

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing November 2015

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#### Algeria Summary 26 November 2015

*Islamist political party **Mouvement de la Société pour la Paix (MSP)** lobbies the government to create an independent electoral commission to monitor and guarantee free and fair elections. The MSP and other Islamist parties are currently prohibited from standing for office. Finance minister **Abderrahmane Benkhalfa** promises taxation increases and cuts to energy subsidies during debate on the 2016 budget law. The government will increase other subsidies to compensate for the energy subsidy decrease, but opposition groups protest any suggestion of tariff reform. The government continues to pressure state-owned **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** to increase production and reduce costs in order to balance its books.*

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#### Islamists call for independent electoral commission

The Islamist political party **Mouvement de la Société pour la Paix (MSP)** is increasing pressure on the government to allow it to participate in the 2017 parliamentary elections.<sup>1</sup> The MSP called on the **Algerian** government on 1 November to introduce an independent electoral commission to monitor and guarantee free and fair elections.<sup>2</sup> MSP president **Abderrazak Makri** said that President **Abdelaziz Bouteflika** (1999- present) had introduced concessions to the electoral process, but that an independent electoral commission is needed to guarantee free and fair elections.<sup>3</sup> Currently international observers monitor Algeria's electoral process but there is no domestic body independent from the government that oversees the process.<sup>4</sup>

The MSP boycotted the 2014 presidential elections along with other Islamist parties in protest at the government's alleged continuing repression of Islamist political movements. Islamist parties have also accused the ruling **Front de Libération Nationale (FLN)** party of orchestrating electoral fraud.<sup>5</sup> However independent observers argue that the FLN relies on its incumbent's advantage rather than overtly fraudulent techniques – simply giving Algerians no other viable parties to vote for.<sup>6</sup> Makri emphasised that opposition parties want to work peacefully with the government to ensure free and fair elections:

*“... the regime knows that the opposition political parties did not choose until now to go out to the street to defend their rights which are being robbed during every election... the opposition parties' decision not to escalate things after every fraud committed during previous elections stems from their desire to maintain the country's stability; but the political regime exploits this national spirit and allows itself to declare election results that are entirely false.”<sup>7</sup>*

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<sup>1</sup> Middle East Monitor, 2 Nov 2015.

<sup>2</sup> Middle East Monitor, 2 Nov 2015.

<sup>3</sup> Middle East Monitor, 2 Nov 2015.

<sup>4</sup> POMED, 11 Mar 2014

<sup>5</sup> Al Jazeera, 14 Apr 2014.

<sup>6</sup> Source, journalist, Algiers

<sup>7</sup> Middle East Monitor, 2 Nov 2015.

Political tensions in Algeria tend to increase around elections. The re-election of Bouteflika for a third term in 2014 sparked protests.<sup>8</sup> Tensions over the **Front Islamique du Salut (FIS)** Islamist party winning a 54% majority in the 1990 election – the first within a multiparty democratic system – sparked the Algerian civil war from 1992 to 2002. The MSP grew out of the **Muslim Brotherhood**, which has a long history of activism in Algeria, and did not join the FIS fighting the armed forces during the 1990s. However, as an Islamist political movement it faces the same restrictions as groups directly linked to the FIS.<sup>9</sup>

### 2016 budget debate: tax increases and lower subsidies to preserve reserves

Finance minister **Abderrahmane Benkhalfa** told the national assembly on 22 November that the government would need to increase taxes and import duties and decrease energy subsidies in order to balance its budget.<sup>10</sup> The minister made the speech at the start of the parliamentary debate on the 2016 finance law, which will underpin the 2016 budget, from 22-25 November.<sup>11</sup> The continued low price of oil has left the country with a \$10.8 billion trade deficit in the first ten months of 2015. So far the government has spent its significant dollar reserves rather than pushing the fiscal burden onto Algerians. However with no long-term prospect of a sharp increase in oil price, this policy is unsustainable. Foreign exchange reserves will have fallen from \$200 billion in 2013 to an estimated \$151 billion by December 2015 and \$121 billion by December 2016.<sup>12</sup>

*“It is better, economically, to introduce incremental taxation increases to allow the population to adjust for the decrease in income...politically this will be very unpopular.”<sup>13</sup>*

Benkhalfa did not offer further detail on what taxes the government would increase, or the precise nature of the import duty rise. Benkhalfa said that the primary cuts to spending would come from the government optimising the state’s resources and tightening spending. However, he said that the government will decrease energy subsidies and increase food, transport, housing and public health subsidies. Subsidy spending will increase 7.5% in total.<sup>14</sup>

*“As you import more oil at a higher price the cost of subsidising it, calculated on a percentage, increases as well...the government can increase other subsidies to ease pressure on consumers and still save money because fuel has increased in cost by more than 7.5%.”<sup>15</sup>*

However, despite the effort to rebalance subsidies rather than simply cutting them, opposition parties angrily protested the measure.<sup>16</sup> Members of the **Front des Forces Socialistes (FFS)** and the **Parti des Travailleurs** (Workers Party) argued against their introduction, and complained that the finance minister was “*dismissive*” when he did not address their comments.<sup>17</sup>

The slowdown in the economy affects a wide range of sectors. **Douanes Algeriennes** (Algerian customs) reported on 8 November that building material imports decreased sharply in the first nine months of 2015.<sup>18</sup> The sharp decrease is symptomatic of the wider economic slowdown that has hit construction and infrastructure projects. Algeria imported \$1.9 billion in building materials from January to September 2015, compared to \$2.62 billion for the same period in 2014, a decline of 27.4%.<sup>19</sup> The decrease of imports in value terms covered all imported building materials including

<sup>8</sup> Al Jazeera, 14 Apr 2014.

