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Political parties start campaigning for legislative elections scheduled for 4 May. Opposition parties are attempting to challenge the Front de Libération Nationale (FLN) of president Abdelaziz Bouteflika (1999-present) which holds 207 of 462 seats in parliament. The energy ministry replaces state-owned oil and gas company the Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach) CEO Amine Mazouzi with Abdelmoumen Ould Kaddour. The government struggles to contain inflation as the price of imported goods increases, in some cases by over 1000%, sparking fears of a loss of business confidence and panic buying.

Campaigning starts for legislative elections

Political parties in **Algeria** started campaigning on 9 April for parliamentary elections scheduled for 4 May.¹ This will be an important election. It is the first since parliament ratified constitutional reforms proposed by president **Abdelaziz Bouteflika** (1999-present) that increase the power of parliament to hold the executive to account (see *ARC Briefing Algeria September 2016*). Bouteflika's **Front de Libération Nationale (FLN)**, which has ruled Algeria since 1962, and its coalition partner, the **Rassemblement National Démocratique (RND)**, form a governing coalition that won 291 of 462 seats in the lower chamber of parliament in the last parliamentary election in 2012.² The parties hold 207 and 65 seats respectively.³ The moderate Islamist group, the **Alliance de l'Algérie Verte (AAV)**, will challenge the FLN/RND for seats. The AAV consists of the **Mouvement de la Société pour la Paix (MSP)**, **Mouvement pour la Réforme Nationale (MRN/El Islah)** and the **Mouvement de la Renaissance Islamique (MRI/Ennahdha)**.⁴ These parties currently hold 49 seats and in this election the **Front Pour la Justice et la Développement (FJD/Addala)** that currently holds nine seats, and MSP splinter group the **Front pour la Changement (FC)** will join the alliance.⁵ The other major opposition parties are the leftist **Front des Forces Socialistes (FFS)** and the **Parti des Travailleurs (PT)** that currently hold 27 and 24 seats respectively.⁶

*"The FLN are going to win these elections, they have all of the media, the advertisements and the infrastructure that they can use...their grasp of power is not going to be threatened."*⁷

The election is a considerable logistical operation. Over 12,500 candidates will compete from 63 political parties and 128 political alliances.⁸ There are also 163 independent candidates running.⁹ They will compete in 1,088 electoral lists for the 462 seats.¹⁰ Algeria has an electorate of 23.2 million however, analysts expect turnout to be low.¹¹ In the 2012 election 42.3% of the electorate voted, a

¹ Liberté, 9 Apr 2017.

² Liberté, 9 Apr 2017.

³ Liberté, 9 Apr 2017.

⁴ Apn.dz

⁵ Apn.dz

⁶ Apn.dz

⁷ Source, ARC correspondent, Algiers

⁸ Liberté, 9 Apr 2017.

⁹ Liberté, 9 Apr 2017.

¹⁰ Liberté, 9 Apr 2017.

¹¹ Al Jazeera, 9 Apr 2017.

significant increase from the 35% in the 2007 election due to Bouteflika issuing a direct call to Algerians to vote.¹² However, with Bouteflika in poor health, and widespread voter apathy over the results of the election, voter turnout is expected to decline this year.¹³ Sources in Algeria say that many of the campaign boards are not being used and there are few party organisers handing out leaflets on the streets or campaigning.¹⁴ This contrasts with 2012 when the AAV put large amounts of time and money into campaigning, only to achieve its worst result since elections opened in 2002.¹⁵ Algerians believe that the FLN will retain power indefinitely, and that there is little point in voting:

“The mood here is that whatever happens the FLN will keep power, there is no point in voting...but if the other parties are to unseat the FLN then they will have to get people out to vote.”¹⁶

It is highly unlikely that the legislative elections will lead to a meaningful change in government; the FLN and the *pouvoir* – the technocrats, business leaders and military figures close to the presidency – will take steps to ensure that they retain power. However, it is an opportunity to measure the level of dissatisfaction with the government, and its handling of the current economic situation. Riots in January (see *ARC Briefing Algeria January 2017*) showed the level of dissatisfaction at rising prices of food and fuel (see below). The Islamist bloc underperformed in the 2012 election when the economy was booming and subsidies were high. Now that things are different, they could take more of the vote to become a more meaningful opposition.

