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>>> Menas Algeria Politics & Security

1.0. Politics

- > One of our sources described Algeria this week as '*undergoing the Chinese water torture*': a slow drip, drip, drip of new shocks, revelations and reminders of the corruption that is endemic to the Algerian regime and its state structures. The analogy is questionable, however, not because Algeria is not suffering, but because the drips have been more of a torrent.
- > Each day since the 14th January shock of the *Sonatrach* corruption scandal, the *Département du renseignement et de la sécurité (DRS)* - *El Watan* (and others) camp has been tightening the pressure on the Presidency and raising the question of whether, and perhaps for how long, both the Minister of Energy and Mines **Chakib Khelil**, and the idea of a '*Bouteflika dynasty*' can survive.
- > Khelil - President **Bouteflika**'s friend and Algeria's key face to its international oil and gas markets and IOC business partners - has been reduced in the pages of Algeria's popular dailies from an internationally respected, immensely influential and modernising technocrat, to a shaken, spluttering comedy character: the Algerian regime's "*Monsieur je ne sais pas*". And with what damage to Algeria?
- > The *Sonatrach* corruption scandal, publicised by *El Watan* on 14th January - which has led to its CEO, four of its five vice presidents, five other senior managers, and subsequently 12 other company officials being subjected to judicial committal orders - was, as we explained last week (*Algeria Politics & Security - 15.01.10.*), a profoundly political move which can only be understood within the context of what has been dubbed Algeria's '*War of Succession*'.
- > The investigation into some 1,600 cases of alleged corruption by *Sonatrach*'s top management has been carried out by the *DRS* under the specific direction of its head, General **Mohamed 'Tewfik' Médiène**.
- > Médiène - along with other senior elements within the *DRS* and their allies in the press, notably *El Watan* - are opposed to the

proposal that Bouteflika should be succeeded in a seemingly dynastic manner, by his younger brother **Said Bouteflika**.

- > In what is becoming a more clearly defined struggle between the *DRS* and Bouteflika '*clans*'; there are at least two battlefields. The most blatant at the moment is corruption, in the form of the *East-West Highway* and *Sonatrach* cases, with the other being played out in the field of foreign relations and diplomatic '*incidents*'.
- > In spite of the apparent strengthening of the presidency, vis-à-vis the army, during the Bouteflika era, there are many who regard Médiène as the most powerful man in Algeria. Although the President could dismiss him, many see his position as having become entrenched. His command of the *DRS* '*black files*' enables him to rattle the skeletons in the cupboards of almost every member of the political-military élite. Skeletons which include details of both Bouteflika's huge embezzlement of state funds from the country's chancelleries during his term as Foreign Minister, and the involvement of the Bouteflika '*clan*' in the **Khalifa** case, which - pending the imminent extradition decision of the UK's Home Secretary - threatens to become centre stage again.
- > Testimony of Médiène's position of strength has been the way in which the *DRS*- *El Watan* camp has turned the screws over the past seven days on both Bouteflika and Khelil. The '*War of Succession*' has been raised to a new pitch.
- > The primary thrust of the *DRS* strategy has been to link Khelil directly with the alleged *Sonatrach* corruption. That has not been difficult. Firstly, the *DRS*-associated media, notably *El Watan* and *Quotidien d'Oran*, have been pointing out that Khelil was the '*real hands-on boss*'. It was former **OPEC** president Khelil who, following his 1999 return to Algeria to help the newly '*elected*' (with the support of the army) Bouteflika run the country's oil industry, was almost single-handedly responsible for both transforming Algeria into a major and fast-modernising player in the world's hydrocarbon markets and building *Sonatrach* into Africa's largest company and the world's 11th largest oil company.
- > Nothing took place within *Sonatrach*, the *DRS* is now reminding us, without Khelil's knowledge and approval. If *Sonatrach's* top Khelil-appointed managers are involved in such corruption, this could not have been done without Khelil's knowledge.

