

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing December 2015

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#### Algeria Summary 17 December 2015

*President Abdelaziz Bouteflika (1999-present) fuels further speculation about his succession following a trip to Paris (France) for medical treatment. Further government press releases about the revised constitution say it gives a great role to opposition parties, which opposition activists greet with scepticism. Algeria and its allies in the Organisation of Petroleum Exporting Countries (OPEC), Iran and Venezuela, are unable to persuade the Gulf States to restrict the supply of crude oil in order to increase the price. Algeria's large grain import needs add a further pressure on the economy and may change the trade balance as Argentina and France bid for the tenders.*

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#### Bouteflika and the constitution – managed succession?

Algeria's president, **Abdelaziz Bouteflika** (1999-present), is attempting to manage his succession through the new draft constitution that the presidency released in part in November (see *ARC Briefing Algeria November 2015*). He has also purged the top levels of the intelligence services and close military advisors, moving technocrats and favoured businessmen into top positions. However, the new constitution may have more to do with keeping power within a small elite than handing it back to the people.<sup>1</sup>

Bouteflika is running out of time. He travelled to **Paris (France)** for what the state news agency described as a “*routine checkup*”<sup>2</sup> from the 3-5 December.<sup>3</sup> Despite the assurances that the check-up was “*routine*”, any journey to Paris is only necessary when the president's extensive live-in medical team is unable to treat him effectively. Bouteflika's visit to Paris increases the possibility that he is getting worse.<sup>4</sup> The last time the president travelled to Paris was in 2013 when he suffered a stroke and went for treatment in the military hospital in Paris.<sup>5</sup> If Bouteflika dies in office, it will trigger an election and succession battle involving his powerful brother **Said Bouteflika**, senior technocrats such as prime minister **Abdelmalek Sellal**, members of his **Front de Libération Nationale (FLN)** ruling party, and members of the formal and informal Islamist opposition. Sources close to the administration say that the president is working hard to avoid this:

*“The president does not want to undo all the progress made during his first three terms in office...the new constitution will make sure that we do not descend into the chaos [of the 1990s civil conflict] again.”<sup>6</sup>*

Algeria is awash with rumours about the president's plans, especially after the national assembly speaker **Mohamed Larbi Ould Khelifa** announced that the government will enact the new constitution in the “*near future*”.<sup>7</sup> The Bouteflika administration started the process of revising the constitution in 2011, and the president promised to implement it after he won the 2014 presidential

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<sup>1</sup> El Watan, 17 Dec 2015.

<sup>2</sup> APS, 3 Dec 2015.

<sup>3</sup> APS, 4 Dec 2015.

<sup>4</sup> Source, political journalist, Algiers

<sup>5</sup> US News, 3 Dec 2015.

<sup>6</sup> Source, ties to the Bouteflika administration, London

<sup>7</sup> APS, 12 Dec 2015.

election.<sup>8</sup> However, the administration remains tight lipped on the details. It announced in October that it would not allow Islamist parties to run for office<sup>9</sup> but would give a “greater role” to opposition parties.<sup>10</sup> This is tied in with an expanded role for the prime minister – one of Bouteflika’s closest allies – and the legislature to hold the government to account.<sup>11</sup> However, Khelifa also criticised opposition parties for opposing the government’s plans saying: “statements which are hostile to the state do not serve the interests of the political class or Algeria.”<sup>12</sup>

Some sources within the administration claim that he is planning to step down and call an early election as soon as the constitution is ratified.<sup>13</sup> The president’s advisors have visited a number of **European** embassies in recent weeks to strongly imply that this is the case.<sup>14</sup> Diplomatic sources say that they are trying to reassure Europe – Algeria’s major trading partner – that the regime is not going to destabilise as has happened at the end of other long-standing African leaders’ time in power.<sup>15</sup>

*“The constitution is the president’s final act in our long road to democracy.”<sup>16</sup>*

However, many others are more sceptical. Some view the constitution as a way of extending the power of the *pouvoir* – the powerful group of technocrats, military figures and business leaders who surround the president.

*“The constitution is a way for the pouvoir to retain power while allowing for greater democratic input...they are still locking many parties out of the democratic process, and will only let the people vote on who they want to win.”<sup>17</sup>*

Others believe that it is Bouteflika himself who will not relinquish power, simply because it is not in his nature to do so. Bouteflika’s close advisors have reached out to opposition parties, the **Front des Forces Socialistes (FFS)** and the **Parti des Travailleurs** (Workers Party), and promised them a stake in the constitutional revisions, but no such opportunity has materialised.<sup>18</sup>

*“Bouteflika is not a man who will just leave power, he will hang on as long as he can...we have heard FLN members promise us many things but they never happen.”<sup>19</sup>*

