

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing December 2016

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#### Algeria Summary 9 December 2016

*Members of the Organisation of Petroleum Exporting Countries (OPEC) agree a deal to reduce global oil output that Algeria's oil minister, Nourredine Bouterfa, brokered at a meeting in Vienna (Austria). State-owned oil and gas company Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach) signs a number of major deals linked to increasing Algeria's oil and gas output. Foreign minister Ramtane Lamamra calls on African nations to support the claim of the Sahwari Arab Democratic Republic (SADR) to the Western Sahara region.*

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#### Algerian deal lowers global oil output

Members of the **Organisation of Petroleum Exporting Countries (OPEC)** agreed a deal to reduce global oil output that **Algeria's** oil minister, **Nourredine Bouterfa**, brokered at a meeting in **Vienna (Austria)** on 30 November.<sup>1</sup> Bouterfa is reportedly the author and prime negotiator of the deal as Algeria has the trust of **Saudi Arabia**, **Iran** and **Russia**.<sup>2</sup> Algeria still relies on oil and gas receipts for 87% of government revenues and has worked to increase the price of oil to preserve its foreign currency reserves.<sup>3</sup> Following the announcement, the price of oil increased 8% to \$50 per barrel from \$46.2 per barrel at the start of trading on 30 November.<sup>4</sup> It has remained above \$50 per barrel since then and is \$54.6 per barrel at time of writing.<sup>5</sup> The new deal will help the government fund public expenditure, but will not push oil prices to the same highs as prior to 2013 when oil prices reached \$100 per barrel. The current deal involves a cut of 1.1 million barrels per day (bpd) by OPEC members and a further 600,000 (bpd) by non-member countries, notably Russia.<sup>6</sup> OPEC's 14 members will cut production to 32.5 million bpd, the current level recorded for October is 33.6 million bpd.<sup>7</sup> The deal offers individual restrictions and cuts for different countries. Iran, **Libya** and **Nigeria** are exempt from requirements to cut supply, but will sign up to quotas that they cannot exceed.<sup>8</sup> Bouterfa told the press prior to the meeting:

*"There will be a production cut, agreed by everyone, with quotas for countries ... [Algeria] put the proposal on the table and it was the one that was agreed."*<sup>9</sup>

Bouterfa was involved in last minute negotiations to secure the deal. He flew to Russia with **Venezuela's** oil minister, **Eulogio del Pino**, to meet their Russian counterpart, **Alexander Novak**, on 28 November.<sup>10</sup> Russia is the world's second largest oil producer after Saudi Arabia, but is not an OPEC member.<sup>11</sup> The Russian government agreed to support an OPEC deal with its own reduction deal following Bouterfa's visit. Russian president **Vladimir Putin** (2000-2008/2012-present) is

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<sup>1</sup> Bloomberg, 30 Nov 2016.

<sup>2</sup> Interfax, 28 Nov 2016.

<sup>3</sup> Reuters, 26 Nov 2016.

<sup>4</sup> Oilprice.com

<sup>5</sup> Oilprice.com

<sup>6</sup> Reuters, 26 Nov 2016.

<sup>7</sup> Bloomberg, 30 Nov 2016.

<sup>8</sup> Bloomberg, 30 Nov 2016.

<sup>9</sup> Bloomberg, 30 Nov 2016.

<sup>10</sup> Interfax, 28 Nov 2016.

<sup>11</sup> CIA Factbook, 2016.

currently in talks with Iranian president **Hassan Rouhani** (2013-present) and other OPEC members following the decision to reduce output.<sup>12</sup>

OPEC and non-OPEC producers met in **Algiers** to broker an initial deal in September and then in **Istanbul (Turkey)** in October for further discussions.<sup>13</sup> Bouterfa was the architect of the Algiers provisional deal and re-worked it following the Istanbul discussions to address members' concerns.<sup>14</sup> The primary disagreement within OPEC was between Saudi Arabia and Iran. The latter is pushing to be able to increase its output during the freeze to make up for low production under international sanctions.<sup>15</sup> Under the Algiers deal, Iran would be able to increase its production to 3.8 million bpd. Iranian oil minister **Bijan Zanganeh** met Bouterfa in Iranian capital **Tehran** on 26 November and released a statement saying that he would support the deal.<sup>16</sup>

