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President Abdelaziz Bouteflika (1999-present) visits a private medical clinic in Switzerland for medical check-ups prompting further speculation about his health and his potential successor. The oil and gas ministry announces that Algeria will target a 15% increase in gas exports to the European Union (EU) in 2016. State-owned oil and gas company Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach) awards tenders worth \$220m to five companies in the oil and gas sector. The government tables a draft bill in parliament which offers incentives for international companies to invest in the oil and gas sectors. These include VAT exemptions and streamlining of Algeria's bureaucratic processes for registering an internationally owned business.

Bouteflika visits Switzerland for medical reasons

President **Abdelaziz Bouteflika** (1999-present) visited a private medical clinic in **Switzerland** from 24 to 30 April, sparking further speculation about his ailing health.¹ The 79-year-old president is in poor health following a stroke in 2013 and many commentators believe that he is likely to succumb to his illness before the end of his fourth term in 2019.² The presidency released a statement saying that Bouteflika flew to **Geneva** for “periodic medical tests”.³ The president made a brief media appearance when he arrived back in Algeria; although he appeared frail, he was able to walk unaided.⁴ However, the president's health is clearly failing. He makes rare appearances in public, usually to greet foreign dignitaries, is in a wheelchair and has clear difficulty speaking.⁵ According to local sources:

“The president's health is now a morbid matter of fascination for us....everyone has a date for when they think he will go, and nobody believes much will change after he has gone.”⁶

Potential successors to the president include **Amar Saâdani**, the current secretary general of Bouteflika's **Front de Libération Nationale (FLN)**; **Ahmed Ouyahia**, the president of the **Rassemblement National Démocratique (RND)**, part of the ruling coalition; and recently returned former energy minister **Chakib Khelil**, whom local commentators speculate is the current favourite of Bouteflika's powerful family.⁷ Khelil fled Algeria in 2013 after the government issued an arrest warrant for alleged involvement in bribery at state-owned oil and gas company, **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)**.⁸

A video and photograph that **French** prime minister **Manuel Valls** posted during a press conference on 10 April has prompted the latest round of speculation.⁹ In it Bouteflika struggles to speak and

¹ APS, 24 Apr 2016.

² Liberté, 24 Apr 2016.

³ APS, 25 Apr 2016.

⁴ AfricaNews, 30 Apr 2016.

⁵ Liberté, 24 Apr 2016.

⁶ Source, journalist, Algiers

⁷ Alaraby, 10 May 2016.

⁸ Alaraby, 10 May 2016.

⁹ Liberté, 24 Apr 2016.

move his upper body and head.¹⁰ The video has led to widespread criticism of Valls in Algeria.¹¹ **Louisa Hanon**, the leader of the **Parti des Travailleurs (PT)** and a long-term opponent of Bouteflika, told the press:

*"[T]he publication of this is a crime, the image is humiliation...it was a deliberate act of aggression [against Algeria]."*¹²

It is also a possible reason why Bouteflika did not return to France for his medical check-ups, as he did in 2014 and 2015, opting to go to Switzerland instead.¹³

Algeria to increase gas exports to EU by 15%

The oil and gas ministry on 4 May announced that Algeria plans to increase its exports of natural gas to the **European Union (EU)** by 15% in 2016.¹⁴ Algeria is focusing on increasing its natural gas exports in order to rescue its hydrocarbons industry following the decrease in the price of oil since 2013. Algeria exported 44 billion cubic metres of gas to large EU markets **Italy, Spain, France, Turkey** and **Portugal** in 2015, down from 48 billion cubic metres in 2013 and 45 billion cubic metres in 2014.¹⁵ However, exports have grown steadily since Q4 2015.¹⁶ According to **Omar Maaliou**, the deputy general manager in charge of marketing at Sonatrach:

*"We already recorded significant growth in the first four months of 2016 as exports recorded a growth of over 30% compared with the same period year-on-year."*¹⁷

