

MARKETPLACE

Rethinking North Sea Trade

Cash trade in the Platts window of the 21-day Brent-Forties-Oseberg-Ekofisk (BFOE) contract, which underpins dated Brent assessments, has dried up since the pricing service decided to impose a minimum standard of 37° API gravity and 0.6% sulfur for Forties crude oil cargoes deliverable into the contract (EC Jun.15,p9).

Platts' move was rooted in concern that Forties maintenance shutdowns in late July and the first half of August would increase the contribution by medium, sour Buzzard to the Forties blend — resulting in a quality deterioration that would threaten the grade's status as a light, sweet crude. Jorge Montepeque, Platts' global director of market reporting, said that in order to protect the integrity of the assessment process, the agency would exclude Forties deals unless sellers could guarantee to deliver Forties of the stipulated quality.

At a seminar hosted by Platts on Jun. 19 in a bid to calm the ensuing outrage, traders were practically unanimous in declaring that no seller could reasonably guarantee the standard required by Platts, with some declaring that the "cure" was "worse than the disease." Montepeque announced a consultation period through Friday, Jun. 29, during which the industry could submit suggestions for improvements to the methodology, but said the restrictions would remain in place in the meantime. Liquidity has dried up as a result, with dated Brent assessments varying sharply among the three principal pricing services, Platts, Argus and ICIS-LOR.

In an effort to inject at least some flexibility, BP has suggested including in the Forties contract a price de-escalator of 30¢ per barrel for each 0.1% sulfur above 0.6% sulfur, to compensate for all quality reductions associated with the increased levels of Buzzard, not just the sulfur level. While this might be an improvement, some traders maintained the proposal was still too rigid.

Then, on Jun. 27, consultants Consilience Energy Advisory Group (CEAG) published proposals titled "Brent Contract — A Suggestion for the Consideration of Industry Players." CEAG — led by Liz Bossley, former head trader with Enterprise Oil — said building quality guarantees into sales agreements is operationally unworkable and fraught with contractual difficulties. CEAG instead pro-

posed that the industry agree a standard Brent reference quality with a starting point for further discussion, somewhere around 38° API, 0.4% sulfur, plus a simple, transparent escalation/de-escalation formula based on API and sulfur that applies to all grades delivered into the 21-day contract — not just Forties. The inclusion of a medium, sour grade like Flotta in the 21-day contract — creating BFFOE — subject to the same formula might improve liquidity and bring more players to the table, added the report.

CEAG argued that the contractual price for a 21-day BFOE contract could then be agreed at the standard Brent reference quality, with the final invoice adjusted for the bill-of-lading quality of each cargo. The pricing services could then assess and report the standard reference quality price — and the actual quality delivered would cease to matter.

It would probably take three to six months before such a formula could be applied, for existing open interest to work through the delivery system and for the details of new arrangement to be worked out. It would, of course, not solve the existing July-August problem. But BP's simpler de-escalator could help bridge that period.

One refiner welcomed CEAG's suggestion to include other grades, describing it as "logical and probably workable," but doubted the need for the change — except to get Platts off its self-imposed hook. Another said the proposal has the merit of retrieving the common sense that Platts threw out of the window: "A benchmark doesn't need to be perfect — that's an illusion anyway — but it must inspire confidence and be adaptable and this proposal seems to do that," he said.

However, others said the proposal was a case of "too much, too late," as it would take too long to implement, and suggested a modified form of the BP proposal might be adopted. ■

Crude Oil Markets

	Jun. 27	Jun. 20	Chg.
Futures			
Brent 1st	70.53	70.42	+0.11
Brent 2nd	71.30	71.31	-0.01
WTI 1st	68.97	68.86	+0.11
WTI 2nd	69.28	69.51	-0.23
Oman 1st	66.87	65.74	+1.13
Oman 2nd	66.17	66.27	-0.10
WTI-Brent	-1.56	-1.56	0.00
Brent-Oman	+3.66	+4.68	-1.02

Benchmarks

Dated Brent	73.00	72.01	+0.99
B-Wave	70.33	70.60	-0.27
Mars	66.12	64.80	+1.32
Dubai	65.41	67.08	-1.67
Oman (spot)	65.46	66.98	-1.52
Tapis	73.95	76.20	-2.25
Minas	67.85	69.70	-1.85

Differentials

Dtd Brent/BFO:			
Urals Med	-3.95	-4.05	+0.10
Bonny Light	+1.55	+1.05	+0.50
Cabinda	-3.10	-3.20	+0.10

WTI:

LLS	+5.30	+6.45	-1.15
Mars	-2.85	-3.60	+0.75
Cusiana	+6.29	+6.00	+0.29

\$/bbl.

Source: London Oil Reports, exchanges

Refining Margins

	Jun. 27	Jun. 20	Chg.
Rotterdam (Brent)	-4.80	-4.00	-0.80
US Gulf (WTI)	+11.06	+12.00	-0.94
Singapore (Dubai)	+0.04	-1.66	+1.70

\$/bbl.

Source: EIG

Product Markets

	Jun. 27	Jun. 20	Chg.
Rotterdam			
Regular Gasoline*	712.50	721.50	-9.00
Diesel (0.005%)*	655.75	663.50	-7.75
Fuel Oil (1%)*	316.50	307.00	+9.50
Fuel Oil (3.5%)*	328.50	319.00	+9.50

US Gulf Coast

RBOB†	233.45	219.20	+14.25
Distillate Fuel (0.2%)‡	199.50	200.40	-0.90
Fuel Oil (0.7%)‡	57.75	58.25	-0.50
Fuel Oil (3%)‡	51.53	53.17	-1.64

Singapore

Naphtha‡	72.86	73.83	-0.97
Premium Gasoline‡	85.27	83.91	+1.36
Gas Oil (0.5%)‡	81.20	83.50	-2.30
Fuel Oil (3.5%)*	367.10	362.45	+4.65

* \$/ton. † \$/gallon. ‡ \$/bbl.

Source: Reuters