

## RUSSIA AND ALGERIA: PARTNERS OR COMPETITORS?

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Russian-Algerian relations had been relatively subdued before 2006. In that year, however, their ties expanded markedly. Russian President Vladimir Putin visited Algeria in March 2006. At that time, major agreements on Russian arms sales to Algeria as well as a settlement of Algeria's debt to Russia were announced. Further, Gazprom and the Algerian state gas company, sonatrach, signed a memorandum of understanding in August 2006 that has exacerbated European fears that Russia and Algeria (two of the three principal EU gas suppliers) will collude to raise the price of gas. Yet, while the improvement in Russian-Algerian ties has been dramatic, there appear to be limits on the extent to which they can collaborate, especially in the natural-gas sphere, where their interests seem to be more competitive than cooperative.

Soviet-Algerian relations had been close during the 1970s and 1980s, when Moscow was the main arms supplier to Algeria. The Russian press estimates that Moscow supplied \$11 billion in military equipment to Algeria between 1962 and 1989,<sup>1</sup> equal to 70-80 percent of Algeria's inventory.<sup>2</sup> These weapons were paid for

primarily through \$11 billion in loans that the USSR extended to Algeria.<sup>3</sup> During the 1990s, however, Russian-Algerian cooperation ceased as both governments wrestled with serious internal problems.<sup>4</sup> Although Algeria paid down much of its Russian debt (in goods), it stopped making payments to Moscow in 1998 (even though it continued making payments to its other creditors).<sup>5</sup> Shortly after Putin became president, *Nezavisimaya gazeta* noted unhappily that Algeria had joined NATO's "Mediterranean Dialogue," along with Egypt, Israel, Jordan, Morocco, Tunisia and Mauritania.<sup>6</sup>

Putin became president of Russia only a few months after Abdelaziz Bouteflika became president of Algeria in April 1999. The two new leaders soon made an initial attempt to revive bilateral relations. Russian Foreign Minister Igor Ivanov visited Algiers in 2000, and President Bouteflika visited Moscow in 2001.<sup>7</sup> On the latter occasion, Putin and Bouteflika signed a strategic-partnership declaration, "the first such document Moscow has signed with an Arab country."<sup>8</sup> (Moscow may have seen this as countering, if not negating, Algeria's membership in NATO's Mediterranean Dialogue.) The two sides talked about the resumption of Russian arms sales and

Russian involvement in the modernization of various Algerian industries, including the fuel and power sectors. Although the two sides disagreed on the size of the Algerian debt to Russia, the Algerian government at least recognized that it owed Moscow something. Bouteflika invited Putin to visit Algeria, and Putin promised that he would do so.<sup>9</sup> Also in 2001, Russia agreed to sell 22 Su-24 MKs to Algeria.<sup>10</sup>

Despite all this, "the subsequent three years," as the Russian ambassador to Algeria put it, "failed to bring the expected results,"<sup>11</sup> although two Russian firms, Stroitransgaz and Zarubezhvodstroj, operated in Algeria during this period. Beginning in 2005, though, the increase in high-level visits indicated that relations were picking up. Security Council Secretary Igor Ivanov, for example, visited Algeria in March 2005 and February 2006, while Foreign Minister Sergei Lavrov went there in November 2005. High-level Algerians also visited Moscow. In addition, Putin and Bouteflika had several bilateral meetings while both were attending or observing multilateral conferences.<sup>12</sup>

Putin's visit to Algeria took place March 9-10, 2006, after he had stopped first in Morocco and before he went on to Tunisia. According to *Vremya novosti*, he was the first top-level Russian leader to visit Algeria since Soviet President Nikolai Podgorny (who was largely a figurehead) in 1969.<sup>13</sup> The debt issue was resolved by Moscow's agreeing to completely write it off in exchange for Algeria's agreeing to purchase industrial goods from Russia "in an amount at least equal to the amount of the written-off debt" (which the Russian press put at \$4.7 billion).<sup>14</sup> In addition, Algeria agreed to purchase \$7.5 billion in military equipment and services from

Russia: \$3.5 billion for Su30 MKIs, MiG-29SMTs and Yak-130 trainers; and \$4 billion for tanks, antitank missiles, other armaments and repairs of Algerian naval vessels. *Rossiyskaya gazeta* claimed, "This is the biggest single contract in the field of military-technical cooperation in Russian post-Soviet history."<sup>15</sup> What is more, these military contracts apparently don't count toward the \$4.7 billion in nonmilitary purchases that Algeria expects to make from Russia in exchange for the debt write-off.

