

SONATRACH: THE POLITICAL ECONOMIC OF AN ALGERIAN STATE INSTITUTION

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Because of Algeria's overwhelming financial dependence on hydrocarbon resources, no government has been willing to disengage the national oil and gas company (SONATRACH) from its political moorings despite the systematic pressures of foreign economic advisors to restructure radically the country's mismanaged socialist system. Thus, while widespread market-oriented reforms have been implemented since the late 1980s, none of these efforts has been allowed to undermine the political imperatives that continue to dictate Algeria's hydrocarbon strategy.

"It should be considered that the recovery of national wealth and the development of hydrocarbons form part of the struggle of the people of the Third World for their economic liberation and the establishment of a new international economic order."

- Resolution of 31 December 1980 passed by the Central Committee of the National Liberation Front (FLN), at the time Algeria's single governing party, regarding the country's long-term energy policy.

Since its founding in December 1963, only a year and a half after Algeria achieved its independence in July 1962, Algeria's national oil and gas company, the Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (SONATRACH), has been a fully integrated part of the national governmental structure of the Democratic and Popular Republic of Algeria. For the last 35 years, it has served as a crucial instrument in the formulation and implementation of the government's domestic and international political economy. Along with the important economic factors explaining this condition, are deep political considerations as well. The

most important of these revolve around the ongoing conflict between competing elites in state and society who have different agendas, constituencies, and purposes.

Intra-elite conflicts have long dominated Algerian politics, within both the civilian and military sectors of society. These rivalries occur as well in the economy's "golden "goose"-SONATRACH, the world's ninth largest oil company¹. The current condition of civil unrest created by the campaign of Islamic violence directed against the military government has worked to sustain rather than diminish elite conflict over SONATRACH-Algeria's largest and most lucrative source of patronage, privilege, and power. The current competition is between the efficiency-minded middle-level managerial technocrats of the oil and gas industry-who are pushing for greater market- sensitive reforms, including full-scale privatization-and the bureaucratic elites in the government and the military, who are fearful of losing control over national authority. As of this writing, the latter seem to be winning over the former. How this political process operates can only be understood in the context of five interrelated factors: history, ideology, economics, administration, and law.

HISTORY: OVERCOMING A BITTER LEGACY

Algeria achieved its political independence on 5 July 1962, after a bitter war of national liberation against the French, who had colonized the country beginning in 1830². While the country became free, its polity was fractured, its society divided, its culture ruptured, and its economy devastated. Only one sector showed any promise of growth-hydrocarbons. The new leadership in Algiers envisioned exploiting this crucial sector as a way to overcome the vast legacy of political and economic backwardness left by the colonizing power. Thus, almost from the very beginning, oil and gas production were envisioned as central to the country's efforts to socialize the economy, expand state control over civil society, develop civilian and military infrastructures, and position Algeria as a future "great" power in the southern Mediterranean region. To achieve these grandiose goals, the state undertook simultaneous political, social, and economic transformations.

¹ *The New York Times*, 20 January 1998.

² The following are among the Most referenced English language publications concerning Algeria's political history: William B. Quandt, *Revolution and Political Leadership: Algeria, 1954-1968* (Cambridge, MA: MIT Press, 1969); John P. Entelis, *Algeria: The Revolution Institutionalized* (Boulder, CO: Westview Press, 1986); Rachid Tlemcani, *State and Revolution in Algeria* (Boulder, CO: Westview Press, 1986); John Ruedy, *Modern Algeria: The Origins and Development of a Nation* (Bloomington: Indiana University Press, 1992); and Helen Chapin Metz, ed., *Algeria: A Country Study* (Washington, DC: Library of Congress/Federal Research Division, 1994).

In the political realm, a single-party authoritarian regime was established using "revolutionary socialism" as the ideology for popular mobilization. While the first post-independence president, Ahmed Ben Bella (1962- 65), was ambivalent in this regard, his successor, Houari Boumedienne (1965-78), fully institutionalized this political project. In the social realm, Boumedienne deepened and expanded the regime's socialist character by providing broadly-based nationalized social services (medicine, schooling, pensions, etc.). Economically, the regime completely nationalized all "strategic" interests. This included the important gas and oil sector, which came fully under government control in February 1971 with the nationalization of all French hydrocarbon interests³. Lastly, in the area of foreign policy, Algeria assumed a visible if not militant posture in numerous international forums as part of its effort to establish a "new international economic order" in which gas and oil were to be used to coerce fundamental changes in the international economy, and thereby shift global political power away from the industrialized North and towards the underdeveloped South.

While the liberalization policies of Boumedienne's successor, Chadli Benjedid (1979-92), significantly ameliorated both the militancy of Third World revolutionism and the suffocating effects of state bureaucratic control of the economy, the critical hydrocarbon sector remained firmly in the hands of the state. SONATRACH served the important function of expanding oil and gas production-in close collaboration with multinational oil companies-while also providing the government with the revenue necessary to try to satisfy the increasing social needs of a young, restless, and expanding population as well as to maintain state power in general.

The government of Liamine Zeroual (1994-present)⁴ has accelerated the liberalization process in several areas simultaneously in an effort to contain and defeat the Islamist insurgency which emerged in early 1992, when the army staged a coup d'état. This coup occurred on the eve of second round national legislative elections in which the now banned Islamic Salvation Front (FIS) was about to achieve a decisive victory. Since then the army-imposed regime has undergone an institutional transformation with the successful completion of several electoral mandates-a presidential election in 1995, a constitutional referendum in

³ Algeria fully nationalized its hydrocarbons industry through a series of separate ordinances, decrees, and presidential edicts in which foreign territorial rights and resource assets were transferred to SONATRACH beginning in mid-1970 and ending in early 1971, See, for example, Ordinance 71-8 of 24 February 1971 in Secrétariat Général du Gouvernement, *Journal Officiel de la République Algérienne Démocratique et Populaire* (Official Journal of the Popular Democratic Republic of Algeria).

