INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO
COMPAGNIE ALGERIENNE DU METHANE LIQUIDE

April 29, 1964
1. I submit the following report and recommendations on a proposed loan of $20.5 million equivalent to the Compagnie Algérienne du Méthane Liquide (CAMEL) to assist in financing the construction of a natural gas liquefaction plant at the port of Arzew, Algeria.

**PART I - HISTORICAL**


3. Shortly after negotiations were substantially completed, the Algerian Government made known its desire to become a shareholder of CAMEL. The agreement with existing shareholders, under which the government-owned Caisse Algérienne de Développement (CAD) subscribed to 20% of the capital stock, became effective in February 1964.

4. In view of the time which had elapsed since the field appraisal and of the fact that a substantial increase in costs had intervened, Bank staff returned to Paris and Arzew for a few days in January 1964 to review the project and financing plan.

5. The proposed loan would be the first operation of the Bank in Algeria since independence. Prior to independence, the Bank had made two loans in Algeria, with the guarantee of France, amounting to $50 million. As of March 31, 1964, the status of these loans was as follows:
A report, "Appraisal of the Compagnie Algérienne du Méthane Liquide (CAMEL) - Liquid Natural Gas Project" (TO-370t), dated April 21, 1964, is attached (No. 1).

The project consists of the construction and operation of a gas liquefaction plant with a capacity to store and load into tankers 2.4 million cubic meters of liquefied natural gas (LNG) a year. The natural gas will be supplied by pipeline from the Hassi R'Mel gas field, the recoverable reserves of which are estimated at some 1,000 billion cubic meters. In full operation, CAMEL will take about 1.8 billion cubic meters of gas a year. The LNG will be shipped in specially insulated tankers to England and France.

Neither the pipeline, which is already in operation, nor the tankers, now under construction, form part of the project, but all phases of the operation from purchase of natural gas to delivery and sale of LNG are closely related by a series of interlocking agreements.

The project will be carried out by Compagnie Algérienne du Méthane Liquide (CAMEL), a French company, which would be the borrower. CAMEL, whose share capital amounts to F 62.5 million, is owned by a French-Algerian group (40%), CONCH International Methane Limited (40%) and the Government of Algeria (20%). The principal members of the French-Algerian group are the Société Nationale de Recherche et d'Exploitation des Pétroles en Algérie (SN REPAL), the Compagnie Française des Pétroles (Algérie) CFP(A), and the Bureau de Recherches de Pétrole (BRP), a French government agency. SN REPAL and CFP(A) own and operate the Hassi R'Mel gas field through the Société d'Exploitation des Hydrocarbures d'Hassi R'Mel (SEHR). CONCH International is owned 40% by Shell Western Holdings, Ltd. (in turn wholly owned by Batavia Petroleum Mij); 40% by Continental Oil Company, and 20% by Constock Liquid Methane Corporation (wholly owned by Union Stock Yard and Transit Company of Chicago).
9. Two-thirds of CAMEL's output is destined for the British market and one-third for the French market. The company has entered into a 15-year contract, renewable at the option of the buyer for two 5-year periods, to sell LNG to British Methane, Ltd., which will transport the gas and resell it to the British Gas Council. CAMEL has also entered into an agreement with SEHR to process gas supplied by SEHR for sale to Gaz de France.

10. Construction at Arzew was started in late 1962, and the plant is expected to be completed by the end of 1964. The first deliveries of LNG are scheduled for July 1964. Procurement has been based on international competitive bidding to the fullest practical extent, taking into account the highly specialized nature of some of the equipment, which is covered by patents and is available from only a few licensees.

11. The cost of the project, including interest during construction, initial working capital and start-up expenses, is estimated at F 439.8 million (about $89 million equivalent). In addition to the proposed Bank loan, financing is being provided by contributions from shareholders in capital stock and subordinated advances, by a 15-year loan and a grant from the French Government's Caisse d'Equipement pour le Développement de l'Algérie (CEDA) and by suppliers' credits. Under a special arrangement, SEHR, acting for Gaz de France, is putting up one third of the construction costs and starting-up costs as part of an agreement whereby CAMEL undertook to enlarge the plant to process gas for the French market. The SEHR contribution is in effect a prepayment for services to be rendered by CAMEL. The proposed financing plan is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Francs (million)</th>
<th>$ Equivalent (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>62.5</td>
<td>12.7</td>
</tr>
<tr>
<td>Shareholders' loans</td>
<td>73.1</td>
<td>11.8</td>
</tr>
<tr>
<td>CEDA grant</td>
<td>15.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Prepayment by SEHR</td>
<td>130.9</td>
<td>26.5</td>
</tr>
<tr>
<td>Medium term loans</td>
<td>17.2</td>
<td>3.5</td>
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<tr>
<td>CEDA loan</td>
<td>40.0</td>
<td>8.1</td>
</tr>
<tr>
<td>IBRD loan</td>
<td>101.1</td>
<td>20.5</td>
</tr>
<tr>
<td></td>
<td>439.8</td>
<td>89.1</td>
</tr>
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12. All share capital and the shareholders' loans have been paid in. The CEDA loan was signed on July 12, 1963, and has been fully disbursed.