In addition to the \$7.5 billion in arms contracts, Moscow's NTV Mir reported that railway contracts worth more than \$5 billion were also signed at this time.<sup>16</sup> But while executives from Gazprom and several Russian oil companies accompanied Putin to Algiers, no business agreements were signed. One Russian news report indicated that this would occur in April.<sup>17</sup> It was not until early August, however, that the long-anticipated Gazprom-Sonatrach MOU was finally signed. Precisely what it entailed, though, was not clear; Interfax, for example, described its contents in very general terms:

The memorandum envisions the possibility of exchanging assets in the exploration and extraction sphere, the creation of joint ventures, participation in tenders to explore and extract oil and gas, information exchanges about projects, including projects related to liquefied natural gas (LNG), the optimization of gas supplies to the market, research activities, professional training and an increase in the qualification of employees at the two companies.<sup>18</sup>

An agreement was also signed by Sonatrach and Lukoil on cooperation in the oil sphere.<sup>19</sup>

While Europe currently produces 60 percent of the gas it consumes (with the UK, Holland and Norway being the biggest producers), it imports 40 percent of its gas needs from outside the region. Russia currently provides two-thirds of these imports.<sup>20</sup> Some European countries (mainly in Eastern and Central Europe) are heavily dependent on Russia for gas supplies. Others are heavily dependent on Algeria. Italy in particular is dependent on both.<sup>21</sup> Previous calls by Putin as well as Gazprom for the creation of a gas cartel similar in function to OPEC, the oil cartel, have led to European concern that Russia and Algeria, in particular, will act together to raise the price that Europeans must pay for gas.<sup>22</sup> The Russian-Ukrainian gas dispute of January 2006 (which led to a temporary drop in Russian gas supplies to Europe), Putin's visit to Algeria in March 2006, and the August 2006 Gazprom-Sonatrach MOU heightened European concerns about gas prices, especially since Europe's dependence on gas imports is expected to increase over time.<sup>23</sup>

On May 23, 2006, for example, Britain's *Financial Times* ran an article citing Putin's former economic adviser, Andrei Illarionov, warning of "a new form of gas cartel...being developed by Russia and Algeria."<sup>24</sup> On June 29, 2006, *Le Monde* warned that Gazprom "is forging energy cooperation with Algeria, which could in the long run threaten the Europeans' room for maneuver."<sup>25</sup> After the signing of the Gazprom-Sonatrach MOU in early August, the CEO of Italian energy company Sogefi "called on the Rome government to open negotiations on the importing of natural gas from countries other than Russia and Algeria."<sup>26</sup>

In contrast to this alarm, several

petroleum analysts cast doubt on both the ability and the willingness of Russia and Algeria to work together to raise gas prices. *Africa Energy Intelligence*, for example, said that the August 2006 Gazprom-Sonatrach MOU "appears to be merely a preliminary and vague agreement....In the past, Sonatrach has signed the same type of agreement with RoyalDutch/Shell and Statoil, but they failed to produce concrete results."<sup>27</sup> *World Gas Intelligence* pointed out that, while Gazprom is just starting to get into the LNG market, Sonatrach is a well-established player "that could provide stiff competition as Gazprom works its way into the market."<sup>28</sup> *Datamonitor* noted that there already exists a Gas Exporting Countries Forum (GECF), whose members (which include both Russia and Algeria) account for 73 percent of world gas reserves and 42 percent of production, but called it nonetheless little more than a "debating forum." Furthermore, "fears that the GECF is planning to become a gas version of OPEC would appear to be unfounded. Even if the organization's strenuous denials were not to be taken at face value, the nature of both the GECF and the gas market make influencing prices through the controlling of supply a difficult-if not impossible-task under current market conditions and structures."<sup>29</sup> A *Financial Times* article suggested that "the threat of anything like a gas OPEC developing outside the EU comes as a convenient additional justification for those energy companies seeking consolidation inside the EU, such as Gaz de France and Suez."<sup>30</sup>

