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KHELIL: 'SATISFIED' WITH BID ROUND RESULT

Licensing round a success – in parts

Algiers will put on another brave face after just six offers were made and only three of the 10 perimeters on offer were awarded in the second licensing round managed by industry regulator **Agence Nationale pour la Valorisation des Resources en Hydrocarbures** (Alnaft).

This disappointing result, announced on 20 December, was little better than in December 2008, when four perimeters out of 16 were awarded in the first Alnaft round. At least this time the most strategically important field on offer, Ahnet, was awarded. Once more, energy and mines minister **Chakib Khelil** has said he will confer with international oil companies to find out why the majority no longer find Algeria a compelling attraction.

This time, as in the previous round, IOCs' lack of interest was motivated by their unwillingness to accept commercial terms that one western executive, speaking before the round, described as "dreadful". It is not an explanation which Alnaft, the Ministry of Energy and Mines or **Sonatrach** yet seem prepared to accept. Khelil said he was "satisfied" with the result, although he had wanted all 10 areas to be granted. As in December 2008, he blamed the lack of interest on the global economic environment, as well as lower gas prices on world markets during the year. "We believe that three blocks of 10 is not bad given the circumstances and the fact that these blocks are very interesting for the development of gas fields to satisfy domestic demand and for export," he said. The ministry would "exchange views with foreign companies to try to find an explanation for this result", Khelil added.

"It is too soon to explain the reasons for these results," commented Alnaft chairman **Sid Ali Betata**, saying that they would be analysed and examined, adding that Alnaft "will of course launch another licensing round, and all the perimeters that were not bid for will be offered in this round". The regulator reported that 36 companies had attended the data rooms, resulting in 134 consultations.

The one bright spot for the Algerian authorities from the round was that they found a bidder for the gas-prone Ahnet area in the Gourara basin. It is currently operated, and highly prized, by Sonatrach, which withdrew it from the 2008 round when it became clear there was insufficient interest in the block on the terms offered. This time, a consortium of France's **Total** and Portuguese-based **Partex** (the old **Gulbenkian** family vehicle) was the only bidder that met the criteria. It offered $4.11 a barrel of oil equivalent, covering entry fees and the costs previously incurred by Sonatrach.

China's Hong Kong-registered New York-listed **CNOOC** and Thailand's **PTTEP** won the Hassi Bir Rekaïz permit in the Amguid Messaoud Basin. They made the largest work commitment amounting to 1,500km^2 of 3D seismic and eight wells in the first phase. Other bidders for >>>

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this area included a consortium of Spain's **Cepsa**, Russia's **Gazprom** and Turkey's **TPAO**, and a grouping of India's **ONGC Videsh** and **Danagas**.

A powerful European consortium of Spain's **Repsol YPF**, France's **GDF-Suez** and Italy's **Enel** won the South-East Illizi perimeter. It was the only bidder and proposed an additional work programme of 250km^2 of 3D seismic and four wells.

Politics and security

Anti-corruption campaign no substitute for government drift

Six months into President **Abdelaziz Bouteflika**'s third term, Algeria appears as politically divided and directionless as ever. The dominating issue in public is a massive anti-corruption crackdown, which few analysts believe will alter much on the ground. Behind the scenes, competition between rival factions, positioning themselves for an eventual succession, is intensifying, and could be one of the main drivers of the current corruption allegations: the public accounts court was long known as the 'court for settling [political] accounts' as corruption charges were used against politicians and power-brokers who had fallen from favour.

In the meantime, the country is languishing in the economic doldrums as the combination of regime in-fighting and the politics of resource nationalism combine to deflect policy away from engagement with global investors and markets. The impact of new investment regulations in the 2009 complementary finance law, especially the restriction of foreign participation in joint ventures to a maximum of 49%, has put off potential investors. The government is now considering amendments to win back potential partners (see *Business environment*, page 10).

The administration's ingrained reluctance to offer foreign enterprises sufficiently advantageous commercial terms to justify inward investment can be seen most clearly in the results of the most recent oil and gas licensing round. In a close repeat of the December 2008 result, only three of the 10 areas on offer were awarded. None of the remaining seven attracted bids (see above).

According to the relatively optimistic assessment of one senior western diplomat, "there is an element of confusion about the economic direction of the country, but in the short or medium term it will be resolved". An executive at a major oil company which did not participate in the recent bid round presented a gloomier view, noting that: "Algeria will have to adapt to compete in a global market. I am not sure if they have woken up to that."

Awesome clean-up or political smokescreen?

The anti-corruption campaign led by President Bouteflika has created a great deal of noise and smoke, and found at least a few supporters – even if there remains widespread public scepticism about the senior leadership's motives and commitment to real reform. Ministry of Interior investigation squads carried out 128 monitoring operations during 2009, resulting in 154 reports. On 28 October, Bouteflika said that a National Anti-Corruption Committee should be formed as soon as possible, as stipulated in the anti-corruption law passed in 2006. So far there has been no announcement about the composition of any such committee, or the extent of its powers.

Speaking at a Middle East Association (MEA) Algeria Business Briefing in London on 16 December, Algerian-British Business Council chair Lady **Olga Maitland** described the anti-corruption campaign and the arrests of officials as demonstrating "a determination which is quite awesome". She said the crackdown was "the most rigorous in all the African »» continent", noting that the families of energy and mines minister **Chakib Khelil** and investment promotion minister **Abdelhamid Temmar** had been investigated.

This view is vehemently contested by numerous analysts. At the MEA briefing, **Menas Associates** director **Charles Gurdon** noted that, far from being evidence of a greater commitment to transparency, the present revelations were more to do with emerging divisions within the ruling elite as competing factions, anticipating Bouteflika's eventual departure, compete for the succession to the presidency. He said the main dividing line was between supporters and opponents of the eventual succession to the presidency of the president's brother **Saïd Bouteflika**. He said that there was also evidence that local security companies backed by certain generals were coming under pressure.

