



Market Study

Metallurgy and Electromechanic
Sector in Algeria

Datasheet

Title

Metallurgy and Electromechanical Sector in Algeria Market Study

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ANEME - National Association of Metallurgical and Electromechanical Companies

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Executive Summary

ANEME is a Portuguese non-profit nationwide employers' association that aims to: Defend the legitimate rights and interests of their member companies, which are part of the metallurgical and electromechanical sector, and ensure their representation in any public or private entities; Provide assistance and support to their member companies, through technical services, with a view to encourage and enhance the development and progress of activities in the companies and; Promote and encourage vocational training and development of human resources in the metallurgical and electromechanical sector.

This document is an overview study on the metallomechanical and electromechanical industry in Algeria headed to Portuguese SMEs in the sector, interested in knowing this market. This document is an output of the ExporAfrica Project co-financed by COMPETE 2020 in scope of the Collective Actions Support System. It presents an up-to-date research of the Algerian trading environment and the current market potential in the metal-mechanical and electromechanical sectors, including practical case description and market data.

Algeria is adopting policies to encourage and diversify its economy. This document aims to provide a complete understanding of the investment environment in Algeria.

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1. Introduction

In the African context, Algeria is the fourth largest economy, after Nigeria, Egypt and South Africa, ranking 54th worldwide. It has a population of more than 41 million inhabitants (70% corresponds to urban population and 30% rural population), of which 28.4% is under 15 years. The main economic centers of the country are in the northern region, where most of the population is concentrated. The main economic center is the capital, Algiers. Also highlighting the importance of Sétif (important industrial center), Oran (agriculture, industry and fishing), Constantine (agriculture and industry) and Annaba (agriculture and fishing). It should be noted that most of the hydrocarbon deposits are in the southern region.

The increase in oil prices since 2004 has given Algeria a very comfortable financial situation. Thus, in 2005 and 2006, the country negotiated public debt and private debt, making the representation of external debt in GDP decrease from 25.7% in 2004 to 2.8% in 2015. Despite the sharp fall in prices of oil from the second half of 2014, the hydrocarbon sector continues to be the main support of the country's economic activity, representing about 30% of GDP, 60% of state revenue and 95% of exports. As part of the energy sector, Algeria is one of the main players in the world with regard to natural gas. According to the OPEC's Annual Statistical Bulletin of 2017, it ranks 5th in the world exporters' ranking in 2016 (1st in the continent African). It is still the 17th largest oil producer in the world. In terms of the manufacturing industry, stands out the agro-food sector, textiles, chemicals, metals and construction materials.

A slight recovery in the economy is expected in the coming years, in line with the predicted increase in the price of oil, which will allow a greater dynamism of domestic demand. Supported by foreign investment, the non-oil sector is expected to grow moderately, particularly in terms of the manufacturing industry. However, private investment remains largely conditioned by the adverse business environment and the difficulty of access to finance. However, in the near future, it is expected that various parameters of the business environment will be improved, associated with simplification of processes, information digitization and greater access to financing.

In its relations with other countries, Algeria faces two challenges: the high volume of imports, justified by the low level of industrialization and the weak diversification of its economic structure and the small amounts of foreign investment (-0.1% of GDP in 2016).

2. Country overview

With a surface area of more than 2,3 million km² and a strong demography, Algeria has the highest GPD per inhabitants of North Africa and the fourth highest GPD of the African continent.

Natural resource endowment (Algeria is the 7th largest exporter of gas), combined with the increase of hydrocarbon prices during the 2000's, allowed Algerian public authorities to comfortably finance economic and social reforms. This context contributed to the emergence of a middle and wealthy class.

Back then, Algeria economic model relied heavily on hydrocarbons, accounting for 98% of exports, 69% of fiscal incomes and 36% of the GDP. But in mid-2014, decrease in oil prices brought out the vulnerabilities of the Algerian economic model.

Since then, the gouvernement multiplies measures to diversify its economy and encourage foreign and local investment. A new Investment Code and Budget laws intend to create a favorable environment for foreign investment. Special attention and support is given to the industry, tourism, agriculture, renewable energy and technology.

3. PESTLE Analysis

3.1 Political Factors

People's Democratic Republic of Algeria is a young country which became independent from France in 1962. Although the political system is based on a multi-party system, the National Liberation Front (FLN) is the main political party that has largely dominated politics since the independence.

In 1991, in an attempt to prevent the Islamic Salvation Front from taking power and setting up an Islamic state, the government cancelled the legislative election, dissolve the Islamic party and had arrested thousands of its member. This chain of events sparked an armed insurgency led by several Islamic groups. In 10 years, hundreds of thousands of civilians, policemen and soldiers were killed.

In 1999, the election of a new president, Abdelaziz Bouteflika, will mark a turning point, especially with the enactment of an amnesty law that invited armed groups to give up their weapons. Although a few isolated groups remains, violence decrease dramatically. Today, Algeria is said to have fought and defeated terrorism.

In 2011, a wave of revolution stroke first Tunisia, then Egypt, Libya and Yemen. All these countries have a point in common: a young population that do not identify themselves with the authoritarian political leaders. The international community would have expected the movement to spread to Algeria, but only a few isolated riots took place. Later in 2014, when a wave of terrorist attacks hit Muslim bordering countries (Libya, Mali, Niger, Mauritania), Algeria was once again spared. In response, public authorities implemented a set of social and political reforms (end of the state of emergency, subsidies on staple products).

And surprisingly, when the president Abdelaziz Bouteflika run for elected office for the fourth time in 2014 after suffering from a severe stroke, he was re-elected by a large majority and without any social protest. Algeria is maybe not an example of democracy but its people seek peace and stability over anything.

3.2 Economical Factors

Since the 1990's Algeria has heavily relied on the production of hydrocarbons, accounting for approx. 98 % of exports, 69 % of fiscal incomes and 36 % of the GDP (average for the period 2002-2014).

Between 1999 and 2014, huge revenues generated by high oil prices – which amount to 750 billion USD – have been mainly used to fund the State budget and to buy social peace with back pay and subsidized products. At the opposite, little oil money has been reinvested to develop the economy. Indeed, Algeria's non-hydrocarbons industry stays very restricted, representing 6% of the GDP and less than 5% of exports (2015).

Similarly, the industrial metallurgical sector, which used to be a strength in the 1970's sharply declined, representing 13,5% of the industrial added-value.

The oil price shock of 2014 brought out the vulnerabilities of the Algerian economic model. Indeed, global oil prices, which dropped by 57% in 6 months, led to significant revenue shortfall for the Algerian state. As a result, Algeria had to race through its foreign exchange reserves and through its Revenue Regulation Fund (RRF) - a special fund created in 2000 in order to offset the impact of fluctuating oil prices.

In 2016, the economic activity appeared to stay resilient with a growth rate of 3,3% (3,7% in 2015), but taking a closer look at the growth rate of the non-hydrocarbon sector we notice a slight reduction from 7.1 % in 2013 to 2.9 % in 2016, mostly because of spending cuts. Inflation rate increased to 6,4% (2,92% in 2014, 4,78% in 2015) mostly because of DZD depreciation against USD and because of reduction of energy and gas subsidies.

Fortunately, in 2017 IMF appreciation on the Algerian economy remains encouraging and optimistic, thanks to the implementation of new economic strategy and reforms (see section 5.4).

Table 3.1: Main economic indicators

	2013	2014	2015	2016
GDP growth	2,8	3,8	3,7	3,3
Non hydrocarbon GDP growth	7,1	5,6	5,0	2,9
Average exchange rate DZD/USD	79,38	80,56	100,46	109,47
Inflation rate	3,25	2,92	4,78	6,4
Budget balance (% of GDP)	- 1,5	- 7	- 9,5	- 12,9

3.3 Social Factors

Algerian demography is characterized by a considerable growth rate of 2,15% per year. In 2016, the Office of Vital Statistics registered 1,067 million of live births, which corresponds to an average of 2 900 live births per day. At the same time, death rate decreased with 3000 deaths registration less than in 2015. The Algerian population reached 41,3 million people in 2016; this number should increase to 51,026 million by 2030.

The Algerian population is very unevenly distributed: 91 % of the population live on 12% of the territory, specially in the northern part of the country, along the Mediterranean coast. The 5 most populated administrative divisions (wilayas) are: Algiers, Setif, Oran, Batna and Constantine.

For many years, the Human Development Index (HDI) of the United Nation has been an alternative indicator to assess the development of countries. Indeed, the HDI is a combination of key dimensions of human development such as: life expectancy, level of education and gross national income per capita (GNI). In the last 25 years, Algeria has made some considerable efforts in improving human development. In 2015, Algeria's HDI value reached 0.745/1 — a rating that ranks the country in the high human development category — positioning it at 83 out of 188 countries.

Table 3.2: Evolution of the Algerian HDI

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1990	66.7	9.6	3.6	9,895	0.577
1995	68.1	9.8	4.7	8,825	0.600
2000	70.2	10.9	5.9	9,776	0.644
2005	72.2	12.3	6.6	11,779	0.686
2010	73.8	14.0	7.1	12,875	0.724
2012	74.3	14.4	7.5	13,060	0.737
2014	74.8	14.4	7.8	13,270	0.743
2015	75.0	14.4	7.8	13,533	0.745

Gross disposable income per capita is the amount of money that households and sole proprietorships have available after they had paid their taxes, for spending and saving. We use it as an indicator to evaluate the material well-being of households.

From 2010 to 2016, the Algerian GDI per capita constantly increased (+17% in 6 years). But even if the Algeria purchasing power increased, it stays only half as high as the Portuguese one.

Employment in Algeria

Between 2016 and 2017, the unemployment rate rose from 10,50% to 12.3%. Compared to other emerging countries, the Algerian unemployment rate is considered to be quite high (8.4% on average for oil exporting countries in 2016).