Of course, merely because outside analysts think that Russian-Algerian cooperation could not succeed in raising gas prices is no indication that the two

countries will not attempt to do so. There is reason to believe, though, that they might not even try since they appear to recognize that they have differing interests. For example, the Algerian energy minister, Chakib Khelil, saw the January 2006 Russian/Ukrainian gas crisis as being harmful to Algeria's interests. "The risk from this conflict is greater in the long term on the producers and exporters of natural gas who supply Europe via gas pipelines, such as Algeria and Norway," he argued, since this would result in Europe's "setting up a policy of diversification of its supply sources." This would deprive existing suppliers of a significant share of their market.<sup>31</sup> He predicted that "the EU is going to learn a lesson from this incident and will diversify its sources [for importing] liquefied gas from states which have the potential to supply the EU."<sup>32</sup> Egypt, Qatar and Nigeria were suppliers to which he foresaw the Europeans turning.<sup>33</sup> Clearly, Algeria did not appreciate Moscow's precipitation of this crisis, which it saw as harmful to Algerian interests.

For their part, the Kremlin and Gazprom could not have been pleased by Algerian Energy Minister Khelil's February 2006 statement: "From Italy, Algerian gas can be distributed throughout Europe, and that is what I have promised the countries in Eastern Europe, such as Poland, which are looking for alternatives to supplies from Russia."<sup>34</sup> Worse still (from Moscow's perspective), he suggested that in order for Algeria to gain the cooperation of other parties to transmit Algerian gas from Italy to Eastern Europe, "it will be necessary to drop from the current market price."<sup>35</sup>

The inception of Algerian gas exports to Eastern Europe would, of course,

weaken Gazprom's dominance over those markets. What this suggests is that Gazprom's motive for reaching an agreement with Sonatrach may not have been aimed at raising the price of natural gas but simply at preventing Sonatrach from undertaking actions that would serve to reduce either gas prices or Russian gas sales to Europe.

Further, Gazprom CEO Alexei Miller made it clear that an area in which he especially hoped for cooperation with Algeria was the construction of gas-liquefaction facilities in Russia, something with which he saw Algeria as having "a good amount of experience."<sup>36</sup> Algeria's agreeing to do this, of course, would increase Russia's ability to export LNG and hence compete with Sonatrach in this market. It still, of course, might make sense for Algeria to agree to this; if Russia is going to buy this technology from somebody, Algeria may as well be the one. What this indicates, though, is that even if Algeria does help Russia build up its gas-liquefaction capacity, their interests will be more competitive than cooperative in the long run.

In addition, Gazprom hopes to help Libya develop its gas reserves - described by ITAR-TASS as the fourth-largest in Africa but mostly untapped<sup>37</sup> - which would allow Gazprom to benefit from enabling Libya to compete with Algeria. Following the Libyan-American rapprochement, it is inevitable that some outside company will receive a contract to help Libya develop its gas reserves. Gazprom's eagerness to help develop them, though, suggests that it will not forgo an opportunity to profit even if this results in the potential reduction of Algeria's share of the European gas market.

Beyond these signs that Russian and

Algerian gas interests are more competitive than cooperative, there are other irritants to their relationship. While most of the Russian press coverage of the March 2006 Putin visit to Algeria was highly positive, there was one *Nezavisimaya gazeta* article that gave a strikingly negative assessment of it:

When at last, as a result of very difficult discussions, we nonetheless expressed readiness to write off the Algerian debt to the tune of \$4.7 billion, they did not throw themselves at our feet in gratitude, however much we would have liked them to. Algeria .. rapped the Russians very painfully on the knuckles. Bouteflika...made it very clear that the writing off of debts is not a guarantee of most-favored status for Russian companies. Neither Gazprom, nor Lukoil, nor Soyuzneftgaz, nor Itera came away from Algeria with signed memorandums of cooperation with the Algerian oil and gas company Sonatrach. The Russian defense industry ended up the sole winner.<sup>38</sup>

