Algeria returns to controversial shale gas policy in energy shift

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Tunis

Algeria announced bold changes to its hydrocarbon development policy, including the resumption of a $70 billion shale gas project. The project to tap into the country's extensive shale reserves would represent the first non-conventional gas boom outside the United States but has encountered resistance due to environmental concerns.

Algerian Prime Minister Ahmed Ouyahia on October 1 said the government would restart its shale gas development plan and revise the country's hydrocarbon laws, ending a stipulation that joint ventures must leave Sonatrach, the national oil company, with at least 50% of shares.

Algeria's gas output has gone down in recent years, from 88.2 bcm in 2005 to 78 bcm in 2016.

A natural gas development programme using the controversial fracking method was suspended months after it began in 2015 after violent protests broke out in southern Algeria. Opponents argued "the gas of death" poses environmental risks, including the pollution of scarce water sources.

Ouyahia, who is struggling to bring the country out of a financial crunch, said the government was encouraging "investment in the hydrocarbon sector, namely shale gas, because of its potential and capacity.

"That will ensure an energy future for the country and give hope to the population," he said in remarks carried by the official APS news agency.

Ouyahia said: "This law must be made more attractive because the sector is going through big changes... that are forcing Algeria to keep pace with the shifts."

He added the country's failure to attract foreign investors to help develop its conventional oil could be attributed to the law.

Foreign technology and money are crucial to boosting Algeria's conventional reserves and tapping into shale gas but Algeria received bids for only 25% of concessions on offer during the last three licensing tenders in recent years.

During a meeting with the US Algeria Business Council, Algerian Energy Minister Mustapha Guitouni said: "We must go on developing the shale gas industry and we are going to do it."

He expressed the need to cut rising domestic gas consumption, which is eating away at potential gas exports.

"Work to revise the hydrocarbon law is under way to make Algeria more attractive for foreign partners, namely in terms of drilling and developing hydrocarbons," Guitouni added.

Sonatrach had planned to invest at least $70 billion over 20 years to produce 20 billion cubic metres (bcm) of shale gas per year from 200 sites. A pilot well was drilled in the Ahnet basin in 2012 and the Energy Ministry included 17 shale gas projects in its more recent upstream licensing round.

The US Energy Information Administration estimated that Algeria has 20 trillion cubic metres of recoverable shale gas reserves, making it the country with the third largest resource base after China and Argentina.

When protests against the project grew violent, former Prime Minister Abdelmalek Sellal shelved the plan. "Between shale gas and water, the Algerian people will choose water. You think the Algerian state would be crazy enough to endanger the lives of its citizens?" Sellal said.

Ouyahia, however, has switched course, saying the "government will not tolerate procrastination to develop energy resources to ensure a future for the energy sector."

"Oil will remain the engine of the country's economy," he said.

A worsening economic crisis appears to be behind the Algerian government's change in energy policy. Ouyahia in September told parliament that the economic situation "is hell" and that "the state coffers are almost empty."

Algeria plunged into a severe financial crisis after oil prices fell in 2014. The country's economy is highly reliant on foreign oil and gas sales, which account for 95% of foreign currency earnings and 60% of budget revenue.

"It is high time that Sonatrach tap into and develop all resources of energy to further the interests of the company and the country," Ouyahia said. "The government will continue assisting Sonatrach in its various investment projects.

"This is a message of hope for the country."

Algerian energy expert Ait Ouarabi Mokrane said: "The brunt of the financial crisis is crushing. The government apparently decided to develop non-conventional energy resources like shale gas taking the risks to provoke the anger of the population living in the areas where such resources lie."

Beyond public backlash, experts said the government could also run into significant challenges exploiting shale.

"I think it could be 10-12 years," said former Sonatrach chief Nawim Zouioueche when asked when the project is likely to enter its production stage.

Algeria is a main exporter of gas to Europe but struggles to remain an energy power due to fierce competition from the United States, Australia and Mozambique, which have major plans to export liquefied natural gas.

It is crucial its shale gas production comes when the market is ready for the commodity and that Algeria competes against new suppliers.

Algeria's gas output has gone down in recent years, from 88.2 bcm in 2005 to 78 bcm in 2016, official figures indicate. Local consumption has increased from 20.4 bcm in 2003 to 35 bcm in 2016.

Algerian experts said that, in view of the country's gas reserves, production and consumption habits, developing shale gas is an economic necessity. To do so, however, Algeria must ease the concerns of its southern population, where opponents argue that fracking could contaminate its scarce water reserves.

Policy change. A technician stands at the Krechba gas treatment plant, about 1,200km south of Algiers. (Reuters)

No one can bank on the rise in oil prices

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is a Beirut-based Iraqi writer on energy affairs.

The price of Brent crude, a major benchmark for oil purchases worldwide, has gone up. At the start of October, it moved to $55-$60 per barrel, after having remained at $50-$55 for most of the previous year. Crude oil prices have increased $1-$3 per barrel since August.

The oil price is significant for two reasons. It reflects the range that most oil producers would like to see and it happened just a year after OPEC signed the Algiers' agreement to rebalance the markets.