Unemployment particularly affects young people between 16 and 25 years old (29.70% of them are unemployed) as well as people with higher level of education (17.6% of them unemployed). According to the IMF, the main factor explaining the still high level of youth unemployment is the rigidity of the labor market which results in favoring insider workers instead of outsider workers. The second main reason behind youth unemployment is a mismatch between labor market demand and supply.

Rigidity is often accused of damaging the labor market. But to effectively assess this rigidity and to appreciate any improvement or deterioration of labor policies, we can take a look at the grading provided by Fraser Institute in its Economic Freedom of the World report (EFW) and which is composed of several indicators: i) Hiring and firing regulations; ii) Hiring regulations and minimum wage; iii) Centralized collective bargaining; iv) Hours regulations; v) Mandated cost of worker dismissal; and vi) Conscription (duration of military conscription).

Each indicator is evaluated from 0 to 10, with 0 representing an absolute rigidity and 10 representing a perfect labor market freedom and flexibility. Algeria scored less than 5/10 in the last five years (from 2010 to 2015), a grade that materialize the relative inflexibility of the labor market. Restrictive labor policies include: i) Obligation to declare any job vacancy to the employment agency, the municipality or a private certified job agency; ii) Obligation for the workers, to justify the accomplishment of the compulsory military service; and iii) A set of measures to avoid lay-off (limiting cases in which the employer can dismiss employees).

Overall, in Algeria, the public sector is the largest employer, and in the industrial sector it has more than 109 000 jobs, of which 41.1% (in 2015) are related to the steel, mechanical, electronic and electrical industry.

Table 3.3: Number of employees on industrial public sectors (2015 data)

Industrial sectors	Employees in 2015
Mining	7 037
Steel, metal, mechanic, electronic and electric industries	44 963
Construction materials	13 678
Chemicals and pharmaceuticals	6 528
Agrofood	20 200
Textile	6 897
Leather and shoes	1 565
Wood and papers	8 641
Total public industries employees	109 509

In Algeria, the legal minimum wage is 169€¹. However, there is a clear disparity between sectors. Highest wages are those of the extractive industry, whereas wages of the manufacturing industries are below average.

Table 3.4: Monthly salaries by public sector (2015 data)

Monthly wages per public sector in 2015 ¹	Executives	Master Agents	Execution agents	Average
Extractive Industries	1157 €	904 €	670 €	952 €
Manufacturing Industries	635 €	497 €	330 €	444 €
Production, distribution of electricity, gas and water	601 €	398 €	296 €	419 €
Construction	606 €	402 €	270 €	330 €
Trade & Repair	626 €	470 €	345 €	443 €
Hotels & Restaurants	525 €	323 €	281 €	321 €
Transport & Communications	735 €	554 €	449 €	529 €
Financial activities	634 €	454 €	356 €	529 €
Real estate, renting and business services	533 €	417 €	343 €	389 €
Social and personal Collective services	641 €	398 €	316 €	361 €
Average	784 €	568 €	351 €	515 €

¹ DZD exchange rate of 01/01/2015.

The 2016 New Strategy of Economic Growth include a labour dimension, and will especially set up the following measures:

- A new labor code based upon an effective employment strategy (the current one have not met its objectives);
- Revision of employment aid measures;
- Better matching between labor market demand and supply, especially through a change of the education and training system;
- A reinforcement of the information system related to job opening opportunities, through a reorganization of go-between agencies;
- Ensuring a better flexibility of the labor market by improving the labor institutions.

The comparison of the labor markets between Portugal and Algeria can be made through the following factors: i) Hiring and firing regulations; ii) Hiring regulations and minimum wage; iii) Centralized collective bargaining; iv) Hours regulations; v) Mandated cost of worker dismissal; and vi) Conscription. Portugal and Algeria labor market are quite similar, except on two factors:

(i) Hiring regulations and minimum wage: the number of cumulative term contracts is not limited in Algeria, whereas it may only be renewed three times in Portugal.

(vi) Conscription: in Algeria the duration of conscription is more than 12 months but not more than 18 months, inPortugal there is no military conscription.

3.4 Technological Factors

After its independence in 1962, Algeria started to lay the groundwork of its science and technology system. It started first with the creation of management and supervisory bodies such as the Department of Higher Education and Scientific Research in 1970, the National Organization for Research in 1973 or the Standing Committee of Research Planning (1979). Investments started to bear fruits with hundred of scientific research projects launched.

But institutional instability in the late 1980's and civil war from 1993 to 2001 pushed scientific research into the background. As a result, the research sector suffered from a massive disorganization with many research institutions dissolved and replaced by others, a labor shortage, and very low budgets (0,1 % in 1995 to 1% of the GDP in 2001.)

The first years after the civil war were dedicated to rebuilt the sector (organizational structure, infrastructures), but we have to wait until 2008 to appreciate the first signs of progress with

the second five-year plan for scientific research. Since then, Algeria is still pushing for further improvement.

For a very long time, Algeria relied on foreign technical assistance and technology import to reduce its technology gap with other countries and to develop its industry. But after having relied on foreign know-how for many years – namely through turnkey plants and foreign engineering company - Algerian companies have lost control of industrial development.

Technology is a crucial performance and growth lever of the industry. This is particularly true in such a technical sector as metallurgy. Equipment used in the Algerian sector are mostly conventional machines to execute simple operations (such as metal cutting, stamping, welding). But it should be noted that a high proportion of Algerian metallurgy companies face weaknesses in terms of technological upgrade and automation. Dilapidation and overuse of the equipment often cause production shutdowns in the steel, metal, mechanic, electronic and electric industry. Indeed, more than 80% of company directors questioned by the National agency of statistics in the second quarter of 2017 declared having experienced equipment failures, 50% of which caused a work stoppage for up to 30 days. Nearly 60% of the respondents could confirm they could produce more just with an equipment renewal (but without having to recruit more staff).

In 2010's, the Algerian technological strategy took another turn: from now on, the priority is to acquire technology through FDI, foreign-Algerian partnership and technology transfer. In order to encourage technology transfer, the 2014 Finance act introduces incentive measure: "Any foreign investment which contributes to the Algerian technology development through a transfer of knowledge and skills and/or which manufactures goods in Algeria with at least a 40% integration rate, shall benefit from tax benefits."

3.5 Legal Factors

The 2001 Mining Act failed to produce results and was thus amended by the 2014 Mining Act. The objective of the 2014 Mining Act - which is still in effect - is to attract more investors and to "reaffirm the interest of Algeria in the development of the mining sector" as declared by the Youcef Yousfi, Minister of Energy and Mining.

The law makes a distinction between two types of mineral resources: general strategic mineral resources and strategic mineral resources. Each of them is submitted to specific rules. Investment in general resources (exploration and exploitation) is opened to public enterprises and private companies as long as they have enough financial and technical resources.

At the opposite, only public companies can explore and exploit strategic resources. Strategic resources include radioactive substances, metallic and non-metallic mineral substances for industrial use, precious metals, precious and semi-precious stones and large deposit with low running costs.

On a case by case basis, a public company exploring or exploiting a strategic resource can conclude a contract or go into partnership with a foreign or with an Algerian legal entity, as long as the public company keep 51% of the shares.

In order to help the sector achieve its potential, public agencies were reorganized into two main agencies:

- The Geological Service Agency of Algeria which is in charge of the management of geological infrastructure. It must ensure the "acquisition, validation, preservation and return of basic geological knowledge of the geology of the country for the benefit of economic activities". It is financed by tax revenues related to the exploitation mining.
- The National Agency of Mining Activities which is responsible for the management of the mining heritage and the control of mining activities. It contributes to the country's mining development, manages the mining land register and issues, renews and suspends mining permits.

The 2014 Mining act introduced two main incentive measures:

- A VAT exemption for the acquisition of capital goods used for mining prospection, exploration, creation of infrastructure or other services related to the sector.
- Imported equipment used for mining activities are exempted from custom service duties, taxes and fees.

3.6 Ecological Factors

Factories, mines and quarries, workshops or any other facility, owned by a natural or legal person, private or public, that may pose a risk to the environment, to the health and safety of persons, to the agriculture and natural resources, to the monument and tourist areas, are designated as classified facilities for environmental protection. Most of steel, metal, mechanic, electronic and electric facilities are classified for environmental protection.

Facilities which are classified for environmental protection are subjected to ministerial authorization, prefect ² authorization, mayor ³ authorization or municipal declaration, depending on the potential hazards they carry. Executive decree n°07-144 lists all the facilities considered as classified and which kind of authorization or declaration is needed for each of them.

The Algerian environmental control is very much inspired from the EU legislation, especially in terms of waste management and on special and hazardous waste. Special waste are any waste produced by industrial, agricultural, healthcare, or service industries that, because of their nature and composition, can not be collected, transported and treated as household waste or inert waste⁴. Hazardous waste are special waste which components or features may be detrimental to public health and/or to the environment. To determine whether a waste is classified as "special" or "hazardous", waste generators should refer to decree n°06-104.

Most of the wastes generated by steel, metal electronic, electric and mechanic industries are classified as special or hazardous, this is for instance the case of: waste generated by iron and steel industry, waste generated by physical and chemical processing of metalliferous minerals, waste generated by pyrometallurgy of aluminum, lead, zinc, copper, and other non-metalliferous minerals, waste generated by ferrous and non-ferrous foundriess.

Because of the consequences they can have on public health and/on the environment, special wastes (including hazardous wastes) are managed separately from other wastes. Indeed, special and hazardous waste can only be treated in licensed facilities. It is the responsibility of waste generators and of waste holders to ensure the management of special waste or to use a third party to manage these waste. Additionally, hazardous waste generators/ holders have to report to the Department of Environment the nature, the quantity and the features of the hazardous waste they generate/ hold; they also have to regularly provide information related to the treatment of these waste and to the current and future measures implemented to reduce the amount of waste they generate/ hold.

Similarly, transportation of special waste is strictly subjected to a legal authorization issued by the Department of Environment who will make sure that the transport operation will be correctly ensured by the sender, the carrier and the recipient.

