

## North Africa Phosphates: Morocco advances, Algeria & Tunisia sluggish

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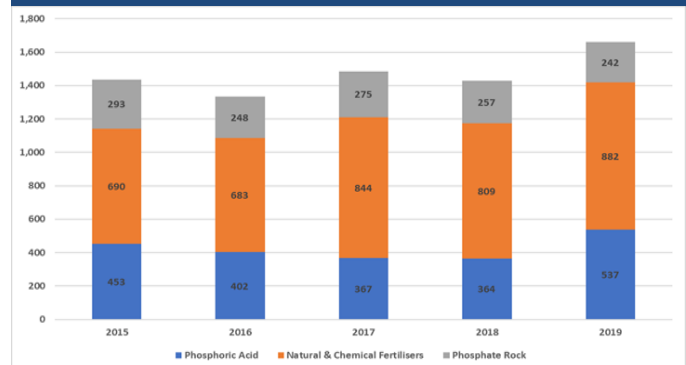
- The MENA region is a major player in the phosphate market, with its 82% of the world reserves. Within that Morocco's Office Chérifien des Phosphates (OCP) is already something of a swing producer, implying a certain degree of price-setting power.
- Algeria's desire to position itself as one of the world's premier phosphate exporters has been halted by ongoing protests facing the country's political and business establishment.
- Exploiting untapped resources in Tunisia has been stymied by economic and political protests and strikes. Production of phosphates declined in 2018 to about 3.3 MMT versus a peak of 8.2 MMT in 2010.

### Morocco: Phosphate's swing producer

Morocco's phosphate industry could capture 80%-90% of global demand by 2030, a huge boost to economic and investment growth, according to industry experts. But the issue of sovereignty in Western Sahara remains a political hurdle to full exploitation of the resource.

- Morocco is already the world's largest exporter of phosphates by a significant margin, typically accounting for about a quarter of global phosphate exports.
  - The 95% state-owned OCP is the world's largest exporter and has a monopoly in Morocco, controlling about 75% of world phosphate reserves.
- The disputed Western Sahara region, however, holds an estimated two-thirds of Morocco's total reserves, around 50 billion metric tonnes (BMT), but accounts for less than 20% of Morocco's total phosphate exports.
  - An estimated 1.93 million metric tonnes (MMT) was exported from Western Sahara in 2018 valued at USD 163M, making up about 13.5% of Morocco's total phosphate exports that year.
- Full production in Western Sahara is held back by the political situation. The region is claimed by Morocco and the Polisario independence movement.
  - The UN considers Western Sahara to be a "non-self-governing territory", meaning that phosphates from the region are sometime dubbed "conflict minerals".
  - This has prompted some international companies to avoid business related to Western Sahara, although the number of such boycotters has dropped in recent years and new companies are stepping in to fill the gap.<sup>1</sup>
    - In 2018, a principal importer, Canada's Nutrien Ltd, which was responsible for 50% of shipments, ceased all phosphate imports from Western Sahara. India's Coromandel Ltd and China's Sinofert Holdings Ltd stepped in to fill the void.

Figure 1 - Morocco Phosphate Derivatives Exports (USD, M)<sup>2</sup>



- In 2018, three firms backed off from Western Saharan business compared with nine in 2016 and 15 in 2012.

Moroccan phosphate production has recovered from a dip in 2009 that followed a crash in global prices per metric tonne from a peak of USD 430 in 2018 to a low of USD 40 in 2009. The current price is around USD 97.50 per metric tonne.

- Production last year stood at 33 MMT, 10% higher than 2017 and well above the 2009 financial crisis level of 24 MMT.
- Preliminary data suggests growth this year. The Direction of Financial Studies and Previsions says there was an 8.1% YoY rise in the production of phosphate in the first 2 months of 2019.
  - Similarly, OCP's export turnover was USD 1.2B in April, 20.5% higher than the same period last year, reflecting growing external demand in phosphate and its derivatives.
  - A USD 8B investment programme launched by OCP in 2008 is bearing fruit.
    - The company's extracted phosphates have risen to 45 MMT a year from 28 MMT in 2007, while fertiliser production has increased to 12 MMT from 3.6 MMT in the same period.
  - OCP plans to increase its phosphate rock capacity to more than 60 MMT by 2025.

**For both the economy and related investment, the outlook for the Moroccan phosphate industry is strong, given sustained demand from emerging markets, particularly China.**

- Morocco is well-placed to capitalise on this emerging market trend. Around USD 11B planned and appropriated investment from OCP through 2020 is set to solidify the kingdom's place as a leading global provider of fertiliser (as opposed to the underlying phosphate rock).
- In the last decade, the value of Morocco's fertiliser exports to China grew at an average annual rate of 20% versus 10% to Europe.

<sup>1</sup> Western Sahara Resource Watch -- a group of organisations and campaigners from more than 40 countries against the companies working in partnership with the Moroccan government in the Western Sahara.

<sup>2</sup> Arabia Monitor; OCP.

