

AFRICA RISK CONSULTING

Algeria Monthly Briefing October 2018

Algeria Summary 10 October 2018

Algeria is in political gridlock. The ruling Front de Liberation National (FLN) calls on Assemblée Populaire Nationale (APN) (national assembly) president and FLN member of parliament (MP) Saïd Bouhadja to resign following his dismissal of APN secretary general Bachir Slimani. The FLN and other political parties block APN activities but President Abdelaziz Bouteflika (1999-present) fails to intervene. The Finance Law 2019 shows an expansionist government budget and continued resort to non-conventional financing. The International Monetary Fund (IMF) decreases its real GDP growth forecast for Algeria for 2018, but predicts lower and controlled inflation in 2019. A Milan (Italy) court hands down sentences in the corruption trial involving state-owned oil company Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach) and Italy-based oil and gas contractor Saipem SpA.

National assembly president's dismissal triggers political crisis...

Algeria is in a political gridlock. The ruling **Front de Libération Nationale (FLN)** called on **Assemblée populaire nationale (APN)** (national assembly) president and FLN member of parliament (MP) **Saïd Bouhadja** to submit his resignation on 28 September following his decision to dismiss APN general secretary **Bachir Slimani**.¹ Bouhadja had accused Slimani of mismanaging the affairs of the lower chamber.² A majority of MPs, including those from various member parties of the ruling presidential coalition such as the **Mouvement populaire Algerien (MPA)**, the **Rassemblement National Democratique (RND)** and the **Rassemblement de l'espoir de l'Algerie (TAJ)** took issue with Bouhadja's decision to dismiss Slimani.³ Slimani used his strong network of influence within the FLN to exercise pressure on Bouhadja who refused to bend.⁴ The ensuing political crisis escalated when Bouhadja obtained the support of the powerful **Organisation des Moujahidines (ONM)** (Mujahideen organisation) and the **Coordination Nationale des Enfants de Chouhada (CNEC)** (national coordination of the children of the martyrs of the revolutionary war of independence).⁵

According to Article 131 of the 2016 constitution, Bouhadja is entitled to remain at the head of the APN until 2022 but he has refused to vacate his position.⁶ The FLN and other political parties have retaliated by blocking APN activities until his departure. This has triggered a political and constitutional crisis. President **Abdelaziz Bouteflika** (1999-present) alone has the power to end the crisis by dissolving the APN, but, at time of writing, he has not yet issued

¹ Jeune Afrique, 28 Sept 2018.

² Jeune Afrique, 28 Sept 2018.

³ Jeune Afrique, 28 Sept 2018.

⁴ Jeune Afrique, 28 Sept 2018.

⁵ TSA, 10 Oct 2018.

⁶ Huff Post Maghreb, 1 Oct 2018.

any official directives.⁷ The political crisis is likely to delay the national assembly's examination of the 2019 budget, which is due in the coming weeks (see below).⁸ Prime minister **Ahmed Ouyahia** instructed the MPs of his RND party to follow the FLN's boycott, further polarising the political scene.⁹

Bouteflika's silence indicates his unwillingness to officially take a stand in the matter. However, if Bouhadja does not leave his position or Bouteflika does not remove him, the last resort will be the dissolution of the APN.¹⁰ This would probably delay the presidential elections scheduled for April 2019. **Abdelhamid Si Afif**, president of the APN's exterior relations, told the Arabic newspaper **EL Khabar** on 10 October that if the crisis stagnates, Bouhadja's opponents would organise a sit-in in front of the APN, showing that the FLN is not ready to stand down and increasing pressure on Bouteflika to intervene.¹¹ Bouhadja's hardline stance and his support from the ONM threaten the FLN-RND blockade, which is not likely to be successful as it is not backed up by any constitutional grounds. With the presidency remaining silent as the political crisis enters its third week, the situation is damaging Bouteflika's claim to be fit for a fifth mandate.

2019 budget promises no new taxes or increased taxes ...

