



Submission No 16

Inquiry into Australia's Trade and Investment Relations with North Africa (Algeria, Egypt, Libya, Morocco, and Tunisia)

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Algeria

■ **ITP** ■■■■

Submission for

**The Joint Standing Committee on Foreign Affairs, Defense and
Trade regarding expanding Australia's Trade and Investment
relations with countries of North Africa**

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Introduction

International Trading Principal is an independent Business consultancy, established in October 2004, our office base is situated in Delly Ibrahim, Algiers-Algeria.

Our submission to the standing committee is written from the perspective of a foreign owned organization that is based in North Africa and understands fully the practicalities of doing business in Algeria.

As ITP's founding principal Director, I hold a long association with Australia, having immigrated from the United Kingdom in 1966, attended Australian education institutions and been resident in Australia for 35 years, during which time I acquired acquaintance of Australian companies and the Australian Business environments.

Our chosen business identity name, International Trading Principal, sets our business parameters. We are in the business of assisting organizations and individuals with the principals of doing International Trading, to and from Algeria. I would like to make it clear at this point that ITP is not an importer or exporter but more largely dominated towards the supply of multiple services to enhance and maintain the development of International trade and associated services.

I-1 International Trading Principal structure

I.T.P holds 5 business licenses with the Algerian Ministry of Commerce covering the following group of activities.

- Business affairs office
- Commercial commissioner
- Consultancy in market research and logistics development
- Consultancy in investment, finance and legal business resources
- Consultancy and organization of cultural, economic and scientific manifestations.

The legal structure of ITP, is that as a Company Director and foreign investor, I hold a majority partnership in a foreign listed company that holds full trading and commercial rights as per other Algerian companies and citizens.

ITP is a joint venture partnership held with 2 Algerian Partners. ITP utilizes (where needed) the employment of contractors, specialized in market segments relevant to our business activities.

I-2 ITP Operational Direction

Our selected business activity codes diversifies ITP into 3 main streams

2-1 Trade

- Identification of potential business partners
- To act as an intermediary or general sales agent for trade to and from Algeria
- To maintain contact with product suppliers and services providers
- The provision of information pertaining to Algeria
- To utilize databases connecting buyers, sellers and intermediaries, within the Algeria region and Globally

2-2 Related Services

- Organizing logistical support for market visits (e.g. Visa business invitations, airport pick-up and drop off, car and driver, hotel reservations) including advice on cultural issues to facilitate dealings with Algerian Business.
- Participation in events: Organizing logistical support such as booth space for trade fairs and local market events such as seminars and conferences.
- Temporary office or display space to provide client representatives with space for conducting meetings or doing general office work or a display area for presenting product samples
- Logistical support by arranging appointments and meeting programs of extensive appointments with local key contacts normally identified by **ITP Business support services**.
- Obtaining tender documents, attending tender opening.

- Arranging translation, interpretation, temporary business centre facilities, office space, or professional services such as in-depth market research consultants.

Research consultants are a necessity for gathering market intelligence. In Algeria business information is regarded as privileged and rarely shared. The lack of a strong state role in collecting and providing up to date information and difficulty in obtaining information data via lengthy bureaucratic process necessitates the requirement of businesses to gather their own market research samples and analysis.

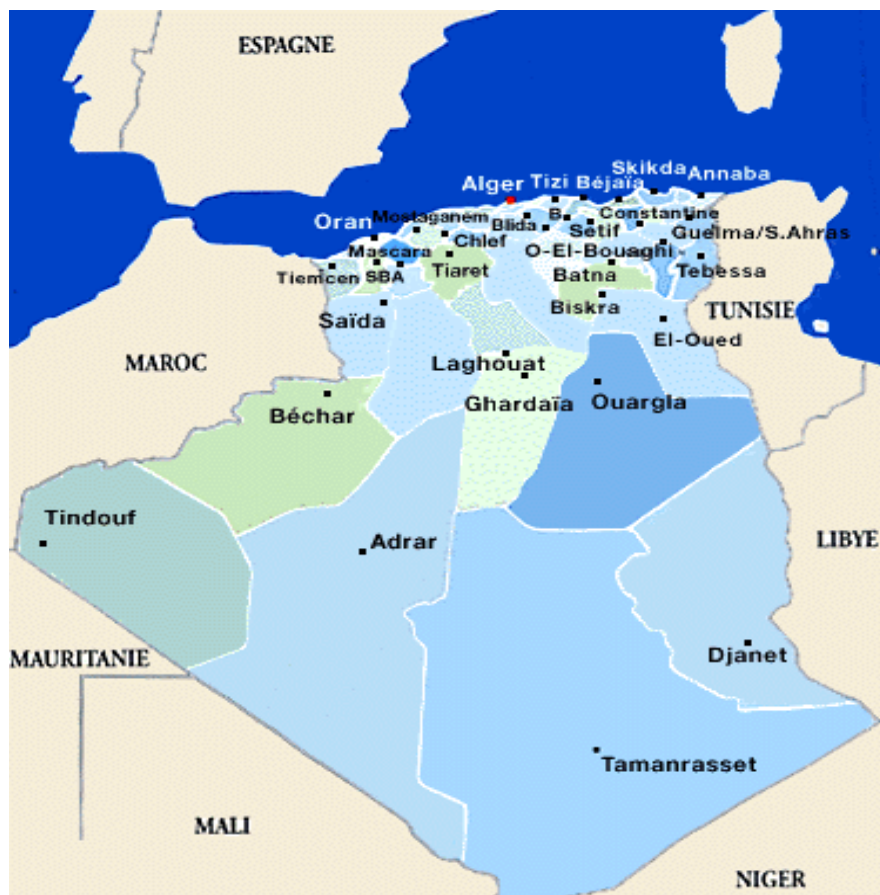
2-3 Trade Investment and Economic activities

