

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing January 2017

#### Algeria Summary 20 January 2017

*A general strike across several major cities in Algeria from 2 to 4 January results in police arresting over 100 people for rioting. Young people organised the strikes over social media to protest the government's austerity policies and subsidy cuts. Algeria's financial troubles continue as the state reveals that the emergency fund, Fonds de Régulation des Recettes (FRR), decreased 59.5% in 2016. The health ministry withdraws a fraudulent cure for diabetes from circulation that the health minister, Abdelmalek Boudiaf, had repeatedly promoted. Toufik Zaibat, a self-styled health entrepreneur, released the product with no clinical testing, leading to the death of a man in the city of Constantine. Russia-based oil and gas company Rosneft leaks plans to withdraw from its exploration site in Algeria citing high costs and poor profits.*

#### Police arrest 100 after anti-austerity riots

A general strike across several major cities in **Algeria** from 2 to 4 January resulted in police arresting over 100 people for rioting.<sup>1</sup> Algeria is cutting public expenditure to reduce its budget deficit in the face of low oil prices, through the removal of many subsidies that underpinned the livelihoods of households. Protestors started labour action on 2 January after president **Abdelaziz Bouteflika** (1999-present) signed the new 2017 budget into law in December. The movement was not a result of formal union action, but young protestors organised the strike and marches via social media.<sup>2</sup> Retailers also went on strike from 3 to 4 January.<sup>3</sup>

Strikes took place across a number of cities including capital **Algiers**.<sup>4</sup> The strike turned violent in the regional capital of **Guelma (Guelma Province)** on the second day, 3 January, where several hundred protestors attacked buildings in the city centre.<sup>5</sup> They attacked the offices of the municipal government, ransacking the building then setting it on fire.<sup>6</sup> Protestors also attacked a number of shops and buildings including a branch of **France-based bank BNP Paribas**, a trade association and a car showroom.<sup>7</sup> The police attempted to control the protestors, who threw stones at several police stations, and set a police car on fire.<sup>8</sup> Protests continued into 4 January, with protestors fighting riot police in Guelma's city centre.<sup>9</sup> At time of writing, police had arrested approximately 100 protestors, mostly on charges of rioting, looting, destruction of property and theft.<sup>10</sup> Sources in Algeria say that tensions over the budget were building for some time:

*"People are very angry at the new law, the price of petrol has gone up 50% and will nearly double next year, people are also very worried about tax increases, especially the rise in value added tax (VAT)."<sup>11</sup>*

<sup>1</sup> Middle East Monitor, 4 Jan 2017.

<sup>2</sup> Middle East Monitor, 4 Jan 2017.

<sup>3</sup> Middle East Monitor, 4 Jan 2017.

<sup>4</sup> Middle East Monitor, 4 Jan 2017.

<sup>5</sup> Liberté, 4 Jan 2017.

<sup>6</sup> Liberté, 4 Jan 2017.

<sup>7</sup> Middle East Monitor, 4 Jan 2017.

<sup>8</sup> Middle East Monitor, 4 Jan 2017.

<sup>9</sup> Middle East Monitor, 4 Jan 2017.

<sup>10</sup> Middle East Monitor, 4 Jan 2017.

<sup>11</sup> Source, journalist, Algiers

In response to the strike, interior minister **Noureddine Badawi** told the media on 4 January that he would:

*"... strike with an iron fist whomever tries to destabilise the country's security ... Whoever dares to destabilise Algeria's security better look out because he will be faced by the republic's laws."<sup>12</sup>*

The government maintains that the new budget, which includes both subsidy cuts and tax increases, will not reduce the purchasing power of consumers.<sup>13</sup> It has promised to help fund costs of damage to both public and private buildings.<sup>14</sup> However, public finances continue to be under pressure. Algeria's income from oil and gas has fallen from \$67 billion in 2014 down to \$27.5 billion in 2016.<sup>15</sup> The government's broader foreign currency reserves have decreased from \$178 billion in 2014 to \$144 billion in 2015.<sup>16</sup> The government forecast in October that foreign reserves would reach \$114 billion by the end of 2016.<sup>17</sup> Finance minister **Hadji Baba Ammi** told parliament that the emergency fund **Fonds de Régulation des Recettes (FRR)** decreased 59.5% in 2016 on 10 January.<sup>18</sup> The low price of oil has both reduced income to the FRR and made it necessary for the government to draw down on it. The FRR fell to \$7.5 billion in December 2016, down from \$18.7 billion in December 2015.<sup>19</sup> The government usually allocates to the fund the difference between \$37 per barrel and market price on receipts from oil and gas sales.<sup>20</sup>

