

Insight Conversation : Abdelmadjid Attar, Minister of Energy, Algeria

With its oil and gas production flagging even before the **COVID-19 pandemic** wreaked havoc on the market, Algeria in June appointed industry veteran Abdelmadjid Attar as energy minister to court much needed foreign investment and reform the sector.

Attar, a former CEO of state oil company Sonatrach from 1997 to 1999, will be tasked with implementing a long overdue hydrocarbons law that the government hopes will attract joint venture partners to develop new projects and reinvigorate existing fields.

As Algeria's energy minister, he holds the rotating presidency of **OPEC** this year, and will also host and chair the Gas Exporting Countries Forum ministerial meeting in November.

In an email interview, S&P Global Platts spoke with Attar about his priorities, the outlook for the oil and gas markets, and the future of Sonatrach. This transcript has been lightly edited for clarity.



Abdelmadjid Attar, Algeria's Minister of Energy

The government is launching a plan to reduce Algeria's dependence on oil and gas revenues. How will this impact Sonatrach and Algeria's hydrocarbons sector?

The adverse impact of COVID-19 on lives, the economy and livelihoods is huge and unprecedented, throughout the globe. Oil and natural gas markets have suffered a dramatic decline in demand and a sharp fall in prices. It is crucial to adapt to these exceptional circumstances in the short term, and to their aftermath in the medium to long term.

Adapting is what Algeria intends to do, especially that its dependence on oil and gas export revenues remain relatively high. The government has launched deep economic reforms covering all sectors, in order to be able to free the country from the hydrocarbons-based rent.

The national recovery plan is ambitious. It aims to accelerate socio-economic development by mobilizing all resources for value-creation, supporting the emergence of new sectors of activity, in particular through small and medium enterprises and start-ups that are key to job creation, and diversifying the economy in a sustainable manner, while responding to population needs.

The policy of diversifying sources of growth is not negating the objective of strengthening and rationalizing the development of the hydrocarbon sector. To the contrary, I believe it goes hand in hand.

The strategic development plan for the energy sector, which I have recently presented in the Council of Ministers, goes towards achieving these objectives, namely to ensure [Algeria's] energy security by meeting its short- to long-term energy needs, further contribute to the economic and industrial development, and provide adequate financial resources.

More specifically, we need, among others, to expand the country's oil and gas reserves and resources, improve the ultimate recovery in producing fields, aim at operational excellence, apply advanced technologies and reduce costs. We also need to be more present in the value-creating downstream, in particular petrochemicals.

I believe that, in addition to an improved and more efficient Sonatrach, win-win partnership is key to achieve the objectives that I have described.

You have recently been appointed as energy minister. What do you see as your priorities, and what is on your agenda as energy minister?

I have launched an extensive discussion within the sector to draw a roadmap for both the immediate future as well as the medium to long term, in order to define concrete and measurable objectives that are consistent with the government economic recovery and reform plan.

It is clear that expanding oil and gas reserves of the country is a key priority, as I said earlier. I am a geologist and I have spent many years in exploration. I believe that Algeria's hydrocarbon potential is huge, both onshore and offshore. Innovative concepts associated with advanced technology could lead to commercial discoveries. At the same time, I believe that there is significant upside in producing fields, in terms of recovery. Technology and digitalization could unlock this potential.

In this connection, I have set as an immediate priority to finalize and publish all the regulatory texts that are required to enable the full implementation of the new hydrocarbon law that was enacted last year.

The other priority is to capture high added value in downstream activities, such as petrochemicals, which offer the additional advantage of creating an industrial local network of diversified small to medium enterprises, thus contributing to socio-economic development.

It is also important to develop local content, in particular through the manufacture of equipment and spare parts for oil, gas and power industry. In addition, the sector should use all necessary means to provide energy to wealth- and job-creating sectors, such as agriculture, industry and services.

Cost optimization is another key objective for the sector, to adapt to the new low oil and gas price environment. It is best achieved through operational excellence and allocation of scarce financial resources to the projects having the highest economic merit.