- This compares with only a 2% average annual growth rate in Chinese imports of fertiliser from the world as a whole.
- While Morocco's exports to China as a percentage of total Chinese imports is 6%, it made up 14% of total Chinese fertiliser imports in peak year 2012.
  - But that was only 0.01% of Morocco's total fertiliser exports, highlighting opportunities for scaling up.

## Algeria: Rich potential stalled by political headwinds

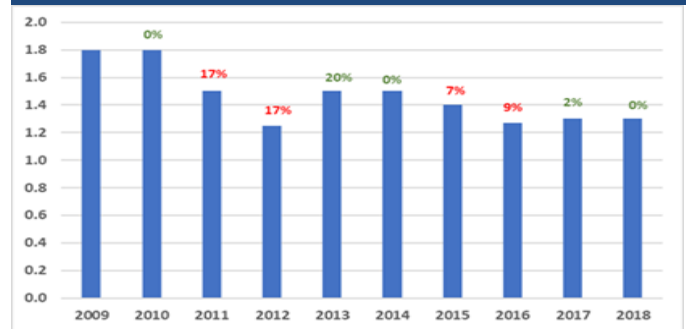
Algeria has the third largest phosphate reserves globally, behind Morocco and China, but its production has been limited due to insufficient investment. A recent deal signed with China could help revive the sector, but full exploitation remains held back by Algeria's fragile political situation.

- Production has been stalling for the past decade and declined to 1.3 million metric tonnes (MMT) in 2018 from a peak of 1.8 MMT in 2009.
- Algeria's economic dependence on hydrocarbon production and exports has meant that other resources, such as phosphates, have generally not had sufficient investment.
- While Algeria's aim of raising production to 10 MMT per year by 2022 appears rather ambitious, the new USD 6B deal signed with China could help raise production capacity to 6 MMT.
  - The deal, signed in November 2018, brings together Algeria's Sonatrach, the largest petrol firm in Africa, fertiliser company Asmidal and miner Manal with China's Wengfu, a firm that specialises in phosphate and fertiliser production, and the Chinese International Trust and Investment Corporation (CITIC).
  - The agreement is to build a phosphate plant in the northeast region of Tebessa. This would be the largest industrial project in Algeria in 10 years.
  - Algeria's Sonatrach will own 51% of the complex and the rest will be held by the Chinese partners.
  - The plant aims to mine 500 MMT of phosphates, 22% of Algeria's reserves. It would also create 3,000 direct and 14,000 indirect jobs.
  - From 2022, it is estimated that Algeria would be able to extract 6 MMT of phosphate and produce 3 MMT of phosphoric acid and 4 MMT of fertiliser a year.

**There are large caveats to the phosphate mega-project. Current political instability is in danger of slowing its progress and history is not a kind judge of this type of deal.**

- Since the arrest of the ex-Prime Minister Ahmed Ouyahia, who was involved in signing the agreement, as well as the sacking of CEO of Sonatrach Abdelmoumene Ould Kaddour, the Algerian phosphate project has seen a number of setbacks.

Figure 2 - Phosphate Production in Algeria (MMT; % Change)<sup>3</sup>



## Tunisia: Between a rock & a hard place

Tunisia boasts untapped phosphate resources of around 100 million metric tonnes (MMT), but recurring strikes by unions at the state-owned Compagnie des Phosphates de Gafsa (CPG) continue to weigh on the sector.

- Since the 2011, Tunisia has been taking steps to regain political stability. Progress has been made on many fronts, but economic challenges remain.
- Production has been impacted by protracted protests in the main producing region of Gafsa, by unemployed youths demanding jobs. Unemployment in the Gafsa region is estimated at around 28%.
  - Production of phosphates declined in 2018 to about 3 MMT, half of that forecast by the government for that year and for 2019.
    - Since 2011, the average production of phosphates has not exceeded 40% of the peak levels of 2010, when it totalled about 8 MMT.
    - Production before 2011 made up about 8% of total reserves and this has declined to about 3% by 2018.
    - Last year, the industry made up only 4% of the country's total exports versus 10% before 2011, when the Arab Spring revolts erupted.
  - Lower production has also caused Tunisia to lose some foreign markets such as Brazil and the country has turned to focusing on exporting phosphates to neighbouring European countries.
    - A former source of fertilisers to Brazil, Tunisia did not ship any product last year, nor YTD 2019, as per data from the Brazilian Ministry of Economy. The last sale was in 2017, worth USD 7.1M, versus 2010 exports worth USD 72.6M.
- In the 2019 budget, about USD 50M was allocated to the sector, especially in the Gafsa-Metlaoui Basin, mainly toward the completion of technical studies and projects that may support production.
  - The main phosphate resources in Tunisia are in the Gafsa-Metlaoui Basin, the nearby Meknassy Basin and further north in the Sra Ouertane Basin.
  - It also wants to develop new mines in Meknassy and Umm al-Khashab (west of Gafsa).

<sup>3</sup> Arabia Monitor; USGS.

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