13. The appraisal indicates that, provided certain technical and commercial risks do not arise, the plant should operate profitably in 1965, the first full year of operation; the return on share capital would reach about 20% in 1972. The cash position should become quite strong after 1966 and debt service coverage would be adequate from an early date.
14. **CAMEL** has considerable significance as the first major industrial investment by foreign capital in Algeria since independence. If it serves to point the way to other industries processing Sahara gas, its impact could be very important. **CAMEL** itself will increase Algeria's royalty and tax receipts by NF 5.6 million (€1.1 million equivalent) a year, bring in new foreign exchange receipts, and assure the profitable utilization of a pipeline at present operating at a loss. In addition to its share in CAMEL's profits, the Algerian Government should also benefit through its participations in and tax receipts from other associated enterprises. Other benefits will arise from the additional employment and business activity related to the operation.

15. Both the British Gas Council and Gaz de France are placing considerable reliance on the availability of LNG from **CAMEL**, in which directly and indirectly they have a substantial stake. Because of the marketing arrangements and the question of timing, the success of the project is unaffected by plans for Dutch gas and the outcome of the trans-Mediterranean gas pipeline projects, although any proposal to expand the CAMEL plant would have to take these into account.

**PART III - DESCRIPTION OF THE PROPOSED LOAN**

16. The main characteristics of the proposed loan would be as follows:

| **Borrower:** | Compagnie Algérienne du Méthane Liquide (CAMEL). |
| **Guarantors:** | (a) The Republic of Algeria; |
| | (b) CONCH International Methane Limited (CONCH) - 50% |
| | Bureau de Recherches de Pétrole (BRP) - 10% |
| | Compagnie Francaise des Pétroles (Algérie) (CFP(A)) - 17% |
| | Société Nationale de Recherche et d'Exploitation des Pétroles en Algérie (SN REPAL) - 23%; and |
| | (c) as guarantors of CONCH's obligations: |
| | Bataafse Petroleum Mij (one of the principal members of the Royal Dutch Shell Group) - 40% |
| | Continental Oil Company - 40% |
| | The Union Stock Yard and Transit Company of Chicago with (jointly and severally) Constock Liquid Methane Corporation - 20%. |
| **Amount:** | The equivalent in various currencies of $20.5 million. |
| **Interest Rate:** | 5-1/2% per annum, including 1% commission. |
| **Commitment Charge:** | 3/4 of 1% |
| **Maturity:** | 12 years with amortization in twenty-one semi-annual payments beginning May 15, 1966 and ending May 15, 1976. |
| **Purpose:** | To finance the construction of a gas liquefaction plant at Arzew, Algeria. The proceeds of the loan would be used to help finance the cost of imported goods and services paid for by CAMEL after March 1, 1963. |
17. The sponsors of CAMEL include firms whose resources would normally enable them to make a substantially greater investment themselves or obtain resources from the market. However, they feel that neither course is practicable in present circumstances. I accept that view and believe that, given the importance of the CAMEL project for Algeria, the Bank would be justified in making the proposed loan. At the same time, I believe that the sponsors should be liable for the commercial and technical risks involved in this operation and that these risks should not be borne solely by a country having recently emerged from a seven-year war, with a new government, serious economic and fiscal problems and a foreign debt of unknown but potentially large size. While the Bank would, of course, obtain the guarantee of Algeria, I have thought it proper to make special arrangements to secure the proposed loan.

18. Consideration was given at one stage to relying on an assignment of the LNG sales contract, but the "force majeure" clause in that contract and in other contracts related to it was felt to be too broad to offer the Bank adequate security, and agreement was reached whereby the loan would be guaranteed severally by CAMEL's main shareholders. The guarantee of CONCH is in turn being underwritten by its own shareholders. However, these various guarantors would not be liable if CAMEL defaulted as a consequence of certain acts of the Algerian Government.

