A short-term gas boost for Algeria?

Algeria expects up to 9 billion cubic metres/year of new gas production to come online in 2017. But analysts are less optimistic over the outlook for the long-established pipe gas and LNG supplier.

Algeria discovered its giant Hassi R’Mel gas field in the Sahara some 50 years ago and the country has been a key supplier of natural gas to foreign markets since the 1960s. The CAMEL LNG plant, opening in 1964, began a long-term supply relationship with France, and Algeria was also set to be an important source of gas for the UK had the country not discovered its own North Sea reserves.

Algeria currently exports around 41 billion cubic metres (bcm)/year, with BP figures showing pipeline exports, dominated by Spain and Italy, at 25bcm in 2015, and LNG exports of 16bcm.

France retained its historic relationship as the largest buyer of Algerian LNG at 4.3bcm, but LNG sales to Turkey and Spain were not far behind.

The country is reportedly expecting a 9bcm/year increase in output next year from the Regagne North, Touat and Timimoun fields starting up in the southwest. Reganne North is being developed by Sonatrach, Repsol, DEA and Edison and holds around 47.9bcm. Touat holds 68.5bcm and is being developed by Sonatrach and ENGIE. Timimoun has 25.5bcm and is being worked on by Sonatrach, Total and Cepsa.

Analysts cautioned, however, that while there could be a short-term boost for Algeria, longer-term prospects were more under question.

Consultants Wood Mackenzie estimate Algeria’s gas sales for export and domestic markets in 2015 at 82bcm. They forecast an increase to 86bcm in 2016, which has been “quite an impressive year,” and to 90bcm in 2017. But Wood Mackenzie analyst Lucy Cullen told ICIS that new fields capable of producing 9bcm/year of gas would not necessarily add 9bcm to total sales in 2017, as the fields would come onstream progressively throughout 2017 and their output would be balanced against declines elsewhere.

“We’re factoring in start-ups through early 2017 and some decline at maturing fields,” said Cullen. She added that the fields would also depend on work finishing on a new pipeline for their output to make it to market, although this GR5 pipeline was “reportedly on track” for the end of the year.

Production next year will also be supported by the potential for full output from
the In Amenas gas plant that has been running below capacity since terrorist attacks in 2013. “By the year end it should be back to where it was,” said Cullen. The In Salah facility has also seen new developments stabilising production.

But decline at the half-century old Hassi R’Mel field is “one of the biggest challenges for Sonatrach going forward,” said Cullen. The new southwest fields would “help support availability through the end of the decade’ but “thereafter existing fields are maturing and once you get to the early 2020s new projects are not offsetting decline”

Long-term concerns

A review of Algeria’s gas industry published by the Oxford Institute for Energy Studies in May raised serious concerns over Algeria’s longer-term potential. Author Ali Aissaoui warned the country was falling prey to ‘Egypt syndrome,’ facing the “stark reality that production can no longer keep up with fast-growing domestic demand fuelled by massive and unaffordable subsidies.”

Algeria’s primary energy demand during the decade since 2004 had been growing at 4.1%/year, but domestically-sourced energy supplies only by 0.8%/year, resulting in hydrocarbon export volumes falling 2.6%/year, the report says. New fields planned for completion by 2020 would “only just suffice” to keep production roughly stable at around 85bcm/year.

Aissaoui warns that “the new upstream projects” planned, including the fields cited earlier being developed with international partners, and others being developed by Sonatrach alone, will “hardly make a difference in compensating for the decline of Hassi R’Mel and other mature fields.” Moreover most of the fields were tight, dry, or had high carbon dioxide content, making them “too costly to offset the notable shortfall in government revenues.”

The study estimates Algeria’s production costs for existing fields at the end of 2015 at an average $0.60-0.70/MMBtu. Such low costs leave plenty of margin for sales to European and Asian markets currently around $6.00-7.00/MMBtu. But Aissaoui estimates releasing the tight gas reserves at Timimoun could cost $4.70/MMBtu, leaving much lower margins. “The alarming trends in both volumes and costs … have raised concerns over the depletion of easy and cheap gas,” he says.

Export volumes could fall to as low as 15bcm/year by 2030, the study estimates, and could be “almost eliminated” in a higher demand growth scenario. Already, Aissaoui notes, Algerian export capacity is only used at 52% of its capacity. Plans to build new export capacity, he argues strongly, are “arrest nonsense” and the proposed 8bcm Galsi pipeline to Italy via Sardinia should be scrapped “without further discussion.”

Renewables and shale gas options

Apart from addressing decline at conventional fields, Algeria could turn to renewable energy to reduce its domestic gas consumption, freeing up more for export. The power sector is a key source of domestic gas demand, being 90% fuelled by gas. Algeria has been targeting 22GW of renewable capacity by 2030. Some 18.6GW would be from solar photovoltaic and wind power, 2GW from solar thermodynamic systems with storage and 1.4 GW from biomass, cogeneration and geothermal.

Algerian government sources have also spoken of shale gas potential, with one estimate from the US Energy Information Administration putting the country’s technically recoverable shale reserves at 20.3 trillion cubic metres, more than seven times its revised proven conventional reserves.

But analysts are sceptical about the immediate potential of these programmes. Aissaoui warns too much of the planned renewable capacity is from intermittent sources, requiring expensive back-up.

“Shale Gas in Algeria: No Quick Fix.” Boersma told ICIS that “in 2015, then energy minister [Yousfi] Yousfi was the grand supporter of domestic shale gas production.” Boersma said that Sonatrach and foreign partners had a “realistic sense” it would be a long-term project, with estimates not suggesting commercial production before 2022 at best, but were hopeful, until encountering unexpected opposition.

“Most people were surprised when major public protests started,” said Boersma. Yousfi was then replaced by in May 2015 by Salah Khebri. Boersma said the latter “seemed to put less emphasis on the shale gas project, appreciating ongoing public opposition, and also that focusing on attracting investment in conventional projects for the short to medium term made more sense, in order to at least keep domestic production levels stable.”

A new energy minister has since been ap-
pointed this June, Noureddine Bouterfa, who has a background in the power sector.

WoodMac's Cullen said that shale production is now not likely "until 2030 and beyond." Cullen agreed that exports could fall. "We expect domestic demand to continue to see healthy growth and exports could come under pressure," she said. Long-term contracts with buyers in Italy and Spain are also expiring in the early 2020s and may not be renewed at current volumes.

Policy response

Boersma said that "it does not seem realistic to expect that domestic production increases can feed both domestic consumption and raise exports." He said that some people said there were "still large swaths of land that have not been explored," so there could in theory be more resources available, "but without attracting investment that will be a tall order."

Aissaoui says that Algeria needs to make "more aggressive policy responses to both supply and demand," including improving the investment climate for foreign companies to become involved in production and addressing domestic pricing policies. "Policymakers should create ground for new win-win situations and partnerships in all areas of hydrocarbon development activities," he says.

With a global glut of short-term LNG volumes in the market at present, as US and Australian producers turn up supplies, and declining gas demand in Europe over the past decade, a reduction in Algerian exports may not be an immediate cause of concern to buyers.

However, Boersma pointed out that Europe may still be keen to work with its Mediterranean neighbour. "There may of course be other reasons why European countries are concerned about the stability of Algeria more broadly," he said. "Its significant dependence on hydrocarbon revenues, and also uncertainty about the future leadership in the country, are likely continued reasons for concern.”

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