2 Denominated "wali" in Algerian law.

3 Denominated as "president of the Popular Municipal Assembly" in Algerian law .

4 Inert waste is waste that does not undergo chemical or biological changes due to its characteristics and compositions. In this way, it remains unchanged for a long period of time. In Portugal, this type of waste is deposited in landfills.

Metallurgy companies are also subject to ecological taxes. In Algeria, the polluter pays principle has been implemented since 1998, through a set of taxes. Activities submitted to the ecological taxes are listed on the executive decree n°09-336 and include two types of activities: i) Activities which are preliminary submitted to a ministerial, prefectural, or municipal authorization; and ii) Activities which are preliminary submitted to municipal declaration.

As seen previously, most of steel, metal, mechanic, electronic and electric facilities are classified for environmental protection and require a legal authorization, they are thus submitted to ecological taxes.

There are four main ecological taxes that could apply to metal, mechanic, electronic and electric facilities: i) Ecological tax on polluting and hazardous activities which applies to every activity submitted to legal declaration or authorization; ii) Tax incentive for industrial waste disposal which applies to every activity that produces special or hazardous waste; and iii) Complementary waste water tax and complementary tax on air pollution from industry which are based on the volume or quantity released, and on the pollution generated by the activity (threshold limit). This tax is calculated with a base rate which is then multiplied by factors. The criteria used to define the tax are the number of employees of the company and the type of declaration or authorization required, as well as the types and quantity of waste.

But there are other ecological taxes (taxes on industrial waste, water waste and air pollution), which are calculated according to the tonnes, and the type of waste (special or hazardous waste). When it comes to water waste, the tax is calculated by means of coefficients taking into account the excess effluent liquid. Multiplied coefficient are applied when rejection are above a certain threshold value. Threshold values depend on the activity and are fixed in executive decrees.

4. Algerian Business Culture

The official language of Algeria is Arabic, however it is common to speak Tamazight, an Afro-Asian dialect. French is generally used as a working language.

In this way, as it is a francophone market, it is advisable that the representatives of the companies have a dominance of the French language. In the approach to the market, the visits and the personal contact are fundamental for the accomplishment of businesses. The process of identifying potential Algerian customers, representatives, distributors and partners must follow a careful choice, gathering as much information as possible on their competence, weight in the sector and dimension. Due to the high traffic in large urban centers (Algiers, Oran) travel and/or business meetings should be timely prepared.

Working hours are normally between 08:00 and 17:00, and the work week is from Sunday to Thursday, with the weekend being during Friday and Saturday. However, during the Ramadan period, most services are closed during the day (restaurants, local shops) or at reduced hours (public services from 09H00 to 15H00 / 16H00).

5. Major Minerals Mined in Algeria

Algeria has a large and diversified mining potential

Algeria is endowed with important mineral resources. It has the geological and structural characteristics of the African continent and of the south of Europe (Mediterranean countries).

The mining sector includes all extractive activities intended to produce useful minerals mainly for the metal, industrial and construction material sectors. Algeria is made up of several geological megastructures with great potential in minerals and materials. Algeria's exploration programs over the last 30 years have allowed: i) The demonstration of large polymetallic deposits (Pb-Zn-Cu), gold, iron, manganese, mercury, wolfram-tin, tantalum, uranium, phosphates, celestine and barite, marbles, kaolin; and ii) The identification of many areas with high mineral potential located both in the North and South and as rich as varied such as: diamond, gold, silver, topaz, beryl gemstone, zinc, lead, copper, among others.

Distribution and description of mineral resources

Mining resources are distributed all over the country:

- In the north of the country there are more than 30 mining districts and more than 3000 mineral sites with many basic metal deposits (lead, zinc, copper, gold, iron, mercury, antimony, phosphate, barite, bentonite, among others).
- The Southwest has discovered a deposit of minerals such as iron, coal, manganese and barite. There are more than 10 mining districts with diamonds, gold, copper and barite and more than 500 sites with minerals.
- Also in the South was discovered a deposit of minerals such as gold, tungsten, uranium, Sn-W, Ta-Nb. There are more than 20 mining districts with gold, wolfram, tantalum, uranium, among others and more than 2000 mineral sites.

Algeria is starting to reveal its mining potential

For a long time, Algeria natural resource exploitation has been mainly focused on hydrocarbons. But low oil prices have pushed public authorities to turn towards mineral resources.

Iron and phosphate are the only two minerals which are produced on a large scale. With a 2 billion tons of phosphate deposit, Algeria plans to become one of the largest phosphate

producers in the world by 2021. But most of it is exported as unprocessed because of a lack of local phosphate processing facilities.

Iron ore resources are also one of the most exploited resources with approximately 1 million ton produced per year. The main operating facilities are located in Tebessa in which a deposit of approximately 60 million tons was discovered. 150 other sites have been identified in the Tindouf, Ougarta and Hoggar basins but the largest known deposit is located in Gara Djebilet (south west) and is estimated to reach 1.54 billion tons.

Algeria may become a major producer of zinc, according to the results of the Western Mediterranean Zinc exploration (a joint venture between Terramin Australia and Algeria's natural resource agency). The capacity of the Tala Hamza deposit in the province of Bejaia is estimated at 68.8 million tons, 4.6% of which is zinc and 1.1% lead, for a total of 3,9 million tons of the two metals.

Lots of other strategic minerals (such as gold, uranium, rare metals) have been identified in the Hoggar, the Eglab massif (South) and the sedimentary basins (Tindouf, Béchar, Reggane, Tafna, Chéllif, Hodna).

The emergence of public-foreign partnerships

Even though foreign investment in the mining sector are strictly controlled, public companies are keen to work with foreign and highly skilled companies. Indeed lots of foreign-public partnerships have been concluded in the last years with the Australian Terramin, with the Indonesian company Indorama, with the Chinese company Shaolin Mines.

This increase of foreign direct investment in the Algerian mining sector is a sign of good health and dynamism.

6. Metallurgical Industry in Algeria

A distinguishing feature of the Algerian economy is the predominance of public companies in some industrial sectors qualified as strategic or of national interest. Five sectors in particular are predominantly represented by public companies:

- The hydrocarbon industry (100%);
- The water and energy industry (100%);
- The mining and quarry industry (92%);
- The steel, metal, mechanic, electronic and electric industry (93,2%);
- Other industries (93,6%).

The participation of private companies is predominant in other sectors such as agrifood (86,9%), leather and shoes (89,7%) and textile industries (87,2%). Globally, the balance between public and private companies is fairly equal with 50% of public companies and 50% of private companies. Nevertheless, this distribution is expected to change in the future, as the private sector is progressively catching up.

Table 6.1: Number of private or public enterprises according to sectors

Sectors	Public (%)	Private (%)
Water & energy	100	0
Mining & quarries	92,0	8,0
Steel, metal, mechanic, electronic and electric industry	93,2	6,8
Construction materials	48,0	52,0
Chemistry & Plastics	22,3	77,7
Agrifood	13,1	86,9
Textiles	12,8	87,2
Leather and shoes	10,3	89,7
Wood and papers	50,5	49,5
Other industries	93,6	6,4
Total	50	50

6.1 Commercial background of industrial sector

Compared to its potential, the Algerian mining production remains quite low. Indeed the total value of Algerian mining production reached 215.9 million euros in 2015, which barely accounts for 0,2% of the GDP. There are multiple reasons for this weak development. To

achieve economic diversification by 2030, the Algerian strategy recommends to impulse strong episodes of sectorial growth. Industrial policies will be organized upon 4 lines:

1. A support to sectors which are based upon Algeria's comparative advantage in natural resources

Those sectors should be supported through downstream integration from the production of natural resources (agriculture, farming, mining, hydrocarbons) to strong value-added segments. This include downstream sectors depending on abundant mineral resources (such as iron, rare earths, phosphate) which, when combined to low-cost energy (mainly gas) provide a competitive advantage. This also include mechanic, steel and metallurgical industries, as well as strong value-added sectors such as the automotive industry, aeronautic, naval construction and fine metallurgy.

The objective in 5 to 7 years, is to stop exporting unprocessed raw materials and to catch a more important part of the added value for the internal market. To reach this objective, a master plan for the development of mining resources is set to come into action in the upcoming months.

2. A support to the development of sectors with existing comparative advantages and of sectors that will have a ripple effect on other economic sectors

Concretely, services likely to benefit from incentives measures are those related to: i) The development of exports; ii) The modernization of the national economy; and iii) Industrial competitiveness.

Public authorities are fully aware that the efficiency of this policy is based upon their capacity to stimulate the appearance of a dynamic and qualified entrepreneurial class.

3. An import substitution strategy

The import of finished or semi-finished products produced by industries supported by the industrial policy will be restricted or ban, considering however that the internal demand is sufficient and solvent.

4. A support to the development of industrial activities with high income elasticity of exports

More precisely, the following measures will be implemented: i) Encouraging the creation of new exporting companies by subsidies on dawnning exports; ii) Support exporting companies to develop high-yield exports; and iii) Create special zones of exports (free zones).

6.2 Size, openness and typical market demand

The sector of metallurgy and electromechanics in Algeria relies heavily on imports, with an average of 4 946 586 tonnes of imports per year (2007-2017), most of which comes from the European Union (33% of the value of imports of metal, including 1% of Portugal).

Algeria has an unfavorable trade balance, that is, it imports much more than what it exports, because what it produces does not satisfy the levels of demand, according to table 6.2. Every year thousands of tons of products are imported into the metallurgy and electromechanical sector, due to the lack of diversification of products in the Algerian companies.

