

AFRICA RISK CONSULTING

Country briefing – Algeria

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1 Summary

The ruling Front de Libération Nationale (FLN) removes its secretary general Abdelaziz Belkhadem. Italian prosecutors place Paolo Scaroni, the head of Milan based oil and gas major ENI, and several other senior executives under investigation for alleged payment of bribes to Algerian officials to secure oil and gas contracts. Canadian prosecutors expand their investigation into Montreal based engineering firm SNC-Lavalin, alleging the company paid bribes to Algerian officials to secure billions of dollars worth of oil and gas construction and engineering contracts. The government and private sector increase oil and gas security after January's terrorist attack on the Tiguentourine gas plant.

The ruling Front de Libération Nationale (FLN) removes its chief Abdelaziz Belkhadem ...

The ruling **Front de Libération Nationale (FLN)** has removed its highly unpopular chief, **Abdelaziz Belkhadem**. At the beginning of February, the FLN relieved Belkhadem of his duties as party secretary general.^[1] Belkhadem, a former prime minister and a loyal supporter of the president, **Abdelaziz Bouteflika** (1999 – present), has served as Bouteflika's personal representative since 2008. He is closely aligned to the private sector but is also close to Algeria's Islamists and represents the Arab-Islamic wing of the FLN,^[2] therefore "*...as head of the FLN he should have become prime minister, but he cannot*".^[3] Secularists within the FLN opposed his leadership.^[4] The FLN's success in the 2012 legislative elections improved Belkhadem's standing as a potential candidate for president in 2014.^[5] However, he became a casualty of the internal FLN power struggle between the Islamist wing and the secular reform movement within the party. Belkhadem "*...did not resign, he was kicked out...*".^[6]

Real power in Algeria does not lie in the FLN.^[7] Politics in Algeria is not about one dominant personality or organisation. The political landscape is formed through a consistent power struggle

between Islamists and secular reformers; economic reformers and economic nationalists; the military and the presidency.[^8] These power struggles take place in two main centres of real political power: the presidency under Bouteflika and the **Département du Renseignement et de la Sécurité (DRS)**⁸ (military intelligence). Internal power struggles between the presidency and military intelligence drive high-level political competition in Algeria (see January 2013 briefing). Military intelligence remains the last holdout of political power outside the presidency and plays a role in all political decisions. It backs Bouteflika's "*deep state*" approach – Bouteflika's preference for state economic control over free market principles – but wants a new political arena with reformers at the helm to ensure Algeria does not experience 'Arab spring' style unrest.

Below this high-level competition between the presidency and military intelligence there is the Algerian elite known as 'the Pouvoir'[^9] who want to ensure they are at the helm of Algeria's political and business environment. The Pouvoir has strong links to the presidency, the military, the military intelligence and the FLN.[^10] It is not a fixed group of individuals and it is difficult to identify or define its members because Algerians tend to hide wealth and not flaunt power. The Pouvoir is a fluctuating network of individuals and family members: wealthy business people; current and former senior civil servants and military officials; current and former politicians who are informally consulted on major political and economic issues.[^11] They are more reform oriented, not as statist as Bouteflika, and will promote the private sector and easing the nationalistic regulatory environment which has constrained FDI.[^12]

Belkhadem represented the traditional wing of the FLN which at the moment is losing in a power struggle with the reformers.[^13] The FLN has not chosen Belkhadem's replacement but will probably choose a reformer or modernist as its new secretary general. The change in FLN leadership will not alter Algeria's political landscape significantly as real power in Algeria does not lie in the FLN (see above)

"... things are changing with Sellal as prime minister; there is increasingly less influence of hardline religious elements and his new cabinet is seen as having more modernist elements".

Bouteflika appointed **Abdelmalek Sellal** as prime minister on 4 September 2012, four months after the May 2012 parliamentary elections. Sellal led the last two presidential campaigns (2004 and 2009) for Bouteflika[^14] and is known as a moderniser with close links to the military.[^15]

Italian and Canadian companies face corruption investigations into Algerian oil and gas contracts...

Italian prosecutor **Francesco Greco** placed **Paolo Scaroni**, the head of **Milan**-based oil and gas major **ENI**, and several other senior executives under investigation for alleged payment of bribes to Algerian officials to secure oil and gas contracts. Greco alleges ENI and **Saipem**, in which ENI is the largest shareholder, paid hundreds of millions of dollars in bribes to secure \$11 billion in oil and gas contracts. Eight of the alleged 'contracts' were awarded to Saipem between 2007 and 2009.

Prosecutors allege ENI paid \$200m in bribes to **Sonatrach** officials through **Hong Kong**-based **Pearl Partners Ltd** and bank accounts in **Switzerland** and **Dubai**, which were allegedly linked to ENI's Algerian intermediary **Farid Bedjaoui**^[^16] Bedjaoui is the nephew of former foreign minister **Mohammed Bedjaoui**.^[^17]

Scaroni has denied any involvement in bribery.^[^18] Energy minister **Youssef Yousfi** says he will take firm action against those linked to corruption at Sonatrach, the state owned oil and gas company.^[^19] **United Kingdom (UK)** based **al Quds** newspaper claims the Algerian government may issue an arrest warrant for former energy minister **Chakib Khelil** to answer questions relating to the ENI bribery scandal.^[^20] Khelil, a Bouteflika ally, was dismissed as energy minister in 2010.^[^21]

