

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing February 2018

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#### Algeria Summary 13 February 2018

*Prime minister Ahmed Ouyahia is increasingly alienated from the political scene after President Abdelaziz Bouteflika (1999-present) intervenes against Ouyahia's public private partnership initiative and Ould Abbas continues his discrediting campaign against Ouyahia. Tensions within the ruling Front de Liberation Nationale (FLN) surge following the 'Tliba initiative', demonstrating heightened competition to win Bouteflika's favour in light of a possible fifth mandate. The government embarks on a charm offensive abroad to increase foreign investment in the Algerian hydrocarbons industry, while starting to work on reform to make the sector more attractive to investors. An Algerian customs study shows an improvement of the trade deficit for 2017, while France-based Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE) reveals a less optimistic scenario for the Algerian economy in 2018. France works on regaining its market share in Algeria by sending a business delegation, concluding several protocol agreements.*

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#### Tensions around 2019 presidential election increase

Political tensions in **Algeria** are mounting as members of President **Abdelaziz Bouteflika's** (1999-present) entourage increasingly compete to position themselves as supporting a fifth mandate during the 2019 presidential election. **Annaba** member of parliament (MP) **Bah-Eddine Tliba**, of the ruling **Front de Liberation National (FLN)**, launched an individual initiative on 4 February to support a fifth term in office for Bouteflika. Tliba's move increased tensions within the FLN.<sup>1</sup> Tliba ensured that three high-level political figures endorsed his initiative, including former prime minister **Abdelmalek Sellal**, former FLN general secretary **Abdelaziz Belkhadem**, and former energy ministry **Chakib Khelil**.<sup>2</sup> Current FLN general secretary **Djamel Ould Abbas** had publicly declared his loyalty to Bouteflika on 3 February.<sup>3</sup> However, after the three ministers denied their involvement, Ould Abbas announced on 6 February that the FLN would take disciplinary measures against Tliba.<sup>4</sup>

The political alienation of the prime minister, **Ahmed Ouyahia**, appears to be growing following Bouteflika's intervention revoking Ouyahia's public private partnership initiative (see *ARC Briefing Algeria January 2018*). Bouteflika's move showed as a display of strength, asserting his leadership, as well as a move to discredit Ouyahia by positioning him as the one in favour of selling Algeria's key public enterprises. Ouyahia's ambitions pose a threat to Bouteflika and the FLN within the context of the 2019 presidential elections. Ould Abbas welcomed the statement on 21 January of post, telecommunications and technologies minister **Imane Houda Feraoun** that no capital opening would take place for the public companies in her sector, namely **Mobilis** and **Algerie Telecom**.<sup>5</sup> Ouyahia cancelled his participation at a conference on renewable energy organised by state-owned oil company

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<sup>1</sup> Algeria Patriotique, 5 Feb 2018.

<sup>2</sup> Algeria Patriotique, 5 Feb 2018.

<sup>3</sup> Algeria Patriotique, 5 Feb 2018.

<sup>4</sup> Huffington Post Maghreb, 6 Feb 2018.

<sup>5</sup> Djazairress, 24 Jan 2018.

**Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach), Société nationale de l'électricité et du gaz (Sonelgaz) and the Forum des Chefs d'Entreprises (FCE)** (heads of companies' forum) on 17 January, showing an attempt to distance himself from the FCE and more generally a business group in favour of privatisations, after Bouteflika's intervention.<sup>6</sup>

### Speculation that government plans to abandon oil sector rule on foreign investments

Sonatrach vice-president of exploration and production, **Salah Mekmouche**, announced on 5 February that the state-owned oil company was in discussion with some partners negotiating the sale of Sonatrach's shares, or even a change of control of certain entities in Algeria.<sup>7</sup> The announcement triggered speculation about the removal of the 51/49 rule, which ensures Sonatrach maintains majority control of each contract, and the potential return of the 86/14 rule that used to regulate the sector.<sup>8</sup> Former Sonatrach CEO **Abdelmadjid Attar**, however, declared that revoking the 51/49 rule would be "*breaking a dogma*".<sup>9</sup> Sonatrach denied on 6 February that it was in discussions with partners to sell shares of the company or give up control of certain entities.<sup>10</sup> The group issued a press release stating that Sonatrach will continue to exploit its mines with its historical partners and remains open to building new partnership with oil companies pre-qualified by the **Agence Nationale pour la Valorisation des Ressources en Hydrocarbures (Alnaft)**.<sup>11</sup>