Sonatrach replaces Mazouzi as CEO and targets output increases

The energy ministry announced that Algeria’s state-owned oil and gas company the **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** replaced CEO **Amine Mazouzi** with **Abdelmoumen Ould Kaddour** on 20 March.¹⁷ Mazouzi had a positive reputation during his two-year tenure at Sonatrach, therefore the decision to replace him comes as a surprise to local analysts. The energy ministry announced the change in a written statement from energy minister **Noureddine Boutarfa** that gave no reason for the decision.¹⁸ Mazouzi has served as CEO since 2015, the longest term of a Sonatrach CEO in seven years, and has overseen an ambitious programme of cutting internal costs and rapidly increasing the number of partnerships with international investors and developers.¹⁹ This was a rapid culture change from a prolonged period of antagonism towards foreign investment and a series of CEOs embroiled in bribery and corruption scandals.²⁰ Sources in Algeria’s oil sector were unable to cite a reason for ousting Mazouzi:

“There is no obvious reason for him to go, Sonatrach is performing well and he is doing what he set out to do in attracting investment ... he may have got on the bad side of someone in power, or fallen out with Boutarfa.”²¹

Boutarfa’s statement said that Ould Kaddour is able to:

“...act with full responsibility and confidence to put in place the qualitative changes that allow Sonatrach to evolve and prosper in a calm business climate.”²²

¹² Al Jazeera, 9 Apr 2017.

¹³ Al Jazeera, 9 Apr 2017.

¹⁴ Source, ARC correspondent, Algiers

¹⁵ Al Jazeera, 9 Apr 2017.

¹⁶ Source, ARC correspondent, Algiers

¹⁷ APS, 20 Mar 2017.

¹⁸ APS, 20 Mar 2017.

¹⁹ AFP, 21 Mar 2017.

²⁰ AFP, 21 Mar 2017.

²¹ Source, oil executive, Oran

²² APS, 20 Mar 2017.

Ould Kaddour was an executive with **United States (US)** and Algeria-based **Brown & Root Condor** in the 1990s.²³ Official statements have publicised this and his degree from the **Massachusetts Institute of Technology (MIT)** (US) as reasons for his appointment.²⁴ However, Ould Kaddour is a protégé of former energy minister **Chakib Khelil** who spent three years in exile for his role in a corruption scandal involving Sonatrach.²⁵ Ould Kaddour himself was sentenced to three years in prison by a military court in 2007 for his role in the scandal – which involved large kickbacks paid to Sonatrach executives by international firms.²⁶ Khelil’s return to Algeria in 2016 was welcomed by those close to president Bouteflika who saw the investigation into corruption in the oil sector as the military encroaching on civilian territory.²⁷

“This definitely signals a return to a more opaque way of doing business; Mazouzi cleaned house when he got into Sonatrach, we should watch who Ould Kaddour brings back to see the direction he takes.”²⁸

Ould Kaddour’s priorities on taking office are reportedly to reduce the cost of production, and to resolve a number of outstanding arbitration cases to gain the confidence of foreign partners.²⁹ One of his first actions was to announce a 14% increase in oil output over the next four years on 23 March.³⁰ **Farid Djettou**, Sonatrach’s head of acquisition, told the media that the company will spend \$9 billion between 2017 to 2021 exploring for new deposits, and then spend a further \$50 billion increasing output across the rest of its operations in the same time period.³¹ Djettou said that the target was to increase output from 69m tonnes in 2016 to 78.6m tonnes by 2019.³² It then intends to increase this by a further 154m tonnes to 230m tonnes by 2021.³³ In order to hit these ambitious targets Sonatrach will drill over 100 exploratory wells a year and ask foreign producers to increase production by 10m tonnes per year over the period.³⁴

“This is a major change in pace for Algeria; for the past few years it has focused on moving costs off its balance book, drawing in international investors and increasing its gas output. The new order is all about boosting oil output over the next five years.”³⁵

One reason for the change in policy is the 2016 oil production of 69m tonnes is the lowest since 2002.³⁶ One reason for this is that the **Organisation of Petroleum Exporting Counties (OPEC)** has put in place a deal to restrict output to attempt to increase the price of oil. Energy minister Noureddine Boutarfa was a leading broker of the deal, which also included non-OPEC countries such as **Russia** (see *ARC Briefing Algeria November 2016*). Algeria’s plans to expand its output runs contrary to the line that it has taken with other producers.³⁷ Oil analysts are unsure about where Algeria’s efforts will lead:

“They [the Algerian government] have clearly taken a new look about how they want the industry to run. They must believe that they can increase output, grab market share and be a in a

²³ North Africa Post, 20 Mar 2017.

²⁴ APS, 20 Mar 2017.

²⁵ North Africa Post, 20 Mar 2017.

²⁶ North Africa Post, 20 Mar 2017

²⁷ North Africa Post, 20 Mar 2017

²⁸ North Africa Post, 20 Mar 2017

²⁹ Reuters, 21 Mar 2017.

³⁰ The National, 23 Mar 2017.

³¹ The National, 23 Mar 2017.

³² The National, 23 Mar 2017.

³³ The National, 23 Mar 2017.

³⁴ The National, 23 Mar 2017.

³⁵ Source, oil and gas analyst, Cairo

³⁶ Liberté, 24 Mar 2017.

