

In Egypt, gas has replaced oil as the primary driver for the energy sector. Gas production grew by more than 50% from 2005 to 2006. The country started exporting LNG in 2005, and is planning gas pipelines to Israel, Syria, Turkey, and Lebanon, and eventually these will stretch to Europe. *Photograph by Jasenka Luksa, provided by Dreamstime.com, June 2007.*

Inward investment needed for infrastructure

The great strides made in recent years by North Africa as a region have fostered an environment suitable for increased foreign investment. With Libya coming in from the cold and Algeria largely containing its civil conflict, perceived risk in the region has reached a recent low. However, countries in the region need to continue their efforts to upgrade the local regulatory regime and keep to long term privatisation programmes if the foreign investment community is to participate in future growth over the long term. Right now, the news is positive. Spurred on by stable economic growth of roughly 4% per annum over the past 8 years, infrastructure development in North Africa is speeding forward at an ever increasing pace. Sectors that are in need of investment include: oil and gas, power, tourism, and transportation. Upgrades of existing infrastructure as well as the building of new facilities are critical to support continued growth. Yi-Chun (Lydia) Liu and William Clark of Taylor-DeJongh, outline the opportunities.

POWER IS A key sector for inward investment in the North African region. Certainly, the need for inflows of new investment dollars remains high, particularly as energy demand in North Africa is expected to increase dramatically over the next decade. According to the International Energy Agency's (IEA's) *World Energy Outlook 2006*, North Africa will require \$154bn in investment in generating capacity to meet demand by 2030.

Each of the North African countries has its own particular requirements. In Morocco, for example, two power plants, Cap Ghir and Al-Wahda, are slated for construction in the coming years. However, Morocco continues to face uncertainty over the availability of feedstock to power both current and future supply. The country's lack of indigenous hydrocarbon resources means it has to import a large percentage of its power feedstock. Moreover, a lack of improvement in relations with neighbouring gas-rich Algeria has forced the Moroccan government in Rabat to seek out alternative sources of power. Some of these sources, such as plans to import LNG via a planned regasification terminal and additional developments in the renewables sector, could be costly. Some \$280m has been invested to date in the country, with the establishment of a 140-MW wind park with 165 turbines. Additionally, the World Bank has provided \$43.2m to build a thermo-solar plant by 2012 with capacity of 472 MW, of which 20 MW will be generated from solar energy.

Tunisia, meanwhile, is also looking to renewable power to augment its portfolio of traditional plants. It has already established one wind farm, in Hawariya. This will be complemented by additional farms in the north with a total capacity of up to 120 MW, to be built under a build-operate-transfer (BOT) project plan, with state utility STEG retaining a shareholding in the overall project, says *MEED*, the specialist Middle Eastern newsletter. Furthermore, two additional power projects are in development: a 1200-MW plant in El-Haouaria and a 400-MW plant at Ghannouch.

Libya is perhaps the largest growth market in the North African power sector, with at least five planned greenfield and expansion projects in the pipeline. In addition, the Libyan government has mentioned potential collaboration with the United States over the development of a nuclear power plant in the near future. US officials, however, have not provided support for the plan.

Oil and Gas

In Libya the Iran Libya Sanctions Act (ILSA) prevented until only very recently the government-run oil industry from importing new equipment, infrastructure, and technology. However, rapprochement between Libya and the West has eased the situation and now the government is seeking in the region of \$30bn from foreign investors to upgrade the oil infrastructure by 2015. Libya's National Oil Corporation (NOC) announced that modernisation of the most urgent downstream infrastructure, including petrochemicals plants, refineries, and fertilizer plants, would require an investment of between \$9bn and \$18bn. International oil companies are keen to expand their operations in Libya, mainly because of the extremely attractive low cost of oil recovery. According to some reports, Libya would need at least 40 oil rigs over the next ten years to support the exploration programmes of international oil majors anxious to work in the country.

While Libya is looking upstream, Tunisia is focusing on the downstream oil and gas sector, in an effort to meet rising demand for refined products. Most recently, Tunisia has awarded a 30-year concession for its second oil refinery, which is expected to cost about \$1.5bn, with a minimum capacity of 120,000 b/d. The refinery is scheduled to finish construction in 2010.

In Egypt, gas has replaced oil as the primary driver for the energy sector. Gas production grew by more than 50% from 2005 to 2006. The country started exporting LNG in 2005, and is planning gas pipelines to Israel, Syria, Turkey, and Lebanon, and eventually these will stretch to Europe. Domestic demand for gas has also grown rapidly. In large part this is a result of the government's efforts to encourage the use of gas for domestic electricity generation. All oil-fired power plants in the country have been converted to be able to also utilise natural gas, which now fuels 85% of Egypt's power generation. However, it remains to be seen whether these projects are feasible over the long term, given the apparent shortage of gas in Egypt.

In terms of gas, Algeria invariably dominates the headlines. Among the current crop of projects is the pending announcement of the engineering, procurements, and construction (EPC) contractor selection for the \$5bn Gassi Touil LNG project (Algeria's first LNG project involving

foreign partners Repsol and Gas Natural through Stream, their joint venture), which is expected to come online in 2009. Multiple upstream tenders have also been announced recently. In mid June, the European Union announced that imports of Algerian gas could increase by 23.5bn cubic metres a year by 2010 once the country's infrastructure projects are completed. Algeria is the third largest supplier of gas to the EU. In 2005, Algeria exported more than 55bn cubic metres a year, representing 19.1% of the EU's gas imports. It could increase its exports to 78.5bn cubic metres, with new gas coming through two new pipelines: Medgaz, which would connect Algeria to Almeria on the south-east coast of Spain, and Galsi, connecting Algeria to Cagliari, Sardinia. A project to increase the capacity of an existing pipeline which links Algeria and Italy through Tunisia could add 7.5 billion cubic meters a year to current supplies.