The fact remains that when Bouteflika goes, even if the constitution is fully enacted, the successor will come from within the ruling coalition. Bouteflika won 82% of the vote in 2014; his ruling coalition includes the FLN and parties such as the **Rassemblement National Démocratique (RND)** that are made up entirely of ex-FLN figures. RND secretary general **Ahmed Ouyahia** was prime minister three times under Bouteflika and is one of those tipped to succeed him.<sup>20</sup> Other potential candidates include FLN secretary general **Amar Saâdani**, and former foreign affairs minister and close friend of Bouteflika **Lakhdar Brahimi**.<sup>21</sup>

The lack of real choice is already leading to widespread voter apathy. In 2014 official results showed that only 11.6 million of 22.9 million registered voters took part and nearly 10% of ballots were

<sup>8</sup> Mondafrique, 17 Dec 2015.

<sup>9</sup> See ARC Briefing Algeria October 2015

<sup>10</sup> APS, 12 Dec 2015.

<sup>11</sup> Mondafrique, 17 Dec 2015.

<sup>12</sup> APS, 12 Dec 2015.

<sup>13</sup> Source, ties to the Bouteflika administration, London

<sup>14</sup> Mondafrique, 17 Dec 2015.

<sup>15</sup> Mondafrique, 17 Dec 2015.

<sup>16</sup> Source, ties to the Bouteflika administration, London

<sup>17</sup> Source, political journalist, Algiers

<sup>18</sup> El Watan, 17 Dec 2015.

<sup>19</sup> Source, opposition politician, Algiers

<sup>20</sup> Reuters, 10 June 2015.

<sup>21</sup> Liberté, 26 Nov 2015.

spoiled.<sup>22</sup> Opposition parties with ties to Islamism such as the **Mouvement de la Société pour la Paix (MSP)** are locked out of the process altogether,<sup>23</sup> further alienating the voter base.

### Algeria still out in the cold after OPEC meeting

Algeria's efforts to increase the price of oil through persuading the **Organization of Petroleum Exporting Countries (OPEC)** to reduce supply have stalled. At a formal OPEC meeting in **Vienna (Austria)** on 4 December, the cartel members did not agree a production ceiling for crude oil.<sup>24</sup> However, Algeria has continued to build relations with its allies within OPEC and will lobby for restriction of supply in 2016. Petroleum minister **Salah Khebri** met **Iran's** deputy oil minister **Rokneddin Javad** in **Algiers** on 16 December.<sup>25</sup> The two told the press that they would continue to work to build consensus within OPEC to restrict supply in order to increase the price of oil.<sup>26</sup> Khebri attacked the **Gulf States** within OPEC saying that they:

*"ignored the collective benefit role of OPEC...they only see benefit to individual member states."*<sup>27</sup>

Algeria and its allies within OPEC have lobbied the more influential members to cut down production to raise the price of oil, which Algeria relies upon for over 90% of export receipts. The news that OPEC did not reach consensus on production cuts contributed to the price of crude oil falling to under \$40 per barrel on 4 December.<sup>28</sup> Production continues to increase and global oil production is set to exceed demand by 30 million barrels per day.<sup>29</sup> Oil ministers from a number of OPEC countries held an informal meeting on the issue on 3 December, but failed to reach an agreement on capping output.<sup>30</sup> **Saudi Arabia, Iraq, Iran, the United Arab Emirates, Venezuela, Ecuador, Kuwait, Nigeria** and Algeria attended the meeting.<sup>31</sup> Following the formal OPEC meeting, Nigerian oil minister **Emmanuel Ibe Kachikwu** confirmed that a second meeting before 2 June was possible if oil prices continued to fall.<sup>32</sup> However, Iraq's minister for oil, **Abdul Karim Luaibi**, criticised Algeria and its allies' agenda saying:

*"If non-OPEC [oil producing countries] don't have a ceiling, why should OPEC have one?"*<sup>33</sup>

Algeria's foreign minister has previously pledged support to Venezuela during failed efforts in October to broker agreements between OPEC members regarding the reduction of supply to boost prices.<sup>34</sup> Saudi Arabia implemented the current policy of overproduction, aimed at out-competing suppliers with higher production costs.<sup>35</sup> Lower oil prices have serious impacts upon revenue for Algeria, which relies upon the oil and gas sectors for 35% of GDP, and is expecting a 50% decrease in government revenues due to the low price.<sup>36</sup> Saudi Arabia is the most influential player within OPEC and is revisiting restricting supply. OPEC's decisions must be passed unanimously, resulting in a stalemate between OPEC countries that can withstand lower revenue and those that cannot.<sup>37</sup>

<sup>22</sup> Africa Report, Nov 2015.

<sup>23</sup> See ARC Briefing Algeria November 2015

<sup>24</sup> Reuters, 4 Dec 2015.

<sup>25</sup> APS, 17 Dec 2015.

<sup>26</sup> APS, 17 Dec 2015.

<sup>27</sup> APS, 17 Dec 2015.

