

AFRICA RISK CONSULTING

Algeria Monthly Briefing December 2014

Algeria Summary 19 December 2014

The government dismisses reports that President Abdelaziz Bouteflika (1999 - present) has again checked into a Paris hospital. But reports suggest infighting and divisions in the 'pouvoir' about succession should Bouteflika die. Central Bank of Algeria governor Mohamed Laksaci reports a significant balance of payments deficit for 2013 and warns about economic impact of declining international oil prices. Government revenues have also been seriously hit by a long-term decline in oil production, mainly due to falling output from ageing fields not being replaced by output from new discoveries. Lower revenue also means a reduced ability to deploy resources to manage popular discontent and grievances among marginalised social groups. State oil and gas company Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach) reiterates commitment to existing investment plans. French forces in Mali kill Ahmed al Tilemsi, senior commander of the al Mourabitoun militant group, which has links to those responsible for the 2013 terrorist attack on the In Amenas oil facility.

Speculation about Bouteflika's health indicates succession uncertainty

Long-standing speculation about the health of President **Abdelaziz Bouteflika** (1999-present) increased a notch in early December amid reports that he had checked into the **Val-de-Grâce Hospital** in **Paris**. (Bouteflika has received medical treatment before in Paris, notably following a stroke in April 2013, which left him incapacitated for several weeks). The government was quick to deny the reports, issuing a statement on 18 December that Bouteflika was, in fact, in **Algiers** receiving the credentials of new ambassadors.¹ Whatever the truth, the speed with which the government moved shows the sensitivity within the regime around Bouteflika's health.²

Bouteflika has contributed to the rumour mill since being announced winner of the presidential election in April 2014 by keeping public appearances to a minimum. His rare appearances have done nothing to dampen speculation. Notably, at his inauguration in April 2014, Bouteflika remained in a wheelchair during the brief ceremony and spoke in a frail voice. There are increasing demands on the government – formally consisting of the ruling **Front de Libération Nationale (FLN)** and its junior coalition partner the **Rassemblement National Démocratique (RND)** – to clarify the health issue. The government is not used to public accountability: in practice, the FLN and RND are public fronts for the long-established alliance of the Algerian armed forces, intelligence services and the civil political elite around them, and known as '*le pouvoir*'.^{3,4} The FLN and RND issued a statement on 13 December, in the context of Bouteflika's health, stating their unwillingness to open dialogue with Algeria's fragmented political opposition on a political transition.

¹ APS, 18 Dec 2014.

² Algérie Presse Service, 28 Apr 2014.

³ The *pouvoir* is not a fixed group and is difficult to identify or define because of a tendency among the Algerian elite to hide wealth and not to flaunt power openly. It can best be defined as a fluctuating network of individuals and family members: wealthy business people; current and former senior civil servants and military/security officials; current and former politicians that are informally consulted on major political and economic issues

⁴ Source, Middle East and North Africa analyst

If Bouteflika becomes fully incapacitated, the constitutional court could in theory declare him unfit to rule, with the senate president taking over as interim president for 45 days until elections are held. This scenario is highly unlikely. An 'unfit to rule' decision would require the ratification of two-thirds of parliament. Bouteflika loyalists would ensure that this would never happen and it would not be in the interest of the military-intelligence elite who sit behind Bouteflika (even those who oppose him) to allow the semblance of a political vacuum and – what they would see as – an unnecessary and public succession debate.

In formal terms, should Bouteflika die in office, the head of the upper house of parliament would take over as interim president and arrange for new elections within 90 days: *“Algerians are committed to process and this will likely happen.”*⁵ However, the lack of an anointed successor to Bouteflika increases both the risk of short-term instability, as competing interests within the elite battle for supremacy, as well as Algeria's medium-term political risk profile. Bouteflika has already tried to advance the candidacy of his younger brother, **Said Bouteflika**, whose official title is the innocuous-sounding 'presidential aide', but who at times acts as if he were running the country on Bouteflika's behalf. Said has longstanding presidential ambitions, but has no independent support base within the ruling elite. Elements within the military and the FLN resisted (successfully) an attempt by Bouteflika to create a separate political platform for Said – the **Free Generation Movement** – in 2009.⁶