International Trading Principal maintains a keen focus on attracting and assisting the development of small and medium-sized enterprises (SMEs) who are willing to base activities in Algeria, in manufacturing, producing goods for the Algerian, African, Mediterranean or European markets.

ITP has positioned its commercial activities to focus on assisting the **emerging** Algerian private sector, in filling the trade and export gap required to supply the market relative to the population of 32 million. In broader economic terms this would encompass seeking businesses contacts for the provision of goods or services related to trade, technologies or manufacturing industries, as well as Australian exporters looking to identify trade and export links / markets in Algeria.

II-Presentation of Algeria

II-1 General description



South Mediterranean country, Algeria has 1,200 km of coastline and a total surface of 2,381,741 kilometers square bordering all of the Union of North African ("UMA") and African "Sahel" countries. Being the tenth largest country in the world and the second largest in Africa, Algeria is made up of three contrasting regions, listed below.

- The "Tell" in the North (4% of the total area of Algeria)
- The High Plateaus (9%)
- The Sahara, to the South (87%)

Geographically, Algeria has incontestably a privileged position facing the European (1 hour flight from the European inshore cities) and African markets. It is, indeed, the crossroads for the three worlds: Mediterranean, Arabic and African.

Algeria is also characterized by its significant, varied natural resources. Gas reserves are among the largest in the world. Other significant resources include oil, phosphate, zinc, iron, gold, uranium, tungsten and kaolin.

Nature of the state: Republic

Nature of the régime: Presidential

Population: estimated at 32 million inhabitants in 2003

Age distribution: 0-19 years: 50.2%; 20-64 years: 45.9%; 65 years and older: 3.9%

Capital: Algiers

Population: 32 million inhabitants

Demographic growth: 2,1 %

Language: Arabic is the official national language, and is spoken by the majority of the population. Tamazight (the Berber language), promoted to national language status since 2002, is also found throughout the country, in numerous regional dialects. French, learnt since primary school, is quite widely read and spoken, especially in the economic and business world.

Main cities: Algiers (the administrative, economic and cultural capital), Oran, Constantine, Annaba, Sétif, Tlemcen, Skikda, Béjaïa, Tizi Ouzou, Jijel, Tiaret, Batna, Biskra, Mostaganem, Saïda, M'sila, Chlef, Béchar, Ouargla, Ghardaïa, Adrar, El-Oued and Tamanrasset.

Workdays: Every day except Thursday and Friday (financial organizations take their weekend on Friday and Saturday)

Time Zone: GMT + 1

Currency: The monetary unit of Algeria is the Algerian dinar (DA). A dinar is divided into 100 *centimes*. Foreign currencies are fully exchangeable for dinars at official posted rates. Exchanging dinars for foreign currencies is only allowed for domestic business transactions, and therefore subject to official regulations. The official exchange rate in April 2004 was 1 euro = approximately 89 DA, and 1 US dollar = about 74 DA.

II-2 Infrastructure and Transportation: The Algerian road network is the largest in North Africa, with some 104,000 kilometers (km) of roads, or 3.7 km for every 1,000 inhabitants. The railway network covers a sizable part of the country, with 4,500 km of track and more than 200 commercial stations in operation. The obsolete machinery and infrastructure, however, require widespread modernization. Further development of inter-city traffic and restructuring the national railway company, SNTF, are also needed. The official objective is to increase railway traffic from 3,000 million units in 2000 to 4,500 million units in 2005. The air travel infrastructure consists of 35 airports, 13 of which conform to international standards. The 2003 Finance Law allocated substantial loans for the realization of the new Algiers international airport, with an increased passenger capacity and modern amenities. The official objective is effective deregulation of 25% of international air traffic by 2005. Algeria has 13 main seaports, 9 of which are polyvalent and 4 specialized in hydrocarbons. 30% of all goods imported to Algeria enter through the Port of Algiers, as well as 70% of all shipping containers. The Algerian ports are currently undergoing a modernization and upgrade program.