³⁷ Liberté, 24 Mar 2017.

better position if the price of oil increases. Looking at the low oil price and their finances they are taking a major gamble.”³⁸

The appointment of Ould Kaddour to the helm of Sonatrach shows the government wants to increase oil revenues at any cost. The highly ambitious output targets confirm this. The more moderate forces within government advocating for economic diversification and a move into gas production have run out of time to deliver economic change. The economy is still in trouble, inflation will rise, and the only way the *pouvoir* and the old guard of Algerian politics know how to make money is through oil. In order to increase output Sonatrach will need to commission significant work from international operators. However, Ould Kaddour poses a risk to all international companies seeking to do business with Sonatrach due to his poor reputation.

Authorities battle to contain rising prices

The government is struggling to contain the prices of basic goods as inflation reportedly increases.³⁹ Sources within the administration report that the government is unable to control rising inflation, and fear that quarterly statistics will result in panic buying.⁴⁰ A combination of market speculation and ongoing structural problems have greatly increased the cost of certain imports, by up to 1,000%.⁴¹ Products such as garlic (1,000% increase), tomatoes (600% increase), and potatoes (300% increase), bananas (900% increase) and apples (750% increase) are now beyond the reach of many Algerians.⁴² The government is also embarking on cuts to subsidies of fuel and basic goods, including some grains, in order to deal with the current public deficit due to low oil prices.⁴³ The changes to subsidies, the introduction of a value added tax (VAT) on certain products, and new taxes on alcohol and tobacco came into force in January 2017, have reportedly had an impact on the quality of life:

“I notice how much more dinner costs us, there are now certain products that you cannot buy, and this is before I work out that my journey to work costs me 30% more due to the low subsidies.”⁴⁴

The impact is particularly severe on the rural population. Poor weather conditions this winter meant that many villages were cut off from food supplies.⁴⁵ This left much of the country effectively in a famine situation, although the government did not call a state of emergency.⁴⁶ The government has reportedly worked to keep news of food shortages and rising prices out of the media to avoid panic buying:

“They [senior officials] are putting pressure on media outlets not to run stories about high prices or inflation, they are worried about unrest and protests, especially with parliamentary elections coming up.”⁴⁷

Angry consumers rioted in **Kayblie Province** in January this year due to the high cost of living.⁴⁸ The rioters looted shops and burnt petrol stations.⁴⁹ Protestors and security forces clashed for three days (see *ARC Briefing Algeria January 2017*). The government blamed opportunistic import traders for artificially inflating the price of goods.⁵⁰ However, the reality is more complex. The Algerian dinar (D) fluctuates against the dollar, but has fallen from D107/\$ to D110.5/\$ year-on-year close to its lowest

³⁸ Source, oil and gas analyst, Cairo

³⁹ North Africa Post, 31 Mar 2017.

⁴⁰ Source, civil servant, Algiers

⁴¹ North Africa Post, 31 Mar 2017.

⁴² North Africa Post, 31 Mar 2017.

⁴³ North Africa Post, 31 Mar 2017.

⁴⁴ Source, ARC correspondent, Algiers

⁴⁵ Liberté, 2 Dec 2016.

⁴⁶ Liberté, 2 Dec 2016.

⁴⁷ Source, civil servant, Algiers

⁴⁸ Observers, 7 Jan 2017.

⁴⁹ Observers, 7 Jan 2017.

⁵⁰ Observers, 7 Jan 2017.

value in the past two years.⁵¹ The government currently lacks the spending power or policy implements to reduce prices:

“There is simply no more money. The finance ministry is cutting all budgets by 14% this year to prevent the strategic reserves running out. But this means that inflation is going to rise.”⁵²

Algeria’s consumer price index (CPI) inflation is at 8.3% as of February 2017.⁵³ This is up from lows of 4.4% in mid-2016.⁵⁴ The February rate was second highest in the past ten years, inflation hit 12% in 2012, but sources believe that it will go higher:

“I see no reason we could not be looking at inflation rates of 15% if the price of oil does not pick up and the markets lose faith in the government. Businesses will get their cash out of the country, and it would take a phenomenal amount of direct investment to counter-act the effect.”⁵⁵

The government’s current earning potential remains limited due to low oil and gas prices. While this is the case it will have to pass more and more of the cost of this onto consumers, which will drive inflation up. The government has to find a way to convince consumers and businesses to weather the economic downturn. At the same time it has to convince international businesses that Algeria is a good destination for FDI. This will be hard to do, and the likelihood will be that Algeria will face declining consumer and business confidence, at least domestically, across 2017.

⁵¹ XE.com

⁵² Source, civil servant, Algiers

⁵³ Tradingeconomics.com

⁵⁴ Tradingeconomics.com

⁵⁵ Source, academic, Oran

About Africa Risk Consulting:

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