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Preliminary sessions of the Sonatrach II trial confirm charges against former executives of Italy-based ENI and its subsidiary, Saipem of bribing senior Algerian officials, including former energy minister Chakib Khelil. The International Monetary Fund (IMF) criticises the government's economic policy at the end of its consultation visit. Finance minister Abderrahmane Raouya delivers a preliminary assessment of non-conventional financing that began in September. Energy minister Mustapha Guitouni and United States-based General Electric CEO John Flannery discuss the GEAT industrial mega complex project and potential future joint projects.

Sonatrach II trial confirms bribery charges against former senior government officials

The long-standing **Sonatrach II** trial may finally reveal whether former energy minister **Chakib Khelil** accepted bribes from **Italy**-based oil company **ENI**. During a preliminary session on 20 February ahead of the March trial, Italian prosecutor **Isidoro Palma** announced that he had proof that ENI executives had bribed Khelil.¹ Khelil is alleged to have benefited from bribes amounting to €198m (\$243m).² In the preliminary session, Palma established the direct implication of senior ENI executives, including former CEO **Paolo Scaroni**; ENI Italy-based subsidiary **Saipem** CEO **Franco Tali**; and Saipem head of operations **Pietro Varone**.³ The three executives are accused of bribing Khelil directly as well as indirectly, through members of his family, including his wife **Nadjat Arafat** and his sons, or members of his entourage such as businessman **Farid Bedjaoui**, **Omar Harbour**, and Khelil's former adviser, **Reda Hemche**. Khelil is alleged to have shared commissions paid by Saipem in exchange for seven contracts with state-owned oil and gas firm **Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach)** reaching €8 billion (\$9.8 billion).⁴ The timing is not ideal for Khelil, who has been active on social media as well as travelling across the country for public speeches and appearances, showing renewed political ambitions.⁵

At the second preliminary session of the trial of ENI and Saipem on 27 February, Palma asked for a sentence of six years and four months against Scaroni for fraud and international corruption.⁶ The court also fined Eni and Saipem €900,000 (\$1m) for international corruption of senior Algerian officials, including Khelil, following the discovery of payments for fictitious activities to **Pear Partners**, Bedjaoui's **Hong Kong**-based company which resulted in the award of billions of dollars worth of contracts between 2007 and 2010.⁷

¹ El Watan, 21 Feb 2018.

² El Watan, 21 Feb 2018.

³ El Watan, 21 Feb 2018.

⁴ El Watan, 21 Feb 2018.

⁵ TSA, 21 Feb 2018.

⁶ El Watan, 27 Feb 2018.

⁷ El Watan, 27 Feb 2018.

Palma demanded an eight-year jail sentence for Bedjaoui, four years and six months for Ouariéd, and six years for Habour for money laundering and handling the payments for Khelil. All the accused have rejected the charges.⁸

IMF expresses disagreement with government's economic policies ...

The **International Monetary Fund (IMF)** expressed its strong opposition to the government's economic policies at the end of its two-week consultation visit on 12 March.⁹ The IMF's representative in **Algiers, Jean François Dauphin**, said the criticism stemmed from the government's decision to stimulate growth and job creation through an expansionist budget for 2018, with the **Banque d'Algerie** (central bank) and further import restrictions to finance the deficit.¹⁰ The IMF believes these measures are likely to increase the disequilibrium already in the economy, accentuate inflationist tensions, and increase the loss of foreign currency reserves, leading to an economic environment not conducive to private sector growth.¹¹

The IMF also portrayed the resort to non-conventional financing from the central bank (see below) as likely to accelerate inflation, and recommended limiting the amount and length of the loans.¹² The IMF reminded the government of financing alternatives, such as issuing government debt securities, promoting public private partnerships, and borrowing externally to finance investment projects.¹³ The IMF also criticised the economic policy led by the monetary authorities for 18 months for relying on the stabilisation of the official dinar rate against the dollar, ignoring the development of the parallel market.¹⁴ The IMF advised a progressive depreciation of the currency while working on reducing the parallel market.¹⁵

The IMF said exports should be encouraged while import barriers are only more likely to increase inflation. It indicated that the government should give priority to simplifying bureaucracy, improving access to credit, and further opening the economy to foreign investment.¹⁶ Dauphin approached the highly sensitive issue of energy subsidies, arguing that they were only benefiting the wealthiest group in Algeria, which consumes on average six times more energy than the poorer segment of the population. The IMF recommended that the government progressively withdraw energy subsidies and eventually replace them with another support system to help the poor.¹⁷

... as government shares early figures on non-conventional financing ...

Finance minister **Abderrahmane Raouya** announced on 20 February that the government would enact implementation provisions linked to non-conventional financing towards the end of February and that the amended law on credit and currency would come into effect following the promulgation of those texts.¹⁸ However, to date there have been no further developments. Raouya

⁸ El Watan, 27 Feb 2018.

⁹ Maghreb Emergent, 12 Mar 2018.

¹⁰ TSA, 13 Mar 2018.

¹¹ TSA, 13 Mar 2018.

¹² TSA, 13 Mar 2018.

¹³ TSA, 13 Mar 2018.

¹⁴ TSA, 13 Mar 2018.

¹⁵ TSA, 13 Mar 2018.

¹⁶ TSA, 13 Mar 2018.

¹⁷ Maghreb Emergent, 12 Mar 2018.