II-3 Algeria: the Leading Energy Giant in the Mediterranean:

On the international energy market, Algeria holds 15th place in terms of petroleum reserves, 18th place in terms of production, and 12th place in terms of exports. Algeria is ranked 7th in the world for proven reserves in natural gas, 5th in natural gas production, and 3rd in gas exports, after Russia and Canada. Considering these numbers, Algeria is indeed an energy giant. Algeria holds a leading position in the Mediterranean area, as it is the number one producer and exporter of oil and natural gas. In terms of natural gas, Algeria is unrivalled in the Mediterranean area, with 50% of reserves, 48% of total production, and an impressive 94% of all exports of natural gas in the region. Algeria is the EU's third largest supplier of natural gas to, and its fourth largest total energy supplier.

II-4 Manufacturing

During the first two decades of independence, gigantic factories were erected in every type of manufacturing: steel, metals, hydrocarbons, textiles, leathers, food processing, electronics, etc. Over 60% of the state's budget for capital equipment was dedicated to rapid industrialization of the country. Although this policy gave Algeria some impressive industrial complexes, the results were not what was hoped for. Lack of sub-sector integration and increased dependence on imports weakened Algerian manufacturing, now outpaced by rapid technological change and unable to satisfy the growing needs of the market for either quantity or quality. These state-owned enterprises (SOEs) suffer from excess capacity, poor organization, inferior management, and lack of competitiveness.

Sustained for years by the state via expensive re-capitalization operations, SOEs continue to dominate production capacity in many sub-sectors, and are slowly learning to make their way in a market economy.

One of the government's current priorities is a reorganization and privatization plan.

This plan has three essential objectives:

- Improved productive performance by the SOEs
- Development of non-petroleum exports
- Access to world markets and adaptation to international manufacturing standards

This effort has already created many new opportunities, and fostered the development of partnerships between Algerian and foreign enterprises. In steel manufacturing, the SIDER (Algeria) / ISPAT (India) partnership is a promising example, as is HENKEL Germany's joint venture with the ENAD factory, saving jobs and resulting in a far-ranging upgrade program.

Transformations in manufacturing have also led to significant incursions by the private sector in food processing, textiles, chemistry, metallurgy, electronics, construction materials, chemicals, fertilizer, pharmaceuticals, etc. A few private companies have emerged as leaders in some sub-sectors, enjoying sustained growth and mobilizing millions of euros in investment.

II-5 Main partners

Import:

- 1 - France
- 2 - Spain
- 3 - Italy
- 4 - United States
- 5 - Germany

Export:

- 1 - Italy
- 2 - United States
- 3 - France
- 4 - Spain
- 5 - Germany

II-6 Economic assets:

- The important natural resources (a coastline of 1,200 km and a south region rich with hydrocarbons)
- Proximity of Europe (1 hour of flight of the European inshore cities) and a strategic position in the Maghreb.
- The biggest road and railway network in Maghreb and in Africa.
- The air travel infrastructure consists of 35 airports, 13 of which conform to international standards and 13 main seaports, 9 of which are polyvalent and 4 specialized in hydrocarbons.

- A young population (70% under the age of 30) and a force work of 9 million strong (a capable and literate workforce)
- The low cost of the hand labor (minimum monthly wage of 8000 DZD = \$ 100 US approx)
- Algeria offers potential investors a solid track record of payment and a low cost of energy
- a market of 32 million consumers in full expansion

In the environment of Algeria the points judged the weakest are:

- The customs fraud, although, eradicating corruption is a key government priority. Severe anti-graft laws exist and corrupt officials have been jailed.
- The land regime (the Algerian government still having the debate about the statute of the land)
- The administrative procedures, as the Algerian bureaucracy is still burdensome and omnipresent and the legal system.
- Transparency in business decisions has gained considerable ground but is still not the general rule
- The banking system still not fully efficient but, major reforms are happening.

II-7 Current projects*

Energy and Electricity

SONATRACH and SONELGAZ have planned tens of billions of US dollars in investment programs over the next few years, notably for new oil and gas production, increased secondary recovery rates, new gas pipelines, increased petrochemical production, etc. SONELGAZ (electricity) hopes to increase production by some 6,000 megawatts (thereby doubling its present capacity) , either through joint ventures or direct investments. This will require an investment of more than 10 billion USD. There is also a project to triple the capacity of the national gas distribution network.

