Executive Summary

Algeria remains a potentially lucrative but uncertain and challenging market for many U.S. businesses, especially those with little experience in the Middle East and North Africa. While hydrocarbons are still the backbone of the Algerian economy, accounting for 98% of exports, 40-45% of GDP and 70% of budget revenues, there are opportunities in numerous other sectors including (but not limited to) agriculture, infrastructure, housing, alternative energy, pharmaceuticals and recycling. The IMF has predicted that unless GOA diversifies its hydrocarbon-based economy, by 2016/7 decreasing exports and falling hydrocarbon revenues will prevent GOA from meeting its current budgetary and subsidy obligations. GOA is sensitive to this projection and is acting, however tentatively and inefficiently, to begin the diversification process. This is the proverbial “ground floor” that presents significant opportunity for American companies in virtually every sector of the economy.

Companies must overcome the language barrier, distance, vagaries and corruption with the customs systems, an entrenched bureaucracy, and price/quality competition from Chinese, Turkish, and European businesses. International firms already here complain that the GOA lacks an economic vision and that laws and regulations both are constantly shifting and are applied unevenly, raising the perception of commercial risk for foreign investors. Business contracts are likewise subject to interpretation and revision, which has proved challenging to U.S. and international firms. The 49/51 law (requiring majority Algerian ownership of most businesses), insufficient IPR enforcement, Algeria’s closed borders and limited regional trade is another drawback, because the Algerian market on its own may not be attractive to firms that can locate elsewhere and create a regional distribution hub (e.g., the Singapore model). By some estimates, the informal economy controls 40-50 percent of the consumer goods market. Informal sector dominance, which supports an influx of cheap and/or counterfeit goods, makes it difficult for more expensive, genuine U.S. products to compete.

1. Openness To, and Restrictions Upon, Foreign Investment

Algeria, with its population of more than 38 million, hydrocarbon wealth, expanding infrastructure needs, and growing consumer product demand, is attracting interest from companies around the world. U.S. firms continue to consider Algeria an emerging and growing market. The climate for international firms considering direct investments in Algeria has stabilized in the wake of a series of restrictive foreign investment rules enacted in 2009 and 2010, one of which imposed a requirement of at least 51 percent Algerian ownership of foreign investments. Foreign Direct Investment (FDI) in Algeria waned as a result of those measures. Investors highlight regulatory uncertainty, tight foreign exchange controls, lax intellectual property rights (IPR) protections, customs delays, and a large informal sector among ongoing commercial challenges. However, the Government of Algeria (GOA) has invested more than USD 286 billion in infrastructure development between 2010 and 2014, making the local market sufficiently profitable for firms adapted to emerging markets to weather those challenges and

explore new opportunities, especially in sectors like energy, power, water, health, telecommunications, transportation, and agribusiness.
The number of foreign trade missions to Algeria grew from 30 in 2010 to 60 in 2012, but then fell in 2013 to about 30. Additionally, in recent years several sectorial trade fairs were organized locally to boost partnerships with local SMEs. In 2013, Algeria concluded commercial agreements with several Arab and European nations, as well as China. U.S. firms, such as Northrop Grumman, General Electric, Boeing, Pratt & Whitney Power Systems and Varian Medial Systems won multi-million dollar tenders. President Abdelaziz Bouteflika was reelected to a new five year term in April 2014. After running a successful re-election campaign for President Bouteflika, Prime Minister Abdelmalek Sellal retained his position. Sellal is trusted by the political elite and viewed as a pragmatic politician who seeks new economic partnerships to tackle long-standing issues, such as housing shortages and unemployment. Algerian leadership remains focused on building domestic production capacity and reducing imports and seeks U.S. expertise and partnership. Negotiations have continued with the Office of the U.S. Trade Representative related to Algeria's World Trade Organization (WTO) accession and cooperation under the U.S.-Algeria Trade and Investment Framework Agreement (TIFA). Formal meeting sessions in Geneva and informal digital video conferences between key officials on both sides were held in 2013 and early 2014.