The Department of Industry estimated the demand for the main steel products to be 9 million tons per year. Even though the Department of Industry did not provide the details of its demand estimate, it can be confirmed by our calculations. We used the following hypothesis: i) Local manufacturing is insufficient and has to be completed by imports; ii) We did not take into account exports as they barely exceed 2000 tons per year; and iii) Private manufacturing is mainly represented by one company which is Tosyali – production from other manufacturers don't exceed 500 000 tons per year. Besides that, 35% of the steel industry manufacturing and imports are consumed by the construction industry (rebars are used for reinforced-concrete structures); 3% of the steel industry manufacturing and imports are consumed by the oil and gas industry (80% of tubes, pipes and hollow profile are used for oil and gas drilling and pipelines); 62% of the steel industry manufacturing and imports are consumed by metal products manufacturing industry (wire rods are used for the manufacture of welded wire mesh, drawn wires; billet are used for the manufacture of rebars, sections and wire rods; sections are mainly used for metal construction).

Table 6.2 : Products imported or locally produced (public or private companies)

In tons	Importation	Public manufacturing	Tosyali manufacturing	Demand
Wire rods	672 397	0	400 000	1 072 397
Flat-rolled products	1 125 317	0	0	1 123 906
Billet	625 974	0	1 760 000	2 385 620
Iron bars (including rebars)	2 997 619	0	960 000	3 957 619
Sections	550 783	7559	0	558 332
Pipes, tubes and hollow sections	449 278	9844	0	459 119
Total	6 421 368	17 403	2 160 000	8 598 771

Between 2013 and 2017, the average consumption of the main metal products (structural metal products; tanks, reservoirs and containers) in Algeria amounted to 486 600 tons, 86% of which were imported. Structural metal products account for more than 70% of the consumption in volume and in value. In 2017, Algerian policies to reduce imports and protect public finances led to a decline in imports of these products. As a heavily import-dependent country, these policies have also led to a decline to consumption and production, as most of industrial inputs are also imported.

The demand for metal products has increased in several sectors (industrial and agricultural buildings, structural metal is also being popularized among urban construction and public works). There is two main manufacturing methods of structural metal: hot-dip galvanizing through the welding of metal pieces (largely used in Algeria) and cold-formed steel through the assembly of metal materials with screws (structures are generally imported from China and USA). In fact, the metal structures industry relies heavily on imports. Additionally to the million tons of metal sections which are used as inputs for the industry, each year 13,5 million tons of metal structures and parts of metal structures⁵ are imported, for an average value of 971 million USD. China and Italy are the two top suppliers with 50% of imports coming from these two countries.

As already mentioned, Algeria imports much more than what produces. Once again this situation is verified: in 2017, 182 tons of doors, windows and other metal frames were locally manufactured, whereas 1911 tons of the same products were imported.

Yearly, on average 37 900 tons of tanks, reservoirs and containers are imported each year, for a value of 175,3 millions USD. Once again, companies do not satisfy local demand, which leads

⁵ Metal structures made of steel or iron are preferred over those made of aluminum.

to high import volumes and values. The main consumption of these products accounts 30% mainly used for food packaging and for pharmaceutical packaging, 6% for metal recipients for liquefied or compressed gas account and 30% account for radiators for central heating of the consumption value, mainly used by households.

The Algerian market for machinery and equipment is also heavily dependent on imports (average imports of 1.3 million tonnes over the period 2013-2017). Although between 2014 and 2015 there was a significant increase in the volume of imports of machinery and equipment for this sector, but there is a general trend towards a decrease in imports, once between 2014 and 2017, these figures decreased by 62% (due to the shortage of foreign exchange reserves, as a result of the fall in oil prices, as explained above). Algeria imports the following 3 types of machines and equipment in large quantities, according to the table below. However, the imports volume of these three products is relatively declining (decreased from 112 000 tons in 2013 to nearly 52 000 tons in 2017).

Table 6.3: products with the highest import volume and value 2013-2017

Type of products imported	Average import volume (tons)	Average import value (USD)
Machines and apparatus for air conditioning comprising a motor fan and devices to change the temperature and humidity.	57 730	265 161 188
Centrifuges, including centrifugal dryers; devices for the filtration or purification of liquids or gases.	22 195	373 115 543
Bulldozers, angledozers, graders, scrapers, excavators, loaders and wheel loaders, compactors and rollers, self propelled.	89 999	530 252 227

There was a rise in production of the various products between 2012-2014 (general purpose machines and lifting and handling equipment) and 2014-2016 (forestry and agricultural machinery, construction machinery or for mining and industrial equipment), however in 2017 the production of the machines and equipment declined. Therefore, a general increase in the cost of producing these products was observed, varying this increase by a further 9% to 110%. Once again, local production remains insufficient to the needs of the country.

The average import of transport equipment is estimated at more than 2 billion dollars over the 2013-2017 period. Globally, imports of transport equipment dropped from 2.8 billion USD in 2013 to nearly 800 million USD in 2017. Imports of transport equipment in Algeria mainly come from China, EU (France, Germany, Spain), Japan and South Korea. The most imported transport equipment products are motor vehicles for the transport of goods, locomotives and railway rolling stock.

Imports of vehicles for the transport of goods include all vehicles intended for the carriage of all types of goods, including refrigerated trucks, tank trucks equipped with pumps, closed or sheeted trucks and vans, trucks for the removal of household refuse, even with devices for loading, compacting, humidifying. Between 2013 and 2017, imports of vehicles for the transport of goods have severely declined from 2.2 billion USD in 2013 to 300 million USD in 2017, representing a 85% decrease. The decrease of import value is particularly observable in 2016, with a 46% cut compared to the year 2015. This important decreased is directly attributable to quotas import on vehicles of any type imposed by the Algerian government.

However, these last years, the construction of tram and train lines in several Algerian cities led to the increase of locomotives and railway rolling stock imports. Indeed, between 2013 and 2016, imports increased by 824%, from 20 million USD to 200 million USD. There are tree type of product which are mostly imported: electric locomotives, railcars and equipment of railways. To date, Algeria operates nearly 3 800 kilometers of railway. By 2025 railway length should reach 12 500 kilometers, with a double-track electrified system and signal system of last generation. Other projects were launched such as the new Birtouta-Zeralda railway line, the Oued Tililat-Moroccan border railway line and the modernization of the Thenia-Tizi Ouzou railway line.

6.3 Market Price Determination

As imported goods make up for the vast majority of Algeria's supply and considering the high demand, local prices are based upon import prices which are themselves based upon international prices. In time of poor supply (as for the rebar market in 2017), prices tend to exceed import prices. In 10 years the production prices of steel products have increased especially for foundry products (+245%), welded open sections (+70%), cold-formed products (+49%) and cold-drawn wires (+33%).

6.4 Market Trends and Projections

Despite, high volumes it appears that import trends seem to be more dictated by foreign trade policies than by the need to meet the local demand.

As the 2014 oil crisis revealed the vulnerabilities of the Algerian economic model, public authorities had no choice but to draw a New Strategy of Economic Growth. Approved by the Council of Ministers in July 2016, the strategy is based upon two approaches: one related to public finance, the other about the transformation of economy.

The budget model plans to achieve by 2019 the following objectives: i) Improvement of ordinary fiscal revenues so that it cover most of operating expenditures; ii) A noticeable decrease of budget deficit; and iii) Mobilization of additional resources needed in the intern financial market.

The diversification and transformation of the economy should lead to the following results for the 2020-2030 period:

- A non-hydrocarbon growth rate of 6,5% per year;
- A GDP/inhabitants that should be multiplied by 2,3;
- The contribution of the manufacturing industry to the GDP should be doubled (from 5,3% in 2015 to 10% by 2030);
- The modernization of the agriculture sector should guarantee a certain level of food security and contributed to the diversification of exports;
- Energy transition should divide by 2 the growth of energy consumption (from 6% per year in 2015, to 3% per year by 2030);
- A diversification of exports that will support the funding of an accelerated economic growth.

6.5 International Flows

In 2016, Algeria imported US\$ 47 billion, making it the 43rd biggest importer in the world. However, between 2011 and 2016, imports from Algeria fell from US\$ 52.5 billion to US\$ 47 billion. The European Union (EU28) as a whole accounted for 57.4% of Algerian exports in 2016, which may be due to the fact that Algeria is a major supplier of hydrocarbons in the EU, especially in natural gas. Fuels accounted for about 96% of Algeria's exports to the EU in 2016, of which 52% concerned natural gas. In the last year, Portugal ranked 11th in the customer ranking, equivalent to a market share of 2.8%. In the context of the EU28, Portugal ranked 7th.

In the trade Portuguese international context in goods and services, Algeria accounted for 0.6% of Portuguese exports in 2007 and 0.7% of imports (according to data from the Bank of Portugal). The trade balance of goods and services between the two countries is traditionally unfavorable to Portugal.

Algeria continues to be a major supplier of hydrocarbons to Portugal, ranking 6th in the supplier ranking in 2016.

Table 6.3: Algeria Metals Import Product Share from 2014-2016

Years	2014	2015	2016
Common Metals	\$179 951 302	\$190 548 407	\$205 282 002

In the table above, there is a steady increase in the metal import share from US\$ 179 951 302 to US\$ 205 282 002 in 2014 to 2016, respectively, existing an increase of 14%.

7. Market Segment

Considering the vastness and the technical nature of metalworking and electromechanical industries, it appears necessary to define, first and foremost, the scope of the study, as well as basic words and principles. We will especially focus on the four major activities of ANEME, and which are:

1. The manufacture of basic metals
2. The manufacture metal products
3. The manufacture of machinery and equipment
4. The manufacture of transport equipment

7.1 The manufacture of basic metals

Definition: are considered as basic metals, ferrous and non-ferrous metals which are not precious or noble metals (such as gold or silver) (source: Cambridge dictionary). The manufacture of basic metals includes “the activities of smelting and/or refining ferrous and non-ferrous metals from ore, pig or scrap, using electrometallurgical and other process metallurgic techniques. It also includes the manufacture of metal alloys and super-alloys by introducing other chemical elements to pure metals (source: United Nations Statistic Division).

Algerian economic activity classification: basic metals manufacturing corresponds to division 24 (entitled “metalworking”) and includes steel working (24.1), steel tube, pipe, hollow sections and accessories manufacturing (24.2), other primary steel products processing (24.3), precious and non-ferrous metal manufacturing (24.4) and foundry (24.5).