In Canada, prosecutors are expanding their investigation into **Montreal**-based engineering firm **SNC-Lavalin** alleging the company paid bribes to Algerian officials to secure billions of dollars worth of oil and gas construction and engineering contracts. Since SNC launched a strategic push into North Africa, the company has won at least \$6 billion in Sonatrach linked contracts.^[^22] Canadian prosecutors allege Bedjaoui, the same intermediary allegedly linked to the ENI corruption scandal (see above), helped facilitate the payment of SNC bribes through an oil and gas sector sub-contracting company based in Dubai. He is allegedly linked to Dubai based **Ouais Group Engineering and Contracting**.^[^23] Bedjaoui has family and educational links to Montreal. He is a graduate of the **University of Montreal** and a former student at **Hautes Études Commerciales**.^[^24]

Transparency International's (TI) 2012 Corruption Perceptions Index (CPI)^[^25] ranks Algeria 105 out of 176 countries with a score of 34 placing Algeria on the same level as Gambia (34), above Ethiopia (33) and below Tanzania (35) and Gabon (35).^[^26] Algeria's 2012 TI ranking was an improvement on its 2011 ranking of 112^[^27]. Italy and Canada have signed the **OECD's Anti-**

Bribery Convention, promising to enforce laws that prevent companies from making corrupt payments to foreign officials.^[^28] Implications of the convention for foreign companies operating in Algeria are outlined below.

Oil and gas security increased after January's terrorist attack on the Tiguentourine gas plant...

After the 16 January terrorist attack on the **Tiguentourine** gas plant in **In Amenas** which killed 37 foreign nationals and 32 Islamists (see previous briefing) the government and private companies have increased oil and gas sector security. For example, the Algerian military has deployed reinforcement along its southern border with **Mali** to prevent another incursion from Islamist militants based in northern Mali^[^29] (see previous briefing). The military has also reinforced security at the **Sbaa** refinery and the associated employee compounds in **Adrar**^[^30]. Foreign oil and gas companies in Algeria have already increased security and taken precautions to protect local and expatriate employees or are implementing new security measures. **United States (US)**-based **Anadarko Petroleum** has stepped up security at its facilities – particularly its facilities at the **Hassi Berkine South** and **Ourhoud** fields in the **Sahara Desert**.^[^31] **Abdelhamid Zerguine**, the CEO of **Sonatrach**, Algeria's state-owned oil and gas company, has pledged to strengthen security at its facilities in the wake of the Tiguentourine attack.

"... we did a review of all these security measures in a bid to strengthen them. We have made proposals, and we will implement this new plan once it is in line with the regulations ... The internal regulations did not allow the presence of armed personnel. In the new proposal, we would ask for armed personnel to secure remote sites." ^[^32]

Implications

President Bouteflika is not expected to stand as a candidate in the 2014 presidential election. Hence Algeria's political environment in the run-up to the vote will remain heated as reformers, nationalists, religious and secular politicians struggle to gain the upper hand.

The ENI and SNC investigations reflect the real implications of past allegations of corruption associated with international companies. The investigations in Canada and Italy show the extraterritorial impact of current international anti-corruption legislation. Foreign companies operating in Algeria are advised to:



- Review level corporate procedures to ensure OECD's Anti-Bribery Convention compliance;
- Review all interaction, dealings and relationships with ENI or SNC to ensure they are not a risk of investigation;
- Conduct internal investigations into past corporate behaviour in Algeria and other high corruption risk areas to determine any corporate vulnerability from any future external investigation as a defensive exercise;
- Maintain a strong anti-corruption communication strategy to define and relay the implications of international legislation to local Algerian partners who, under current laws, must make up 51% of ownership of all companies. Algeria's supplementary finance law (2009) stipulates that Algerian shareholders must own at least 51% of any foreign investment. The 51% law presents a high degree of due diligence risk, takes a lot of time and does not guarantee the Algerian partners will not act in concert against the interests of the foreign investor or may not adhere to the standards required under the OECD Anti-Bribery Convention.
- Remain sensitive and vigilant with regards to third party 'consultants' or lobbying firms to ensure any interactions are not perceived as corrupt.

Companies with operations in Algeria, particularly in the oil and gas sector, are advised to increase physical security especially with regards to facilities with expatriate employees and conduct security assessment and evacuation procedure reviews.

[^1]: IOL, 1 Feb 2013.

[^2]: www.africa-confidential.com

[^3]: Source, political analyst, North Africa

[^4]: www.africa-confidential.com

[^5]: Source, political analyst, North Africa.

[^6]: Source, political analyst, Algeria.

[^7]: Source, political analyst, Algeria.

[^8]: Source, academic, Algeria.

[^ 9] : The political and economic elite.

[^10]: Source, political analyst, North Africa.

[^11]: Source, political analyst, North Africa

[^12]: Source, political analyst, North Africa

[^13]: Source, political analyst, Algeria.

[^14]: www.maghrebemergent.com

[^15]: www.africa-confidential.com

[^16]: Multiple sources: ANSAmed, 8 Feb 2013; ANSAmed, 15 Feb 2013;

[^17]: Globe and Mail, 21 Feb 2013.

[^18]: ANSAmed, 15 Feb 2013.

[^19]: AFP, 20 Feb 2013.

[^20]: Al Quds, 14 Feb 2013.

[^21]: Al Quds, 14 Feb 2013.

[^22]: Multiple sources: AFP, 21 Feb 2013; Globe and Mail, 21 Feb 2013.

[^23]: Globe and Mail, 21 Feb 2013.

[^24]: Globe and Mail, 21 Feb 2013.

[^25] : The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. A country's rank indicates its position relative to the other countries and territories included in the index. This year's index includes 176 countries and territories – www.transparency.org.

[^26] : www.transparency.org

[^27] : Out of 183.

[^28] : Globe and Mail, 22 Feb 2013.

[^29] : AFP, 4 Feb 2013.

[^30] : El-Khabar, 20 Feb 2013.

[^31] : www.reuters.com

[^32] : Xinhua, 25 Feb 2013.