



Algeria's Hydrocarbons Crisis: Prospects Of A New Beginning

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Introduction:

Algeria has been heavily relying on its nationalized hydrocarbon industry to maintain both its sovereignty and social peace since its independence, to the extent that oil and gas are part of the country's identity. According to the World Bank, gas and oil presently represent 96% of exports and 60% of the national budget's income.¹

However, the country's reliance on hydrocarbons is falling off short as its economic growth has been reduced by 50% in less than five years. In 2014, Algeria held almost \$200 billion dollars of exchange reserve assets as opposed to \$60 billion dollars today. In contrast, the Algerian economy has never been this dependent on hydrocarbons and services linked to it.²

KEY TAKEAWAYS

- Algeria's over-reliance on hydrocarbons' exports is no longer viable due to the falling international prices.
- The unviability of hydrocarbons as an economic model is threatening to reignite social anger and unrest, especially in the south of the country.
- Algeria has an opportunity to shift towards renewable energies – especially within the framework of the EU's Green Deal – but only if it is willing to change its economic paradigm.

¹ [https://www.lefigaro.fr/conjoncture/2019/02/28/20002-20190228ARTFIG00190-algerie-une-economie-a-bout-de-souffle-malgre-des-](https://www.lefigaro.fr/conjoncture/2019/02/28/20002-20190228ARTFIG00190-algerie-une-economie-a-bout-de-souffle-malgre-des-ressources-abondantes.php)

[ressources-abondantes.php](#)
² Ibid.

As matters stand today, no economic sector can replace the importance of the oil rent sector. The industrial sector has worsened across the years, with production being cut in half since 1989. The latest cabinet's reshuffle, as well as the amendment of the historical 51-49 percent rule by the 2019 hydrocarbons law, are meant to alleviate the crisis.³ However, Algeria needs a paradigm shift away from hydrocarbons.

The Algerian Deadlock: Why Hydrocarbons Are Not Viable Anymore

On the 23rd of June 2020 the Algerian president Abdelmajid Tebboune announced a ministerial reshuffle, six months after his rise to power. The most noticeable shift occurred in the energy sector, with Mohamed Arkab being replaced by former Sonatrach CEO Abdelmajid Attar.⁴

As in similar resource-rich, newly independent authoritarian states, an implicit social pact has been established in Algeria: the constitution of a welfare State in exchange for citizens' apoliticism.⁵ With autonomous resources available, national budgets are less dependent on taxes, and state subsidies are generously allocated. This both hinders pressure to hold rulers' accountable and respond to civil society's demands.⁶ However, the multiplication of social protests in recent years might be a sign this pact is losing steam.

The post-independence Algerian state adopted a Keynesian approach based on state interventionism coupled with a rentier logic, which soon clashed with the international doctrine of market liberalization and the increasing demands for transparency. Extreme interventionism is directly linked to the hydrocarbons industry, the core of the Algerian economy. Beyond the financial aspect, the very

legitimacy of post-independence Algerian leaders is highly intertwined with oil and gas' nationalization, as a large part of the decolonization discourse has been framed in terms of nationalizing resources. Algeria has thus been maintaining the monopoly on its hydrocarbons production through its national company Sonatrach

For decades, Algerian rulers had to harmonize the need to revise legislations, effectively guaranteeing currency revenues, while reforming those same texts as to attract the technological and financial capacities that Sonatrach lacks. The national company is heavily burdened by its responsibility towards wealth redistribution and full employment.⁷ A brief attempt to liberalize hydrocarbon policies occurred in 2005 – which nearly saw the end of the 51-49 percent rule⁸ that limits foreign investors to a 49% stake in Algerian companies, and requires foreign contractors to find local partners for public tenders. Changing this policy proved controversial, which led Bouteflika abandon the idea.⁹

The hydrocarbons sector is highly dependent on the price per barrel, thus vulnerable to the global economy's fluctuations. The efficient evaluation of hydrocarbons for an exporting country is realistically only worth the international market's prices. Oil that sells at a low price would not be more useful or more profitable as the exporting country assumes the entirety of production shares. In this scenario, part of the energy needs of the rest of the world is, in a way, financed by transfers from exporting countries.¹⁰ This is particularly true currently as the price per barrel continues to fall.¹¹

Prior to the onset of the 2019 *Hirak*, observers of Algerian politics¹² contended the regime has managed to avoid large-scale political resistance by using the strategy of limited political liberalization and by undertaking reforms that

3 https://www.lepoint.fr/afrique/algerie-cette-nouvelle-loi-sur-les-hydrocarbures-qui-ne-passe-pas-14-10-2019-2341125_3826.php