The signs of change are positive and Algeria's macroeconomic outlook is stable, but vulnerabilities and challenges persist, including dependence on hydrocarbon revenue and risks posed by rising inflation. The public sector still dominates the economy and inefficient state-owned enterprises are a drag on productivity. The GOA has supported state-owned companies experiencing financial difficulties by cancelling their debts and providing investment credits and technical assistance. Such economic vulnerabilities have prodded the GOA to court FDI and reconsider the importance of private-sector development. This trend should continue through 2014. Algeria's legalistic and bureaucratic regulatory environment and apprehension about foreign exploitation of natural resources hangs over foreign companies considering investing in Algeria.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	94 (out of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	146 (out of 178)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	153 (out of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	138 (out of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener

World Bank GNI per capita	2012	$5,348	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

The Algerian dinar is considered fully convertible for all commercial transactions. The Bank of Algeria (Banque d'Algerie, the nation's central bank) manages Algeria's foreign reserves and controls foreign exchange. The 2010 CFL reinforced the lead role of the Bank of Algeria in overseeing the banking sector. A network of public banks still controls roughly 90 percent of the banking market. International banks in Algeria primarily serve private multinationals and Algerian private-sector firms. Legally registered economic operators can access foreign currency to make payments, subject to bank domiciliation, without pre-authorization. Operators must possess a clean audit report and a certificate from the tax authority in order to repatriate funds. The Central Bank put in place new restrictions on foreign shareholders' loans to Algerian subsidiaries in December 2010. These new provisions mandate that firms receiving such loans after July 26, 2009 must book them as additions to capital.

Foreign investors can repatriate dividends, profits, and real net income out of their assets through transfers or liquidation. In certain cases, due to the inefficiency of the banking system and the heavy bureaucracy, it may take longer to obtain official permission from the Central Bank to make transfers/payments, or for the local bank to proceed with the transfer. In 2011 and 2012, businesses and international banks faced stricter interpretations of the foreign exchange control rules. Commercial disputes developed because the Central Bank, over reportedly small paperwork details, delayed repatriation of dividends. Certain cases were referred to the courts to reach a resolution. Foreign investors and the international banks serving them repeatedly have told Embassy officials this process is confusing and inconsistent, with one banking executive saying the process "is different each time we go through it." These executives are seeking greater clarity on the rules around repatriating dividends, a central concern for foreign investors.

U.S. suppliers can benefit from faster and more predictable payments as a result of the mandatory letter of credit requirement. The 2014 financial law was updated to authorized imported products – to be sold in their present condition – to be paid either by letter of credit or documentary remittances. In addition, payment delays may result due to the new regulation that limits Algerian importers' payment options to letters of credit. Direct wire payments are no longer authorized. Letters of credit are now limited to a maximum of 60 days and are not required for raw material import transactions amounting to less than 4 million DZD (approximately USD 53,000) per year.

3. Expropriation and Compensation

The government of Algeria has not engaged in expropriation actions against U.S. or other foreign firms.

4. Dispute Settlement

Algeria is a signatory to the convention on the Paris-based International Center for the Settlement of Investment Disputes (http://www.worldbank.org/icsid). Algeria ratified its accession (http://arbiter.wipo.int/arbitration) to the New York Convention on Arbitration, and is a member of the Multilateral Investment Guarantee Agency (http://www.miga.org). The code of civil procedure allows both private and public-sector companies full recourse to international arbitration. Algeria permits the inclusion of international arbitration clauses in contracts.
In 2010 an American oil company exercised the dispute settlement mechanism in its contracts with the state oil company Sonatrach to contest the implementation of a windfall profits tax imposed long after the company began doing business in Algeria. Negotiations prior to arbitration were very slow. The dispute resolution process, including arbitration, can take 18 to 24 months and in some cases longer.

5. Performance Requirements and Incentives

Algeria does not impose general performance requirements on foreign investments. However, in accordance with the 2009 Complementary Finance Law, foreign investments in any sector require a 51 percent Algerian partnership.
The investment code provides a number of incentives for investment in Algeria, which are primarily related to VAT and other tax exemptions, for periods of time that are dependent on the type of investment and the nature of the package agreed between the investor and the National Agency for Investment Development (ANDI). The 2009 Complementary Finance Law requires foreign investors to reinvest in Algeria the equivalent of any tax benefits bestowed upon them, in a manner similar to the offset investment requirements commonly seen in Gulf countries.

6. Right to Private Ownership and Establishment

Foreign entities have largely equal rights to establish and own business enterprises in Algeria and engage in most forms of remunerative activity, within the framework of the requirement for majority (51 percent) Algerian participation in all new foreign investments, including those in the banking sector. In principle private enterprises have equal status with public enterprises and compete on an equal basis with respect to access to markets, credit, and business operations.

7. Protection of Property Rights

Secured interests in property are generally recognized and enforceable, but court proceedings can be lengthy and results unpredictable. Most real property in Algeria remains in government hands, and controversy over the years has resulted in conflicting claims for real estate titles, which has made purchasing and financing real estate difficult. One prospective U.S. investor seeking to build a factory in Algeria tried in vain for two years to obtain approvals from a local governor to purchase suitable land for the project.