Pharmaceutical Industry and Medical Products

Projected demand for medicine and medical equipment is 1.5 billion USD per year. Local production covers less than 20% of these needs.

Manufacturing

The Algerian market for manufactured goods is very dynamic. Domestic production cannot cover the needs of a market valued at more than 5 billion USD for various manufactured goods (automobile spare parts, machine tools, semi-finished goods, electronics, etc.) Annual steel consumption is roughly 2 million metric tons. Domestic production only covers 30% of demand, with installed capacity at 2.5 million tons.

Food Processing

With relatively high agricultural production (more than 12% of GNP) and imports at nearly 3 billion USD (mainly cereals, milk and dairy products, sugar, coffee and dried vegetables) the food processing industry is operating at a significant deficit, offering substantial opportunities for investment.

Infrastructure

Apart from the housing sector (with over 150,000 new building sites per year), extensive programs have been implemented, notably construction of the 1,250 km East-West Highway and dozens of other projects: transportation, harbors, airports, bridges, aqueducts, dams and new cities.

New Technologies

Algeria is currently the largest market in the Euro-Mediterranean area. A vast equipment purchase program has been launched for 5 million mobile telephone lines, 3 million additional fixed lines, and hundreds of thousands of computers for schools, banks, government offices and private homes.

III-Algeria and the open market

Since 2003, Algeria launched a new free-market economic policy and set up a new legislative system, whose objective was to sustain private domestic investment and attract foreign direct investment. Several laws have either been promulgated or amended to this effect:

- The currency and credit law
- The trade code
- The decree establishing a stock market
- The investment code
- The ordinance governing the national capital
- The ordinance on privatization of state-owned corporations
- The anti-trust law

III-1 Investment legislation

Investors can be any nationality, residents or non-residents, legal entities or natural persons. Domestic or foreign investment in the production of goods and services is not subject to any preliminary authorization. The investment promotion efforts lead the government of Algeria to set-up the ANDI (National Agency for Investment Development) to assist potential investors in accomplishing first the formalities for registering their investment applications, to accord the advantages listed by the Code and to streamline the investment process. The investor simply files (an investment declaration) with the ANDI to the extent that they wish to receive certain tax and other benefits.

III-2 Equity investment types

A. Joint stock company (SPA)

The joint stock company under Algerian business law which defines it as (a company whose capital is divided into shares, formed by partners liable for losses only to the extent of their investment). The company must appoint a statutory auditor. It can be formed by a public offering; there must be at least 7 partners, except for companies with share capital owned by the state. The share capital for a joint stock company that does not offer shares to the public must be at least a total of 1 million DZD (\$ 13,500 US approx) and must be fully subscribed .

B. Business corporation (SARL)

The SARL or business corporation is formed by 2 or more partners who are liable for the company's losses only to the extent of their contributions. Designation of a statutory auditor is not mandatory. The company can only have one partner only if it is set up as an EURL the number of partners cannot exceed 20. If at any time an SARL has more than 20 partners, it must be transformed into a joint stock company SPA within one year. If not, it will be dissolved unless the number of partners is lowered to 20 or less within the intervening year. The minimum share capital of a business corporation is 100,000 DZD (\$1,300 US approx).

C. The business corporation under sole proprietorship (EURL)

If a business corporation only has one partner, it is called a business corporation owned by a sole proprietor. The legal principals and procedures for EURLs and SARLs are consequently the same except for the following points. The partner: A natural person can be the sole partner of only one Business Corporation. A business corporation cannot have an EURL as its sole partner. The manager: the single partner can be the manager of the company; they can also appoint a 3rd party to be the manager.

D. The share holder pact

an instrument common to all companies. Future share holders of a new company are advised to draw up a shareholder pact or a draft agreement. Strictly speaking, the share holder pact dictates the business and management methods of the company, and the draft agreement outlines the formation process in order to obtain the future shareholders agreement. The shareholders specify in advance what will appear in the bylaws. In general, shareholder pacts frequently combine these two functions and are signed before or on the same day as the bylaws of the company.

E. The liaison office

According to the ministry of commerce a liaison office cannot exercise any lucrative activities or have any local income. Its operating expenses, including wages and social security taxes, are paid by the parent company. They must be paid in Algerian Dinars resulting exclusively from their exchange of convertible currencies imported beforehand. The liaison office authorization is subject to:

- The presentation of a 20,000 USD security deposit into the ministry office by the liaison manager. This amount must be deposited in a frozen account in an Algerian bank as a guarantee during the entire valid authorization period.
- Opening a CEDAC account (in convertible Algerian Dinars) with the same bank.
- Payment to the same bank of an amount in foreign currency corresponding to the projected operating expenses of one quarter.