The strong growth is partly the result of two new liquefied natural gas (LNG) plants that the state commissioned in 2013 and 2014, as well as an increase of traffic through three export pipelines – two to Spain and one to Italy.¹⁸ This year will see further growth as four gas fields in the south-west of the country come online.¹⁹ On the EU side, many countries are keen to diversify their sources of gas to reduce reliance on major gas exporter **Russia**.²⁰ Officials from the EU meet their counterparts in Algeria on 23 and 24 May for closed door meetings to discuss increased cooperation on natural gas and renewable energy.²¹ Many EU contracts are due to expire in 2020, and some sources believe that the EU will try to renegotiate on price:

*"The current market conditions put producers in a weak position; the EU will try and bring down the price of gas."*²²

In order to meet the government's targets, Sonatrach has continued its trend of awarding numerous tenders to international companies (see *ARC Briefing Algeria January 2016*).²³ It awarded tenders worth \$220m to five oil and gas services firms.²⁴ It awarded, on 8 May, a \$75m contract to **United States (US)**-based oil services and development firm **Schlumberger** for cementing and pumping services, and a similar contract to US-based oil services firm **Weatherford** worth \$11m.²⁵ US-based **Baker Hughes** won a \$50m contract for unspecified services through its local subsidiary **BJSP**, a joint

¹⁰ AFP, 10 Apr 2016.

¹¹ Middle East Eye, 24 Apr 2016.

¹² Hanon in Middle East Eye, 24 Apr 2016.

¹³ Middle East Eye, 24 Apr 2016.

¹⁴ Liberté, 4 May 2016.

¹⁵ Liberté, 4 May 2016.

¹⁶ Liberté, 4 May 2016.

¹⁷ Maaliou in Reuters, 4 May 2016.

¹⁸ Liberté, 4 May 2016.

¹⁹ Reuters, 4 May 2016.

²⁰ Reuters, 4 May 2016.

²¹ Reuters, 4 May 2016.

²² Source, industry analyst, London

²³ Rigzone, 8 May 2016.

²⁴ Rigzone, 8 May 2016.

²⁵ Rigzone, 8 May 2016.

venture with state-owned **Entreprise Nationale de Services aux Puits (ENSP)**.²⁶ **United Arab Emirates (UAE)**-based **National Petroleum Services (NPS)** won a fourth contract for \$44m.²⁷ Sonatrach's hydrocarbon transport subsidiary, the **Hyproc Shipping Company**, awarded a \$40m tender to deliver a liquefied petroleum gas (LPG) carrier vessel to **China**-based **Jiangnan Shipyard** and the **China Shipbuilding Trading Company Ltd** on 16 May.²⁸ The contract is for the provision of a carrier with a capacity of 11,000-13,000 cubic metres (m³).²⁹ It also reportedly comes with an option to provide a second carrier, on a similar basis to the first.³⁰ The vessel will add to Hyproc's existing fleet of eight liquefied LNG carriers and six LPG carriers.³¹

New investment law to encourage non-hydrocarbon sector growth

The government put a new investment law before parliament on 28 April to encourage economic diversification beyond the hydrocarbon sector.³² The administration is struggling to reduce spending as the low price of oil continues to restrain export revenues. The new law offers incentives to both local and foreign based businesses to invest in non-oil and gas sectors.³³ The incentives on offer include tax breaks and measures to streamline bureaucratic procedures that are reportedly one of the main hurdles to investing in the country.³⁴ The law will apply to all non-hydrocarbon sectors. However, industry, agriculture and tourism are sectors that will enjoy unspecified additional benefits under the new scheme.³⁵

*"Algeria is a complex market to enter, there are concerns over red tape, potential corruption and political exposure...any law that makes that process more transparent is good but the power of the political elite is still a concern."*³⁶

The new law would exempt all imported goods and services intended for investment projects from customs duties and value added tax (VAT).³⁷ Investments will also get 10-year exemptions from tax on property used for eligible projects.³⁸ Eligible projects will also be able to apply for a three-year exemption from tax on profits from the project's start date.³⁹ The government will also subsidise all infrastructure costs needed for projects to function.⁴⁰ The bill reduces some of the legal barriers preventing parastatals from entering into joint ventures with investors as well as reducing the time required to issue permits to operate and build.⁴¹ Now that the cabinet has approved the bill, it will go before parliament for debate where the government's majority should easily pass it later in 2016.⁴² Trade and industry minister **Abesslem Bouchouareb** told the media:

*"The bill provides for new mechanisms to ensure support to investors, the improvement of the business climate, local decision making and the creation of a new one-stop shop [for all bureaucratic processes]."*⁴³

²⁶ Rigzone, 8 May 2016.

