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ALGERIA
SPOTLIGHT

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ALGERIA

IN NUMBERS



Proven Oil Reserves: **12.20 Billion**



Proven Gas Reserves: **159 trillion cubic feet**



Oil production: **1 million bopd**



Major players:



Sonatrach

Total

Eni

Cepsa

Equinor

Legal regime: **Law n° 19-13 of 14 Rabie Ethani 1441**

GDP: **172.781 Billion**



OVERVIEW:

Algeria is Africa's third largest oil producer after Nigeria and Angola, and 60% of its budget comes from hydrocarbons revenues. Oil production has been slowly declining however, from almost 1.4 million bopd in 2008 to a current average of 1 million bopd. Coupled with increasing domestic consumption, declining output is putting pressure on the need to discover new fields. Following a lack of appetite from international investors, the country completely replaced and modernised its legal framework with a new Hydrocarbons Code at the end of 2019.

Investors in Algeria's oil & gas sector are amongst the most diverse in Africa, coming from the US, Europe, Russia, Turkey, the Middle East, East Asia, South East Asia and China with recent investment interests picking up over the past two years. Following the adoption of the new Hydrocarbons Code, Sonatrach and Chevron signed an Mou in March 2020 to explore opportunities in exploration and production of hydrocarbon. The move could potentially see the entry of the American major into the country.

But the real story of Algeria's hydrocarbons sector is gas. The country is Europe's largest gas supplier, especially via the Maghreb-Europe Gas Pipeline, run by Medgaz. Over the past two years, Algeria has signed and renewed most of its gas sales and export agreements to Europe including the renewing of its contract with Gas Natural Fenosa in Spain until 2030, the renewing in 2019 of its three gas sales agreements with Eni and Enel in Italy and with Galp Energia in Portugal for another ten years, the renewing in 2019 of its gas sales agreement with Edison in Italy for another eight years, and the signing in 2019 of a gas sales agreement with Engie in France. Finally, it has opened new export markets, with the signing of an agreement with Turkey's Ronesans Holding in 2018 for the supply of 550,000 tonnes of propane a year. As Algeria secures gas export markets, it is also an African leader in gas monetisation and consumption at home, with most of its power generation fuelled by gas and a piped natural gas penetration rate of 60%.

OIL & GAS OVERVIEW AND MAKE UP

Algeria is in the middle of a profound energy transition. Its new national strategy for the energy sector includes the development of 16GW of renewable

energy capacity by 2035 to save natural gas, and the development of gas monetisation across industries including transport, petrochemicals and fertilizers. As a result, Sonatrach has signed since 2018 a plethora of agreements with all major international oil companies in the market to boost oil exploration and production, explore unconventional gas, expand energy infrastructure and develop renewable energy capacity.

In this context, a huge accent is put on gas and translates into major gas projects being developed across the country. In 2018 for example, several agreements and contracts were signed to boost gas exploration, supplies and monetisation. They include the start of production from the Timimoun gas project with Total and Cepsa, the signing of an agreement with Cepsa for LPG production from the Rhoude el Krouf oilfield, the development of a 4th LPG Train at the LPG ZCINA industrial complex with Maire Tecnimont, the development of a Phosphate Integrated Project with CITIC Construction Co, the Tinhert Field Development with Petrofac and the development of the six gas fields around Gassi-Touil.

2019 confirmed that trend, with the signing by Sonatrach of an EPC contract with the China Harbour Engineering Co regarding the construction of an additional LNG jetty and the expansion of the Skikda oil port, followed by another EPC contract with Larsen & Toubro Hydrocarbons Engineering for the development of the southwestern gas field of Hassi Ba Hamou & Reg Mouaded, Hassi Tidjerane and Hassi Tidjerane West, Tinerkouk and Tinerkouk West. The same year, Sonatrach added another EPC contract for the Ain Tsila Gas Field project with the Isarene consortium and Petrofac, and started exporting gas with Neptune Energy from the Touat gas treatment facility.

Recent efforts to develop the Berkine Basin with Eni are also bearing fruits following the signing of an agreement in July 2018 to develop a gashub in the region. In March 2020, this resulted in Sonatrach and Eni completing the 185km Bir Rebaa North-Menzel Ledjmet East gas pipeline in the Berkine Basin, with a transport capacity of 7 million standard cubic metres a day.

MIDSTREAM AND DOWNSTREAM DEVELOPMENTS

Midstream and downstream are an area of modernisation and expansion for Algeria.