F. Other types of permanent establishments

Like Algerian companies, foreign companies may open permanent business installations in the form of branches, sales offices or other types of secondary establishments. Any company headquartered abroad that opens and establishment of this type in Algeria must registrar it with the trade registry. However, with certain exceptions, this type of establishment cannot be used as a support for an investment. In addition, under current legislation, this form of (Economic presence) or business activity dose not have the same advantages that it normally would have else where.

III-3 Agreements and Contracts

A. Contract Law

Algerian contract law is highly effective for regulating business relations, although the Civil Code fully supports the principle that contracts are "law" between their parties.

B. Special Contracts and the Law

Algerian law covers all types of contracts, with the most common one being the sales contract. Contract law's flexibility means it can be applied, without major problems, to the most original modern international contracts in use.

C. Government Contract Law

The most important government contract regulation is Presidential Decree n° 02-250, dated 24 July, 2002, along with its subsequent amendments.

D. Bilateral and Multilateral Agreements

D-1 Tax Agreements

Algeria has signed reciprocal agreements in order to avoid double taxation and many other agreements have been signed, but are not yet in force. Australia will need to examine the most appropriate arrangement for trade and economic agreements.

D-2 Arbitration Agreement

Algeria ratified the New York convention dated 10 June, 1958, relative to the confirmation and enforcement of foreign arbitration rulings on 25 April, 1993.

E. Patent Laws and Intellectual Property Protection

E-1 Laws on Brand Ownership

Trademarks are mandatory, even if the producers do not market their own products. Service and business brands are optional. However, decrees can make them mandatory as well for certain products.

The following are considered trademarks or service and business brands: patronymic names or Pseudonyms; special, arbitrary or novelty denominations; a product's characteristic form or packaging; Labels, envelopes, emblems, prints, stamps, seals, stickers, edgings, piping; color combinations or arrangements; drawings, relief, letters, numbers, mottoes and in general, all symbols. A slogan can constitute a trademark if it is registered as such. The use, by an individual, of the same patronymic name as a brand name does not constitute a violation of the rights of the trademark owner, if this use is made in a certain form and under conditions likely to avoid confusion. Use of the patronymic name of a deceased person is presupposed to have the approval of the legal beneficiaries of this person.

Symbols whose use would go against public law and order or morals cannot constitute a trademark or be part of one. The trademark belongs to the first person or entity to register it. The trademark applicant is required to use the trademark within one year following its registration, with certain exceptions and if the party concerned can provide justification. In the event that the trademark is not used after this deadline, the registration is no longer valid. The owner of a trademark can ask to cancel the registration of another trademark likely to create confusion with his own brand, but only within 5 years following the registration date.

E-2 Transfer (Sale) of Trademarks

The rights attached to a trademark are entirely or partly, separately or jointly transferable with the other assets of the business. Deeds entailing transfer of property, concession or transfer of license(s) to operate, pledges or withdrawal of pledges must first be approved in writing by the appropriate minister, and registered with the Trademarks Registry, or they are considered null and void. Transfers of property and concessions of license(s) to operate can apply to all or some of the products covered by the trademark. Concessions of license(s) to operate can include territorial limitation clauses.

Penalties

The following can be punished with a fine and/or imprisonment:

- Counterfeiting a trademark or using a counterfeited trademark

- Fraudulently attaching a trademark belonging to others to one's products or the products offered for sale in one's business
- Knowingly selling, or offering for sale, one or more products with counterfeit trademarks
- Making a fraudulent imitation likely to mislead the purchaser, or making use of a fraudulently imitated trademark, even without actually counterfeiting the trademark
- Using a trademark featuring indications likely to mislead the purchaser as to the nature of the product

III-4 Foreign Trade Law and the Investment code of Algeria

Foreign trade law has undergone gradual transformation, so that the Algerian economy is now totally open to outside investment. Since 1991, when the Algerian government monopoly on foreign trade was ended, the following changes have occurred:

- Many foreign trade regulations have been eliminated (total import authorizations, licenses, import and export programs)
- Non- tariff barriers to trade have been dismantled
- Tariffs have been reformed and reduced, both in number and percentage rates