The **Conseil des Ministres** (council of ministers or cabinet) adopted the 2019 budget on 26 September, confirming that there will be no new taxes or increases in existing taxes in 2019 while a larger part of the budget will be allocated to social projects.¹² Social projects represent 21% of the total state budget, which amounts to DA8,560 billion (\$71.9 billion).¹³ The budget allocates DA1,763 billion (\$14.9 billion) to social affairs compared to DA1,760 billion (\$14.8 billion) in 2018, reflecting a DA3 billion (\$25.3m) increase.¹⁴ The amount will be divided between assistance to poor families (DA445 billion (\$3.7 billion)), readjusting the deficit of the national pension fund (DA500 billion (\$4.2 billion)), health policies (DA336 billion (\$2.8 billion)) and housing (DA350 billion (\$2.9 billion)).¹⁵

The budget highlights the government's failure in implementing its non-conventional financing strategy. The strategy had predicted that government expenditure would be cut in 2019 to reduce the budget deficit (given a high oil barrel price) and the implementation of austerity measures.¹⁶ However, recent social crises, including the cholera epidemic and growing discontent regarding unemployment, as well as continued subsidies and housing projects, have prevented the state from carrying out the necessary spending cuts to re-stabilise public finances, sending a negative message to credit agencies and hence foreign investors.¹⁷ Despite energy minister **Mustapha Guitouni's** recommendations to the contrary, subsidies for oil, electricity and water will continue.¹⁸

⁷ Huff Post Maghreb, 1 Oct 2018.

⁸ TSA, 2 Oct 2018

⁹ Huff Post Maghreb, 1 Oct 2018.

¹⁰ TSA, 10 Oct 2018.

¹¹ Algerie Patriotique, 10 Oct 2018.

¹² TSA, 9 Oct 2018.

¹³ TSA, 9 Oct 2018.

¹⁴ TSA, 9 Oct 2018.

¹⁵ Algerie Patriotique, 26 Sept 2018.

¹⁶ Algerie Patriotique, 26 Sept 2018.

¹⁷ Algerie Patriotique, 26 Sept 2018.

¹⁸ TSA, 27 Sept 2018

The government's reluctance to adopt tougher public finance management is in line with the upcoming presidential elections and the fear of protests, which could jeopardise Bouteflika's election for a fifth mandate.¹⁹ The government's operational budget will represent an important part of the government budget, reaching a historical record of DA5,000 billion (\$42.1 billion), a 7.5% increase compared to 2018.²⁰ The government said the current security situation on Algeria's borders and social projects justified the expenditure.²¹

... as IMF decreases growth prediction for 2018 but forecasts controlled inflation

The **International Monetary Fund (IMF)** released its prospective study of the world's economies on 9 October, decreasing Algeria's initial real GDP growth estimate for 2018.²² The IMF sets real GDP growth at 2.5% in 2018, against 1.4% in 2017, representing a decrease from the initial 3% real GDP growth estimated in April 2018 and unchanged at 2.7% for 2019.²³ However, the IMF does not expect inflation to rise significantly. It sets the inflation rate at 6.5% in 2018, compared to 5.6% in 2017, when it initially believed it would reach 7.6% in 2019.²⁴ Inflation is expected to continue growing in 2019 despite the resort to non-conventional financing, reaching 6.7% in 2019.²⁵ Unemployment reached 11.7% in 2017 but decreased slightly in 2018 to 11.6%. The IMF predicts it will increase to 12.3% in 2019.²⁶

The IMF reports the current account deficit will be close to 9% in 2018 and will reach 7.9% in 2019, compared to 13.2% in 2017.²⁷ Increasing oil prices are the main reason behind the improvement of the current account.²⁸ The IMF initially issued a report in July warning against the inflation risks triggered by the combined effects of increasing cash flow due to a lack of appropriate sterilisation of the monetary policy and the restrictive new import laws.²⁹ The increased oil price and a low external debt will enable Algeria to further its gradual growth and improve public finances, which will be key to promoting the emergence of the private sector to decrease the economy's dependence on hydrocarbons.³⁰

However, the IMF underlined the necessity to resort to diversified investment options including issuing bonds, promoting public private partnerships and external borrowing.³¹ The higher oil price affords the opportunity for Algeria to reassure investors abroad, as most observers believe the resort to money printing will have a negative impact on the economy. However, the 2019 finance law does not appear to take the IMF's recommendations into consideration (see above).