⁴ Zeroual has announced that he will leave office following elections due in April 1999.

1996, and legislative and municipal elections in 1997. Yet, the country continues to face daily violence which has cost the lives of nearly 100,000 people since early 1992⁵.

None of the violence, however, has slowed the regime's economic transformation, in which a socialist economy is gradually being replaced by a market-oriented one. Many sectors of the once nationalized economy are now being privatized, except for one- hydrocarbons. And despite the expansive role now being played by scores of foreign oil and gas companies in exploiting Algerian resources (discussed below), SONATRACH remains state-owned. Indeed, while in the past historical, ideological, economic, and global considerations were once fused to justify maintaining national control of oil and gas production, today's rationale is pure political economy. The narrowly based army supported regime depends almost exclusively on the rents that oil and gas production provide in order to remain in power-these along with corruption, coercion, and cooptation. As long as the regime is viewed by the majority of its citizens as illegitimate if not dangerous, it seems unlikely that SONATRACH will at any time in the near or intermediate future be privatized or spun off as an independent enterprise unit.

Elite Competition

Almost from the beginning of its modern political history, Algeria has been racked by deep cleavages among its dominant elites. Rather than creating unity and a sense of common national purpose among these elites, the bloody war of independence (November 1954 - July 1962) exacerbated and extended existing tensions, rivalries, and differences. As one noted scholar of the subject has written: "[The [Algerian] revolution not only perpetuated old antagonisms but also created new sources of strain and tension among political leaders ... Rather than developing into a 'political class' that jealously guards its prerogatives and power, the Algerian political elite has been composed of numerous clans, factions, and cliques, none of which has been powerful enough to dominate the entire political system."⁶

In the last three decades these intra-elite conflicts have not completely disappeared, but have only been submerged within ruling state institutions, of which the army has been the most dominant. In practice this has meant that competition over power, privilege, and patronage operates at the highest level of authority in a continuous, albeit opaque, way. This applies in particular to the revenue-rich hydrocarbons sector, from which flows valuable state

⁵ The most authoritative account of the killings can be found in a publication jointly sponsored by Amnesty International, Human Rights Watch, International Federation of the Leagues of Human Rights, and Reporters Without Frontiers, *Algérie: le livre noir* (Algeria: The Black Book) (Paris: La Découverte, 1997).

⁶ Quandt, *Revolution and Political Leadership: Algeria, 1954-1968*, p. 11.

patronage. Understanding the contested nature of elite political power in Algeria helps explain the ambiguous and sometimes contradictory nature of public policy towards economic enterprises.

During nearly all of Algeria's post-independence period, both ideology and public policy converged to keep SONATRACH squarely under the control of state. When faced with serious economic crises, however, reform measures were introduced to overcome the vast legacy of bureaucratic mismanagement. Yet even these reforms, including the efforts to improve SONATRACH's financial performance, did not go forward unchallenged. While alternating elite interests continue to influence decision making in Algeria's political economy, including determining the fate of SONATRACH, no single elite constituency either in the military or the bureaucracy has gone so far as to call for SONATRACH's total privatization. Indeed, as long as Algeria continues to be governed by the army in an authoritarian manner, it seems unlikely that the state will formally relinquish control over the most valuable resource of its political economic power.

IDEOLOGY OR PRAGMATISM BY OTHER MEANS

Algeria possesses the world's fifth-largest proven natural gas reserves⁷, and substantial reserves of crude oil. The development of these resources has been central to economic planning since independence. This planning has included financing the creation of other industries as well as providing essential services intended to improve living standards.

More than any others, these socio-political considerations govern hydrocarbons strategy in Algeria and explain why Algeria is determined to obtain as high a price as possible on world markets for its natural resources. For this reason, Algeria has adhered to production quotas set by the Organization of Petroleum Exporting Countries (OPEC) and has participated in other cartelization mechanisms. The ideological underpinning of this strategy was reconfirmed and reinforced at the 29-31 December 1980 meeting of the Central Committee of the National Liberation Front (FLN). Despite major political and institutional turmoil since then, the ideological configuration of Algeria's energy policy put into place nearly two decades ago is still in effect today.

⁷ *The New York Times*, 23 July 1997; and *Petronet: Algeria* (available on the Internet), 6 March 1998.

The 1980 meeting laid down specific principles which have had major implications for the country's energy policy. The first of these was that hydrocarbons are a non-renewable resource. The second was that the "most effective guarantee for the development of the country lies in a permanent mobilization of the workers in order to develop other sectors and thus achieve a more diversified and more integrated economy, which is therefore less vulnerable in its relations with the outside world⁸.

This recognition of the limited nature of resources and the importance of creating other industries that will be self-generating led the FLN to formulate carefully identified aims. These include:

- increased emphasis on domestic use of natural gas-i.e., to supply households and industry;
- greater efforts to conserve energy by preventing waste;
- more intensive exploration to determine the full extent of natural energy resources, and development of national expertise;
- diversification of the national energy supply by research into other forms of energy, such as wind, geothermal energy, and solar power, and by the mining of coal and nuclear raw materials;
- more efficient and extensive capacity for storage, distribution, and transport of hydrocarbons;
- ensuring the adequate security of (i.e., the physical defense of) energy and petrochemical installations;
- careful matching of hydrocarbons output to world market supply and demand balance;
- "firmness and determination" in pursuing price increases for hydrocarbons;
- diversifying the destinations of hydrocarbons exports;
- coordination and cooperation with other hydrocarbons producers and exporters to achieve fair pricing for natural gas exports;
- strengthening the management of SONATRACH;
- greater emphasis on mastering oil and gas technology, with a consequent reduction of reliance on foreign technical assistance;
- more training of Algerians in specialized hydrocarbons skills;

⁸ The Economist Intelligence Unit (EIU), *Algeria: The Giant Market of North Africa* (London: EIU, 1982), p. 55.