- > Secondly, the *DRS*, through adept placements in the media, has been reminding Algerians that since Khelil's return to the country's hydrocarbons industry, *Sonatrach* has been continuously involved in a succession of corruption scandals.
- > The biggest to date, was that of *Brown Root Condor (BRC)* in 2006-07. *BRC* was created in 1994 as a joint venture between **Halliburton's** engineering branch, **Kellogg Brown & Root** (49 per cent), and *Sonatrach* (51 per cent). The fundamental relationship between the two parent companies, thought to have been moulded by the close personal relationship between former US Vice President **Dick Cheney** and Khelil (then a US citizen and near neighbour of the Cheney household in Washington DC), was shrouded in secrecy.
- > *BRC* was given at least 27 contracts at inflated prices and without tendering, as required by Algerian law, in the major markets of *Sonatrach*, National Defence and Security, the Ministry of Energy and Mines, and other industrial and real estate projects including the new military base at Tamanrasset.
- > This fundamentally illegal arrangement provided Algeria with access to US military expertise and technology at a time when its '*Dirty War*' had made it the subject of trade embargoes by many Western states. In addition, the over-invoicing arrangements were highly profitable to both the American arm of the venture, as well as the personal recipients within *Sonatrach-BRC*.
- > Precisely when this '*licence to print money*' became '*a way of doing things*' is not clear. That is largely because the Algerian regime wants to protect its secretive military and security operations from both domestic and foreign investigations. However, the *DRS*-backed media is currently giving the impression that it was an arrangement that came into being, or was ratcheted up, when Khelil returned to Algeria and effectively took over the management of its hydrocarbons resources, first as CEO of *Sonatrach* and then as Minister of Mines and Energy.
- > Algeria's investigation into these alleged illegal practices, and *Sonatrach's* role in them, began in early 2006. The findings were leaked in July 2006, widely published in October and November the same year and then subjected to judicial action in 2007.
- > The investigation may have been triggered by Russian military information services' reported revelations to top elements in

the *DRS*. They informed them that the sophisticated communications system purchased in the US by *BRC* on behalf of Algeria's General Staff had been tampered with by US services so that all Algeria's military communications were permanently connected to both US and Israeli electronic intelligence systems. True or false, the allegation did neither the US nor *BRC* any good.

- > In a damage limitation exercise, *Sonatrach* ordered the dissolution of *BRC*, with its CEO **Abdelmoumen Ould Kaddour**, hitherto a close friend of both Bouteflika and Khelil, taking the rap with a two-and-a-half-year jail sentence. The amount of funds siphoned out of *Sonatrach* was never publicly revealed or perhaps even known.
- > Reports placed the value of the 27 contracts investigated as being either DZD73 or 187 billion (US\$8-US\$21 billion). With most of the invoices showing mark-ups of around 300-400 per cent, a substantial fortune was diverted from the state company into private hands.
- > Khelil absolved himself by explaining that the company had been formed some ten years before he became Minister. In words that now sound apocryphal, he told the media: *"I only learnt of this affair through the press. I have never been informed about it."*
- > As the *DRS* is now busily reminding the Algerian public, *BRC* was not a 'one-off' scandal. In February 2008, a prosecutor questioned 104 senior *Sonatrach* officials in a similar fraud involving the supply of technical equipment (mostly pump and pipeline seals) from the UK-based industrial spare parts firm **John Crane Inc**. The investigation, which ran for three years, established that spare parts were being purchased for much more than market prices, causing losses to *Sonatrach* of several billion dinars. Again, Khelil, the Teflon-man, was unscathed.
- > Three days after breaking the story of *Sonatrach's* latest scandal, *El Watan* began turning the political knife by asking Algeria's long suffering public how this continuous history of corruption could have gone on throughout Khelil's hands-on stewardship of the sector without his knowledge.
- > Khelil was conveniently in Tamanrasset, and far from the hard-nosed news reporters when the story broke. His first comment on the scandal was to confirm that *Sonatrach's* CEO, **Mohamed Meziane** was under investigation and replaced for the moment by Vice President **Abdelhafid Feghouli**. However, at his

appearance at a press conference four days later, Khelil was visibly shaken and unconvincing; his standard answer, reminiscent of his denials of involvement in, or even knowledge of, the *BRC* scandal, being, "*Je ne sais pas*".

- > Asked if the investigation could have an impact on *Sonatrach's* operations, Khelil said: "*I don't know. We should wait a year and then we shall see.*" And in answer to another question, he replied: "*I do not have the details of the accusations.*" And in an almost word-for-word repetition of his denial of knowledge of the *BRC* affair three years ago, he said that he neither knew who had lodged the complaint against *Sonatrach* nor anything more of the affair than what he had read in the press!
- > With Khelil so politically emasculated, *El Watan* turned its fire back onto Bouteflika's other ministers, as well as the presidency itself, with an exposé of their excessive consumption and expenditure in unaccounted and extravagant expenditure perks. If that was not enough to raise the public ire against the plutocrats of the state even more, *El Watan* then returned to the *Sonatrach* scandal by giving a few more glimpses of the details of the corruption that the public will soon be able to read about.
- > Then, to round off an unsurpassed week in political assassination, it returned to the theme of corruption on the *East-West Highway* and the involvement of Minister of Public Works **Amar Ghoul**, who is another close friend of Said and the rest of the Bouteflika clan.
- > At the end of the week, the only question the *DRS* and *El Watan* have left to answer is how Khelil and the Bouteflikas will respond to such a sustained and visceral attack.