Sonatrach and Saipem trial sees sentencing of key perpetrators ...

The **Court of Milan - Criminal Court Section IV (Italy)** named the main protagonists in the corruption scandal involving the state-owned oil company, **Société nationale pour la**

¹⁹ TSA, 27 Sept 2018

²⁰ TSA, 27 Sept 2018.

²¹ TSA, 27 Sept 2018.

²² Algeria Press Service, 9 Oct 2018.

²³ Algeria Press Service, 9 Oct 2018.

²⁴ Algeria Press Service, 9 Oct 2018.

²⁵ Algeria Press Service, 9 Oct 2018.

²⁶ Algeria Press Service, 9 Oct 2018.

²⁷ Algeria Press Service, 9 Oct 2018.

²⁸ TSA, 9 Oct 2018.

²⁹ TSA, 9 Oct 2018.

³⁰ TSA, 9 Oct 2018.

³¹ TSA, 9 Oct 2018.

recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach), and Italy-based oil and gas contractor **Saipem SpA** on 19 September.³² The trial confirmed that high-ranking executives in Saipem gave bribes to illegally acquire a market in Algeria.³³ Between 2007 and 2009, Saipem obtained seven contracts with Sonatrach, totalling €8 billion (\$9.2 billion), in exchange for €197m (\$227.4m) transferred to bank accounts in **Europe** and **Asia**, owned by **Farid Bedjaoui**, the former right-hand man of energy minister **Chakib Khelil**, and main intermediary in the corruption scandal.³⁴

Bedjaoui was found guilty for his role as intermediary in seven contracts obtained by Saipem from Sonatrach.³⁵ The Milan tribunal ordered the confiscation of the €197m (\$227.4m) that Saipem gave to Bedjaoui. **Interpol** has been looking for Bedjaoui since 2014 and he is thought to currently reside in the **United Arab Emirates**.³⁶ An arrest warrant against Khelil was cancelled under mysterious circumstances. President Bouteflika officially dismissed the prosecutor general of **Algiers**, who had issued the warrant, by through presidential decree in February 2016.³⁷

Pietro Varone, a Saipem director at the time of the scandal, and Saipem's former Algerian director, **Pietro Tali**, received four-year and nine-month jail sentences, while **Alessandro Bernini**, the former financial director of the Italian company, was sentenced to four years and one month in prison.³⁸ On the Algerian side, Bedjaoui was sentenced to five years and five months, and his collaborators, **Samir Ouraied** and **Omar Habour**, to four years and one month.³⁹ The Italian court was not able to carry out further convictions, as Bedjaoui and other intermediaries are still missing. The refusal of the Algerian justice department to collaborate with its Italian counterpart has spurred public outrage.⁴⁰

Italy-based oil company **ENI**, Saipem's parent company, and its former director, **Paolo Scaroni**, were both acquitted of international corruption charges.⁴¹ ENI is also currently under investigation for similar bribery charges in **Nigeria** and in the **Republic of Congo**.⁴²

The timing of the Saipem scandal has harmed the government's credibility. On 22 August President Bouteflika publicly called for the creation of a solid popular front to tackle corruption and drugs in the country (see *ARC Briefing Algeria September 2018*). The "Clean Hands" operation aimed at removing all high-ranking army officials.⁴³

... as Sonatrach and Total sign agreements

France-based oil company **Total** and Sonatrach signed two agreements on 7 October as part of the global partnership they announced in 2017.⁴⁴ The first agreement concerns the 25-

³² Jeune Afrique 19 Sept 2018.

³³ Jeune Afrique 19 Sept 2018.

³⁴ Jeune Afrique 19 Sept 2018.

³⁵ Algeria Press Service, 9 Oct 2018.

³⁶ Algeria Press Service, 9 Oct 2018.

³⁷ Algeria Press Service, 9 Oct 2018.

³⁸ TSA, 20 Sept 2018.

³⁹ TSA, 20 Sept 2018.

⁴⁰ Jeune Afrique 19 Sept 2018.

⁴¹ Jeune Afrique, 19 Sept 2018.

⁴² Reuters, 20 Sept 2018.

⁴³ TSA, 20 Sept 2018.