- greater coordination between scientific, technical, diplomatic, security, and defense institutions in the matter of hydrocarbons;
- creation of a High Energy Institute to coordinate energy policy and its effect on the economy as a whole; and
- greater efficiency in existing investments⁹.

What is remarkable about this hydrocarbons blueprint, articulated nearly twenty years ago, is how very much it remains in effect today. Only the addition of extensive foreign investment and participation in the oil and gas industry constitutes a new but complementary aspect of the original plan.

ECONOMICS: THE GLOBAL IMPERATIVE

The first major discovery of oil in Algeria was made in 1948 in the Sidi Aissa region located in the pre-Saharan south east, and by 1958 the country's main oil field - Hassi Messaoud, in the east central region - was coming onstream. In 1961, gas production began at Hassi R'Mel, in central Algeria 500 kilometers south of Algiers. Not surprisingly, these developments led France, the colonial power, to reassess its view of Algeria's future. Shortly before it finally conceded on the issue of full independence, Paris was prepared to give up the three northern *départements-previously* thought the only part of the vast territory worth economic exploitation - but hoped to hold onto the *territoires du sud* (southern territories), where oil and gas interests were at stake. However, the French Sahara was not to be, and with independence, Algeria secured the region's hydrocarbons wealth for itself.

In the 1960s and 1970s, Algeria became increasingly dependent on oil and gas to finance its investment in industry and the social welfare of a fast-growing population. The centralized socialist state that Boumedienne created was constructed on a sea of hydrocarbons revenues, allowing Algeria to push ahead with its social experiments and industrialization-a strategy labeled "industrializing industries."¹⁰

Algeria is one of the major oil and gas producing countries of Africa. In 1994, 1995, and 1996, it set the record for the most oil discovered of all oil producing countries. Yet, the country's full hydrocarbon potential has still to be fully and reliably established. In addition to

⁹ *Ibid.*, pp. 55-57.

¹⁰ Jon Marks, *Algeria: Towards Market Socialism* (London: Middle East Economic Digest, 1989), p. 45.

its upstream strength, Algeria has a strong downstream sector which includes refining, distribution, marketing, and chemicals.

More than ever, the hydrocarbons industry is key to the Algerian economy, earning nearly \$11 billion in 1996, or 97 percent of its foreign exchange revenue. Its current proven hydrocarbon reserves are estimated at 1.2 billion tons of crude oil (9.2 billion barrels) and 3.6 trillion cubic meters (tcm) of natural gas. This represents 0.9 percent of the world's crude oil reserves and 2.6 percent of the world's natural gas reserves. At current production levels, its reserve-to-production ratio is 22 years for crude oil and 80 years for natural gas¹¹.

There are currently about 35 major producing oil fields in the country. The main fields are located at Hassi Messaoud and around In Amenas, near the Libyan border. Recently a cluster of new fields with commercial potential have been discovered at Hassi Berkine, east of Hassi Messaoud towards the Tunisian border.

Algerian oil fields generally produce light crude oils with a low sulfur content. The principal crudes are Sahara Blend and Zarzaitine. Exports of crude oil and refined products from Algeria have varied in recent years, reflecting the highly competitive oil market, erratic global weather patterns, and a weakened Asian economy. In 1994, for example, over 1.2 million bpd were exported, while in 1997 only about 850,000 bpd were exported, 18 percent of which were in the form of crude oil, 24 percent condensates¹², 25 percent gas, and 19 percent refined products. The bulk of Algeria's exports of crude oil goes to Western Europe (85 percent), with about five percent going to the United States.

The Importance of Natural Gas

Algeria is particularly rich in condensates and natural gas, and the government has instituted a strategy of investing in facilities that exploit these resources. The country has now become one of the world's leading exporters of condensates, with a volume of some 400,000 bpd. While Algeria's crude oil constitutes 30 percent of the country's recoverable hydrocarbon reserves, its natural gas constitutes 70 percent. Algeria also ranks fifth in the world-after Russia, Iran, Qatar, and the UAE-in terms of gas reserves. Output of natural gas in Algeria has grown steadily over the years, from 36.5 bcm in 1986, to 49.2 bcm in 1990, and to 65.9 bcm in 1996. By the year 2000, conservative analysts say this figure could approach 70 bcm

¹¹ In 1997, oil production averaged 846,000 barrels per day (bpd); In 1996, natural gas production totaled 65.9 billion cubic meters (bcm). See *Algeria: Country Profile 1997-1998* (London: The Economist Intelligence Unit, 1998), pp. 28-33.

¹² Condensates are liquid hydrocarbons produced with natural gas which are separated from the gas by cooling and various other means. Condensate is also referred to as natural gasoline and distillate.

annually; some more optimistic SONATRACH officials forecast the volume to reach as high as 170 bcm¹³. Apart from encouraging foreign oil companies to develop Algeria's gas fields (see below), the government is also promoting the use of natural gas in the domestic market—especially in the industrial sector, where plants can easily be converted from fuel oil to gas.

Commercial production of natural gas began in 1961. Proven reserves, which are mainly wet¹⁴, stand at 5.1 billion tons, although actual reserves are probably much higher. According to SONATRACH, natural gas represented 57 percent of Algeria's total proven hydrocarbon reserves in 1996. Algeria accounts for 25 percent of European Union gas imports¹⁵. Two-thirds of known reserves are contained at Hassi R'Mel. Other important fields include Rhourde Nouss, Alrar, Rhourde El Chouff, Rhourde El Adra, Gassi Touil, and Bassin d'Illizi. Four plants at Arzew and Skikda, all owned by SONATRACH, liquefy gas for export. Liquefied Natural Gas (LNG) production from these complexes was 18 bcm in 1994, but is expected to rise to about 49 bcm by 1999, when a radical but protracted overhaul is completed¹⁶.

The estimated \$1.5 billion revamping and upgrading of the Arzew liquefaction plants is nearly complete and further progress is expected at Skikda. Revamping and expansion at Arzew and Skikda will bring their production to around 29 bcm a year by the end of 1998. Of this, 21.2 bcm is to be produced by the GL I -Z and GL2-Z plants at Arzew. The Skikda gas liquefaction plant is now expected back on stream in late 1998 or early 1999.