Last but not least, is rationalization and efficiency improvement of domestic energy consumption. It is a great challenge, but I have the ambition to focus more attention and action into this important sector, in cooperation with my colleague minister in charge of energy transition.

What are your thoughts on the new hydrocarbons law? Are there reforms you would like to see the energy sector institute in order to attract more investments, in particular in the upstream?

As I said earlier, attracting new investments, particularly in upstream, is of the highest priority. The new law governing hydrocarbon activities provides a clear, flexible, simplified and attractive investment environment. It is aligned with best practices in the world. It is flexible with three possible contractual types (participation agreement, production sharing contract and risk service contract). In addition to tenders organized by the state agency, Alnaft, contracts could also be awarded through direct negotiations with Sonatrach.

Of course, the hydrocarbons law is only one driver to attract investment. An urgent task is to finalize all regulatory texts needed to implement the law. I have set a very tight deadline for this task. A large exchange of views with operating companies will help ensure that regulatory texts do offer the most favorable environment.

We also need to continue improving the business climate in the country, be more reactive and solutions-oriented, launch more multiclient studies, and listen to our partners.

I am fully aware that the current oil crisis is a challenge. Many companies, if not all, have drastically reduced their investments, including Sonatrach. But I remain optimistic.

Firstly, the oil industry is cyclical. I was CEO of Sonatrach in the midst of the 1998 oil crisis. Many were claiming that oil prices will never recover. They were flatly wrong. Companies adapt. The dawn follows the darkest hour of the night.

Secondly, companies look after quality assets. And I am convinced that Algeria is still a country where such quality acreage can be found.

Thirdly, it is always better to invest when costs are low and produce when prices are high. We are today in this configuration, and we welcome companies that are innovative, pursue operational excellence, and have a long-term vision of the industry.

Sonatrach has signed several MOUs over the last few months with IOCs. How do you plan to transform these MOUs into action and investment?

Since the enactment of the new Hydrocarbons Law 19-13, and according with the provisions of its Articles 75 and 231, Sonatrach has intensified discussions with several major oil and gas companies, with a view to develop new opportunities for cooperation, both upstream and downstream. To date, Sonatrach has signed six memorandums of understanding and more than a dozen confidentiality agreements with some fifteen international oil and gas companies, and more are coming.

Sonatrach holds a number of contracts with Alnaft on complex reservoir perimeters whose development requires heavy investment and, above all, the use of advanced technologies. For these reasons, Sonatrach has undertaken to present some of them to potential partners to examine them and return to it with a technical offer to develop these fields, using their experience and know-how.

Do you have an update on the Hassi Messaoud, Biskra and Tiaret refinery projects? What is their timeline for completion, and when can we expect construction to begin? Are these downstream projects still a priority for Algeria?

Sonatrach launched at the beginning of this year the construction of a new refinery in Hassi Messaoud, with a capacity of 5 million mt/year, with commissioning expected in second half

of 2024. This refinery will increase Algeria's crude oil processing capacity to 31 million mt/year.

Sonatrach has also finalized FEED studies of two other projects at the Skikda refinery: a fuel cracker for diesel production and a naphtha processing unit for gasoline production.

With regard to the other two refinery projects in Biskra and Tiaret, no investment decision will be made before 2025. The strategy in this sector will have to adequately take into account the impacts of energy efficiency policies in the transport sector that we aim to put in place, as well as energy transition drivers, such as the emergence of electric vehicles.

Algeria remains a key gas supplier to southern Europe, but faces competition from LNG. What can Algeria do to ensure its pipeline gas supplies to Europe remain robust?

Natural gas markets have evolved: more actors, LNG trade linking regional markets, more diversity of contracts and pricing mechanisms, more competition with other fuels, notably in the power sector.

Sonatrach is an important player in the gas market. It is present for more than 60 years, and has developed a reputation of a reliable supplier. Its co-operative strategy is based on a "win-win" spirit, especially with its European partners.