A reshuffle to come?

One of the results of the current corruption scandals and the power struggle that lies behind them is that President Bouteflika may attempt a government reshuffle early in the new year – the larger reshuffle that has been awaited for some time.

The daily *L'Expression* reported on 13 December that Boutef was preparing what it described as a "grand lifting" of his government to prepare it for carrying out its 2010-14 programme, which contains planned investments of $150 billion. The newspaper quoted "well-informed" sources who said the president would make changes at the beginning of 2010. It said that during his now traditional face-to-face reviews of ministers during the Islamic month of Ramadan (late August to early September) he had identified deficiencies in certain departments. He had looked at construction projects in the 2004-09 plan, which should have been in their final year of completion, and "did not hide his dissatisfaction" with ministers who had not been on top of the management of these projects. The report said that he "did not want to take the risk again of leading a team which has shown its limitations".

L'Expression said the reshuffle would probably take place after the signing of the 2010 finance law. So far no names of ministers who will be sacked or of those who will replace them have been announced or leaked. However, the newspaper's source said that the "lifting" would be "deep", amounting to "a complete overhaul of the leadership of the government, affecting a good number of ministerial departments".

Such reports are the regular currency of the Algerian press, and history shows that Bouteflika is never too bothered about sweeping reshuffles (or paying much attention to the bulk of his ministerial team). As with the rhetoric on anti-corruption, much of the talk about government renewal appears to be standard boilerplate that has been used before, including the idea of creating a more coherent, efficient and coordinated administration via the establishment of a small number of mega-ministries, each with several under-secretaries of state. This, it is argued, would cut out delays and maybe even make up some lost time as well as removing a number of ministerial departments – "*les grands absents*" – which only exist on paper. However, this is not a new idea. It was floated at the beginning of January 2008 and has been around a lot longer than that.

If it takes place at all, the reorganisation will most likely be predicated by the president's desire to strengthen the chances of his brother Saïd eventually succeeding him at the El-Mouradia Palace. Each of his past three reshuffles have been preceded by predictions that significant changes could be on the way, but the relatively modest changes that have taken place since 2007, only serve to emphasis the *zaïm*'s relative lack of manoeuvrability when it comes to maintaining the backing of powerful factions.

MSP break-up has important ramifications

A contributing factor in the current inter-regime conflict is the break-up of **Bouguerra Soltani**'s **Mouvement de la Société pour la Paix** (MSP), an Islamist political party with its roots in the **Muslim Brotherhood** (founded under the name of **Hamas** by Sheikh **Mahmoud Nahnah**). The MSP forms part of the ruling coalition alongside the **Front de Libération Nationale** (FLN) and prime minister **Ahmed Ouyahia**'s **Rassemblement National Démocratique** (RND).

Earlier this year, the former MSP deputy chairman **Abdelmadjid Menasra** led a group of dissidents out of the party with the aim of establishing a new group to be called the **Mouvement pour la Prédication et le Changement** (MPC). There is considerable personal enmity between Menasra and Soltani, who was discredited in the **Khalifa** affair, and who stood down as minister without portfolio last April in protest at his party's failure to secure more ministerial positions after the presidential elections (see ***Algeria Focus*** April 2009, page 1).

It is not yet evident who will be the regime's favoured partner in the future. However, it is notable that public works minister **Amar Ghoul**, whose department has been most severely criticised in the largest scandals at present, is a senior MSP member. Other ministries where finance minister **Karim Djoudi** has initiated enquiries are transport, where the minister **Saïd Barkat** was appointed last April, agriculture led by **Rachid Benaïssa** and water resources led by **Abdelmalek Sellal**. »»

Despite his MSP affiliation, Ghoul has, until now, been seen as one of the government's more significant ministers. But there have, as ever, been problems implementing major public works projects such as the East-West Highway (see below). The same in true of Sellal, who is said to have significant friends in the military/security apparatus and has been named in the past as a potential future head of government, should Bouteflika tire of Ouyahia and his ambitions as his PM.

East-West Highway scandal is developing an all-star cast

Of all the corruption scandals to have been publicly aired in the Algerian press in recent months, the most high profile is the East-West Highway project. Promoted as the largest motorway construction project in the world, scheduled to cost $11 billion and possibly more once overruns are taken into account, it was formerly described by Algerian journalists as the project of the century – and forms an important element in **Abdelaziz Bouteflika**'s 'presidential legacy', but now as the scandal of the first decade of the century.

A number of senior officials have come under investigation and have lost their jobs following allegations of corruption and abuse of power. The names of fresh casualties of the investigation appear weekly. Minister of public works **Amar Ghoul** is under the greatest pressure. He has been obliged to sack or suspend the Public Works Ministry general secretary **Mohammed Bouchama** and **Agence Nationale des Autoroutes** (ANA) new works division director **Mohammed Kheladi**. *El Watan* reported that Ghoul had established this division at the ANA to oversee the highway project and that it was staffed exclusively by cadres of the **Mouvement de la Société pour la Paix** (MSP – see above). The newspaper also reported recently that Ghoul's *chef de cabinet* and "man of confidence" **Ferachi Belkacem** had been placed under "judicial control" and an investigation launched against him.

Other high-profile officials under investigation include Transport Ministry central planning director **Salim Hamdane**. Individuals also named in media reports as being connected to the affair are Luxembourg-based Algerian lawyer **Madjoub Chani**, businessman **Sid Ahmed Addou** and others, including controversial French citizen **Pierre Falcone**, a central figure in the 'Angolagate' scandal; he is said to have strong Algerian connections including residency and was allegedly an intermediary with the major Chinese bank involved, **Citic**. According to reports whose veracity have yet to be tested in a court of law, Chani and Addou are said to have defended themselves by implicating others. Among those named in local reports are officials who have long been close to the president, including energy and mines minister **Chakib Khelil**, former finance minister and current presidential adviser **Abdellatif Benachenhou**, former foreign minister **Mohammed Bedjaoui** and a number of other senior security service and army officers.

