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Algeria & Morocco: Natural Gas Cartels, Fertilizer Mercantilism, and Rising Tensions

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Algeria is one of the world's most important oil and gas exporters. Morocco has no significant oil and gas production, but has about 2/3 of the world's rock phosphate reserves, a critical component in global fertilizer supply that increased 300% in price in the past year (.pdf) and may peak alongside global oil production. The two nations have historically been at odds, especially over the phosphate-rich territory of Western Sahara. Now, more than ever, their exports are critical to the energy and food supplies of the world. Alongside increasing importance, tensions between the two are on the rise as the US and Russia provoke the situation with massive opposing arms deals and bi-lateral trade agreements. This article will look at the forces behind these rising tensions and consider issues of fertilizer mercantilism, infrastructure vulnerability, and the potential formation of a natural gas cartel.

Will Demand for Gas & Fertilizer Bring New Conflict to Morocco & Algeria?

Country Briefs:

Algeria: Algeria is an important exporter of both oil and natural gas (background .ppt on NG supplies to Europe). Algeria is Europe's third largest supplier of natural gas, providing 30+ bcm via pipelines and 20+ bcm via LNG tanker in 2007. Major projects are currently underway to expand pipeline infrastructure to Italy (via Tunisia) and to Spain (both direct undersea and via Morocco), and to expand LNG export capability. Algeria hopes to expand total natural gas exports to 85 bcm/year by 2010, making their production roughly the equivalent of Norway (Europe's 2nd largest provider). Significantly, the potential to expand natural gas supplies to Europe enhances Algeria's importance as an alternative supplier in light of current dependence on uncertain Russian gas supplies. Algeria also faces an active Islamist insurgency, a separate threat from the rising al-Qa'ida in the Land of the Islamic Maghreb, and serious demographic challenges in the form of a 1.22% population growth rate (graph) and sharp ethnic divisions (map).

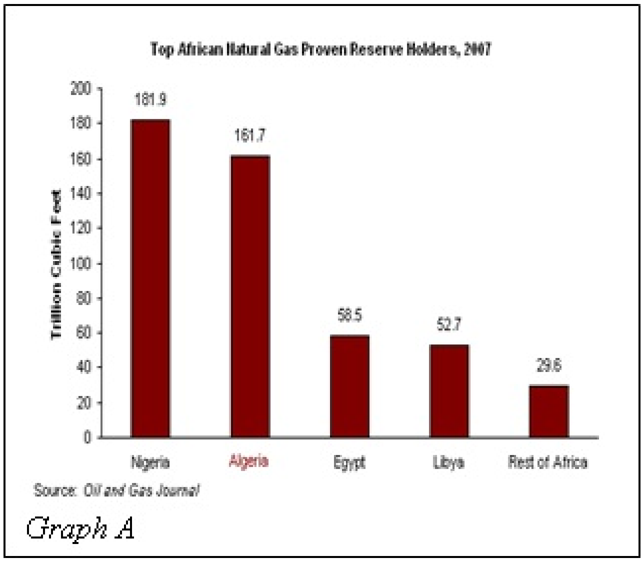

Figure 1: Algeria's Place Among African Natural Gas Reserves

Morocco: Morocco's importance to the global economy is due to its control of at least 2/3 of the world's reserves of rock phosphate. The USGS has stated that there are no substitutes (.pdf) for rock phosphate in agriculture. With biofuel demand increasing steadily, and world food shortages hitting the headlines, rock phosphate is arguably as important to the world situation as oil supply. Importantly, Patrick Dery has performed a Hubbert Lineraization on world phosphorus production and estimates that we have already passed peak phosphorus (see graph below). While the importance of rock phosphate has been discussed here before, its impact on the situation between Morocco and Algeria has not. Additionally, fertilizer supplies are a critical component of many biofuel projects, creating an interrelationship between phosphate and energy supplies. Like Algeria, Morocco faces an internal Islamist insurgency (though currently less troublesome than in Algeria) and has significant demographic challenges with a population growth rate of 1.6% (graph) and sharp ethnic divides (map).