A network of export pipelines link the oil and gas fields to terminals and refineries on the Mediterranean coast. There are seven terminals for the export of Algerian hydrocarbons at Algiers, Annaba, Oran, Arzew, Skikda and Bejaia, and at La Skhirra in neighboring Tunisia. The most important terminal is at Arzew, which handles over 40 percent of all hydrocarbon exports and 100 percent of condensate exports.

Despite gas liquefaction facilities producing below capacity during an extended period of renovation and expansion work, SONATRACH became the world's fourth biggest gas exporter—after Gazprom of Russia, Shell, and Exxon—when the taps were opened to a new pipeline in late 1996. Algeria has built two major gas pipelines to facilitate exports to Europe. The \$1.3 billion Maghreb-Europe gasline (GME) was completed in November 1996, allowing

¹³ *Algeria: Country Profile 1997-1998*, p. 32.

¹⁴ Wet gas is a natural gas from a well that contains some of the heavier hydrocarbon molecules which, under surface conditions, form a liquid.

¹⁵ See "North African Gas Alters Balance of European Supply," *Petroleum Economist* (London), March 1997, pp. 28-29.

¹⁶ "Algeria May Reorganize Hydrocarbon Industry," *Middle East Executive Reports* 17, no. 12 (December 1994), p. 5.

the transportation of 10 bcm per year to Spain, Portugal, and Morocco. The existing 2,100-km Trans-Mediterranean gasline (TME) to Italy via Sicily has been expanded, providing throughput capacity of 25 bcm per year to Italy and neighboring markets. Both pipelines run from Hassi R'Mel through neighboring countries-the TME through Tunisia and the GME through Morocco-before crossing the Mediterranean seabed.

Increases in export pipeline capacity are necessary for a projected gas export capacity of 75 bcm a year in the early 21st century. There are plans to boost the GME's throughput capacity to some 11 bcm a year, and to add a further five bcm capacity to the TME line through the construction of new compression stations. Other projects include: development of the Alrar-Hassi R'Mel pipeline, consisting of a gasline 42-48 inches in diameter with four compression stations; completion of the 42-inch Hassi R'Mel-Skikda gasline to come on stream in 1998, and construction of the 521-km In Salah-Hassi R'Mel gasline, with a capacity of seven million cubic meters per year.

Given the centrality of the hydrocarbons industry to Algeria's political economy of development now and into the future, SONATRACH, which is both the state-owned operator and the parent company of the industry, continues to serve as the country's institutional bulwark against autonomous political and economic interests. SONATRACH retains overall responsibility for hydrocarbon policy, exploration, production, transport, and export. Over the period 1996-2000, SONATRACH plans to invest nearly \$30 billion to increase exploration and further develop reserves. It remains the country's main export earner.

The chief planks in SONATRACH's current development program are its multibillion dollar strategic alliances formed with overseas operators. Since 1991, international companies have been allowed to work in or even buy into existing oil fields. By the end of 1996, for example, 23 exploration and production-sharing contracts were in place with 18 international companies, involving investments worth \$1.5 billion. The foreign firms involved in Algeria's hydrocarbons sector take a long-term view of the political risks, and major investments are underway or planned in all areas of production. To protect foreign installations against attack by Islamic militants, private security arrangements and a strong army presence have been put in place.

ADMINISTRATION: THE POLITICAL NETWORK

SONATRACH's relationship to the state is direct, intimate, and long-standing. High government officials and their counterparts in the national company exchange positions regularly. Such a pattern has been in existence virtually since SONATRACH was formed, but has been reinforced in the last decade or so as the country has struggled to transform its socialist economy into one based on market principles. Although names of ministries have changed, been reshuffled, or eliminated altogether, those in charge of the hydrocarbons sector have remained key actors in the management and direction of SONATRACH.

In the government of Abdelhamid Brahimi formed on 15 February 1988, for example, Belkacem Nabi was appointed minister of energy, chemicals and petrochemicals while Youcef Yousfi (who, in 1998, is minister of energy), continued as director general of SONATRACH. The government of the reformist Prime Minister Mouloud Hamrouche was formed on 16 September 1989, following the disastrous nationwide riots of the year before. There was a marked shift in the composition of this government away from ministers with military and party backgrounds towards professional technocrats. The energy sector was folded into a reconstituted Ministry of Mines and Industry with Sadek Boussena as its new head. Boussena had replaced Yousfi in the general directorship of SONATRACH in 1987, and was later made chairman of the state energy company before his appointment as minister of mines. As minister, Boussena was responsible for the first of several major restructurings of SONATRACH undertaken after the company had divested some of its specialized divisions to form separate companies in the early and mid-1980s. Although a new general manager, Abdelhaq Bouhafs, was appointed to run SONATRACH, as the minister overseeing the energy sector, Boussena was personally responsible for the initiative that led to the creation of five SONATRACH subsidiaries: Sonatrach Exploration, Production & Marketing; Sonatrach Transportation; Sonatrach Liquefaction; Sonatrach Refineries; and Sonatrach International. In effect, he retained control over the entirety of the country's energy sector until he was removed from the government in the cabinet reshuffle of 18 June 1991 to be replaced by another high level SONATRACH official, Nordine Aït-Laoussine¹⁷.

The new government of Sid Ahmed Ghazali separated the energy ministry from the Ministry of Mines and Industry and appointed Aït-Laoussine, a long-time collaborator of the prime minister in the oil and gas industry under President Houari Boumediene (1965-78), to

¹⁷ Ministerial changes, executive appointments and transfers, and biographical profiles have been obtained from the following sources: Jon Marks, *The Maghreb Quarterly: Algeria, Libya, Mauritania, Morocco, and Tunisia* (London: Middle East Economic Digest), Issues 1-30 (February 1991-August 1998); The Economist Intelligence Unit *Algeria: A Country Report*, 1st-4th Quarters (1988-98); The Economist Intelligence Unit, *Algeria: Country Profile*, Annual, 1987-98; and *Middle East Economic Digest*, weekly issues, *passim*, 1988-98.

replace Boussena as energy minister. Aït-Laoussine was once a senior SONATRACH official when Ghozali ran the energy company in the 1970s, and later became a consultant to a Swiss-based energy company. Several important elements in Algeria's political economy practices in the energy field are reflected in these moves-the role of intra-elite alliances and associations established and maintained over time, the importance of technical skills and bureaucratic experience, and the direct ties to SONATRACH.