7.2 The manufacture metal products

Definition: a metal product is any product made out of metal. Many types of metals and alloys are used as starting materials, including rolled stock (bars, strips, light sections, sheets or tubes) and drawn stock (bars, light sections, tubes or wire).

Algerian economic activity classification: metal products manufacturing - excluding machinery and equipment - corresponds to division 25 and includes metal parts manufacturing for the construction sector (25.1), metal tank and container manufacturing (25.2), steam generator manufacturing – excluding boiler for central-heating – (25.3), firearm and ammunition manufacturing (25.4), forging, press-forming, stamping and powder metallurgy

(25.5), metal surface treatment and finishing (25.6), cutlery, tools and hardware (25.7), other metal products manufacturing (25.9).

7.3 The manufacture of machinery and equipment

Definition: consist of transport equipment and other machinery and equipment other than that acquired by households for final consumption (Source: OECD). More precisely, machinery and equipment are those which exert a mechanical or thermal action on materials or those which exert operation on other materials (such as handling, spraying, weighing, and packing) (Source: economic activity classification).

Algerian economic activity classification: machinery and equipment manufacturing is defined in division 28 and includes general purpose machine manufacturing – such as turbines, hydraulic equipment, pump... – (28.1), other general purpose machine manufacturing – such as ovens, burners, lifting equipment – (28.2), agricultural and forest machine manufacturing (28.3), metal forming machine and machine tool manufacturing (28.4), other special purpose machinery manufacturing (28.9).

7.4 The manufacture of transport equipment

Definition: “transport equipment consists of equipment for moving people and objects, other than any such equipment acquired by households for final consumption.” (Source: OECD).

Algerian economic activity classification: the automotive industry corresponds is defined in division 29 and includes car manufacturing (29.1), car body and trailer manufacturing (29.2), automotive equipment manufacturing (29.3). Remaining transport equipment are defined in division 30, with shipbuilding (30.1), locomotive and other railway equipment (30.2), aeronautic construction (30.3), military combat vehicle manufacturing (30.4), other transport equipment (30.9).

8. Suppliers of Metalomechanics and Electromechanics Sectors

8.1 Local Suppliers

The national steel industry is dominated by four main producers:

Imetal: A public company with 10 subsidiaries acting on the steel industry, sheet metallurgy and metal construction.

Tosyali: A Turkish company which produces billet, wire rods and rebars.

SPA Maghreb tubes: A private company which produces high pressure tubes.

Lamino Attia: A private company which produces sections.

The major public manufacturer are Imetal and its subsidies specialized in structural metal (Metaleng, Cr-Metal, Batimetal, ENCC) which have the largest market share. The majority of their clients are other public companies such as Sonatrach, Naftal, Sonelgaz, Air Algerie, as well as public departments and administrations.

The rest of the market is fragmented between companies from the private sector (small and medium size companies), which punctually operate on projects or which realize subcontracting works on behalf of IMETAL. Some of this companies are: Eurl ICM, Bordj Steel, BatiCharp, Alumania, Achir Metal, among others.

However, the production deficit in steel products pushed investors to develop new projects and increase their production capacities. Ten steel production projects are under way. The main projects are indicated in the table below.

Table 8.1: New industrial development projects

Investors	Project description	Production capacities
Algerian Qatar Steel	New production unit	2 million tons per year in the first phase (in 2019), to 4 million tons per year in the second phase
El Hadjar	Renovation and extension	1,2 million tons of steel and steel products per year
ETRHB	New production unit	0 tons of tubes per year

8.2 Channels of Distribution

The distribution has for a long time been dominated by public enterprises. Over the years there have been many privatizations, mainly by French companies that have taken an interest in the Algerian market, making distribution also part of the universe of private companies.

In recent years, middle-class purchasing power has increased, which has led to increased purchases in hypermarkets and supermarkets with local names. However, there are many informal private stores that dominate the retail trade. In 2012, the Trade Register registered 648 supermarkets and mini-markets, but there were about 500 thousand merchants, that is, the overwhelming majority is not registered as a merchant.

Numidis, UNO as it is known, belongs to the Cevital Group and is specialized in mass distribution (or wholesale) and is located in various regions of Algeria. It emerged in 2007 with the opening of a convenience store, but already has the 5th supermarket. Numidis has developed mass distribution throughout the country, implementing a chain of stores of different formats - supermarkets, hypermarkets and convenience stores - to meet the diverse needs of its customers and facilitate the daily lives of families.

However, Algerian consumers continue to buy from traditional corner stores, small supermarkets or markets. The markets exist in most cities and have a wide range of seasonal products.

Distance selling

The most popular direct marketing in Algeria is through catalog or teleshopping, although there is no growth in this sector. Online sales develop slowly, since the internet penetration rate is low. The types of products most bought in this way are books, electrical appliances, clothes and software.

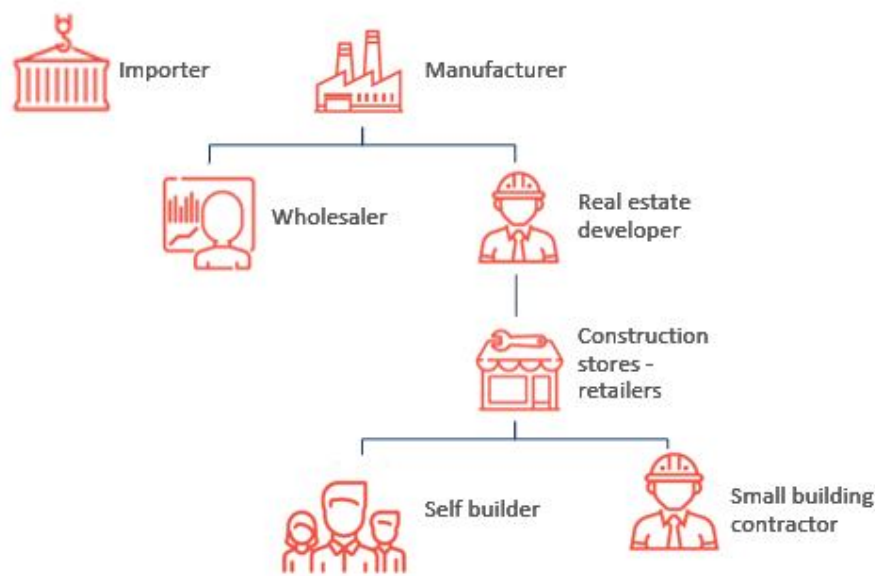
In addition to having a low purchasing power, Algerians, by law, can not make purchases online in other countries.

8.3 Supply Chain Channels

Importers and local manufacturers supply wholesalers and the biggest real estate developers. Wholesalers supply construction stores which supply in terms self-builders and small building contractors. However, the market is sapped by speculators who often act as intermediaries between importers and wholesalers and between wholesalers and retailers.

These speculators act on the rebar market by spreading rumors about an imminent increase or decrease of prices which result in importers trying to dispose of their stock in fear of decrease of the demand or of prices. No control, nor regulation are imposed on the value chain which allow speculators to continue to pressure the market.

Figure 8.1: Supply chain channels



Usually, public companies and large private companies call for tender whereas SMB's compare quotations or chose by reputation, word of mouth and recommendation.

Sections and other inputs are bought directly from importers. Manufacturers are used to work with the same suppliers (long term business relationship).

8.4 Supplying and operator countries

Algeria's main suppliers are China (17.9% of total imports in 2016), France (10.1%), Italy (9.9%), Spain (7.6%) and Germany (6.4%), which have been occupying, on a regular basis, the top 5 in the ranking of suppliers. This group of five countries accounted for 51.9% of Algerian imports in 2016 (50.0% and 48.6% in 2015 and 2014, respectively). However, China has been gaining market share, becoming the main supplier in 2013, thus removing France of this position.

The European Union (EU28) as a whole accounted for 47.7% of Algerian imports in 2016 (49.3% and 50.7% in 2015 and 2014, respectively). Portugal has been increasing in the ranking

of suppliers, ranking 15th in 2016, although it has seen its market share decrease to 1.3% (1.4% in 2015 and 1.5% in 2014). Within the EU28, Portugal ranked 7th.

8.5 Types of Imports

In 2015, the deterioration in public finances caused by low oil prices pushed the government to reduce the balance of payment through import restrictions on specific products, especially those which contributed the most to the value of Algerian imports and could be produced locally. It is recalled that the Algerian Dinar is not convertible, and is used only in internal transactions.

In this sense, the executive decree n° 15-306 of December 6, 2015 instituted an import authorization called an "import license". Additionally and in certain cases, quantitative quotas were allocated on a "first come, first served" basis. In 2016 - first year of application of the import license regime - a quota of 2,6 million tons of rebars and of 300 000 tons of wire rods was attributed.

The following year was marked by an insufficient import supply (no quantitative quota was attributed before the end of the year) and by a local production which was not able to fully meet the demand. The inadequate supply of reinforcing bars and wire rods caused production shutdown and price increases, which particularly affected construction sites. In January 2018, public authorities drawn lessons from the inadequacy of import restriction measures on the local market and announced the abolition of the import license regime. Instead a list of products which are banned from import was published (executive decreed n°18-02).

For many years now, Algeria has been trying to reduce or restrict imports of goods which are already being produced locally. At the opposite, local production shortfalls are made up by imports which mainly come from EU and China.