Two dozen other oil-producing countries joined OPEC's efforts to reduce production by 1.8 million barrels per day. The collective effort was meant to stop the rapid fall of oil prices. In January 2016, oil was selling at less than $30 a barrel.

The challenge was to reduce the exceptionally high commercial stocks. By the middle of last September, Organisation for Economic Co-operation and Development (OECD) commercial stocks totalled 3,016 million barrels but the surplus over the five-year average had been 190 million barrels, the International Energy Agency (IEA) said.

Oil prices rose recently because of global demand, which increased 2.4% in the second quarter of this year. The IEA projected that demand growth will average 1.6 million barrels per day in 2017. OECD demand growth has been stronger than expected, particularly in Europe but hurricanes Harvey and Irma were expected to slow US demand growth in the third quarter this year.

Global demand growth has been driven by distillates, particularly diesel. Last year, it was driven up by gasoline and other petroleum products. In 2017, demand for diesel made up half of the growth, nearly half as much on last year. The rising demand for diesel has been under way throughout the year, mostly in the United States, China and India. This is expected to continue into 2018.

The hurricane season in the United States, particularly Hurricane Harvey, caused local shortages and disruption to refineries in Houston of about 1.6 million barrels per day in September. Such disruption in the oil industry usually leads to higher prices.

Pressure also mounted following the Iraqi Kurdish referendum. Threats of economic boycott and sanctions continued after the semi-autonomous Kurdish region voted for independence on September 25.

The Iraqi parliament asked Prime Minister Haider al-Abadi to send troops to take charge of the oilfields in the disputed Kirkuk region. The day after the referendum, Abadi said all land and air crossings in Iraqi Kurdistan must return to Iraqi federal jurisdiction. The ultimatum caused the exodus from Kurdistan of diplomats, foreign businessmen and oil executives and workers. Abadi ordered that all oil revenue must go to the Iraqi federal authorities.

Threats from Turkey raised concerns about the oil industry in Kurdistan. Turkish Prime Minister Binali Yildirim told Abadi that Turkey would henceforth deal with the Iraqi government and no other on oil exports from Iraq and that it would only facilitate the export of Iraqi crude. Turkish President Recep Tayyip Erdogan threatened to shut down the Kirkuk-Ceyhan oil pipeline, the only outlet for Iraqi Kurdistan to send its crude to international markets.

This is not expected to happen immediately because Turkey has billions of dollars invested in Kurdistan but Ankara's threat may deter development of the Kurdish oil industry. It's likely that international oil companies will be reluctant to invest in a region that might have its only oil pipeline shut down.

If that happened, the consequences would be disastrous. It would close the main source of revenue for Iraqi Kurdistan. Tehran has stopped exporting petroleum products to Kurdistan and Iran and Iraq have conducted joint military exercises along Kurdistan's border.

Finally, oil prices have risen on account of slowing US production. There was a decline in US rig count for six consecutive weeks. Productivity is falling in the giant oil shale basins, Eagle Ford and the Permian.

The markets are concerned that non-OPEC production will increase in 2018, which could threaten a plunge in price. The surge in non-OPEC production is expected from fields developed before the 2014 oil price collapse.

All in all, the rise in oil prices is fraught with uncertainty.

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Briefs

UAE collecting 'sin' taxes on tobacco, energy drinks

The United Arab Emirates has begun collecting new "sin" taxes on tobacco products, energy drinks and soft drinks.

Tobacco and energy drinks were taxed at 100% and soft drinks at 50% as of October 1. Shoppers were seen stocking up on such items the day before the new duties went into effect.

The new tax push comes as the UAE and other oil-rich Gulf nations have struggled with low global energy prices. The UAE is to start collecting a 5% value-added tax on certain goods in January.

(The Associated Press)

Saudi Arabia to launch investment firms for holy cities

Saudi Arabia's Public Investment Fund (PIF) announced plans to set up investment companies to develop infrastructure in Mecca and Medina, Islam's two holiest cities.

The state-run PIF announced the creation of Rou'a Al-Haram and Rou'a Al-Madinah for Mecca and Medina, respectively, where the annual number of visitors is expected to triple by 2030.

(Agence France-Presse)

Iraq hopes to resume production from Nineveh oil fields soon

Iraq said it hopes to resume production from the Nineveh oil fields in the "next few months" after they were torched by the Islamic State (ISIS) during a US-backed offensive on their stronghold Mosul, the Iranian Oil Ministry said in a statement.

The ministry instructed state-owned North Oil Company to prepare "an urgent plan" to rehabilitate the oil fields the militants set on fire to create smoke to cover their movements.

(Reuters)

Job fair offers hope for Syria refugees in Jordan

After five years without work, Syrian refugee Mohammed Ahmad said he was nervous but hopeful as he registered with as many firms as possible at a unique job fair in Jordan's Zaatari refugee camp where he lives.

Approximately 50 companies were represented at the one-day event as they scouted for candidates to fill hundreds of job opportunities, compiling lists of applicants by name, age and qualification.

The EU-funded job fair, a first at the desert camp that houses 80,000 refugees, came after the opening in August of the first employment office at Zaatari following a decision by the Jordanian government to grant residents work permits and let them find employment in larger towns.

(Agence France-Presse)