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The corruption trial of Mohamed Meziane, former Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach) CEO, begins. The trial is one of several factors deterring foreign investment in the oil and gas sector. Prime minister Abdelmalek Sellal announces moves to curb the illegal transfer of funds from Algeria, although it seems unlikely they will be any more successful than previous efforts. France-based supermarket chain Carrefour says it will return to the Algerian market during the first half of 2015, but on a much smaller scale than envisaged a decade ago, and has to give the government 30% of its local operating company to open one store in Algiers. Algeria again looks to Europe for gas pipeline and renewable energy investments but has yet to address bureaucratic inertia and political interference that also deter investors. The Islamist attack in Tunis in March makes the Algerian security forces jittery, as evidenced by the temporary evacuation of Turkish construction workers in Kibalye Region.

Sonatrach corruption trial begins

The corruption trial against **Mohamed Meziane**, the former CEO of state-owned oil company **Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach)**, started on 16 March, five years after the initial investigation for corruption, but was suspended after witnesses failed to appear.¹ The Sonatrach scandal has deterred foreign investment in Algeria's oil industry over the past five years. In 2014, only four bids were entered for 31 oil blocks put up for auction.²

"The industry is watching for the outcome of this trial and to see if there is any improvement in the Algerian operating environment as a result ... nobody wants to get dragged into a highly public lawsuit."³

The case focuses on five contracts between Sonatrach and an Algerian unit of **Germany-based Funkwerk** for monitoring equipment and electronic protection services. Prosecutors allege that Funkwerk was able to secure special treatment in return for giving equity in their Algerian company to Meziane and his two sons, who are also defendants in the trial. In total there are 19 defendants who are charged with inflation of the value of public contracts, misuse of state funds, and money laundering. On the first day of the trial, the judge agreed a defence petition to delay the trial after 38 of the 108 witnesses were not available to testify. The trial will now resume in April.

The delays in the investigation are due to the very public nature of the scandal, known as **Sonatrach-1**, but mainly due to a second, parallel set of charges against former energy minister **Chakib Khelil**, a close associate of President **Abdelaziz Bouteflika** (1999-present), which were recently dropped.⁴ Another related case, involving Sonatrach officials and **Saipem**, the local subsidiary of **Italy-based ENI**, has also been filed in Italy. Italian prosecutors allege that Saipem paid \$200m in bribes to Sonatrach officials in order to win contracts worth \$8.4 billion.⁵

Prime minister **Abdelmalek Sellal** has re-announced plans to try and curb the illegal transfer of funds from Algeria. The amount of money being moved out the country illegally is a serious drain on government

¹ Jeune Afrique, 16 Mar 2015.

² FCPA blog, 17 Mar 2015.

³ Source: Africa oil executive, Johannesburg

⁴ AP, 15 Mar 2015.

⁵ AP, 15 Mar 2015.

revenues and is estimated at a huge \$1.5 billion per year in lost tax revenue.⁶ Sellal tasked finance minister **Mohamed Djellab** and commerce minister **Amara Benyounès** to devise a plan at an inter-ministerial meeting on 27 February. The Algerian government has tried to tackle this issue five times before, with little success. Analysts have attributed this – in part – to the widespread belief that senior government and military officials are prominent among the beneficiaries. However, the stakes are now higher. The current drop in international oil prices is hitting Algeria hard as the country derives 90% of its export earnings (and a major proportion of government revenue) from oil exports.⁷

Carrefour announces intention to return to Algeria

France-based supermarket chain **Carrefour** has announced plans to return to Algeria and open a hypermarket in **Algiers** during the first half of 2015. Carrefour, the world's second largest supermarket retailer after **United States (US)-based Walmart**, has embarked on a wider expansion into **Africa** and plans to open stores in eight **West African** countries from 2015 onwards. Carrefour has opted to open large hypermarket retail malls in combination with franchising deals rather than burn capital building large groups of stores.

Carrefour will hold a 70% interest in the new Algiers hypermarket and a government-controlled investment will fund the remaining 30%. Carrefour originally opened in Algeria in 2006 in a joint venture with Algerian company **Arcofina**. However, difficulties in securing land permits from the government led to the venture falling through in 2009 after only one of 18 planned stores opened. Most retailers in Algeria are still small, independently owned stores and there are no other international supermarket companies active in the sector, although domestically owned agro-conglomerate **Cevital** operates the **Numidis** chain of supermarkets.⁸

“Teaming up with a government fund and only opening a single, larger, store shows that Carrefour is aware of the risks of over-extending itself. The comparative wealth of Algiers, and reduced likelihood of local permit problems with the government on board, makes this venture far more likely to succeed than the first.”⁹

Retail companies in Algeria face additional operational risks, from price controls. Bureaucracy and official corruption, a strong grey market for consumer goods, and labour market restraints compound these risks.

