

**AFRICA RISK CONSULTING****Algeria Monthly Briefing May 2017**

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**Algeria Summary 15 May 2017**

*Algeria's ruling Front de Libération Nationale (FLN) and its allies win a majority in legislative elections on 4 May. Turnout for the vote was 38.2%, down from 43% in 2012, and the lowest turnout for an election since independence in 1962. The European Union (EU) reaffirms its commitment to purchasing gas from Algeria, securing the country's largest gas export market for the short and medium-term. United States (US)-based GE Power signs a services deal with state-owned gas and electricity utility Société Nationale de l'Electricité et du Gaz (Sonelgaz) worth \$3 billion, to maintain thermal power plants.*

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**FLN wins diminished majority on record low turnout in legislative elections**

Algeria's ruling **Front de Libération Nationale (FLN)** won a parliamentary majority in legislative elections on 4 May, however turnout fell to a record low of 38%.<sup>1</sup> The low turnout is the most significant event in the election as it signals a growing disengagement with the democratic system following 60 years of FLN rule. The FLN has lost 25% of the seats it won in 2012, from 221 to 164.<sup>2</sup> Its coalition partner, the **Rassemblement National Démocratique (RND)**, increased its number of seats by 36%, from 68 to 97.<sup>3</sup> Together the two form a 261-seat parliamentary coalition, holding a 56% majority in the 462-seat parliament.<sup>4</sup> The **Rassemblement Espoir de l'Algérie (RAE)** party, known as **TAJ**, won 19 seats.<sup>5</sup> TAJ formed as a legislative bloc during the last parliamentary term, and leader **Amar Ghoul** split from the **Mouvement de la Société pour la Paix (MSP)** in 2012 to form a non-Islamist ally to the FLN/RND bloc.<sup>6</sup> He has served in several cabinet positions, including as tourism minister until June 2016. The centrist, and pro-president **Abdelaziz Bouteflika** (1999-present), **Front El Moustakbal (FM)** went from two to 12 seats.<sup>7</sup> This allows the government to retain unassailable voting power in parliament.

The election was the worst result for the opposition since 1990. The third party was the Islamist MSP, which won 33 seats.<sup>8</sup> The MSP has kept its vote share, but lost bloc partners **Nahda** and **Islah** which carried 16 seats in 2012.<sup>9</sup> Neither party carried votes in this election. The secularist **Rassemblement pour la Culture et la Démocratie (RCD)** re-entered parliament with nine seats, having boycotted the 2012 elections, lower than the 19 seats it held in 2007.<sup>10</sup> The other Islamist parties – **Ennhada** and the **Front pour la Justice et le Développement (FJD)** – maintained their 15 seats.<sup>11</sup> Other opposition parties lost seats. The leftist **Front des Forces Socialistes (FFS)** fell from 27 to 14 seats, and the

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<sup>1</sup> Liberté, 5 May 2017.

<sup>2</sup> Liberté, 5 May 2017.

<sup>3</sup> Liberté, 5 May 2017.

<sup>4</sup> Liberté, 5 May 2017.

<sup>5</sup> Liberté, 5 May 2017.

<sup>6</sup> Al-Jazeera, 5 May 2017.

<sup>7</sup> Liberté, 5 May 2017.

<sup>8</sup> Liberté, 5 May 2017.

<sup>9</sup> Liberté, 5 May 2017.

<sup>10</sup> Liberté, 5 May 2017.

<sup>11</sup> Al-Jazeera, 5 May 2017.

**Parti des Travailleurs (PT)** dropped from 24 to 11 seats.<sup>12</sup> Unlike in the 2012 legislative elections, there were no calls from major parties to boycott the vote.