Sonatrach CEO **Abdelmoumen Ould Kaddour** hopes **United States (US)** investments will accelerate Algeria's exploitation of non-conventional hydrocarbons. Ould Kaddour participated in a US-Algerian forum on energy on 31 January.<sup>12</sup> Ould Kaddour presented Algeria's non-conventional resource potential as well as Sonatrach's management capabilities, underlining the company's ambition to reach energy security. Sonatrach plans to invest \$56 billion over the next five years in shale gas, which is central to the company's strategy.<sup>13</sup>

The government's general policy document, adopted by parliament in 2017, includes shale gas as an integral general policy component. The government describes energy source diversification as imperative to preserve Algeria's mid- to long-term hydrocarbon independence.<sup>14</sup> Algeria currently has 4,940 trillion cube feet (TCF) of shale gas reserve, of which 740 TCF are accessible based on a recuperation rate of 15%.<sup>15</sup> The government has started to implement its target with the launch of an initial project to produce 4,000MW of solar energy by 2030, representing 27% of the national energy mix.<sup>16</sup> The government had planned to launch tenders in April 2017. Parliament approved the government's non-conventional energy exploration policy on 6 September 2017.<sup>17</sup> However, this triggered opposition amongst the southern populations where drilling will take place, pushing former prime minister **Abdelmalek Sellal** to put the experimental drillings on hold.<sup>18</sup>

<sup>6</sup> Maghreb Emergent, 15 Jan 2018

<sup>7</sup> El Watan, 6 Feb 2018.

<sup>8</sup> El Watan, 6 Feb 2018.

<sup>9</sup> El Watan, 6 Feb 2018.

<sup>10</sup> TSA, 6 Feb 2018.

<sup>11</sup> TSA, 6 Feb 2018.

<sup>12</sup> El Watan, 31 Jan 2018

<sup>13</sup> El Watan, 31 Jan 2018.

<sup>14</sup> El Watan, 31 Jan 2018.

<sup>15</sup> El Watan, 31 Jan 2018.

<sup>16</sup> El Watan, 31 Jan 2018.

<sup>17</sup> Energies Media, 19 Sept 2017.

<sup>18</sup> El Watan, 31 Jan 2018.

Energy minister **Mustapha Guitouni** read a message from President Bouteflika during the inauguration of the renewable energies conference on 17 January that underlined the urgent necessity to improve the fiscal and legal framework through hydrocarbon reform to ensure Algeria's energy security.<sup>19</sup> Bouteflika said the national programme for renewable energies will enable Algeria to save 300 billion cubic metres of gas and could help the country to remain an important energy exporter by 2030.<sup>20</sup> Algeria currently has 4,000 billion tonnes of hydrocarbon reserves, of which natural gas constitutes more than half.<sup>21</sup> Ould Kaddour confirmed that a reform on hydrocarbons law will be ready before the end of 2018.

### ... as foreign companies' interest in Algerian oil and gas exploration grows

Sonatrach and **Spain-based Cepsa** signed an exploitation agreement for the oil field of **Rhoude El Krouf (RKF)** in the basin of **Berkine (Ouargla Province)** on 18 January.<sup>22</sup> The agreement provides for a development programme of \$1.2 billion, including doubling the amount of oil wells and the construction of a new production facility. This programme is expected to increase by 100 million barrels the final oil reserves of the old field, while maintaining oil and condensate production at 24,000 barrels per day (bpd) over five years, and production of liquefied petroleum gas (LPG) to 10,000 barrels per day over a period of six years.<sup>23</sup> The agreement is set to last for 25 years, and will produce LPG for the first time in this oil field, thanks to new hydrocarbon exploitation techniques.<sup>24</sup> Sonatrach CEO Abdelmoumen Ould Kaddour told the press that the Algerian and Spanish groups are thinking of investing together in solar energy, as Cepsa has just created a new specialised company.<sup>25</sup>

**Claudio Descalzi**, president of **Italy-based oil group Eni SpA**, announced on 29 January, his intention to reinforce the group's presence in Algeria, mainly in the country's offshore hydrocarbon fields.<sup>26</sup> The Algerian government has been trying to attract foreign investors, since the oil price drop in 2014, and offshore drilling is seen as a high potential driver of growth.<sup>27</sup> Eni will develop the **Zohr** oil field, in the **Mediterranean Sea**, off the **Egyptian** coast. Eni signed an exploration contract with Sonatrach in March 2017 to explore gas and oil resources off Algeria's coasts.<sup>28</sup> In October Guitouni said Algeria benefits from an unexplored offshore zone of 100,000 square meters.<sup>29</sup>

### Central bank issues new regulation to finance state-owned enterprises...

The **Banque d'Algerie** (central bank) published a new monetary policy regulation on 29 January.<sup>30</sup> The new regulation covers the politically controversial topic of the increasing debt of state-owned enterprises, and privatisation. The central bank will now allow public banks to refinance using the debts they hold of state-owned enterprises as surety.<sup>31</sup> In recent years,

<sup>19</sup> Maghreb Emergent, 17 Jan 2018.