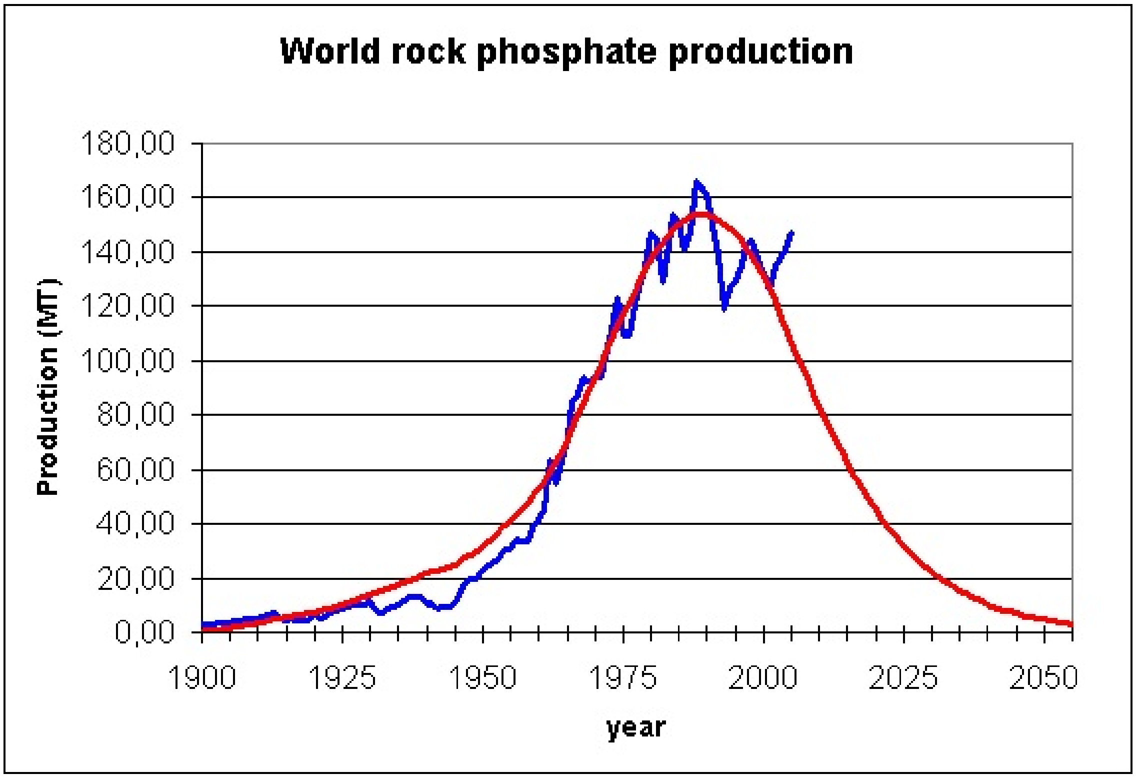

Figure 2: Peak Phosphorus? A Hubbert Lineraization of Global Phosphate Production

Tensions: The Sand War, Western Sahara, and Islamist Insurgencies

There are several sources of tension between Morocco and Algeria. The two states fought the Sand War from 1963-64 over a mineral-rich border territory. In 1975, when Morocco took control of Western Sahara, Algeria began overtly backing the Polisario Front in an ongoing insurgency that continued unchecked until a 1991 cease fire. Both states also suffer from internal Islamist insurgencies, exacerbated by increasing demographic problems. The situation in Algeria is most severe: after independence from France, the revolutionary National Liberation Front ruled the country until Islamists won the first free elections in 1991, prompting the military to immediately seize control. More than 160,000 people were killed in the ensuing civil war between 1992 and 2002. While the country is relatively peaceful today, factions of the Islamist rebels have remained, operating out of rural regions inside the Malian border and elsewhere in the Sahara, and have recently merged with al-Qa'ida to form AQIM (al-Qa'ida in the Land of the Islamic Maghreb). The group has recently carried out several attacks in Algeria, including the April 11 2007 Algiers Bombing, the December 11 2007 Algiers bombing, the 2007 Batna bombing, and the 2007 Dellys bombing, as well as being possibly involved in the 2007 Casablanca bombing in Morocco. The pace of attacks has not slowed, with at least five bombings in the last two months alone.