Table 8.2: Types of products imported from 2013 to 2017

Type of products imported	Volume in 2013 (tons)	Volume in 2014 (tons)	Volume in 2015 (tons)	Volume in 2016 (tons)	Volume in 2017 (tons)
Wire rods	664 221	782 855	672 397	32 859	19 655
Flat-rolled products	702 252	853 405	1 125 317	332 085	824 287
Billet	74 368	228 612	625 974	554 010	1 400 250
Iron bars (including rebars)	3 000 921	2 965 250	2 997 619	2 065 092	526 645

Sections	365 282	400 896	550 783	230 263	306 951
Pipes, tubes and hollow sections	455 646	380 556	449 278	528 329	409 153

Six type of products represent 90% of steel imports

1. Iron bars

Before the implementation of the license system, iron bars accounted for approximatively 50 % of the steel import with an average volume of 2,9 million tons per year (average for the years 2013, 2014 and 2015). Iron bar imports mostly come from Italy (42% in 2015) and Spain (35%) while 10% of them come from Portugal. The most imported iron bars are those which contain indentations, ribs, grooves or other deformations produced during the rolling.

2. Flat-rolled products

Import of flat-rolled products seems to be fluctuating with the highest volume registered in 2015 and the lowest in 2016. Suppliers come from Spain (15% in 2015), Germany (15% in 2015), Russia (15%) or Italy (10%). One of the most imported products are flat-rolled products of iron or non alloy steel, of a width of 600 mm and of a thickness exceeding 6 mm (15% of flat rolled imports), and of of a thickness of not less than 4,75 mm and not more than 10 mm (15% of flat rolled imports).

3. Wire rods

With an average volume import of 706 491 tons per year between 2013 and 2015, wire rods suffered from the import quota restrictions in 2016 and 2017 (95% drop in 2016). However, Italy managed to maintain its top position of external supplier in the last four years, followed with Spain and Portugal.

4. Billet

Since 2013, billet imports significantly increased and probably coincide with the production launch of Tosyali. Indeed a report from the Department of Industry indicates that this same

company is having difficulty with the local supply of scrap iron and have to import billet in order to be able to ensure its production. Further import increase in 2017 could be the consequence of the license system. 81% of billet imports are billets containing by weight less than 0,25 % of carbon, and of rectangular cross-section and comes from Russia.

5. Sections

Between 2013 and 2015, section imports doubled. Spain is the top provider, with 68% of the sections imports in 2015, 78% of imports in 2017. Average imported volumes for the 2013-2017 period is 370 000 tons. The most imported types of sections are in L or T sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of less than 80 mm (30% of sections imports) or H sections (16% of imports).

6. Pipes, tubes and hollow sections

444 592 tons of pipes, tubes and hollow sections are imported each year on average. Nearly half of it comes from China (45% in 2015), which provide tubes, pipes and hollow profiles for the oil and gas industry (for drilling and pipelines).

Despite the high volumes, import trends appear to be more determined by government policy on foreign exchange reserves than by the need to meet local demand. Indeed, Algeria tends to restrict import in time of financial difficulties or to support its industrial strategy. This was notably the case in 2016 when import value decreased by 30% while import volume decreased by 40%.

8.6 Tariffs and Custom Barriers

In 2014, Algeria's unfavorable trade balance made Algeria a more protectionist economy. Efforts to simplify procedures to remove tariff barriers and reduce tariffs have disappeared, becoming protectionist measures to strengthen the control of the compliance of imported products by local authorities.

In this way, tariff barriers have been introduced, which consist into different levels of import duty rates: 0%, 5% (for raw materials, capital goods and basic necessities), 15% (intermediate products and semi-manufactured) and 30% (for articles such as tobacco, fresh and frozen horticultural products, horticultural preserves, olive oil, wines, among others). In addition to

these customs duties, there are other specific duties (for alcoholic products, guarantee on platinum, other, silver, among others). There are also additional charges such as Sale of Vegetables and Dry Cereals Fee, Additional Fees on Tobacco, Consumption Fee (10% to 30%) and Abate Fee. It is also added the VAT (9% or 19%), according to the merchandise.

In Algeria, basic metal products have taxes ranging from 5% to 30%. Although many products do not require Certificate of Conformity, the overwhelming majority are taxed at 15%. Electrolytic or zinc coated, corrugated products have the highest tax (30%), as well as doors, metal, steel or aluminum windows and prefabricated constructions. To this list (of products with the highest taxes) are also added central heating radiators and containers (reservoirs, tanks or similar containers) of steel and metal with a capacity exceeding 300L.

In relation to machinery and equipment, since 2008 a long list of products has been temporarily exempt from taxes. However, the products subject to taxes have the rate of 30% (higher tax), and it is require the Certificate of Conformity.

There have also been quantitative barriers, that is, the products have had import quotas. Although products can be added to the list, once the quota is exhausted, it can not be imported.

Administrative barriers can be overcome through the Euro-Mediterranean Association Agreement. In order to qualify for duty exemption / reduction for certain products, community origin must be proven on presentation of the "EUR.1" certificate issued by the customs of the country of dispatch or may be issued by the exporter in a delivery note or any other commercial document.

The technical barriers are defined by the requirement of several certificates: the Certificate of quality control of the merchandise and the Certificate of origin of the imported product. The Certificate of Conformity is no longer a necessary condition for the opening of a letter of credit, however it may be required by the Algerian Bank issuing documentary credit or by Algerian legislation on quality and technical standardization⁶.

⁶ The Algerian entity responsible for quality and technical standardization is the Institut Algérien de Normalization - IANOR.

8.7 Foreign investment

Law n°16-09 of August 3, 2016, establishes a new regime applicable to national and foreign investments related to the production of goods and services. Executive decrees n°17-100 to n°17-106 define the terms of applications of these incentives measures.

An eligible investment is an acquisition of assets which fall within the framework of the creation of new activities or which are likely to expand production capacities, or to restructure manufacturing facilities or a participation in the share capital of a enterprises. Activities which are excluded from these advantages are listed in “the negative investment list” and include the production of reinforcing steel bars as well as all kind of import. Activities which are not listed in “the negative investment list” automatically benefit from the advantages of law n°16-09.

To benefit from these advantages, the investments must first be declared to the National Investment Development Agency (ANDI). For investments of 5 billions DZD (36 039 978€⁷), or more, the grant of the advantages is subordinate to the decision of the National Council of Investment (CNI).

Common advantages granted to all eligible investments

Eligible investments benefit from the following advantages listed below. The law makes a distinction between: the first phase which goes from the registration of the activity to ANDI/CNI until the beginning of activity; and the second phase which corresponds to the beginning of activity and for a limited duration (in this specific case, for three years.)

Investment realization phase
<ul style="list-style-type: none"> - Exemption from customs duties on imported equipment that are directly involved in the realization of the investment; - Exemption from VAT on goods and services, whether imported or purchased locally, that are directly involved in the realization of the investment; - Exemption from property transfer tax in return and from land advertisement fees for all property acquisitions, realized within the framework of the concerned investment; - Exemption from registration fees, from land advertisement fees, and from land remuneration on built and non-built property, granted for the realization of investment projects. This benefit is applicable for the minimum duration of the granted concession;

⁷ DZD exchange rate of 31/12/2017.

<ul style="list-style-type: none"> - 90% abatement on the annual amount of rental payment set by the Department of Lands; - Exemption from property tax on real estate acquired in the framework of the investment, for 10 years, starting from the acquisition date; - Exemption from registration fees on the constituent acts of companies and capital increases.
Operating phase
<p>For a duration of 3 years, after observation of beginning of activity, established by the tax authorities to the diligence of the investor:</p> <ul style="list-style-type: none"> - Exemption from on company profits tax (IBS); - Exemption from Professional activity tax (TAP); - 50% abatement on the annual amount of the concession fee set by the Department of Lands.

Additional advantages granted in areas to be developed

Investment implemented in areas entitled to the special funds for south and high lands (or any location that needs special attention from the State) benefit from additional advantages:

Investment realization phase
<ul style="list-style-type: none"> - Partial or total taking in charge by the State, after the Agency's assessment, of expenditures concerning infrastructure works necessary to the implementation of the investment; - Reduction on the annual amount of concession fee set by the Department of Lands on the land concessions granted to realize an investment project: - High lands area: concession fee of one dinar per square meter, for a period of 10 years; beyond this period, 50% reduction on the agreed concession fee; - Far south area: concession fee of one dinar per square meter, for a period of 15 years; beyond this period, 50% reduction on the agreed concession fee.
Operating phase
<p>For a period of 10 years, after observation of commencement of activity, established by the tax authorities to the diligence of the investor:</p> <ul style="list-style-type: none"> - Exemption from on company profits tax (IBS); - Exemption from Professional activity tax (TAP).

South and high lands locations include Adrar, Biskra, Bechar, El Oued, Ghardaïa, Illizi, Laghouat, Ouargla, Tamanrasset, Tindouf, Batna, Djelfa, El Bayadh, Khenchela, M'sila, Nâama, Saida, Tébessa, Tiaret.

Advantages granted to privileged activities and job-creator activities

For the investments located outside the areas to be developed, the common advantages granted during the operating phase, are extended from a period of 3 years to 5 years, provided that 100 permanent jobs are created at the startup of the activity or at the latest during the first year of the operating phase:

- Exemption from on company profits tax (IBS);
- Exemption from Professional activity tax (TAP);
- 50% abatement on the annual amount of the concession fee set by the Department of Lands.

Advantages granted to investments of particular interest

Investments of particular interest for the national economy, can benefit from exceptional advantages by convention between the investor and the agency that acts on behalf of the State. Although, qualification criterion for "investment of particular interest" have yet to be promulgate, the list of the possible granted advantages have already been revealed:

Investment realization or operating phase
<ul style="list-style-type: none"> - Lengthening of the common advantages granted during the operating phase, from 3 years to a maximum of 10 years; - Exemption or abatement of customs duties, taxes (any taxation of fiscal nature), granting of subsidies and financial support, during the investment realization phase, for an agreed duration; - The National Investment Council (CNI) is empowered to grant exemptions or reductions of taxes (included VAT on manufactured products), for a maximum duration of 5 years.

Property advantages granted to investors

To support investment projects, the Algerian State agrees to concede lands for a minimum duration of 33 years, renewable, and of a maximum of 99 years. The organization in charge of economic real estate is the Committee for investment localization and promotion, and land regulation (CALPIREF). Properties that can be granted as a land concession are: Available state-

owned lands located outside urbanized areas; Residual real estate assets of dissolved public companies; or Surplus real estate assets of public economic companies.

