



Ministry of Energy of Algeria

National Agency for Valorization of Hydrocarbons Resources

ALNAFT

Legal framework governing upstream investments

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2016 US – ALGERIA Energy Forum, 14th December, 2016, Houston



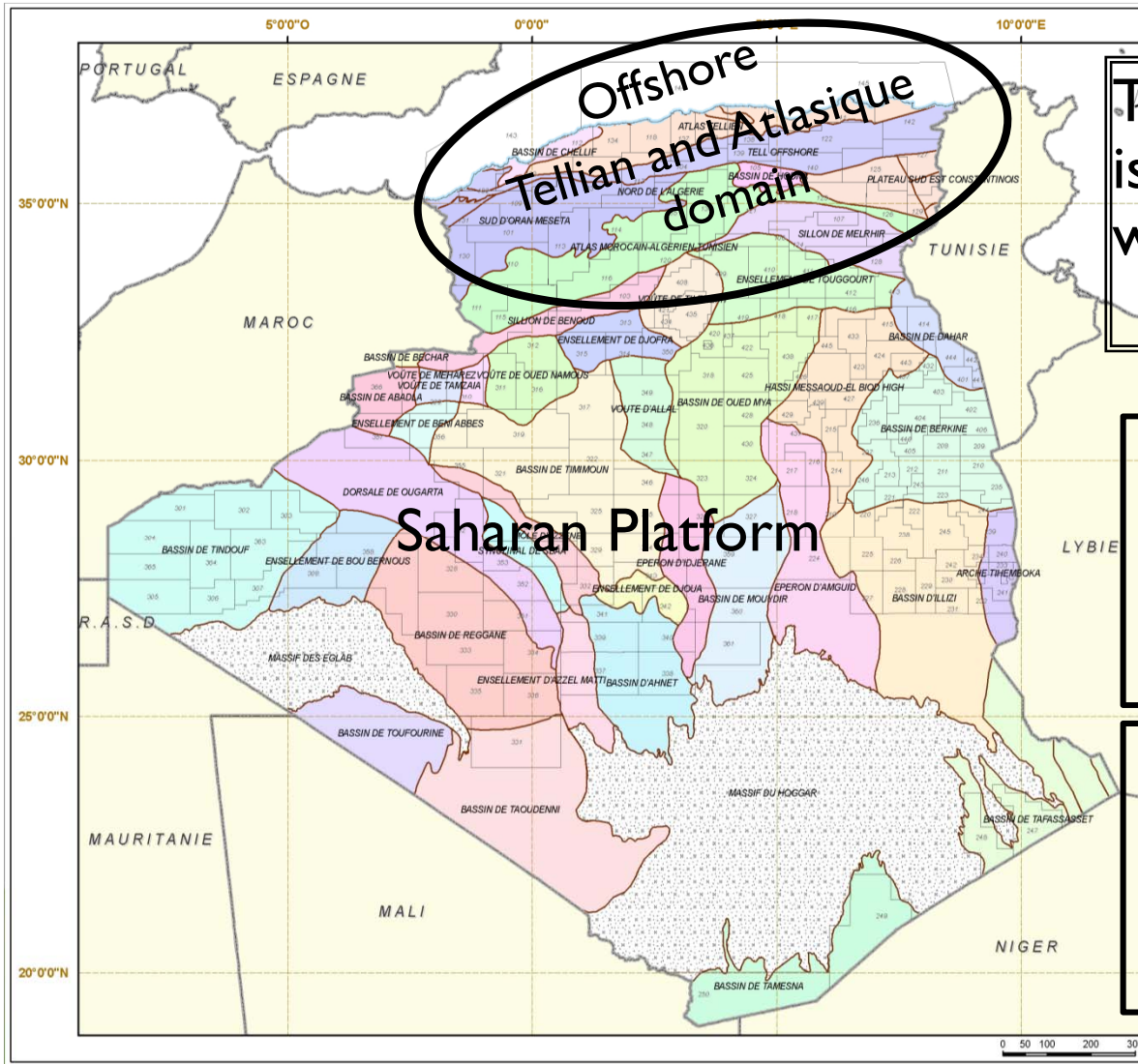
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I - Brief overview of Algerian hydrocarbons domain

