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President Abdelaziz Bouteflika (1999-present) makes his first public appearance in two months to quieten calls from the opposition for an early election due to his failing health. The president did not speak at the event, and his brother Said Bouteflika pushed him in a wheelchair. Major oil producing countries fail to reach an agreement on reducing global supply at an informal meeting in Algiers from 26 to 28 September. Disagreements between Saudi Arabia and Iran over caps to production derailed the process, which offers little hope for Algeria's budget deficit. State-owned oil and gas company Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach) promises to bring three new natural gas plants online in 2017, as it works to hold its market share in the European Union (EU) by increasing production.

Bouteflika makes rare public appearance to silence election calls

President **Abdelaziz Bouteflika** (1999-present) made his first public appearance in two months on 8 September.¹ The president made the appearance to help the administration quieten opposition calls for an early election due to his failing health. Bouteflika formally opened a conference centre in capital **Algiers**.² There was a ban on photography and video coverage of the event.³

"We tried to get into the opening, to get sight of him [Bouteflika] but the police turned us away as we were not from APS [the state news agency]. They rushed him in with blacked-out windows so we couldn't get a photograph."⁴

Said Bouteflika, the president's brother and close adviser, accompanied the president, guiding him in his wheelchair.⁵ Said is reportedly a highly influential figure within the president's inner circle, and local media sources describe him as being the power behind the throne.⁶ This is the first time the president has appeared in public since Algeria's independence day celebrations on 5 July, which were also only covered by state media sources.⁷ The last time the president openly appeared in public was when he voted, in a wheelchair, for his re-election in 2014.⁸

People who attended the event said that the president was in a wheelchair and did not speak, but unveiled a plaque to open the centre.⁹ He has been in poor health since suffering a stroke in 2013.¹⁰ He received medical treatment in **Switzerland** earlier this year, triggering yet more speculation about his fitness to lead the country until 2019 for the remainder of his term.¹¹ Opposition figures, including

¹ APS, 8 Sept 2016.

² APS, 8 Sept 2016.

³ VoA, 8 Sept 2016.

⁴ Source, journalist, Algiers

⁵ 20Minutes.fr, 9 Sept 2016.

⁶ Liberté, 9 Sept 2016.

⁷ VoA 8 Sept 2016.

⁸ VoA 8 Sept 2016.

⁹ APS, 8 Sept 2016.

¹⁰ VoA 8 Sept 2016.

¹¹ VoA 8 Sept 2016.

Parti Travailleiste (PT) leader **Louisa Hanoune**, have called for an early election in 2017, citing Bouteflika's apparent inability to govern.¹²

*"The charade is getting more and more ridiculous, the president cannot walk, he cannot talk and his brother is literally pushing him around. His capacity to rule is severely impacted."*¹³

Algiers oil deal falls through but hope for November OPEC meeting

A deal to limit the supply of oil at a meeting of major oil producing nations in Algeria's capital Algiers fell through on 28 September.¹⁴ Algeria's economic fortunes are strongly tied to the price of oil, which is responsible for 93% of the country's export revenues. Major oil producers, including key players in the **Organisation of Petroleum Exporting Countries (OPEC)**, met on the fringe of the **International Energy Forum** from 26 to 28 September.¹⁵ Organisers, including the Algerian oil ministry, hoped that two key players within OPEC, **Saudi Arabia** and **Iran**, could come to mutually agreeable terms during the meeting. However, Saudi energy minister **Khalid al-Falih** told the media on 27 September that there was no need to restrict output and Iran, **Nigeria** and **Libya** should continue producing "at maximum levels"¹⁶, effectively signaling the end of any deal to restrict output.¹⁷ The announcement came after Iran rejected a deal on 26 September to restrict its output, in return for Saudi Arabia not increasing its output further.¹⁸ Iranian oil minister **Bijan Zanganeh** said the Algiers talks were "not the time for decision-making".¹⁹ However, al-Falih offered a more conciliatory tone on 28 September, hinting that there could still be a deal to reduce output that would allow Iran, Nigeria and Libya to produce their maximum capacity, at an OPEC meeting in which will take in **Vienna (Austria)** on 30 November.²⁰

*"Oil fell 3% when the deal fell through and Saudi cannot afford further drops in price, they are dragging this out into a long war of attrition, hoping to stockpile enough oil that they can retain market position when the production cap kicks in."*²¹

Currently, most oil producing countries are increasing production despite the low price of oil. This is effectively an arms race to preserve their position in the market should the price of oil rise again. However, the excess of production drives the price down.²² Saudi Arabia, the leading producer within OPEC at 10.7 million barrels per day (mbpd), is looking to stay competitive with **Russia** and the **United States (US)**, the other two largest producers of oil globally.²³ Iran is attempting to increase its production to levels before the international community introduced sanctions. It has increased production from 1.8mbpd to 3.6mbpd but would like to increase to 4mbpd in order to increase economic growth.²⁴ Both Iran and Saudi Arabia are heavily oil dependent and are losing considerable income due to the low price of oil. Saudi has had to cut civil servant salaries and positions due to its increasing budget deficit and there is domestic pressure to raise the price of the commodity to recover its economic position.²⁵ However, political considerations are holding the two back from making a deal:

¹² Liberté, 28 Aug 2016.

¹³ Source, journalist, Algiers

¹⁴ Reuters, 28 Sept 2016.

¹⁵ Reuters, 28 Sept 2016.

¹⁶ Al-Falih in Reuters, 27 Sept 2016.

¹⁷ Reuters, 27 Sept 2016.

¹⁸ Bloomberg, 26 Sept 2016.

¹⁹ Zanganeh in Bloomberg, 26 Sept 2016.

