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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Algeria: The Importance Of The Oil Industry

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October 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

Algeria: The Importance Of The Oil Industry

Introduction

The oil industry is extremely important to Algeria; it provides about 25% of government revenues and 70% of exports. Largely a creation of the French, the industry expanded rapidly in the years immediately following independence in 1962, and, although Algeria has increasingly asserted control over its own oil resources, French interests are still considerable. Probably because of the French role, Algeria received less revenue per barrel of oil produced than any other major producing country in the Middle East and North Africa until 1969. The French/Algerian oil relationship is now under a complete and somewhat contentious review by the two governments.

This memorandum sketches the development of Algeria's oil industry and describes the French role, the changes that have taken place in recent years, and those that are now being negotiated. It discusses the industry's place in the economy and the outlook for the next few years.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

Background

1. In 1970, Algeria will produce about one million barrels a day of crude oil; production has almost doubled in the past six years. French companies produce 70% of the total; US firms 3%; and the Algerian government the remaining 27%. About 60% of Algerian oil exports go to France and the remainder goes mainly to other West European countries (see Figures 1 and 2).

2. Algeria began producing small quantities of oil in 1894, but large-scale output dates only to about 1961. The impetus to develop the industry came from France shortly after World War II when, faced with both a rising demand for fuel and a shortage of foreign exchange, Paris anxiously sought an assured supply of franc-zone oil. Development efforts were concentrated in three companies* formed by the French government, the French administration in Algeria, and private interests. In 1956, Algeria's two major oil areas were located -- Hassi Messaoud in north central Sahara and Edjele on the Libyan border -- and by 1958 they were in limited production. Even today, these two fields produce the bulk of Algerian output.

3. To encourage and support their effort in Algeria, the French enacted the 1958 Saharan Code, which allowed deferring 27.5% of taxable income (if a similar amount was reinvested in the industry), and provided liberal amortization schedules. Because Algeria was then a part of France, its oil export prices to the French market were fixed well above the world average. Initially, crude oil imports from outside the franc areas were limited to the difference between domestic demand and franc-zone supplies (mainly Algerian); subsequently, French refineries were required to buy 55% of the crude oil they refined for domestic consumption from franc-zone suppliers. Exploration permits and producing concessions in Algeria were restricted largely to French companies or companies dominated by French holdings.

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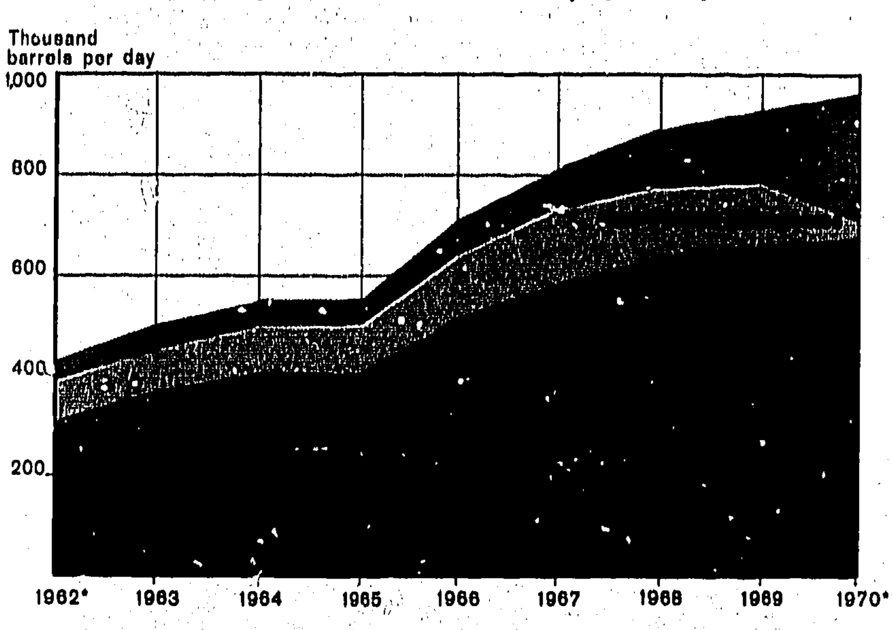
* *Compagnie Française des Pétroles (CFP), Compagnie de Recherches et d'Exploitation des Pétroles en Algerie (CREPS), and S.N. Repal.*