Map of Sedimentary Basins and blocks



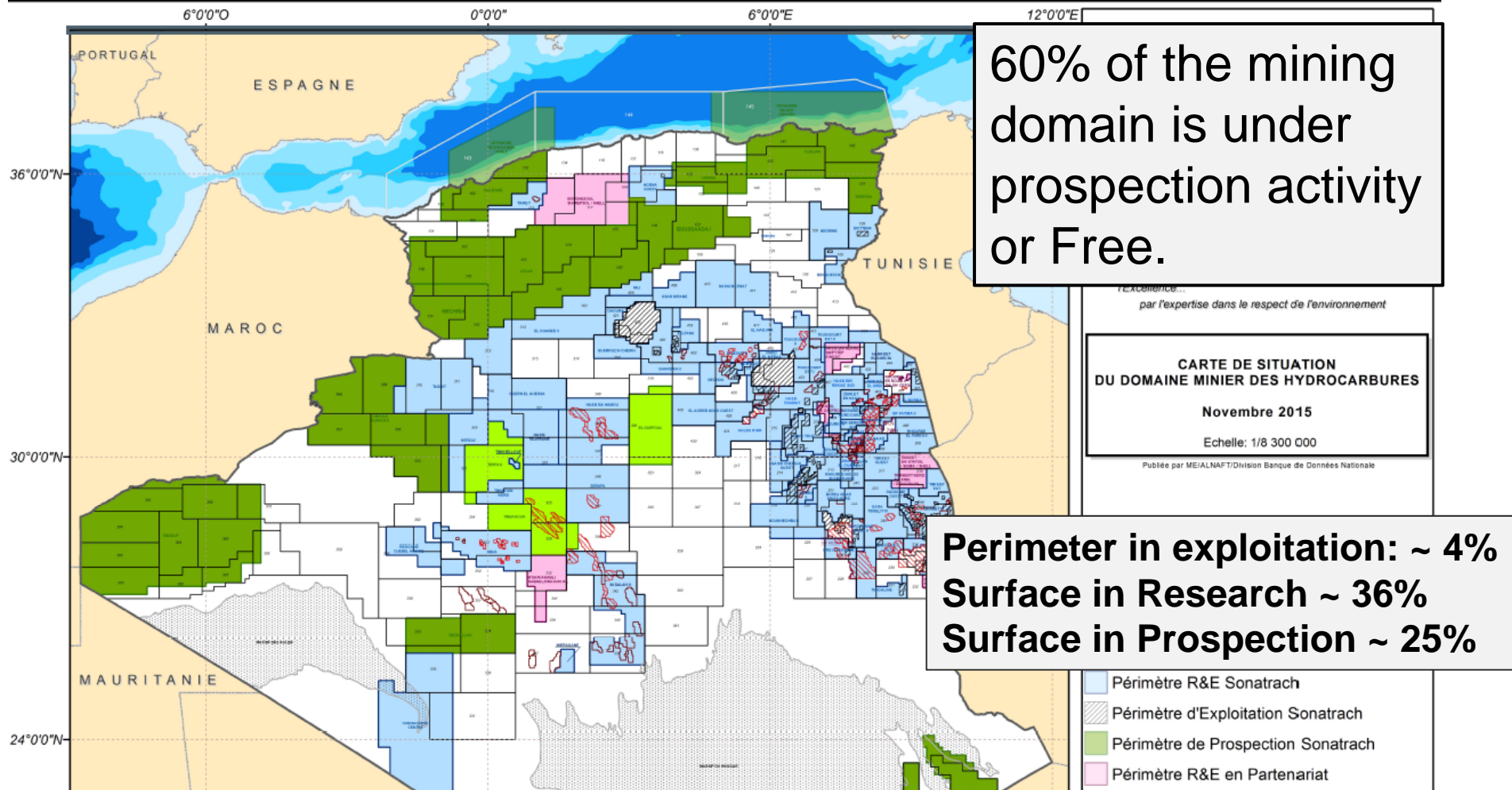
The Algerian mining domain is subdivided in 199 blocks with 3 in Offshore,

- In the North, an Alpine domain (Tell and Atlas) including offshore basins.

- In the South, the Saharan platform consisting of several sedimentary basins.



Algerian hydrocarbon domain (I)



In this large area, representing the 2/3 of the total mining domain, covering basins from mature to frontier, we can explore various plays where high potential is expected.



2- Legal framework



What defines the hydrocarbon Law 05-07 ?

