

SUMMARY - MAGHREB ROUNDTABLE SERIES

PARTICIPATING SCHOLARS

Leonardo Bellodi is executive vice president of government and regulatory affairs at the Italian energy company Eni. He has also served as executive vice president of public affairs and from 1998 to 2006 as head of Eni's delegation at the European Union (EU) in Brussels. Prior to joining Eni, Bellodi worked at the United Nations and was a partner of an international law firm based in Brussels.

Arezki Daoud is the publisher of *The North Africa Journal*, which analyzes political and economic affairs in the Maghreb region and today reaches over 50,000 government officials, diplomats, and business executives worldwide. In 2013, Daoud founded MEA Risk services, which provides in-depth analysis and risk assessment on the region and beyond to governments and corporate clients. ■

The Geopolitics of North African Energy Trends

Declining production, rising domestic consumption, and insecurity are huge challenges for energy producers in North Africa, according to Leonardo Bellodi and Arezki Daoud. Bellodi is executive vice president of government and regulatory affairs at the Italian energy company Eni SpA, and Daoud is the editor of *The North Africa Journal*. The two spoke at a Maghreb Roundtable entitled "The Geopolitics of North African Energy Trends" at CSIS on January 30, 2014. Bellodi highlighted the risks and difficulties foreign firms face in Libya and Algeria, but he affirmed optimistically that European companies will remain engaged in North Africa despite the risks. Daoud discussed Maghreb countries' fiscal and policy outlooks, arguing that political concerns and crisis management, more often than sober economic analysis, drive policymakers' decisions.

Oil producers face a more uncertain and competitive global environment than in the past, according to Daoud. He noted that industry experts within the region fear that prices for Sahara Blend crude could drop significantly by 2017. They cite rising North American production as the main culprit. Bellodi noted that rising production of unconventional oil and gas combined with Middle Eastern instability has led some U.S. companies to "head home," leaving a gap in international involvement in North African energy production, which Gulf or even Asian energy companies could seek to fill. Europe, however, is more dependent on North African energy, and because production in North Africa remains relatively cheap, doing business there will remain attractive to European companies. Bellodi also argued that for the simple reason of proximity, the stability of North Africa has to be the top foreign policy priority for European countries.

Yet, challenges remain. Libya's internal insecurity has hampered the production and export of oil, making it more difficult for foreign companies to invest or make plans for future investment. Daoud described how strikes, protests, and takeovers of oil fields and ports reduced Libyan oil output to lows of 250,000 bpd in 2013, and the country earned just \$40 billion in oil revenues over the year—20 percent less than it had budgeted. Despite its vast natural resources, Libya had a 2 percent budget deficit

THE MAGHREB ROUNDTABLE SERIES

The CSIS Maghreb Roundtable was launched in May 2013 to provide a deeper understanding of economic, social, political, and security developments within individual states in the Maghreb, as well as how these dynamics intersect across North Africa and what their implications are for U.S. policy. The roundtable assembles a diverse group of North African and U.S. regional experts, policymakers, academics, and business leaders, seeking to provide a forum for the exchange of views. ■

in 2013, and its expenditures are only set to increase as public sector salaries go up in 2014. Libya also continues to import most of its refined oil products, and subsidies for those products comprised 16 percent of the 2013 budget.

Despite these challenges, Bellodi argued that it was actually surprising how well Libya was doing, given its circumstances. With so many weapons at large, the country's violence could be much worse. He argued that above all, Libya must be given time to sort through its issues. Daoud expressed his personal view that Libya will fail to stabilize unless it finds a way to share revenues and decentralize governance within a federal government system.

Like Libya, Algeria is also highly dependent on hydrocarbons. Algeria needs foreign investment and technology to reverse its declining production and exploit newly discovered resources, but political uncertainty and insecurity create a challenging environment. Daoud noted that investors in Algeria must always deal with a political system that is opaque. Energy firms also remain hesitant about sending foreign personnel to oil and gas fields in Algeria since the January 2013 attack at In Amenas. Since then Algeria has upgraded its ability to secure such facilities and confront terrorists, but the deadly attack is still very much on executives' minds.

Algeria also relies predominantly on oil revenues to finance its budget, which includes energy subsidies and other social welfare spending that is central to the government's ability to maintain stability. Daoud noted that the Algerian budget is based on oil prices of \$90 a barrel, with excess revenues directed into a fund that helps balance the government's 42 percent budget deficit. The current budget, however, is based on unrealistic expectations about how quickly the Algerian economy as a whole will grow and how well the government can manage inflation, Daoud argued. Bellodi said that the Algerian government still sees oil and gas as its "savior," and Daoud pointed to its plan to expand production by 50 percent over the next ten years. What remains questionable is whether there will be a market for that production—as U.S. domestic production has crowded out imports from Algeria, and demand from Europe remains sluggish due to ongoing economic difficulties—and whether Algeria will be able to attract the investment and technical assistance it needs to meet its goals.

As energy consumers, Morocco and Tunisia would welcome a drop in oil prices, which would alleviate strains

on their budgets. Morocco spent \$5.9 billion on oil subsidies in 2012, and the government hopes to relax subsidies—allowing gas prices to rise by 5.5 to 8 percent—while also raising wages to offset the burden on consumers. Morocco is also pursuing an ambitious renewable energy strategy, hoping to produce more than 40 percent of its energy mix from renewables by 2020, including 14 percent from solar power, some of which could be exported to Spain. Morocco is also pursuing production of solar-powered appliances—such as water heaters—for use within Morocco, and it is attracting small companies to explore for oil and gas, primarily offshore.

Subsidies represent 15 percent of the 2014 budget in Tunisia and are high relative to Tunisia's GDP, Daoud noted. There are some efforts in Tunisia to reduce energy imports and reform subsidies, but like elsewhere, the politics of doing so is very difficult. How North African countries balance economic and political imperatives in energy policy will determine energy's role in the region's geopolitics in the years to come. ■

The *Maghreb Roundtable Summary* is an electronic newsletter produced by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

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