Until now, no element of the enquiry has confirmed that there is any basis of truth in these allegations. The importance of reporting the allegations is to point to the poisonous atmosphere building up in Algiers.

Chani and Addou appear to be determined to implicate the maximum number of people as a way of minimising their own roles and emphasising that they were only intermediaries. **Abderrahmane Dahmane**, a French-Algerian who claims to be a technical adviser to French President **Nicolas Sarkozy**, and whose name has also been linked to the investigation, told the **Tout Sur l'Algérie** (TSL'A) website: "The only time that Khelil's name was mentioned in the negotiations was when the Chinese had proposed payment for the highway with oil. Khelil said no."

Minister Ghoul is now blamed for personally taking important technical decisions without proper consultation, which have resulted in much higher costs. A recent TSL'A article said that he unilaterally decided to use a new type of asphalt concrete proposed by the Chinese contractor for the western section of the project, **CRCC**, but unfamiliar to Algerian companies. No assessment was made of the use of the technique nor its economic impact. >>>

Politics and security in brief

Tounsi announces security programme

Security minister and Sureté Nationale (police) director **Ali Tounsi** has announced a new security programme with the aim of extending police cover over the full 100% of Algeria's territory. He said the recruitment of 40,000 police officers would be needed to reach the desired objective. The Sûreté Nationale numbers about 160,000 agents and its security cover extends over about 80% of the country. But, reiterating government policy of the past year, Tounsi said this will have to increase to about 200,000. Tounsi has said he is satisfied with the positive results achieved in the security sector including the struggle against terrorism and criminality in all its forms

New port security measures

Following similar projects at Houari Boumediene International Airport and the port of Algiers, the authorities now plan to install security perimeters at the Oran, Annaba and Constantine international airports, and at the ports of Mostaganem, Djendjen, Skikda, Béjaïa, Annaba, Oran, Arzew and Bethioua. The government has published a number of executive decrees in the *Journal Officiel* (official gazette) setting out how these perimeters will function, including not only where they will be situated, but also establishing the security regulations applicable within them. All new construction, whether permanent or temporary, the sowing of crops, the installation of telecommunications equipment and the erection of billboard or other advertising are forbidden inside the perimeters. Henceforth, the permission of the relevant security authority will be required for the construction of necessary buildings or infrastructure. The authority must also be notified prior to any repair or alteration works.

The TSL'A article also criticised the minister for allowing the execution of the project and relations with the contractors to become politicised. It said that Ghoul appeared to favour Citic over the rival Japanese bidder, **Consortium Japonais pour l'Autoroute Algérienne** (Cojaal), which is the contractor for the 399km eastern section to the Tunisian border. This part of the six-lane motorway requires 190 bridges and viaducts and five tunnels. Cojaal partners include two of the largest Japanese contracting companies **Kajima** and **Taisei**, plus general contractors **Hazama** and **Nishimatsu** and the **Itochu** trading group.

According to TSL'A, "the Chinese went along with playing politics while the Japanese refused, sticking to the initial contract which did not foresee the delivery of the project in stages. The Chinese were sensitive to pressure from their ambassador and to Algerian demands to open specific sections. In exchange they expected to receive new public works contracts. The Japanese refused to do this. They demanded financial compensation in exchange for a modification in their planning to allow the opening of small sections."

Le Jour d'Algérie newspaper also alleged that the Chinese company had employed well-connected consultants and paid them handsomely to help overcome the difficulties connected with managing such a vast project in such a bureaucratic country (for example, the need to get visas for the large number of employees needed on the project). In a country as bureaucratically difficult as Algeria, this is hardly surprising.

Geopolitics

Relations with Egypt still sour in aftermath of football violence

The business interests of the Egyptian-owned **Orascom** group in Algeria are under threat as a result of the upwelling of Algeria-Egypt antagonism in November, which was fed by a historic footballing rivalry (see ***Algeria Focus*** November 2009, page 1). Although there are indications that leading politicians in both countries feel that the dispute has gone far enough, the repercussions will inevitably be felt for some time.

The two main interests that the group has in Algeria that are looking most shaky are its telecommunications subsidiary and its sub-contractor agreement with the US's **Kellogg, Brown & Root International** (KBR) for civil works and installation of pilings for the rehabilitation of the Skikda LNG plant. An effective strike by Egyptian workers may give **Sonatrach Holding** cause to remove **Orascom Construction Industries** (OCI) from the Skikda contract. It has already sent two written warnings to the contractor.

The reason for the breach is directly related to the antagonism that flared up between Algerians and Egyptians following scenes of football-related violence in November. Most of Orascom's 74 Egyptian workers went back to Egypt to celebrate the Eid al-Adha festival at home in early December. They are now refusing to return to Algeria.

In the meantime, **Orascom Telecom Holding**, which operates the **Djezzy** mobile telephone licence, announced an $800 million rights issue on 13 December as a buffer to ensure its liquidity while it attempts to resolve a tax dispute with the Algerian authorities. The company said the issue would ensure "liquidity including financing needs for the group in case there is no immediate resolution of the tax dispute in Algeria". In November, the Algiers-based tax authority ordered Orascom to pay a $596.6 million fine based on what the company described as an "unfounded and unacceptable allegation" that it had not kept proper accounts. The penalty was awarded before the football violence, but analysts said its public announcement amounted to an escalation in that diplomatic conflict.

French daily *La Tribune* reported in early December that the French media group **Vivendi** had considered bidding for Orascom Telecom's Algerian unit. The newspaper reported that Vivendi board member **Mehdi Dazi** met with Algerian business group **Cevital** chief executive **Issad Rebrab** on a visit to Algiers. Cevital owns 3% of Orascom Telecom Algeria.