Land concessions are granted on a mutual agreement, to public institutions and companies and to private natural persons or legal entities. Candidates have to submit an application to the territorially competent Wali (governor). If both the CALPIRED and the Minister in charge of territory planning deliver a favorable opinion, the Wali makes a decree established by an administrative act. The granting of a land concession offers a benefit package:

Benefits related to land concessions
<p>Land concession gives its beneficiary the right to:</p> <ul style="list-style-type: none"> - Obtain a building permit; - Contract with financial institutions in order to finance the project; - After effective realization of the project and observation of commencement of activity (established by the authorities) : right to transfer the ownership of constructions and real property rights resulting from land concession; - Land concession is guaranteed and can only be canceled if the concessionaire fails to comply with the obligations (failure has to be established in a court of law though).
Financial advantages
<p>Abatement rates are granted on the concession price, depending on the localization of the project :</p> <ul style="list-style-type: none"> - For the north wilaya (province): 90% during the investment realization phase for a 1 to 3 years period; 50% during the operating phase for a 1 to 3 years period. - For the south and high lands: same measure as implemented by law n°16-09 of August 3, 2016.

8.8 Market Operation for Foreign Suppliers

Imports of goods purchased for resale can only be executed by a foreign natural or legal person who is in partnership with a local natural or legal person and who holds at least 51% of the capital. Additionally, a set of strict measures control import operations:

- As stated by the directive of the Bank of Algeria n°05-2017 of October 22, 2017, bank domiciliation of import operations of goods purchased for resale (which are not industrial

input) has to be accomplished at least one month before the shipping date and ensuring a 120% financial coverage;

- Since late 2017 an additional document have to be provided in order to accomplish the Bank domiciliation: an official document provided by the country of origin and /or provenance of products stating that the goods to be imported in Algeria are legally and freely commercialized in their territory and that these goods are in accordance with the regulations in force or with the international standards when it comes to the requirements of the safety and the protection of the consumer.

Customs clearance of imported goods require the presentation of a certificate of origin. Additionally, executive decree n°05-467 of December 10, 2005 states that products which could affect safety, health or environment have to be further controlled by providing a certificate of conformity that will attest that the quality of the imported products meet regulatory requirements. The certificate include the results of sampling, testing and analysis in accredited laboratories.

Executive decree n°2005-465 states that product certification is mandatory for products intended for consumption and which could affect safety, health or environment, whether they have been produced locally or have been imported. The Algerian Institute for Normalization (IANOR) sets the required standards of products. Algerian standards (shorten as "NA") are often inspired from ISO standards. Usually, European standards are used as a benchmark in this industry.

Normally, European standards are used as a benchmark in this industry. However there is only two standards which were specifically promulgated by executive decree and are mandatory. They are related to rebars: NA 8633 (Steel for the reinforcement of concrete – Part 1: Plain bars) and NA 8634 (Steel for the reinforcement of concrete – Part 2: Ribbed bars).

8.9 Payment Methods for goods supplies and Guarantees

The most common payment method is cash, whatever the transaction, whether in grocery shopping or paying for internet services. The use of the debit or credit card (VISA) is almost non-existent. In this way, there are very few VISA terminals that allow for international account withdrawals. Usually, it is possible to find VISA terminals in some hotels (El Araussi, Sheraton). Therefore, it is recommended that businessmen or travelers carry cash in money (currency: EUR / USD) to exchange in Algeria. It should be noted that Algeria does not authorize the export of its currency (Algerian Dinar - DZD) in international markets, so it is

practically impossible to exchange money before entering the country. It is possible to exchange the money in banks at the official rate.

Guarantees and protections granted to investors

Investment law grants a freedom of investment and an equal and fair treatment between foreign investors and Algerian individuals or legal entities. It implies that incentive measures granted to Algerian investors can also be granted to foreign investors.

It ensures a principle of intangibility: once approved, the foreign investment regime is inviolable. It means that revisions or repeals likely to take place in the future do not apply to investments already made, unless the investor asks that they be applied.

Portuguese investors are specifically protected in Algeria

Algeria and Portugal have privileged trading relationships that they have sanctioned through two main agreements:

- Agreement between Algeria and Portugal about the mutual promotion and the protection of investment

Portuguese investments and investors in Algeria are specifically protected through a bilateral agreement. These protections include: i) A fair and equal treatment between Portuguese and Algerian investors in Algeria and in Portugal; ii) The impossibility to nationalize or expropriate investments of Portuguese and Algerian investors; iii) The payment of damages resulting from armed conflicts, revolutions, rebellions or similar events; iv) Free transfer of amounts related to investments (capital, incomes,...); and v) Possibility to appeal to local arbitration or to international arbitration in case of litigation between a Portuguese and an Algerian investor.

- Double tax agreement between Algeria and Portugal

Double taxation occur when two countries collect tax on the same item of income, for the same period of time, and from the same taxpayer. Since 2005, Portugal and Algeria have made an agreement to avoid double taxations of residents of one of the two contracting states. To do so, they have decided how to define tax residence: "any person that is subject to tax under the domestic laws of the country by reason of domicile, residence, place of incorporation, or similar criteria" (art.4).

Algerian taxes covered by this agreement include income tax, tax on profits, tax on professional activity, lump-sum tax, property tax, wealth tax, tax and royalties on hydrocarbon prospection, research, exploitation and transport, and tax on mining income.

8.10 Regulatory, Compliance and Certifications for Foreign Companies in Algeria

The 1993 Investment code is the first step towards the promotion of foreign investment. It ensures the right to invest for local and foreign investors and guarantees equal treatment between them. It introduces the principle of intangibility (once approved, the foreign investment regime is inviolable). The 1993 Code also allows foreign investors to appeal to international arbitration and guarantees capital and dividend transfer. Finally, it introduces a set of advantages to stimulate investments.

The 2001 Code reaffirms the public power will to promote foreign investment by granting them more advantages and incentive measures. It represents the foundations of the current Investment Code.

The 2016 Investment code is another step towards rebooting local and foreign investment, but it says protective of its local resources and economy. National and foreign investments made towards the production of goods and services are regulated through the law n°16-09 which came into effect in August 2016. Since then, are considered as investments: i) Acquisition of assets which fall within the framework of the creation of new activities or which are likely to expand production capacities, to renovate or to restructure manufacturing facilities; and ii) Participation in the share capital of an enterprise.

Purchases of goods and services for resale in the same condition as received are not considered as investment, this include import of goods in the Algerian territory.

Specific rules apply to foreign investors

Although the Algerian investment code ensures an equal treatment between foreign investors and Algerian individuals or legal entities, the fact remains that foreign investments are strictly regulated. Indeed, specific rules apply to foreign investors:

- *A local partnership obligation*: foreign investments are only authorized in the framework of a partnership between a foreign and a national investor, in which the majority of shares (51%) must be held by the national investor. The national shares can be held by one or several investors. It should be noted that the 51/49% rule has been moved from the new Investment code (2016) to be placed in the 2016 Budget law (Art 66); this change could foreshadow easier modifications to this rule, and therefore its greater adaptability in the future.

- *A declaration to the National Investment Development Agency (ANDI)*: Foreign investments must be, beforehand, declared to the ANDI agency.

- *The Algerian state right of pre-emption:* the Algerian State, as well as all the economic public companies, have a pre-emption right over all the sales of shares towards foreign shareholders. Again, this measure is being removed from the 2016 Investment code. Instead, the sales of shares towards foreign shareholders should be submitted to an authorization of the Minister in charge of Investments.

- *Local financing:* Foreign investment (whether directly or in partnership), with the exception of the share capital, must be made through local sources of financing. However, since the 2016 Budget law, government approval on a case by case basis, can allow external financing when it is indispensable for Algerian companies to carry on strategic investment.

- *Positive surplus balance obligation:* A positive foreign exchange surplus balance in favor of Algeria for the entire duration life of its existence. This measure is being strictly removed from the 2016 Investment law.

- *Capital transfers:* Investments made from capital contributions in freely currencies, quoted by the Bank of Algeria which duly takes note of said currency imports, benefit from the guarantees pertaining to invested capital transfers and associated income. This guarantee also applies to the real net product from transfer or liquidation, even if that amount exceeds the invested amount.

A restricted dividend transfer procedure

Dividends transfer is defined as the distribution of profits by economic entities residing in Algeria, in favor of foreign shareholders (natural person or legal entity).

First step: A certificate of transfer

Are submitted to an obligation to declare funds transfer abroad: natural persons or legal entities who intend to repatriate funds originating from capital income, from products from transfer, from disinvestment or liquidation, from license fee, interest or dividends. The declaration form must be subscribed at the Division of Major Enterprises (DGE) for the taxpayers who belong to this structure, or at the Regional Directorate of Taxes (DIW) for the others. The declaration form and the supporting documents are dealt within 7 days by the Tax Administration that issues a certificate of transfer.

Special cases

There are two cases in which the company can face difficulty to obtain the certificate of transfer from the tax administration: The company benefits from advantages such as ANDI

(exemption and franchises in the phase of realization or exploitation); or The company has debts to the Tax Administration.

Second step: A transfer application

The certificate of transfer, as well as the supporting documents, have to be transmitted to the commercial bank in charge of the transfer. The commercial bank is obliged by law (Regulation n°05-03) to "execute, the transfer, without delay."

Amount limit: Earning and dividends generated by mix investments (foreign and national) are transferable up to an amount corresponding to the duly acknowledged foreign contribution to the capital.

Taxation of Dividends: Dividends paid to Algerian corporate bodies are exempt from taxation. Otherwise, the taxation of dividends takes place by way of withholding at a rate of 10% when the dividend is paid to an individual shareholder, or at 15% when paid in favor of a foreign partner (natural or corporate); unless stated differently in a tax treaty.

