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Forties-Flotta proposed as benchmark

A medium sour crude benchmark involving North Sea grades Forties and Flotta is being proposed as an alternative to stuttering attempts to launch Urals futures.

Urals futures have drawn no trade since Nymex and Russian exchange RTS launched them in September. And seasonal fluctuations in the availability of Russian crude make it unsuitable as the basis for a medium sour benchmark, according to independent consultancy CEAG in an as-yet unpublished study.

Not a lot of Flotta

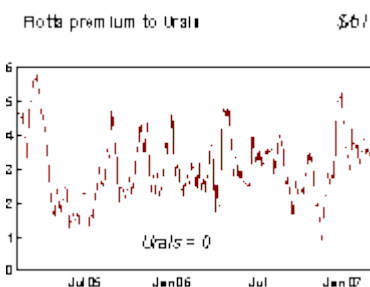
Because the higher-quality Forties stream is almost always more expensive than Flotta, the latter crude would set the proposed benchmark, the group admits. Flotta loadings amount to only three cargoes a month — output was just 68,000 b/d last year. But CEAG maintains that a Forties-Flotta forward contract, which may or may not allow delivery of Urals loading at Ventspils, could be a more robust instrument than Urals futures. Flotta trades at an average premium to Urals of \$3-3.50/bl (see graph).

The quality of the Forties stream has fallen markedly since the introduction of the new Buzzard crude in early January. But the absence of a clear current or projected assay from either field operator Nexen or Forties pipeline operator BP has left the grade heavily discounted. Buyers are pleased that Forties sets the dated BFO benchmark as a result, keeping it lower. But even they concede that the grade can no longer be regarded as a sweet crude. Forties sulphur content is set to climb to at least 0.5pc later this year.

Nexen has confirmed that deeper strata in the Buzzard field are sourer than the 1.44pc sulphur content previously thought, and contain unexpectedly high levels of toxic and corrosive hydrogen sulphide. Another problem is that Buzzard is the only field that is downstream of the Unity riser platform, through which all other Forties pipeline production flows. A shutdown of Unity would mean that delivered Forties would be solely Buzzard, with hefty price volatility implications.

This has stirred discussion about the possibility of dropping Forties from the benchmark BFO contracts, although there is, as yet, no strong consensus on the subject. The blend's producers are unlikely to favour the move, because non-Buzzard Forties system field owners would lose the flexibility of selling their output forward, says CEAG.

Other BFO grades are not without their problems. Brent and Oseberg production continues to decline, and Oseberg buyers are concerned by the fact that after the merger of Norway's Statoil and Norsk Hydro later this year, a single company will control more than 90pc of output.



By James Gooder