Intellectual Property

While there is legislation protecting copyright and related rights, trademarks, patents, and integrated circuits, implementation has been inconsistent and enforcement remains lax. Algeria was again named to the USTR Special 301 Priority Watch List in 2013, notably for insufficient protections for data associated with the development and market approval for pharmaceuticals, as well as a protectionist policy which bans the import of roughly 230 pharmaceutical products manufactured abroad that have generic equivalents produced in Algeria.
The Ministry of Culture organized a ceremony in April 2014 to highlight its commitment to IPR protections by destroying approximately 1million units of counterfeit or pirated music, software, and film that had been seized by Algerian customs and border police. However, Algeria's vast informal economy remains a major source of counterfeit goods, especially in sportswear and consumer goods.

The Embassy's webpage also offers a link to local lawyers, some of whom specialize in IPR and/or patent law. http://algiers.usembassy.gov/list_of_local_attorneys.html

Embassy point of contact: Theodore Brosius brosiusta@state.gov

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

8. Transparency of Regulatory System

Generally, Algeria's regulatory system is transparent, but decision-making authority remains opaque. Each ministry defines its rules for doing business in the sectors it manages, and regulatory bodies are established to administer them. Challenges arise in managing the bureaucracy, because authority is generally vested at the top of every organization, and access to decision-makers is often limited. Furthermore, the Algerian bureaucracy is slow and protocol-oriented, such that even minor deficiencies in paperwork can lead to significant delays and fines. In some cases, authority over a matter may rest among multiple ministries, which imposes additional bureaucratic steps and the likelihood of inaction due to errors or unusual circumstances. In 2013 the National Competition Council was created to ensure fair practices between local economic operators.

9. Efficient Capital Markets & Portfolio Investment

After twelve years, the Algerian stock exchange remains small with only eight companies listed. In 2010 the Algerian insurance company Alliance held the first private company Initial Public Offering, which was valued at 1.49 billion dinars (USD 19.5 million). In 2013 beverage maker NCA-Rouiba became the eighth company to list on Algiers' Stock Exchange, generating 25% of its capital from the public offer. According to government officials eight more companies are scheduled to enter the exchange in 2014, bringing the capitalization to approximately $10 billion by 2018 (equivalent to 5% of GDP). Companies currently listed have a minimum of 20 % of their shares available on the exchange, while companies entering in 2014 will be required to have a minimum of 30 %. Long-term treasury bonds were listed on the stock market in 2008, but trading has sharply declined due to the increased number of fees required to trade the bonds. Shorter yield bonds continue to be managed through bond dealers. Other private bond investment vehicles are occasionally offered to the public for major construction or other ventures. Twenty four fungible Treasury bonds are currently listed in the Official List of the Algiers Stock Exchange, with 277 billion Algerian dinars ($34.6 billion) outstanding.

The bond market plays a marginal role in the financing of the Algerian economy, which is mainly done through public expenditure or traditional banking credits. Most bonds are issued by public companies; however, a small number of private firms have issued bonds to finance investment in public works projects. In order to finance development projects and absorb excess liquidity, some state-owned companies have launched corporate bonds. Public companies, such as national oil company Sonatrach often choose to finance through a bank investment pool which is guaranteed by the government.

10. Competition from State-Owned Enterprises

About two thirds of the Algerian economy is state-owned, led by the national oil-and-gas company Sonatrach. Other sectors in which the government operates directly include telecoms with Algerie Telecom and transportation with Air Algerie.

A distinctive feature of the Algerian economy is the 51/49 rule, under which 51 percent of new investments in Algeria must be owned by Algerians. Implemented in 2006 for the hydrocarbons industry, it was expanded in 2009 to cover investments in all sectors of the economy. While the 51/49 rule initially was controversial, foreign firms have adapted to it and formed joint ventures with local partners. In 2014, an American company signed an agreement to build an industrial complex to produce gas and steam turbines in partnership with Algeria's national gas company. The complex is scheduled to start operating in 2017.

In 2012, an Algerian-American joint venture began production of tractors, while the Algerians signed agreements with French, Turkish, and other European companies in the automotive, construction and agricultural sectors.

11. Corporate Social Responsibility

Multinational firms operating in Algeria are spreading the concept of corporate social responsibility (CSR) practices, which have traditionally been less common among domestic firms. Companies such as Anadarko, Cisco, Microsoft, and Nedjma have supported programs aimed at youth employment and entrepreneurship. CSR activities are gaining acceptance as a way for companies to contribute to local communities while often addressing business needs, such as a better-educated workforce. The national oil and gas company, Sonatrach, funds some social services for its employees and desert communities near production sites. Still, many Algerian companies view social programs as areas of government responsibility and do not consider such activities in their corporate decision-making process.