<sup>9</sup> Middle East Monitor, 2 Nov 2015.

<sup>10</sup> El Wat, 23 Nov 2015.

<sup>11</sup> Algerie-Focus, 26 Nov 2015.

<sup>12</sup> North Africa Post, 23 Nov 2015.

<sup>13</sup> Source, economist, Tlemcen

<sup>14</sup> North Africa Post, 23 Nov 2015.

<sup>15</sup> Source, economist, Tlemcen

<sup>16</sup> Algerie-Focus, 26 Nov 2015.

<sup>17</sup> Algerie-Focus, 26 Nov 2015.

<sup>18</sup> All Africa, 9 Nov 2015.

<sup>19</sup> All Africa, 9 Nov 2015.

cement, wood, ceramic products, steel and iron according to the national statistics office, **Centre National de l'Informatique et des Statistiques (CNIS)**.<sup>20</sup>

### Sonatrach continues reshape to make ends meet

The government continues to put pressure on state-owned **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** to make ends meet. Energy minister **Salah Khebri** called on the company to increase its output and cut costs in order to offset the decline in oil export revenues.<sup>21</sup> Khebri said on 4 November,

*"We are experiencing a difficult period caused by declining oil prices. The price factor is exogenous as set by the international market, but we can control the level of our production ... The government expects much from Sonatrach. Sonatrach has to seriously handle this aspect [increasing the production]."*<sup>22</sup>

Sonatrach's new team of executives – all of whom have been in the top roles for less than a year – are working hard to meet the government's demands. Sonatrach CEO **Amine Mazouz** said the group will prioritise increasing production while decreasing costs over the next five years. Mazouz assured that the level of hydrocarbon production will increase between 2016 and 2017 and then "substantially" increase from 2019.<sup>23</sup> As part of this strategy Sonatrach vice president **Salah Mekmouche** said on 16 November that the company will focus next year on maximising output at its mature fields and seek out foreign partners with the technology to explore new offshore opportunities.<sup>24</sup> According to Mekmouche:

*"We will orientate around areas that are already well developed, those efforts will be on optimising the mature fields."*<sup>25</sup>

Algeria has struggled to increase oil and gas production and attract foreign oil investment in recent auctions. Last month, the government postponed another oil and gas bid round because of low oil prices.<sup>26</sup> Sonatrach also has a poor reputation for dealing with partners, especially on smaller projects. The company takes months to decide on licence sales – and often exercises its right of first refusal on companies it does not approve of.<sup>27</sup> The licensing process has slowed since 2013 when new oil legislation required Sonatrach to give partners a 51% stake in new projects, effectively giving up control.<sup>28</sup> This means that the state-owned company has undertaken 80% of all exploration work in Algeria for the last two years – a very large financial burden that most state oil firms shift onto smaller specialist exploration companies.<sup>29</sup>

Oil and gas output continues to be low. Sonatrach believes it will reach 190 million tonnes of oil equivalent in 2015. Algeria's energy output peaked at 233 million tonnes of oil equivalent in 2007, before steadily declining to 187 million tonnes in 2012. However, the government projects hydrocarbon output will reach 224 million tonnes of oil equivalent in 2019.<sup>30</sup>

### Implications

The FLN is unlikely to allow the MSP to stand in forthcoming elections. While Bouteflika has isolated the military and intelligence 'old guard' from power since 2013, the ruling *pouvoir* shares his fears

<sup>20</sup> www.allafrica.com

<sup>21</sup> www.aps.dz

<sup>22</sup> www.aps.dz

<sup>23</sup> www.aps.dz

<sup>24</sup> Reuters, 16 Nov 2015.

<sup>25</sup> Reuters, 16 Nov 2015.

<sup>26</sup> Reuters, 16 Nov 2015.

<sup>27</sup> AEI, 11 Nov 2015.

<sup>28</sup> AEI, 25 Sep 2015.

<sup>29</sup> AEI, 25 Sep 2015.

<sup>30</sup> Reuters, 16 Nov 2015.

over another Islamist electoral victory like that in 1990. The growing international tensions around the **Islamic State (IS)** not only feed this fear but give the Bouteflika administration another reason to keep parties like the MSP out of politics. The Algerian army is carrying out continuous operations against Islamist groups linked to the IS and **Al Qaeda in the Islamic Maghreb (AQIM)**. These best illustrate the attitude of the government towards Islamist movements. The rural east and south of the country, which supported the FIS in 1990, currently have low voter turnout which contributes to the FLN's electoral success. This portion of the population is politically disengaged. A failure to address their needs poses a continuing, if moderate, risk to Algeria's political stability.

Part of the way the government keeps the peace is through its generous subsidy scheme. The fact that Benkhalfa is willing to address it shows how desperate the government is to raise funds. Economically it is a good decision – it will rebalance government spending and allow it to shift some of the costs of low energy prices onto consumers. However, politically it will be highly unpopular especially in rural areas and poorer urban areas where the population is subsidy-dependent. Investors should watch the changing taxation landscape as the government may turn to companies with foreign capital to share a greater portion of the tax burden. Increased import duties may also affect the profitability not only of smaller import based businesses but also larger projects that rely on bringing specialist materials into the country.

The new team at Sonatrach has a lot of work to do – the company has deeply entrenched inefficiency due to years of easy operations when the oil price was high. The government is piling pressure on Khebri and his team to turn the company around quickly. However, saying that they will partner with more international companies is not the same as improving the partnering process to make it quicker and more palatable to the oil minors that Sonatrach needs to attract. The next licence auction will be a good barometer of how much those companies are willing to work with Sonatrach and in Algeria – they are investing elsewhere in the region and should need little encouragement to work with Sonatrach on newly favourable terms.

### About Africa Risk Consulting:

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