



PRESENTATION OF ENERGY AND MINES SECTORS

INTRODUCTION

The important economical changes undertaken these last years on the national and the international levels, led Algeria to embark on structural reforms. These reforms aim to a progressive adaptation, notably in the Energy sector, so as it will be comply with a free, open and competitive economy. In this perspective, the state tries to recover its triple part of owner of mining domain, promoter of investments and protective of the public interest.

In this scope, the Algerian state intends at the same time to promote and speed up a greater and more diversified participation of the Energy private sector for investments development, technologies acquisitions, know-how and access to foreign markets. This new policy required changes of the legal and institutional frameworks that the government has pursued, on both the global and sector-based levels.

LEGAL AND REGULATORY FRAMEWORK

Three laws have been drawn up by the ministry of Energy and Mines (MEM) to back up three sectors which are Hydrocarbons, Electricity and Mines, of which two of them (Mines and Electricity) have been issued :

- the mining law n° 01-10, enacted on 3rd of July 2001, which intends to make a break of the policies adopted till now. It is a deep revamping of the Algerian mining legislation, with an adaptation to the new form of the national economy organisation. In this regard, the setting up of a specific and competitive mining tax system, combined to the formulation of more inciting investment conditions, will give a new impulse to the mining activities development,
- the law on Electricity n° 02-01, enacted on 5th of February 2002, devotes the liberalisation of the Electricity sector and gas public distribution through pipelines with the opening of electricity production and distribution to competition and the non discriminatory access of a third part to the network, while reaffirming public service maintenance.
- The bill on hydrocarbons aims to developing sources of incomes, by improving the quantity and quality of products and services supplied to consumers and by developing the loyal competition in an open and non discriminatory framework.

The Hydrocarbons sector is governed now by the law n° 91-21 promulgated on 4th December 1991 completing and modifying the law n° 86-14 of 9th August 1986.

EFFORTS MADE IN THE EXPLORATION FIELD

Success registered in the field of investments, while remaining modest as to our hydrocarbons potential, must be considered as definitely acquired gains. We have, henceforth, to show imagination, on a limited capitals market, to more and more attract demanding foreign investments. The number of signed contracts, about fifty since 1987, is appreciable ; it is however not high compared with achievements of some competitive countries.

Today, about thirty oil companies are working in Algeria.

This partnership's contribution has been very significant :

- over \$ 2.5 billions of research investments and 56 discoveries including very important fields, totalling an hydrocarbons volume of about ten billions barrels oil equivalent.

These results have highly contributed to Algeria's reserves renewal which have reached a level equivalent to the level of early in the 70ies, making up for more than thirty years of consumption and export.

INFRASTRUCTURES, PROCESSING AND TRANSPORT CAPACITIES

The infrastructure of hydrocarbons treatment includes :

- four refineries of a global capacity of 22 millions tons localised in Skikda, Algiers, Arzew, Hassi Messaoud, and which activity is ensured by Naftec, & 100 % Sonatrach subsidiary company, as well as two other projected companies, the first one in Skikda of a capacity of 5 millions tons and the second one in Adrar of a capacity of 600 000 tons, the latter in partner ship with a Chinese company,
- two LPG separation units of a global capacity of 10 millions tons,
- four natural gas liquefaction units of a global capacity of 51 millions cubic metres.

The Algerian Petrochemical Industry is Based on two Plants :

- the first one is located in Skikda's industrial zone (CP1.K). It gathers ethylene production units of a capacity of 120 000 tons/year, de LDP (low density polyethylene) of a capacity of 48 000 tons/year and of PVC (Polyvinyl Chloride) of a capacity of 35 000 tons/year,
- the second one is located in Arzew's industrial zone. Its production capacity is assessed at 113 000 tons/year of methanol and 23 000 tons/year of synthetic resins.

Two other projects are underway, the first one concerns the carrying out, in joint venture with Linde German company, of a production unit of 600 millions SCF/year (in tons) of helium and 50 000 tons/year of nitrogen. The other project aims at carrying out a production unit of HDPE (high-density poly-ethylene) of a capacity of 130 000 tons/year. This plant is completed and will shortly start production.

