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Gulf & North African Oil & Gas:

Competition or Complementarity?

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Hostile developments in the Gulf since February 2026 have underlined a broader global rebalancing: If and when petroleum exports from the region remain constrained, alternative producers with accessible routes to markets will be a strategic necessity. Hence the importance of North African oil and gas producers like Algeria and Libya, for which the plight of their Arab brethren of the Gulf Cooperation Council (GCC) has opened wide opportunities.

Both Algiers and Tripoli are positioning themselves as alternative suppliers of oil and gas in what could prove a reversal of fortunes for two countries that have suffered from steep output declines and were previously seen as unattractive destinations for foreign investors. They both entered 2026 with plans to attract foreign investment after overhauling their regulatory environments and now stand well placed to capitalize on the Gulf geopolitical turmoil.

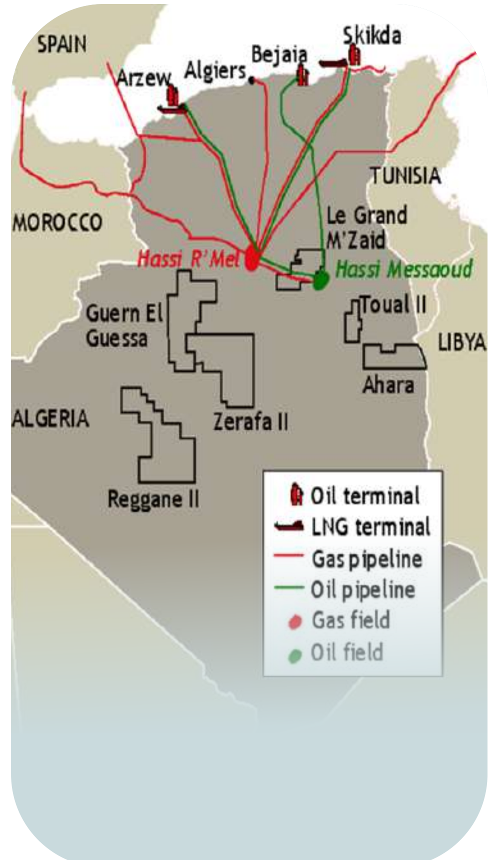
The U.S.-Israel-Iran War has changed the perceptions of these two petroleum producers, as both have undertaken reforms at a time when energy security has become paramount, particularly for the European nations across the Mediterranean Sea who are now scrambling for alternative supplies of oil and gas.

But would Algeria and Libya really be able to provide the required alternative supplies of oil and gas and thus compete with the GCC petroleum exporters or even replace them on the global market? This question can only be answered following a thorough review of the current and prospective oil and gas industries in North Africa and its two largest petroleum producers.

Algeria: Modest Oil Output but Good Gas Prospects

Long considered an OPEC laggard due to corruption and mismanagement, unattractive upstream contracts, and insufficient investment, Algeria and its oil and gas sector look much better these days. The country has been seeking to capitalize on the Gulf disruption, leveraging its proximity to Europe and establishing export infrastructure. This infrastructure could very well provide a competitive edge in terms of speed, quality, and cost.

Algeria is the second-largest oil producer in Africa, yielding an average of around 1.52 million barrels per day (b/d) in 2025, based on proven oil reserves of 12.2 billion barrels, as estimated by the OPEC Annual Statistical Bulletin. It was able to export some 1.05 million b/d on average in 2025 (about 69 percent of its total output). The country's main crude oil grade is the high-quality, light, sweet Sahara blend (API gravity of 43.2° and sulfur content of just 0.10 percent).



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Nevertheless, oil production in Algeria has steadily declined over the past decade as a result of a lack of significant new oil discoveries and declining output from its maturing fields, which require enhanced oil recovery techniques to maintain production levels. For that reason, in 2024 the Algerian government launched a series of exploration and development licensing rounds to be held annually until 2028, the results of which have so far been positive.

When it comes to natural gas, Algeria is the largest producer in North Africa. It has been identified as a promising source of additional natural gas supplies, especially to Europe. It has around 4,500 billion cubic meters (bcm) of proven gas reserves, as estimated by the OPEC Annual Statistical Bulletin. Natural gas produced in Algeria primarily comes from its largest field, Hassi R’Mel, as well as other maturing legacy natural gas fields that have been producing for decades.