Even in the arms field, however, Russian-Algerian relations do not appear to be completely harmonious. In July 2006, Russia's AVN (Military News Agency) reported that Russia was "falling behind schedule in supplying Sukhoi aircraft to Algeria" under the 2001 agreement.<sup>39</sup> Although talks began in early 2007 for Algiers to buy an additional \$7 billion in weapons from Moscow, another Russian press agency (RIA Novosti) reported that problems had emerged regarding the 2006 arms agreements: deliveries of the T-90S tanks had been delayed, deliveries of Pantsir S1 short-range anti-aircraft sys-

tems would probably also be, and talks "on the construction of frigates for Algeria have come to a deadlock."<sup>40</sup>

Yet another irritant to their relations appeared to arise when an Algerian newspaper reported in October 2006 that the Russian oil company Rosneft "plans to pump Algerian oil and refine it afterward in Israel" if it succeeded in gaining control of a refinery there.<sup>41</sup> "It is worth noting," the author stiffly pointed out, "that Algeria is not responsible for crude-oil shares belonging to its partners and contractors."<sup>42</sup> Once again, a major Russian firm with close Kremlin ties was clearly not going to let concern for Algerian sensibilities stand in the way of an opportunity for it to profit.

European concerns that Russia and Algeria might collaborate to raise natural-gas prices are understandable but appear to be overblown. In order to raise European natural-gas prices, either Russia or Algeria, or both, would have to be willing and able to cut back on natural-gas production, as Saudi Arabia does in the oil market. So far, though, neither seems willing to do so. If anything, Gazprom hopes that its cooperation with Sonatrach will help increase Russian LNG production. Further, not only are other producers waiting in the wings to sell LNG to Europe, but Gazprom seems eager to help turn Libya into a major gas exporter to Europe. Finally, it is clear that Russian-Algerian relations are prickly. While the two are not enemies, they are not friends either. Russia and Algeria cooperate on some matters, but since neither hesitates to pursue its own economic and commercial interests even when this negatively affects the other's, it is doubtful that the Russian-Algerian relationship will amount to the "strategic partnership" that they claimed to establish in 2001.

