

Algeria Oil and Gas Report



Introduction

Algeria's energy sector represents rich pickings to the potential foreign investor for whom it continues to prove popular. The country has a large hydrocarbon wealth and is considered relatively under-explored. It has a long track record of successfully delivering major oil and gas projects and there is a well established energy infrastructure throughout the country.

Algeria also sits just to the south of one of the world's major energy consumption areas – the European Union – and the next 10 years will see it cementing its ties with this important trading block through a recent association agreement and via its support for the Euro-Mediterranean integrated economic and energy network. This will bring benefits both to Algeria and its business partners around Europe.

It also enjoys good relationships with the US and wants to increase its gas exports to the country over the next decade and beyond.

It is a strong promoter of regional links, particularly within Africa and has led many campaigns to coordinate the energy sector of the continent. It is a proponent of the Trans-Sahara gas pipeline, which if realized could become one of Africa's rare energy success stories

On paper, the country remains an attractive investment target and is one of the most popular for foreign energy companies to invest. Its licensing rounds attract significant interest. It is also growing its energy sector with ambitious plans to increase supplies to Europe through new production capacity and new infrastructure.

This means there are many investment opportunities available to international energy firms.

All this is taking place against a background of increased political and civil stability; the violence of the 1990s has abated and there has been an improved economic performance over the past couple of years.

Political instability has always been an issue for foreign operators; however despite the risks involved the country has still proved attractive to foreign oil and gas companies.



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Rich oil and gas reserves, a solid energy infrastructure, proximity to major markets, plans to expand production, measures to ease future investments and an improving economic and political outlook all bode well.

Foreign investment will be crucial if Algeria is to realize its dream of doubling crude production and dramatically increasing gas output.

While Algeria is obviously a very attractive investment target for the international energy community, 2004 appears to be a crucial year. If Bouteflika is returned to power then one can expect to see a renewed effort to press ahead with reforms of both the general economy and the oil and gas sector in the shape of the new hydrocarbon law.

If he loses his position to a more conservative opponent then it is unclear whether all or indeed any of these measures will be introduced. This could undermine the current plans to significantly increase oil and gas production.

Other potential obstacles to Algeria's plans to increase output include restrictions on crude production under OPEC agreements. The Ministry of Energy and Mining is already pushing for the production ceiling to be raised but this will be a difficult process and could take years rather than months to achieve.

Failure to do this could act as a possible deterrent to companies from investing in the country if they fear projects will have to be pro-rated or even delayed because of OPEC quota limits.

Algeria desperately needs more foreign investment but potential investors would be wise to wait and see what happens in the 2004 presidential elections before committing funds.

For now, the reform of the economy and the energy sector remains stuck between the rock of free market reform and the hard place of entrenched opposition from unions, anti-reformists and the military.

Political stability is vital: in the mid-1990s – at the height of the civil unrest – foreign capital stayed away – falling back to levels not seen since a decade earlier in the mid-1980s. Without it, after April 2004, Algeria and Sonatrach could struggle.



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Governments around the world have often sought international investment to help shore up their regimes – to boost the economy and remove possible intervention from outside to make internal changes. Although this criticism could have been leveled at Algeria a decade ago, today the country appears to making good – if not slow - use of its increased revenues from oil and gas to try and bring about economic change and address some of the social problems in the country.

Political and economics aside, whatever happens in the elections, Algeria will probably always prove too attractive because of its reserves, oil and gas history, established infrastructure and proximity to major export markets. It is therefore unlikely that barring a major civil war, the international energy industry will turn its back on the country; it simply has too many benefits to offer.

The question, however, will be to what extent companies are happy to invest in Algeria. This decade will be crucial for the future of energy in the country.

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