

## Progress Report: Shale Play in Algeria

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The 2013 amendments to **Algeria's** 2005 **Hydrocarbon Law** (the “**Law**”) provided a legislative framework for the exploration and production of unconventional hydrocarbons. In addition to wider changes to the Law designed to revive foreign investment in Algeria's oil and gas sector, the amendments were expected to kick-start exploitation of Algeria's estimated 707tcf and 5.7 billion barrels of technically recoverable shale gas and oil reserves (estimated to be the world's third largest).

The most significant amendment to the Law links taxes on International Oil Companies (**IOCs**) to profits instead of turnover from their projects and taxes also take into consideration exploration difficulty and risk. Provisions were also introduced supporting research and production of unconventional resources and allowing for an 11 year exploration period (compared to seven for conventional resources) and a 30 to 40 year production period (compared to 25-30 for conventional resources). Another substantive change was the strengthening of the powers of the Authority for the Control of Hydrocarbons (**ARH**), responsible for implementing and enforcing technical regulations, for the protection of the environment during mining operations for shale oil and gas.

Sonatrach will continue to be a majority partner – holding at least a 51% stake in all upstream and downstream projects under the new regime – though it will also carry a bigger share of the risk of project failure. Sonatrach will also retain exclusive responsibility for pipeline transportation of oil and petroleum products. A windfall tax, levied on an investor's revenues once the oil prices exceed a certain threshold (and previously disputed by IOCs), will also remain.

### The players

Italy's Eni was the first mover in the market, signing an agreement with Sonatrach in 2011. During a subsequent 2014 bidding round, 17 of the 31 licenses on offer were for unconventional prospects. Four contracts were awarded, including a license for shale exploration won by a joint bid from Statoil and Shell. Statoil will operate with a 30% interest, Shell with 19% and Sonatrach holding its 51% interest. Several other IOCs now hold Algerian unconventional exploration licenses.

### State of play

Algerian Prime Minister, Abdelmalek Sellal, was reported as saying that “shale gas exploitation has

been made necessary by the need to ensure Algeria's energy security for the very long term" and on giving formal approval to the development of unconventional hydrocarbons last year, Algeria's council of ministers said it would take between seven and 13 years to confirm Algeria's estimated recoverable shale resources.

Youssef Yousfi, the Minister of Energy, also explained the steps being taken by Algeria to improve its capacity to develop shale resources which included sending technicians to the US for training in latest generation technologies, looking to attract experienced new partners and implementing a pilot-drilling program. Algerian and US energy officials have discussed risks to groundwater associated with shale oil and gas development and precautions that could be taken during the production process.

In March this year, members of the "Green Algeria," Islamic coalition comprising three political parties and including 49 of Algeria's 462 members of parliament expressed opposition to a further draft law regulating shale gas exploration.

### **Next steps**

The above-ground challenges currently faced in Algeria – including the availability of infrastructure and water and a stable security situation – are common to other jurisdictions seeking to develop unconventional resources. Algeria's below-ground prospectively however will ensure that IOCs continue to pursue opportunities and there is now a clear regulatory framework in place to support this exploration activity.

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