- The legal regime that governing research & exploitation activities, transportation by pipelines, refining, hydrocarbon processing, storage & distribution of petroleum products.
- The legal & institutional framework to exercise the above activities,
- The rights and obligations of persons exercising one or more of the above activities .



Who can carry out the Hydrocarbon activities provided for by law ?

Prospecting activities	Any company*
Research & Exploitation activities	Any company* in partnership with SONATRACH
Transportation by pipeline	By SONATRACH or one of his affiliates
Refining	Any company* in partnership with SONATRACH
Hydrocarbon processing	Any company* in partnership with SONATRACH
Storage and Distribution of Petroleum products	Any company*

* Company: Foreign or Algerian company, private or public



Pre qualification requirements

Any Person wishing to exercise upstream activities (prospecting & research) have to have a pre-qualification certificate issued by ALNAFT.

Operator/Investor
Onshore - Offshore

Operator/Investor
Onshore

Investor
Non Operator

- Pre qualification process is based on antecedents & experiences of the person or of the company which controls it.
- Main criteria are Financial and technical capabilities.



Prospecting activity

- Prospecting activities authorization, on one or more areas, is granted by ALNAFT after Minister approval ; can be given to one or several persons jointly.
- Duration of prospecting authorization is 2 years, **renewable for a maximum of 2 years.**
- The prospecting authorization holder has a **preferential right and exploration expenditures can be considered as research investment** if the company gets a contract on the concerned area.



Research and/or Exploitation of Hydrocarbon

- The E&P contract is concluded between ALNAFT and the contractant (Sonatrach & any Person) following a competitive tender (calls of bids),
- For general interest reasons : **the contract can be also concluded outside of the bidding round** after minister approval (derogate from the principle of call of bids).
- The contract and any amendment to the contract is approved by the authorities (Presidential decree published in the Official Gazette of Algeria).



3 - Main contractual provisions

Contractual periods

Research

Conventional Hydrocarbon

1st phase 3 y.

2nd phase 2 y.

3rd phase 2 y.

+ 2 years
extension

Unconventional Hydrocarbon

1st phase 3 y.

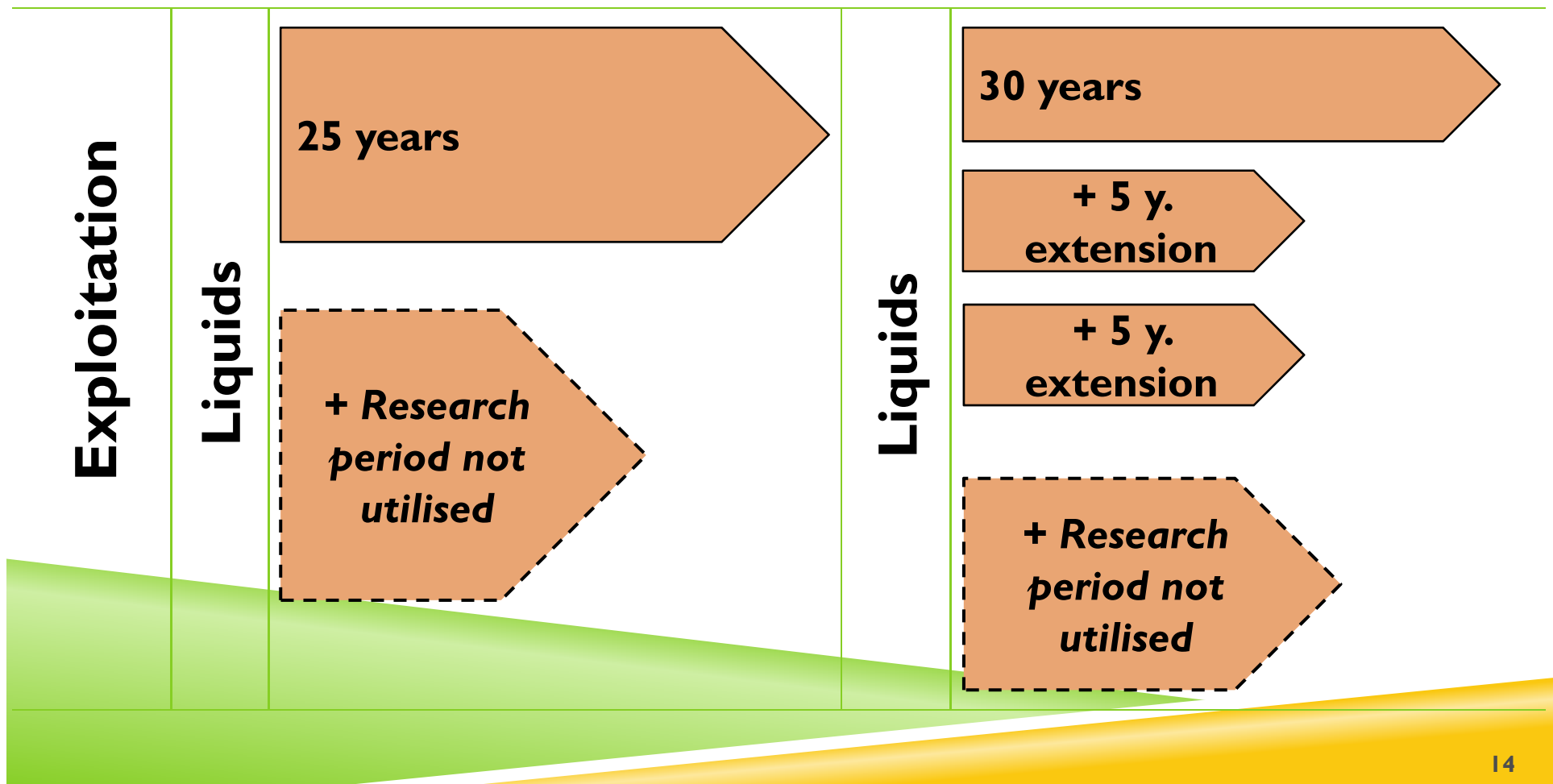
2nd phase 2 y.