<sup>20</sup> Maghreb Emergent, 17 Jan 2018.

<sup>21</sup> Bouteflika quoted in Maghreb Emergent, 17 Jan 2018.

<sup>22</sup> TSA, 19 Jan 2018.

<sup>23</sup> TSA, 19 Jan 2018.

<sup>24</sup> TSA, 19 Jan 2018.

<sup>25</sup> TSA, 19 Jan 2018.

<sup>26</sup> El Watan, 30 Jan 2018.

<sup>27</sup> El Watan, 30 Jan 2018.

<sup>28</sup> El Watan, 30 Jan 2018.

<sup>29</sup> El Watan, 30 Jan 2018.

<sup>30</sup> TSA, 30 Jan 2018.

<sup>31</sup> TSA, 30 Jan 2018.

the government exchanged state-owned enterprise debts for treasury bonds.<sup>32</sup> Public banks will now have the opportunity to mortgage those bonds to the central bank to raise capital.<sup>33</sup> The decision was taken in the context of political debate between the prime minister, Ahmed Ouyahia, who is in favour of rethinking the government's backing of some underperforming public companies, and the general secretary of the ruling FLN, Djamel Ould Abbas (see above).<sup>34</sup> Many strategic companies are facing major challenges: state-owned gas company Sonelgaz is struggling to finance its investments; **Air Algerie** is showing almost no profitability and is challenged by labour action; **Algerie Telecom** is challenged by technological issues and not making a profit.<sup>35</sup>

### ... as Coface shares pessimistic 2018 economic prospects

The **Compagnie Francaise d'Assurance pour le Commerce Exterieur (Coface)** (French insurance company for external trade) published its prospects for the Algerian economy in 2018 on 23 January.<sup>36</sup> The study shows a more pessimist outlook than those of the Algerian government, the **World Bank** and the **African Development Bank**.<sup>37</sup> Coface predicts that economic growth will continue to slow down in 2018.<sup>38</sup> It classified Algeria in the 'C' category for the second year in a row, with high risk of companies' arrears.<sup>39</sup> Despite the recovery of oil prices in 2017, Coface anticipates 1.5% GDP growth for 2018 against 2.2% in 2017.<sup>40</sup> Algerian customs' figures on external trade on 21 January showed the trade deficit decreased to \$11.9 billion at the end of 2017, a 34.4% decrease compared to \$17.06 billion in 2016.<sup>41</sup> Exports increased by \$34.76 billion in 2017, growing by \$4.75 billion compared to 2016, mainly due to hydrocarbons exports growing by 16.45% following oil prices increase.<sup>42</sup>

The Coface report highlights that the continued quota policy established by the **Organization of the Petroleum Exporting Countries (Opec)** agreement will limit oil sector growth, which is already penalised by the lack of investments and the maturity reach of some oil fields.<sup>43</sup> The oil sector's reform, which is expected to increase foreign investments by limiting restrictions imposed on foreign companies, will only be implemented in 2018, and its positive impacts will not be noticeable in the short term.

The Coface report underlined the slowing down of non-oil industries, as the increase in social expenditures to support consumption will limit public investment, while its effects are likely to be offset by growing inflation. The Coface report also pointed to high inflationary risks following the non-conventional financing chosen by the government.<sup>44</sup> Contrary to the IMF's recommendation to seek an external loan, the government resorted to printing money to finance the country's budget deficit and to support public expenditure.<sup>45</sup>

<sup>32</sup> TSA, 30 Jan 2018.

<sup>33</sup> TSA, 30 Jan 2018.

<sup>34</sup> TSA, 30 Jan 2018.

<sup>35</sup> TSA, 30 Jan 2018.

<sup>36</sup> TSA, 24 Jan 2018.

<sup>37</sup> Source, Algeria analyst, London

<sup>38</sup> TSA, 24 Jan 2018.

<sup>39</sup> TSA, 24 Jan 2018.

<sup>40</sup> TSA, 24 Jan 2018

<sup>41</sup> TSA, 21 Jan 2018

<sup>42</sup> TSA, 21 Jan 2018.

<sup>43</sup> TSA, 24 Jan 2018

<sup>44</sup> TSA, 24 Jan 2018.