12. Political Violence

Political violence has declined since the widespread terrorism of the 1990s. The government's effort to reduce terrorism through military pressure and social reconciliation and reintegration has been generally effective. However, in January of 2013, there was a major attack at the oil facility in In Amenas in the south-east of Algeria (approximately 1,500 kilometers from Algiers) in which nearly 40 people - mostly western oil workers, including three Americans - were killed. In March 2012, a suicide bomber attacked the regional headquarters of the national police in Tamanrasset, a southern city of 75,000.

The U.S. Government considers the potential threat to U.S. Embassy personnel assigned to Algiers sufficiently serious to require them to live and work under significant security restrictions. These practices limit and occasionally prevent the movement of U.S. Embassy officials and the provision of consular services in certain areas of the country. The GOA requires U.S. Embassy personnel to seek permission to travel to the Casbah within Algiers or outside the province of Algiers and to have a security escort. Travel to the military zone established around the Hassi Messaoud oil center requires GOA authorization. Daily movement of Embassy personnel in Algiers is limited, and prudent security practices are required at all times. Travel by Embassy personnel within parts of the city requires prior coordination with the Embassy's Regional Security Office. American visitors are encouraged to contact the Embassy's Consular Section for the most recent safety and security information.

Americans living or traveling in Algeria are encouraged to register with the U.S. Embassy in Algiers through the State Department's travel registration website, https://step.state.gov, and to obtain updated information on travel and security within Algeria. Americans without internet access may register directly with the U.S. Embassy Algiers. By registering, American citizens make it easier for the Embassy to contact them in case of emergency.

13. Corruption

There is an ongoing government effort to root out corruption, notably in key GOA agencies, such as Customs. Many Algerian citizens believe that corruption is a problem within the upper reaches of government. Some evidence suggests that bribes are paid to bypass Algerian bureaucracy or to avoid government interference.

In June 2012, the Algerian lower court found two Algerian citizens and three Chinese citizens guilty of corruption. The court sentenced the Algerian citizens to 15 years in prison, and sentenced the Chinese citizens in absentia to 10 years in prison and issued an international warrant for their arrest.

The government investigated several high-profile corruption scandals in 2009 and 2010. One investigation implicated officials at the Ministry of Public Works on charges of fraud related to the construction of the East-West highway. Another involved senior officials of the state oil company Sonatrach investigated for corruption in procurement. Several former Sonatrach senior officials are in custody, while others are under investigation. Lower-level investigations involved customs officials and private sector executives charged with embezzlement, illegal currency transfers, and misuse of public funds.

In 2013, GOA created the Central Bureau Fighting Corruption (OCRC), mandated to investigate and prosecute any form of bribery in Algeria. OCRC current has a docket of 40 cases. In 2010, GOA created the National Commission for the Prevention and Fight Against Corruption as stipulated in the 2006 anti-corruption law. The Chairman and members of this commission were appointed by a presidential decree. The commission studies financial holdings of public officials and carries out investigations. Algeria is not a financial center, and financial transactions are tightly regulated. However, it is estimated that half of the country's economic transactions are carried out within the informal sector, effectively escaping the purview of state auditors.

In 2006, GOA adopted an anti-corruption bill that reinforced existing legislation and brought Algeria into compliance with the UN Convention against Corruption, which Algeria ratified in August 2004. The law was designed to promote transparency in government and public procurement, introduce new crimes such as illicit enrichment and reinforce existing penal sanctions.

In 2013, the Financial Intelligence Unit was strengthened by a new regulation for more freedom in dealing with illegal money transaction and terrorism funding. In 2012, the government updated 2005 anti-money laundering and counter-terrorist finance legislation to bolster the authority of the financial intelligence unit to monitor suspicious financial transactions and refer violations of the law to prosecutorial magistrates.

14. Bilateral Investment Agreements

The United States and Algeria signed a Trade and Investment Framework Agreement (TIFA) in 2001 to create a forum for economic and trade discussion. The last TIFA council meeting was held in 2004. Negotiations have continued with the Office of the U.S. Trade Representative related to Algeria’s World Trade Organization (WTO) accession and cooperation under the U.S.-Algeria TIFA. Formal meeting sessions in Geneva and informal digital video conferences between key officials on both sides were held in 2013 and early 2014. Algeria executed a European Union association agreement in 2005. The agreement provided for the gradual removal of import duties on EU industrial products over 12 years and removed duties immediately on 2,000 other products. However, the EU complained that some provisions in the 2009 Complementary Finance Law violated that agreement. In December 2010, Algeria requested a three year extension (to 2020) of the deadline for completing the tariff dismantling process with the EU under the EU-Algeria Association Agreement.