As a result of the blockage of shipping Gulf LNG, Italy and Spain began to engage in serious talks with Algiers to boost its shipments of both piped and liquefied gas. Other requests have come from as far afield as Vietnam — a stark sign of the global energy squeeze. That said, it is unclear how much gas Algeria — which has strong domestic demand and export commitments — can actually spare.

Algeria has a nominal annual LNG production capacity of around 25.3 million tons, the country was able to export just 9.4 million tons in 2025

Despite being one of the largest natural gas suppliers to Europe, providing around 13.4 percent of total European gas imports in 2025 (according to the Energy Institute’s Statistical Review of World Energy 2026), Algeria has received limited serious attention as a gas exporter in recent years. Decades of underinvestment by the state-owned Sonatrach and leading international companies, as well as Algeria’s complex fiscal terms, byzantine bureaucracy, and complex political environment have resulted in missed opportunities to enhance the country’s position in the global gas market.

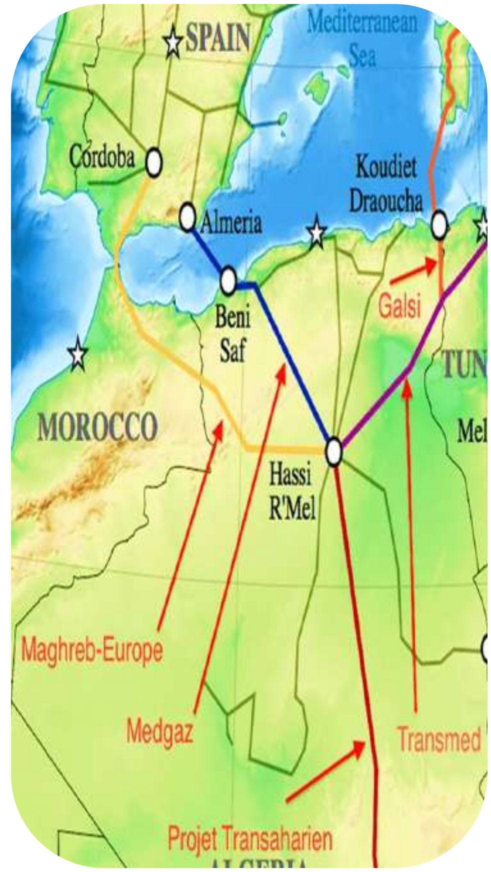
Although Algeria has a nominal annual LNG production capacity of around 25.3 million tons, the country was able to export just 9.4 million tons in 2025, or nearly 37 percent of its capacity, according to the 2026 GIIGNL Annual Report. In fact, the gas liquefaction plants at Skikda and Arzew have had many technical problems over the past years, which has limited their actual production. This is why the main focus for both Algiers and European customers has been on further increasing piped gas from Algeria.

The pipelines linking Algeria to Italy and Spain seem to have the capacity to pump more volume. However, while Algeria possesses the necessary natural gas reserves to increase its deliveries to Europe through these existing pipelines, the needed rise in actual gas production remains limited.

In fact, whether Algeria can further ramp up exports to its customers in Europe will depend on two factors — production and domestic demand. Although several new upstream gas start-ups over the past few years have pushed the country's annual gas output to between 100 and 105 bcm, domestic consumption has also soared over time reaching about 50-55 percent of production. If the annual growth rate of local gas demand continues at its current pace (around 5 percent), the volumes available for exports will decrease with every passing year.

In terms of unconventional gas, Algeria has huge potential, ranking third globally in recoverable shale gas resources with over 20 trillion cubic meters. Sonatrach is negotiating with major international partners like ExxonMobil and Chevron to unlock these vast Saharan reserves. It intends to strategically offset the declining mature conventional fields and boost total national gas production toward 200 bcm annually.

However, Algeria has been facing many challenges to the development of its massive shale gas reserves. One important challenge is the scarcity of water, especially since the hydraulic fracturing (fracking) of shale gas requires massive volumes of water in arid regions. In addition, developing unconventional gas faces environmental and social resistance, with past exploratory drilling near the field of In Salah triggering local protests over water contamination and environmental safety. Moreover, such shale development requires heavy foreign capital, advanced horizontal drilling technology, and local equipment manufacturing, all of which are, at the time of writing, largely non-existent. This leads to the conclusion that shale gas in Algeria is a medium to long-term project, if it is ever to come to light.