Figure 1

Estimated Algerian Oil Production, by Companies



**SONATRACH production includes state production that was incorporated into SONATRACH when it was created in 1963.*

***Estimated*

[redacted] [redacted]

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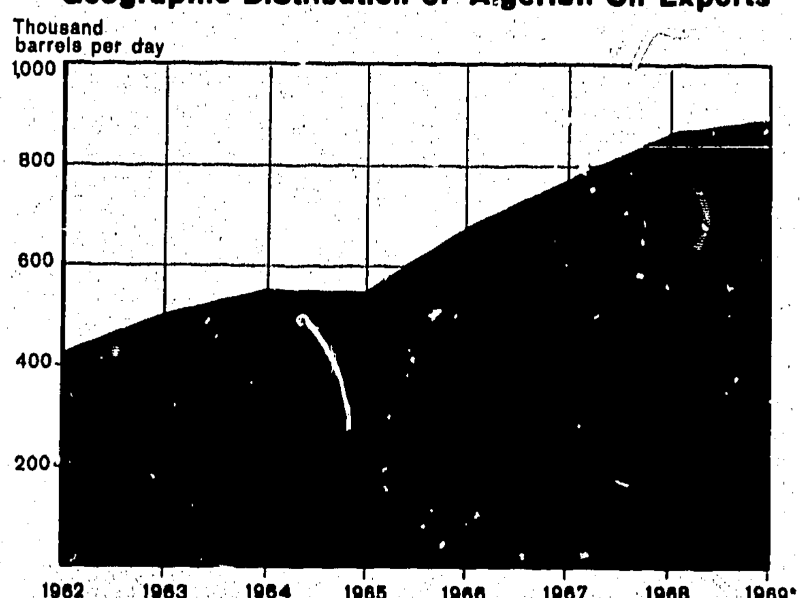
Figure 2

Geographic Distribution of Algerian Oil Exports



**Estimated*

[redacted] [redacted]

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4. Stimulated by these incentives, investment in the Algerian oil industry during 1956-62 totaled more than $1.3 billion (including construction of two pipelines), and output rose from 10,000 barrels per day (b.p.d.) in 1958 to 435,000 b.p.d. in 1962. At independence in 1962, Algeria was supplying almost 40% of French oil imports, and Metropole interests controlled 72% of Algeria's crude oil output.

5. Initially, independence had little impact on French oil interests. Under the Evian Accords, which formalized the transition to Algerian control, Algiers recognized all French-granted exploration and producing concessions, including their terms and conditions, and promised French interests priority in granting new concessions, provided their bids were equal to those of other competitors. An oil policy advisory body (Organisme Sahara), set up with 50% French participation, gave Paris some continuing control over Algerian oil policy. For its part, Algeria would pose no restrictions on profit repatriation, while the French would continue to provide a protected market for Algerian crude oil at high fixed prices. Both countries accepted the 1958 Saharan Code as it applied to tax deferrals, payment of royalties and income taxes, and amortization rates. At independence, Algeria became sole owner of all subsoil minerals and acquired a 41.5% interest in the French company S.N. Repal.

Franco-Algerian Accord of 1965

6. The arrangements agreed to at Evian resulted in relatively low oil revenues for Algeria. The government's share of oil revenues was limited to only about 28 cents a barrel, compared to between 75 cents and 90 cents a barrel in other Middle Eastern and South American countries.* Consequently, the Ben Bella government, faced with economic decline, massive capital outflows, and rapidly increasing government spending, quickly became dissatisfied with the Evian arrangements. Moreover,

* *Unlike other oil producing states, Algeria continued to calculate royalty payments and income taxes using realized oil prices rather than with higher artificial "posted prices."*

anxious to participate more directly in the industry and denied partnership by private firms, Algeria set up its own oil company -- Société National du Transport et de Commercialization des Hydrocarbures (SONATRACH), whose first task was to build a third crude oil pipeline. In 1964 Algeria unilaterally required foreign firms to retain 50% of their gross export earnings in the country.