There are some signs that the dispute has gone far enough for some senior regime officials. Presidential adviser **Mohamed Barrah** recently invoked the "joint will of Egyptians and Algerians" to mend the now poisoned relations between the countries. Energy and mines minister **Chakib Khelil** is the most senior Algerian figure to visit Egypt since the eruption of violence and rhetoric between Algiers and Cairo. While in the Egyptian capital for a meeting of oil ministers from Organisation of Arab Petroleum Exporting Countries (OAPEC) countries, he announced that **Sonatrach**, **Egyptian Natural Gas Holding Company** (EGAS) and **Egyptian General Petroleum Corporation** (EGPC) would establish a joint oil company to carry out exploration in Egypt, Algeria and other countries. The deal could be worth $10 billion–15 billion, according to various sources. On the face of it he could not have chosen a less auspicious moment to promote a project requiring mutual cooperation. "You could say we are looking forward" to better relations, he said.

The new company will be named **Selena**. Sonatrach will own 50% and the Egyptian companies the rest. "We could invest around maybe $15 billion but it is not settled yet," Sonatrach CEO **Mohamed Meziane** told **Reuters**. He said he wanted to establish the company as soon as possible and told the news agency that, "We are in the way of preparing for the board meeting and the general assembly, which will decide on the amount and the policy of investment for the next year and five years coming."

French freeze gets colder

While Algeria's relations with Egypt have deteriorated in a public and dramatic >>>

fashion, the frost between it and France has hardened behind the scenes. There are competing explanations for what has motivated what seems to be – on the Algerian side – an extremely deep-felt rift.

According to British-Algerian Business Council chair Lady **Olga Maitland**, speaking at the Middle East Association (MEA) Algeria Business Briefing in mid-December, the reaction against the French is motivated by the government's reappraisal of its attitude to foreign investors. "The president and his government have decided to get a grip on creating the right environment for business to come to Algeria. They had to take some hard and searching decisions about companies which they thought were their friends and which they found out were not their friends," she said. "There has been a reassessment by the Algerian government of their former colonial masters. The French are stunned. They thought that Algeria was their *chasse gardée* that they could dominate and control it," she went on. She said that three French ministers had recently been denied visas to enter Algeria. The consequence of this change of attitude, argued Maitland, was that "there is undoubtedly a wave of change which will be of benefit to British companies". She noted that there are 350 companies based in Algeria, but only about 40 UK companies.

Other analysts believe that the indubitable freeze in Algero-French relations has less to do with disappointment at the performance of French investors, than dismay over a highly damaging allegation that the Algerian army was responsible for killing seven French trappist monks at a hilltop monastery in Tibehrine, south west of Algiers, in 1996. The official Algerian explanation claims that the monks were abducted by militants in March of that year and that their corpses were found with their throats cut two months later. An enquiry, under way since 2004, has heard contrary allegations of Algerian state security involvement in their abduction and murder. But the most damaging revelations emerged this July when retired General **Francois Buchwalter**, who served as defence attaché at the French embassy in Algiers at the time, alleged that an Algerian army helicopter shot all the men dead when it fired on an isolated camp fearing that it was a militant hide-out.

Medelci in the US: weapons and space technology deals

Foreign minister **Mourad Medelci** recently visited Washington for "substantive discussions" with secretary of state **Hillary Clinton** which ranged over the US-Algeria bilateral relationship and consultation on policy issues of major interest. These included the Maghreb, the Sahel, the fight against terrorism and conflicts in Africa.

At a press conference, Clinton described it as "a very useful and constructive conversation" and said Algeria was "a country with whom we are cooperating closely on a number of issues, particularly counterterrorism, and a country with whom we intend to broaden and deepen our relationship". At the same press conference, Medelci said that the pair had "talked about

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issues that interest both our countries and the world in general, such as the climate, the search for peace, food security and our bilateral cooperation, which is very good and should be even better in the future".

Medelci also met deputy secretary of state for the Middle East **Jeffrey Feltman**, assistant secretary of state for economic, energy and agricultural affairs **Robert Hormats** and other officials in the National Security Council (NSC) and the office of US vice president **Joe Biden**. The visit was described as an important part of "strengthening the strong partnership between Algeria and the United States", according to an informed source.

The developing US-Algeria relationship has featured a number of visits to Algeria by top US officials, including Feltman, deputy assistant secretary of defence **Vicki Huddleston**, and Africom commander General **William Ward**. A state visit by President **Abdelaziz Bouteflika** to Washington is also being discussed.

In terms of concrete deals, Algeria and the US have spoken about cooperation on a space programme. There are also discussions regarding an open skies agreement, which would improve air travel between Algiers and New York.

Senior Algerian army officers and US officers have also signed a memorandum of understanding for the sale of approximately $2 billion worth of weapons to Algeria, of which a part will be supported by US credit subsidies in exchange for economic facilities linked to the petroleum sector. Conditions of the deal include an Algerian commitment not to pass on military high technology to third parties. The US has agreed to revise conditions on the control of arms once they have been delivered to the Algerians. There is still no agreement on a number of different types of weapon which the US refuses to sell to Algeria, particularly drones and sophisticated air-to-air missiles.

Mauritania investments hit problems

Algerian investments in Mauritania have been caught up in legal and political problems resulting from the coup against President **Maaouya Ould Sid Ahmed Taya**, who was deposed in 2005. According to a report in *El-Khabar*, the Nouakchott authorities began judicial procedures against a pair of local businessmen who had both been close to the former president and who were also partners in the **Sonatrach** joint ventures in the country, **Naftec** and **Société Mauritanienne des Gaz** (Somagaz). A court has threatened to >>>

sequester the assets of **Mohamed Ould Bouamatou** and **Abdellah Ould Nouked** if they are not able to repay a large sum to the state treasury. This has raised major difficulties for the Algerian partners.