Tourism

Though Egypt continues to maintain a strong position as the leading tourist destination in North Africa, it is Morocco that has attracted the most attention recently, with its \$3.5bn Plan d'Azur project. The government has an ambitious programme of upgrading the country's coast and tourism sector, with the aim of attracting 10m tourists by 2010, a 70% increase over 2005 figures. With a large number of tourist developments being planned, it is not hard to imagine the government reaching this goal. The government is awarding six separate development projects, five of which have been laid out already. The current projects under development call for construction of numerous hotels, adding 20,000 beds to Morocco's tourist capacity. The latest deal to be signed is a \$2.4bn project in the Atlantic city of El Jadida, 200km south of Rabat.

To help promote its own tourism industry, Egypt signed 11 bilateral agreements and memorandums with China in June 2006. Egypt will export oil and gas to China, and in exchange China will promote Egypt as a tourist destination. The agreements also involved Chinese investments in Egypt, in sectors including cement, manufacturing, energy, and construction materials. In Libya, the newly established General Tourism Authority has proposed a budget of \$70m to modernise tourism infrastructure, with an ambitious target to boost capacity to accommodate 1m visitors per year by 2015, nearly an eightfold increase over 2006.

Transportation

Ambitious targets for economic growth and massive investment in the infrastructure sector will require equally ambitious upgrades and additions to the existing transportation networks — roads, rail, airports, and shipping



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ports — in North Africa. As such, each of the regions' governments has unveiled multi-billion dollar expansions of existing rail and metro lines and the redevelopment of major airports and shipping ports. Cairo is set to expand Port Said by some 87 sq km, and to create a new high-speed rail link between Borg el-Arab Airport and Alexandria. Further, Egypt's transport minister recently approved a comprehensive five-year plan to reform the national rail system. In Libya, the government will invest roughly \$1.5bn to upgrade all of the country's airports. In Morocco, the \$2.5bn Tangier-Agadir rail link is set to be complete in 2015, and a contract to design the \$1.2bn Settat-Marrakech link was awarded to Systra of France this past February. Tunis will spend \$450m on a new airport in Enfidha and \$750m to \$900m on a new container terminal at the deepwater port at Enfidha.

Privatisation

Though Egypt's economic reform programme began some 16 years ago, the pace of privatisation has picked up tremendously in the last three years, and the region's other governments are seeking to keep up. In Egypt, private investment averaged 58% of total investment between 2000 and 2005, with the main focus on transportation and communication (18%), oil and gas (15%), manufacturing (15%), and the social sector (15%). Foreign investment, in particular, has shifted focus from oil to other sectors such as gas, construction, and communication. According to OECD statistics, FDI surged from \$435m in 2003-04 to \$9.1bn in 2005-06, driven mainly by the doubling of US investments from \$2.04bn in 2004-05 to \$4.55bn in 2005-06. Morocco's privatisation reforms span multiple sectors, including telecommunications, transportation, power, and aviation. Most recently, the national shipping company, Comanav, was sold off to the French firm CMA CGM for Dh2.25bn (\$256m) in 2007.

Libya has gradually opened up to foreign investment, but unemployment pressures are forcing the government to impose stricter new policies for foreign workers, including levying taxes and forcing Arab workers from neighboring countries to apply for visas. However, with around \$40bn planned for investments in the infrastructure sector, including an ambitious plan to redesign Tripoli, the Libyan government will no doubt require extensive private sector involvement into the future.

Algeria's president has hampered policy /regulatory reform in the country's privatisation progress. The hydrocarbon bill, amended in the summer of 2006, imposed a windfall tax on international oil company profits when oil prices exceed \$30 per barrel. Moreover, effective January 2007, state-owned-enterprises (SOEs) are guaranteed at least 51% ownership of all joint ventures. In telecoms, investors are continuing to push the Algerian government to complete the long delayed \$3bn partial privatisation of Algerie Telecom, though it is expected to now go forward in summer 2007.

Private Equity

As the private sector's role in the development of North Africa's infrastructure sector continues to increase, so too will the role of private banks and investment funds in the financings of new projects. Developers from the Gulf have already announced the plan to invest \$14bn in North Africa over the next 10 years.

In Morocco, Gulf-based real estate developers have announced plans to invest billions in property developments across the country, primarily for tourist and residential complexes. Bahrain-based Gulf Finance House alone intends to invest \$1.4bn in Moroccan tourism development. In Libya, the US-based Phoenicia Group launched the country's first private equity fund in early 2007. The new fund, Libu Capital, is seeking to raise \$75m to \$90m in capital, half of which is expected to come from Gulf investors. Taureg Capital of the Cayman Islands plans to raise \$100m for a new Libya Fund, which will invest across many of the infrastructure sub-sectors.

Even the Libyan government is considering using private finance for the first time: Tripoli is believed to have set up a committee to consider the development of independent power projects (IPP) and independent water and power projects (IWPP).

In addition to the privatisation of existing state-owned assets, North African governments are encouraging private sector investment in and development of new, massive infrastructure projects, seeking to expand their country's transportation networks to support a growing economy and tourism industry. Cairo and Tunis have both initiated multi-billion dollar expansions of existing rail and metro lines and the redevelopment of major airports and shipping ports.