PIPES TRANSPORT

The transport activity of liquid and gaseous hydrocarbons by pipelines is concerned by the development, the management and the exploitation of the transport network, the stocking, the delivery and the loading of hydrocarbons. Sonatrach has a pipeline network of 14 500 km length, including two trans-continental gas pipelines, the first one towards Spain via Morocco (Pedro Duran Farel) and the second one towards Italy via Sicily (Enrico Mattei).

By the end of 2003, the conveyed hydrocarbons volume has reached over 200 million TOE. Network modernisation and management means have been implemented to convey hydrocarbons in conditions of saving, quality, security and environment in keeping with international standards. Sonatrach, with the contribution of ENAC (National Company of Pipes) subsidiary company, linked to this activity, has today the necessary technological means for maintenance operations of hydrocarbons transport infrastructures.

Sonatrach plans to bring gas exports to 85 billions of cubic metres in 2010. Medgaz, a joint subsidiary company of Sonatrach and many European companies (Cepsa, GDF, BP, Endesa, ENI and TotalFinaElf), will be charged with constructing of a gas pipeline of 747 km length directly linking Algeria to Spain.

A second gas pipeline of 1460 km length, directly linking Algeria to Italy via Sardinia, is projected. Galsi, a joint subsidiary company of Sonatrach, Enelpower, Edison, EOS and Wintershall is entrusted with this project. A contract has been signed in March 2003 between Algeria and Nigeria to launch the research of feasibility of Nigal gas pipeline of 4500 km length linking Nigeria to Algeria.

ENERGY PRODUCTION AND EXPORT

1. Production

Primary energy production will pass from 212 millions of tons oil equivalent (TOE) in 2003 to 260 millions of TOE in 2005.

The primary energy production structure in 1980, made up of 87 % of oil and condensate, has considerably developed for natural gas' benefit, which now represents about 52 %. This evolution shows the progressive adequacy of offer structure to the structure of our present reserves, richer in natural gas.

2. Exportation

Considering the country's vulnerability to fluctuations of a fluctuating oil market, a valorisation strategy of exports, through an increase of volumes and a greater diversification of products and markets, has been implemented.

In spite of a clear progression of national consumption, exportations' share in energy commercial production remains determining (80 %).

It has passed from 56 MTOE in 1980 to 133 MTOE in 2003.

Exports value has reached \$ 24 billions in 2003.

3. Prospects

Medium and long term prospects (2003-2020) of the sector foresee a re-launch of the production apparatus and a substantial reduction of the debt's service, to rapidly reach a GDP growth rate of 4 to 5 %/year, an important increase of our hydrocarbons exports, notably of crude oil, natural gas and LNG, and a re-launch of the petrochemical industry. Crude oil will increase to reach 90 MTOE by the year 2010, against 55 MTOE in 2003, that is an average annual increase of 7 %. Algeria, having anticipated a rapid growth of demand, intends to develop exports capacities to bring them to 172 MTOE in 2010. Natural gas exports will reach 85 billions of cubic metres in 2010, against 61 billions of cubic metres in 2003.

In keeping with natural gas valorisation policy, an electricity export project towards Europe from a power station of 2000 MW is being implemented in the frame of an international partnership.

NATIONAL ENERGY CONSUMPTION MODEL

The national energy commercial consumption passed from 6 MTOE in 1970 to over 32 MTOE in 2003. In unit terms, national consumption passed from 0,3 TOE/inhabitant in 1970 to 1 TOE/inhabitant in 2003, that is a tripling of the unit consumption in 30 years.

The increasing importance of these needs, meets mainly by hydrocarbons, constitutes a major concern of energy policy, which is expressed through the definition and the adoption of the national energy consumption pattern by the beginning of the 80ies.

Main chapter of the energy policy, the energy consumption pattern aims at ensuring, in a lasting way, the appropriateness between demand and the national energy resources through :

- the promotion and the utilisation of the most available energy sources, in conformity with the law n° 99-09 relative to energy control,
- energy savings and the fight against waste,
- the definition of energy products price setting policy.

The fundamental option selected in the pattern, considering the structure of our reserves, is to privilege the natural gas utilisation – the most abundant and the less drawn energy – to meet national demand.

For the implementation of the national energy consumption pattern, important development programmes have been launched, based on institutional, statutory, financial and commercial measures.