²⁰ Reuters, 28 Sept 2016.

²¹ Source, MENA analyst, Cairo

²² Rigzone, 22 Sept 2016.

²³ Rigzone, 22 Sept 2016.

²⁴ Reuters, 27 Sept 2016.

²⁵ Reuters, 27 Sept 2016.

“The Saudi regime cannot be seen by its people and allies to be giving ground to Iran, their rival in the region. The Iranians cannot come back with a deal which appears to give into the ‘national humiliation’ of sanctions.”²⁶

The result is that comparatively small producers like Algeria are unable to keep their market position. The Algerian oil ministry is working hard to increase oil and gas output, attracting foreign investment to increase supply. However, it is one of the more vocal proponents of a restriction deal, along with non-OPEC member **Venezuela**.²⁷ In preparation for the meeting, Algeria participated in the meeting of the **Non-Aligned Movement (NAM)**, a group of oil producing nations that are not in OPEC, in Venezuela from 14-16 September.²⁸ The failure of the deal is bad news for Algeria. According to a source within the oil ministry:

“We hoped we could get a deal, the mood here is not good, but we will push for one in November. For now we will continue to increase the natural gas output to keep up with Russia in the European markets.”²⁹

Sonatrach to bring three new gas fields online in 2017

Algeria's state-owned hydrocarbons company, the **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)**, revealed on 20 September that it will bring three new gas fields online in 2017.³⁰ Algeria is pushing to increase its output of natural gas to compete for its position in key export markets such as the **European Union (EU)**. The aim to increase output has continued urgency after major oil producers failed to reach a deal on reducing the global output of commodity in Algiers on 28 September (see above). The projects that are due to come online next year include the **Touat Gas Project, Timimoun Project and Reggane Gas Project**.³¹ Touat has an estimated output of 12.8m cubic metres per day (mcm/d) and is due to come online in February.³² Timimoun has estimated output of 4.6mcm/d and is due to come online in March.³³ Reggane has an estimated output of 8mcm/d and is due to come online in June.³⁴ According to a source at Sonatrach:

“The three projects will come online on time, the outcome will reinforce our position as a reliable gas exporter to Europe. [If there are] no delays, the projects will be delivered in 2017.”³⁵

The three fields are not the full extent of Algeria's gas expansion drive. Sonatrach is reportedly exploring fields in the south of the country.³⁶ The **Akabli** and **Tidikelt** fields are reportedly rich in oil and gas, and the **Alrar Project** in the east of Algeria may also come online in late 2017.³⁷ Algeria is leveraging to increase its role as the third largest exporter of gas to the EU, behind **Norway** and **Russia**.³⁸ This is despite a drop in EU gas demand across 2016 that is likely to reduce gas exports overall.³⁹ Sonatrach projects that gas output will reach 141.4 billion cubic metres (bcm) in 2017, up from 116 (bcm) this year, increasing further to 165 bcm by 2020 (see *ARC Briefing Algeria May 2016*).⁴⁰

²⁶ Source, MENA analyst, Cairo

²⁷ Reuters, 28 Sept 2016.

²⁸ APS, 15 Sept 2016.

²⁹ Source, oil minister, Algiers

³⁰ Liberté, 20 Sept 2016.

³¹ Liberté, 20 Sept 2016.

³² Liberté, 20 Sept 2016.

³³ Liberté, 20 Sept 2016.

³⁴ Liberté, 20 Sept 2016.

³⁵ Source, Sonatrach, in Reuters, 20 Sept 2016.

³⁶ Reuters, 20 Sept 2016.

³⁷ Reuters, 20 Sept 2016.

³⁸ Reuters, 20 Sept 2016.

³⁹ Reuters, 20 Sept 2016.

⁴⁰ Reuters, 20 Sept 2016.

Implications

Bouteflika's inner circle, known as the *pouvoir*, will not be able to keep the opposition and independent news sources quiet about the obviously poor state of the president's health. Photographs and footage of Bouteflika at the conference centre opening show a man in ill health, unable to stand and breathing irregularly. However, the *pouvoir* has such a strong grasp on power in Algeria that it will be able to sustain control until the president passes away or steps down from power. Its members hold an overwhelming parliamentary majority, and are backed by the mainstream opposition leaders, many of whom served under Bouteflika in the past. They have removed military and intelligence officials that could oppose them – such as former intelligence chief general **Mohamed Mediène**, reportedly the only man in the country who could stand up to the president. The new constitutional revisions passed earlier this year put in place a democratic process in the event of the president's death (see *ARC Briefing Algeria January and April 2016*). However, it remains likely that those in the current inner circles of power will pre-select one of their number to stand in. If this is the case, there is little likelihood of political instability in the medium term.

The failure of the Algiers talks to reach a deal will disappoint the Algerian oil officials who worked hard to set up this informal meeting after the failure of OPEC talks in **Qatar** in April. The message from Saudi Arabia and Iran may be conciliatory and looks towards the meeting in Vienna in November. However, they struck a similar tone after Qatar in April and are no closer to a deal. The political dynamics of the **Middle East** are guiding the negotiations. For as long as there is no deal, the Algerian economy will face significant downwards pressure. Diversification of an economy is a process that takes years to establish. If no deal materialises, the government will need to stretch reserves further than the two years it currently plans.

From Algeria's perspective, without a cap agreement Russia is free to aggressively expand its outlook to fight for market share within the EU. It is an awareness of this that lies behind Sonatrach's decision to push for increased gas output. Natural gas, more than oil, holds the key to Algeria retaining significant value from its hydrocarbon resources. There may be more opportunities for investors if Sonatrach continues to expand its operations.

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