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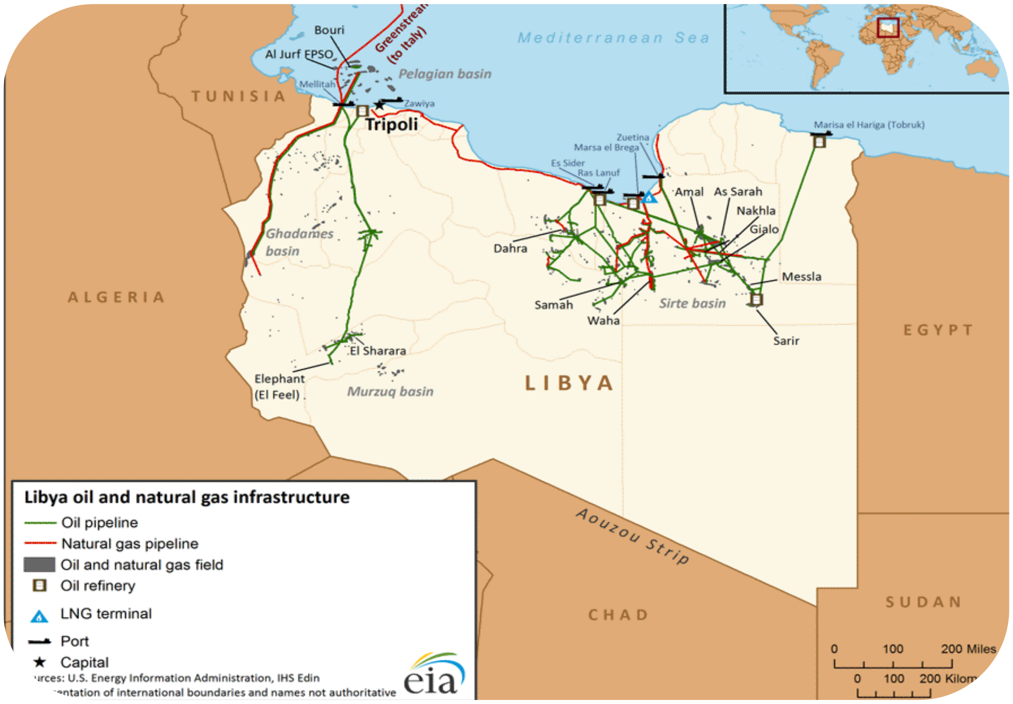
Libya: Good Prospects that Need Internal Peace

In 2025, Libya was the seventh-largest oil producer in OPEC and the third largest in Africa, after Nigeria and Algeria. At the beginning of 2025, Libya ranked among the top 10 nations for global proven oil reserves with around 48,400 billion barrels of proven oil reserves, or about 41 percent of those discovered in Africa.

Despite Libya's large oil reserves, political conflicts and military attacks on hydrocarbon infrastructure have limited investments in the country's petroleum sector. These challenges have also constrained the exploration and development of its reserves since the overthrow of the Qaddafi regime in October 2011. It is worth mentioning that most of Libya remains unexplored, and ongoing civil unrest has prevented a large-scale petroleum exploration program.



Although Libya is a member of OPEC, it is exempt from oil production cuts under the OPEC quota agreements. It produces mostly high-quality light, sweet (low sulfur) crude oil grades. Prior to the 2011 civil war, the country's oil production reached around 1.7 million b/d, but political dissention over the following 15 years resulted in a steep output decline and several major disruptions to production and exports. Average oil output in 2025 reached around 1.4 million b/d, of which about 1.1 million b/d were exported.

Nevertheless, Libya's oil production, which increased to an estimated 1.49 million b/d in June 2026 following serious efforts by Libya's National Oil Company (NOC), could well return to pre-2011 averages if the various political factions would form a unified and stable government, attract foreign investment for exploration and development projects, and provide sufficient revenue to strengthen the country's aging oil infrastructure.

In fact, the NOC intends to bolster crude production by increasing oil output through developing new projects and rehabilitating fields that were damaged during the civil conflicts of the past 15 years. However, to increase its production and offset current declines from older fields,