Dismantling the government's monopoly on foreign trade become fully effective in 1994, as part of the structure adjustment program, which authorized free exchange of the Algerian dinar for business transactions and free access to foreign currencies for all economic operators. A new foreign trade regulation has been enacted. This universal law upholds freed trade in principal, but specifies various exceptions, all in compliance with Algeria's International commitments to the member states of the World Trade Organization. This law integrates and harmonizes formally scattered legislative provisions governing foreign trade (notably finance and custom law provisions) Trade in services and intellectual property protection, as covered by the WTO agreements, are subject to specific regulations

III-4-1 Foreign investor Importing / exporting

The Algerian Government welcomes investments in all economic sectors and thus offers very attractive incentives ranging from tax exemption to relief on income tax, customs duties and Value Added Tax on equipment and supplies for the initial investment or exported products. Investments with high exporting or importing substitution proportion are particularly welcomed. Companies with export-oriented investments are exempted from taxes on a sliding scale. Those firms exporting all their production will be totally exempted from taxes, while the others will be taxed only on the portion of the production that remains in the country Investments in the offshore zones are also encouraged and will be offered a host tax as well as other investment

incentives. In specified areas, as pre-said thereafter, investment will get additional benefits among others tax holidays of up to 10 years and free land property.

In each and every case, investors in Algeria are granted with the followings:

- Fiscal exemption for three years from the Value Added Tax (V.A.T) on goods and services acquired locally or imported;
- Exemption on property taxes;
- A two to five-year exemption from corporate income taxes;
- Reduced customs duties on many imported products; inviolability of acquired advantages;
- Transfer of funds and income;
- Protection of investments which are guaranteed by international and bilateral Conventions or Agreements;
- Opportunity to resolve dispute through International Arbitration.

In simple terms, the recent Investment Code guarantees respect of the acquired advantages, free transfer of funds and income, and equal treatment of all investors. For the first time, Algeria does not distinguish between investments made by foreigners and nationals, and in order to develop an attractive investment promotion regime, no performance or incentives are required from foreign investors.

III-4-1-1 Import Regulations

Before any goods can be imported, the importer must have a domiciliary account at a certified Algerian bank. The domiciliary account must comply with Bank of Algeria regulations. Payment for imports is normally effected in Algerian Dinars equivalent to the amount in the import currency and is carried out by the domiciliary bank. Foreign companies established in Algeria are subject to the same rules as local companies. These rules do not apply to importers with a foreign currency account because their payments can be made directly through bank transfers from their own foreign currency accounts.

A- Import Licensing: Standards, Testing, Labeling, and Certification

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, and narcotic drugs. Pork products are prohibited for religious reasons. The government insists that imports meet specific testing, labeling, or certification requirements. However, Algeria is increasingly adopting, and requiring compliance with, European Union quality standards.

The 2001 budget abolished the state monopoly on importing, producing and selling tobacco and related products; it also deregulated the gold and silver import market. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs. Drugs must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to also label products in French. When food products arrive in Algeria they must have at least 80 percent of their shelf life remaining. While specific regulations exist for a few products, in general all products must be in conformity with the standards defined in the Codex Alimentarius.

B- Special Import Requirements

Phytosanitary and sanitary control regulations are also in place. As a rule, animal and plant products that risk propagating diseases to persons or animals cannot be imported. In these matters, Algeria adheres, like the E.U., to the principle of "precaution." Prospective importers may, however, be given waivers by Algeria's national veterinary and plant protection services, depending on the situation in the country of intended origin. Certain imports are subject to prior authorization by some ministries. For example, the Ministry of Health and Population must clear medical products, the Ministry of Defense and National Security Directorate must clear hunting weapons, and the Ministry of Information and Culture must clear books and magazines. In December 2000, the Algerian Ministry of Agriculture enacted a decree prohibiting the importation, distribution, or sale of seeds that are genetically modified organisms (GMOs).

C- Import procedures and border controls

Customs clearance usually takes four to five days. The importer has up to 21 days to clear merchandise through customs. After 21 days, merchandise not cleared is transferred from customs to storage for a maximum of four months, after which the merchandise is sold at public auction.

D-Customs Taxation

The customs taxation system covers the duties and taxes stated in the Customs Tariff, other duties, taxes and royalties, as well as tax incentives granted to certain importers depending on the final destination of goods declared as intended for consumption.

- Duties and taxes listed in the Customs Tariff Ordinance 01-02, dated 20 August, 2001, with effect as from 1 January, 2002, modifying and supplementing the Customs Tariff, has retained three duty rates: 5%,

15% and 30%, in addition to the 0% rate stipulated by former laws. The 5% rate is applicable to raw materials, unfinished goods, and collections, known as "CKD", requiring additional processing. The 15% rate is reserved for semi-finished and some finished goods. The 30% rate is applicable to finished goods. The Customs Tariff also includes VAT, which is levied following the Sales Tax Law but collected by the customs department at the time of customs clearance, on imported goods. The tax basis consists of the customs value plus customs duties. There are three rates: 0%, 7% and 17%. The list of "exempt" goods is subject to the 7% rate.