*"The opposition parties are looking for legitimacy through the voting system; many tried a boycott last election and all it gave them was even less of a voice than in the assembly."*<sup>13</sup>

Turnout for the vote was 38.2%, the lowest on record since independence in 1962 and five percent lower than the 43% turnout in 2012.<sup>14</sup> Bouteflika urged voters via a number of messages to participate, and both government and opposition parties campaigned.<sup>15</sup> Bouteflika released a statement on 29 March calling for a "massive"<sup>16</sup> turnout, which he described as vital to "the stability of the country".<sup>17</sup> Other government officials echoed this, calling posts on social media to boycott the vote "dishonest ... a serious attack on the stability of Algeria".<sup>18</sup> However, voter apathy surrounding the election was high, as most voters polled did not believe that parliament had the power to effect any change in Algeria, with this power vested in the president.<sup>19</sup> The presidency had hoped that changes to the constitution in 2016, which granted greater powers to parliament, might increase confidence.<sup>20</sup>

*"The fundamental truth of Algeria democracy is that the country was only asked to vote once, then they were told they voted badly and the army stepped in ... there is no trust in democracy here, it is just a show for the international community."*<sup>21</sup>

The administration has won another comfortable majority in the legislature, but has not been able to shake its problem of legitimacy. According to polls, over 50% of voters under 30 did not believe that the legislature could effect any change in policy.<sup>22</sup> The upcoming presidential elections in 2019 will have a higher turnout than this, but in the next two years political apathy will continue to increase. The aged and ill Bouteflika, who rarely appears in public, rules with little to no accountability and has ensured power is exercised away from public view.<sup>23</sup> The government's ongoing cuts to subsidies, which have sparked public anger, did not translate into anti-government votes in the legislative elections.<sup>24</sup> When faced with the chance to unseat Bouteflika himself, voters may turn out in larger numbers.<sup>25</sup> However, with the memory of the 1990s still fresh, many believe that they would not be allowed to win. This does not translate into immediate political risk, but does pose a long-term risk if sections of the populace attempt to turn to extra-democratic means to ensure their voices are heard.

### GE signs \$3 billion power services deal with Sonelgaz

**United States (US)-based GE Power** signed a services deal with Algeria's state-owned gas and electricity utility **Société Nationale de l'Electricité et du Gaz (Sonelgaz)** worth \$3 billion on 24 April.<sup>26</sup> The deal represents a significant transfer of responsibility onto the private sector contractor. The 20-year contract is to provide long-term maintenance and operations services for 10 power plants spread across Algeria.<sup>27</sup> GE Power will also train over 1,000 workers in Algeria, and create 300 jobs through parts suppliers.<sup>28</sup> In addition, GE Power will install gas technology upgrades to increase

<sup>12</sup> Liberté, 5 May 2017.

<sup>13</sup> Source, journalist, Algiers

<sup>14</sup> Al-Jazeera, 5 May 2017.

<sup>15</sup> Al-Jazeera, 5 May 2017.

<sup>16</sup> Middle East Eye, 2 May 2017.

<sup>17</sup> Middle East Eye, 2 May 2017.

<sup>18</sup> AFP, 1 May 2017.

<sup>19</sup> Al-Jazeera, 5 May 2017.

<sup>20</sup> Liberté, 5 May 2017.

<sup>21</sup> Source, journalist, Algiers

<sup>22</sup> Reuters, 5 May 2017.

<sup>23</sup> Source, Algeria analyst, United Kingdom

<sup>24</sup> Source, Algeria analyst, United Kingdom

<sup>25</sup> Source, Algeria analyst, United Kingdom

<sup>26</sup> Reuters, 24 Apr 2017.

<sup>27</sup> Reuters, 24 Apr 2017.

<sup>28</sup> Reuters, 24 Apr 2017.

the power output of the existing plants.<sup>29</sup> This will add 420 megawatts (MW) to Algeria's electricity supply.<sup>30</sup> The upgrades will also include software upgrades for the operating software and hardware of the plants.<sup>31</sup> This will reportedly save Sonelgaz \$2 billion in gas efficiency over the next 20 years.<sup>32</sup>

*"GE has a long relationship with the government and with the energy companies...they were one of the few companies that carried out good business while the government was very sceptical of foreign companies...it helped that they were in the power sector, there is little in-country experience of power station development, even in Sonelgaz."*<sup>33</sup>

GE Power will carry out the contract through its pre-existing joint venture with Sonelgaz **Algesco**, which will operate a turbine repair centre.<sup>34</sup> Algesco will, in turn, contract to Sonelgaz manufacturing subsidiary **Maintenance des Equipements Industriels (MEI)** to make spare parts for the power stations.<sup>35</sup> The agreement follows a \$2.7 billion agreement that GE Power and Sonelgaz signed in 2013 to supply large gas turbines to nine of the ten power plants that GE is now contracted to maintain.<sup>36</sup> GE Power is a division of **New York Stock Exchange (NYSE)**-listed **General Electric Co (GE)**.<sup>37</sup>

Algeria does not currently suffer from power shortages, however projections show demand rising to outstrip supply by 2022.<sup>38</sup> By working with internationally recognised developers such as GE, Sonelgaz is able to ensure a stable and sustainable power supply for Algeria. From the corporate perspective, the deal demonstrates the lucrative potential for well-developed relationships in Algeria. State-owned enterprises tend to commission follow-on work from the same joint venture partners.