*“While Bouteflika is semi-incapacitated, his brother is running the show, creating serious tensions within the regime, notably with senior military and intelligence officials, and parts of the civil bureaucracy. Algerians of all stripes don't like monarchy or dynasties: Said is behaving like a crown prince and intimidating the heads of the gendarmerie and the army – all of whom Bouteflika appointed – to toe his line. But you only have to go one level down to find reluctance to obey orders and resistance. This does nothing for the chain of command.”*⁷

Sources report serious – almost unprecedented – divisions within the *pouvoir* on the sensitive issue of succession. Bouteflika has used his presidency to promote several hundred military, gendarmerie and police officers into senior positions and forcibly retired many older generals who dominated Algeria's political system since the *de facto* civil war in the 1990s. He has also advanced allied businesspeople and bureaucrats into senior roles in the civil government. Such moves have undermined what had been the apolitical homogeneity of the established political system, and has led to weaker chains of command in the security forces as rank-and-file officers dispute or ignore the orders of Bouteflika appointees. At the same time, Bouteflika's attempted advancement of his brother runs counter to the Algerian elite's deeply ingrained 'collective' political culture.

*“Algeria's top-down political system has always relied on formal and informal 'connectivity' acting as a glue that sustains the pouvoir. That's what helped it survive the civil war in the 90s and massive – albeit passive – popular dislike ever since. That connectivity is breaking down as people split into opposing camps. The pouvoir is weaker than it has ever been, and they know it: they even say it.”*⁸

The politically powerful military intelligence service, **le Département du Renseignement et de la Sécurité (DRS)** will want to put forward its own candidate to ensure they remain at the helm of Algeria's political and business environment. DRS head **Mohammad “Tewfik” Mediene**, who is in his late 70s or early 80s, is a politically powerful individual and holds a high level of influence over government decision making. Their candidate of choice would most likely be veteran former prime minister **Ahmed Ouyahia**, currently minister of state and director of the president's office⁹. Ouyahia is a senior figure in the RND, widely seen as the political voice of the DRS.

⁵ Source, Middle East and North Africa analyst

⁶ PRS Algeria, 28 Sept 2011

⁷ Source, prominent Algerian political commentator

⁸ Source, prominent Algerian political commentator

⁹ FT, 16 Dec 2014.

“He is the creation of the military intelligence. People say he was ‘born with a moustache.’ In Algeria all senior military guys have moustaches.”¹⁰

There is also speculation that the DRS may even accept bringing in a non-FLN/RND candidate – such as veteran opposition politician **Mouloud Hamrouche** – to block Said Bouteflika. Algeria’s current prime minister, and Bouteflika appointee, **Abdelmalek Sellal**, is considered by many observers to be an outside bet (at best) to replace Bouteflika:

“Sellal is a joke. Not my words, but what you hear all the time around the corridors of power. If Sellal becomes president, it will be only because Bouteflika wants it and the rest of the establishment has caved in. In that event, it will be Said who is really running Sellal.”¹¹

Declining oil prices increase pressure on government revenue

On 16 December, the Brent crude oil benchmark fell to \$58.50, approximately half the June level.¹² Declining international oil prices are increasing pressure on government revenue and Algeria’s balance of payments. Oil and natural gas is the foundation of the economy, accounting for 60% of public revenues, 26% of GDP and 96% of export earnings.¹³ Algeria benefited from high international oil prices between 2005 and 2008, using them (unlike **Nigeria**) to pay off foreign debt commitments and build up reserves. According to **Central Bank of Algeria (CBA)** figures, foreign exchange reserves stood at \$193.3 billion at the end of June.¹⁴ But the dominance (and wealth) of the oil and gas sector hides wider economic fragility, an uncompetitive non-oil sector and a deleterious culture of corruption:

*“The few that are rich in Algeria are moving their money out. Problems are growing and corruption is reaching unbelievable levels: Algeria scored even lower than **Egypt** and **Saudi Arabia** in the recent **Transparency International Corruption [Perceptions] Index**. There is an unhealthy competition between the greedy taking place, and crime is rife – at levels not seen before – and often perpetrated by people who have lost out under Bouteflika both from within and outside the system. Respect for central power among the general population has never been high but has also never been lower than it is now.”¹⁵*

The *pouvoir*’s autocratic system has depended in recent years on using high oil and gas revenues to manage and head off economic and social grievances in the wider population. Any sustained period of decline in oil prices would be a significant drain on reserves and could have political – as well as economic – implications. The fall in the unit value of hydrocarbon exports is not the only problem the government faces. Algeria’s oil and gas production has been slowing anyway since 2008, as output from ageing fields begins to decline. State-owned oil and gas company **Sonatrach**’s¹⁶ production has dropped from 232 million tons equivalent of oil in 2008 to 194.5 million tons in 2012, a fall of around 16%. Altogether, government revenue is now being hit from two sources. The decline in government revenue was already \$5 billion in 2013 over 2012, as exports fell 7.5%: exports fell an additional 9% in the first quarter of 2014.