1. Rural electrification and public distribution of gas

In the field of rural electrification and public gas distribution, the Algerian government has implemented important measures to face national needs in that field. In this regard, a three-year-programme (2002-2004) has been initiated for connecting 110 000 households, the carrying out of 12 210 km of the electrified network, the utilisation of natural gas for about 400 000 households and the laying of 8000 km of pipes. Achievements have reached 70 % of the programme concerning rural electrification for 2003.

Besides, one is to note the private sector's contribution, which fully intervenes in rural electrification as well as in the carrying out of electric infrastructures and participates to the connecting of the new customers (RCN) and to the renewal of the existing works. This sector gathers over 1500 artisans and companies subcontracting with Sonelgaz. These companies employ 8170 workers and reached a turnover of 8,2 billions dinars in 2003.

2. Sea water desalination and electricity generation

Thanks to gas-electricity convergence, the energy sector greatly involves in sea water desalination to face the water shortage problem, notably in the Oran region. The latter will see the setting up of the first desalination plant in our country, of a capacity of 88 000 m³/day. This unit will be coupled to a power station of 321 MW capacity, under achievement in Arzew. This plant, which investment has reached about \$ 468 million, will be carried out and exploited by foreign partnership, Black and Veatch company with 80 % of the capital.

In this way, other desalination plants are expected ; the first one Algiers, of 200 000 m³/day capacity, will be backed up by Hamma plant, and the second one in Skikda, of a capacity of 100 000 m³/day, backed by a plant of 825 MW in joint venture with the Canadian company SNC LAVALAIN with a total of \$ 459 millions, including 20% held by this last one and the third desalination plant of 150 000 m³/day capacity will be implanted in Oran zone. These projects are carried out by the Algerian Energy Company.

The aim assigned by the government in sea water desalination matter is of 1 million cubic metres/day.

Besides, important electric production projects have been initiated by Sonelgaz in Fkirina (Aïn El Beïda), of 294 MW capacity; two other plants, the first one of 1200 MW in Hadjret-Enous (Tipaza), and the second one in Berrouaghia of 400/500 MW capacity will be launched in 2004.

Moreover, electricity export towards the European Union constitutes a project of 2000 MW (including 1200 MW for export). This operation will be materialised thanks to an underwater cable which will accompany the underwater gas pipeline linking Algeria to Spain.

3. Development of Renewable Energies

One of the renewable energies development objectives in Algeria is to supply the isolated zones, far from the gas distribution networks (electricity and oil products), with energy services.

Another objective is to contribute to the preservation of hydrocarbons reserves by the exploitation of the renewable energies resources field, solar, in particular. The large exploitation of the solar field with the aim of producing electricity connected to the framework will contribute to the satisfaction of the national needs and will, in terms, find an outlet to the export towards European countries.

This prospect fits with the long-lasting development process with the contribution to the preservation of environment.

Programmes have included different solar applications : rural electrification, photovoltaic pumping, water heating and other industrial applications.

MINING AND QUARRIES SECTOR

Algeria possesses important mining potentialities, but which are not completely exploited. These potentialities are to be developed in order to revive the industrial activity and increase employment, as well as to diversify our exports. In this connection, a new law was promulgated on July 2001 to promote investments in this sector and carry out better performances.

Concerning figures, the inventory of the mining patrimony has identified 1300 exploitations, including 963 which have been regularised and adjusted. During 2003, an eight promotion action of the small and medium mine has been launched on October. This operation allowed the granting of 21 mining licences for exploitation and 2 mining licences for exploration in several substances (notably marble, limestone, gypsum and salt).

378 exploitation mining licences and 165 mining research licences have been assigned till now, allowing the creation of many direct jobs (3500 direct jobs in mining exploitation) and the payment of 528 millions dinars to the public revenue office.

The mining and quarries sector growth is fully developing now. For example, we register an increase of 18 % of the aggregate production, 14,8 of iron ore and 22 % of phosphate.

Besides the part of public companies operating in the mining activities, we note the importance of the private sector which intervenes in the mining and quarries branch. This sector gathers 1000 companies and employs 12 850 workers. The turnover reached 14 billions dinars, that is 55 % of the branch's total turnover.

To meet national needs in the field of mining training, the energy and mining sector has launched the project of the setting up of a mining school in El Abed, by utilising El Abed mining infrastructures. This establishment will also contribute to region's economic and cultural activity promotion.