²⁷ Rigzone, 8 May 2016.

²⁸ Reuters, 16 May 2016.

²⁹ Reuters, 16 May 2016.

³⁰ Reuters, 16 May 2016.

³¹ Reuters, 16 May 2016.

³² Le Matin, 28 Apr 2016.

³³ Le Matin, 28 Apr 2016.

³⁴ Le Matin, 28 Apr 2016.

³⁵ Le Matin, 28 Apr 2016.

³⁶ Source, investment professional, London

³⁷ Le Matin, 28 Apr 2016.

³⁸ Le Matin, 28 Apr 2016.

³⁹ Le Matin, 28 Apr 2016.

⁴⁰ Le Matin, 28 Apr 2016.

⁴¹ Reuters, 28 Apr 2016.

⁴² Reuters, 28 Apr 2016.

⁴³ Bouchouareb, Le Matin 28 Apr 2016.

The new bill is part of the government's plans to rebalance the economy, which it started in mid-2014 shortly after the price of oil initially fell.⁴⁴ It has already cut spending 9% in 2016, approved increases in subsidised fuel and gas prices and is in the process of launching a domestic bond sale as a new source of finance.⁴⁵ Algeria's economy grew 3.9% of gross domestic product (GDP) in 2015 according to treasury figures released 25 April.⁴⁶ The rate is higher than the treasury's own projections of 3.8% and those of the **International Monetary Fund (IMF)** of 3.7%.⁴⁷ The increased growth is primarily a result of strong performance in the agricultural sector.⁴⁸ Agricultural output grew by 7.6% in 2015, up from 2.5% in 2014.⁴⁹ Algeria's grain output reached 4 million tonnes, a 14.3% increase from the previous year.⁵⁰ Meanwhile, the hydrocarbon sector, which still accounted for 60% of government revenues, grew by just 0.4%, although increased from a 0.6% decline in 2014, when the price of oil steadily decreased across the year.⁵¹ Averaged growth from the non-oil and non-agricultural sectors was 5.5% in 2015, 0.1% lower than the 5.6% it grew in 2014.⁵²

Implications

Bouteflika is clearly in poor health and will therefore visit his doctors often for medical check-ups. It is not unlikely that the current visit was routine as the government said. What is more interesting is the continued positioning of potential successors. The return of Khelil to Algeria, with no hint of investigation for his alleged corruption, has changed the landscape of potential successors. Khelil enjoys the support of the Bouteflika family, the army, and much of the FLN. Saâdani, a potential rival, is also a close friend of Khelil and has repeatedly defended him from allegations of corruption. Therefore, it would be difficult for Saâdani to launch a campaign against him. Local news sources are making comparisons of Khelil's return to Bouteflika's return to the country in 1998 which preceded the army putting him in place as president.

One part of Algeria's economic recovery plan involves expansion of its gas markets into the EU. Before the price of oil crashed it did not need to rely on gas and the government viewed it as a secondary commodity. However, as gas has held its value better than oil and demand continues to grow, the energy ministry and Sonatrach are focusing their efforts on developing the sector. Sonatrach continues to involve large numbers of international companies in the sector, in contrast to its previous approach of keeping them out, which will aid this market expansion.

The second part of the recovery involves building non-hydrocarbons sectors. Again the government is looking internationally for investors and expertise, removing some of the more burdensome barriers to doing business in the country. The government has learnt from regional neighbours such as **Morocco** that it can offer a low cost alternative for EU companies looking for a manufacturing base for domestic markets, as well as a stable point of access to the rest of Africa.

⁴⁴ Reuters, 28 Apr 2016.

⁴⁵ Reuters, 28 Apr 2016.

⁴⁶ APS, 25 Apr 2016.

⁴⁷ APS, 25 Apr 2016.

⁴⁸ Reuters, 25 Apr 2016.

⁴⁹ Reuters, 25 Apr 2016.

⁵⁰ Reuters, 25 Apr 2016.

⁵¹ Reuters, 25 Apr 2016.

⁵² Reuters, 25 Apr 2016.

About Africa Risk Consulting:

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