An Algerian-Mauritanian joint committee met in Nouakchott in early December but did not find a solution. Naftec runs about 100 petrol stations in Mauritania, which is about one fifth of the market.

EU-Algeria energy accord dispute

The results of an evaluation into the four-year process of establishing an association agreement between Algeria and the EU will be revealed early in the new year. It is not looking promising. Energy and mines minister **Chakib Khelil** has laid down a number of conditions before Algeria will sign a strategic energy accord or an association agreement with the EU.

Speaking on national radio in mid-December he said the most important requirement was that the terms of the accord should apply to all member states, "At the moment, this is not the case. So why would we sign an agreement with the EU and it would not apply to every member. At the moment the discussions are continuing.

Khelil laid out some other objections, asking, "What would we get in return for our signature on this strategic agreement in which we will commit to ensuring the supply and energy security in Europe? There are therefore other conditions. Algeria demands the free movement of people between this country and Europe. That is an important element. It does not concern only the sale of gas."

Khelil argued that his strong position was possible because it was equally possible for Algeria to sell its gas to the US. However, under current market conditions, this may not be the case. An energy analyst recently remarked to ***Algeria Focus*** that earlier this year gas from the north-west shelf of Australia landed in the UK. This illustrates just how much harsher the competitive conditions on both the European and global gas markets have become for **Sonatrach**. Nevertheless, Khelil is still piling on pressure for the EU to open its markets more and to make other concessions. Speaking about the association agreement, he said that Algeria expected it to lead to both a transfer of technology and an opening up of the European energy market. "We have a lot of problems marketing our gas in Europe. It is not clear that tomorrow, if we wanted to export electricity, that we would have easy access to the European market." This question is, of course, relevant for the *grands projets* for the export of solar energy which are now being considered.

Energy industry

Illizi and Berkine activity crucial for future production

A large proportion of both hydrocarbons discoveries and infrastructure investments in Algeria during 2009 were focused on a pair of sedimentary basins in the south-east. The Berkine Basin lies to the west of the southern tip of Tunisia and the Libyan Ghadames Basin. Further to the south, the Illizi basin, also close to the Libyan border lies to the west of the Murzuq Basin. The discovery of new oil and gas deposits and the continued exploration of recently discovered fields by **Sonatrach** and several other international companies look set to keep things interesting in Illizi. Meanwhile, Berkine has seen some of the largest infrastructure investments this year as plans to bring further production on stream advance.

BP leads the way in Illizi

BP's Bourarhet South field (blocks 230-231) was the first of a series of substantial gas fields to be discovered in the basin. The British supermajor began exploring in the area in partnership with Sonatrach in 2005. It found gas at the first well it drilled in August 2008. The Tin Zaouatene-1 (TZN-1) yielded 11,220m^3/h of gas at a pressure of 1,823 PSI through Sonatrach's standard 32/64" choke. According to an industry source, its gas reserves are an estimated 3 trillion cubic feet and could be even higher.

BP plans further exploration in early 2010 at the block. The company is planning to invest $4 billion in Algeria over the next seven years. It has allocated $1.3 billion of this for the development of neighbouring In Amenas, which is Algeria's largest wet gas field and is set to become operational in 2013. It is scheduled to produce 9 billion cubic metres a year of natural gas. BP is developing the In Amenas gas condensate reserve in partnership with Norway's **Statoilhydro** and Sonatrach. Notably, BP is also extremely committed to exploration across the border in Libya. It is exploring two vast blocks in the Ghadames Basin.

Petroceltic's discoveries

Dublin-based **Petroceltic International**'s discoveries at the Isarene permit suggest that it has also encountered highly promising Illizi Basin gas deposits. The area is located to the west of In Amenas and immediately to the south of **Repsol**'s Tiffernine oil field, which itself is just south of the Tin Fouyé Tabankort (TFT) gas field where **Total** and Repsol started production of approximately 5 million cubic metres/day of wet gas back in 1999. Petroceltic started exploration in blocks 228/229a in 2004 and announced its first discoveries at the ISAS-1 and Hassi Tabtab-2 wells in 2007 at the end of the first phase of its exploration contract.

Drilling and testing have continued at ISAS while a series of discoveries in recent months as the company approached the end of the second phase of its exploration contract have focused attention on the Ain Tsila ridge, which is promising to be a large and prolific gas condensate field.

On 7 December, the company announced its third successful well in the Ain Tsila structure. Each well appears to be confirming the additional southerly extent of the field. The AT-3 well, located 9km to the south of AT-2, logged a gas column in the Ordovician reservoir in excess of 80 metres. It will be tested at a later date. The company has also submitted a discovery declaration to Sonatrach for the recently tested AT-2 well, which is >>>

Petroceltic's fourth to test gas successfully at potentially commercial rates in the area. AT-2 produced flows of 4.9 million cubic feet/day of gas from the Ordovician and also found a shallower gas reserve in the Devonian which it will test later. This test also provided a positive indication about the possible extent of the gas field.

According to Petroceltic CEO **Brian O'Cathain**, "Well AT-2 successfully demonstrated that the Ain Tsila structure contains a large volume of gas in place, with pressure continuity demonstrated from AT-1 to AT-2. It also demonstrated that the lower quality Ordovician sandstone encountered at AT-2, with porosities in the range of 5-10% are capable of flowing gas at commercial rates, even in vertical wells." The AT-2 well is 12km south of AT-1, the first well to be drilled in Ain Tsila.

In mid-November, Petroceltic announced that it had submitted to Sonatrach a declaration of discovery for an accumulation of finds at ISAS, a separate and "significant gas bearing" structure in the north-east of the Issarene area. This followed the successful test of the INE-2 well, which has been suspended as a possible production well. It achieved a gas flow rate of 4 million cubic feet/day from the Devonian reservoir, with a flowing wellhead pressure of 180 PSI on a 1-inch choke setting. This was achieved without the benefit of fracture stimulation. INE-2 was the third well on the structure to produce gas flow rates of at least 4 million cf/d. Well INE-1 flowed at 4.4 million cf/d and an earlier well, TMZ-1, tested at 4.1 million cf/d. A further well on the structure, GTT-1, tested oil at rates of 490 b/d.