3rd phase 2 y.

+ 4 years Pilot
phase

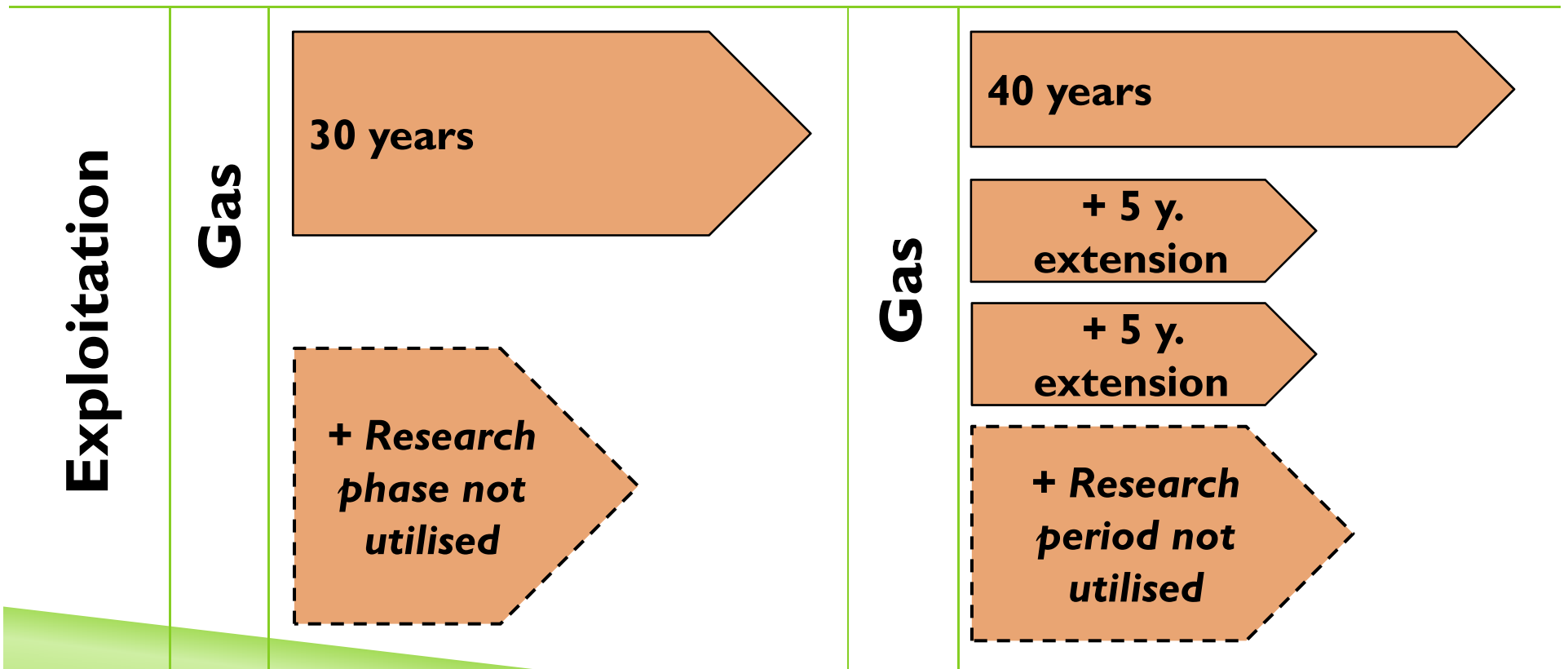
Contractual periods (I)

