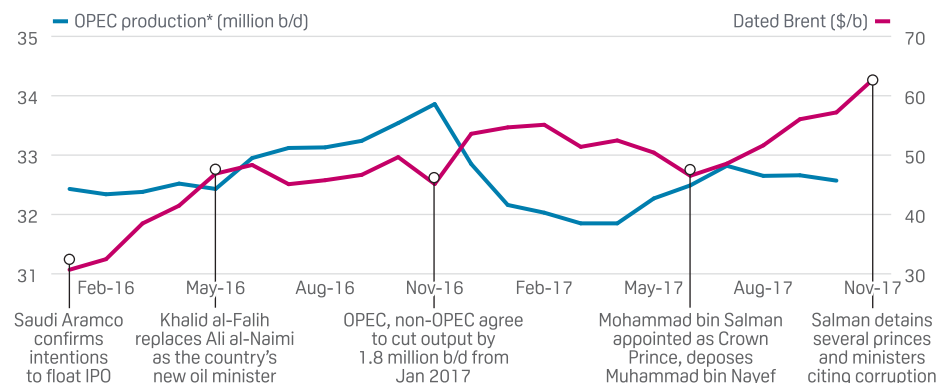
Either way, OPEC ministers are likely mindful of what happened at their previous meeting on May 25, when coalition leaders Saudi Arabia and Russia pre-announced two weeks earlier a deal to extend the production cuts — which had been set to expire in June — for nine months to the current expiry of March 2018.

Oil prices nevertheless fell some 5% after the meeting, with traders disappointed that deeper and longer cuts that had been hyped by some delegates failed to materialize in the agreement.

Analysts with Saudi investment bank Jadwa said in a note Sunday that a lack of agreement on the cuts at the meeting could cause oil prices to fall back to around \$55/b. ICE Brent futures were trading at \$61.64/b on Wednesday, after rising above \$64/b earlier this month, aided by some geopolitical instability in the Middle East.

"Despite recent market optimism, uncertainly still remains over agreement to an extension," the Jadwa analysts said. — [Herman Wang](#)

OPEC OIL PRODUCTION VS BRENT



Notes: Excludes Indonesia from Dec, 2016, includes Equatorial Guinea from May, 2017
Source: Platts

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Argentina's Neuquen shale output rose 25.8% in August

Buenos Aires—Shale oil and natural gas production in Neuquen, a southwestern province of Argentina home to the giant Vaca Muerta play, rose 25.8% in August on the year, led by gas, the Neuquen Department of Energy, Mining and Hydrocarbons said Wednesday.

Production from Vaca Muerta, the country's biggest shale formation, and other plays totaled 75,719 b/d of oil equivalent in August, up from 60,185 boe/d in the year-earlier month, the department said in a data report. Compared with 76,309 boe/d in July, shale output was down 0.8%, the report shows.

Of the production in August, shale oil rose 18.5% to 37,909 b/d from 31,983 b/d a year earlier, while shale gas increased 34.1% to

37,810 boe/d from 28,202 boe/d over the same period.

Tight oil production more than doubled to 3,177 b/d in August from 1,529 b/d a year earlier, according to the data.

Tight gas production totaled 22.5 million cu m/d in August, the department said, without providing comparative data.

Of the province's 103,107 b/d of total oil production in August, 60% was conventional, 37% was shale and 3% was tight, the data show. Of the 61.6 million cu m/d of gas production that same month, 53% was conventional, 37% was tight and 10% was shale, according to the data. —

[Charles Newbery](#)

US Senate panel approves plan to drill in Alaskan refuge

Washington—The Senate Energy and Natural Resources Committee approved legislation Wednesday to open up the Coastal Plain of the Arctic National Wildlife Refuge to oil and natural gas drilling for the first time in decades.

Congress has not been this close to authorizing drilling in ANWR since December 1995, when then-President Bill Clinton vetoed a budget bill which included a provision to open the refuge to oil and gas development. But the legislation is part of a budget resolution now tied to Republican tax reform efforts and faces an uncertain path forward in Congress.

Senator Lisa Murkowski, an Alaska Republican and chairman of the energy committee, said Wednesday that drilling would take place on roughly 2,000 acres within the 19 million-acre ANWR, located in northwest Alaska.

But Washington Senator Maria Cantwell, the committee's top Democrat, doubted this estimate and said Murkowski would not support an amendment prohibiting oil and gas development from taking place beyond that 2,000 acres.