Another government reshuffle on 16 October 1991 saw the removal of contentious Economy Minister Hocine Benissad, leaving Ghozali and Aït-Laoussine as the two front men in the country's effort to reform the economy, including the important energy sector. This personal, professional, and political alliance between the two was maintained even following the military coup d'état of 11 January 1992, which saw the removal from power of President Chadli Benjedid and the shutting down of Algeria's infant democratic experiment. Both Ghozali and Aït-Laoussine maintained their positions in the cabinet reshuffle of 23 February 1992.

The ruling military junta struggled to keep control of the political situation following the assassination of its hand-picked president, Mohammed Boudiaf, on 29 June 1992. Fearful that both political and economic reforms initiated by the Chadli presidency and sustained by the Ghozali government were fostering "anti-state" behavior and encouraging "populist aspirations," the regime shifted course when it reshuffled the government on 19 July 1992, appointing as premier and minister of the economy an old line Boumediennist socialist, Belaïd Abdesselam. The new government was populated with men who had worked for the huge state conglomerates favored during the Boumedienne era when Abdesselam structured Algeria's "industrial revolution," but which were broken up into autonomous companies during the Chadli years (1979-92).

Revealingly, and despite the apparent shift in the new government's economic policy orientation, the energy portfolio was given, once again, to a former SONATRACH official-in this case, Hacem Mefti¹⁸. When a new government was formed on 4 September 1993 by the new Prime Minister Redha Malek-an old line Boumediennist militant known for his state-

¹⁸ Born on 3 July 1937 in Algiers, Mefti had a master's degree in electrical engineering from Dresden University (ex-East Germany). From 1966 to 1984, he was a project manager, pipeline division head, production director, and finally executive vice president (heading the hydrocarbons division) with SONATRACH. After leaving SONATRACH in 1984, he was senior advisor in the now defunct planning ministry before becoming chairman of Fonds de Participation Mines, Hydrocarbures & Hydraulique in 1988. He also served as a consultant for several international institutions and hydrocarbons sector companies. Mefti survived numerous cabinet reshuffles, on 24 October 1992, 24 November 1992, 3 February 1993, and 10 July 1993. See Marks, *The Maghreb Quarterly*, no. 7 (August/September 1992), p. 31.

centered tendencies-Mefti was replaced by Ahmed Benbitour¹⁹, the first and last energy minister with no direct links to SONATRACH.

Although he managed to survive one cabinet reshuffle on 31 January 1994, Benbitour was shifted out of the energy ministry to head the Ministry of Finance in the government changeover which took place on 15 April 1994. His replacement was Amar Makhloufi²⁰ -a former SONATRACH official. Thus Benbitour's experience represented but a brief interruption in a pattern that had been established early on and which continues until today-the inseparability of SONATRACH from its governmental roots and vice versa.

Makhloufi remained energy minister until the government reshuffle of 25 June 1997 when Youcef Yousfi, former SONATRACH chief executive officer and director of the office of President Liamine Zeroual since 1996, assumed the portfolio. Yousti had served as a SONATRACH director general in the 1980s. He is a member of the Rassemblement National Démocratique (RND), the dominant party in parliament headed by President Zeroual. With Yousfi's appointment the fusion of political, personal, and professional attributes was once again reaffirmed as a key consideration in the deliberation and implementation of national energy policy.

These diverse examples reflect the interactive nature of elite involvement in the Algerian oil and gas industry in the elite's dual and at times conflicting roles-individuals selected to maintain close political scrutiny of the industry alternating with those intended to foster greater autonomy and private-sector involvement.

Restructuring

SONATRACH has undergone a number of major restructurings almost from its inception, beginning with the nationalization of the industry in 1971, which entailed the full transfer of

¹⁹ Benbitour was then a 47-year-old economist with a Ph.D. from the University of Montreal who had previously worked as a director in both state-owned companies and government ministries. He had represented Algeria at general meetings of the IMF and other financial institutions. Jon Marks noted that at the time of Benbitour's appointment as energy minister, observers were surprised that he had been selected since it was expected that another technocrat trained by SONATRACH would take the job. According to Marks, some believed the move "inspiring" since SONATRACH was to serve as the linchpin of the economy, with a long-established group led by president-director-general Abdelhak Bouhafis staying in place to oversee its transition into a major international company. If Bouhafis had joined the government, some believed, he would have become vulnerable, thus explaining why he refused the job when it was offered. Benbitour meanwhile was expected to use his economics background well while holding hydrocarbons policy on a steady course. See Marks, *The Maghreb Quarterly* no. 12 (November 1993), p. 55.

²⁰ Amar Makhloufi was born on 17 November 1943 at El Madher in Batna province. He had studied mathematics and petroleum engineering before joining SONATRACH as an engineer in the late 1960s. He later headed one of the company's chemical subsidiaries, but left the oil industry for a period when he was appointed governor of Annaba province. Makhloufi returned to the energy and industry ministry in the early 1990s and was named, first, director of planning and, later, deputy minister. See Marks, *The Maghreb Quarterly* no. 14 (June 1994), p. 59.

the country's oil and gas resources to SONATRACH. SONATRACH's organizational restructures, pricing policies, investment strategies, international alliances, and overall development planning originate within high government circles in collaboration with the company's technocratic elite. Responding to political and market pressures over the years, SONATRACH has modified its production and pricing policies to ensure adequate national income not only to sustain the country's developmental goals but, as important, to fortify the power and privileges of the ruling elite in the army and government bureaucracy. Simply put, SONATRACH is organized and administered by and for the state's political economy interests.