7. These actions were clear violations of the Evian Accords and led to negotiating the 1965 Oil and Aid Accord, which established the framework for the industry as it exists today. The agreement provided Algeria a larger share of oil industry earnings and both the means and the legal justification for a much greater participation in operating the industry. In summary, the principal changes and provisions embodied in the Accord included:

A tax reference price of $2.08 to calculate royalty payments and income taxes,*

Partial expensing of royalty payments so that the proportion of these payments that could be credited against income tax payments gradually decreased to 45% by 1968,

Raising income tax payments from 50% to 55% of earnings by 1968,

Eliminating the right of companies to defer taxes due,

Rescheduling amortization payments to prevent large and rapid tax writeoffs, and

By increasing the tax reference price, revenues paid directly to the Algerian government were raised. Originally equal to a weighted average of the price of oil marketed in France and elsewhere by French companies, this price subsequently has been raised and now is the subject of heated unilateral demands by Algeria for a major raise. This tax reference price in Algeria serves the same purpose as a "posted price" in nearly all other oil-producing countries.

Creating the 50/50 French-Algerian owned Association Cooperative (ASCOOP) to explore and develop 45 million acres of Algeria's most promising oil land.*

France also agreed to provide $80 million annually to Algeria for five years in loans, grants, and supplier credits.** The forced retention of 50% of gross earnings in Algeria (based on actual export prices) was not formally recognized; French companies nevertheless complied. Although initially this restriction probably impeded repatriation, it no longer poses an impediment, because taxes and local costs exceed 50% of gross earnings. Algerian crude oil was guaranteed continued access to the protected French market, and Paris raised import prices from $2.08 to $2.12 to compensate French firms, at least in part, for the Accord concessions. The practical effect of the Accord was to raise the average return to Algeria per barrel of oil from 31 cents in 1962-64 to 49 cents in 1965 and to foster SONATRACH's rapid expansion.

8. Beginning in 1965, government revenues per barrel have continued to increase rapidly, reaching 98 cents in 1969 for all oil companies and 89 cents for French companies. For French companies the rise in government revenues is attributable to a sharp decline in production costs (see Figure 3). As production increased, fixed cost per barrel declined. In addition, application of the 1965 Accords reduced the high amortization rates that had formerly been a major source of company cash receipts. The fall in production costs was so large (almost 50%) that net company profits actually increased. However, earnings available for repatriation almost certainly declined.

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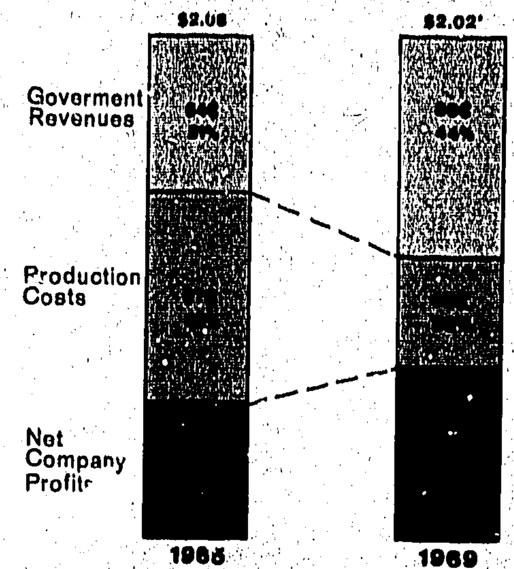
* *Although the ASCOOP territory encompassed all known oilfields, existing production concessions continued to be honored. However, French firms were required to transfer all exploration permits to ASCOOP. French interests in ASCOOP were assigned to the French company SOPEFAL and Algerian interests to SONATRACH. SOPEFAL was to supply 80% of all investment funds expended.*

** *This sum actually represented a decrease in French aid over previous years.*

Figure 3

Disposition of French Company Oil Earnings Per Barrel of Algerian Oil



**The 1969 price is lower than in 1965 because the French companies were selling a large share of oil in non-French markets where prices were lower than in France.*

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9. Assured of large revenues from the dominant French companies, Algeria has been in a strong position to squeeze the other foreign companies. The government has tried to force all non-French producing firms into joint venture arrangements similar to the one negotiated with the Getty Oil Company that called for a tax reference price of $2.21 per barrel, required 75% of gross earnings to be retained in Algeria, and provided for a large investment guarantee by Getty. Despite great pressure, however, none have accepted the Getty formula, and Algeria has reacted by imposing punitive terms and by gradually taking over their assets. Their tax reference price was raised gradually from $2.26 in 1965 to the present $2.65 (far above the price applicable to French companies) and since 1967 they have been required to keep all their earnings in

Algeria. By 1969 all but two of these companies -- Mobil and El Paso Natural Gas Company -- had been nationalized. Thus far, Algeria has not attempted to develop Getty-type joint ventures with French-owned firms. This type of arrangement is preferred by the Algerians, however, and similar demands on French companies are expected in the future.