The unrest as a result of the budget cuts is not unexpected. Sources in the country have reported for several years that spending cuts would prove very unpopular when consumers felt them. What is new for Algeria is that the unions are not at the centre of the protests. The government, while less militarised than when Bouteflika came to power in 1999, still has the tendency to respond with heavy-handed tactics. These, combined with austerity and uncertainty over Bouteflika's successor, could spark wider unrest – especially in urban areas. However, the economic pressure is not strong enough to force large numbers of people onto the streets yet. If the FRR and other foreign reserves run out, this poses a greater risk.

### Health minister implicated in diabetes medicine scam

The health ministry withdrew a fraudulent cure for diabetes from circulation on 16 December that health minister **Abdelmalek Boudiaf** had repeatedly promoted.<sup>21</sup> The incident shows a lack of scrutiny on public-private sector links and damages the reputation of Algeria's pharmaceutical industry. **Toufik Zaibat**, a self-styled health entrepreneur, released **Rahmet Rabbi (RHB)** (*God's mercy*), as an alleged side-effect free treatment for diabetes in March 2016.<sup>22</sup> The pills were released directly to pharmacies and supermarkets as a supplement to diabetes medication; however, marketing material strongly implied that the pills could replace approved treatments altogether.<sup>23</sup> According to the health department, over five million Algerians suffer from diabetes, making it the second most widespread health condition in Algeria.<sup>24</sup> The product went through no clinical trials, or even substantive tests. The packaging does not specify the active ingredient in the product.<sup>25</sup> The

<sup>12</sup> Liberté, 4 Jan 2017.

<sup>13</sup> Liberté, 4 Jan 2017.

<sup>14</sup> Liberté, 4 Jan 2017.

<sup>15</sup> AME, 10 Jan 2016.

<sup>16</sup> AME, 10 Jan 2016.

<sup>17</sup> AME, 10 Jan 2016.

<sup>18</sup> AME, 10 Jan 2016.

<sup>19</sup> AME, 10 Jan 2016.

<sup>20</sup> AME, 10 Jan 2016.

<sup>21</sup> Liberté, 15 Dec 2016.

<sup>22</sup> Jeune Afrique, 19 Dec 2016.

<sup>23</sup> Jeune Afrique, 19 Dec 2016.

<sup>24</sup> Liberté, 15 Dec 2016.

<sup>25</sup> Liberté, 15 Dec 2016.

death of an elderly man in the city of **Constantine** who had refused to take medicine but continued to take RHB in early December sparked a nation-wide outcry.<sup>26</sup>

Local media investigations found that Zaibat had fabricated his resume. He claimed that he had a doctorate in medicine from the **University of Lausanne (Switzerland)**, and had worked for Algeria-based pharmaceutical company **Saidal**.<sup>27</sup> The University of Lausanne has denied that Zaibat ever attended, and Saidal is suing him for claiming to have worked there.<sup>28</sup> Surreally, Zaibat claimed he had turned down the **Nobel Prize** for medicine after the committee asked him to anglicise his name.<sup>29</sup>

Boudiaf and Zaibat were reportedly close. Boudiaf regularly received Zaibat at the health ministry and promoted RHB as the pinnacle of Algerian pharmaceutical development.<sup>30</sup> Boudiaf described Zaibat as “like a brother”<sup>31</sup> in a television interview in October.<sup>32</sup> RHB is Zaibat’s third product. He marketed a miracle cure for the skin condition psoriasis in 2015, which tests revealed was just a herbal ointment, and claimed that he had another cure for baldness in 2014.<sup>33</sup> Boudiaf also publicly promoted these other treatments while health minister.<sup>34</sup> Prime minister **Abdelmalek Sellal** summoned Boudiaf, on 19 December, to explain his actions and the allegedly illegal licensing of the product.<sup>35</sup> It is not clear how the relationship between the two men started, however sources in Algeria cite this an example of the impact of corruption:

*“If you know the right people you can buy your way into anything, and if you get one powerful sponsor in the government then few people will stop you. Now people are actually dead because of this kind of corruption.”<sup>36</sup>*

The government will pass this off as a minor embarrassing incident, however it speaks of deeper problems in the state. The low level corruption in government in Algeria poses an ongoing risk to business. It also reduces trust in the state by consumers who, arguably correctly, believe that there is little accountability for those in power.<sup>37</sup> The actual health implications of the scandal are few, however the fact that Boudiaf has kept his post shows the problems with holding figures at the centre of power to account.