2.0. Security

- > In the wake of the Haiti earthquake, geophysicists in Algeria warned of a wave of intense seismic activity around the world, saying: "*Algeria will be exposed to an earthquake before the end of January*". On Sunday 17th January, just before that warning was issued, an earthquake, measuring 4.0 on the Richter scale, was recorded in Bouira - 150 kms southeast of Algiers. No serious damage or loss of life was reported.
- > This warning appeared to be so precise that many people, according to our sources, took it in a metaphorical sense, believing it to be a comment on the tension between the *DRS* and the Bouteflika '*clan*'. In that context, a key question being

asked in some quarters of the population is: Which will be the next battlefield?

- > Our sources in Algeria are making two predictions, which could be taken as '*warnings*':

Taking the battlefield to the streets

- > One is that the battle may be taken to the streets. Indeed, in the last week or so, there have been some ominous signs that the widespread sense of political malaise and social unrest across the country could turn, or be '*engineered*', into wider, perhaps even nationwide, demonstrations.
- > In last week's issue (15.01.10), we drew attention to the regime's fear of such a scenario. In that context, we felt that the regime would, therefore, move to resolve the tension surrounding the strikes at Rouiba and El Hadjar, and avoid violence in its confrontation with demonstrations in other parts of the country. As we report below, both of these strikes have been resolved, at least for the time being. The state's involvement in their resolution is being seen as a manifestation of its fear that such incidents could trigger nationwide unrest.
- > This week has seen a string of local incidents which suggest that it is not an exaggeration to describe the country as a '*tinder-box*': In Tizi Ouzou, the government put a media blackout on last week's demonstrations. Ironically, the main news reports of the event came from Morocco (always happy to report on Algeria's woes!) and France. However, **Menas Associates** has seen local video footage of the demonstrations. From what we could see, it was the demonstrators who appeared to move towards and challenge a strong contingent of security police (*gendarmerie*) and that the latter used an unusual degree of restraint.
- > However, while demonstrations in Kabylia appear to have passed off without excessive violence or loss of life, the general state of social discontent across the country is palpably higher. One local agency which tries to monitor all outbreaks of unrest across the country has recorded a clear, almost exponential, rate of increase in such incidents (and the numbers of people involved) over the last two years.
- > Last week was no exception. Even the media, so often subject to '*blackouts*' on such issues, reported how the number of demonstrations had escalated across the country during the week. Public demonstrations outside local community

assemblies and in the streets took place in at least five *wilayas*: Boumerdès, El Tarf, Ain Defla, Tizi Ouzou and Sidi Bel Abbès.

- > In all cases, these demonstrations were a clear manifestation of escalating discontent and people's refusal to tolerate their wretched living standards and the continued broken promises of the authorities any longer.
- > As one report commented: "*The grievances almost everywhere are the same – the state of the roads, broken sewer man-hole covers, lack of employment – highlighting the failure and non-implementation of the much-lauded 'politics of development' and the protestors' loss of faith in either le pouvoir or the competency of the local authorities.*"
- > Two catastrophes illustrated the deepening sense of public outrage and its potential for civil unrest:
 - A gas explosion ripped through an apartment block in a slum housing estate in the Oued Koriche (Bab el Oued suburb) area of Algiers, killing either four or five residents, and injuring at least 14 others. While local people blamed the national gas company *Sonelgaz*, which had apparently ignored reports of a gas leak, the catastrophe was a reflection of Algeria's housing policy. The '*slum-block*' in which the explosion occurred was a rabbit warren of makeshift dwellings that had taken over the roof terraces, laundries and other storage spaces of the building. A survey by the Bab El Oued local authority two years ago revealed some 400 families living in such conditions on apartment block roof terraces in the suburb.
 - On the same day, a fire broke out in the early hours of the morning in the commercial centre of the El Khemis district in Béjaïa, destroying some two dozen shops. The cause of the fire was attributed by the shopkeepers to poor electrical installations in the complex, which they had repeatedly complained about to the authorities – who simply did not respond.

Warning of bomb outrages

- > The second '*prediction*', made by a prominent source in Algeria, is more ominous. Previous occasions when the struggle between the '*clans*' has reached such intensity have been associated with the bombings of civilian targets. Our source pointed out that serious questions still remain unanswered

over the alleged involvement of the security forces in the 11th April 2007 bombing of the Interior Ministry building, which housed the offices of the then prime minister, **Abdelaziz Belkhadem**, and the 11th December bombings of the UN Office complex and the *Supreme Court* that same year. All three bombings, ascribed to 'suicide' bombers (vehicle driven), resulted in serious loss of life.