SONATRACH's Expanding Role

10. In the five years since the Accord was signed, SONATRACH has developed into one of the most important state-owned oil firms in the Arab World. Originally created to build and operate an oil pipeline, this company has since become a major crude oil producer and exporter, a refiner and marketer of petroleum products, and a supplier of services to the petroleum industry. The company now is constructing petrochemical plants and facilities for producing, processing, and exporting natural gas. Some operations the company conducts alone and others are joint ventures with foreign firms.

11. By mid-1970, SONATRACH was producing about 260,000 b.p.d. -- 27% of Algeria's total crude oil output. Under the 1965 Accord, SONATRACH increased its ownership of French-owned S.N. Repal to 50%.* With the outbreak of the Arab-Israeli war in June 1967, non-French firms were placed under Algerian administrative control. In 1968, SONATRACH obtained an 11.5% interest in the Rhourde El Baguel oilfield through a joint venture with the Getty Oil Company, and in 1969 and 1970 it acquired a further 28% of the Rhourde El Baguel field with the takeover of the assets of Sinclair, Shell, Phillips, Amif (Italian), and Elwerath (German). Thus most of SONATRACH's present crude oil production was obtained through negotiation and by nationalization and little by developing its own production, although it has made several small discoveries in the ASCOOP zone.

* *Under the Evian Accord, Algiers was given a 41.5% share of the French-owned S.N. Repal. The 1965 Accord increased this share by 8.5% to a total of 50%.*

12. Since 1965, pipeline construction and operation has come preponderantly under Algerian control. Of the three pipelines now operating, SONATRACH built one and owns part of the other two. By nationalizing non-French companies, the state oil company acquired 25% of Sopeg's Hassi Messaoud-Arzew Pipeline and 35% of the Trapsa Pipeline through Tunisia. SONATRACH now is building a pipeline from Mesdar to the port of Skikda which will give the company 70% ownership of the country's pipeline capacity.

13. By roughly the same route, SONATRACH has become the major owner of Algeria's sole refinery at Algiers, which has a capacity of 51,000 b.p.d. Under the 1965 Accord, SONATRACH's interest, through its share in S.N. Repal assets, was increased to 10%. Nationalizing Esso and Mobil's interests in 1967 increased the state company's share to 44% and to 68% in 1970 when Shell's interest was taken over. As a parallel development, domestic marketing came under SONATRACH's complete control. By buying out British Petroleum and nationalizing Mobil and Esso assets in 1967, Algeria acquired 42% of all marketing activity, and the remainder was obtained in 1968 when Shell and 13 small French companies were taken over.

14. Government participation in the petroleum services industry has been almost entirely through joint ventures with foreign companies in which SONATRACH normally holds 51%. Since 1965, there have been at least eight partnerships with Western firms (see Figure 4) to provide technical assistance in general exploration, including seismic surveying, and drilling operations. Some specialized services also are provided in producing and marketing oil. Services provided by these joint companies are used by SONATRACH itself, other companies operating in Algeria, and even by companies abroad.

15. SONATRACH's technical competence is quite high, largely because the company employs so many foreigners. Since 1965, the US consultant firms [redacted] have maintained advisory staffs in Algiers, and technical 25X1

Figure 4

JOINT VENTURES IN WHICH SONATRACH PARTICIPATES

A. Exploration and Production Ventures

ASCOOP*
52.5% SONATRACH
47.5% SOPEFAL (French)

SONAGET
51% SONATRACH
49% Getty Oil Co. (US)

B. Service Companies

ALTRA (Exploration-drilling)
51% SONATRACH
49% Forex (French)

ALCORE (Geologic Surveying Analysis)
51% SONATRACH
49% Core Laboratory, Inc. (US)

ALGEO (Exploration)
51% SONATRACH
49% Independex Exploration Co. (US)

ALFOR (Drilling Co.)
51% SONATRACH
49% Southeastern Drilling Co. (US)

ALFLUID (Drilling Additive Producer)
51% SONATRACH
49% Davis Mud & Chemical, Inc. (US)

ALRGEL (Geographic studies)
51% SONATRACH
49% Globe Universal Service, Inc.

