CSIS

MAGHREB ROUNDTABLE

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Speakers

Ed Morse has had a career spanning business, government, academia, and publishing. He currently serves as an executive adivsor to HETCO, a New York-based energy trading company. Prior to joining HETCO, he published *Petroleum Intelligence Weekly* and other energy-related newsletters for more than a decade. In the 1980s, he co-founded the Petroleum Finance Company, a Washington, DC-based consulting company. From 1978-81, Morse served as Deputy Assistant Secretary of State for international energy policy. He obtained his Ph.D. from Princeton University, and he has taught at Princeton, Columbia, and Johns Hopkins Universities.

Arezki Daoud founded *The North Africa Journal*, an online analysis of the economics and politics of the Maghreb, in 1996. He previously worked as an analyst for Naftal, a subsidiary of the Algerian state oil company, Sonatrach. Daoud holds degrees from Suffolk University in Boston, the Institut National des Hydrocarbures in Algiers and the Institut Français du Pétrole in Paris.■

THE POLITICS OF NORTH AFRICAN ENERGY

For North African energy exporters such as Algeria and Libya, record oil prices and openness to international investors have created "unbelievable" growth potential, two leading energy experts told a CSIS group earlier this month. To maximize their potential however, Algeria and Libya will have to overcome a complex set of challenges that will test the skills of their national oil companies, including a slow pace of reforms, scant human capital, weak institutions, and competing interest groups. For North African energy importers such as Morocco and Tunisia, rising prices create a challenging economic environment that the lack of regional integration and the conflict in Western Sahara exacerbates.

On March 15, 2006 Ed Morse, executive advisor at HETCO, a New York-based energy trading company, and Arezki Daoud, editor of *The North Africa Journal* addressed the fifth session of CSIS's Maghreb Roundtable on the politics of North African energy. The discussion focused on reform efforts in the Algerian and Libyan energy sectors and the broader effect of high oil prices on the economies of the Maghreb.

The revival of production in North Africa started before the current growth in oil prices, and price hikes have further strengthened Algeria's and Libya's already dominant positions. Libya has the largest proven oil reserves in Africa—39 billion barrels—and Algeria is an international giant in the natural gas business with easy access to European markets. Record earnings in recent years have given Algeria and Libya a cushion whereby they can change longstanding domestic policies.

Morse asserted that among global energy producers "Algeria leads the way in oil sector reform," and the national company, Sonatrach, has "leap frogged all other state owned companies." Algeria began reforming its energy sector several years ago, and after a struggle with unions and other vested interests—including the military—the government managed to pass a new hydrocarbons law and "depoliticized" the energy sector. The government established an independent regulatory commission for the energy sector that is separate from Sonatrach, forcing the company to compete with international firms for domestic exploration and production. Algeria now has over 35 foreign oil companies operating in the country, and refining, distribution, and retail operations are now open to

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The Maghreb Roundtable Series

The CSIS Middle East Program launched the Maghreb Roundtable in November, 2005 to examine the strategic importance of a broad range of social, political, and economic trends in North Africa and to identify opportunities for constructive U.S. engagement. The roundtable defines the Maghreb as Morocco, Algeria, Tunisia, Libya, and Mauritania. The roundtable convenes monthly, assembling a diverse group of regional experts, policymakers, academics, and business leaders seeking to build a greater understanding of the complexities of the region. Topics for discussion include the role of Islamist movements in politics, the war on terror, democratization and the limits of civil society, the strategic importance of North African energy, the effects of emigrant communities in Europe, trade liberalization, and prospects for greater regional integration.■

private sector investors. At the same time, the Algerian government has pressed Sonatrach to expand its international operations significantly. Morse ascribed much of the success to the skillful management of Energy Minister Chekib Khelil, who has also attracted significant international investment to Algeria's energy sector.

In neighboring Libya, the "post-U.S. sanctions renaissance" has provided the country with new opportunities to significantly increase its oil production. Still, Libya faces significant structural hurdles to meeting its optimistic target of 3 million barrels per day by 2015. After twenty years of isolation from the international market, "the NOC is a lumbering dinosaur," Morse said. It has missed out on a generation of knowledge and technology and faces human resources constraints. There are simply not enough people to conduct negotiations with international companies. Beyond the human constraints, every step of the re-opening process has been met with major battles between what can be simplified as the "old guard and the new guard" over the pace and extent of reforms. There has been no blueprint for reform of the energy sector and interest groups surrounding the decision-making process compound obstacles to reform, by creating confusion over who actually controls any given project. The lack of transparency and functional institutions seriously hinders Libya's vast potential.

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Europeans consume the majority of Algerian and Libyan energy. According to Morse, Europe is the most oil saturated market in the world, with demand declining in some countries. In order to sustain growth, Libya and Algeria are searching for new markets. Algeria is eager to expand its natural gas exports to the United States, and has explored the idea of oil swaps with Russia's Gazprom to divert some of its products to U.S. consumers. Morse also noted the increase in upstream Chinese investment in both Libya and Algeria, which he expected to grow.

Oil consumers in North Africa are looking at a far less rosy picture. One importer, Morocco, faced a 63% hike in the cost of oil imports in 2005. But as Daoud argued, high oil prices are not the only problem facing Morocco's economy. Asian competition has squeezed Morocco's exports, demand growth in the European Union has slowed, and the cost of subsidies continues to weigh on the economy. In addition, Morocco's dependence on agricultural production, combined with unfavorable weather, has also slowed economic growth. To cushion its population from the country's economic woes, the Moroccan government spent over twice the amount it budgeted on food subsidies last year. Daoud contrasted the tight economic straits in Morocco with the situation with Algeria and Libya, which poured windfall oil revenues into their education and healthcare systems. Oil income over several decades has allowed Libya, for example, to lift the adult literacy rate to 81.7 percent compared with just 50.7 percent in Morocco. In contrast to Morocco, Tunisia's more diversified economy has been relatively more successful absorbing higher energy costs. Despite a decline in agricultural output in recent years, Tunisia's economy managed to grow at a reasonable pace by increasing tourism, foreign investment, and workers remittances as well as reducing its foreign debt.

The lack of regional integration ... exacerbates the economic divide between the states of the Maghreb.

According to Daoud, the lack of regional integration due to the Western Sahara conflict exacerbates the economic divide between states of the Maghreb, and forces individual economies to be dependent on Europe. Only through greater cooperation can the region expect to effectively compete globally while tackling the root causes of instability and terrorism. Greater cooperation in the energy sector will help this process by allowing non-oil producing countries to secure their energy needs from their neighbors. Transnational pipelines and common infrastructure would be mutually beneficial for the entire region. Regional integration would require more than just hydrocarbon reform, but the political will of countries in the region to work together to strengthen regional cooperation.■ ***-RAS 03/30/06***

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