

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing February 2015

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#### Algeria Summary 25 February 2015

*The European Union (EU) announces its intention to develop strategic gas supply relationships with Algeria and other producers on the fringe of Europe in order to reduce dependency on supplies from Russia. The policy will take some years to implement but potentially offers Algiers a bigger long-term share of the European market and will boost confidence as it struggles to cope with the sharp fall in global oil and gas prices since mid-2014. President Abdelaziz Bouteflika (1999-present) hosts visiting delegations from Europe, Japan, Russia and Kenya, but political uncertainty remains high over his poor health and the apparent absence of a succession plan. Local opposition to shale gas exploration in the south continues, as state oil and gas company Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach) announces the discovery of three new oil fields. The signing of a UN-sponsored peace agreement in Mali opens the possibility of greater stability on Algeria's porous southern border.*

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#### Europe's search for new strategic energy partners offers Algeria an opportune lifeline

The **European Commission (EC)**, the administrative arm of the **European Union (EU)**, published a new so-called "Union Energy Package," a strategy paper centred on diversifying oil and gas supplies, on 26 February. In a major shift in policy, the commission has proposed that the EU turn to alternative gas suppliers, including Algeria, following recent "*political challenges*" in its relations with **Russia** – including the **Ukraine** crisis and the cancellation of the Russia-led **South Stream** gas pipeline. The paper stated:

*"As part of a revitalised European energy and climate diplomacy, the EU will use all its foreign policy instruments to establish strategic energy partnerships with increasingly important producing and transit countries or regions such as Algeria and **Turkey**; **Azerbaijan** and **Turkmenistan**; the Middle East; Africa and other potential suppliers."*<sup>1</sup>

In a sign that the policy shift is looking beyond the short term, the paper added that the EU would only reconsider its energy relations with Russia "*when the conditions are right*". The EU currently sources around 45% of its gas from outside sources,<sup>2</sup> with Russia supplying around 27% of overall supply (60% of imports), compared to 8% (16% of imports) from Algeria and 5% (11% of imports) from **Qatar**.<sup>3</sup> The new strategy makes clear that the EU will intensify efforts to develop the so-called '**Southern Gas Corridor**', which will enable **Central Asian** countries to export gas to Europe, followed by **Central** and **Eastern Europe**, and the **Mediterranean** area. Ahead of the document's release, **Maros Sefcovic**, EC commissioner responsible for energy, said that the EU should diversify its energy sources and lessen its dependence on **Gazprom**.

*"I think that Europe has really got tired of each summer having a discussion of how to make it through the next winter. The world's biggest economy should not have such concerns in the 21st century. Russia will remain a very important supplier but its influence will lessen."*

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<sup>1</sup> www.rt.com

<sup>2</sup> Counting Norway as an indigenous European supplier even though it is not an EU member state

<sup>3</sup> Source, Eurogas, Statistical report 2014

Sources in Algeria say that the policy shift potentially throws a lifeline to the country's gas sector, which accounts for a huge percentage of Algeria's foreign exchange earnings. The fall in global energy prices since mid-2014 has hit government finances significantly and threatens to destabilise the country (see *ARC Briefings Algeria for December 2014 and January 2015*).

*"The prospect of long-term supply deals with Europe – potentially doubling Algeria's market share – is a godsend to **Algiers**. Although prices are back up to the \$60 a barrel level, they probably won't reach \$100 in the near term. The key in such a volatile environment is at least having the security of contracts, and there is no better or more reliable buyer than the EU. Algiers has been scrambling for new supply deals since the price collapse last year."*<sup>4</sup>

The commission proposal is unlikely to take practical shape for a few years. At its heart is a controversial proposal to create a single European energy market and leverage the buying power of the world's biggest market with suppliers, instead of the 28 separate national energy policies and contracts with suppliers. It also faces opposition from countries like **Germany** and the **United Kingdom (UK)**, which want to see less EU involvement in domestic energy matters, and from allies of Russia, such as the government of prime minister **Viktor Orbán** in **Hungary**. Nevertheless, sources believe that the prospect of lower energy prices for industry and consumers across Europe is too attractive to lead to outright rejection of the paper within the EU.