Conventional Hydrocarbon Unconventional Hydrocarbon



Contractual periods (2)

Conventional Hydrocarbon Unconventional Hydrocarbon





Main operating provisions for exploitation

- The Contractant may benefit from early production authorization for a maximum of 12 months,
- For non-conventional hydrocarbons, **the duration is within the limit of the maximum four (4) years** of the pilot phase,
- The contractant may ask a retention period **(3 years for liquids and 5 years for dry gas)**,



Main operating provisions for exploitation (I)

- **The relinquishment rate is fixed in the contract :**
A preference right may be given to the contractant who made rendering surfaces or geological horizons, if they are put in calls of bids,
- **Surface addition :** In case of fields that extend over free perimeters, a possibility is given to add the extension to the contractual perimeter,
- **Unexpected discoveries :** The contractant is entitled to a right on an unexpected discovery made during the implementation of the development plan.



Main operating provisions for exploitation (2)

- In the case of commercial discoveries, the contractant address to ALNAFT, for approval, a development plan,
- **Free access to the pipeline transportation facilities** : payment of a non discriminatory tariff (fixed by regulation every 5 years),
- During a calls of bids, **companies could have access to existent regional studies** for a better understanding of the potential of the perimeters.



The environmental provisions

- ✓ Prohibition of flaring gas, unless exceptionally authorized cases,
- ✓ Obligation to carry out environmental impact studies before starting work,
- ✓ Obligation to develop a risk management plan regarding the hydrocarbon activities before starting work,
- ✓ Obligation of abandonment and site restoration.



4 – Fiscal regime



Fiscal regime

The fiscal regime of Law 05-07 have introduced the following taxes :

- Area Tax,
- Royalty,
- Petroleum revenue tax (PRT),
- Complementary income tax (ICR),



Fiscal regime (I)

Area tax :

- ▶ Area tax calculation related to an unconventional perimeters & complex and/or leak of infrastructures perimeters is based on fiscal **zone A** tariffs (smallest tariffs).

Royalty :

- ▶ Royalty is a deductible charge (rates : from 5 to 23 %),
- ▶ Calculation is based on daily production range,
- ▶ Royalty rate fixed at **5 % flat** for unconventional hydrocarbons quantities and for quantities produced from perimeters with complex geology, leak of infrastructures,



Fiscal regime (2)

PRT :

- ▶ PRT rate is calculated on the basis of the profitability of the project.
- ▶ PRT rates levels range from 20 to 70 % for conventional ; from 10 to 40% for unconventional.

ICR :

- ▶ ICR rates : from 19 to 30% ; ICR rate is fixed at 80% if the ROR \geq 20%.
- ▶ Each person participating in E&P contract and investing in the activities governed by electricity and gas distribution law and/or in downstream activities may benefit from a reduced ICR rate fixed at 15%.



Exemptions

- ▶ Research and/or exploitation activities benefit from exemptions on :
 - Value added tax (VAT),
 - Professional activity tax,
 - Customs duties,
 - Any other taxes or duties on the operating results set for the benefit of the state, territorial authorities and any public company.



Conclusion

The Algerian legal framework contributes aims to encourage the partnership, considered as a strategic option according the hydrocarbon policy, notably :

- Facilitation of the conditions for prospecting activities ;
- Introduction of new specific provisions for the unconventional hydrocarbons,
- The taxation system based on the profitability of the projects.



Conclusion (I)

With the legal framework and the large unexplored potential, Algeria is open and welcoming investment in upstream activities.

Alnaft is open to share all the opportunities can be developed in Algeria



Thank you for your attention

Energy Ministry website : www.energy.gov.dz
ALNAFT Agency website : www.alnaft.gov.dz