During the Boumedienne years, SONATRACH was an extremely large company, responsible not only for oil and gas production, distribution, refining and processing (petrochemicals production), but also for oil and gas industry engineering and exploration. This made SONATRACH both a powerful and highly centralized institution, two attributes which hampered its efficiency and ability to coordinate with the other economic sectors that it was ultimately meant to serve.

As a consequence, in the early years of Chadli Benjedid's presidency, it was decided that the mighty SONATRACH would be decentralized-but not denationalized-with the subdivision of many of its responsibilities into separate enterprises. In April 1980, several major companies were created from divisions of SONATRACH, and others have since been set up in a further process of decentralization²¹. SONATRACH oversees the industry and organizes the exploration, production, and marketing of hydrocarbons, but these companies work autonomously for much of the day-to-day business. SONATRACH also has a marketing company, SONATRADING (Amsterdam), through which its US gas deals have been transacted.

Further restructuring, undertaken in the mid-1980s, was intended to make SONATRACH into a holding company responsible for planning, marketing, and financial policy. This left such aspects as management, labor relations, investment, and commercial transactions to the newly-created autonomous subsidiaries.

²¹ Companies spun off from SONATRACH in 1980-81 were the following: Entreprise Nationale de Raffinage & de Distribution de Produits Pétroliers (ERDP) [refining and distribution]; Entreprise Nationale de Grands Travaux Pétroliers (EGTP) [oil well projects] Entreprise Nationale de Plastiques & Caoutchoucs (ENPC) [plastics and rubber]; Entreprise Nationale de Forage (ENAFOR) [drilling]; Entreprise Nationale des Travaux aux Puits (ENTP) [wells]; Entreprise Nationale de Géophysique (ENAGEO) [geophysics]; Entreprise Nationale de Génie Civil & de Bâtiments (GCB) [engineering & construction]; Entreprise Nationale de Services aux Puits (ENSP) [oil well servicing]; and Entreprise Nationale de Canalisations (ENAC) [pipelines].

Following a sometimes radical reassessment of its economic policy after the oil shock of 1985-86, Algeria modified its energy pricing policy in an attempt to increase sales and export revenues. This was especially apparent in the case of gas sales. In the 1970s, Algeria developed a policy of charging the highest price possible-to a level at which, in the case of contracts with major partners such as France, customers were paying what came to be known as the "political price"-and enforcing rigid long-term contracts (which later undermined a promising transatlantic gas trade). The revised policy of the middle 1980s aimed to provide more competitive and market-sensitive terms, to win new customers, and to maintain market share with traditional clients. The 1982 hydrocarbons law was amended in 1986²² in order to stimulate oil and gas exploration by attracting foreign partners.

Almost from the beginning of the reform and restructuring efforts undertaken by the Chadli government to make the Algerian economy more responsive to market forces, the status of SONATRACH has been considered "special." Initially, when asked whether Algeria's enterprise reforms would extend to SONATRACH, most public officials answered that it was a company like all the others and would become autonomous²³. In reality, of course, SONATRACH has always been *unlike* any other Algerian enterprise, since it accounts for nearly all of Algeria's hard-currency earnings. Thus, as much as government officials might wish that SONATRACH become independent and operate "like all other companies," no one is about to let go of the goose that lays the golden eggs.

This does not mean that pressures for change have not existed. Indeed, like the current combat at the highest level of the Algerian political system between army "hardliners" and "softliners" over how much and when to open up the system to genuine political change, so too SONATRACH has its share of bureaucratic managerial infighters struggling over how much and how fast the deregulation, decentralization, and denationalization process should proceed²⁴.

While mid-level management and company technocrats push for dramatic changes to overcome these handicaps-beginning with transforming SONATRACH into a truly

²² Law 86-14 of 19 August 1986, in Secrétariat Général du Gouvernement, *Journal Officiel de la République Algérienne Démocratique et Populaire*.

²³ "Restructuring Sonatrach," *Middle East Executive Reports* 14, no. 1 (January 1991), p. 8.

²⁴ Analyses of elite struggles within and between state institutions and civil society can be found in John P. Entelis, "Introduction: State and Society in Transition," in John P. Entelis and Phillip C. Naylor, eds., *State and Society in Algeria* (Boulder, CO: Westview Press, 1992); John P. Entelis, "Islam, Democracy, and the State: The Reemergence of Authoritarian Politics in Algeria," in John Ruedy, ed., *Islamism and Secularism in North Africa* (New York: St. Martin's Press, 1994), pp. 219-51; John P. Entelis, "Civil Society and the Authoritarian Temptation in Algerian Politics: Islamic Democracy versus the Centralized State," in Augustus Richard Norton, ed., *Civil Society in the Middle East*, vol. 2 (Leiden: E.J. Brill, 1996), pp. 45-86; and John P. Entelis, "Political Islam in the Maghreb: The Nonviolent Dimension," in John P. Entelis, ed., *Islam, Democracy and the State in North Africa* (Bloomington: Indiana University Press, 1997), pp. 43-74.

independent private corporation-top bureaucrats and their political allies in the government are unable or unwilling to let go of the company, given its importance to the national economy. Authorities are anxious to maintain control over the company in order to keep control over its earnings, particularly since hard-currency earnings often linger elsewhere, and only slowly make their way into government coffers²⁵. This has become particularly critical in recent years given the fluctuation of global oil and gas prices and the need to satisfy pressing social demands in the face of an ongoing political challenge from militant Islam. Beyond the political will, there has been the need to effect new legislation. Since SONATRACH was originally created by law, it could not simply be reorganized, as the other state-owned companies could, but had to be changed by modifying the existing legislation²⁶.