## EU to continue to purchase Algerian gas

The **European Union (EU)** reaffirmed its commitment to purchasing gas from Algeria on 13 April.<sup>39</sup> The EU is Algeria's largest export market for natural gas, and the energy ministry is attempting to increase gas output in order to capture a greater share of the market. The reaffirmed commitment gives greater security to Algeria's economic future, but does little to move the economy away from its dependency on hydrocarbon exports. Algeria's energy minister **Nourredine Bouterfa** and EU climate and energy commissioner **Miguel Arias Canete** held talks on 12 April.<sup>40</sup> At a joint press conference the day after, Canete stated that the EU will remain *"the main customer for Algeria"*<sup>41</sup> despite the fact that the current gas accords are due to end in 2018 and 2019 respectively.<sup>42</sup> Canete emphasised the relationship between Algeria and the EU as one of interdependence: due to the portion of natural gas the EU imports, *"Algeria relies on the European market for its security of demand."*<sup>43</sup> Algeria sells over 90% of its natural gas into the EU, and is the third largest supplier after **Russia** and **Norway**.<sup>44</sup> Bouterfa told the media that Algeria's plans to increase its natural gas in the medium to long term were sustainable following a spate of investments in the sector across 2015 and 2016 (see *ARC Briefing Algeria* July and August 2016).<sup>45</sup>

<sup>29</sup> Reuters, 24 Apr 2017.

<sup>30</sup> Reuters, 24 Apr 2017.

<sup>31</sup> Reuters, 24 Apr 2017.

<sup>32</sup> Reuters, 24 Apr 2017.

<sup>33</sup> Source, journalist, Algiers

<sup>34</sup> Reuters, 24 Apr 2017.

<sup>35</sup> Reuters, 24 Apr 2017.

<sup>36</sup> Reuters, 24 Apr 2017.

<sup>37</sup> Reuters, 24 Apr 2017.

<sup>38</sup> IEA, 2017

<sup>39</sup> Liberté, 13 Apr 2017.

<sup>40</sup> Liberté, 13 Apr 2017.

<sup>41</sup> Liberté, 13 Apr 2017.

<sup>42</sup> Liberté, 13 Apr 2017.

<sup>43</sup> Liberté, 13 Apr 2017.

<sup>44</sup> Liberté, 13 Apr 2017.

<sup>45</sup> Liberté, 13 Apr 2017.

Canete issued one note of caution. He noted that the EU institutions are able to invest in Algeria to improve the security of gas production expansion plans. However, he said that the government needed to improve the regulatory environment in order not to deter institutional and private sector investment.<sup>46</sup> If this were done, more investments in supply contracts, exploration and production would follow. Bouterfa noted that the government would seek to continue to reform the hydrocarbons sector:

*“We have engaged in a dialogue with oil firms to shed light on their understanding of our laws, including their apprehensions with regard to taxes and to bring the necessary corrections so we can boost the development of our partnership and make our country more attractive.”<sup>47</sup>*

Algeria is reliant on the EU as a market for its gas products. It has the infrastructure in place to export via pipeline into the bloc, and is pushing for a greater share of the market. This makes it vulnerable to fluctuations in EU regulation and sentiment. If the EU decided to move away from Algeria as a partner, it would have the option to import from elsewhere, whereas Algeria would struggle to find a trading partner of a similar size. The agreement secures a key part of Algeria’s economic stability but does little to move the economy away from hydrocarbon dependency. If the Algerian government is canny, it will be able to leverage the desire to improve the regulatory environment for further funding programmes from the EU which could build investment in other sectors. However, there is little indication the government has appetite for this.

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<sup>46</sup> Liberté, 13 Apr 2017.

<sup>47</sup> Liberté, 13 Apr 2017.

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### About Africa Risk Consulting:

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