Commenting on the INE-2 test, O'Cathain said that, "This additional discovery on the block is helpful in adding to the hydrocarbon inventory proved as potentially commercial on the licence. It forms a separate shallower accumulation to the previously announced AT-1 Ordovician discovery. We expect to delineate both Devonian discoveries (INE-2 and HTT-2) and the deeper Ordovician discovery at AT-1 in the next phase of the production sharing contract."

Petroceltic is continuing a drilling and testing programme as it continues to evaluate the extent of the Ain Tsila field. It is also integrating well and seismic data to optimise future development locations on areas of open fractures and higher permeability rock. In addition to this and the work on the ISAS field, the company is also exploring the Issaouane NW prospect in the north-west of the block. A rig is currently drilling a second well (INW-2) targeting both Devonian and Ordovician reservoir objectives.

Russian developments

In March 2009, a Russian consortium of **Rosneft** and **Stroytransgaz** announced that the regulator **Alnaft** had approved its plans to develop a number of deposits in the Gara Tisselit area (block 245 south), also in the Illizi Basin. The first plan is for the synergistic development of two oil deposits: East Takouazet (TAKE) and West Takouazet (TAKW), discovered in 2003-04. The second plan foresees the development of a gas condensate deposit at North Tessilit (TEN), which was discovered in 2006. Work on the developments will be undertaken between now and 2012. A source close to the venture told ***Algeria Focus*** that Rosneft-Stroytransgaz and its partner Sonatrach plan to invest $1.6 billion in developing these deposits which are hoped to produce 64,000 b/d of oil.

Sonatrach's independent discoveries

Alongside its partnerships with international companies, Sonatrach is also exploring in the Illizi Basin independently. It has made six significant discoveries in and around the Tinrhert area. So far the company has not announced how or when it will develop these finds. In October 2009, it announced a discovery at the Tamadanet-301 (TM-301) well in the Tinrhert block 239a. The results of flow testing were 5,883 m³/h of gas from the Ordovician reservoir at a pressure of 1,203 PSI at the standard choke and 3,619 m³/h of gas from the lower Devonian F reservoir with a pressure of 130 PSI at the standard choke. Earlier discoveries in the area, include a gas find last August at the Alrar Ordovician-2 (ALRO-2) well in the South Alrar field (blocks 240c and 239c). Testing produced a flow rate of 12,637 m³/h of gas from the Ordovician at a pressure of 2,150 PSI at the standard choke. In June, Sonatrach found oil in Tinrhert block 244a. The Ain Antar East-1 (AARE-1) well flowed at a rate of 356 m³/h of oil from the Devonian at a pressure of 180 PSI at the standard choke.

A gas discovery at the In Akamil North Ordovician-1 (IKNO-1) well (239a) in January, produced 11,852 m³/h of gas from the Ordovician at a pressure of 2,500 PSI at the standard choke. Previously, Sonatrach had made a gas and condensate discovery at the Alrar >>>

Northwest-1 (ALNW-1) (block 239) in November 2008. The well reached a final depth of 3,566 metres, and produced 7,860 m^3/h of gas and 422 m^3 of condensate from the lower Devonian with an initial pressure of 1,525 PSI at the standard choke. Also in November last year, the Alrar South Ordovician-1 (ALSO-1) well (block 239c) reached a final depth of 2874 metres, and tested at a rate of 9622 m^3/h of gas from the Ordovician at an initial pressure of 1,565 PSI at the standard choke.

Berkine Basin drilling and investments

In November, **E.ON Ruhrgas** started drilling the first of a series of seven wells at its Rhourde Yacoub block in the Berkine Basin, which it won in the December 2008 round. It said that the first well would be drilled to more than 5,000 metres and would take about 100 days to complete. It aims to complete its drilling programme in mid-2012.

Apart from this, most of the activity in the basin this year has come on the development side. Sonatrach and its international oil company partners have invested $5 billion in the basin this year as a number of oil and gas discoveries have moved into the development phase and already producing fields have been upgraded.

Sources report that **Anadarko Petroleum Corporation**, the leading IOC in the basin, believes that further discoveries in the area are extremely likely. The company has discovered a total of 15 fields in Algeria. A large proportion of this success has been in Berkine, where it has built up considerable experience in the basin's geology.

The basin began to look promising after the first discoveries were made to the north of it at Hassi Messaoud. It was then put properly on the map during the1990s thanks to a number of discoveries by the Anadarko-led joint ventures, which led to the development of two substantial deposits at Hassi Berkine and Ourhoud. Throughout the 1990s, Anadarko and Sonatrach's partnerships registered 12 new discoveries and placed 2 billion barrels of oil equivalent on the market. Attracted by the success of these fields, further companies have entered the area, with varying degrees of success. Other important discoveries included those by **Agip** at North Bir Rebaa, which allowed Algeria to replenish its reserves, taking them back to levels last seen in 1971.

In the past 12 months, three important events highlighted the importance of this area to the Algerian hydrocarbon sector. First, at the beginning of the year, Sonatrach and **Gazprom** signed a contract to explore a block in the basin. This was one of the few successes from Alnaft's December 2008 licensing round. Sonatrach had already been operating the 3,083km^2 El Assel permit (blocks 236b, 404a1). This was Gazprom's first foray into Algerian hydrocarbons exploration. It plans 400km of 2D seismic, 2,500 square kilometres of 3D seismic and four exploration wells.