- **Other Duties, Taxes and Royalties as Stipulated by Specific Laws**
Provisional Additional Duty ("DAP")

Stipulated by the 2001 Supplementary Finance Law, with effect as from 1 January 2002, this duty has replaced the controversial "managed value" meant to protect domestic production. Originally set at 60%, it should decrease by 12 % each year, to reach 0% in 2006.

The Customs Formalities Tax

The customs formalities tax was instituted by Article 165 of the 1985 Finance Law and amended by Article 72 of the 1987 Finance Law. This 2% tax is collected on imported goods with a written customs declaration.

The 4% Tax

This is imposed by Article 235b of the Customs Code and is collected on all goods.

The Domestic Consumption Tax ("TIC")

This is applied to beer, tobacco and matches, depending on the quantities imported. It was imposed by Article 27 of the Sales Tax Law. This tax is added to the tax basis for VAT purposes.

The 4 % Advance Duty (applicable to imported merchandise intended for resale "as is")

Imposed by Article 59 of the 1997 Finance Law, this tax consists of a simple advance tax payment to the Treasury, deductible from the final tax payment. Originally 2%, it was raised to 4% by the 2003 Finance Law. The list of the goods subject to this tax is fixed by decree. It is calculated based on the customs value of the goods and any other duties and taxes.

The Slaughter Tax

This tax appears in Article 446 of the Indirect Tax Code. It is paid by the importer and is collected by the government as customs duties. It is collected on the basis of the net weight of meat meant for human consumption.

The Additional Tax on Tobacco Products

Article 36 of the 2002 Finance Law stipulates the list and applicable tariffs for tobacco products.

Tax Incentives

Foreign and domestic investors benefit from customs duties reduced to 5% for goods going directly into the realization of an investment. In addition, they are exempt from VAT on goods and services entering directly into the realization of an investment, and exempt from duties

and taxes on goods acquired locally, warehoused and intended for supplying exported production.

III-4-2 Dispute Settlements

The Investment Code and Algeria's code of civil procedures allow recourse to international arbitration procedures in case of any dispute between foreign investors and Algerian entities.

Algeria concluded four bilateral conventions related to investment protection allowing international arbitration. The government of Algeria is a member of the Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Investment Disputes (ICSID). Algeria is a signatory of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Algerian commercial law can be complex and technical, with more than 400 legislative and regulatory texts. Many investors consider it blurry and rely on local counsel and agents to ensure that all procedures and rules are followed.

III-5 The Banking Sector

Before the onset of reforms a little over ten years ago, the Algerian banking system operated as a privileged instrument of state-owned companies and the central planning authorities. Banking activity centered exclusively on aiding the smooth functioning of state-owned businesses, which at the time were the main source of economic growth. Following the enactment of Law 86/12, governing banking and credit, and especially after the 1990 Currency and Credit Law, however, Algerian banking began to undergo significant reforms.

With this law, the Bank of Algeria became the country's official monetary authority, and a new banking and financial system was established to go along with the deregulated economy. Banks and financial institutions can now offer a complete range of services to domestic and foreign clients.

There are now more than 33 different banks and financial institutions, with the privately owned share currently at 5 to 6% of the market and growing steadily. Diversifying and opening up the Algerian banking system has not only brought in foreign banks and financial establishments; it also triggered a real modernization effort amongst state-owned banks to improve liquidity in inter-bank transactions, enhance communications network security and introduce a whole panoply of modern means of payment. Another goal is to make banking and credit more widely available to businesses and the public.

Still in the early stages, the modernization and clean-up programs include:

- Re-capitalizing state-owned banks and "cleaning out" their portfolios

- Inter-bank workshops to set up new services (new product lines, international payment cards, data transmission networks, electronic banking)
- Increased focus on client needs, particularly households and individuals, developing mortgage and consumer loans and capital lease loans.

IV-Recommendations

Algeria is embarking on intensive economic reforms towards a new free-market policy. The economy of the country is largely dependent on hydrocarbons (oil and gas), which make up 97% of exports, contribute 30% of GDP, and fund 65% of the State budget. Agriculture is marginal, while the non-hydrocarbons industrial sector contributes just 7% to GDP in spite of a **massive restructuring** and privatization program.

The main social and economic challenges facing Algeria are the privatization program, strengthening the non-hydrocarbon industrial sector and the regulatory framework, restructuring the financial services sector, job creation (with the official unemployment rate standing at 30%), and building and repairing housing (**Algeria has one of the highest occupancy rates per housing unit in the world**).