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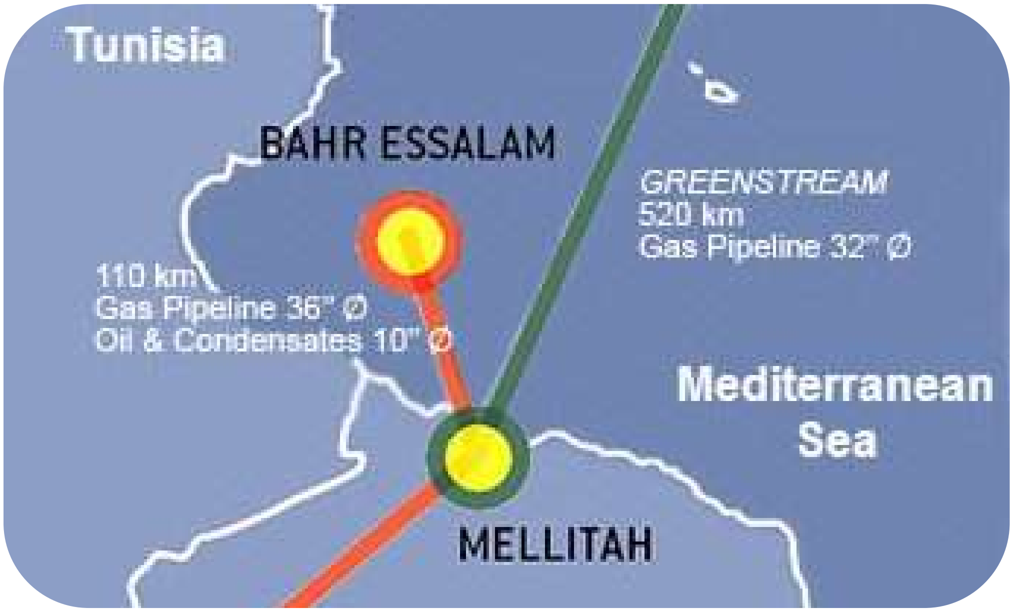
Libya needs to attract more foreign investment and technical capabilities.

In addition to Libyan oil, international energy companies could also be attracted to the country's gas industry which, according to the OAPEC Annual Statistical Report, has around 1,505 bcm of proven natural gas reserves as estimated in early 2025, when the country's gas production reached about 11.7 bcm, 90 percent of which were in non-associated form. However, about 95 percent of gas produced in Libya is consumed locally, threatening the country's export commitments.

Libya has been linked to the European markets through an 11-bcm/year offshore pipeline to Italy. Pumping through the pipeline has been sporadic since October 2011, and in 2025 Libya channeled just 0.9 bcm through it, compared to 2.4 bcm in 2023 and 1.3 bcm in 2024.

Because the NOC expects gas production from major gas fields to decline starting in 2026, Libya will face domestic gas shortages if it cannot secure foreign investment to increase gas output by reducing flaring and developing new fields. However, Libya's current political stalemate, security challenges, and budget constraints are major downside obstacles to reaching these goals.



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Interestingly enough, while Libya may still be divided politically, rife with corruption and stacked with weapons in the hands of non-state actors, a status quo has provided a sense of security, perhaps a false one for now, enough to satisfy potential investors that the post-2011 violence has been contained. As a result, Libya which ultimately remains an attractive exploration prospect, where extraction costs are low and contractual terms improved enough to make it worthwhile for the majors, has recently managed to attract interest from many international oil companies to shore up oil and gas investment and expand production.

North Africa Could Play a Complementary Role to the GCC, Only in Europe

How does the petroleum industry in North Africa compare to the GCC oil and gas sector? A comparative brief analysis of the hydrocarbon industry in the two regions is worthwhile, using the latest available data (for 2024-25).

The GCC's proven oil reserves were estimated at around 512 billion barrels (32.6 percent of the world's total), while Libya and Algeria combined have just about 61 billion barrels (3.9 percent). At the same time, the GCC exported some 16.2 million b/d in average (27.3 percent), compared to approximately 2.15 million b/d from North African countries (3.6 percent).

In terms of gas, the GCC has around 44.1 trillion cubic meters of proven reserves (21.1 percent of the world's total), while Algeria and Libya's combined reserves are estimated at some 6 trillion cubic meters (2.9 percent). The GCC was able to export about 153 bcm of gas (13.4 percent), whereas the North African nations channeled around 46.3 bcm (4 percent).

From the above-mentioned figures, it is easy to conclude that GCC petroleum resources are larger by many folds than the relatively modest oil and gas potential of North Africa. However, while there is no way that Algeria and Libya could compete with Gulf countries, they do have distinctive advantages due to their geographic location on the Mediterranean Sea facing main European markets, and the fact that, at least in terms of gas exports, they are directly and well connected to outlets in the Old Continent.

Thus, only there, in Europe, can the North African petroleum countries complement their Arab Gulf counterpartss.

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