Democrats on the committee Wednesday criticized Murkowski's bill, claiming it would weaken federal environmental reviews, interfere with the habitats of polar bears, caribou and porcupines and open currently protected federal lands to oil companies with leases they are currently not producing on.

All of Alaska's congressional delegation is

pushing for approved drilling in ANWR, claiming that the state needs the oil revenue as the Trans-Alaska Pipeline System is currently operating at about 25% of its 2 million b/d capacity.

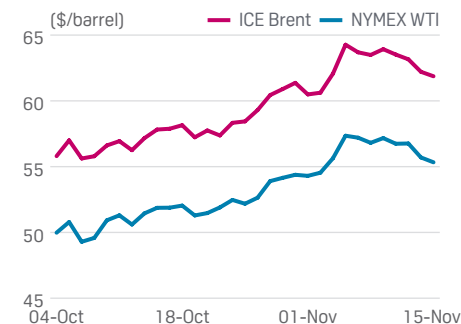
Last week, the Congressional Budget Office forecast the bill would raise \$1.2 billion in federal revenues over 10 years, but indicated that projections on ANWR leasing were highly uncertain.

The bill is being moved through the Senate as part of a budget reconciliation process, which congressional Republicans are also using to attempt to move their tax reform efforts. This process will allow the ANWR bill to be approved by a simple, party-line vote, meaning that it could pass without support from a single Democrat.

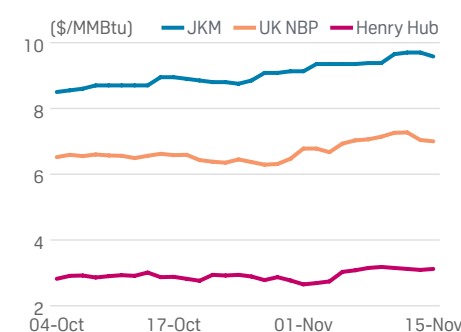
According to the bill, drilling would be permitted in the 1002 Area, a 1.5 million-acre section of the 19 million-acre ANWR. The area is named after Section 1002 of the Alaska National Interest Lands Conservation Act, which was signed into law by President Jimmy Carter in 1980 and prohibits drilling in the area without congressional approval and an environmental impact study.

Murkowski's bill repeals the prohibition on development in the Coastal Plain in the 1980 law and requires Interior to hold at least two areawide lease sales offering a minimum of 400,000 acres each within 10 years, with the first lease sale within four years and the second within seven years — [Brian Scheid](#)

NYMEX WTI, ICE BRENT CRUDE OIL FRONT MONTH DAILY SETTLES



GLOBAL GAS PRICE COMPARISON



Source: Platts, prices are rounded

S&P Global

Platts

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Chief Editor

Gary Gentile, gary.gentile@spglobal.com

Senior Editor

Benjamin Morse, benjamin.morse@spglobal.com

EMEA Senior Editor

Robert Perkins

APAC Senior Editor

Sambit Mohanty

Design and Production

David Stark

Americas Oil News: Jeff Mower

Europe and Africa Oil News: Paul Hickin

Asia Pacific Oil News: Mriganka Jaipuriyar

Editorial Director, Global Oil News: Beth Evans

Global Director, Oil: Dave Ernsberger

Regional offices and telephone contacts:

New York: Janet McCarty, +1-800-752-8878 or

+1-212-904-3070; **Washington:** Meghan Gordon,

Brian Scheid, +1-202-383-2251; **Houston:** Starr

Spencer, Ashok Dutta, +1-713-658-9261; **London:**

Nick Coleman, Eklavya Gupta, Herman Wang +44-

207-176-6100; **Dubai:** Adal Mirza, +971-4-3912351;

Moscow: Nadia Rodova, Rosemary Griffin,

Nastassia Astrasheuskaya; **Singapore:** Oceana

Zhou, +65-6530-6589; **Tokyo:** Takeo Kumagai,

+813-4550-8842; **Hong Kong:** +852-2533-3513

Platts President

Martin Fraenkel

Manager, Advertisement Sales

Bob Botelho

Advertising

Tel: +1-720-264-6618

To reach Platts: E-mail: support@platts.com;

North America: Tel: 800-PLATTS-8; Latin America:

Tel: +54-11-4121-4810; Europe & Middle East: Tel: +44-

20-7176-6111; Asia Pacific: Tel: +65-6530-6430

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