REGIONAL AND INTERNATIONAL COOPERATION

The sector's strategy in international cooperation is grounded on two fundamental considerations : the sector's importance for economy and the financial and technological constraints linked to its development and the changes which step in the international plan these last years with the formation of regional integrated groups, the environment concerns and the globalisation of economy, which confer to energy a prominent part in international relations for cooperation and stability.

Oil and natural gas are today major assets for the setting up of relations founded on inter-dependence and the convergence of interests between producers and consumers.

At the regional level, natural gas and electricity constitute important cooperation development vectors for the carrying out of a Maghreb integrated group, and the progressive setting up of an euro-mediterranean free trade zone, notably through :

- the development of energy exchanges (gas and electric interconnections notably) towards the setting up of a Maghreb energy forward market,
- the industrialisation, thanks to the introduction of regional projects in petrochemistry, energy and para-energy fertilisers,
- the implementation of common programmes to rationalise energy and protect environment.

On the international plan, Algeria turns its presence within international and regional institutions and organisations to good account for putting forward cooperation axes to international partners and meet their concerns concerning supplying security and the guarantee of their financial and industrial interests.

Algeria continues to work within the OPEC for :

- ✓ the carrying on and the strengthening of dialogue between producers and consumers to reach a consensus on the necessary oil market stability and on a level of prices steadiness,
- ✓ an equitable coverage of environment concerns at the international level, guaranteeing to the oil and natural gas producing countries the stability of their incomes to back up development efforts.

In this regard, Algeria is working for the Inter-Arab cooperation reinforcement and the planned development of its oil industry, based on potentialities of every country and aiming at the strengthening of their economies. Algeria is also a founder member of the African Petroleum Producing Association (APPA), which aims at promoting cooperation and exchanges with other international and regional organisations.

Algeria hosts the seat of the African Energy Commission (AFREC) which main mission is the promotion of African energy assistance and cooperation and the development of African integrated markets.

Our relations with the Latin-American Energy Organisation (OLADE) are to be developed with Algeria's recent admission in this organisation. This adhesion will allow us, in the future, to develop a sustained energy cooperation, on the bilateral and regional plans, with Latin American countries.

On this account, Algeria has organised the AFROLAC first conference on February 2004 with the aim to study the cooperation possibilities between Latin America and the Caraïbes which fits in with the long-lasting economic and social development process and the reduction of poverty.

MINING LAW n° 01 – 10

The new mining law enacted on the 3rd of July 2001, establishes :

- separation of the ground and underground ownership,
- non differentiation of the mineral substances,
- open access to mining activities for any operator,
- the same treatment for all investors,
- the legal value of mining title :
 - ✓ prospecting and exploration mining title : a personal estate, which can be transferred and assigned,
 - ✓ exploitation mining title : a real estate, which can be transferred, assigned, leased or mortgaged,
 - ✓ automatic right to exploitation shall be granted to the holder of an exploration Mining title who has discovered a mineral deposit,
 - ✓ stability of fiscal, legal and social conditions during the validity of the mining Concession,
 - ✓ enhancement on environmental management,
 - ✓ international arbitration,
 - ✓ mining Title granted by bid in the case of mineral deposits discovered under public financing,
 - ✓ setting up of the Geological data bank and its free access,
 - ✓ setting up of a single authority for granting mining Titles.

Who can invest ?

Mining activities are commercial acts exercised exclusively by natural or legal entities of private law.

Mining exploration

Prospection

Any legal entity of private law can apply for a prospecting title.

Exploration

Any legal entity possessing the relevant financial and technical capacities can apply for an exploration title :

- ✓ any holder of a valid prospecting authorisation or for the awarded bidder,
- ✓ the first come is the first served, if the area has never been prospected.

Mining exploitation

Concession : granted to a legal entity

- ✓ Holding an exploration permit
- ✓ The awarded bidder

Small or medium scale exploitation : granted to a legal entity

- ✓ Holding an exploration permit
- ✓ The awarded bidder

Artisanal exploitation :

Legal or natural entities according to the following priorities :

- ✓ 1st to the holder of an exploration permit
- ✓ 2nd to the holder of a prospecting authorisation
- ✓ 3rd to the awarded bidder

Documents to provide (in 4 copies)

Decree n° 02-65 of 6th of february 2002

Mining exploration :**Prospection :**

- Company by-laws
- Map at 1/50 000 or 1/200 00 scale showing the requested area and its location
- General programme of projected works