¹⁸ Maghreb Emergent, 21 Feb 2018.

also said the government had not yet repeated the first money printing operation it carried out in November.¹⁹ Raouya estimated in October that the public treasury would need 1,815 billion dinars (\$15.8 billion) for 2018, which will decrease to 580 billion dinars (\$5 billion) in 2019.²⁰ A small deficit predicted for 2020 will not require any type of financing.²¹

The Banque d'Algerie said on 4 March that it had printed up to 2,185 billion dinars (\$19 billion) on 30 November 2017.²² This was in the form of securities issued or guaranteed by the state under the relevant article of financial legislation.²³ The article states that the Banque d'Algerie will proceed exceptionally, and for a period of five years, to the direct purchase of securities from the treasury, in order to participate in the financing needs of the Treasury, to the financing of internal public debt and to support the financing of the national investment fund.²⁴ Banque d'Algerie deputy governor **Said Maherzi** gave assurances in September that non-conventional financing would not result in an explosion of inflation.²⁵

... and promotes the energy sector

Energy minister **Mustapha Guitouni** received **United States (US)**-based **General Electric** CEO **John Flannery** on 11 March to discuss the status of projects and prospects between both parties.²⁶ Guitouni underlined the necessity for projects to integrate the knowledge of production technology, the transfer of expertise and national integration.²⁷ Guitouni and Flannery discussed the advancement stage of their **GEAT** industrial mega complex project, a partnership in which state-owned **Société nationale de l'électricité et du gaz (Sonelgaz)** owns 51% of shares and General Electric 49%, for the manufacturing of gas and vapour turbines, and control systems in the city of **Batna**.²⁸ Guitouni and Flannery also discussed the future creation of a common company between Sonatrach (51%) and **Baker Hughes GE Company (BHGE)** (49%), to exploit and maintain an industrial complex in **Oran** for the manufacturing and assembling of oil and gas products.²⁹

Earlier, on 20 February, Sonatrach CEO **Abdelmoumen Ould Kaddour** had discussed the challenges of Algeria's oil sector during the international petroleum week in **London (United Kingdom)**.³⁰ Ould Kaddour mentioned that the main issue inhibiting foreign investment was not the 51/49 rule, ensuring a majority stake for local players, but fiscal conditions, raising the need for reform of the hydrocarbons sector.³¹ Ould Kaddour also announced that Sonatrach's development strategy for 2030 was in its maturation phase, aiming to grow in the gas and petrochemical industries, and that Sonatrach is looking to diversify its client base looking towards **Asia**.³² The company is hoping that the exploitation launch of a new gas field

¹⁹ Maghreb Emergent, 21 Feb 2018.

²⁰ TSA, 4 Mar 2018.

²¹ TSA, 4 Mar 2018.

²² TSA, 4 Mar 2018.

²³ TSA, 4 Mar 2018.

²⁴ TSA, 4 Mar 2018.

²⁵ TSA, 4 Mar 2018.

²⁶ Maghreb Emergent, 12 Mar 2018.

²⁷ Maghreb Emergent, 12 Mar 2018.

²⁸ Maghreb Emergent, 12 Mar 2018.

²⁹ Maghreb Emergent, 12 Mar 2018.

³⁰ El Watan, 21 Feb 2018.

³¹ El Watan, 21 Feb 2018.

³² El Watan, 21 Feb 2018.

in 2018 will increase its production capacity.³³ In 2017 Sonatrach exported 54 billion cubic meters of natural gas to **Europe** and aims to reach 57 billion cubic meters this year.³⁴

Planner

April 2019: Scheduled presidential elections;

March 2018: The **Front de Liberation National (FLN)** announces its candidates for the presidential election of 2019

Chronology

12 Mar 2018, **(Algeria) Maghreb Emergent**: Energy minister **Mustapha Guitouni** has discussions with **General Electric CEO John Flannery**;

12 Mar 2018, **Algiers (Algeria) Maghreb Emergent**: **International Monetary Fund (IMF)** delegation under **Jean François Dauphin** ends its consultation visit;

4 Mar 2018, **(Algeria) TSA**: **Cevital** conglomerate signs an agreement protocol with **India-based JSW Steel** to prepare the sale of its **Italian** subsidiary **Aferpi** to Cevital;

4 Mar 2018, **(Algeria) TSA**: **Banque d'Algerie** announces that it printed up to DZD2,185 billion (\$19 billion) on 30 November 2017;

27 Feb 2018, **(Algeria) El Watan**: **Italian** prosecutor of **Sonatrach II** trial, **Isidoro Palma**, demands jail sentence for former **ENI CEO Paolo Scaroni** for fraud and international corruption of senior Algerian officials;

20 Feb 2018, **(Algeria) El Watan**: **Isidoro Palma** announces the existence of proof of bribery by Italy-based oil company **ENI** to former energy minister **Chakib Khelil**;

20 Feb 2018, **(Algeria) El Watan**: Sonatrach CEO **Abdelmoumen Ould Kaddour** discusses challenges of Algerian oil sector in **London** during international petroleum week;

15 Feb 2018, **(Algeria) TSA**: Trade minister **Mohamed Benmeradi** announces in **Conseil de la Nation** (nation council) that he will extend the list of forbidden imported products;

³³ El Watan, 21 Feb 2018.

³⁴ El Watan, 21 Feb 2018.

About Africa Risk Consulting:

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