

AFRICA RISK CONSULTING**Algeria Monthly Briefing August 2016**

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President Abdelaziz Bouteflika (1999-present) releases a statement saying that Algeria has a new model for economic growth. This will include major taxation reforms and further measures to boost non-hydrocarbon sector growth. However, hydrocarbons continue to make up 93.5% of export values and the trade deficit has increased by 27% year-on-year in the first half of 2016. State-owned metals company Imetal takes over the Algerian operations of India-based steel giant ArcelorMittal. The deal involves a no-cash transfer of ownership of three subsidiaries to Imetal to allow ArcelorMittal to exit the Algerian market. Journalists appear to find a link showing middleman Farid Bedjaoui funneled bribes from Italy-based Saipem to government officials in the 'Panama Papers'. Bedjaoui used Panama-based law firm Mossack Fonseca to set up shell corporations through which he moved the money.

Bouteflika announces new growth model for Algeria

President **Abdelaziz Bouteflika** (1999-present) released a statement on 2 August saying that **Algeria** would have a new model for economic growth.¹ The low price of oil and gas has undercut Algeria's economic prosperity, forcing the government to spend its foreign currency reserves to keep up public expenditure. Bouteflika said that the new growth model will increase expenditure by overhauling the taxation system, and will focus on boosting non-hydrocarbon businesses to rebalance the economy.² Bouteflika said that by improving the effectiveness of the taxation system, the state would be able to cover all costs of public infrastructure spending by 2019 with the increase in revenue.³ The statement also said that the government would boost "high value-added sectors"⁴ to improve economic diversification.⁵ These include agribusiness, renewable energy, business services, the digital economy, industry, mining and downstream oil and gas activities.⁶ However, the statement gave no details of how the government intended to boost activity in these sectors.⁷ The government will mobilise additional capital from the local financial markets, hinting at a possible domestic currency denominated bond issue in the near future.⁸

The government has talked about diversifying the economy since the price of oil crashed in 2013. In July, it announced a large increase in output in oil and gas as part of its attempt to retain its position in the sector.⁹ Successive budgets in 2014 and 2015 have failed to deliver significant changes. However, a new investment law (*ARC Briefing Algeria February 2015, February 2016*) may encourage further international investment in the country.¹⁰ However, local economic commentators remain unconvinced:

¹ Reuters, 2 Aug 2016.

² Reuters, 2 Aug 2016.

³ Reuters, 2 Aug 2016.

⁴ Reuters, 2 Aug 2016.

⁵ Al-Arabia, 2 Aug 2016.

⁶ Al-Arabia, 2 Aug 2016.

⁷ Reuters, 2 Aug 2016.

⁸ Reuters, 2 Aug 2016.

⁹ Al-Arabia, 2 Aug 2016.

¹⁰ Al-Arabia, 2 Aug 2016.

“We have heard of this ‘new’ economic deal for three years now with no real plan – what does reforming the taxation plan mean? The same is true of the value-add sectors – the statement just lists all the other major sectors in Algeria. The finance ministry needs to articulate a clear plan to increase confidence.”¹¹

However, others argue that the policies to increase industrial production have had some success. The revenue from public industrial production increased by 5.4% in the first quarter of 2016.¹² Increases in production of iron ore and phosphates drove this increase.¹³

“We see some impact of government policy, there is a change of attitude towards international mining companies and more willingness to promote the sector.”¹⁴

The need to shift Algeria’s economy away from hydrocarbons remains severe. Hydrocarbons continue to account for 93.5% of Algeria’s export value, and non-hydrocarbon exports are down 22.83%.¹⁵ National statistics body, the **Centre National de l’Informatique et des Statistiques (CNIS)**, reported the trade deficit increased by 27.2% across the first half on 2016 on 20 July.¹⁶ The deficit widened to \$10.83 billion, up from \$8.51 billion in the first half of 2015.¹⁷ Exports’ value declined to \$12.68 billion, down 33% from \$18.93 billion year-on-year.¹⁸ However, imports have also fallen 14.3% to \$23.5 billion from \$27.5 billion year-on-year.¹⁹ This is despite an increase in key imports such as grain, which rose 8.6% to 7.53m tonnes, up from 6.9m tonnes in the first half of 2015.²⁰ However, the cost of imports declined 17.75% to \$1.56 billion due to lower global grain prices.²¹ Algeria remains vulnerable to cost fluctuation in import prices as well as export prices in its current situation.