<sup>45</sup> TSA, 24 Jan 2018

### Government attempts to strengthen Franco-Algerian business ties

The **Mouvement des Entreprises de France (MEDEF)** (Movement of French companies) sent a delegation of some sixty heads of businesses to **Algiers** on 6 February, as France looks to regain market share it has lost to **China**, currently Algeria's leading trade partner.<sup>46</sup> The delegation included representatives from different industries such as infrastructure, transport, energy, bank and finance, with **Thales, Suez, Colas, Engie, BNP Paribas** and **Bolloré Transport & Logistics**.<sup>47</sup> In addition, small and medium enterprises already present in the country will join, including the cable transport company **Poma, CAN**, a company specialised in work at height, and **ICE**, a water treatment company.<sup>48</sup> Two memoranda of understanding are set to be signed, with the first on the creation of an Algerian- French business council agreed between the **Forum des Chefs d'Entreprises (FCE)** (Forum of heads of enterprises) and the MEDEF.<sup>49</sup> The second will focus on the development of renewable energies, following an exchange between Sonatrach CEO Ould Kaddour, and France-based **Engie SA**.<sup>50</sup> Cabinet director for Sonatrach, **Karim Djebbour**, and the deputy general director of Engie, **Pierre Mongin**, signed a memorandum of understanding on research and development in the energy efficiency and renewable energy sectors on 7 February, for a period of three years.<sup>51</sup> The energy efficiency programme is key to government efforts to build energy sufficiency and improve the energy mix (see above).<sup>52</sup> The programme includes the development of solar water heaters, and the increased usage of low energy consumption lamps. The government is looking to increase the market share of renewable energies in the energy mix from 2% currently to 27% in 2030, with 22,000 MW.<sup>53</sup> Sonatrach will benefit from a programme in which Engie will share its competence and expertise in solar energy and energy efficient processes.<sup>54</sup>

During a press conference on 8 February, MEDEF president **Pierre Gattaz** spelled out the challenges facing foreign direct investments in Algeria.<sup>55</sup> He mentioned the long delays in payments by state enterprises, and the increased difficulty in importing equipment and certain components that penalises investors who want to deliver finished products.<sup>56</sup> Gattaz listed the repatriation of dividends after taxes as an obstacle, and criticised the 51/49 rule as a disincentive for investors wanting to retain a majority stake in their companies.<sup>57</sup>

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<sup>46</sup> TSA, 6 Feb 2018.

<sup>47</sup> TSA, 6 Feb 2018.

<sup>48</sup> TSA, 6 Feb 2018.

<sup>49</sup> TSA, 6 Feb 2018.

<sup>50</sup> TSA, 6 Feb 2018.

<sup>51</sup> Maghreb Emergent, 8 Feb 2018.

<sup>52</sup> Maghreb Emergent, 8 Feb 2018.

<sup>53</sup> Maghreb Emergent, 8 Feb 2018.

<sup>54</sup> Maghreb Emergent, 8 Feb 2018.

<sup>55</sup> Maghreb Emergent, 8 Feb 2018.

<sup>56</sup> Maghreb Emergent, 8 Feb 2018.

<sup>57</sup> Maghreb Emergent, 8 Feb 2018.

## Planner

April 2019: Scheduled presidential elections;

March 2018: The **Front de Liberation National (FLN)** announces its candidates for the presidential election of 2019

## Chronology

6 Feb 2018: *TSA*, A delegation of the **Mouvement des Entreprises de France (MEDEF)** sends a delegation of approximately sixty heads of businesses to **Algiers**, as France looks to regain its market share lost to **China**, currently Algeria's leading trade partner;

5 Feb 2018: *El Watan*, **Sonatrach** vice president **Salah Mekmouche** announces it will be possible to negotiate the sale of Sonatrach's shares, triggering liberalisation rumours quickly denied by CEO **Abdelmoumen Ould Kaddour**;

4 Feb 2018: *Algerie Patriotique Annaba* member of parliament **Baha-Eddine Tliba** launches an initiative to support a fifth presidential mandate for President **Abdelaziz Bouteflika**;

31 Jan 2018: *El Watan* Abdelmoumen Ould Kaddour participates in a **United States (US)-Algerian** forum on energy to present opportunities in Algeria for foreign investors;

29 Jan 2018: *El Watan*, **Claudio Descalzi**, president of **Italy**-based oil group **Eni SpA**, announces his intention to reinforce the group's presence in Algeria, mainly in the country's offshore hydrocarbon fields;

23 Jan 2018: *TSA*, The **Compagnie Francaise d'Assurance pour le Commerce Exterieur (Coface)** publishes its prospects for the Algerian economy in 2018;

21 Jan 2018: *TSA*, Algerian customs publishes official figures on external trade, showing the trade deficit reduced to \$11.9 billion end 2017, representing a 34.4% decrease compared to \$17.06 billion in 2016;

18 Jan 2018: *TSA*, **Sonatrach** and **Spain**-based company **Cepsa** sign an exploitation agreement for the oil field of **Rhoude El Krouf (RKF)** in the basin of **Berkine** (Ouargla).

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