LAW: THE NEW PARADIGM

Since the mid-1980s, the Algerian government has put a high priority on attracting involvement by international oil companies because it needs their help in order to expand oil and gas exports to get through the economic crisis facing the country. SONATRACH has fallen far behind in technology and equipment, and has been unable to carry out the necessary exploration and production on its own. An important new development in this regard has been the shifting away from contracts negotiated based on "political" criteria to those employing standard international legal and arbitration procedures. Thus, participation has become more attractive to foreign companies as economic reforms continue and Algeria increasingly adopts international business practices²⁷.

Under Algeria's 1986 Petroleum Law, SONATRACH continued to enjoy full control over all activities in the hydrocarbons sector. At that time, any foreign company interested in doing business in this sector had to have SONATRACH as a partner. There were two ways for foreign companies to go into the oil business in Algeria: through a production-sharing contract or a participation contract.

While international arbitration has been introduced in other sectors of Algeria's economy, applying it to the oil and gas sector required changes in the 1986 law-a decision that could only be taken at the highest political levels.

²⁵ "Algeria-State Giant Tries to Adapt," *Financial Times* (London), 28 January 1991, p. iv.

²⁶ See "Restructuring SONATRACH," *Middle East Executive Reports* 14, no. 1 (January 1991), p. 8.

²⁷ "SONATRACH-Fields Development Background," Arab Press Service Organization, *APS Review Oil Market Trends* 44, no. 3 (23 January 1995), pp. 17-18.

New Hydrocarbons Investment Law

On the eve of the military coup d'état of 11 January 1992, the Algerian parliament passed a new hydrocarbon investment law intended to make investment in Algeria's oil and gas sector more attractive to foreign oil companies²⁸. The major features of the 1991 law were that:

- foreign firms were authorized to explore for and develop gas deposits in partnership with SONATRACH;
- foreign firms were authorized to exploit existing oil fields in partnership with SONATRACH;
- international arbitration was permitted for disputes between foreign firms and SONATRACH; and
- royalties and petroleum taxes were reduced for oil and gas found in certain remote or otherwise difficult areas of exploration or production²⁹.

Other important aspects of the new law included provisions regarding:

Oil Pipelines: Article 4 of the new law amended the 1986 law to allow foreign firms to finance, build, and operate oil pipelines under contract with SONATRACH, which continued to have exclusive right to transport oil.

Separate Agreement with Government: Formerly, foreign firms had to negotiate an agreement with the government defining their proposed activities and their obligations to Algeria, in addition to the contract they negotiated with SONATRACH. Article 6 removed that requirement.

Profits to Foreign Firms: The new law did not change the forms of profit-sharing available to foreign firms, but Article 8 stated that payments to foreign firms would depend on two factors: first, the financial and technical risks incurred by SONATRACH in exploring and developing the field in question; second, the technological and financial contribution foreign firms made to the field's development.

Incorporation in Algeria Not Always Required: Under Article 9, foreign firms that had formed a joint venture company with SONATRACH were no longer obliged to incorporate separately in Algeria.

²⁸ Law 91-21 of 4 December 1991 amends the 1986 Hydrocarbon Investment Law 86-14 of 19 August 1986. See Secrétariat Général du Gouvernement, *Journal Officiel de la République Algérienne Démocratique et Populaire*.

²⁹ See "New Investment Law for Hydrocarbons Area," *Middle East Executive Reports* 15, no. 2 (February 1992), p. 10.

Reduced Royalty and Tax Rates: Article II stated that oil found in inaccessible or difficult production zones would be subject to a ten percent royalty and 42 percent tax rate, well below the standard rates of 20 percent for royalties and 85 percent for taxes.

Disputes with Government: While disputes between foreign firms and SONATRACH could be submitted to international arbitration, those between foreign firms and the government still had to be resolved under Algerian law³⁰.

Short-Term Reversal

The reforms by liberal governments in 1991 and 1992 were reversed by the new team that was installed by the ruling army group which came to power through a military coup. The program to restructure SONATRACH, prepared in the first half of 1992 under the government of Ahmed Ghozali-the man who had built up SONATRACH in the 1970s-was also discontinued. In July 1992 the premiership was assumed by Ghozali's former boss, Belaid Abdessalam, a hardline nationalist-socialist who was the "father" of Algeria's industrializing industries strategy of the 1960s and 1970s. Abdessalam insisted on strong control over SONATRACH by the state, imposed tough terms on foreign companies, and reversed the reforms.

By mid-1992, 15 companies had bid for eight fields, with their total investment offers coming to nearly \$4 billion. Abdessalam rejected their offers immediately as he came to the premiership, saying they were "below the minimum acceptable" to his government- even though SONATRACH and Nordine Aït Laoussine, till then the energy minister, had worked hard to attract these companies. It seemed at the time that the "political" pricing strategy of the Boumedienne years was being reinvoked, to the serious detriment of the country's economy. More accurately, Abdessalam's move reflected the kind of inter-elite political struggle over power, patronage, and privilege that has long characterized Algerian decision making, whether in the political, military, or economic spheres. Fortunately for the Algerian economy, after Abdessalam was removed from office in 1993, SONATRACH revived its efforts to attract foreign companies and again took up its reform and restructuring program. The time, costs, and opportunities wasted were considerable.

Labor Union Challenge

Another challenge to the current reform and restructuring efforts of SONATRACH has come from trade unions in the hydrocarbons and energy industries. Feeling the combined

³⁰ *Ibid.*

pressures from political Islam on the one hand and acute financial requirements on the other, the military's newly appointed Algerian president in 1994, General Liamine Zeroual, was unprepared to tackle head-on the large and powerful trade union movement, whose members have gone on strike whenever government policies aimed at reducing state employment have been announced or about to be implemented. Such was the case in early 1995 when consideration was being given to reintegrating the units spun off from SONATRACH in the early 1980s, such as ENAFOR (drilling), ENAGEO (geophysics), ENGTP (oil well projects), and ENTP (oil well servicing), all of which provide services to SONATRACH and to foreign oil companies active in Algeria. Other companies being considered were NAFTEC (oil refining) and NAFTAL (oil products distribution). While their equipment and technology were not always modern, these companies were said to be basically sound financially.