Once again, these industries are avenues for gas monetisation and valorisation at home. In that regard, Sonatrach and Total signed an agreement at the end of 2018 to create the Sonatrach Total Entreprise Polymères joint-venture in charge of developing a new 550,000 tpy petrochemical project in Arzew.

Algeria is Africa's biggest refiner with Egypt and South Africa, and is looking at increasing its domestic refining capacity to meet increasing demand. It is notably planning a 5 million tpy crude oil refinery at Haoud El Hamra, for which a \$3.5bn EPC contract with signed with the consortium of Tecnicas Reunidas and Samsun Engineering in January 2020.

LEGAL FRAMEWORK

Algeria repealed the old Hydrocarbons law and promulgated a new Hydrocarbons Code, Law 19 – 13 of 11 December 2019, which remains the most recent hydrocarbons law in Africa. The new legal framework notably aims at attracting investment to lighten the burden of Sonatrach, modernise infrastructure and boost exploration. While mining titles are still held by the State and Sonatrach remains a majority owner in all partnerships, the new Code gives a more favourable share to foreign investors.

Algeria's oil & gas sector is structured by three key institutions: the Ministry and two independent institutions: the National Agency for the Valorisation of Hydrocarbons Resources (ALNAFT) and the Hydrocarbons Regulation Authority (ARH). Key responsibilities of the former include the evaluation of Algeria's seismic potential and the management of its seismic data, along with upstream investments promotion and the granting of exploration authorisations and upstream concessions. On its side, the ARH oversees all technical regulations pertaining to hydrocarbons activities, notably including infrastructure, tariffs, storage and QHSE.

Exploration activities are regulated by a prospection authorisation granted by ALNAFT for two years, with the possibility of renewing it for an additional two years. ALNAFT also has the possibility of concluding services contracts for prospection activities. Within a year of the authorisation's expiration, SONATRACH can request the granting of an upstream concession, or can jointly request the granting of a hydrocarbons contract with the prospecting company. Both upstream concessions and hydrocarbons contracts must be approved by a decree taken by the Council of Ministers.

An upstream concession is the contract used by SONATRACH when it wishes to develop an acreage on its own. A concession is granted for exploration and exploitation activities.

A hydrocarbons contract is concluded for thirty years and includes an exploration period of no more than seven years, and an exploitation period that starts upon the approval of

the field development plan. A hydrocarbons contract can be extended for ten years. Shall a hydrocarbons contract be concluded for already-discovered fields, its duration will be of twenty five years with a possible extension of ten years. A hydrocarbons contract can be in the form of a Participation Contract, Production-Sharing Contract or Risk Services Contract.

While SONATRACH must have a minimum participation of 51% within a Participation Contract, the terms of its participation in other contracts are different. In the case of a PSC and Risk Services Contract, the share of production given to the foreign co-contractor upon delivery, for the reimbursement of its petroleum costs and on behalf of its net remuneration, cannot be over 49% of total production.

The hydrocarbons contract includes local content clauses that give preferences to Algerian companies in the provision of local goods and services. Contractors and sub-contractors must hire local workforce as a priority for upstream activities. Upstream contractors must take the responsibility of training the local workforce across the range of upstream activities.

The new Hydrocarbons Code also prohibits gas flaring, which is authorised only exceptionally by ALNAFT and upon a demand made by SONATRACH. Gas flaring operations are subject to the paying of a specific tax of twelve thousand dinars (about \$100) per thousand cubic metres of flared gas. Gas flaring prohibition notably goes in line with Algeria joining the Zero Routing Flaring by 2030 Initiative in 2018.

Algeria's new fiscal regime notably includes a surface area tax, a hydrocarbons royalty, a hydrocarbons revenue tax (IRH), a result tax, a tax on the remuneration of the foreign co-contractor, a fixed fee on anticipated production, and a land tax.

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HOW CAN WE HELP?

Centurion Law Group is a pan-African corporate law conglomerate, with a specialized focus on cross-border business and energy law. The firm is a Chambers & Partners Band 1 ranked law firm in Equatorial Guinea. We help you navigate the legal and regulatory environments of Africa's many jurisdictions and ensure that deals are done and completed as efficiently and cost-effectively as is possible.

Centurion with its large network of lawyers and on-demand specialists are ready to be mobilized to undergo your full suite of legal and advisory work. Our regional office in Equatorial Guinea is our first and longest running, for over a decade. Our strong knowledge of the oil and gas sector in the region enables us to provide clients with the best advice possible. We can help you facilitate your entry into the market, and help you navigate through established industries through our relationships with key stakeholders in Equatorial Guinea's and Gas industry.

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