“The task is very large – the government says it can grow other sectors while reducing tariffs and increasing the oil and gas supply. This spreads resources thin and means change cannot happen quickly.”²²

IMETAL takes over Arcelor Mittal companies

State-owned company **IMETAL** completed the purchase of controlling shares of **India**-based steel company **ArcelorMittal’s** subsidiaries in Algeria on 7 August.²³ The state has re-taken control of a number of key assets in the metal and steel sector from the international company. Arcelor has struggled due to a slump in the price of steel as well as natural resources iron ore and manganese that are involved in its production.²⁴ IMETAL, which specialises in metalwork and the steel industry, took control of **ArcelorMittal Algérie (AMA)**, **ArcelorMittal Pipes and Tubes Algeria (AMPTA)**, and **ArcelorMittal Tebessa (AMT)**.²⁵ It was already involved in joint-venture partnerships with all three companies.²⁶ Arcelor controlled 49% of AMA and AMT and 70% of AMPTA.²⁷ IMETAL now owns majority stakes in all three, with small numbers of shares reserved for management stock options.²⁸

¹¹ Source, economic journalist, Algiers

¹² APS, 31 Jul 2016.

¹³ APS, 31 Jul 2016.

¹⁴ Source, mining executive, Paris

¹⁵ Ennahar, 20 Jul 2016.

¹⁶ Ennahar, 20 Jul 2016.

¹⁷ Ennahar, 20 Jul 2016.

¹⁸ Ennahar, 20 Jul 2016.

¹⁹ Ennahar, 20 Jul 2016.

²⁰ Liberté, 9 Aug 2016.

²¹ Liberté, 9 Aug 2016.

²² Source, economic journalist, Algiers

²³ North Africa Post, 7 Aug 2016.

²⁴ North Africa Post, 7 Aug 2016.

²⁵ North Africa Post, 7 Aug 2016.

²⁶ North Africa Post, 7 Aug 2016.

²⁷ North Africa Post, 7 Aug 2016.

²⁸ North Africa Post, 7 Aug 2016.

IMETAL took over the shares in a transaction that had no financial element.²⁹ The parties arranged this by mutual agreement to allow Arcelor to exit the Algerian market, but it will remain a potential customer for products the three companies produce.³⁰

“ArcelorMittal are in global crisis and the Algerian operations were not profitable enough to justify the cost...the fact that the state didn’t have to pay for the companies shows how bad steel is at the moment.”³¹

The companies control the **El-Hadjar** steel production complex and the **Tebessa** iron field, two of the largest sites for steel production in the country.³² Algeria currently has to import steel to meet national demand, and is attempting to rebalance its economy away from oil and gas (see above). The government sees taking control of the steel industry as an important part of this agenda. Mines and industry minister **Abdesselam Bouchouareb** told the media at the signing ceremony of the share transfer that:

“these companies have become completely national....[the agreement aims] at promoting our [Algeria’s] self-sufficiency in steel.”³³

However, local commentators warn against the state taking on too many burdens in the manufacturing sector:

“Nationalisation will add a major fiscal burden to the state at a time when it is very short on cash. The state will need to make these businesses profitable and will shoulder any losses they make. If the trend continues this could be another risk to [economic] stability.”³⁴

Panama Papers reveal Saipem corruption links

New investigations of the so-called ‘Panama Papers’ – documents of companies that law firm **Mossack Fonseca** registered in **Panama** – have revealed details of 12 companies prosecutors are investigating in relation to a major bribery case.³⁵ The government is prosecuting a number of international firms for poor business practices in the oil and gas sector, as part of a plan to improve its image as an investment destination. Prosecutors are investigating **Italy**-based oil services group **Saipem** for arranging a \$257m pay-off to secure \$10 billion in contracts from state-owned oil and gas firm **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)**.³⁶ At the time, Saipem was a majority owned subsidiary of Italy-based oil major **Eni**, which retains a 30% stake in the company.³⁷ The contracts were to build oil and gas pipelines from sites in the desert in southern Algeria to the **Mediterranean Sea**.³⁸ Algeria’s prosecution of widespread corruption in Sonatrach in the last 15 years has led to a number of high profile figures losing their positions (see *ARC Briefing Algeria February 2016*). However, the media often criticise the punishments the courts hand out as too lenient for politically connected former officials:

