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CIS OIL AND GAS SUMMIT

RUSSIA, THE CASPIAN & CENTRAL ASIAN
REPUBLICS

15th, 16th, 17th April 2002, Le Meridien Hotel, London

The Energy Exchange Ltd is delighted to host the 2002, CIS Oil and Gas Summit that will look at all aspects of the oil and gas industry in Russia, The Caspian & Central Asia.

Whilst recent years have seen a steady growth in stability in the region, the energy sector still faces many challenges for even the most experienced investor.

KEY PRESENTATIONS WILL INCLUDE:

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Commentary

Russia and OPEC: Aiming for higher stakes

By Mayra Rodríguez Valladares

"Russia's cooperation is crucial for a stable oil market ... [We] hope Russia and other non-OPEC producers will continue to cooperate."

United Arab Emirates Minister for Petroleum and Mineral Resources Obeid bin Saif Al Nasiri made this subtle plea on February 19 at the recent International Symposium on Energy Development in the Gulf. The supplication was not lost on Russia. It is clear that Russia has become a key player in international oil markets, particularly since the tragic events of September 11.

When Russian President Vladimir Putin cast his lot with the U.S. fight against terrorism, he catapulted his country to a new and powerful stature in the oil world. Last autumn, when Russia initially refused to cut its production at OPEC's behest, the world saw what power Moscow could have over international oil prices and markets. When Russia finally announced at the end of last year that it would cut production, some observers argued that Russia had caved in and that this had been OPEC's coup. But no, Russia was clever; it offered piecemeal cuts, then a larger reduction, all in the hopes of not losing significant levels of oil revenues and also currying favor with the West.

Russia continues to have the most to gain if it is seen as cooperative. Moscow has its eye on potential further foreign investment, European Bank for Reconstruction and Development (EBRD) credits and European

Community financing for Adriatic pipelines and other projects. It also seeks entry into the World Trade Organization (WTO) and perhaps NATO as well. As Prime Minister Mikhail Kasyanov has bluntly stated, "a decision on oil would depend on the conditions of Russia's integration into the world economic space." Russia would prefer to produce oil to continue adding to state coffers and would also prefer to help the West in terms of keeping oil prices low to alleviate the current recession, but it also wants to thwart the threat of OPEC flooding the market.

Additionally, we cannot underestimate Western interest in keeping Saudi Arabia stable; plummeting oil prices could have severely detrimental effects on that country. The U.S. government will continue to push, albeit discreetly, for Saudi Arabia's stability. While Saudi Arabia has the lowest oil production costs in the world, which means that in some respects it could endure a price slump longer than Russia, Saudi Arabia's national budget is based on the assumption that oil will sell for at least US\$25 a barrel. Moreover, Saudi Arabia's economy is still too dependent on oil and oil derivatives, which account for 90-95% of the country's total export earnings, 75% of the budget and about 35-40% of GDP.

OPEC's Power Continues to Wane

The fact that it took OPEC almost a month last year to secure the cooperation of Russia and other non-OPEC members has undermined the cartel's market credibility significantly. Uncertainties cloud the oil market at present, making OPEC's attempts at micro-management extremely difficult. Again now in February, OPEC ministers are conducting significant overtures to Russia to encourage the latter to keep production down.

Also, OPEC is aware that if the organization has difficulty controlling its own members' production, controlling others' production is almost impossible. Moreover, as Russia and Central Asian countries continue to improve oil production and export capacity, OPEC's position will continue to weaken.

Potential Benefits to International Oil Companies

Oil companies and oil professionals stand to benefit from Russia's new alignment with the West and its increased power vis-à-vis OPEC. Russian oil companies need US\$40 billion in investment in the 2001-2005 period, and at least 25%, if not more, is needed from outside investors. Opportunities for U.S. and foreign exploration and oil field services companies are significant. Given few drilling opportunities domestically, foreign companies, especially U.S. firms, are looking for opportunities abroad, especially in more stable places like Russia and Central Asia as opposed to West Africa.

Oilfield services and construction companies will also increase their push to service Russian oil companies, especially in the area of pipeline security. Schlumberger and Parker Drilling, for example, are among the significant oilfield service companies already in Russia. McDermott is involved in the Caspian.

Russia will continue to flex its muscles in the international oil arena. The sooner observers understand that Russia will not cave into OPEC demands, the sooner they will learn to reap some of the possible benefits of the new oil political climate.

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