

30th April 2018

Statoil's Reflection Paper on the EU-Algeria Association Council on 14th of May 2018

Algerian energy is a **source of stability for Europe**. As the 3rd largest supplier of natural gas to the EU after Russia and Norway, Algeria is a vital provider of energy diversification to Europe. Algeria has established itself as a reliable supplier, ensuring stable supplies even during the difficult years combatting terrorism in the nineties. Today, Algeria is connected to Europe by three intercontinental pipelines and also provides LNG export capacity.

Statoil is a **longstanding partner** of the Algerian energy sector. Since opening our office in Algiers in 2003, we have developed and jointly operate two of the largest gas fields in the country, In Amenas and In Salah, in partnership with national oil company Sonatrach and BP. In this letter, we share our understanding of the investment environment in the Algerian energy sector and propose how the EU-Algeria Association Council could remedy outstanding challenges to boost investments.

Algeria has struggled to attract **new foreign investment** in its hydrocarbon sector since 2010. Large reserves of gas remain unexplored and Algeria's export capacities only have a 60% utilization rate. To improve its energy security, the EU should use the EU-Algeria Association Council to boost investments in the Algerian hydrocarbon, renewables and energy efficiency sectors. Many of these investment barriers pertain to the ease of doing business, frequent changes in the top management of Sonatrach, centralization of energy sector decisions, unfavorable fiscal terms and somewhat outdated hydrocarbon laws. For example, the last four bid rounds since 2010 have not met the expectation for attracting bidders and the Verik Maplexroft Upstream Oil and Gas Policy Risk index classified Algeria as a high-risk country.

Recently we see promising signs of improved flexibility from the Algerian authorities and interest in revising the licensing laws to attract foreign investors. The 14th of May EU-Algeria Association Council should encourage EU investors to invest in the Algerian energy sector, reassure Algeria that it will continue to play an important role in Europe's energy supplies and support Algeria in its reform efforts. To ensure the much-needed boost in investments, we recommend engaging Algeria on the following topics:

1. **Investment protection:** While it is laudable that new E&P contracts are not targeted by the tax on exceptional profits, it remains that contracts entered into force before the petroleum law of 2005 are not protected from change of law and change in the tax regime. The EU should consider signing a bilateral convention of reciprocal protection of investments.
2. **Reform of the country's hydrocarbon laws** in relation to the following three areas:
 - a. **Access to resources:** Provide investors with access to attractive exploration acreage and to existing discoveries, in order to reduce risks and exposure for all parties including foreign investors. Access conditions should be stipulated more clearly and broadly to cover both exploration, as well as existing and new non developed discoveries and producing assets .
 - b. **Marketing of products:** Loosen the national monopoly on gas exports and authorize IOCs to market the gas produced in their licenses, enabling IOCs to obtain the full market price and ensuring market share to Algerian gas, and revenues to the Algerian State. With a growing global gas market, companies will drive value from portfolio effects of their larger global sales opportunities. The current legally imposed Joint Ventures do not provide opportunities for this and it restricts the revenue benefits available to the Algerian government. We also recommend loosening the rigidity of

standardized, predefined contracts and open for the opportunity to negotiate contracts and propose modifications.

- c. **Improved fiscal system:** Develop a stable fiscal regime which provides long term security and protection of investments. The petroleum tax system should be adapted to a low oil price environment and offer softer terms in the petroleum fiscal regime. Importantly, the reference price used for calculation of royalties and petroleum tax should be reflective of real revenues and contractual flows of gas. For clarity, Statoil believes the reference price that should apply is the realized export price achieved by the exporters. Any other reference price which does not reflect the realized price will create prejudice and losses to IOCs and may create potential undesired conflicts. In case natural gas is sold back to Sonatrach, the sales price to Sonatrach should be as the fiscal reference price.
3. **GHG emission reductions:** In the global fight against climate change it matters how oil and gas is produced and Algeria must take steps to continue reducing emissions from its hydrocarbons industry. Funds could be made available for resuming Co2 sequestration activities which have been halted due to capital constraints stemming from oil price downfalls. The Krechba field in In Salah stands as a strong candidate for resuming Co2 reinjection.
4. **Efficiency, transparency and predictability of energy sector governance:** Faster, transparent and predictable decision processes in the energy sector is needed. More clarity is required on delegated responsibilities and empowered employees within Sonatrach to ensure smooth and cost-efficient operation of joint ventures. Interactions between petroleum operators and the Algerian administration should also become more reliable and less costly. Most notably, this applies to issues which do not involve the Energy Ministry, such as safety, labor law, payment in foreign currencies, telecom licenses and customs.

In addition, the EU should work with Algeria for better **integration of their respective energy markets**. The sharing of best market design practices through the EU-Algeria energy partnership should be stepped up.

Security threats remain a challenge in Algeria. Instability in Libya, Niger and Mali and proximity of producing oil and gas assets to the borders of these countries makes Algeria, its people and facilities vulnerable to regional threats. In this regard, the Algerian military with its professionalism, equipment and experience in combatting terrorism is an important “exporter” of security in the region. The Algerian military should also be commended for ensuring that there have been no AQIM led attacks on oil and gas facilities since the March 2016 firing of explosive munitions on Krechba – part of the In Salah gas scheme.

Since the 2013 terrorist attack on Tiguentourine (In Amenas) where Statoil lost five of its employees, we have taken vigorous measures to ensure the safety of our people and operations. We are engaged in a high-level security dialogue with different Algerian stakeholders, we continue to implement our security enhancement project and push for approval from authorities to install long range surveillance and detection systems, such as thermal cameras and ground radar.

Given the priority that investors give to security, the EU and Algeria should continue its high-level dialogue on regional security and fight against terrorism. Efforts from both sides must also ensure that the mechanism for security consultations becomes a success.