Exploration :

- Company by-laws
- Documents proving the financial and technical capacities
- Map at 1/25 000 or 1/50 000 scale showing the perimeter boundaries
- According to the case, a copy of the prospecting authorisation
- Environmental impact assessment

Mining exploitation :

Concession / small or medium scale mining :

- Previous exploration permit or the awarding act
- Documents proving the financial and technical capacities
- Report on the general development programme, planning of the intended works, and the financial amount to be invested
- Map at the 1/25 000 or 1/50 000 scale showing the perimeter boundaries, the corners coordinates and the reference points
- Report on the prospecting and exploration results
- The feasibility study
- Development plan of exploitation (1/1000 or 1/5000 scale)
- Environmental impact assessment

Artisanal exploitation

- Previous prospecting authorisation or exploration title
- Prospecting or exploration results
- Information on financial capacities
- Delimitation of the site at the map 1/25 000 or 1/50 000 scale
- Exploitation method on the map at 1/5000 or 1/10 000 scale
- Intended production and estimated cost
- Environmental impact study and mitigating actions

Two possible ways

New site non surveyed under public financing (first come = first served)

Site obtained by bid (surveyed under public financing)

Either

Or

Either

Or

Prospection

Exploration

Exploitation

Exploration

Exploitation

Exploration

Exploitation

Exploitation

ANPM = A one stop shop

- Admits the application and registers it
- Dispatches the file for assessment
- Prepares the response
- Assists the investor

GRANTING OF MINING AUTHORISATIONS AND TITLES

Prospecting (authorisation)

Exploration (permit)

- Concession
- Small and medium scale exploitation
- Artisanal exploitation

Pick up activities

The applications are deposited at :

- Mining Patrimony National Agency (ANPM)
- Mining General Directorate (during transitional Period)

PROCEDURES

I/- Case of a new site which has not been surveyed under public financing (principle of first come = first served according to the chronological order of the registered applications)

Either :

- apply for a prospecting authorisation for defining the area to explore and,
- apply for an exploration permit, for delimiting the mineral deposit and obtaining the automatic right to an exploitation title or,
- apply for an exploitation title.

Or :

- apply for an exploration permit for delimiting the deposit and obtaining the automatic right to an exploitation title or,
- apply for an exploitation mining title.

II/- Case of a site which has been surveyed under public financing or a released perimeter

Titles awarded following a bidding process (decree n° 02-66) :

- an exploration mining title for confirming the existence of the mineral deposit and obtaining the automatic right to an exploitation mining title,
- an exploitation mining title when the deposit is already known and surveyed or when the Exploitation is an open area.

MINING TITLES

Types and granting

Mining research :

1 – Prospecting authorisation :

Initial period 1 year + 2 renewal periods of six (6) months each one

2 – Exploration Permit :

Initial period 3 years + 2 renewal periods of two (2) years each one with possibility of a grace period of 2 years in the case of an unfavourable situation.

Mining exploitation**3 – Mining concession**

Duration : 30 years + renewal according to the deposit reserves

4 – Exploitation permit for small or medium scale mining

Duration : 10 years + renewal according to the deposit reserves

5 – Artisanal mining authorisation

Duration : 5 years + renewal according to the deposit reserves

Mining titles are granted after a prior administrative review :

- Either for the first applicant (as certified by registration date and hour), if the deposit has not been surveyed under public funds.
- Or the awarded bidder when the deposit has been surveyed under public financing or the exploitation area has been released.

Applications handling

- One (1) month for prospecting
- Three (2) months for exploration
- Five (3) months for exploitation

FISCAL INCENTIVES***The mining law n° 10 of 3rd of July 2001 offers :***

- exemption from professional activity tax,
- exemption from the VAT on goods specifically acquired or imported for mining activity,
- exemption from custom duties for equipment, material and products used in mining surveying,
- exemption from the built property tax,
- exemption from all taxes related to exploitation results, except the mining profit tax (IBM),
- depreciation of the Prospecting and Exploration costs in the case of exploitation,
- abatements of the mining royalties according to the exploitation type, surveying efforts and exploitation location,
- transfer warranty of the invested capital and resulting incomes,
- loss carry-over on 10 years,
- possibility for setting up a provision of 1 % from the turnover (excluding taxes), deductible from the gross renewing for rebuilding the reserves.