Algeria signed bilateral investment agreements for the protection and promotion of investments with the following countries in the indicated years: Belgium/Luxembourg (1991), Italy (1991), France (1993), Romania (1994), Spain (1994), China (1996), Germany (1996), Jordan (1996), Mali (1996), Vietnam (1996), Egypt (1997), Bulgaria (1998), Mozambique (1998), Niger (1998), Turkey (1998), Denmark (1999), Yemen (1999), Czech Republic (2000), Greece (2000), and Malaysia (2000). There is no bilateral investment treaty between Algeria and the United States. Algeria has also signed bilateral treaties to prevent double taxation with the following nations: United Kingdom (1981), France (1982), Tunisia (1985), Libyan Arab Jamahirya (1988), Morocco (1990), Belgium (1991), Italy (1991), Romania (1994), Turkey (1994), Syrian Arab Republic (1997), Bulgaria (1998), Canada (1999), Mali (1999), Vietnam (1999), Bahrain (2000), Oman (2000), Poland (2000), Ethiopia (2002), Lebanon (2002), Spain (2002), and Yemen (2002). There is no double taxation treaty between Algeria and the United States.

In 1990, Algeria signed both investment protection and double taxation agreements with the Arab Maghreb Union (AMU) countries (Libya, Morocco, Mauritania, and Tunisia).

15. OPIC & Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) (http://www.opic.gov), the U.S. Export-Import Bank (Ex-Im)(http://www.exim.gov), and the U.S. Trade and Development Agency (USTDA) (http://www.ustda.gov) have supported projects in Algeria. However, GOA announced in 2009 that all financing for foreign investments in the country must be financed through Algerian banks. There are no projects currently under way in Algeria using support from these programs.

A USD 250 million water desalination project in Algiers was completed in 2008 with OPIC support. Ex-Im Bank supported the U.S. content of a power project in Skikda in 2003. USTDA supplied a grant to the Ministry of Water resources to support a feasibility study of wastewater management practices in Oran in western Algeria in 2010.

16. Labor

Algeria's labor force consists of roughly 11 million people out of a total population of over 38 million. According to the National Office of Statistics, in 2011 over 55 percent of the population was under age 30. Beginning January 1, 2012 the monthly minimum wage increased to DA 18,000 (USD225) from DA 15,000 (USD188). The official unemployment rate is approximately 10 percent, but international organizations and other observers believe it to be as high as 25 percent.

Algeria's labor code sets minimum work standards, including a minimum work age of 16, a 40-hour workweek, and higher rates for overtime pay. Employers pay 26 percent of gross salaries in social security taxes, including provisions for both retirement and health/accident insurance. U.S. companies are able to hire trained technical staff. However, recruiting and retention has become more difficult as well-educated and trained Algerians are increasingly lured by higher salaries offered in the Gulf region. English speakers remain difficult to find, but English-language acquisition is increasing among youth. Arabic is Algeria's official language and French is the most common language of business.

There are no restrictions on the number of expatriate supervisory personnel a company may establish as long as they are able to justify that no local persons can be found that meet the requirements for the position. Entry visas for foreign workers can be requested through Algerian embassies overseas with the employer providing, among other requirements, a certified true copy of the work contract or the provisional work permit issued by the Ministry of Labor, Employment and Social Security (MTESS), and an attestation certified by the same authorities stating that the employer will bear the repatriation expenses of the foreign worker once the work relation is completed. Foreign workers must then obtain work permits from MTESS (http://www.mtess.gov.dz/mtss_fr_N/index.htm) and a residency card from the local police office in the district where they will be working. The employer is responsible for submitting all tax payments for individual workers to the proper local tax collection authorities.

17. Foreign-Trade Zones/Free Trade Zones

There are currently no free trade zones in Algeria.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

FDI in Algeria continues to rise. FDI was approximately $3 billion as of June 2013 (the latest figures available), double the total for all of 2012. Qatar was the leader in FDI by $2.2 billion, representing 74% of FDI in Algeria with investments in steel, chemicals and real estate projects, and Algeria continues to hand out large contracts for infrastructure projects to foreign companies. However, FDI makes up just less than one percent of Algerian GDP. With its hydrocarbon based funding capacity and the foreign reserves cushion, the GOA has traditionally approached FDI only for know-how and technology transfer for local SMEs and skilled staff, and not as a general engine for economic development.

Algeria does not invest overseas.

19. Contact Point at Post for Public Inquiries

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