Australia will need to examine the most appropriate arrangements for trade and economic agreements and consideration should be given to the following statements contained in our recommendations.

It is quintessential that Australia will need to select a regional administrative or diplomatic base, within the North Africa region. It is also fundamental to Australia's model of success, to incorporate a viable commercial presence.

Recommendation 1

Initial phase

- To establish or to appoint an Office of Australian Trade Representation in Algeria

Clearly Australia has an excellent opportunity to enter new markets, to increase its trade links development and increase substantially export market share. This will require Australia to develop and maintain a **commercial presence** in Algeria, not located off shore or in an adjacent country.

ITP is willing to lend full support in this endeavor, with practical assistance with locating an administrative office base in Algeria, for the establishment of a commercial division. This would enable an active contribution to capacity

building for trade facilitation and make possible the flow on of the following activities

The representative office would assist Australian enterprises and investors finding organizations and information they need for trading or investing in Algeria.

The commercial division should directly target the exploration of Algeria's small and medium-sized enterprises, privatized investment segments, partnership or joint venture opportunities, especially as Algeria is in a transition economy

The standing committee will need to ensure the commercial divisions development of

- Information for investment and enterprises
- Government organizations and other supporting organizations
- Trade facilitation mechanisms
- Corporate governance (including regulatory agencies)
- Bank and financial systems (including regulatory bodies)
- Trade and enterprise financing
- Patent Laws and Intellectual Property Protection
- Chambers of commerce and business associations (Note: there is no Australian-Algerian chamber to date.
- Sectional business associations

Recommendation 2

Commercial Research and development

It is crucial for potential investors to evaluate the attractions of a business opportunity; it also allows the founders and management to clarify their thoughts on the business concept and strategy, their competitive strengths, weaknesses and financial expectations.

To source research agencies for data investigations.

It is imperative that Australia undertake local research to investigate the following questions: what are the sectors that are the most lucrative? Who are the local players (importers, distributors) with whom it is necessary to enter into business relations? It is important to give to the enterprises, precise information on the politics of liberalization of the imports that is without precedent in Algeria.

To appoint Algerian commercial attaches or representatives

Undertake investor roadmap studies in Algeria and North African countries, including the collection of local intelligence, on partnership consortiums, for matchmaking with Australian companies

Australian Government and associated trading enterprises should develop a forward-thinking approach to Algeria's less developed, but promising niche industries, perhaps in services and higher value-added production.

Recommendation 3

Economic Analysis

Investigate Algeria's real competitiveness issues, including information on specific investment opportunities in Algeria, potential Algerian partner companies, and the costs of doing business in Algeria, including the financing of Australian goods and services, turning export opportunities into real transactions.

Look for niche markets in Algeria and comparative advantages with Algeria

According to the investment code, new regulations allow foreign investors to repatriate their profits within 60 days, even if revenues exceed the amount originally invested. However, hard currency transfer procedures are often problematic due to the telecommunications and banking systems inefficiency.

Facts and statistics should be supported where possible by hard evidence. Seek access to specialist sources of market / industry information (sources should be quoted). If necessary, consider employing a market research company to carry out some research exercises.

Recommendation 4

Location

To focus on Algeria's commercial location and structure development for Australian export segments to Africa, European Union, and Arab countries.

Australia should explore North Africa Cross Border Trade development to utilize trade penetration

Recommendation 5

Building organizational structures

Develop mechanisms for the Australian business Community to know the Algerian market - and vice versa to show business opportunities.

An appropriate organization structure is required to act to increase the knowledge and information exchange among business sectors in the two countries, and after that establish partnerships and deals.

Recommendation 6

Programs

Promote in Algeria, Australia's exports of manufactured goods, agricultural commodities and services.

Develop Investment Workshops and Conferences programs specific to trade conditions

Establish Australian / Algerian joint ventures opportunity programs

Provide patent and trademark protection advice for Australian businesses looking to trade in Algeria. Advice should also be extended to inventions corporate and product identification.

Recommendation 7

Travel advice warning

Australia should consider revision of its Travel advice warning for Algeria.

As an identified Australian, I have lived in Algeria for 18 months, I observe the norms of living in any international city, that you must think personal safety.

Recently the United States of America has changed the context of its travel warning to Algeria, based on the establishment of a conducive business environment. I understand that the British Government are also considering a revision to its travel warning on Algeria.

Air France, British Airways, Al Italia and recently Lufthansa have all commenced commercial airline activities to Algeria and the business community is coming.

Any person or organization traveling to any international destination including Algeria must think about their own security context, and hold a contingency plan in the event of any changes in stability.