- <sup>1</sup> "Russia, Algeria to Discuss Military Cooperation, Debt," ITAR-TASS in English, March 10, 2006.
- <sup>2</sup> Gennady Charodeyev, "Time to Count How Much Our Former Ally Owes Us," *Izvestia*, April 6, 2001, p. 8 (English translation in *Current Digest of the Post-Soviet Press* [hereinafter referred to as CDPSP], May 2, 2001, p. 23).
- <sup>3</sup> Ibid.
- <sup>4</sup> V. Titorenko, "Russia Comes Back to Algeria," *International Affairs* (Moscow), Vol. 52, No. 4 (2006), p. 163.
- <sup>5</sup> Charodeyev, "Time to Count How Much Our Former Ally Owes Us."
- <sup>6</sup> Vladimir Katin, "Mediterranean Sea Is NATO Interest Zone," *Nezavisimaya gazeta*, March 29, 2000, p. 6 (CDPSP, April 26, 2000, pp. 18-19).
- <sup>7</sup> Titorenko, "Russia Comes Back to Algeria," pp. 163-4.
- <sup>8</sup> Aleksandr Reutov, "Russia Gets a New Strategic Partner," *Kommersant*, April 5, 2001, p. 10 (CDPSP, May 2, 2001), p. 23.
- <sup>9</sup> Ibid.
- <sup>10</sup> "Russia Falling behind Schedule of Supplying Sukhoi Aircraft to Algeria," *Agentstvo Voyennykh Novostey* (AVN), July 28, 2006 (FBIS).
- <sup>11</sup> Titorenko, "Russia Comes Back to Algeria," p. 164.
- <sup>12</sup> Ibid., p. 165.
- <sup>13</sup> Yelena Suponina, "Putin Forgives Algeria Everything," *Vremya novostei*, March 13, 2006, p. 5 (CDPSP, April 12, 2006, pp. 18-19).
- <sup>14</sup> Ibid.
- <sup>15</sup> *Rossiyskaya gazeta*, March 11, 2006, p. 2.
- <sup>16</sup> Moscow NTV Mir in Russian, March 10, 2006.
- <sup>17</sup> Natalya Mikhailovna Melikova, "Spisat' dolgi po-russki," *Nezavisimaya gazeta*, March 13, 2006, internet edition.
- <sup>18</sup> "Russia's Gazprom, Algeria's Sonatrach Sign MoU on Cooperation," Interfax in English, August 4, 2006.
- <sup>19</sup> Radio Algiers Channel 1, August 5, 2006.
- <sup>20</sup> "Where Europe Gets Its Gas From," BBC News/Europe, January 4, 2006 (<http://news.bbc.co.uk/2/hi/europe/4578350.stm>).
- <sup>21</sup> Ibid.; "N. Africa to Supply Half Europe Gas Imports by 2010," Reuters, November 8, 2004; and Sarah Laitner and Ian Limbach, "Italians Fume over Threat to Gas Price," *Financial Times*, August 9, 2006, p. 4.
- <sup>22</sup> "Gazprom renforce la pression sur l'Europe," *La Tribune* (Paris), August 8, 2006, Internet edition; and "An Emerging Gas Cartel?" RFE/RL Belarus and Ukraine Report, August 15, 2006.
- <sup>23</sup> Igor Torbakov, "Moscow Maneuvers to Force Europe to Accept Its Terms of Energy Cooperation," Jamestown Foundation Eurasia Daily Monitor, August 11, 2006.
- <sup>24</sup> Carl Mortished, "Putin's Goal on Energy 'May Be More Tension,'" *Financial Times*, May 23, 2006 (Internet version).
- <sup>25</sup> "Arrogante Russie," *Le Monde*, June 29, 2006 (Internet version).
- <sup>26</sup> Laura Serafini, "Interview with Massimo Orlando, CEO of Sorigenia," *Il Sole 24 Ore*, August 12, 2006 (Lexis-Nexis).
- <sup>27</sup> "Mutual Suspicions," *Africa Energy Intelligence*, August 23, 2006 (Factiva).
- <sup>28</sup> "Gazprom Boomed and Wooed As It Seeks Global Reach," *World Gas Intelligence*, August 23, 2006 (Factiva).
- <sup>29</sup> "GECF: No Threat of 'Gas OPEC,'" *Datamonitor*, October 6, 2006 (Lexis-Nexis).
- <sup>30</sup> David Buchan, "A New Nervousness," *Financial Times* (FT Report-Energy), October 20, 2006, p. 4.
- <sup>31</sup> "Khelil: Il risque d'avoir une impact negative sur l'Algerie," *Liberte* (Algiers), January 7, 2006, Internet edition.
- <sup>32</sup> Radio Algiers Channel 1, January 8, 2006.
- <sup>33</sup> "Khelil: Il risque..." *Liberte*, January 7, 2006.
- <sup>34</sup> *Il Sole 24 Ore*, February 14, 2006, Internet edition.
- <sup>35</sup> Ibid.
- <sup>36</sup> *Rossiyskaya gazeta*, March 11, 2006, p. 2. See also Rossiya TV, March 10, 2006.
- <sup>37</sup> "Gazprom, Libya to Sign Memorandum of Cooperation in Gas Projects," ITAR-TASS in English, June 28, 2006.
- <sup>38</sup> Melikova, "Spisat' dolgi po-russki."
- <sup>39</sup> "Russia Falling Behind Schedule of Supplying Sukhoi Aircraft to Algeria."
- <sup>40</sup> "Algeria Could Become Russia's Main Military Partner," RIA Novosti, March 29, 2007. A more recent report, though, indicated that an \$800-900 million deal for Algeria to buy two frigates from Russia may be reached: F. Lamia, "New Armament Deal between Algeria and Russia," *El Khabar*, October 16, 2007 (Internet edition).
- <sup>41</sup> *Echourouk El Youmi* (Algiers), October 16, 2006, Internet edition.
- <sup>42</sup> Ibid.