ALTEST (Well Analysis)
51% SONATRACH
49% Baker Tools, Inc. (US)

Unnamed New Firm (Exploration & Drilling)
51% SONATRACH
49% Dresser Industries, Inc.

experts have been hired from the West or accepted from the USSR and East European countries. The Algerians view technical cooperation with French and US companies as very valuable. Soviet and Eastern European technical influence, however, has been relatively small, and the Algerians generally consider their methods out-of-date and their equipment poorly built.

16. Algeria has gained considerable prestige in Arab oil circles and now is providing some services to state oil companies in Libya, Syria, and South Arabia.* Under the 1970 agreement with Libya, the two countries will create a joint exploration company and coordinate their policies with the foreign oil companies. Algeria is now training 50 Libyan technicians and is believed to be partly responsible for advising the Libyans and Nigerians on negotiation techniques with Western oil companies. Aid to Yemen and Syria consists of exploration work.

The Importance of Oil

17. The oil industry has been by far the most dynamic growth sector since independence. Except in 1965 and 1969 when growth was impeded by pipeline bottlenecks, production has risen steadily since the first wells came on stream in 1958. Since 1962, output has grown an average annual rate of 11.5%. In 1969, exports were valued at about $600 million f.o.b. Algerian ports,** and output reached a record 930,000 b.p.d. In the early post-independence years -- before the Franco-Algerian Accord and the Boumediene government in 1965 -- while oil revenues were small (see Table 1), they were the only growing source of government revenue and foreign exchange. GNP was declining because of a massive flight of private capital and French nationals as well as the lack of coherent Algerian leadership and administration.

* *More recently, Nigeria has sought SONATRACH's advice.*

** *Based on a weighted average of French and non-French prices in 1969. The weighted average price is about $1.95 per barrel ($2.16 to France and about $1.65 elsewhere).*

Table 1

Government Oil Revenues a/

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Government oil revenues (million US $)	18.4 b/	33.6 b/	43.9 b/	49.5	59.0	89.4	126.0	176.0	222.5	280.0 b/
Production c/ (million barrels)	66.3	121.1	141.9	163.9 b/	181.8 b/	182.5 b/	233.2 b/	264.6 b/	284.3	284.6
Government revenues per barrel (cents) d/	28 b/	28 b/	31 b/	30 b/	32 b/	49 b/	54 b/	67 b/	78	98 b/

a. Government tax revenues, including income taxes, royalties, and pipeline transportation taxes but excluding contributions by SONATRACH to the central government.
b. Estimated.
c. Total production minus SONATRACH production.
d. Not adjusted for arrearages.

18. Since the 1965 Oil Accord with France, government oil revenues have risen rapidly (see Table 2) and have been the principal engine of economic growth. The deterioration was halted in agriculture, government administration improved, and since 1968 GNP has been growing about 6% a year. With investment spending still low, although recently increasing, and with rigid import controls imposed in 1967, foreign exchange reserves accumulated rapidly -- by the end of 1969 they totaled about $600 million.

19. Anticipating further increases in oil revenues, the government undertook an ambitious new four-year development program in 1970. To ensure adequate financing of the plan, Algeria is attempting to increase oil output significantly, to obtain a major increase in oil tax payments, and to force the oil companies to retain a very high proportion of their gross foreign exchange receipts in Algeria.

20. Algeria's need for increased earnings from the oil sector to finance planned investment goals without foreign borrowing or drawdown of reserves is clear. We estimate that during 1970-74 non-oil exports will total about $1.3 billion and remittances from Algerians abroad about $0.7 billion, or a total of $2.0 billion, and that imports will total about $4.7 billion.* The shortfall to be filled by the oil industry is thus about $2.7 billion.**

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* *A detailed estimate of the probable balance of payments is beyond the scope of this memorandum. The impact of the relatively small items such as services, tourism, and private capital movements that are not considered, however, probably would be less than the margin of error in the estimate of the major items.*

** *Foreign exchange earnings from the sale of gas (included in estimates of non-oil exports) will not rise significantly until 1973. Algeria is now exporting about 1.5 billion cubic feet of liquefied natural gas a year, with a value of about $30 million. El Paso Natural Gas Company (a US firm) has contracted to buy 10 million cubic feet a year, beginning in 1973, and France will take an additional 3.5 billion cubic feet a year, starting in 1975.*

Table 2

Oil and the Algerian Economy

Year	Production a/ (Thousand Barrels per Day)	Crude Oil Exports as a Percent of Export Earnings	Oil Revenues as a Percent of Government Revenues b/
1958	10	2	N.A.
1959	25	N.A.	N.A.
1960	180	N.A.	N.A.
1961	335	45	N.A.
1962	435	50	N.A.
1963	500	58	11
1964	555	52	11
1965	555	61	16
1966	710	65	18
1967	815	73	23
1968	895	71	24
1969	930	71 c/	N.A.

a. Data are rounded to the nearest five thousand barrels.
b. Petroleum tax and royalty revenues from oil (excluding transfers by SONATRACH) as a percent of ordinary government revenues.
c. IMF estimate.

