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The United Nations (UN) Security Council (UNSC) votes to restart talks for a referendum in the contested region of Western Sahara. Morocco welcomes the enforcement of the neutral Guerguerat Region in the agreement, but stops short of commenting on the talks themselves. United Kingdom (UK)-based Sound Energy, which owns and operates Morocco's sole upstream gas operation, signs a cooperation deal with United States (US)-based oil and gas services company Schlumberger. The deal will extend existing Schlumberger support to Sound's new Meridja and Tendrara exploration concessions. The Haut Commissariat du Plan (HCP) (national planning commission) publishes statistics showing unemployment increased to 10.7% of the working population in the first quarter of 2017, from 9.6% across 2016.

UN votes to restart Western Sahara talks

The **United Nations (UN) Security Council (UNSC)** voted on 28 April to restart talks for a referendum in the contested region of **Western Sahara**.¹ The new UN secretary general, **Antonio Guterres**, has prioritised resolving the tensions in Western Sahara, and is working to repair the process that fell apart in 2016 due to tensions between his predecessor, **Ban Ki-Moon**, and the **Moroccan** government (see *ARC Briefing Morocco January 2017*). The UNSC voted to restart talks towards a referendum on the sovereignty of the region, which the **Polisario Front (PF)** claims is the sovereign **Sahwari Arab Democratic Republic (SADR)**. The UNSC also renewed the mandate of the **Nations Unies pour l'Organisation d'un Référendum au Sahara Occidental (MINURSO)** peacekeeping mission for a further year.² A condition for the vote was the withdrawal of PF forces from the demilitarised **Guerguerat Region**.³ Morocco withdrew its forces from the region in February following a request from Guterres, but the PF maintained a presence there until the 24 April.⁴ The government of Morocco supported the vote, and foreign minister **Nasser Bourita** gave a statement that focused on the withdrawal of PF forces:⁵

*"Morocco welcomes the resolution, and notes with satisfaction the withdrawal of Polisario forces from Guerguerat ... we will monitor closely developments in the region as the pullback must be complete, unconditional and permanent."*⁶

PF official **Mhamed Khadad** told the media that the organisation would continue to push for talks on a referendum:

*"As far as negotiations with Morocco are concerned, the recommendation is clear: it will be on the basis of a political solution that ensures the rights of the Sahrawi people to self-determination and we are negotiating on this basis."*⁷

¹ UN Press Release, 28 Apr 2017.

² UN Press Release, 28 Apr 2017.

³ The National, 29 Apr 2017.

⁴ The National, 29 Apr 2017.

⁵ The National, 29 Apr 2017.

⁶ The National, 29 Apr 2017.

⁷ MEMO, 29 Apr 2017.

Western Sahara has proved an insoluble solution for a series of UN secretaries-general, due to both sides being unwilling to compromise on key issues. The PF will not hold a referendum that is not a simple 'yes' or 'no' to Moroccan citizenship, while Morocco wants an autonomous region option that would leave it under Moroccan protection but not under PF rule. The PF argues that Morocco has managed to stall the negotiations since 1991, but the PF is equally culpable of stretching out the issue to ensure that the vote brings the result it wants. Guterres' new initiative comes at a time when Morocco wishes to show it is willing to negotiate on Western Sahara to legitimise its increasing political and economic interest in **sub-Saharan Africa** (see *ARC Briefing Morocco January 2017*). It is likely that Morocco will use its considerable influence across the continent, as well as with the western-dominated UNSC, to ensure that any vote is on its terms.

Sound Energy signs deal with Schlumberger for Morocco operations

United Kingdom (UK)-based **Sound Energy**, which owns and operates Morocco's sole upstream gas operation, signed a cooperation deal with **United States (US)**-based oil and gas services company **Schlumberger** on 25 April.⁸ The cooperation deal is a signal that Sound Energy plans to expand its operations beyond its current wells. The agreement relates to Sound Energy's forthcoming **Eastern Moroccan** geophysical survey, a \$27.5m programme to survey the **Meridja** and **Tendrarra** areas for onshore gas deposits.⁹ Sound Energy is currently completing a deal to acquire the rights for areas from state-owned **Oil & Gas Investment Fund SAS**.¹⁰ The agreement between Sound Energy and Schlumberger subsidiary **Schlumberger Oilfields Holdings Ltd** will result in Schlumberger receiving a 27.5% net profit interest in both the areas.¹¹ The agreement will bind Schlumberger to contribute services in kind to cover the scope of the geophysical survey programme.¹²

*"Sound Energy remains the only company to successfully pursue exploration in Morocco; the finds are small but consistent and open up the possibility of domestic generation for the domestic market."*¹³

The agreement is an extension of an existing field management agreement (FMA) between the two companies, but on an increased basis.¹⁴ The geophysical survey will require the survey of 2,600 square kilometres (km²) of land in a two dimensional seismic survey, and a 24,000 km² gravity gradiometry survey – well beyond Sound Energy's capacity.¹⁵ The companies will undertake the survey over the course of a year, starting later in 2017.¹⁶ Sound Energy is also expected to report the results of the extended well test of its **TE-7** well and the ongoing **TE-8** laboratory test in the second quarter of 2017.¹⁷ It will also move ahead with the exploration of the **Sidi Moktar** concession, due to an improved financial position following strong trading on the **London Stock Exchange**.¹⁸ However, it will not bring in a partner – such as Schlumberger – to assist with the exploration, meaning it will retain 75% of the operating profits if it is successful in the exploration programme.¹⁹ Sound Energy's track record in Morocco, where oil and gas finds have eluded major oil and gas companies or decades, has impressed investors and industry experts. An oil analyst told the media that:

*"This is clearly a positive endorsement by Schlumberger of the relinquishment areas and an indication of Schlumberger's satisfaction of their working relationship with Sound."*²⁰

⁸ World Oil, 25 Apr 2017.