Algeria is and will remain a strategic and important exporter of gas to the European market. It has the capacity to ensure the energy security of this market, thanks to its excellent relations with its partners, its geographical situation, the size of its gas reserves and resources, the gas export infrastructures with gas pipelines to Italy and Spain as well as liquefaction plants and a large fleet of LNG carriers.

It is true that overinvestment was made in liquefaction capacity worldwide, leading to oversupply and a collapse in prices. This was already visible in 2019. COVID-19 has simply exacerbated this trend. With the decline in Asian demand, Europe became the market of last resort and spot prices declined sharply.

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Sonatrach has managed and continues to manage this exceptional situation with its customers through flexibilities already provided in its gas contracts but also through solutions that adapt to market conditions. Sonatrach is in continuous discussions with its customers to find consensual solutions, particularly in terms of operational flexibility, in order to cope with this exceptional situation.

I believe that this situation will progressively improve. Natural gas is a fuel of choice and its share in the global energy mix will increase.

Algeria is also an important LNG producer. Does Algeria have any ambition to increase its LNG supplies and to target new markets?

Algeria is indeed a major producer of LNG, with a total liquefaction capacity of 56 million cu m of LNG per year. Combined with export pipelines (over 50 Bcm per year), this allows Sonatrach to satisfy its contractual commitments and have the flexibility to place additional quantities on the spot market. The Pier project underway at the port of Skikda will allow accommodating VLGCs. Sonatrach's marketing strategy is also focused on diversifying and expanding its client portfolio.

How do you see the outlook for the oil and gas markets over the short and medium term? Do you have any concerns that OPEC+ may be tapering its production cuts too soon, with the recovery from the COVID-19 pandemic still uncertain?

COVID-19 triggered one of the worst economic recessions in the history. It was sudden, and affected almost all sectors and all regions of the world. Lockdowns and reduced mobility led to a massive drop in oil demand, exceeding 20 million b/d in April. Although the situation has improved, demand contraction is expected to be in the tune of 9 million b/d in 2020, according to the OPEC secretariat. Global stocks would have increased at an unprecedented pace of around 2 million b/d. Without the historic agreement between OPEC countries and non-OPEC participating countries in the Declaration of Cooperation, these figures would have been even more staggering.

It is clear that this agreement helped the market recover. The high level of conformity observed in June as well as the newly designed compensation mechanism have given more credibility to the willingness of participating countries to restore oil market stability. This is important. I am confident that all countries will continue to implement their commitments in a satisfactory manner. In these exceptional and challenging times, there is no other alternative to cooperation and working hand in hand to weather this crisis.

In August, we enter the second phase of the agreement. The resulting increase in production is to a large extent compensated by the seasonal increase in demand in some countries, as well as demand growth due to easing of lockdowns and economic recovery in many producing countries. Today, market situation has improved and reached some sort of stabilization.

But let me assure you, we remain vigilant. We will continue monitoring carefully market conditions and prospects. As president of OPEC, I am in contact with [Saudi energy minister] HRH Abdulaziz bin Salman, chairman of the Joint Ministerial Monitoring Committee. Should market conditions deteriorate significantly in the future, OPEC stands ready to enter into consultations and consider further actions, in cooperation with non-OPEC participating countries.

It is very difficult to make projections, given the large uncertainties resulting from COVID-19. Is the world going to face a pandemic new wave? When is a vaccine going to be made available at large scale? How are economic recovery plans and stimulus packages going to impact economic activity, consumption and mobility?

I remain optimistic. The world is certainly much better prepared to COVID-19 now than in the beginning of the year.

The crisis has also adversely affected natural gas markets. In fact, these markets were already suffering from oversupply since early 2019. COVID-19 and the resulting demand drop have exacerbated this situation. Natural gas prices have plummeted to historically low levels and current market dynamics failed to stabilize the market. There is no OPEC for gas.

I am president this year of the Gas Exporting Countries Forum Ministerial Meeting. It is planned that ministers will meet in Algiers on the November 12. I believe this crisis is an opportunity to innovate and explore ways and means to further strengthen the GECF. Of course, gas markets are different than oil markets. But cooperation among producers and market stability are similarly important.