21. Algeria hopes to finance the payment gap by increasing oil output from 930,000 b.p.d. in 1969 to 1.380 million b.p.d. in 1973 -- an average annual increase of about 10%. If present marketing patterns, price structure, and level of repatriation of earnings* by the foreign-owned oil companies remain unchanged, the planned increased production would provide Algeria with a total of about $2.2 billion in foreign exchange during 1970-73, or $500 million less than is needed to finance development plan imports. Algeria could, of course, make up the difference by foreign aid or a drawdown of reserves. However, the government obviously would prefer the oil industry to meet the bill.

22. Increased oil output of 10% per year is far from certain, however. Present plans call for increasing output from Hassi Messaoud from 420,000 b.p.d. in 1969 to 640,000 b.p.d. in 1973 and from all other fields from 510,000 b.p.d. to 740,000 b.p.d. SONATRACH is also counting on some production from new fields not yet being exploited or even completely explored. French oil experts doubt that output from existing fields can increase as rapidly as the Algerians expect if "good production practices" are followed. French companies also balk at increasing exploration investment, ostensibly because they claim that prospects for discovering large additional reserves are poor, but perhaps also because they see Algerian harassment of non-French companies as likely eventually to be extended to them.

23. The Algerians have turned to the USSR for advice and have been assured that the production plans are reasonable. Soviet technicians assert that Hassi Messaoud production alone could be raised to 851,000 b.p.d. -- or 30% more than

* *Algeria now retains about $1.20 a barrel in foreign exchange from French companies' oil exports. A 10% annual growth in oil output could provide $2.2 billion in foreign exchange and leave a deficit of $500 million. A 7% annual growth in oil output, which is the more likely, would provide $2.0 billion in foreign exchange and a deficit of $700 million.*

current plans call for -- by increasing the number of wells from 250 to 1,000 and by pumping sea water into the deposit. French engineers disputing the Soviet claims insist not only that the additional costs would not be justified by increased earnings but that a large portion of the underground reserves might be lost forever.* Nevertheless, the Algerians have awarded the USSR a contract to expand output in this field rapidly.

24. In any case, pipeline capacity clearly is the main constraint to major increases in production. Algeria's three existing pipelines are already operating at close to capacity -- about 980,000 b.p.d. in 1970. There will be no new capacity until late in 1971 when one pipeline with an initial capacity of 220,000 b.p.d. and a 40,000 b.p.d. increase in the Sopeg line will become available. This expansion will increase Algeria's pipeline capacity by 26% compared with that of 1970 and will allow output to reach about 1,250,000 b.p.d. -- the equivalent of about a 7% annual average increase during the four-year-plan period 1970-73 compared with the 10% the plan calls for.

Squeezing the Oil Companies

25. Partly because of problems in increasing production and the pressing need for increased government oil revenues to meet both current and development expenditures, Algeria has been demanding the industry pay higher taxes and retain more of its foreign exchange receipts in the country. During a preliminary review of the 1965 Oil Accord in 1969, Algeria demanded the French raise the tax reference price from $2.08 to $2.65 a barrel. When Paris refused and suspended discussions in 1970, Algiers unilaterally set the tax reference price at $2.85 per barrel. Moreover, in July 1970

* *Water injection procedures used in the USSR's major producing area (Urals-Volga area) have caused an estimated 40% reduction in recoverable reserves because centrally injected columns of water have effectively compartmentalized individual fields, blocking off previously recoverable oil.*

Algeria ordered that French companies retain in Algeria $1.80 per barrel of gross oil export earnings. In retrospect these moves clearly were more a bargaining ploy than a fiat, and implementing the edicts has been postponed pending the complete review of the 1965 French-Algerian Accord.