As if sensing the threat to Russia's market position in Europe, foreign minister **Sergei Lavrov** began a visit to Algiers the week of 25 February. Other official visitors this past month have included **British** foreign secretary **Philip Hammond**, his **Netherlands** opposite number **Bert Koenders**, and **Kenyan** president **Uhuru Kenyatta** (2013-present), as well as a delegation from **Japan** (the first-ever full economic delegation).

### **Bouteflika's health dominates political debate**

President **Abdelaziz Bouteflika** (1999 – present) continues to be largely absent from public view, apart from meeting occasional foreign visitors. He is reportedly living in a house on the outskirts of Algiers in a semi-immobile state but with his mental faculties intact. But political debate inside the country is now almost solely focused on his health, an assumption that he will not see out his current presidential term (until 2019) and on potential successors, to the detriment of major policy dossiers. The speculation is being fed by a dearth of official communications on the health question. For example, a hoax internet report on 24 February, to the effect that Bouteflika had died that day, went viral within minutes but was not rebutted by the government until the following day.

### **The drive for shale hits a problem...**

In Algeria's deep south, daily protests against a pilot hydraulic fracturing project are now well into their second month. The demonstrations have spread to several more towns and have given Algeria's fragmented opposition political parties a sustained platform at a precarious moment for the government – in economic terms as oil prices have slumped, and in political terms, given Bouteflika's continuing poor health. There are signs that the southern protests are being taken up by urban activists. Hundreds of police officers sealed off streets to block an anti-fracking march in the capital, Algiers, on 24 February, as opposition groups held rallies in solidarity with the southern protesters.

The shale pilot programmes are showing signs of technical success but the challenge is convincing a sceptical local population of the benefits. The need for copious supplies of water for fracking – in highly-arid parts of the country bordering the **Sahara** – has alarmed ordinary people already living on the margins.

<sup>4</sup> Source, former senior European diplomat with responsibility for Algeria policy

*“The anti-fracking demonstrations and protests have the potential to act as a rallying issue for a much wider range of social and political grievances in Algeria. The government was never popular when oil was \$100 a barrel and it spent liberally on social programmes. At \$60 a barrel, it has fewer means to buy popular acquiescence and legitimacy.”<sup>5</sup>*

### Algeria and UAE boost military cooperation...

In talks held at the end of February, Algeria and the **United Arab Emirates (UAE)** took steps to strengthen military cooperation. The talks were held in **Dubai** between national defence minister and army chief of staff, lieutenant- general **Ahmed Gaid Salah** and lieutenant-general **Hamad Mohammed Al Rumaithi**, UAE chief of staff. Algeria is a prominent ally of Arab states keen to roll back the popular political openings created by the 2011 **Arab Spring**, notably **Egypt**, and both UAE and Algeria have been promoting similar factions in **Libya’s** internal conflict.<sup>6</sup>

### Mali signs UN-sponsored ceasefire with northern rebels...

The **Mali** government signed a ceasefire deal with an alliance of six ethnic **Tuareg** northern rebel groups in a bid to end the long running unrest in the country's north. The agreement followed a fifth round of talks hosted by Algeria and requires a cessation of hostilities and provocations, and confidence-building measures by both sides, including the release of prisoners.

*“This is the first step towards securing a more durable solution in northern Mali and improving security in the wider **Sahel**. We have seen such ceasefires and agreements break down before, so no one should be complacent. If progress can be made on the genuine grievances of the Tuareg while keeping Mali a unitary state, we may gradually see an end to the conditions that have allowed extremist Islamism to prosper in the general insecurity. As of this week, the prospects for improving security along Algeria’s southern border look good, but we’ll only know for sure six or twelve months from now.”<sup>7</sup>*

### A half-hearted UN attempt to address the Western Sahara question...

The Personal Envoy of the **United Nations (UN)** secretary-general, **Christopher Ross**, visited Algiers as part of a series of regional visits to try to kick-start dialogue to resolve the 40-year impasse on the status of **Western Sahara**. Ross met Bouteflika, who restated Algeria’s long-standing position on the need for a referendum on the territory’s future status.