*“If oil prices remain in the \$50 range or fall further, the government is [in trouble]. It has been fighting off social unrest and the risk of an **Arab Spring**-style uprising by huge social spending using oil revenues. If it has no more revenues, it has nothing to buy people off with.”¹⁷*

¹⁰ Source, political analyst, North Africa

¹¹ Source, prominent Algerian political commentator

¹² FT, 16 Dec 2014.

¹³ State.gov

¹⁴ AFP, 12 Dec 2014.

¹⁵ Source, prominent Algerian political commentator

¹⁶ Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures

¹⁷ Source, international economist specialising in Algeria

Algeria's strict investment laws, high insurance costs, a reluctance to bring in international know-how to discover new fields, and an infamous bureaucracy deterred foreign investors even when benchmark oil prices were high. Things have not improved. The state **Agence Nationale Pour La Valorisation Des Ressources Hydrocarbures (ALNAFT)** struggled to attract international oil companies (IOCs) to its most recent concession bidding round in September. IOCs acquired only four of the 31 blocs on offer.¹⁸ There are several additional explanations for investors' risk-aversion: the political uncertainty caused by Bouteflika's health problems and an unclear succession plan, and ongoing security concerns following the **In Amenas** attack of January 2013 (see below).

A specific investor worry is the creeping influence of *pouvoir* politics in decision-making in the oil and gas sector, notably the sacking of former Sonatrach CEO **Abdelhamid Zerguine** in July. According to sources, Zerguine was dismissed at the behest of businessman **Ali Haddad** whose conglomerate **Groupe ETRHB** wants to enter the hydrocarbons sector.¹⁹ Haddad is a close ally of Bouteflika and his brother Said (see above). Zerguine was reportedly reluctant to authorise ETRHB's market entry.

CBA governor **Mohamed Laksaci** warned on 16 December that Algeria's balance of payments recorded a \$1.32 billion deficit in the first half of 2014,²⁰ i.e. before the slump in crude oil prices. It might therefore be expected that government and its various arms would re-prioritise spending, and reduce it where feasible. But Sonatrach has insisted that it will maintain its current five-year spending plan.²¹ CEO **Said Sahnoun** said on 7 December that the current plan – budgeted at around \$90 billion – aims to improve production through the development of new oil and gas fields, improved transport infrastructure and increased petrochemical and refining capacity.

Sahnoun also announced that Algeria would invest in new pipelines and begin commercial exploitation of shale gas by 2022 with an expected total recoverable production of 20 billion cubic metres. Industry experts believe that Algeria has one of the largest shale reserves in the world. Sonatrach – and the government – are reviewing its gas exports to **Europe**, where it faces increased price competition, and because of rising domestic demand. Sonatrach is looking at re-orientating its exports to **Asia**, where prices are stronger.

Diversification?

The Algerian government has rebutted suggestions of investor disaffection by pointing to the opening of a new **Renault** factory on 10 November in the **Oran** region in north-western Algeria. The factory is Renault's first in the country since independence from **France** in 1962. At the same time, Renault Algeria is a joint venture, 51%-owned by the Algerian government, which put up a significant proportion of the new factory's reported \$65 million cost. And, while the projects sponsors have the stated aim of eventually producing over 70,000 vehicles a year at the plant, it will for now reportedly run one production line for one vehicle, and employ around 350 people.

"I'm not sure what Renault were thinking. Maybe they think that the factory is the best way of cementing their dominant market share in Algeria, and one day exporting to the rest of the region, with minimum short-term downside financial risk?"²²

French forces kill senior Islamist militant

French military forces killed **Ahmed al Tilemsi** (the *nom de guerre* of **Mali** national **Abderrahmane Ould Amer**), senior commander of the **al Mourabitoun** militant group, in an operation in northern Mali on 11 December.²³ Tilemsi was involved in the 2011 kidnapping of two French nationals in **Niger**

¹⁸ FT, 21 Oct 2014.