“It is important that the government actually prosecute people for this, and not give them small fines or house arrest; it is not right that Sonatrach executives just lose their job for breaking the law in this way – the fines are smaller than the bribes they took!”³⁹

²⁹ North Africa Post, 7 Aug 2016.

³⁰ North Africa Post, 7 Aug 2016.

³¹ Source, commodities trader, Johannesburg

³² North Africa Post, 7 Aug 2016.

³³ Bouchouareb in Reuters, 7 Aug 2016.

³⁴ Source, economic journalist, Algiers

³⁵ Oilprice, 26 Jul 2016.

³⁶ Oilprice, 26 Jul 2016.

³⁷ Reuters, 27 Jul 2016.

³⁸ Oilprice, 26 Jul 2016.

³⁹ Source, economic journalist, Algiers

Prosecutors allege that Franco-Algerian businessman **Farid Bedjaoui** arranged the pay-off with Algerian officials and Saipem executives through 17 shell corporations. The Panama Papers reveal that Mossack Fonseca created 12 of these 17 companies, and show details of their incorporation and assets.⁴⁰ Bedjaoui allegedly funnelled over \$13m to family members of Bouteflika through one of these companies, **Minkle Consultants SA**.⁴¹ Bedjaoui, who lives in **Dubai**, has denied any wrongdoing. The **International Consortium of Investigative Journalists (ICIJ)** carried out the investigation and announced on 25 July that they delivered their findings to prosecutors in Algeria and Italy.⁴² Investigations in Algeria are ongoing, and prosecutors have yet to comment on the findings that draw information from a jurisdiction outside of their legal reach.⁴³ However, a court in **Milan** indicted Eni, Saipem and former Eni CEO **Paolo Scaroni** over the bribes on 27 July.⁴⁴ Coming shortly after the revelations, it is unclear whether they played a role in prosecutors' decision to press forward with the case.⁴⁵

Implications

The new part of the government's plan to revive the economy is the overhaul of the tax system. There is little information at time of writing as to what form this might take. However, the finance ministry and central bank, **Banque d'Algerie**, will need to be careful not to stifle growth by increasing taxes too much, or starving itself of income by reducing them. The current likelihood is that the government will increase corporation tax, but will offer tax breaks to companies in key sectors and small and medium enterprises. It is highly unlikely to increase income tax at a time when it has already cut subsidies for fuel – a highly unpopular move. However, these plans will take time to design and implement – the country remains in crisis management economic policy for now.

Taking over the subsidiaries of exiting multi-nationals will return control of some key industries to the government. However, it needs to reach out to the international community to draw in direct investment to shift the financial burden of running the companies off the state. It will be unable to do so currently in the steel industry due to the low global price of the commodity. The take-over of ArcelorMittal's operations is better seen as a move to save Algerian jobs rather than a purposeful programme of renationalisation.

Courts have already indicted Saipem for paying bribes to Sonatrach officials, and it is likely that they will do so again. The government would like the international community to see Algeria as a safe place to do business. It may also be advertising that in the current economic circumstances and under the new regimes at the finance and mineral resources ministers and Sonatrach, there will be no pressure to bribe to get contracts. However, the prosecution of officials for bribes ten years ago is not the same as ensuring clean business at the present time.

⁴⁰ Oilprice, 26 Jul 2016.

⁴¹ IB Times, 26 Jul 2016.

⁴² Oilprice, 26 Jul 2016.

⁴³ Oilprice, 26 Jul 2016.

⁴⁴ Reuters, 27 Jul 2016.

⁴⁵ Reuters, 27 Jul 2016.

About Africa Risk Consulting:

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