4 https://www.jeuneafrique.com/1005286/politique/algerie-abdelmajid-tebboune-remanie-deja-le-gouvernement/?utm_source=newsletter-ja-actu-non-abonnes&utm_medium=email&utm_campaign=newsletter-ja-actu-non-abonnes-24-06-20&utm_content=article_1

5 Martínez, L. and Boserup, R., 2016. *Algeria Modern*. p.24.

6 Ibid.

7 Martínez, L. and Boserup, R., 2016. *Algeria Modern*. p.24.

8 The participation of a foreign investor in an Algerian company is limited to

49% and foreign contractors are forced to find local partners for public tenders.

9 <https://www.crisisgroup.org/fr/middle-east-north-africa/north-africa/algeria/algeria-s-south-trouble-s-bellwether>

10 Mekideche, M., 2009. Le secteur des hydrocarbures en Algérie. *Confluences Méditerranée*, N°71(4), p.153.

11 <https://prixdubaril.com/comprendre-petrole-cours-industrie/68884-prix-petrole-chute-lourdement-avril-2020.html>

12 https://www.cetri.be/IMG/pdf/analyse_2018_-_algerie_resistances_et_contre-resistances_-_cetri.pdf

never challenged the system but appeased the public opinion. This policy has been largely enabled by the country's oil income. The regime hence managed to maintain a fragmented, weak opposition evolving within the framework it has established, thereby rendering political parties a factice challenge to the establishment.¹³ The evolution of internal dynamics – mainly internal power struggles and the proliferation of social protests¹⁴ – severely weakened this status quo.

The Specter of Ghardaia, In Salah and Ouargala

The simultaneous protest movements that started in 2013 in the country's south to denounce territorial inequalities, unemployment and marginalization by central authorities have major significance. The protests, sparked in three southern Algerian cities, Ghardaia, Ouargala and In Salah, have signaled that the country's south, in which the majority of natural resources are located, could no longer be perceived as apolitical.¹⁵

Imagining the Algerian south as a passive region might have contributed to its marginalization or, to the least, to its relegation to the bottom of the post-independence state's development agenda. Although the North has marked modern Algerian history for being the principal battlefield of the 1990s civil war, the South has a history of resistance to central authorities since the French colonization.¹⁶

The Algerian South's infrastructures have been built around its hydrocarbon reserves, monopolized for the extraction and transport of gas and oil. However, despite most of Algeria's wealth being mainly produced in the South, its

inhabitants have not received the benefits of the vast resources, even as foreign investors have multiplied and the job market has developed since the 2000s.¹⁷ It should be noted that there is a disregard for social and environmental corporate responsibility, both from Sonatrach and international investors.

The 2013 movement of youth unemployed in Ouargala¹⁸ and the 2015 anti-shale gas movement in In Salah¹⁹ were a harsh reminder of how little southern resources benefit southern Algerians.²⁰ The region is witnessing an annual 2% demographic growth coupled with rapid urbanization, as 69% of its population was rural at the time of the independence, compared to 30% in 2016. Yet, although southern Algerians only represent 10% of the nation, they form almost 40% of the country's poorest communes.²¹ Even when oil prices were at their highest, allowing Algeria to accumulate \$200 million dollars in exchange reserve assets in 2012, social investments did not materialize and corruption scandals multiplied. The situation has been worsening since oil prices have sharply dropped and foreign investors have been deserting the country.²²

Wind and Sunshine: A Paradigm Shift?

The possibility of a new European market for Algeria is tied to the continent's need for energy, only a different type of energy, from its southern Mediterranean neighbors. Europe and North-Africa's codependence on gas and oil could be replaced by wind and sunshine in Europe's planned post-carbon economy.²³

13 Ibid.

14 For further details, see from the same author: <https://www.bic-rhr.com/research/algeria-analyzing-2015-power-struggle-heart-2019-unrest>

15 See from the same author: <https://www.bic-rhr.com/research/algeria-analyzing-2015-power-struggle-heart-2019-unrest>

16 <https://www.crisisgroup.org/fr/middle-east-north-africa/north-africa/algeria/algeria-s-south-trouble-s-bellwether>

17 <https://www.crisisgroup.org/fr/middle-east-north-africa/north-africa/algeria/algeria-s-south-trouble-s-bellwether>

18 [https://www.jeuneafrique.com/171770/societe/alg-rie-](https://www.jeuneafrique.com/171770/societe/alg-rie-manifestation-pacifique-de-ch-meurs-ouargla/)

