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Algeria continues to forge closer economic and security ties with its regional partners to try and bolster its economic position and – officially – to mitigate the risk of instability spreading from Libya and the Sahel. The fall in international crude oil prices raises more questions about the sustainability of government social expenditure and capital investment. Local protests force the government to suspend shale gas plans in the south.

Algeria continues to pivot south...

Algeria's prime minister, **Abdelmalek Sellal**, attended the **African Union (AU)** heads of state summit in **Addis Ababa** on 30 January, officially to promote Algeria's policy of increasing regional integration, trade and investment as a means to diversify and boost economic productivity. In reality, Algeria is struggling with the collapse in international oil prices (see below). Sellal's approach also reflects the fact that the 2011 **Arab Spring** has redefined **North Africa's** relationship with the rest of the continent.

Before 2011, Algeria lined up with autocratic allies in North Africa to act as an anti-reform bloc in the AU. Also, the **Eurozone** was Algeria's dominant export market, notably with **France, Spain and Italy**. With Europe still mired in stagnation, Algeria is bereft of allies – other than **Egypt** – and increasingly looking south and east both for business, investment and security.

Amid increasing concern that the ongoing violence in **Libya** could spread to Algeria and further destabilise the **Sahel region**, President **Abdelaziz Bouteflika** (1999-present) hosted **Niger** president, **Mahamadou Issoufou** (2011-present), in **Algiers** on 25 January.¹ In a joint communiqué, both governments stated their intention to provide a joint political-security strategy for Libya. Both **Niamey** and Algiers are keen to contain the destabilising impact of an overspill of violence. There is also an understanding that broader regional economic cooperation will require greater stability and vice versa.

*“With **Mali**, Libya and now the expansion of militant groups linked to or inspired by the **Islamic State** across the North African region, the area (is again becoming) a tinderbox of security threats and requires a joined up approach.”²*

Algeria has long maintained links with governments in the Sahel and a range of rebel and non-rebel ethnic **Tuareg** groups. These were developed in the 1990s during Algeria's Islamist civil war, but have weakened and lapsed in recent years, with changes to more representative governments in the Sahel states and the growing trans-national nature of the Islamist threat.

*“The government's focus south and on security derives from a feeling of political and physical insecurity. The world has changed around Algeria's autocratic ruling elite, and it is struggling to adapt. Add to that the spectre of a force sympathetic to the extremist Islamic State over the border in Libya – and there is a fear of allied groups in **Syria, Iraq, Egypt and Libya** opening a new front on Algeria. The government knows that it is deeply unpopular at home and a socio-economic tinderbox. But, in many ways it has only itself to blame. It did nothing meaningful to*

¹ APS, 28 Jan 2014.

² Source, senior security analyst

*help when Libya was falling apart in 2011 and 2012 and it deliberately tried to undermine the post-Arab Spring in **Tunisia**.*³

The meeting coincided with an attack this week on a **Tripoli** hotel that left eleven people dead, including foreign nationals. It appears that a Libyan group professing allegiance to Islamic State carried out the attack, though it appears to have been motivated by revenge for the death of one of its senior leaders in the city of **Benghazi** several days earlier. But, with a vast land border stretching some 1,000km, most of which is open desert, the Tripoli attack has created concern that Libya could become a springboard for attacks on Algeria itself.

The Nigerien presidential visit also focused on economic cooperation. Niger oil minister **Foumakove Gado** expressed Niamey's interest in expanding energy cooperation. **SIPEX**, the international subsidiary of Algeria's state oil and gas company **Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach)** announced that a joint production-sharing agreement (PSA) was close to completion. The PSA relates to the six-year-old joint exploration and production project at the cross-border **Kafra** block, which will be expanded.⁴ The two governments also discussed key regional infrastructure projects such as the **Trans-Sahara Road** and the inter-state **Nigeria-Niger-Algeria** pipeline project.

... and looks to Egypt

In the margins of the Addis Ababa summit, Algerian and Egyptian foreign ministers **Ramtame Lamamra** and **Sameh Shoukry** met to advance the two countries' increasingly friendly and rapidly developing bilateral relationship. The military take-over in Egypt in 2013 – when the **Muslim Brotherhood** government was, in effect, overthrown – saw the interests of the two anti-Arab Spring regimes move closely into line. (They were seen before 2011 as jealous rivals for dominance in the **Maghreb** region.) The meeting also sent a signal that the two governments would take a joint, anti-reform message to the **Arab League** summit in March.

“Closer ties in (Algerian-Egyptian) relations are also being driven by the situation in Libya – the threat of an outward looking Islamist extremism using Libya as a base – and the continued failure to establish a credible government in Libya are a major security risk to both states. They think joint cooperation from Libya's western and eastern borders is key to mitigating the threat of a broken Libya.”⁵

Government finally admits that oil price crisis poses economic challenge...

Algeria, much like its oil-producing counterparts, remains hostage to the 50%-plus fall in oil prices since June 2014. For some time, Algerian officials have been proclaiming in public that the country could weather the impact. On 22 January, however, Sellal admitted in a nationwide television broadcast that the situation was in fact an economic “*crisis*”.⁶ Prior to the Arab Spring, the government was already trying to mitigate the risk of civil unrest in Algeria by rapidly increasing welfare and social budgets in an attempt to improve living standards. After the Arab Spring, it committed even more resources.

The oil price slide is also exposing an economic system that has for too long relied on crude energy export revenues to support social subsidies – from public housing to cheap consumer loans. The arithmetic will not square with oil at half the price it was in 2014 (see *ARC Algeria December 2014 Briefing*). Sellal announced a range of modest measures designed to limit the impact of the oil-price fall, including public sector recruitment freezes (with the exception of the energy, education and

³ Source, former diplomat experienced in North Africa

⁴ APS, 26 Jan 2015.