The second development that emphasised the growing importance of Berkine was the decision by Sonatrach and Anadarko to build treatment plants and gas pipelines at the El Merk oil, gas and condensate field. Sonatrach and Anadarko – representing the other El Merk partners: **ConocoPhillips**, **Eni Oil Algeria**, **Maersk Olie Algeriet** and **Talisman (Algeria)** – awarded a $149.76 million contract to Italy's **Bonatti Group** to carry out engineering, procurement and construction work on the PKO pipeline. This will transport oil to Haoud El Hamra via the central storage facility, and liquefied petroleum gas and condensate to Gassi Touil via the NH2 (LGP) and LR1 (condensate) pipelines from fields in the Berkine Basin. The contract will run for 24 months.

Hydrocarbons from Anadarko's Block 208 and the ConocoPhillips-operated Block 405a will feed into the El Merk central processing facility (CPF) for which a $2.2 billion EPC contract was awarded to **Petrofac** for the unit to come on stream in 2012. The CPF's initial nominal capacity is put at 98,000 b/d of oil, 29,000 b/d of condensate and 31,000 b/d of LPG, plus a 600 mcf/d natural gas liquids train.

The third major event at Berkine this year was the development of a light gas deposit by Eni-subsidary **First Calgary Petroleums** (FCP) and Sonatrach in the Ledjmet area (block 405b), located approximately 350km south-east of Hassi Messaoud. In March 2009, FCP and Sonatrach agreed a $1.85 billion contract for the construction of installations to extract and treat light gas and oil from the Menzel Ledjmet Est (MLE) field. The facilities will include a central area field complex which will separate gas, LPG and condensate which will be transported via pipeline to the Gassi-Touil hub, while crude oil will be fed into the PKO pipeline. Once completed, these installations will be able to treat 9 million m^3/day of gas, 10,000 b/d of condensate, 14,000 b/d of LPG and 8,350 b/d of oil.

Ourhoud history

The Ourhoud field, which was officially inaugurated at the beginning of May 2003, is the second biggest discovery in the basin. It yields 230,000 b/d. It incorporates blocks 404, 405 and 406a. A Sonatrach/**Cepsa** joint venture operates bloc 406a. Sonatrach, Anadarko, Eni and Maersk operate block 404 and Sonatrach, ConocoPhillips and Talisman operate block 405. The first oil treatment train was put into service in December 2002, the second in January 2003 and the third in February 2006.

The original estimate was that the field had reserves of 2.3 billion barrels of oil which 1.1 billion barrels could be recovered at a rate of 49.4%. Fifty four wells have been drilled and the peak production rate of 230,000 b/d has already been attained.

A pair of treatment plants each with a capacity of 84,300 b/d, constructed by **JCG**, should allow production to continue at this rate for the next 25 years. Continued pressure is assured by the injection of water and gas. The Ourhoud facility has 5.3 million m^3/day of gas treatment capacity. Its water injection capacity is 345,000 b/d, and gas re-injection capacity is 3.2 million m^3/d.

Khelil opposes carbon tax proposals

As delegates met in Copenhagen to bash out a policy on combating climate change, energy and mines minister **Chakib Khelil** slammed plans for a carbon tax, stating that they discriminated against energy producing countries. The >>>

summit ended in failure, with a weak communiqué that did not achieve the objectives of setting firm targets to reduce carbon emissions.

Khelil, a former OPEC president, was one of the meeting's outspoken critics. He said that all OPEC members would fiercely oppose such a measure. "There is a consensus that is very clear. The countries of OPEC have been working for a very long time on this issue," he told Algerian state radio. "The producers will be penalised."

Khelil voiced fears that a carbon tax would have serious negative impacts on the economies of both energy producing nations and developing nations that import energy, reducing revenues and making imports more expensive. He also protested the tax's exclusivity to oil and gas, while exempting coal. "This tax is discriminatory with regard to gas and oil and is not in the interests of producing countries and is also not in the interest of developing countries," he said.

The minister further criticised European Union plans for large-scale solar power investment in North Africa, according to a report by Reuters. He accused the €400 billion **Desertec** plan, which is being developed by **Siemens**, **E.ON** and **RWE** of imposing a "forced march" on North African states towards building solar power infrastructure for the benefit of Europe.

While open to the idea solar power in Algeria, Khelil noted earlier in the year that his greatest fear was of "foreign companies exploiting solar energy from our land" while not having access to Europe's power markets. He added that he planned to present the cabinet with a programme for promoting renewable energy generation in Algeria, saying that the government had the political will to go far in this sector, whether using pure solar, combined gas-solar, photovoltaic or wind generation technology.

Energy in brief

Electricity marketing in Spain

The Spanish government is considering the adoption of a new measure which would prevent electricity producers from marketing their power directly. According to **Tout Sur L'Algerie** this wil impose a barrier for **Sonelgaz** which has long term plans to sell electricity in the Iberian peninsula.

Diesel and petrol subsidies

The **Authority for the Regulation of Hydrocarbons** (ARH) has recommended to the government that it institute a 10 $ increase in the price of diesel at the end of 2009, according to its chairman **Nouredine Cherouati**. He told national radio that an increase was necessary because "our refining capacities are limited today". The bill for imported diesel reached $300 million during 2009. A similar increase in the price of petrol is also possible.

Business environment

Possible changes to investment conditions

The government may be planning to revise the strict but "poorly thought-out" conditions imposed on foreign investors earlier this year, as it has become clear that they are damaging inward investment, and could hold back economic development. "There will be more changes to the import regulations in 2010," a senior diplomatic source told ***Algeria Focus***, adding that the measures restricting foreign ownership of joint ventures to 49% had been "an over-reaction which created insecurity," which was motivated by "fear of carpet-bagging foreign investors".

Algerian government sources have responded to pressure from European governments and business organisations by agreeing to revisit the conditions. They may be changed so that the maximum foreign stake will be increased to 51%. Fundamental problems which have emerged since this investment regulation was introduced in the July 2009 complementary finance law include the fact that it is very hard for companies that need export credit guarantees to enter markets where they are not the majority owner of ventures. A further problem is that the regulations also lack agreement with an accord signed with the EU, under which Algeria committed to treating foreign and local companies in the same way.