3.0 Economy

Industrial strikes resolved

- > As we anticipated in last week's issue, the strikes at Rouiba and El Hadjar - Algeria's two biggest industrial strikes for some time - have been resolved, at least for the time being.
- > Neither resolution is being trumpeted as a '*victory for the workers*': The termination of the strike by some 5,000 workers at the *National Company of Industrial Vehicles (SNVI)* plant at Rouiba outside Algiers was largely the result of heavy-handed tactics by the workers' own union bosses. *SNVI* is covered by the official *Union Générale des Travailleurs Algériens (General Union of Algerian Workers)* whose Secretary-General, **Abdelmadjid Sidi Said**, is a government stooge.
- > Sidi Said's job, on behalf of the government, was to stop the strike spreading and to get the *SNVI* workers back to work. This was achieved, as our sources at Rouiba described it, by "*the doberman Sidi Said and the plant management setting their dogs on us*". Officially, workers have gone back while the state-owned *SNVI* management and its patsy union work out a settlement. Workers have reported that if the deal is not satisfactory, they will revert to strike action.
- > At **ArcelorMittal's** El Hadjar steel complex outside Annaba, where 7,200 workers had been on strike for nine days, the management, backed by what appears to be funding from the state (through *Sidor's* remaining 30 per cent stake in the plant) has agreed to the workers' demand that the coking plant be kept open.
- > The planned closure of the coking plant and associated loss of 320 jobs was the cause of the strike. Mittal had been planning a ≈142 million renovation of the site, but without the coking plant - which was to be scrapped. *Sidor* (i.e. the state) will now

provide the ≈30 million or so that is required to upgrade the coking plant.

The consequences of *Sonatrach's* corruption scandal

- > Opinion on the implications of the corruption scandal on *Sonatrach* is divided. Minister Khelil's first response to the question of whether the investigation into its CEO and other senior executives would have an impact on the company's operation was: "*I do not know. We should wait a year and then we shall see.*" He was later quoted in the *Oil and Gas Journal* as saying that: "*Algeria's hydrocarbons output has not been affected. There are capable people within the national company and 120 projects, some of which are worth billions of dollars, are underway.*"
- > Many analysts are less optimistic. While most agree that established operations are unlikely to be seriously affected, and that *Sonatrach* will ride the storm, the question of '*at what cost*' is not so easily answered. *Sonatrach's* bureaucratic decision making was always glacial! If its CEO and 80 per cent of its vice presidents are to be removed from the company, it is difficult to see how future business can remain unaffected.
- > Some analysts believe that its reputation may become so damaged by the investigation that Algeria could find it increasingly difficult to attract foreign investment partners. *Sonatrach* has already faced a number of difficulties in the last few months. Despite Khelil's denials, there have been several reports indicating that it has been struggling to meet targets to increase its gas exports to European markets.
- > It also suffered a setback in late 2009 when the ministry only awarded three of the ten oil and gas permits on offer in the latest licensing round. While *Sonatrach* officials blamed this on the global downturn, the reality was that Algeria's oil industry had set terms that were simply too tough and unattractive to foreign investors. *Sonatrach's* current scandal is unlikely to make it any more attractive to foreign investors.
- > Unrelated to the current scandal is the question of the extent to which the new shale-extraction technologies in the US will lead to a long-term fall in global gas prices.

4.0 Comment and Analysis

- > The answer to almost all the questions being raised about *Sonatrach* depend on how far and in what direction the *DRS*

intends to take its latest attack on the Bouteflika '*clan*'. While the *DRS* probably would not want to inflict lasting damage on the country's *milch cow*, there is a feeling that the present '*War of Succession*' may be entering a more '*terminal*' state in which such '*rationalities*' are tossed aside in a '*fight to the death*'. While that may sound dramatic, the '*War of Succession*' is really only being fought out within the political/military elites.

- > However, there are those who believe something far more profound is at play. This is that the escalation of unrest across a population of some 35 million, combined with the succession problems being faced within such a geriatric and repressive regime, alongside the endemic corruption, are not only '*coalescing*', but have become unsustainable. If that is true, then we may be about to enter a new but long-predicted era in which concern for the wellbeing of the country's *milch cow* is submerged under a wave of even graver issues.

5.0 Flash Points to Monitor

- > The next development in the '*War of Succession*'.
- > The *Sonatrach* investigation.
- > **Rafik Khalifa's** extradition from the UK which is expected on 29th January.
- > The on-going *AQIM* hostage situation in the Sahara, which will possibly be resolved one way or another by the end of the month (in terms of the hostage-takers' deadlines) and with possibly profound consequences.



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Staff and Consultants
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Menas Associates Limited
16/19 Southampton Place
London WC1A 2AJ
United Kingdom

+44 (0)20 7745 7190 Phone

info@menas.co.uk
www.menas.co.uk

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