19. The twelve-year term of the proposed loan is justified on the basis of conservative financial forecasts. If CAMEL turned out to be highly profitable, it would not be appropriate for Bank funds to remain in the project for the full twelve years. For this reason, CAMEL would be obliged to apply 40% of any profits in excess of 10% of share capital to accelerated amortization of the Bank loan and the CEDA loan on the understanding that working capital would not be impaired thereby and that CAMEL would not be prevented from reinvesting in some high priority project in Algeria if the opportunity arose.

20. The loan documents contain several other provisions to take account of the CEDA loan. In particular, because CEDA had obtained an assignment of the LNG sales contract and the right to a mortgage on CAMEL's property, the Bank loan would be equally secured. It is intended that the Bank and CEDA enter into an arrangement to coordinate the exercise of their rights under their respective loan agreements.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

21. The following legal documents are attached:

(a) Draft Loan Agreement between the Bank and CAMEL (No. 2); draft letters from the Bank to CAMEL (i) defining the level of net working capital satisfactory to the Bank (No. 3) and (ii) concerning accelerated payments (No. 4); and draft letter from CAMEL to the Bank regarding the premiums on accelerated payments (No. 5);
(b) Draft Guarantee Agreement between the République Algérienne Démocratique et Populaire and the Bank (No. 6);

(c) Draft Shareholders Guarantee Agreement between the Bank on the one hand and, on the other hand, CONCH, ERP, CFP(A) and SN REPAL (No. 7);

(d) Draft Letters of Agreement from: (i) Bataafse Petroleum Mij (No. 8); (ii) Continental Oil Company (No. 9); and (iii) the Union Stock Yard & Transit Company of Chicago and Constock Liquid Methane Corporation (No. 10);

(e) Draft Assignment Agreement between the Bank, CANEL, and British Methane Limited (No. 11).

22. The acceleration provision (Section 2.08) in the Loan Agreement and attachments Nos. 4 and 5 are of particular interest.

23. Loan Regulations No. 4 have been amended by Schedule 3 of the Loan Agreement, principally to take account of the existence of the various Guarantors. The following have been included as additional events of default:

(a) Any action by the Republic of Algeria, or by any other authority having jurisdiction, for: (i) the dissolution or disestablishment of the Borrower; (ii) the suspension of all or any substantial part of its operations; or (iii) the acquisition of the ownership, possession or control of any of its property and assets necessary for the proper and efficient operation of its business, or the effective control of its management (Section 6.02(a));

(b) Any action of the Republic of Algeria or of any other authority having jurisdiction for the amendment, suspension or termination of the Port Concession, without the approval of the Bank (Section 6.02(b)); and

(c) Demand by CEDA for the repayment in advance of maturity of its Loan (Section 5.02(j)).

24. The Algerian Guarantee Agreement follows the general pattern of the Bank's Guarantee Agreements. It contains a covenant not to interfere with the successful construction and operation of the project or with the performance by the Borrower of its obligations under the Loan Agreement (Section 3.06). It also makes provision for the extension and maintenance of port facilities at Arzew (Section 3.07). At the request of Algeria a new Section (Section 3.08) has been added expressly referring to the subrogation of the Guarantor to the Bank's rights to the extent that payments due under the Loan would be made by the Guarantor.
25. Under the terms of the Shareholders Guarantee Agreement, CONCH, ERP, CFP(A) and SN RÉPAL would undertake:

(a) to guarantee, independently of each other and each for a stated percentage, as primary obligors, with the Borrower, the payment of the principal amount, interest and other charges on the Loan and the Bonds (Section 2.01); and

(b) to provide the Borrower, each for its percentage, with any additional funds necessary to complete the project and to provide initial working capital (Section 2.02(a)).

26. No guarantor shareholder would be relieved of its obligations under the Agreement by sale or transfer of its shares of stock of the Borrower unless the Bank otherwise agreed (Section 3.03).

27. The obligations of the guarantor shareholders would be:

(a) suspended if as a result of any act or omission to act of Algeria or any Algerian authority, the Borrower's operations would have been discontinued for a period of six months or for a total of six out of any nine months. These obligations would be resumed in full if within a period of 18 months following the suspension of the Borrower's operations such operations could be resumed (Section 3.04(a)); and

(b) terminated if: (i) the event giving rise to the suspension of their obligations would continue after the 18 months' period referred to in (a) above; (ii) Algeria or any Algerian authority had compulsorily acquired ownership, possession or control of all or substantially all of the property and assets of the Borrower essential for the proper and efficient operation of its business; or (iii) the Bank would, solely because of the discontinuance of the Borrower's operations for any of the reasons mentioned in (a) above, premature the Loan (Section 3.04(b)).