<sup>28</sup> Oil price.org, 4 Dec 2015.

<sup>29</sup> Al-Masry Al-Youm, 8 Dec 2015.

<sup>30</sup> Reuters, 3 Dec 2015.

<sup>31</sup> Reuters, 3 Dec 2015.

<sup>32</sup> Reuters, 4 Dec 2015.

<sup>33</sup> Reuters, 4 Dec 2015.

<sup>34</sup> Bloomberg, 26 October 2015.

<sup>35</sup> FT, 3 Dec 2015.

<sup>36</sup> OPEC Annual Statistics Bulletin, 2015.

<sup>37</sup> FT, 3 Dec 2015.

## High value grain import tenders could reshape trade balance

The state-owned wheat importer, **Office Algérien Interprofessionnel des Céréales (OAIC)**, has released details for an 800,000-870,000 tonne milling wheat tender on 10 December for shipment in February and March 2016.<sup>38</sup> Concerns over where the country is able to source wheat cast further uncertainty over Algeria's already stretched budget. A significant increase in the wheat price would take a significant financial toll at a time when low oil prices have created a significant budget deficit.

Algeria is a major importer of wheat and imported 7.5m tonnes over the 2014/2015 financial year.<sup>39</sup> It is the second largest importer of the grain in the world after regional neighbour **Egypt**.<sup>40</sup> This makes it an attractive market for net exporting countries that are competing for the tenders that fulfil Algeria's requirements for just two months.<sup>41</sup> **Argentina** is a possible alternative source to Algeria's traditional supplier, **France**.<sup>42</sup> France has suffered two successive poor harvests.<sup>43</sup> This rising competition follows a wheat deal in November granted to the **Baltics** at France's expense, due to higher prices of French wheat.<sup>44</sup> Argentinian president **Mauricio Macri** has announced plans to remove the wheat export tax on 14 December in an effort to compete for markets such as Algeria.<sup>45</sup> If Argentina were to win the contract, it would be a symbolic shift away from the Europe-centric trade pattern that Algeria has stuck to since independence.

The need to import grain places pressure on the economy, which is already feeling the effects of reduced receipts from fuel exports due to the low price of oil (see above). The government passed an amended 2016 budget law on 30 November,<sup>46</sup> which implemented a 9% decrease in government expenditure through cutting gasoline, diesel, gas, and electricity subsidies.<sup>47</sup> The government may consider delaying infrastructure projects as further austerity measures are planned.<sup>48</sup> The **International Monetary Fund (IMF)** has encouraged the government to cut spending by more than 9%, and cut subsidies of basic food items and petroleum.<sup>49</sup>

## Implications

Bouteflika's successor will come from within the ranks of the *pouvoir*. The question is which faction within the ruling elite will come out on top. The president appears deliberately coy over naming a successor. He keeps the major players: Sellal, Saâdani, and Brahimi close, alongside the major power brokers – his brother and the general chief of staff **Ahmed Gaid Salah**. The president would like to keep private any major differences between the players and deal with them within the ruling coalition, firmly behind closed doors. It is a managed succession of sorts – where the process will be kept internal but there will not be a chosen successor.

Algeria's efforts to lobby within OPEC will not yield a result while Saudi Arabia remains opposed to reducing production. The Gulf States' reticence to reduce supply rests on concerns about the ability of non-OPEC producers – especially the **United States (US)** – to take OPEC's dominant position in the global market. However, the renewed ties between Algeria with Iran, Nigeria and Venezuela are likely to move beyond oil negotiations as they form a non-Gulf centered power block. This is likely to initially take the form of political cooperation but could move into other forms of trade and cross-investment.

<sup>38</sup> Reuters, 14 Dec 2015

<sup>39</sup> Agrimoney, 3 Sep 2015.

<sup>40</sup> Agrimoney, 3 Sep 2015.

<sup>41</sup> Reuters, 14 Dec 2015

<sup>42</sup> Reuters, 14 Dec 2015

<sup>43</sup> Agrimoney, 3 Sep 2015.

<sup>44</sup> Agrimoney, 25 Nov 2015

<sup>45</sup> Reuters, 14 Dec 2015

<sup>46</sup> For detail, see ARC Briefing Algeria November 2015

<sup>47</sup> Reuters, 30 Nov 2015.

<sup>48</sup> Egypt Oil & Gas, 1 Dec 2015.

<sup>49</sup> Al Jazeera, 30 Nov 2015.

Algeria's role as a major importer of wheat gives it an opportunity to select its primary trading partner. France and Algeria have a strong history of trade and political cooperation, and selection of Argentina over France could anger the powerful French agricultural lobby. However, ties outside of the **Eurozone** would give Algeria the opportunity to seek more trade and investment with markets with greater potential for growth. In the current difficult economic climate, the quicker the government can push economic diversity, the better.

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