Algeria looks to Europe for energy projects

Sellal has also urged the **European Union (EU)** to support the revival of several major energy projects, such as natural gas pipelines **Trans Sahara Gas Pipeline (TSGP)** and **GALSI** as well as the solar **DESERTEC** project. Specifically mentioning the TSGP and the GALSI pipeline, which is envisaged to connect Algerian gas to **Italy** via **Sardinia**, Sellal was clearly trying to exploit perceptions of **European** over-reliance on **Russia** for gas:

*“The pushing of **North African** energy initiatives is a shrewd move – by playing the Russia energy security card, Algeria may just get some traction in having these projects taken back off the shelf. But the government will have to do a lot more to tackle the notorious bureaucratic inertia afflicting the Algerian energy sector if they want to persuade investors of a serious game-change in policy.”¹⁰*

As well as gas pipelines, the DESERTEC solar project aims to provide affordable renewable power, via subsea interconnectors, to **Southern Europe**.

Energy minister **Youcef Yousfi** also urged Algerian energy companies to improve their competitiveness in March. He urged Algerian companies to boost their transparency, openness and flexibility when working with international partners – specifically mentioning the **Chinese** renewable energy sector as a model for

⁶ Echorouk, 4 Mar 2015.

⁷ APS, 27 Feb 2015.

⁸ Jeune Afrique, 19 Mar 2015.

⁹ Source, management consultant, Casablanca

¹⁰ Source, independent oil and gas analyst, London

cost and quality. He also announced an ambitious plan, designed by the Sonatrach Group for the period 2015-2019, to increase Algeria's domestic energy output across all fronts. This includes the drilling of 260 new wells and significant 3d seismic mapping of existing reserves, designed to boost production at mature wells. The plan also envisages the installation of some 22,000MW of solar and wind power between 2015 and 2030. The major drawback is the lack of clarity on where the financing will come from for these new initiatives.

Algeria continues to work internationally to try to mitigate the impact of declining international oil prices. In March, Yousfi met his Angolan counterpart, **José Maria Botelho de Vasconcelo**, and the **Nigerian** ambassador to Algeria to discuss the crude-oil price and energy ties. The meeting was part of an initiative by Bouteflika aiming to encourage dialogue and cooperation between oil exporting countries, regardless of whether or not they are members of the **Organisation of Petroleum Exporting Countries (OPEC)**. The initiative, however, seems at this point to be little more than a talking shop:

*"The oil price collapse has hit Algeria hard, much like many other African hydrocarbon exporters – half the oil revenues mean half the spending power. It's territory that the Algerians have experienced before – in the late 1990s – but they have become accustomed to plenty of fat in the budget and huge social spending to try and avoid popular unrest."*¹¹

Workers evacuated due to IS threat

Algerian security forces evacuated 100 **Turkish** workers constructing a motorway in the **Kibalye Region** due to a reported threat by **Islamic State (IS)** affiliated militants. The Islamist terrorist attack in **Tunis** in mid-March has made the Algerian authorities jittery and has led to heightened security.¹² The evacuation on 23 March appears to be a temporary precaution and the workers were allowed to return to the site later. In 2014, militants proclaiming loyalty to IS kidnapped and beheaded a French tourist in the same area and in 2014 overall, 208 people were killed in nine militant attacks across the country.¹³

The US and EU are reported to be working to deepen security and intelligence cooperation with Algeria, in part to try to tackle extremists before they get to mainland Europe.

*"The spread of terrorism into Europe from north Africa, from seemingly innocent arrivals or as part of wider group arrivals (e.g. from refugees) was and remains a top European policy concern. I saw this myself – once into Europe they are harder to track – the trick is to interdict them at source and we depend on cooperation to achieve that."*¹⁴

Implications

The delay to the Sonatrach trial signals the difficulty of holding officials with close links to Algeria's power-broking elite (the **Pouvoir**) to account. Those targeted publicly for corruption tend to be those who have fallen from favour in political power games, with others enjoying ongoing high-level backing seemingly exonerated. Reducing real corruption and bureaucratic interference remain key to achieving lofty government ambitions for investment in the energy sector, but it is still not clear that the elite really understand what they need to do to make Algeria a more attractive investment destination.

In this context, the Carrefour project shows how even the most determined investors engaged in a joint venture with a government entity have to tread extremely cautiously.

Islamic militant attacks have long been a feature in Algeria, dating back to the civil war in the 1990s and feeding on long-standing popular social and economic grievances. As in **Egypt**, home-grown militants in the populous coastal regions mostly aim at military and police targets for this reason. Foreign fighters – such as **Sahel** and **Sahara**-based extremists – pose the greatest risk to foreigners, especially in isolated oil and gas infrastructure remains vulnerable.

¹¹ Source, oil and gas sector economist

¹² Jeune Afrique, 23 Mar 2015.

¹³ International terrorist centre statistics for 2014.

¹⁴ Source, former UK Counter Terror Officer, UK

About Africa Risk Consulting:

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