### Sonatrach continues to sign production deals

State-owned oil and gas company **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** has signed a number of major deals linked to increasing Algeria's oil and gas output. Sonatrach is increasingly open to working with international partners as it seeks to achieve this. **Japan**-based engineering group **JGC** announced on 6 December that it had won a \$1.05 billion natural gas production equipment contract from Sonatrach.<sup>17</sup> Algeria is looking to boost its natural gas production to improve its market position within the **European Union (EU)**, its largest export market.<sup>18</sup> The JGC contract with Sonatrach is to handle design, procurement and construction for gas compressors at the **Hassi R'Mel** gas field roughly 400km south of capital Algiers.<sup>19</sup> The Hassi R'Mel field is the largest in Algeria and currently produces 190 million cubic metres per day cm/d.<sup>20</sup> Sonatrach is working to increase the efficacy of extraction of the field between 2017 and 2020 in order to increase production by at least 20%.<sup>21</sup> Sonatrach will use the JGC equipment to increase the overall reservoir pressure.<sup>22</sup> JGC has a long track record of operating in Algeria and has won a number of oil and gas tenders across 2016 and 2015. However, this is its first project valued at over \$1 billion in the past two years.<sup>23</sup> The announcement came a few weeks after Sonatrach announced a \$410m joint venture with the **China Petroleum Engineering and Construction Company (CPECC)** to redevelop the **Sidi R'Zine** oil refinery (*see ARC Briefing Algeria November 2016*).

Sonatrach is also looking to extend its relationships with existing partners. The company and **Spain**-based energy firm **Cepsa** extended their partnership in two oil fields on 22 November.<sup>24</sup> The two companies renewed contracts for the operations of the **Rhourde El Krouf** oil field for 25 years and the **Ourhoud** oil field for 10 years.<sup>25</sup> The agreements were due to expire in 2019, but both companies felt the productive partnership should be extended before the deadline.<sup>26</sup> The new memorandum of understanding (MoU) also included a clause to "*explore areas where both companies have common interests in Algeria and internationally*".<sup>27</sup>

<sup>12</sup> Bloomberg, 30 Nov 2016.

<sup>13</sup> Reuters, 26 Nov 2016.

<sup>14</sup> Bloomberg, 28 Nov 2016.

<sup>15</sup> Reuters, 26 Nov 2016.

<sup>16</sup> Reuters, 26 Nov 2016.

<sup>17</sup> Nikkei, 6 Dec 2016.

<sup>18</sup> Nikkei, 6 Dec 2016.

<sup>19</sup> Nikkei, 6 Dec 2016.

<sup>20</sup> Nikkei, 6 Dec 2016.

<sup>21</sup> Nikkei, 6 Dec 2016.

<sup>22</sup> Nikkei, 6 Dec 2016.

<sup>23</sup> Nikkei, 6 Dec 2016.

<sup>24</sup> APS, 22 Nov 2016.

<sup>25</sup> APS, 22 Nov 2016.

<sup>26</sup> APS, 22 Nov 2016.

<sup>27</sup> APS, 22 Nov 2016.

The company is continuing to look for more joint venture partners. Sonatrach CEO **Amine Mazouzi** told the media on 8 December that it is talking to five international partners for petrochemical joint-venture.<sup>28</sup> Sonatrach is looking for a partner for an ethane and liquefied petroleum gas (LPG) cracker complex to produce 1 million tonnes of ethylene per annum; a propane dehydrogenation facility with a capacity to produce 600,000 tonnes of polypropylene per annum; and a methanol complex with a 1 million tonne per annum capacity as well.<sup>29</sup> Sonatrach is also expanding into other petrochemical by-products and is seeking joint venture partners for a synthetic rubber plant and a tire production complex to produce 5 million tires per annum.<sup>30</sup> Mazouzi added that the group would start tendering for joint ventures on a further three petrochemical plants in early 2017. The first of these will be to restore the **Skikda** petrochemical complex's ethylene unit to its full working capacity of 120,000 tonnes per annum.<sup>31</sup>