¹⁹ FT, 21 Oct 2014.

²⁰ APS, 16 Dec 2014.

²¹ APS, 7 Dec 2014.

²² Source, Algerian financial analyst

²³ www.Malijet.com

and three aid workers in Algeria.²⁴ Algerian and international security services have been highly active in working to mitigate the risk of terror attacks in the wider **Sahel** region since **Al Qaeda in the Islamic Maghreb (AQIM)**-linked militants attacked the In Amenas gas complex in 2013.

The **Moulathamine Brigade** that carried out the In Amenas attack has since merged with the **Mouvement pour l'Unité et le Jihad en Afrique de l'Ouest (MUJAO)** to form al Mourabitoun. Tilemsi was a founding member of MUJAO.²⁵ Despite the increased security risk in southern Algeria since 2013, the capacity of AQIM and related terror groups to carry out attacks in northern Algeria has gone down and is likely to further diminish in the coming years. The bulk of militant operations have shifted to the **Sahara**, which is harder to police and where AQIM and related groups secure much of their resources: Al-Mourabitoun, for example, is involved in drug and cigarette smuggling, kidnap and ransom. But AQIM is facing increasing and better-coordinated western intelligence and military operations that are curtailing its capacity to carry out large-scale attacks. France is establishing bases to stop the movement of arms and individuals across the **Sahel-Sahara** region as part of **Operation Barkhane**, which President **François Hollande** (2012-present) launched in July.

Implications

Any political instability that occurs if Bouteflika dies in office will likely not be visible to the untrained eye. The Algerian elite cuts its deals in smoke-filled rooms away from the public gaze. Whatever happens, the stage is being set for a battle for the presidency between military intelligence - promoting its own candidate, most likely Ouyahia - and allies of Bouteflika, notably his brother Said or an Bouteflika ally like Sellal. The smart money at the moment is on the DRS and the wider *pouvoir* uniting behind Ouyahia (the known entity who will do their bidding). Having said that, the likely outcome of such a contest is by no means certain: the *pouvoir* is not as 'connected' as it used to be, due mainly to Bouteflika steadily inserting his allies into top military and civilian bureaucratic roles since he first took office in 1999.

Popular discontent in Algeria has always been hard to measure in political risk terms since the effective end of the 1990s Islamist insurgency: marginalised groups, such as disaffected male youths, have proven less willing to vent their grievances in public than their counterparts in **Tunisia, Libya, Egypt** and **Syria** since the outbreak of the Arab Spring. But the fact that government has recognised that it has a legitimacy problem with its own population - which it has tried to manage through huge spending on social and economic projects - is significant.

It remains to be seen whether Algerians will be influenced - and tempted to challenge - the current system when they see power finally being settled through credible elections in Tunisia in December and if Libya should settle down. This scenario seems unlikely in the short term.

As the government's revenue from oil and gas declines sharply in 2015, it will be able to sustain social programming by running moderate deficits for a while and drawing on reserves. Barring paralysis at the top of the state, the *pouvoir* will be unwilling voluntarily to implement reforms aimed at greater and/or genuine democratic accountability. But the *pouvoir* is arguably weaker now than at any point in the past 15 years and politics in Algeria can only remain an elite pastime so long as the general population remains passive.

Algeria relies on mature oil and gas fields for most of its energy output and will require international oil companies and finance to help develop new reserves and increase flagging production. While the government has passed legislation to improve notional financial incentives for IOCs, improving the attractiveness of the sector depends on non-financial changes - such as reducing the burden of

²⁴ www.Malijet.com

²⁵ www.Malijet.com



bureaucracy and the tendency for *ad hoc* political interference in (and micro-management of) the energy sector.

Islamist extremist terrorist groups have long targeted economic targets in northern and western Africa, in part because of the region's role in supplying large quantities of oil and gas to the **United States** and Europe. The increasingly heavy French security presence in the Sahel, with token Algerian blessing, will mitigate the threat of another large-scale attack to match In Amenas, but isolated oil and gas infrastructure in Algeria remains vulnerable.