Infrastructure Targeting?

While Algerian Islamists have generally mirrored target selection of Islamist groups elsewhere, one attack in December, 2006, specifically targeted Haliburton workers in Algeria. This tactic, of targeting critical infrastructure and energy industries, has been increasing around the world as non-state groups everywhere realize that they can maximize their return on investment with these targets. With rising internal threats and state sponsored proxy conflicts, and the potential for direct state military attacks no longer too remote to consider, it is concerning that both Algeria and Morocco present some extremely high ROI energy and resource infrastructure targets:

- Morocco: The Fosbucraa Conveyor, the world's longest conveyor belt, transporting phosphates from the world's largest phosphate mine at Bou Kra 100km to the port of el Aioun. The conveyor was successfully attacked several times by the Polisario Front. Here's a satellite image.

- Algerian pipelines & LNG infrastructure: Algeria is chock full of high-vulnerability, high-consequence targets. Algeria recently signed a 100 million euro contract with French defense firm Thales to secure oil and gas pipelines. With 16,200 km of major pipelines to protect in Algeria alone (and scheduled to increase to 21,000 km by 2010), the task is daunting. Additionally, two potential future infrastructure projects may represent appealing targets. The proposed Trans-Saharan natural gas pipeline, that would deliver Nigerian natural gas to Europe via a 4,550 km pipeline, would represent a lengthy and vulnerable target to multiple groups if it is ever built (construction is "penciled in" to start in 2015). Additionally, speculative plans (such as the Trans-Mediterranean Renewable Energy Cooperative, or TREC) to leverage high solar insolation in the Sahara to generate electricity for Europe would require huge transmission infrastructure that would be both highly vulnerable and highly attractive. Neither the Trans-Saharan pipeline nor TREC is in any danger of being built in the immediate future.

Thoughts on the Future: Proxy Wars & Proxy Mercantilism

Recently, the fragile 1991 cease fire agreement with the Western Saharan Polisario Front has become increasingly unstable. Complicating the situation with Western Sahara, French President Sarkozy announced his support to Morocco's decision to postpone indefinitely the self-determination referendum promised in the 1991 accord, along with increased Algerian support to Polisario leadership. All this comes against a backdrop of rising military tensions between Morocco and Algeria. In 2008, the US doubled military aide to Morocco and announced arms deals worth billions of dollars. At the same time, various sources confirmed that Russian concluded a $7.5 billion deal to provide advanced arms to Algeria.

Is there any deeper meaning behind these moves? At least two possibilities must be considered. The first is proxy-mercantilism by the United States to secure control of phosphate supplies. In 2004, the US entered into a bi-lateral free trade agreement with Morocco. This can be explained as a natural extension of the long history of economic and military cooperation between the US and Morocco, but in light of proposed biofuel programs, skyrocketing rock phosphate prices, potentially peaking phosphate production, and mercantilist moves by other great powers, the more nefarious possibilities must be considered. The second possibility is that Russia hopes to leverage increased influence with Algeria to exert greater influence in global natural gas markets. Because Algeria is one of Western Europe's few true alternatives to Russian natural gas supplies, especially given the prospect of sharp increases in Algerian natural gas exports, Algeria represents either a threat to Russian natural gas leverage, or a great enhancement of that leverage by entering a defacto gas cartel. At a minimum, we know that Russia and Algeria are actively engaged in talks on this topic. Also, a recent offer by Gazprom to buy all of Libya's additional oil and gas production supports this suggestions that Russia hopes to control Europe's alternative sources of natural gas.

Both notions of phosphate mercantilism and a gas cartel are merely informed speculation at this point, but the stakes are so high that these possibilities must be considered. While there may be no deeper motive behind recent moves with Morocco and Algeria, at a minimum the stakes and tensions are increasing. Because both Algeria and Morocco are fragile Nation-States, with active Islamist separatist movements, significant internal terrorist threats, and complicated ethnic/territorial problems, the potential for interruption in critical exports of phosphate, oil, and gas is increasing.