Boudiaf is part of the *pouvoir*, the group of politicians, technocrats and military figures clustered around the president. Most members of this group manage to retain their positions regardless of efficiency and, when they do lose their positions, avoid any major consequences.

*“People here are used to seeing the pouvoir avoid justice, it is something we [Algerians] know is not going to change soon....in the last few years the president has put newer figures into the mix, but the principle remains the same. They are accountable to him and not to us.”<sup>38</sup>*

## Rosneft plans to exit its only Algeria project

Sources within **Russia**-based oil and gas company **Rosneft** leaked its plans to withdraw from its exploration site in Algeria on 9 January.<sup>39</sup> Algeria is attempting to increase its oil and gas output by developing partnerships with international firms; the news that Rosneft is pulling out may worry other investors. Rosneft is in a joint venture in the **245-S** onshore block, containing the **West** and **East**

<sup>26</sup> Liberté, 15 Dec 2016.

<sup>27</sup> Jeune Afrique, 19 Dec 2016.

<sup>28</sup> Jeune Afrique, 19 Dec 2016.

<sup>29</sup> Jeune Afrique, 19 Dec 2016.

<sup>30</sup> Jeune Afrique, 19 Dec 2016.

<sup>31</sup> Jeune Afrique, 19 Dec 2016.

<sup>32</sup> Jeune Afrique, 19 Dec 2016.

<sup>33</sup> Liberté, 15 Dec 2016.

<sup>34</sup> Jeune Afrique, 19 Dec 2016.

<sup>35</sup> Jeune Afrique, 19 Dec 2016.

<sup>36</sup> Source, opposition party employee, Algiers

<sup>37</sup> Source, journalist, Algiers

<sup>38</sup> Source, journalist, Algiers

<sup>39</sup> Oil and Gas monitor, 9 Jan 2016.

**Takuazet** oil fields and the **North Tesselit** gas condensate field.<sup>40</sup> The other partners are Russia-based oilfield engineering company **Stroytransgaz**, which jointly owns 60% of the block with Rosneft, and state-owned oil and gas firm **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** which holds the remaining 40%.<sup>41</sup>

The Russian press reported that Rosneft management are concerned that the 245-S block is no longer profitable due to the low price of oil and gas.<sup>42</sup> The company attempted to offload the field to Russian state-owned oil and gas major **Gazprom** in 2014, but it declined.<sup>43</sup> By exiting the field mid-contract Rosneft is liable for major fines to the Algerian government, which could come to several hundred million dollars.<sup>44</sup> In order to avoid the fines, Rosneft is reportedly attempting to sell its stake back to Sonatrach.<sup>45</sup> However, Sonatrach currently lacks the capital for a major buyout and may not be amenable to the approach.<sup>46</sup> Analysts in Russia point out that Rosneft and other oil and gas companies often make international investments for political reasons, as a form of soft power.<sup>47</sup> The fall in the price of oil and gas, however, has made their Russian investments less profitable, increasing pressure to divest of assets overseas.<sup>48</sup>

Rosneft divesting is out of step with the current wave of international investments in Algeria's oil and gas sector (see *ARC Briefing Algeria July, September, November 2016*). Sonatrach has opened the country up to investment and natural gas companies in particular have bid for tenders to expand Algeria's supply. However, Rosneft is a longer-term investor in Algeria. The fact that it was unable to operate the 245-S block profitably should sound a note of caution for new investors drawn to Algeria's new open investment policy.

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<sup>40</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>41</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>42</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>43</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>44</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>45</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>46</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>47</sup> Oil and Gas monitor, 9 Jan 2016.

<sup>48</sup> Oil and Gas monitor, 9 Jan 2016.

### About Africa Risk Consulting:

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