⁴⁴ Jeune Afrique, 8 Oct 2018.

year exploitation of the **Erg Issaouane** gas field in the centre-east of the country, which contains an estimated 100 million barrels of oil equivalent (boe).⁴⁵ The gas field is set to be ready for production at the end of 2021. Both companies agreed to invest \$406m to extract and transport the dry gas, GPL and condensate to treatment facilities.⁴⁶

The second agreement aims to create a joint venture, **Sonatrach Total Entreprise Polymeres (Step)**, with a 51% share for Sonatrach and 49% share for Total.⁴⁷ Algerian investment law forbids a foreign actor from holding a majority share in Algerian companies.⁴⁸ Step will oversee the petrochemistry project of **Arzew**, west of Algiers, providing the construction of two factories to increase the high-scale transformation of propane into polypropylene, a plastic in high demand.⁴⁹ This project officially turns the page on the legal dispute between the two companies following the implementation in Algeria of a tax on exceptional profits.⁵⁰ Total and **Spain**-based oil company **Repsol S.A** accused Sonatrach at the time of changing the conditions of the partnership.⁵¹ The conflict lasted until the end of June 2016, when Total took the matter to the **International Court of Arbitration in Geneva (Switzerland)** before dropping charges a year later when they reached an amicable resolution.⁵² This is not the first time Sonatrach was sued by partners for wrongdoing. In 2012, Sonatrach had to pay **United States**-based oil company **Anadarko** and **Denmark**-based oil company **Maersk Oil** \$4.4 billion and \$920m respectively.⁵³

Sonatrach has been struggling to meet clients' demands, not only because of bureaucracy and the lack of expertise, but also because of the frequent departure of top executives following a series of scandals. Sonatrach has had seven chief executive officers over ten years, disincentivising foreign investments that the company and the country need. The new agreements will help to create optimism around Sonatrach's future.

⁴⁵ Jeune Afrique, 8 Oct 2018.

⁴⁶ Jeune Afrique, 8 Oct 2018.

⁴⁷ Jeune Afrique, 8 Oct 2018.

⁴⁸ Jeune Afrique, 8 Oct 2018.

⁴⁹ Jeune Afrique, 8 Oct 2018.

⁵⁰ Hydrocarbon Technology, 9 Oct 2018.

⁵¹ Hydrocarbon Technology, 9 Oct 2018

⁵² Hydrocarbon Technology, 9 Oct 2018

⁵³ Hydrocarbon Technology, 9 Oct 2018

Planner

January 2019 **(Algeria)** Expected new law on hydrocarbon to increase investments

January 2019 **(Algeria)** Beginning of programme of budget consolidation and decrease in public expenditure

April 2019: **(Algeria)** Scheduled presidential elections;

Chronology

9 Oct 2018 **Washington DC (United States)** *Algerie Press Service*: The **International Monetary Fund (IMF)** predicts lower real GDP growth for Algeria than its April 2018 forecasts, with controlled inflation in 2019;

7 Oct 2018 **Algiers (Algeria)** *Jeune Afrique*: **France**-based oil company **Total** and state-owned oil company **Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach)** sign an agreement for the exploitation of **Erg Issaouane** gas field with a production capacity of 100 million barrels of oil equivalent (BOE);

7 Oct 2018 **Algiers (Algeria)** *Algerie 360*: The **Organisation Nationale des Moudjahiddines (ONM)** and the **Coordination Nationale des enfants de chouhada (Cnec)** through his president **Khaled Bounedjma** express support for **Assemblée Nationale Populaire (APN)** president **Said Bouhadja**;

28 Sep 2018 **Algiers (Algeria)** *Jeune Afrique*: The **Front de Liberation National (FLN)** demands that **Assemblée Nationale Populaire (APN)** president **Said Bouhadja** submit his resignation over accusations of mismanagement;

26 Sep 2018 **Algiers (Algeria)** *TSA*: The **Conseil des Ministres** (council of ministers) passes the **Finance Law 2019**, establishing that no further taxes or increases in taxes will take place in 2019;

19 Sep 2018 **Milan (Italy)** *Algerie Patriotique*: The trial of the corruption scandal targeting state-owned oil company **Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach)** and the Italy based oil and gas contractor **Saipem S.p.A** ends;

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