



# Algeria embraces globalisation and liberalisation

Algeria's culture of state monopoly and single party rule has been set aside as the country appears to have resolutely chosen globalisation and liberalisation of its markets.

| by Yves de Saint Jacob

Hydrocarbons are at the heart of Algeria's history. The discovery of oil in Hassi Messaoud and its subsequent development by French companies coincided with the struggle for independence, which was achieved in 1962. Oil and natural gas concerns were all nationalised in 1971 under Houari Boumedienne. Algeria's role in Opec over the years has prepared the country for a new approach – liberalisation. In 2005, Energy Minister Chakib Khelil (see page 12 for his interview with EER) passed a law often referred to as the “denationalisation law” that did away with tradition, even if an edict a year later limited its scope by maintaining the general principle of Sonatrach taking a 51% stake in every project.

## New pipes |

The main purpose of Algerian policy is to increase the potential capacity for exports to Europe and the rest of the world. Oil production should grow between 3% and 5% a year but it is gas that is intended to progress faster, with exports rising from the current amount of 62 billion cubic metres (bcm) to 85 bcm by 2011. Two gas pipelines are already in place (see map on page 14). The Transmed (Enrico Mattei) has served Tunisia, Italy and Slovenia since 1983, and the Gazoduc Maghreb Europe (also known as the Pedro Duran Farell pipeline) has supplied Morocco, Spain and Portugal since 1996. Two underwater links are to be added to carry a further 16 bcm. The Medgaz

pipeline, a direct link between Algeria and Spain, will be built in 2009 and followed in 2012 by the Galsi pipeline to Sardinia and Grosseto in northern Italy. The pipelines will be accompanied by high tension electric cables that will form part of a future international network linking north and south. Finally, there is a major gas pipeline from the south that crosses the Sahara Desert. The TSGP (Trans Sahara Gas Pipeline) project, which is in the process of accumulating financial backing, will carry between 20 and 30 bcm for 4,300 km from Nigeria to Algeria.

The capacity for liquefaction will also be increased to maintain a proportion of 50% of the total natural gas production, an important ratio given Algeria's early

commitment to the technology. Two plants are planned at Skikda and Arzew. The fleet of gas tankers will continue to grow to maintain the 50% share of LNG transported by national tanker ships.

Algeria is not yet rich in sources of renewable energy but intends to redress that balance as well, with a particular focus on solar power. A plant will become operational between 2009 and 2010 at Hassi R'mel, and there are high hopes that solar electricity will rapidly become a product for export. Aware of the production cost per kilowatt hour, the new company Neal (New Energy Algeria), in partnership with the Spanish firm Abener, has opted for a hybrid system, where large solar panels are combined with locally-produced gas to feed a classic turbine. Solar power will thus account for 25 MW out of a total production of 150 MW.

### Diversifying exports |

There are those who are concerned that hydrocarbons constitute 96% of the country's total export revenue. Algerians have not forgotten the trauma of the 1990s when the oil crisis almost left the country bankrupt, sent unemployment soaring and created a climate of social misery that proved to be a fruitful breeding ground for Islamic extremism. Belaid Abdesslam, the founding father of industrialisation under Boumedienne and prime minister from 1992 to 1993, who, at 80, remains a respected figure in the country, sounds an alarmist note. 'I am convinced that if there is a sudden dramatic fall in the price of oil, everything in Algeria will go back to square one. Everything in Algeria could fall apart,' he told the daily newspaper *Al Khabar*.

Even as prices continue to rise, Algeria does not discount the possibility of a fall. According to Khelil, who is also the current president of Opec, if there is no ceiling to cap the rise of the price per barrel, then there is no depth to which it could fall. 'I think it could fall back to any level at all. If you have a serious recession, a reduction in demand of two to three million barrels a day, with the current

market attitudes, a rise in the value of the dollar and speculation in the opposite direction could see the price could fall to a very low level.'

Diversification is the best way to safeguard against these problems and Algeria has chosen to focus its efforts in four main areas: tangible products from mining and the petrochemical industry; new sources of energy, including renewables and nuclear power; breaking into the Asian

*'We have the same level of gas reserves in 2008 as we had in 1971'*

and North American markets with LNG; and gaining new customers by seeking to get into downstream in southern Europe. About this last, Khelil asks, 'European companies are getting into upstream, why shouldn't Sonatrach have the right to get into downstream?'

Sonatrach had a bitter experience in Spain where, as opposed to Italy, local distributors like Gas Natural tried to block its expansion. The Spanish industry minister twice intervened on the Algerian company's side against limitations imposed on it by the national energy commission and local companies. Some Spanish managers even dismissed Sonatrach as 'the Gazprom of the Mediterranean'. The Algerians complain that while the European Commission is talking about open markets and transparency, certain member states are strongly opposed to such initiatives.

The Spanish experience has not dampened Algerian ambitions, however. Sonelgaz, Algeria's gas and electricity distributor, is set to deliver its first consignment of electricity to Spain. Sonatrach has taken a 2% stake in the Portuguese electric company and it is continuing its rise in the Italian market. Sonatrach is entering in as many partnerships with western companies as it can and will resume its cooperation projects with Gazprom.

### Internal political questions |

But this does nothing to convince those who think Algeria should, to use the slogan adopted by Belaid Abdesslam in the 1960s, 'sow oil to reap industry'. The newspaper *Liberté* reported that one of Abdesslam's former colleagues, Abdenour Keramane, energy minister in the early 1990s, expressed the regret that Algeria had still not moved from an oil-economy to that of an industrial power. From 1998 to 2007, the GDP rose by an

average of 4.1% a year, while in the same period revenue from hydrocarbon exports increased sixfold, raising the question of what will happen when the resources are exhausted in 20 to 25 years.

But Dr Khelil is far from pessimistic about the state of the reserves. 'We have the same level of reserves in 2008 as we had in 1971,' he says. 'In addition, in our gas and oilfields spread over a vast area of 1,500,000 square kilometres, we only have 13 wells per 10,000 square kilometres, whereas the world average is 100. We are not like Kuwait, which has identified all of its reserves.' The Algerian government points to the number of companies ready to prospect in Algeria since the country put 15 areas up for tender. 'I have 70 companies knocking on my door,' Khelil says.

The government has also tried to overcome the doubters by using the current windfall to set up a development plan, largely run by the state, in which nearly \$150 billion has been earmarked for various projects. These include the construction of an east-west motorway link, railway construction projects and seawater desalination plants. The critics' response is that the plans add up not so much to sustained industrialisation as an opportunistic development of the infrastructure. ■