⁵ Source, Middle East and North Africa analyst

⁶ Platts, 22 Jan 2015.

health sectors). Further measures are almost inevitable: Algeria's 2015 budget is based on an oil price of \$60 a barrel and it has recently been trading between \$40 and \$50.

Overall, Algeria earned \$60.15 billion from oil and gas exports in 2014, a fall of only \$2.85 billion (or 4.5%) on 2013.⁷ But this represented 95.5% of its foreign earnings. To try and mitigate the sharp falls in prices in the last quarter of 2014, Sonatrach continues to boost liquefied natural gas (LNG) shipments to **Asia** to compensate for a drop-off in exports to **Europe**.

*"Algeria is keen to boost its client base in the **Far East** – this helps Sonatrach spread market risk more widely) – and LNG provides a much needed currency boost and flexibility to supply the world's gas demand, be it on a contract or spot basis, as well as creating a wider basket of currency reserves."⁸*

Despite Sella's admission of a crisis, Sonatrach has said it will maintain its planned investment projects for 2015. These include the construction of three large refineries in **Tiaret**, **Biskra** and **Hassi Messaoud**. And, in a memorandum of understanding signed this week, **United Kingdom (UK)**-based oilfield services company, **Petrofac**, and Sonatrach announced a joint venture and execution plan for a range of new projects in the Algerian hydrocarbon sector. This joint venture, of which Sonatrach holds 51% and Petrofac 49%, covers the next four years.⁹

"This is a (smart move by Sonatrach) – although the project had been long in negotiation, it was important to show that the Algerian oil sector is open to international business."¹⁰

Most of the joint venture's employees will be Algerian, with Petrofac taking on an oversight capacity, ensuring the training of the venture's personnel and setting up systems of field management, information best practice, and security and environmental training.

Plans to double Algeria's renewable energy capacity may free up room for more exports and revenue. Addressing the parliamentary economic affairs committee on 22 January, energy minister **Youcef Youfsi** announced that the government is planning to update the (largely ineffective) 2011 renewables programme.¹¹ That programme envisaged building 12,000MW installed renewables capacity – the new strategy will likely aim to double that objective to 25,000MW by 2030 and account for one third of all domestic power production.

"Should the project come to fruition this would be a great leap forward – decreasing Algeria's reliance on hydrocarbon-power would free much needed supply for export. But the key word here is 'should.'"¹²

Government performs energy U-turn following protests

In January, rare popular protests in the **In Salah** area against government plans to develop shale gas spread to other southern regions and towns. Sonatrach had announced plans on 11 January to invest \$70 billion over two decades to develop the technological capacity to exploit shale gas through fracking.¹³ This followed successful test drilling in **Ahnet** (In Salah). The announcement, however, triggered immediate and significant local opposition with public officials striking and protesters blockading roads. The opposition was based on fears that fracking would be detrimental to the desert region's very scarce water resources.

7 CNIS, 1 Jan 2015.

8 Source, senior economist

9 APS, 28 Jan 2015.

10 Source, independent oil analyst

11 APS, 22 Jan 2015.

12 Source, senior renewable analyst

13 www.middleeasteye.net

The government reacted by immediately suspending the plans (even though Algeria is estimated to have some of the largest reserves in the world). Sellal said that the exploitation of shale gas “(was) not on the current agenda” and would not begin until 2022 at the earliest.¹⁴

Implications

Algerian officials are finally admitting in public what they have been saying in private for weeks: the slump in oil prices threatens the stability of both the economy and the political system (see *ARC Algeria December 2014 Briefing*).

The continuing uncertainty about the health of President Bouteflika is impacting negatively on day-to-day government management, fuelled by the thorny issue of Bouteflika’s succession. All this is not helping produce a coherent, and rapid, response to the looming economic crisis. Bouteflika’s brother **Said Bouteflika** continues to jockey for influence against those – probably the majority in the ruling elite – opposed to anything that smacks of dynastical politics. The sense is that senior politicians and officials are spending more time circling each other than dealing with some of the urgent policy dossiers.

Algeria’s move to strengthen ties with Egypt and its Sahel neighbours – as well as reassert itself at the AU – is indicative of a sense of vulnerability within the ruling elite. The rise of Islamist groups in Libya with an overt Islamic State agenda (even if the reality of their support is unproven so far, based on their actions) has stimulated a clear response in Algiers. There is now an opportunity for Algeria to play a more constructive role in its regional neighbourhood than it has since the Arab Spring.

By trying to diversify its trade and investment exposure, Algeria is also belatedly responding to its evident exposure to external shocks. But the fall in oil prices means that the government’s expansionary fiscal policy, with high levels of public investment, probably cannot be sustained beyond 2015. The government knows that any major cuts risk igniting protests, especially in the more urbanised and socially deprived areas in the coastal north. It also knows that, in the longer term, Algeria needs to wean itself off dependence on hydrocarbon revenues and diversify. The question is whether the government realises how far and how fast it needs to go in terms of economic and political reform to have any chance of controlling a soft landing. **Morocco**, by contrast, began a reform process over a decade ago and now seems better equipped to manage the outcomes.

Popular protests in the south against fracking are indicative of Algerians’ willingness to take to the streets on issues that matter to them. The swiftness of the government’s reaction – in deferring shale gas exploitation until 2022 – shows that, on this issue at least, giving in is the safer means of keeping a lid on popular discontent.

¹⁴ www.middleeasteye.net