

Beat: News

Orange battles for control of Iraqi telecoms group

Highlight pitfalls of investing in Iraq

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USPA NEWS - Barn Hill, a quiet street studded with mock Tudor homes in Wembley in north London, is a world away from Erbil in northern Iraq.

But one house on the street is central to a bitter legal battle between Sirwan Barzani, one of Kurdistan's most powerful businessmen, and two of the biggest foreign investors in Iraq, which have pumped \$800m into Korek, the country's third-largest telecoms company.

Korek was founded in Kurdistan in 2000 by a group of local businessmen led by Mr Barzani, the first cousin of Nechirvan Barzani, the prime minister of the Kurdistan Regional Government.

A lawsuit filed in the US alleges that Mr Barzani and other locally-based investors engaged in self-dealing through Korek's accounts and funnelled the proceeds towards corrupting the local regulators, who then turned on the foreign investors. Mr Barzani and the other accused entities are not parties in the US proceedings and have not filed responses.

The shareholder dispute could have serious implications for the future of foreign investment in Iraq, with Orange, the French telecoms company, and Kuwaiti investor Agility Public Warehousing making allegations of fraud and corruption.

The Wembley house was acquired for £830,000 in September 2014, allegedly in cash, by Pierre Youssef, a "longtime business partner and nominee" of Korek's senior independent director, Raymond Rahmeh, according to a US lawsuit and regulatory filings in Lebanon.

But neither Mr Youssef nor Mr Rahmeh bought it to live in. Instead, it appears to have been occupied by a top official of Iraq's telecoms regulator, the CMC, until earlier this year.

According to documents seen by the Financial Times, Ali Naser Al-Khwildi and his wife Zahira stayed in the house until 2018. Mr Al-Khwildi is chief executive of the CMC.

The Wembley house may have been bought to "improperly influence" the regulator according to the court filing. A CMC spokesman rejected all allegations of wrongdoing as "an offence and an insult to our probity".

Orange and Agility hit trouble in Iraq.

Iraq was seen as the biggest greenfield site in global telecoms following the downfall of Saddam Hussein in 2003. It was a market of 26m people served only by an antiquated fixed-line network, and local authorities were keen to liberalise it as part of rebuilding the country's economy.

Korek was awarded a national licence in August 2007 but the cost proved steep, at \$1.2bn. Later that year, Kuwaiti conglomerate Agility paid \$250m in the form of a convertible loan note to fund Korek's licence payments. Orange, which is active across Africa and the Middle East, teamed up with Agility in 2011. The two companies took a 44 per cent stake in Korek via a joint venture called Iraq Telecom at a cost of \$810m. That structure was signed off by the CMC in May of that year.

A call option was also agreed at that time that would have allowed Orange and Agility to take control of Korek four years later "" but things did not go according to plan.

In December 2013, Korek received one of a series of letters from the CMC that argued that the company had failed to meet a series of obligations "" including the level of investment and breadth of network rollout "" and its ownership should thus revert to the ownership structure of early 2011. In effect, the regulator had retrospectively revoked its approval of the Iraq Telecom investment.

The first letter was received three weeks before the first date at which Orange and Agility could have exercised the call option. The third was received in late May 2014, 12 days after Stéphane Richard, chief executive of Orange, had said publicly that he intended to do so.

A CMC spokesman argued that its actions have been upheld by relevant courts in Iraq. Agility and Orange claim, however, that the move was designed to expropriate their stake and stop them taking control of Korek.

A Korek spokesman said that this claim was "not credible" as the CMC conditions "" which included full national network coverage and a listing of Korek on the Iraqi stock market "" were part of the talks when the Iraq Telecom joint venture was formed. Orange and Agility have now filed a Section 1782 discovery application "" a process allowing litigants engaged in legal proceedings outside the US to obtain evidence via US courts "" to obtain financial records from Korek's banks. They have petitioned the Southern District of New York to subpoena Citibank, HSBC, Standard Chartered, Bank of New York Mellon and Wells Fargo for financial information to try to substantiate alleged "self-dealing, material misappropriation and mismanagement" by locally-based shareholders in Korek led by Mr Barzani.

The accusations centre on a \$150m loan taken out by Korek in December 2011 from IBL Bank, a Lebanese bank, that was not known to Iraq Telecom investors. Money related to the loan then flowed between various accounts of the company and Mr Barzani's bank accounts, according to the 1782 application.

"Orange takes the issues raised in the 1782 petition very seriously. As the petition points out, Iraq Telecom has pursued various means by which to further reveal and rectify the self-dealing and misappropriations that Barzani and others are engaged in," said a spokeswoman for the French telecoms company.

A Korek spokesman said the new filing was part of a "scorched earth" campaign by Orange and Agility to destroy the company. He accused the Iraq Telecom shareholders of "grossly misrepresenting and mis-characterising facts".

"Sirwan [Barzani] has acted and will continue to act in the best interest of Korek, its shareholders and the people of Kurdistan and Iraq," he said.

The US case is separate to an international arbitration claim last month brought by Agility, which is seeking damages of \$600m.

Arbitration documents, seen by the Financial Times, contain allegations about "cash pay-offs and nefarious real estate transactions" between executives at CMC and Korek's locally-based investors, including a reference to the Wembley house.

A spokesman for Agility said securing more information about the alleged fraud would also reveal more about the allegations of corruption. "We are confident these dollar flows will shed new light on this fraud, and expose all entities and individuals, including any public officials, who were complicit and benefiting from Mr Barzani's malfeasant activities," Agility said in a statement.

Korek said it was "entirely false" to claim that Mr Barzani had any influence over the CMC and any self-dealing. "Korek, CS Limited and Sirwan will vigorously defend their good name and the baseless allegations made against them," he said.

Mr Youssef declined to comment when contacted by the FT. Mr Rahmeh did not respond to requests for comment.

The damaging dispute has left Korek in limbo as Agility has tried to back out of investment and Orange has backed attempts to overturn the local regulator's decisions.

Borja Lopez, a partner at consultant Delta Partners who has more than a decade's experience in Middle Eastern telecoms markets, said the dispute showed the potential pitfalls of investing in Iraq.

"Ties to local investors are becoming key for investment success in Iraq due to access to multiple businesses and connections," he said. "However, they may also turn out to be the biggest risk if not selected and monitored properly. Even the shiniest gun may end up backfiring if you leave the safety off."

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