For their part, the unions have long campaigned to have the companies regrouped under SONATRACH. The unions fear layoffs which might result from foreign competition and want wage provisions similar to those of SONATRACH. SONATRACH, on the other hand, has strongly opposed the unions' demand and has refused to take back control over the companies. It wants to continue to concentrate on its core business of developing oil and gas exploration and production activities.

SONATRACH's Modernization Project

Evidence that SONATRACH continues to hold center stage in the current government effort to stave off challenges from civil society to its monopoly of state power, can be seen in the Modernization Project "Promos" unveiled by SONATRACH in January 1998 involving a five-year, \$19.3 billion expansion program. The plan provides valuable insight into the strategic thinking of both government officials and SONATRACH insiders as they conceptualize about the market, financial, and political-economic challenges facing them in the 21st century. It also elaborates further the ongoing symbiosis between Algerian officialdom and SONATRACH.

Mourad Preur, who currently serves as a strategy advisor to SONATRACH's managing director, is one of the key architects of this Modernization Project. According to Preur, along with the on-going deregulation of Europe's gas industry, short-term spot transactions in gas and the growth of a short-term market could spur competition in the gas industry and result in a cut in prices, as was initially the case in the United States. As such, prices are going to harden up after the year 2010, but the growth in the electricity market will lead to a de-

coupling of gas vis-à-vis oil prices which now run relatively parallel. Thus there is a danger that the market will become "fragmented," and prices will be overly influenced by "stock market mechanisms" (futures market). As a result, SONATRACH, along with several European gas companies, believes there is a need to "seriously study the mechanism of regulation that must be established. Concerted measures between market players will be necessary."³¹

Preur predicted that "turbulence" in the gas market would probably compel the European gas industry to undertake a major overhaul and adopt "mechanisms enabling receipts to flow back towards the upstream side." For instance, vertical integration with two-way cooperation between the upstream (extraction and production) and downstream (commercialization) sectors would enable part of the upstream risk to be passed along to consumers while involving producers in the most profitable part, i.e., the downstream. The recently concluded multi-billion dollar SONATRACH-BP gas contract creating a new joint venture company, In Salah Gas, could serve as a model of the kind of "strategic alliance" that would prompt companies in producer countries to open up their upstream operations to international companies which would gain a significant competitive edge. In return, the companies in producer nations would be given "real openings to both the downstream in consumer countries and to the international upstream."³²

According to Preur, SONATRACH's strategy is aimed at "hoisting the Algerian national oil and gas company into the front ranks of international companies."³³ SONATRACH firmly believes, Preur indicated, that competition surrounding oil prices tends increasingly to be based on good management and technology, and that developments in the industry are increasingly being dictated by companies that obey competitive logic, and no longer by governments alone. Additionally, the concept of solidarity between producer countries will give way to solidarity between oil companies in the producer nations. SONATRACH believes cooperation between oil companies in producer countries and international oil companies will be "a stabilizing factor destined to mark the oil and gas industry in coming years."³⁴

Return of the State

Although it couches its activities in the language of the free market, in which efficiently-run independent oil companies in the producing and consuming countries will collaborate to

³¹ "Sonatrach Outlines Strategy," *Africa Energy and Mining*, 11 February 1998, p. 29.

³² *Ibid.* See also Martin Webb, "Developing and Marketing New Tranches of Algerian Gas: In Salah Gas Project," *Pie Maghreb Quarterly* no. 30 (August 1998). pp. 41-45.

³³ *Ibid.*

³⁴ *Ibid.*

advance their mutual interests free of government interference, the Algerian government in reality maintains actual control of all key aspects of the industry. These include selection of key personnel, determination of pricing policies, distribution of profits, and access to the domestic market, among other things. This appears to be a continuation of a long-established Algerian strategy of formally acceding to an international norm-democracy, human rights, "free" market-while in fact continuing to promote cartelization policies which impose "political" prices in order to achieve the highest income for the state.

The Algerian "reality" became abundantly clear when a presidential decree on 16 March 1998 announced that the "state energy company SONATRACH was to remain under state ownership according to a new law, which defines its legal status for the first time."³⁵ According to this presidential edict, SONATRACH is to be converted into a joint-stock company with a capital of \$4.1 billion, which is entirely subscribed by the state. It will be headed by a director-general answerable to a board of directors, which will be headed by the Energy Minister Youcef Yousfi. The move precludes foreign investors taking stakes in SONATRACH, although the company has recently invited investors to participate in downstream projects, in addition to the upstream sector where international companies are already active. After a restructuring in early 1998, three previously independent companies are now part of SONATRACH: the petrochemical company ENIP, oil products distributor NAFTAL, and pipeline company NAFTEC.³⁶

The operational and legal control of SONATRACH is now embedded within the newly created *Conseil National de l'Energie* (CNE, the National Energy Council), which is headed by the president of the country, Zeroual, and includes key government ministers and high-level members of the security establishment. The CNE has been given the authority to oversee the implementation of SONATRACH's multibillion dollar restructuring and development plan discussed above. In short, SONATRACH is to become a public company with all its shares owned by the government.

³⁵ *Middle East Economic Digest*, 27 March 1998, p. 18.

³⁶ *Ibid.*

CONCLUSION

This article has sought to demonstrate the deeply integrated nature of Algeria's state-owned oil and gas company, SONATRACH, into the country's broader political economy through an operational analysis of this integration within five key areas-history, ideology, economics, administration, and law. This analysis has also highlighted the competitive, if not conflictual, character of intra-elite relations over time which has made it difficult if not impossible for the government to denationalize, deconcentrate, or decentralize SONATRACH in the manner that it has begun doing in other sectors of the Algerian economy. Given this political "reality," it seems unlikely that the country's "golden goose" from which flows so much power, patronage, and privilege will be "democratized" anytime soon, however much democracy will or will not take hold in the overall political process.

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