

Presentation

by Ambassador Abdallah Baali

on Algeria's Economy and Energy Sector

at the 2010 Algeria Energy Day

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Ladies and Gentlemen:

It is wonderful to be away from Washington DC even for only a couple of days and to join you here in this beautiful city in this annual gathering on Algeria.

I am delighted to see so many American friends from the energy sector as well as representatives from the Algerian public and private oil and gas sector whom I would like to welcome and thank for joining us.

I would like also to express all my gratitude to the very able leadership of the US-ABC for co-hosting with the Algerian Embassy this event and so many other events aiming at highlighting the rich potentialities of the Algerian economy.

Let me now give you a broad outlook on the Algerian economy before addressing the sector of oil and gas.

But before doing that, I would like to focus for a moment on the Algerian-American relations; and in this respect, I would like to state that these relations have never been as strong, close and friendly as they are today.

Visits in Algeria and the USA by cabinet ministers, high officials, parliamentarians, entrepreneurs, scholars, have dramatically increased during the last 12 months. Agreements have been signed in some sectors and significant progress has been made in other sectors, thus demonstrating that there is today a real opportunity for the two countries to expand further their relations and to build a much stronger relationship based on trust, friendship, respect and mutual benefit.

After the historic record of 2008 when trade between the two countries reached a peak of \$21 billion we managed, in 2009, in spite of the economic crisis and the fall of the oil and gas prices, to maintain our global exchanges at a very high level with exports to the USA totaling \$15.770 billion and imports reaching \$1.230 billion.

Obviously, most of our exports to the US consist of oil and gas products and it is not surprising that most of the US investments in Algeria are directed to this sector, making Algeria the second recipient in the Arab world of US investments in oil and gas.

Though we are very pleased with these investments and we would certainly welcome any additional investment in this area, we would like to see more US investments in sectors other than oil and gas and we are trying very hard to get American companies take advantage of the tremendous opportunities that exist in other economic sectors.

In this regard, let me give you some data about the Algerian economy which is today in full-steam development with the non-oil GDP growing at 6% a year.

Foreign debt is at less than \$600 billion, Central Bank reserves have been estimated at the end of 2009 at \$150 billion and there are additional financial resources available at its Regulation and Stability Fund, representing 40% of its GDP, unemployment rate is at 10,2%, inflation is at 4% and the national economy has grown by around 3%.

Since 1999, Algeria has launched gigantic development plans in particular in the sectors of construction and infrastructures. For the period 2004-2009, the Government has spent more than \$150 billion mostly in infrastructures, thus creating the conditions for a sustained expansion of the Algerian economy.

More is to come with the adoption, in the near future, of another five-year development plan with a total investment of \$185 billion.

This sustained effort has been made possible and has continued unabated during the world economic recession, thanks to the sound and cautious financial and monetary policies that the Government has put in place and scrupulously implemented during the last ten years and which have, according to the World Bank, insulated the Algerian economy from the financial crisis.

In spite of many significant achievements, including in the agricultural sector and the growing contribution of a vibrant private sector to the growth of the Algerian economy, the hydrocarbon sector remains however the backbone of our economy accounting for roughly 55% of its budget revenues and over 97% of export earnings.

Our goal is to diversify our economy -and the sooner the better- and we invite all American companies to take advantage of the tremendous opportunities that exist in Algeria, namely a booming domestic market, abundant natural, financial and human resources, a dense industrial fabric, excellent infrastructures, highly attractive investment incentives, and ideal geographical location in the center of North Africa, and in the Mediterranean.

Ladies and Gentlemen:

Let me now talk about the energy sector. As I mentioned earlier, this sector represents an overwhelming part in the Algerian exports, the public budget and the Gross Domestic Product (GDP).

In fact, during the recent decade, the sector has experienced two major periods.

The first one involved putting together the legal and institutional framework with a better control by the State of the exploitation of the natural resources of the country which are the property of the whole Nation (the Mining Law in 2001, the Law on Electricity and Gas in 2002 and the Hydrocarbon Law in 2005, modified in July 2006). Five regulation and control commissions were put in place.

The second period covered the design and beginning of implementation of an important development program of petrochemical industry based on natural gas as well as on liquid hydrocarbon.

On the gas front, the plan is to double the LNG output and to considerably increase the capacity of natural gas export infrastructures.

