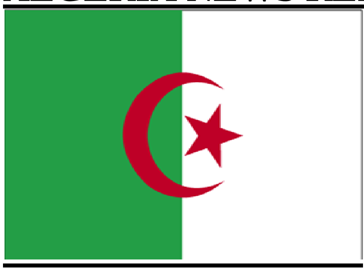
ALGERIA NEWS REPORTS



Pipedreams Become Reality

A series of major gas infrastructure deals is positioning Algeria at the heart of the EU's future energy policy, as worries over a dependency on Russian exports places the hydrocarbons-rich North African state in the driving seat to expand its own supply.

Algeria is already a significant supplier of natural gas to southern Europe, with two existing pipelines connecting the country with Spain and Italy. A second pipeline to Spain, the 200-km Medgaz pipeline, is expected to be operational by mid-2010, and will have an annual capacity of 8bn cu metres (bcm), while a second Italian pipeline, the Galsi pipeline, will also have a capacity of 8bcm and is due to begin construction next year. Meanwhile, the existing Transmed pipeline, which supplies Italy via Tunisia and Sardinia, is expected to have its current 27bcm capacity increased by a further 7bcm by the end of this year. When the 12bcm Maghreb-Europe gas pipeline is also included, the potential capacity from Algeria to Europe will rise to 62bcm a year within the next five years.

Securing alternatives to Russian gas (which currently supplies one-third of European imports, or around 150bcm a year) has become an increasing priority among EU states, following a series of annual squabbles between Russia and the Ukraine (through which many of Russia's European pipelines pass), which this year resulted in the flow of gas being temporarily cut off altogether.

The two new pipelines currently under construction will enable Algeria to capitalise on this geopolitical trend. However, a recently inked deal may go even further, eventually positioning the North African state as a gas hub for Europe. The long-planned Trans-Sahara gas pipeline was given the go-ahead on July 3rd following the signing of an agreement between Nigeria, Niger and Algeria in the Nigerian capital of Abuja. The 4128-km pipeline will connect Nigeria with Algeria, and supply up to 30bcm of gas a year to the Algerian-European network. Tendering for the anticipated $10bn project is expected to take place before the end of the year.

The ambitious pipeline project will not be without challenges: the Movement for the Emancipation of the Niger Delta, which has caused significant disruption to Nigeria's oil industry since 2006, has already announced its opposition to the pipeline.

Russian gas giant Gazprom, sensing a threat to its strategic position, has already signed an agreement with the Nigerian National Petroleum Company - the state-owned company who along with Sonatrach controls 90% of the project - establishing a 50-50 joint venture in oil, gas processing and transportation. Gazprom plans to build a 360-km gas pipeline running from north to south, which will be the first trunk pipeline to become part of the Trans-Sahara pipeline, Gazprom International's chief, Boris Ivanov, said in late June.

Alongside expanding its carrying capacity, Algeria is looking to increase the exploitation of its significant gas reserves. Following the seventh round of bidding for exploration blocks last year, which saw existing operators Eni and BG secure successful bids alongside newcomers E.ON Ruhrgas and Gazprom, the Algerian government recently announced a new round of bidding for an additional 10 exploration contracts in the Sahara. So far, 74 companies have been prequalified for the new round of bidding, where Sonatrach is hoping to secure $2.8bn-3.5bn of funding.

It remains to be seen how enthusiastic oil companies will appear. The previous round of bidding resulted in only four blocks out of 16 being awarded. Some analysts claim that the new investment law, which requires Sonatrach to maintain 51% ownership of any block, is proving a disincentive. However, the government believes that the low price of oil during the previous round proved a bigger factor, and the recent recovery in prices should result in a greater appetite among international partners.
Source.: Oxford Business Group 11/08/2009