28. The Letters of Agreement provide that each of the parties thereto unconditionally guarantees for a stated percentage the payment of any amount required to be made by CONCH under Sections 2.01 and 2.02 of the Shareholders Guarantee Agreement. Such guarantee would become operative only if a default by CONCH in any such payment would have continued for a period of eight days (Nos.8-10, paragraph 1).

29. The Assignment Agreement provides that it would become operative only if a default in the payment of amounts payable under the loan had continued for a period of 8 days (Section 1.04) or if CEDA had made a demand for payment under its own assignment (Section 1.03).

30. Also attached is the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement (No. 12).
PART V - ECONOMIC BACKGROUND

31. A report "The Economy of Algeria" (AF-16a) dated April 21, 1964, is attached (No. 13).

32. The Algerian economy has been profoundly affected by seven years of war and by the tragic events immediately preceding and following independence in July 1962 which led to the mass exodus of over four-fifths of the one million inhabitants of European origin who were largely responsible for the modern sector of the economy. With their departure, modern farms were left vacant, and many factories were idled. Public administration was wholly disrupted, there being in fact no handover from the pre-independence provisional Executive to a duly constituted Algerian Government.

33. Considering the extraordinary difficulties with which it has had to contend, the new Algerian administration, which took power in October 1962, has made remarkable progress in building up a new constitutional framework, reestablishing law and order, maintaining essential public services, and arranging for the cultivation of abandoned farms. The difficulties continue to be immense and if much remains to be done, the Government continues to display both great determination and drive.

34. In the past five years, petroleum has become one of the mainstays of the economy and the petroleum industry was relatively unaffected by the war. Oil exports were 24 million tons (worth almost $500 million) in 1963, and could have been higher had additional pipeline capacity been available. It is not impossible that natural gas may prove to be a greater asset even than oil and, as the first sizeable export outlet for gas, the CAMEL project is perhaps the forerunner of other, even larger, gas export schemes. Moreover, the availability of cheap gas at the coast provides the potential for petro-chemicals.

35. Elsewhere in the country, development prospects are less certain. The future of wine and citrus (leading exports after petroleum), depends on Algeria's ability to replace the skills of those who have departed, and wine in particular faces uncertain market prospects in France, the only possible customer for the large quantities involved. Other agricultural development, in both the modern and traditional sectors, depends essentially on training and deploying the necessary personnel and, at least temporarily, employing such foreigners as can be recruited to fill the gap. Algeria's fairly extensive industrial sector was largely based on food processing and, particularly under the stimulus of the Constantine Plan, on construction materials. The Government is trying to re-activate public investment projects, old and new; once again the shortage of technical and administrative staff is the main limiting factor.
36. Financially, Algeria has also been seriously disorganized. The main problem is that of meeting current budgetary expenditure, since there is at present enough foreign aid (chiefly French) to finance most of the public investment that can be carried out. The Government has taken a number of politically courageous steps to raise tax revenues and to reduce expenditures, but balancing the budget is still a serious problem. So far, however, the Government has made ends meet by deferring expenditures and drawing on French Treasury advances, in preference to having recourse to the Central Bank. In the absence of inflation, with exports holding up and import demand reduced, with exchange controls limiting capital flight and substantial aid flowing in, particularly from France, there is so far no pressure on the balance of payments.

37. The severance of ties between Algeria and France has left many unresolved financial questions between the two governments, including the question of property compensation. Until these questions can be resolved (and it could well be some years before all the intricacies can be unravelled) the size and service burden of the Algerian public external debt will not be known. Already, debt requiring service payments equivalent to some 6% of export earnings has been identified, and the total may turn out to be much higher. In these circumstances, Algeria would not be warranted in contracting any substantial amount of new external debt on conventional terms, unless it be for projects, like CANEL, which themselves will earn the foreign exchange necessary for debt service, and more.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

38. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATIONS

39. I recommend that the Bank make a loan to the Compagnie Algérienne du Méthane Liquide (CAMEL), guaranteed by the Republic of Algeria and by the principal shareholders, in an amount of $20.5 million or the equivalent in other currencies for a total term of 12 years, with interest (including commission) of 5-1/2% per annum, and on such other terms as are specified in the attached Loan and Guarantee Agreements and that the Executive Directors adopt a resolution to that effect in the form attached (No. 14).

Attachments (14)

April 29, 1964
Washington, D. C.

George D. Woods
President

by J. Burke Knapp