The Changing face of Algeria

Jon Woodwards, Aberdeen and Grampian Chamber of Commerce International Business Director

Algeria, with a population of almost 33 million and occupying 2.3 million sq. km., is the largest of the North African states.

Once the richest and most developed country in North Africa, political destabilisation over the last 15 years has significantly affected the level of potential foreign inward investment.

Recent improvement in the political climate has allowed the economy to expand at its highest rate in more than a decade.

Though the UK has historically been a small scale trade partner with Algeria, new oil and gas developments and legislative changes are generating increased business opportunities for companies with specialist expertise.

The present Head of State, President Abdelaziz Bouteflika, has done much to try and stabilise the country and rebuild trading relations with both Europe and the United States to demonstrate his stance against internal extremists. He has been the influential force in reducing the levels of violence and unrest in Algeria since taking office in 1999.

Economy

Algeria has experienced a significant economic upturn in recent years. Oil and natural gas exports which made up 98 percent of Algerian exports in 2006 are the main driver of Algerian economic growth.

Accounting for over 30% of the GDP, oil and gas production will remain the backbone of the economy for many decades to come.

Considered largely to be “unexplored,” actual oil reserves are believed to be significantly greater than what was originally determined. In addition, proven natural gas reserves are in the region of 5 trillion cubic metres.

Oil and gas remain the most attractive sector for foreign investors. The United States, Japan, Italy and China are the major trading partners, along with France, but the Algerian government is now looking to make foreign investment in the country as attractive as possible.

Legislation and Partnering

In March 2005, the Algerian parliament adopted the hydrocarbon reform bill. The bill encouraged international oil company (IOC) investment throughout the hydrocarbon industry, which state-owned Sonatrach previously dominated. The amendments gave Sonatrach the right to have a 51% or higher participation option on each newly launched project. This reform deregulated both the upstream and downstream sectors offering more opportunities for foreign inward investment.

Sonatrach, the Algerian national operating company, is still the defining organisation and controls 64% and 94% of the oil and gas production respectively. Sonatrach has over 120,000 employees and with Sonelgaz (the state downstream gas company) has a variety of joint ventures and 22 subsidiaries, with the most well known being Naftal and Naftec.

With this new legislation now in place, this role will be undertaken by its subsidiary agency ALNAFT. Its main responsibility will be to licence and supervise the exploration and production side of the industry.

Though Sonatrach dominates the national petroleum industry through its many subsidiaries, around 44% of the country’s crude oil production is operated by International Oil Company (IOC) led joint ventures.

The largest foreign oil producer is Anadarko, with total production capacity of 500,000 bbl/d. The company operates the Hassi Berkine South and Ourhound fields in eastern Algeria, with combined output of around 450,000 bbl/d.

Eni operates, among others, the Rhourde Oulad Djemma (ROD) project in south eastern Algeria, a series of six satellite fields that have production capacity of 80,000 bbl/d. Additional foreign investors include Amerada Hess, BHP-Billiton, BP, Repsol, Shell, Statoil and Total.

Oil and gas reserves

Algeria’s oil reserves and production now make it Africa’s third largest oil producer (behind Libya and Nigeria). Oil production has risen steadily to around 1.4 million bpd (barrels per day) and with over 500,000 bpd of condensate and other gas liquids, total production is close to 2 million bpd. Revised recent estimates suggest Algeria contains an estimated 12.3 billion barrels of proven oil reserves as of January 2007.

The seventh bidding round will be launched in January 2008 for 10-15 blocks. A selection of pre-qualified firms would be entitled to bid for the upstream blocks, which the government will identify in due course.

As of January 2007, Algeria is estimated to have 161.7 trillion cubic feet (Tcf) of proven natural gas reserves, the eighth-largest accumulation in the world. Its largest gas field is the super-giant Hassi R’Mel, and holding proven reserves of about 85 Tcf. Hassi R’Mel accounts for about a quarter of Algeria’s total dry natural gas production.

The remainder of Algeria’s natural gas reserves center around fields in the south and southeast regions of the country. In southeastern Algeria, the Rhourde Nouss region holds 13 Tcf of known reserves. Also in southeastern Algeria, near the Libyan border, the In Amenas region includes the Tin Fouye Tabankort (TFT; 5.1 Tcf), Alrar (4.7 Tcf), Ouan Dimeta, and Oued Noumer fields. The In Salah region in southern Algeria holds smaller, less-developed reserves (5-10 Tcf).

Liquefied Natural Gas

With the start-up of the Arzew GL4Z plant in 1964, Algeria became the world’s first producer of liquefied natural gas (LNG). Algeria is now the fourth largest exporter of LNG behind Indonesia, Malaysia and Qatar, exporting around 13 % of the world’s total. The vast majority of Algeria’s LNG exports go to Western Europe, especially France, Spain and Turkey.

Algeria - the future

Past instabilities have done much to harm the exploration and development of the indigenous Algerian oil and gas hydrocarbon reserves but this situation is changing. The Algerian government recognise the need for in-country stability and having fair fiscal and legislative policies in place that offer a level playing field for foreign investors. Only by creating a favourable and equitable investment climate will the necessary foreign expertise be attracted to take their oil and gas industry to the next level.

As oil and particularly gas prices continue to rise worldwide, the demand and competition for available reserves increases, particularly from energy deficient countries such as China and India. Maximising and expediting the development of their hydrocarbon resources will be the key to the long term future economic well being of the country.

Key elements such as partnering, joint ventures and meeting local content percentages will continue to be major considerations for potential foreign investors. Increasingly Algeria is moving towards a more open approach to doing business with other countries outwith their usual colonial trading partners of the past.

The sheer size and scale of their plans for trans Algerian/European pipelines, associated refineries and pumping stations over the next ten years sends a clear message to UK companies that it is not just West Africa that offers significant new business opportunities. ■