

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing February 2016

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#### Algeria Summary 18 February 2016

*President Abdelaziz Bouteflika (1999-present) dissolves the **Département du Renseignement et de la Sécurité (DRS)**, the powerful military intelligence unit. He replaces it with the **Direction des Services de Sécurité (DSS)** that will report directly to the presidency. Parliament votes the new constitution into law with a large majority, further cementing the president's power. The Algiers high court hands out prison sentences and fines for officials at state-owned oil and gas company Sonatrach, Germany-based Funkwerk and Italy-based Saipem for corruption. However, commentators criticise the sentences and fines for being too lenient. United Kingdom (UK)-based British Petroleum (BP) and Norway-based Statoil start production at the In Salah Gas joint venture.*

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#### Bouteflika moves DRS out of military control as new constitution passes into law

In a significant shift of power away from Algeria's military, President **Abdelaziz Bouteflika** (1999-present) has dissolved the **Département du Renseignement et de la Sécurité (DRS)**. Bouteflika dissolved the once powerful military intelligence unit by decree on 25 January.<sup>1</sup> This represents a further shift in power within the *pouvoir* (the ruling elite close to the president) from the military towards long-standing technocrats such as prime minister **Abdelmalek Sellal**.<sup>2</sup> According to a senior member of the president's ruling **Front de Libération Nationale (FLN)**:

*"The era of [military] king makers is over."<sup>3</sup>*

Bouteflika will replace the DRS with a new intelligence agency, the **Direction des Services de Sécurité (DSS)**.<sup>4</sup> The DSS will no longer be under the control of the ministry of defence – and the heads of the armed forces – but instead will report directly to the presidency.<sup>5</sup> Current DRS head General **Athmane 'Bachir' Tartag** will continue to lead the organisation.<sup>6</sup> He is close to Bouteflika who brought him in to replace General **Mohamed "Toufik" Mediène** as head of the DRS in September 2015 (see *ARC Briefing Algeria September 2015*). Toufik, whose nicknames included "*King of Algeria*", was one of the most powerful and feared figures in the country until Bouteflika removed him from office.<sup>7</sup> The move to transfer DRS control from the military ensures that the generals will be unable to utilise their formidable internal and external intelligence networks to brief against the president and his close allies.<sup>8</sup> According to a journalist source in Algeria, this is not the only part of the president's ongoing effort to reduce the power of the military.<sup>9</sup> It is also part of the president's desire to ensure a peaceful succession after he leaves power:

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<sup>1</sup> Al-Hiwar, 25 Jan 2016.

<sup>2</sup> Source, regional analyst, Istanbul

<sup>3</sup> Senior FLN member in Reuters, 25 Jan 2016.

<sup>4</sup> TAS, 25 Jan 2016.

<sup>5</sup> Al-Hiwar, 25 Jan 2016.

<sup>6</sup> Al-Hiwar, 25 Jan 2016.

<sup>7</sup> TAS, 25 Jan 2016.

<sup>8</sup> Reuters, 25 Jan 2016.

<sup>9</sup> Source, journalist, Algiers

*"The generals are not happy at the way the president has removed senior military figures as ministers and...Toufik...as part of the new plan to ensure stability after his death, including the new constitution; he is cutting down on their ability to interfere with the democratic process."*<sup>10</sup>

Other sources also believe that the transition out of ministry of defence control will allow the DSS to be a more effective intelligence agency than its predecessor:

*"The move will enable Algeria's intelligence to move from a 'secret police' to a more proper intelligence agency to adapt to ongoing regional and domestic political transition."*<sup>11</sup>

Opposition sources believe that the move could signal that the president will leave office in 2016:

*"Bouteflika is ill, he is on the way out and it is a matter of when and not if...he has his new constitution, the generals are not a threat to his chosen successor. It makes sense to leave now...maybe he will stay until the economic situation stabilises but it is better he manages the transition than dies in office."*<sup>12</sup>

The move came days before parliament voted the new constitution into law on 7 February.<sup>13</sup> Lawmakers voted 466 for and two against, with 16 abstentions, easily passing the 75% majority needed.<sup>14</sup> However, 89 opposition lawmakers boycotted the vote.<sup>15</sup> Sellal hailed it as a victory for democracy,<sup>16</sup> although opposition figures say it shows Bouteflika's power over the legislature.<sup>17</sup> Former prime minister **Ali Benflis** said it was a "constitutional power grab"<sup>18</sup> and secretary general of opposition **Parti des Travailleurs (PT), Djelloul Djoudi**, said that it did "not reflect any real political reform".<sup>19</sup> Local media have focused on the imposition of two-term presidential limits and the introduction of **Amazigh** as an official language. The move appeals to the native **Berber** population which accounts for approximately 32% of the national population.<sup>20</sup> The constitution will not retroactively apply the term limit to Bouteflika, who is serving his fourth term in office.<sup>21</sup> However, it will prevent him from running for a fifth term.<sup>22</sup>

