Would an Oil Production Freeze Save Algeria?

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Brief Analysis

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OPEC's non-official meeting in Algeria during the end of September was the most prominent event for a country in dire economic crisis. The importance of the meeting stems from a series of visits by Algerian Energy Ministry Noureddine Boutarfa to major petroleum-producing in an attempt to implement a production freeze to save his country from an extremely grim economic situation.

On 28 September, OPEC had reached an initial agreement to cap oil output at 32.5 to 33 million barrels. A team of experts had been assigned to establish the method of implementation and determine the share of each country in an attempt to put an end to the prolonged fall in crude oil prices which has exceeded 60% in the past two years and caused any economies that rely on oil for financing and support, such as Algeria, to suffer as a result.

With this energy meeting, Algeria may have succeeded in its diplomatic effort to convince oil producers to curb energy output by capping and freezing production.
After Venezuela's unsuccessful call for an OPEC summit in 2015, Algeria initiated contact with foreign countries, starting with Justice Minister Taib Bileaz's 2015 visit to top OPEC producer, Saudi Arabia. Bileaz carried a message from President Bouteflika to King Salman bin Abdulaziz, highlighting the need to coordinate curbing the oil market. During the same visit, the Algerian minister discussed the matter with former Saudi Minister of Petroleum and Mineral Resources, Ali bin Ibrahim al-Naimi.

Next, President Abdelaziz Boutaflika sent his former Energy Minister Yusuf Yusufi to Azerbaijan with a message to its president about the "need for a debate among oil producing countries" as reported in an Algeria Press Service telegram.

In early 2015, during the African Union Summit in Ethiopian capital Addis Ababa, Algeria's Prime Minister Abdelmalek Sellal discussed oil prices with the African Petroleum Producers Association (Nigeria, Gabon, Angola, Congo, and Equatorial Guinea).
However, OPEC's Doha meeting last April failed to reach an agreement to freeze oil production due to Iran's refusal and disagreements with Saudi Arabia regarding shares. This prompted Algeria to host OPEC's non-official meeting on the occasion of the 15th International Energy Forum held from 26 to 28 September. Despite the sense of pessimism leading up to the event, Algerian Energy Minister remained positive and went on a visiting spree in early

September to Iran, Qatar, and Russia. He also met with Saudi Minister of Petroleum and OPEC's Secretary General Mohammad Barkindo in Paris. The meeting ended up with an initial agreement to cap oil output after it turned from a mere consultation to an extraordinary meeting with binding resolutions.

Algerian government and media actors described this initial agreement as a "historical achievement" and a "victory for Algerian diplomacy" that "has positive impact on Algeria's reputation" according to Abderrazzak Makri, leader of Algeria's Islamic opposition party, the Movement of Society for Peace. But none of this could dissipate concerns about a globally stable oil market, neither on the short nor on the long run, particularly after Russia (the world's top crude oil exporter and non-OPEC member) declared that it would not abandon its share in the market, and after Iraq (OPEC's second largest crude oil producer) announced that it would not cut down on it production. Moreover, the agreement merely pertains to capping output and it does not set oil prices since the oil market has many other key inputs besides OPEC.

On the other hand, the implementation of this agreement depends on several international and regional factors, primarily the Middle East's current wars of attrition – namely in Syria and Yemen – and the related intense Iranian-Saudi dispute that threatens to explode any moment.

Most importantly, the final decision regarding an output freeze would be settled during OPEC's semi-annual summit in Vienna in November. Consequently, there is plenty of time for many factors and positions to change as no implementation mechanisms were set for the decisions resulting from that agreement and the shares of members states in the global market have not been determined. Some observers even view Algeria's agreement as nothing but a "diplomatic decision" made to please the host authorities and spare them any humiliation.

As for the implications of this agreement on the economic and financial situation of the host country, which has 90% dependency on oil sale revenues, the significant price fall–from $115/barrel in mid-2014 to less than $47–struck a brutal economic blow to the country as oil revenues dropped by 70% and foreign-exchange reserves plummeted from $193 billion at the end of 2013 to $145 billion by the end of 2015, with an anticipated drop to $110 billion by the end of 2019.

For its part, Algeria's treasury deficit reached $17.7 billion during the first half of the year, urging the government to adopt an austerity policy by reducing public spending, cancelling some major projects, and including new taxes on the 2016 budget that had spurred angry reactions on the Algerian street during 2015 and early 2016. According to the Algerian League for the Defense of Human Rights, the number of annual protests in the country is estimated at over 14,000 for "lack of social justice."

Financial indicators of the Algerian economy indicate that the country's budget relies on a benchmark of crude estimated to be about $50 in 2017-2018 and at $60 in 2018-2019. According to forecasts, the oil price would not exceed the $50 threshold at best if the output capping agreement were to be implemented. The Algerian government will face a harsher economic crisis in the three coming years, mainly because its key economic balances are only possible at a price exceeding $130/barrel, which is impossible in both the short and medium terms. This entails austerity measures with a bigger impact on vulnerable social classes. This is the choice that has begun to materialize in the 2017 budget which proposes new taxes, higher fuel prices, and a 2% higher VAT.

As the saying goes, "a crisis is a time for action." The collapse in oil prices is a major opportunity for the Algerian government to revise its economic choices and look for an alternative economy that dissociates from a rentier economy and moves toward diversified revenues independently from oil revenues. In fact, the country has large agriculture and tourism potential. The only way is to open a serious debate with economists to identify the means to economic diversity and reforms to the financial, banking, and tax collection systems. The disbursement of social transfers, which require one-third of the State's income, should also be reconsidered. None of these steps will see the light in the absence of good governance because Algeria's crisis is first and foremost political rather than economic. ❖

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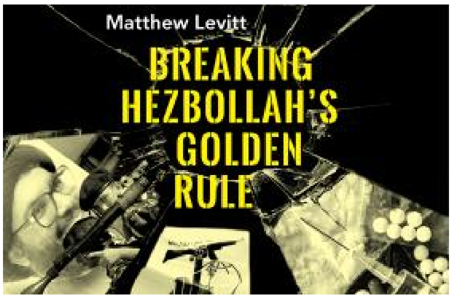

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