The Government is engaged in building two mega LNG projects: **the Skikda LNG mega train** whose contract has been stalled by US company Kellogg Brown and Root (for \$2.8 billion and a capacity of 4.5 million tons of LNG/year) and **the Arzew mega train** stalled by Italy (for more than \$4 billion and a capacity of 4.7 billion tons/year). With these plants, Algeria will increase its domestic production by 50% by 2025 and will soon have the capacity to export 85 billion cubic meters/year from 60 billion cubic meters in 2009.

In terms of existing infrastructures, we have two operational pipelines: the Trans-Mediterranean (Transmed) to Italy (commissioned in 1983) and the Maghreb-Europe Gas (MEG) to Spain (commissioned in 1996 and expanded after 2001) with exports of roughly 37.5 billion cubic meters.

In addition to those two pipelines, **a third one called “Medgas”** (with an initial capacity of 8 to 10 billion cubic meters of gas) will soon connect Algeria to Spain. **A fourth pipeline called “Galsi”** with a similar capacity, will connect Algeria to Italy via Sardinia in 2012. **A fifth pipeline, known as “Transaharan Gas”**, will connect Nigeria to Europe by 2015 and will be complemented by communication lines and fiber optic cables to transport electricity from Algeria to the European market. Combined with the completion of the road and the Trans-laying of a fiber optic line connecting Algeria and Nigeria, Trans-Saharan Gas Project (TSGP) should cost more than \$6 billion.

Electricity is also a top priority in Algeria's energy strategy.

The utilities company Sonelgaz is investing some \$20 billion in its gas and power operations in the period up to 2017. Of that, about \$7.5 billion are devoted to the construction of thermal power plants running on gas and \$12.5 billion to power and gas transmission and distribution. Demand in Algeria is growing more rapidly than overall demand and Sonelgaz is scheduled to bring new gas turbine power stations with a total capacity of 2,000 MW on stream this year.

Renewable energies are also getting increased attention because the Government is fully aware that oil is a finite natural resource and because of the existence of other infinite energy sources.

In this regard, **nuclear power is certainly an option.** Algeria has long had the intention of developing nuclear power on the strength of substantial uranium deposits discovered in the south of the country in the 1980's. The country has two small research reactors for civilian use built in cooperation with Chinese and Argentinean partners. Up to now, we have concluded agreements of cooperation in civil nuclear field with countries such as China, France, Argentina, Russia and the United States. The use of nuclear energy for electricity generation is driven by the national growth in energy demand due to rising population, dynamic economic activities, low energy consumption and accelerated industrialization process.

Draft legislation on the subject will soon be submitted to the Parliament. It includes the establishment of two agencies: one for nuclear safety and another for promotion and development of nuclear power. Algeria's first commercial nuclear reactor will come on-stream by 2020.

The Government also has ambitious development projects in the renewable energy sector, particularly, due to the country's huge potential, **mainly solar.** Thanks to concentrating solar power "CSP" technology, solar energy can be harnessed to generate power at industrial scale. In this context, the Government has launched the

implementation of an Integrated Solar Combine Cycle (ISCC) in Hassi R'mel for a solar capacity of 25 MWe on an area of 152 ha (a project to be achieved by August 2010) and intends to realize two other ISCC of 70 MW each during the period 2012-2016.

Our target is to reach 10-15% of power use from renewable energy by 2030 and 20-25% renewable energy by 2050.

Equal importance is also given to the photovoltaic system. In the framework of the national rural electrification program, a plan to connect power to 18 remote villages (906 households) was carried out by Sonelgaz in the South and the High Plateaus region. Sonelgaz has also set a new development program for the 2006-2009 period for nine other provinces (wilayate): 6 in the West and 3 in the East of Algeria.

In the field of water desalination, 12 projects are underway in Algeria. Some units are already operational, such as the El Hamma Unit (Algiers) completed in February 2007 in partnership with General Electric (\$250 million for 250,000 liters/day).

Ladies and Gentlemen:

The Algerian-American relationship holds great promises and potentialities. Both Algeria and the United States are determined to create stronger, closer and mutually beneficial relations. Trade and investment are key to the development of such a relationship.

Today, Algeria enjoys favorable conditions for economic expansion which includes the development of its industrial base. In pursuing its development agenda, the Government pledges to continue its efforts to diversify the economy by attracting foreign investment in and outside the energy sector. All American investors are welcome and we, at the Algerian Embassy and the US-ABC, will do our utmost to connect them with Algeria and help them find out about the great opportunities that are awaiting them.