### Court hands out prison sentences and fines in Sonatrach graft case

The **Algiers** high court has handed out prison sentences and fines to figures from national and international companies for corruption at state-owned oil and gas company **Sonatrach**.<sup>23</sup> The prison sentences were primarily handed to Algerian citizens accused of taking bribes and laundering money related to Sonatrach tenders. The court sentenced former Sonatrach CEO **Mohammed Meziane** to a five-year suspended sentence and a \$17,000 fine.<sup>24</sup> His sons **Mohamed Reda Meziane** and **Bachir Fawzi Meziane** received six and five-year sentences respectively and fines of \$18,000 and \$9,000 for their involvement in accepting bribes for Sonatrach contracts.<sup>25</sup> Former vice-president of Sonatrach **Belkacem Boumediene**, who has spent the last five years in prison, was handed a six-year sentence. The court acquitted former Sonatrach vice-president **Benamar Zenasni** who has spent the last five

<sup>10</sup> Source, journalist, Algiers

<sup>11</sup> Security analyst in Reuters, 25 Jan 2016.

<sup>12</sup> Source, opposition activist, Oran

<sup>13</sup> Liberté, 7 Feb 2016.

<sup>14</sup> Liberté, 7 Feb 2016.

<sup>15</sup> Sahara Reporters, 7 Feb 2016.

<sup>16</sup> APS, 7 Feb 2016.

<sup>17</sup> Source, journalist with opposition ties, Algiers

<sup>18</sup> Sahara Reporters, 7 Feb 2016.

<sup>19</sup> Sahara Reporters, 7 Feb 2016.

<sup>20</sup> CIA Factbook 2016

<sup>21</sup> Liberté, 7 Feb 2016.

<sup>22</sup> Liberté, 7 Feb 2016.

<sup>23</sup> AFP, 6 Feb 2016.

<sup>24</sup> AFP, 6 Feb 2016.

<sup>25</sup> AFP, 6 Feb 2016.

years in prison awaiting trial.<sup>26</sup> The court handed former CEO of CPA bank **Meghaoui Hashemi** a five-year jail term for money laundering, and his son **Yazid Meghaoui** received a six-year term for the same offence.<sup>27</sup>

In a signal that the Algerian government is clamping down on corrupt business practices by foreign companies, the Algiers high court found **Germany**-based **Funkwerk Plettac** guilty of bribing officials to win contracts.<sup>28</sup> The company received a \$45,000 fine and two of its subsidiaries – **Comtel-Funkwerk** and **Comtel-Algerie** – received fines of \$36,000.<sup>29</sup> The Algerian CEO of Comtel-Funkwerk, **Mohamed Jaafar al-Reda Ismail**, received a six-year prison term.<sup>30</sup> The German group is also excluded from bidding on contracts in Algeria for five years.<sup>31</sup>

The court ruled that **Italy**-based gas company **Saipem**'s local subsidiary **Saipem Contracting Algeria** inflated prices when building the **GK3** pipeline for Sonatrach in 2009.<sup>32</sup> The court ordered the company to pay a \$37,000 fine in order to settle the matter.<sup>33</sup> Saipem claimed that the final cost of the pipeline above the quoted price of \$472m reflected market rate increases.<sup>34</sup> Saipem, in which Italy-based oil company **Eni** owns a controlling stake, has had numerous legal problems relating to corruption. A judge in **Milan** ordered five Saipem employees to stand trial for allegedly spending \$215m to bribe Algerian officials in order to win contracts worth \$8.7 billion.<sup>35</sup> Saipem announced its intention to appeal on 3 February.<sup>36</sup>

Sources in Algeria say that the case is an important landmark in anti-corruption rulings in the country. However, they decry the light sentences and small fines.<sup>37</sup> The prosecution sought a 15-year jail term and a \$3m fine for Mohammed Meziane.<sup>38</sup>

*"We have the legal framework in place so the courts can punish corruption....but they decided that as these are eminent businesspeople with links to the government, they would not hand out heavy sentences. [Mohammed] Meziane will be put away quietly, fined a fraction of what he has gained – essentially he gets away with it."*<sup>39</sup>

Others added that the behaviour of international companies was not punished enough:

*"You fine a company like Saipem \$37,000 and they laugh because they are spending millions of dollars for the work...it looks like a political hand intervened in the court and told them not to punish them [the international companies] because this might scare off investors...the government is fighting itself."*<sup>40</sup>

The source came to the conclusion that the court case was a managed settlement more than the actions of a truly independent judiciary.

*"Meziane, his sons and the others [Sonatrach employees found guilty] are the fall guys for a wider network of corruption...there is no way the presidency did not know what was going on, so the*

<sup>26</sup>AFP, 6 Feb 2016.

<sup>27</sup> AFP, 6 Feb 2016.

<sup>28</sup> AFP, 6 Feb 2016.