Import restriction measures have limited effect

As well as controlling the extent and control of foreign investment in strategic economic assets, the regulations introduced in the July 2009 complementary finance law were intended to reduce the ballooning import bill which had become a major concern for Algeria's economic managers.

On 15 December, finance minister **Karim Djoudi** told the upper house of parliament, the Conseil de la Nation, that the import bill had fallen by 3% in the first 11 months of 2009. Imports amounted to $34.9 billion at the end of November against $36.1 billion during the same period in 2008. He said that the "regulatory measures taken in the previous complementary finance bill have allowed us to control the import flow".

The government's objective was to achieve an initial 5% reduction in imports by the end of this year. **Tout Sur L'Algerie** reported that the figures could be influenced by the fact that a large quantity of goods have been blocked in the Algerian ports without the necessary customs authorisation.

The **Economist Intelligence Unit** forecast estimated that the $40.6 billion trade surplus of 2008 would narrow to $4.6 billion in 2009. >>>

However, the new import restrictions will see it widen again to $12.1 bilion in 2010. This will only be a temporary increase. The EIU expects the surplus to narrow yet again to $9.9 billion in 2011 as it forecasts oil prices to fall on lower demand. Import restrictions include the banning of banks from issuing consumer loans, imports by companies with less than 30% local ownership, and companies which cannot prove that they posses sufficient cash to pay for goods before shipping.

Exports outside the hydrocarbons sector fell 40% during the first 10 months of 2009 compared to the same period in 2008, from $1.6 billion to $900 million. This was caused partly by changes to the euro exchange rate and also the effect of the global economic downturn.

Norway's DNV targets North Africa

Norwegian risk management service **Det Norske Veritas Group** (DNV) has taken over French safety and environmental risk management services provider **Sof Conseil** with a view to expanding into the French-speaking Maghreb. "This will be an important base for growing in the French and North African energy market" said DNV chief operating officer **Remi Eriksen** during the 3 December announcement of the takeover. France, with its strong energy sector and major industry players, has become a prime target for DNV's interest in expanding in the area. "The French energy cluster is becoming increasingly important in several of DNV's targeted markets and with this strategic move, DNV is positioning itself close to the headquarters of leading energy companies ... [and] will strengthen its capacity both in France and to cover projects in French-speaking countries like Algeria," Eriksen said.

Portuguese bank eyes BEA venture

Portugal's second largest listed bank, **Banco Espirito Santo** (BES), is to enter the Algerian market through a partnership with state-owned bank **Banque Exterieure d'Algérie** (BEA), the company's CEO **Mohamed Loukal** told the official **APS** news agency.

The joint venture, **IJAR Leasing Algérie**, will provide finance for Algerian companies to lease equipment and vehicles and will have an initial capital of AD3.5 billion ($47.5 million). The shareholders were expected to sign an agreement as the last step before submitting the application for accreditation with the Council of Money and Credit (CMC). BES will hold a 35% share in the joint firm, with BEA holding a majority 59%. The remaining 6% will be held by Swiss investment firm **Swicorp**. Although national companies are required to hold no less than 51% shareholding in local companies, in the future BEA plans to "sell a portion of its capital to Algerian investors", Loukal said.

BES, Portugal's second largest leasing bank, is to provide leasing expertise to the venture, while the **African Development Bank** (AfDB) is expected to part-finance training. "The African Development Bank has agreed in principle to co-finance the training of the BEA to the leasing business," said Loukal. The AfDB already provides Algeria with a loan to finance a project of modernising its banking sector, particularly focusing on introducing electronic banking.

Business in brief

Cement national champion challenges Lafarge

In November, industry minister **Abdelhamid Temmar** announced a consolidation of all the state-owned cement plants into a single group in an attempt to create a national champion capable of winning market share from France's **Lafarge**, which dominates the private sector of the cement industry. Lafarge's presence in the market is resented by the Algerian authorities. It came into Algeria after buying up all of **Orascom Construction Industries**'s cement production around the world. Although the Algerian assets were only part of the deal, it played up to Algerian fears of foreign investors profiteering at the expense of the nation.

As nationalist policies tighten, both Orascom and Lafarge appear to be major targets of an aggressive nationalist policy (see page 5).

Rise in minimum wage

Fulfilling an election pledge, the government has raised the minimum wage by 25% to AD15,000 ($214) from AD12,000, to take effect from 1 January 2010. Finance minister **Karim Djoudi** said that the measure would contribute an additional AD90 billion ($1.3 billion) to the government budget, which would fund a pay rise for public sector jobs which account for about 70% of Algeria's workforce.

Chinese investments and guest workers

Chinese ambassador to Algeria **Liu Yuhe** told a press conference in Djurdjura in mid-December that Chinese investments in the country amounted to about $900 million. He said that there were 35,000 to 40,000 Chinese workers in the country, mostly working in construction and public works.

Short-lived period of growth predicted

The latest economic forecast by the **Economist Intelligence Unit** predicts that real GDP growth will rise to 4.6% in 2010, after stagnating at 2.6% in 2009, but will slow to 4.4% in 2011. The forecast attributes the slowdown in economic growth in 2009 to "bottlenecks in gas development and OPEC production cuts" which contributed to a low growth in hydrocarbon production. The robust growth in the non-hydrocarbon sector and a bumper harvest will help boost economic growth, but be limited by recent government politics to limit imports and restrict private consumption growth.

But the EIU predicts a faltering global economy in 2011 and an end to government stimulus programmes in key markets, leading to a slowdown in growth. Inflation is estimated to have averaged 5.1% in 2009 but is expected to fall to 3.9% in 2010 and to 3.4% in 2011 as government subsidies help to maintain an artificially low rate.

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