[manifestation-pacifique-de-ch-meurs-ouargla/](https://www.jeuneafrique.com/171770/societe/alg-rie-manifestation-pacifique-de-ch-meurs-ouargla/)
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<https://www.nouvelobs.com/monde/20150301.OBS3587/algerie-une-manifestation-anti-gaz-de-schiste-degenere-a-in-salah.html>

20 See from the same author: <https://www.bic-rhr.com/research/algeria-analyzing-2015-power-struggle-heart-2019-unrest>

21 Martínez, L. and Boserup, R., 2016. *Algeria Modern*. p.24.

22 <https://www.crisisgroup.org/fr/middle-east-north-africa/north-africa/algeria/algeria-s-south-trouble-s-bellwether>

23 <https://www.politico.eu/article/why-carbon-free-europe-will-still-need-north-african-energy/>

It is believed that the scope of mutual dependency can only grow in a zero-emissions setting. North-Africa's wind and sun coupled with the low cost of labor makes it an ideal environment to produce green hydrogen. This could compensate for Europe's disinvestments from Algerian oil and gas, as foreign direct investments (FDI) decreased in 2019 compared to the precedent year from 1.46 to 1.38 billion dollars.²⁴

This month, the EU adopted its strategies for energy system integration and hydrogen as part of the European Green Deal's roadmap.²⁵ This step aims to support Europe in reaching "*a fully decarbonised, more efficient and interconnected energy sector*"²⁶, eventually becoming climate neutral by 2050. As the world is moving towards green energies, the Green Deal represents a golden opportunity for a mutually beneficial partnership between Europe and its southern neighbor, Algeria. Hydrogen is, per instance, currently produced from natural gas in 95% of cases, a resource widely available in Algeria, although storage and distribution costs remain high.²⁷

However, this transition is dependent on the Algerian state's will to invest in renewable energies. In 2011, the country has adopted the national program for renewable energies and energy efficiency which in 2016 became a national priority.²⁸ Yet, despite the will expressed in legislations and the ambitious strategy drawn up by public authorities, the actual capacities installed between 2010 and 2019 are estimated at around 390 megawatts (MW), or barely 1.8% of the total 22,000 MW constituting the total renewable energy capacity to be deployed by 2030. The country is very far from achieving the creation of the 12,000 MW intended for domestic consumption - 7,200 MW of thermal solar, 2,800 MW of solar photovoltaic and 2,000 MW of wind power - as well as the 10,000 MW intended for export.

The state's focus clearly remains in investing in gas and oil, as highlighted by a recent report made

public by Nouredine Yassaa, Commissioner for Renewable Energies.²⁹

A simple comparison between the capacities installed for the production of electricity from gas and those based on renewable resources during the last decade shows that between 2010 and 2019, those installed mainly in the form of gas turbines have practically doubled, from nearly 11,000 MW in 2011 to nearly 21,000 MW in 2019 which entails priority has been given the development of electricity production from natural gas over the last decade, contrary to the ambitious state discourse on the importance of renewable energies.³⁰

Conclusion

Algeria is hence at a turning point of its modern history. Its old economic and social paradigm is in need of a restructuration, which is possible through investing in new, clean energies. However, this could come at a high political cost for its leaders who have been basing their legitimacy, and the livelihood of millions of Algerians, on the hydrocarbons sector. Yet, this transition is necessary for the survival of the Algerian economic and social fabric.

24 https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf

25 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

26 Ibid.

27 <https://www.liberte-algerie.com/contribution/lhydrogene-comme-source-alternative-333723>

28 <https://www.elwatan.com/edition/economie/les-energies-renouvelables-et-lalgerie-le-grand-bluff-21-01-2020>

29 Ibid.

30 Ibid.

BIC Policy Recommendations:

To the Algerian government:

- Algeria is in dire need of a courageous reconsideration and reform of its economic paradigm. Promises to move towards renewable energies should not remain theoretical and should be supported by state funds, an efficient production and distribution strategy, and international and regional partnerships.
- Algerian leaders should capitalize on the opportunity presented by the EU's Green Deal to shift its priority towards investing in renewable energies and hydrogen production, in order to establish a durable, profitable, and mutually beneficial partnership for both parties.
- As the 2019 hydrocarbons law allows a greater market share to private investors, improved corporate responsibility should be encouraged and incorporated into national legislation, in order to hold investors socially and environmentally accountable for their activities to the benefit of southern Algerians.
- Algerian leaders should leverage the current political transition phase to replace repressive measures contributing towards social anger with an inclusive dialogue, followed by concrete measures to both remedy unemployment and environmental risks in the south

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