<sup>29</sup> AFP, 6 Feb 2016.

<sup>30</sup> AFP, 6 Feb 2016.

<sup>31</sup> AFP, 6 Feb 2016.

<sup>32</sup> Liberté, 3 Feb 2016.

<sup>33</sup> Liberté, 3 Feb 2016.

<sup>34</sup> Liberté, 3 Feb 2016.

<sup>35</sup> Reuters, 3 Feb 2016.

<sup>36</sup> Reuters, 3 Feb 2016.

<sup>37</sup> Source, academic, Algiers

<sup>38</sup> AFP, 3 Feb 2016.

<sup>39</sup> Source, academic, Algiers

<sup>40</sup> Source, journalist with opposition ties, Algiers

*small prison sentences are a way to buy their silence...they struck a deal with someone in government before the trial settled.”<sup>41</sup>*

## BP and Statoil start production at In Salah

**United Kingdom (UK)-based British Petroleum (BP)** and **Norway-based Statoil** started production at the **In Salah Gas** joint venture on 16 February.<sup>42</sup> The companies have continued to invest in the oil and gas sector despite low commodity prices, banking on the price of gas rising within the year.<sup>43</sup> According to a regional industry analyst:

*“The fact that the [oil] majors are continuing their activity shows an entrenched belief that the oil and gas prices will get better... onshore gas reflects a better return on investment in the current climate as it is comparatively cheaper to extract.”<sup>44</sup>*

BP and Statoil run In Salah in a joint venture with state-owned oil and gas company **Sonatrach**.<sup>45</sup> They hold a 33.15%, 31.85% and 35% share respectively.<sup>46</sup> In Salah has an estimated total output of 9 billion cubic metres (bcm) per annum.<sup>47</sup> In Salah is part of the **Southern Fields** dry gas projects spanning four gas fields: In Salah, **Gour Mahmoud**, **Garet el Befinat** and **Hassi Mourmene**. The joint venture plans to drill 26 wells, having started drilling in 2014. The total estimated reserves for the project area are 159 billion cubic metres.<sup>48</sup> The project also includes a 500 million standard cubic feet (mscf) per day gas dehydration plant close to the Hassi Mourmene field.<sup>49</sup>

In Salah Gas formed as a company in 2004 and runs three fields to the north of In Salah – the **Krechba**, **Teguentor** and **Reg** fields.<sup>50</sup> BP has been involved with the In Salah fields for over 20 years; Statoil bought into the partnership in 2003.<sup>51</sup> The partnership will sell the gas from the southern fields under the same terms of contract as the northern fields.<sup>52</sup>

## Implications

Bouteflika has managed to fundamentally shift the balance of power in Algeria during the first two years of his last presidential term. He has moved power away from the generals, closed the door behind him on multiple terms in office and increased the power of the legislature. However, he has kept power centralised around the presidency and a largely unaccountable network of technocratic and business leaders. The parliamentary opposition are powerless to oppose their legislative agenda and Islamist parties – that enjoy widespread grass roots support – as they are permanently locked out of the parliamentary process. The president now has the power to move against any potential opposition through the DSS – his newly appropriated secret police. The future of the country continues to remain in the hands of a small group of people close to Bouteflika who do not have a history of acting outside of their own self-interest. However, political risk of a military coup upsetting the democratic process is now drastically reduced.

The corruption sentencing in the Sonatrach trial demonstrates how the *pouvoir* work within the regulations they set themselves. All the parties were found guilty of corruption by the court, but the court handed out suspended prison sentences and fines that are substantially lower than the amount embezzled or bribed. Technically the constitution and rule of law were upheld but in reality the ruling

<sup>41</sup> Source, journalist with opposition ties, Algiers

<sup>42</sup> Oil Price, 16 Feb 2016.

<sup>43</sup> Rigzone, 16 Feb 2016.

<sup>44</sup> Source, MENA oil analyst, New York

<sup>45</sup> Oil Price, 16 Feb 2016.

<sup>46</sup> Oil and Gas Journal, 16 Feb 2016.

<sup>47</sup> Oil Price, 16 Feb 2016.

<sup>48</sup> Oil and Gas Journal, 16 Feb 2016.

<sup>49</sup> Rigzone, 16 Feb 2016.

<sup>50</sup> Rigzone, 16 Feb 2016.

<sup>51</sup> Oil and Gas Journal, 16 Feb 2016.

<sup>52</sup> Oil and Gas Journal, 16 Feb 2016.

elite appears to be ensuring that figures who held positions of influence do not face severe consequences for corruption.

Algeria's ongoing financial problems due to the low price of oil and gas do not appear to be slowing the pace of development in its oil and gas fields. However, as much of the expenditure for In Salah predates the fall in the price of oil, there will be a delayed drop-off in new prospecting and more expensive production from 2016 onwards. This will affect the long-term profitability of the oil and gas sector.

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