⁹ World Oil, 25 Apr 2017.

¹⁰ World Oil, 25 Apr 2017.

¹¹ World Oil, 25 Apr 2017.

¹² World Oil, 25 Apr 2017.

¹³ Source, journalist, Casablanca

¹⁴ Proactive Investors, 25 Apr 2017.

¹⁵ World Oil, 25 Apr 2017.

¹⁶ World Oil, 25 Apr 2017.

¹⁷ World Oil, 25 Apr 2017.

¹⁸ Proactive Investors, 18 Apr 2017.

¹⁹ Proactive Investors, 18 Apr 2017.

²⁰ Proactive Investors, 25 Apr 2017.

Other industry experts support this analysis, with well-known oil company expert **Malcolm Graham Wood** writing that:

“Yet again Sound have managed to acquire and share really interesting acreage securing a full carry on a key programme of work. With a supportive partner creating a key, strategic relationship, their options in the area are still multi-faceted.”²¹

Sound Energy has proven itself a canny player in Morocco’s complex hydrocarbon exploration market. It is poised to begin commercial operations of one well, and assures its investors it has solid data for further discoveries across its concessions. It has managed its relationship with the Moroccan authorities well, and has had little trouble securing further extensions to its exploration activities. The finds are not large enough to ease Morocco’s reliance on energy imports, but will reduce the price of domestic electricity generation from thermal power plants. The government is reportedly keen to develop the gas base alongside its ambitious renewable energy targets – 50% of energy from renewables by 2030 still requires 50% thermal generation to power the economy. It remains to be seen whether Sound’s success will attract larger players to the onshore gas exploration fields.

Unemployment increases to 10.7% in Q1 2017

The **Haut Commissariat du Plan (HCP)** (national planning commission) published statistics on 8 May that show unemployment increased to 10.7% of the working population in the first quarter of 2017.²² Reducing unemployment is one of the key policies of the new government of prime minister **Saadeddine El Othmani**, but has eluded the ruling **Parti de la Justice et du Démocratie (PJD)** since it came to power in 2011.²³ Unemployment increased by 0.9% from the 9.6% averaged across 2016.²⁴ In urban areas it is higher, at 15.7%, up from 15% across 2016.²⁵ Unemployment amongst women and young people (15-24 years) is getting worse, increasing in the former from 13.8% to 14.7% and in the latter from 24.9% to 25.5%.²⁶ For 25-34 year olds the rate has increased to 16.6% from 15.4%, and in graduates it has increased marginally from 18.2% to 18.6%.²⁷ In total, 1.29 million people are out of work.²⁸

“This is the stubborn problem for the PJD, and the palace, that just won’t go away. No matter how much the government encourages foreign companies to invest, there are simply too many unemployed young people in cities. The government has not encouraged mid-level companies, which might employ young Moroccan graduates, to grow.”²⁹

The government has promised businesses and trade unions that it will reduce unemployment to 8.5% and reduce youth unemployment below 20% in 2017.³⁰ However, it currently has little prospect for hitting these targets. Industry is not creating significant jobs, with manufacturing creating just 16,000 new jobs in 2016, primarily in the informal craft sector.³¹ The services sector remains the greatest contributor to job growth with 49,000 created in 2016.³² However, with 63,000 people added to the unemployed in Q1 of 2017, both the public and the private sector will need to increase job creation substantially to prevent further growth in the unemployment rate.³³ Activist groups, which have

²¹ Malcy’s Blog, 25 Apr 2017.

²² L’Economiste, 8 May 2017.

²³ L’Economiste, 8 May 2017.

²⁴ L’Economiste, 8 May 2017.

²⁵ L’Economiste, 8 May 2017.

²⁶ L’Economiste, 8 May 2017.

²⁷ L’Economiste, 8 May 2017.

²⁸ L’Economiste, 8 May 2017.

²⁹ Source, economist, Rabat

³⁰ L’Economiste, 8 May 2017.

³¹ L’Economiste, 8 May 2017.

³² L’Economiste, 8 May 2017.

³³ L’Economiste, 8 May 2017.

remained active since the **Arab Spring** protests in 2011, remain vocal in calling on the government to promote job creation for the young:

“Where is the growth from industry? There are so many new deals unveiled every month, but these don’t provide jobs for Moroccans, or only a few of us...the government says that Morocco is a new home for small and startup companies, but they are the same businessmen who are close to the palace, bringing in foreign capital and employees.”³⁴

However, economists still point to the education system as the major flaw in the employment strategy:

“If you want to create jobs for young people, the government needs to make universities better and more selective...currently anyone can go to university regardless of their grades. Many get stuck in the first year and then drop out. The government is selling the youth a lie – that you can go to university and get a job... the universities need to get better, and young people need to look to trades for employment.”³⁵

Unemployment is a long-running unsolved issue for the Moroccan government. Despite a positive macro-economic record, and following a process of improving market regulation, job creation remains low. Part of the issue is that Morocco’s population is heavily weighted towards younger people – 52% of the population is under the age of 30. Given normal rates of attrition and a growth in job creation there are simply far more young people to be unemployed than old. This explains the increasing number of young people entering the unemployed workforce. However, the government and private sector have both failed to create jobs (or conditions for jobs) that can address this issue. The ongoing problems with the education sector mean that those educated in the public education system struggle to find work outside the country. If there are successive increases in unemployment, pressure will increase on the government to find quick fixes to the issue.

³⁴ Source, youth activist, Tangiers

³⁵ Source, economist, Rabat

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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