### Foreign minister calls on African nations to support SADR

Algeria foreign minister **Ramtane Lamamra** called on **African** nations on 1 December to support the claim of the **Sahwari Arab Democratic Republic (SADR)** to the **Western Sahara** region.<sup>32</sup> Algeria is using the Western Sahara dispute to leverage for position against neighbouring **Morocco** in pan-African and international forums. Lamamra spoke at a seminar in Algiers called 'the role of Algeria in the decolonisation of the African continent' where he argued that Western Sahara, which Morocco currently administers as within its national borders, is the last remaining African colony.<sup>33</sup> Algeria hosts the government in exile of the SADR and is attempting to prevent Morocco using a bid to rejoin the **African Union (AU)** to rally support for its claim to the region.<sup>34</sup> He said:

*"The decolonisation of the African continent and ensuring the people's right to self-determination in all its meanings can only be achieved through the African nations' solidarity with each other and with the Sahrawi cause."*<sup>35</sup>

Algeria is currently in a complicated situation regarding the region. Lamamra persuaded the government of **Equatorial Guinea** to allow the SADR to participate in the fourth **African-Arab Summit** from 23-25 November that it was hosting in capital **Malabo**.<sup>36</sup> However, the move prompted Morocco and seven of the most prominent **Gulf State** participants – **Bahrain**, Saudi Arabia, **the United Arab Emirates (UAE)**, **Qatar**, **Yemen**, and **Oman** – to withdraw from the summit in protest.<sup>37</sup> Their official position was that, as the SADR is not a member of the **United Nations (UN)**, it was not eligible to attend.<sup>38</sup> Algeria's African affairs minister **Abdelkader Messahel** addressed the summit, calling on the African participants to uphold their "*constant position in favour of the Sahwari cause*".<sup>39</sup> However, one source who attended the summit said:

*"Without the major financial backers from the Arab side there, all the messages were very empty. Most delegates are now planning to visit Saudi and the UAE to attempt to attract their investment."*<sup>40</sup>

<sup>28</sup> APS, 8 Dec 2016.

<sup>29</sup> APS, 8 Dec 2016.

<sup>30</sup> APS, 8 Dec 2016.

<sup>31</sup> APS, 8 Dec 2016.

<sup>32</sup> ME Monitor, 1 Dec 2016.

<sup>33</sup> ME Monitor, 1 Dec 2016.

<sup>34</sup> ME Monitor, 1 Dec 2016.

<sup>35</sup> ME Monitor, 1 Dec 2016.

<sup>36</sup> Liberté, 23 Nov 2016.

<sup>37</sup> Morocco World News, 24 Nov 2016.

<sup>38</sup> Al-Arabiya, 23 Nov 2016.

<sup>39</sup> APS, 24 Nov 2016.

<sup>40</sup> Source, development consultant, Dubai

## Implications

The OPEC deal grants Algeria's economy some reprieve; the increase in the price of oil has added 10% to government revenues in a week. However, it is still far below the levels of \$90-\$100 per barrel that sustained Algeria's considerable public spending prior to 2014. Bouteflika has managed to negotiate a good deal for Algeria, not capping gas production which Sonatrach is rapidly increasing. However, it will take some evidence of a shortage of supply for oil traders to accept OPEC's target price of \$60 per barrel. The government will still need to move ahead with fiscal consolidation and economic diversification. The higher price of oil mainly serves to preserve Algeria's foreign currency reserves for longer.

Sonatrach is pushing on with expanding its gas supply, and fulfilling the promise that Mazouzi made that the company would be radically more open to working with international firms. The increase in gas supply will allow Algeria to compete with Russia and **Norway** for the EU gas market. What remains to be seen is if Sonatrach has put aside its old habits of doing business, which exposed former partner firms to charges of corruption.

Algeria has the support of key players in the AU for the SADR, however it is on the back foot against Morocco's high profile courtship of **East African** states to support its claim to Western Sahara. Morocco also has a far closer relationship with the UN and the Gulf States, which it is successfully leveraging to Algeria's disadvantage. However, Algeria may be able to use its pull within OPEC and its role as a credible alternative to Russia as a gas supplier to increase its international influence.

### About Africa Risk Consulting:

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