*“The Western Sahara issue is going nowhere. **Morocco** will not allow a referendum in the territory unless it knows it will win – and the **Sahrawi** will never agree to a plebiscite unless it is open and transparent (which it will likely win). Algeria, for its part, will oppose any attempts to encourage some form of autonomy for Western Sahara inside Morocco, as the UN and Morocco’s main allies, **France** and the **United States (US)**, appear to want. Frankly, the Algerians will block any solution that helps Morocco. The elite in Algiers remember well attempts by the Moroccans to demand concessions on Western Sahara in return for helping the Algerian state in the civil war against Islamists in the 1990s. The Algerians saw that as attempted blackmail when they had their backs to the wall and they have long memories.”<sup>8</sup>*

At the same time, the **World Food Programme (WFP)** and other UN agencies launched an appeal to regional donors to boost food and logistical support to refugees in Algeria, many of whom have lived in remote camps in and around **Tindouf** in the south west since the 1970s.

<sup>5</sup> Source, Algerian political analyst

<sup>6</sup> Source, defence analyst, Dubai

<sup>7</sup> Source, defence analyst

<sup>8</sup> Source, Algerian political adviser

## Oil news....

Against a backdrop of lower wholesale prices, state-owned **Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach)** has announced the discovery of three new gas fields. According to a statement by Sonatrach CEO **Said Sahnoun** on 25 February, the company had found the three gas fields since the beginning of January 2015. The first new discovery was made in **Touggourt** region, the second in **Ghardaia** and the third was discovered in **El Bayadh**. Sahnoun called the initial flow results from the new sites "*extremely encouraging*" and estimated that each ranged between 3,000 and 4,000 barrels-equivalent per day and commercially viable, despite the downturn in wider sector exploration and production activity.

## Implications

The EU's announcement that it will prioritise Algeria and a select group of other gas producers over Russia in the coming years offers a potential long-term lifeline to the Algerian economy and short-term breathing space for a ruling elite trying to manage a vulnerable financial position. Investors in the sector look long term, and the possibility that Algeria could (in principle) double its market share in Europe will encourage existing investors to stay. It may also push new investors to take Algeria seriously (despite the barriers to doing business; see *ARC Algeria December 2014 Briefing*).

Until recently, with oil prices over \$100 a barrel, Algiers had been happy to be a Russian ally and dictate its terms to European gas buyers, in an informal cartel. With prices now at half their January 2014 level, it has a lot less room for manoeuvre. Although Algeria has built up financial reserves of around \$200 billion on the back of high energy prices these past five years, it also has some of Africa's highest public subsidies, social spending and the continent's second-biggest army. Most economists estimate that the fiscus requires oil to hold at around \$120 a barrel in order to break even.

The flurry of diplomatic activity involving Algiers in the past month has a number of diverse drivers. A fear of militant Islam spreading across the region and threatening Algeria across its porous borders is driving closer military cooperation with allies like Egypt and UAE, and prompting Algerian leadership in tackling instability next door (eg, in Mali). The Algerian government also has a barely-disguised objective of rolling back the Arab Spring, notably in neighbouring **Tunisia** and **Libya**. Popular demands for democratic change are arguably a bigger threat to the regime in Algiers than political Islam and, knowing how quickly protests spiralled during the Arab Spring, the government will view with alarm the increased willingness of Algerians to indulge in public protest. (Alongside the shale gas story, a less-reported development has been the authorities' arrest of labour union activists in recent weeks, ostensibly for organising workers' protests).

At the same time, mutual pride and distrust continues to prevent Morocco and Algeria from mending fences and deepening economic cooperation. The Western Sahara problem is a symptom of a much wider problem of regional rivalry between the two. For Morocco, better relations with Algeria would mean the re-opening of trade with a major importing neighbour via rail and other transport links that have been suspended for some years. And for Algeria, more trade with Morocco (a net energy importer) would mean more jobs for the disaffected youth and less need for expensive state subsidies and programmes.

The ongoing soap-opera that is Bouteflika's health – and the uncertainty about succession – is adding to political risk premiums for potential investors in the market and shows no sign of ending. The resulting paralysis in government also potentially complicates the state's response if popular demonstrations were to become bolder and more coordinated.