26. With a tax reference price of $2.65 a barrel and earnings retention in Algeria of $1.80 a barrel, French companies could still make a small profit from Algerian operations at 1969 prices. A tax reference price of $2.65 with current operating costs would provide the French companies a profit of about 36 cents a barrel. However, only about 60% of this sum could be repatriated if $1.80 per barrel of earnings stays in Algeria. Moreover, the profit would be attributable entirely to the French government subsidy implied in the high French import price for Algerian oil. French sales to other markets at going prices would be unprofitable because these prices are some 50 cents per barrel lower than in France.

Some Revenue Projections

27. Algeria's ability to finance its import requirements during the plan period (1970-73) will depend primarily on the rate of growth of oil production, the preferential treatment of Algerian oil in the French market, and the share of oil earnings retained in Algeria. The implications for Algeria's balance of payments of alternative assumptions for these factors are shown in Table 3. If French companies continue operations and accept retention in Algeria of $1.80 per barrel of crude oil,* Algerian oil revenue will about cover the non-oil payments deficit, even if oil output grows only 7% rather than the planned 10%. Repatriated earnings would be very small -- only 10% of total export earnings -- unless the French government raised the French import price of Algerian oil. These conditions -- the current Algerian demand on the French companies -- appear to define the upper limit of Algeria's possible earnings from oil. New, less onerous Algerian proposals probably will be forthcoming.

* *This condition would control Algeria's balance-of-payments earnings if the tax reference price were raised even beyond $2.65 a barrel.*

Table 3

Balance-of-Payments Effects of Alternative Oil Revenue Projections
1970-73

Billion US $

	Under Recent Algerian Demands		Under Nationalization	
	7% Growth Rate a/	10% Growth Rate a/	7% Growth Rate a/	10% Growth Rate a/
Gross oil export revenues	2.99 b/	3.24 b/	2.54 c/	2.75 c/
Repatriated earnings	-0.29 d/	-0.31 d/	-	-
Earnings retained in Algeria	2.70 e/	2.93 e/	2.54	2.75
Deficit, excluding oil f/	-2.70	-2.70	-2.70	-2.70
Balance g/	0	0.23	-0.16	0.05

a. Based on an average annual rate of growth for the production of crude oil.
b. Average prices of $2.16 per barrel in France and $1.85 elsewhere are assumed. These are average 1969 prices. Prices have risen in 1970 because of reduced supplies from Mediterranean sources and higher tanker rates, but how long these conditions will continue is uncertain.
c. Preferential treatment in French market assumed to have ceased. All sales at $1.65 per barrel.
d. If $1.80 per barrel is retained in Algeria.
e. Residual in gross oil export revenue.
f. CIA projection (see paragraphs 19-22).
g. Net Algerian balance of payments.

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28. If the French companies do not accept Algerian demands, nationalization is an option available to the Algerian government. Under nationalization and with no compensation, Algeria could keep all of the earnings from oil exports. This gain, however, would be much more than offset by the (almost certain) loss of the price preference in the French market, and Algerian retained earnings would be almost 6% smaller than in the case described above. International payments would approximately balance with oil production growing at the planned 10%, but there would be a substantial deficit of almost $200 million in the four-year period if the growth of output is only 7%. Algeria would be able to cope with even this situation without recourse to foreign borrowing because its foreign reserves are about $600 million.

29. With retained oil revenues in Algeria anywhere near the magnitude demanded by the Algerians, tax receipts would be no problem. The Algerian initial demand for a tax reference price hike to $2.65 per barrel for French companies would more than cover government revenue needs. Even a tax reference price of $2.45 per barrel would be more than sufficient given at least a 7% annual expansion in oil production.

Conclusions

30. Although results of the current French-Algerian oil negotiations cannot be predicted in detail, mutual dependency will probably preclude nationalization of the French oil companies during the next few years. France buys 60% of Algerian oil exports while Algeria supplies France with 30% of its crude oil imports. Neither side has any desire to interrupt this trade. Beyond this the French provide preferential prices -- oil exports to France are now worth some $260 million a year to Algeria -- as well as some $100 million a year in direct economic aid. The Algerians offer France no such advantages, but the two major French oil companies depend largely on Algeria for their oil supply and have most of their assets in Algeria.

31. With oil and fuel generally in short supply the world over, the Algerians are in an especially good position to improve the terms of their agreements with the French oil companies. A substantial rise in Algerian earnings per barrel, however, is likely to eventually discourage French oil company investments and to lead to nationalization unless the French government cooperates by increasing the price preference for Algerian oil or through some other form of subsidy. Thus the oil issue will be negotiated as part of the broader framework of French-Algerian relations.