Deadline: As dividends must be paid within a maximum period of nine months following the end of the financial year (Commercial Code, art. 724), the set of documents required by the bank in charge (including the certificate of transfer), must be provided before September 30, of the following year.

8.11 Regulatory, Compliance and Certifications for Foreign Imported Products

In 2015, the change in the import regime in Algeria established quantitative restrictions on import licenses in order to safeguard certain public interest objectives, in particular to cope with the economic and financial crisis which the country was experiencing due to the drop in the price of hydrocarbons, main source of income in Algeria. However, there are products that can be added to the list of products to be imported, which was verified in 2017, but once the quota is exhausted, it can not be imported. The terms and conditions for the application of the said import licensing scheme are published on the website of the Algerian Ministère du Commerce, listing the products covered by the various notifications for the opening of the quotas.

In order to combat fraud and ensure consumer protection, the Certificate of Conformity may be required by the Algerian Bank issuing documentary credit or by Algerian legislation on

quality and technical standardization. Being the IANOR - Institut Algérien de Normalisation, the entity responsible in the country for quality and technical standardization.

In relation to the importation of some products of the sector of the metallurgy and electromechanical (steel of cement reinforcement, wire of steel, among others) is required the Import License. In addition, since 2016, payments to the exporting company may not be made without the necessary license.

All documentation directly involved in the export of products to Algeria must be legalized by the Arabic-Portuguese Chamber of Commerce and Industry and subsequently addressed to the Embassy of Algeria in Portugal. Prior to such legalization, and according to the document in question, certification by a Chamber of Commerce may be required, so that interested parties should contact the consular services of the Embassy to assess this need.

As provided for in the Euro-Mediterranean Association Agreement, there are products benefiting from exemptions / reductions in import duty rates. In order to qualify for this exemption / reduction, community origin must be proved on presentation of the "EUR.1" certificate. This certificate may be issued by the customs office of the country of dispatch or may be issued by the exporter in a delivery note or in any other commercial document describing the products concerned in sufficient detail to enable them to be identified (usually referred to as a declaration on the invoice). Such declaration may be made by any exporter when the good does not exceed EUR 6 000. When the merchandise exceeds 6 000 euros, the exporter must apply for "authorized exporter" status in writing to the Portuguese Tax and Customs Authority.

Imported goods are also subject to VAT, with two types: 19% (standard rate) for most goods and services and 9% (reduced rate) for goods and services which are of particular interest economic, social or cultural development.

The executive decree n ° 15-58 corresponding to the 8 February 2015 article 22 requires that the new imported vehicles must meet the requirements of safety and environmental protection (emissions of fumes, toxic gases and noises) provided by the legislation and the regulations in force or not in accordance with internationally recognized standards without defaulting on those applicable in the country of origin of the manufacturer. Imported vehicles must be equipped with at least the following safety devices.

Table 8.3: Safety requirements for imported vehicles

<p><i>For vehicles for the transport of goods:</i></p> <ul style="list-style-type: none"> - ABS anti-lock system, electronic stability control; - Speed limiter device and / or speed regulator; - Two (2) front airbags; - Standardized separation partition between the passenger compartment and the loading area for van type vans. 	<p><i>For trailer and semi-trailer:</i></p> <ul style="list-style-type: none"> - ABS anti-lock system; - Rear underrun protection devices; - Lateral protection; - Electronic stability control; - Mudguard.
<p><i>For truck and tractor:</i></p> <ul style="list-style-type: none"> - ABS anti-lock system, electronic stability control; - Hydraulic retarder or on exhaust valves for vehicles whose total permissible laden weight is greater than or equal to 19 tons; - System for clamping the maximum speed expected by the regulation regulating road traffic; - Front and back underrun protection devices for trucks; - Belt buckling reminder system security. 	<p><i>For bus:</i></p> <ul style="list-style-type: none"> - ABS anti-lock system, electronic stability control; - Speed limiter device or system for clamping the speed; - Chrono-tachograph, anti-rollover system; - Safety belts; - Loopback for all seating positions (for bus only); - Headrests on all seats.

9. Regulatory Authorities and Relevant Associations

9.1 Algeria Regulatory Authorities

IANOR - Algerian Standardization Institute

IANOR is the responsible entity in the country for quality and technical standardization in order to combat fraud and ensure consumer protection. IANOR prepares, publishes and disseminates Algerian standards, as well as centralizes and coordinates standardization work. In addition, it grants authorization for the use of trademarks and their control under the legislation in force.

9.2 Investment promotion agencies

Geological Service Agency of Algeria

The Geological Service Agency of Algeria which is in charge of the management of geological infrastructure. It must ensure the "acquisition, validation, preservation and return of basic geological knowledge of the geology of the country for the benefit of economical activities". It is financed by tax revenues related to the exploitation mining.

National Agency of Mining Activities

The National Agency of Mining Activities which is responsible for the management of the mining heritage and the control of mining activities. It contributes to the country's mining development, manages the mining land register and issues, renews and suspends mining permits.

National investment council (Conseil National de l'Investissement - CNI)

National investment council propose a strategy and set priorities for the development of investment. Besides that, study and approve the investment promotion national program, define the objectives regarding the investment development, propose adaptations of incentive measures for investment, study any institution propositions for the implementations of new advantages or the modification of current advantages as well as study and to approve identification criterion of Projects of National Interest.

National Investment Development Agency (Agence Nationale de Développement de l'Investissement - ANDI)

National Investment Development Agency promote, facilitate, assist and monitor the investments. That is, contribute to the management of investment incentives granted to investors by identifying the projects which could benefit from. Besides that, contribute to the economic real estate management.

One-stop service (Guichet unique)

One-stop service enable the implementation of investment projects and complete the administrative procedure of business creations.

9.3 Chamber of Commerce

CACI - Algerian Chamber of Commerce and Industry

Algerian Chamber of Commerce and Industry offers various services in order to provide the business community with information to enable them to develop their management, export and investment capacities. In addition, provides information on business development support programs and information on the domestic market, as well as the calendar of the various trade-oriented events at local, regional, national or international level.

Arab-Portuguese Chamber of Commerce and Industry

Arab-Portuguese Chamber of Commerce and Industry is a non-profit association whose main objective is to develop economic, commercial, industrial and cultural relations between Portugal and the 22 countries of the League of Arab States, on a basis of mutual interest, contributing considerably for closer cooperation between Portugal and the Arab world.

10. SWOT Analysis

This section summarizes the current state of the metallurgy and electromechanical sector in Algeria in order to support companies in building their internationalization plans for this market, making known their strengths and weaknesses and allowing the exploitation of opportunities with attention to the prevailing threats.

10.1 Strengths

It is expected that the economy will recover in the coming years, in line with the predicted rise of oil price that will allow a greater dynamism of domestic demand.

On the other hand, the crisis in 2014 led the Government to implement measures to foster the country's development. The new investment code comes as a result of these measures, emphasizing the importance of foreign investment, focusing on Industry, Renewable Energies, among others. In the mining industry, which has a strong dynamism, public companies are interested in working with highly qualified foreign companies, even though foreign investment is strictly controlled in this sector.

In a general way, it should be noted that in terms of manufacturing industry, metals and building materials stand out. The increase in foreign direct investment is a sign of dynamism in the mining sector.

Portuguese know-how, quality and technology are well-known in the Algerian market, in addition to the geographical proximity, as one of the favorable points for increasing Portuguese exports.

It is also worth noting the importance of the bilateral agreements between Algeria and Portugal. Since 2005 these two countries have an agreement to avoid double taxation of residents of one of the two contracting states. In addition, there is also the agreement between Algeria and Portugal on the mutual promotion and protection of investment.

10.2 Weaknesses

The weaknesses of the Algerian economy in 2014 provoked protectionist measures in the country. Although some of the measures may be positive for those who want to produce in the country, private investment remains very conditioned by the adverse business environment and the difficulty of access to financing.

Over the years, Algeria has been trying to reduce or restrict imports of goods that are already produced locally. Although the metallurgical and electromechanical industry in Algeria relies heavily on imports, strategies have been put in place to reduce imports: imports of finished and semi-finished products produced by industries supported by industrial policy will be restricted or banned, depending on the domestic supply be sufficient and respond in terms of quality. In addition, the Government aims to reduce the export of raw raw materials and capture a more important part of the value-added chain for the Algerian economy within 5 to 7 years.

Although the beginning of an activity in Algeria has advantages for the company, there is an obligation to be in partnership with a local partner, which implies not having full control of management decisions and strategies.

In addition, due to the recent crisis, there was a drop in revenues from the sale of hydrocarbons, also leading to a less dynamic of innovation in the local industry.

The cultural distance which requires a high degree of understanding for the Westerners, in particular, the personal approach and the type of negotiation, should not be neglected.

10.3 Opportunities

Despite being the fourth largest economy in the African context, the 17th largest oil producer in the world and one of the main players in the world in terms of natural gas, Algeria has a high volume of imports, due to the low level of industrialization and the weak diversification of its economic structure.

The metallurgical and electromechanical sector in the four subsectors it integrates is strong and growing, with only a few local manufacturers that are not in the forefront of technology. Being a very importing market, much due to insufficient local production, the opportunity for investment and transfer of know-how is evident. In addition, public authorities establish import barriers to protect local manufacturers and there are various tax and land concession incentives, benefiting those who invest in the Algerian industry.

It should be noted that there are incentives for investment through exemption from customs duties, VAT, and other types of taxes or fees. Moreover, much of Algerian legislation is inspired by EU law, which means that, in terms of environmental controls or customs barriers, there are similarities and facilities such as the "EUR.1" certificate or even in relation to the labor market. In 2014, the fall in oil prices made Algeria more protectionist. However several advantages

were established to attract national and international investors and producers in Algeria. Highlighting the Mining Law of 2014 and its main incentive measures (exemption of VAT for the acquisition of goods used for the exploration of mining, exploration, creation of infrastructures or other services related to the sector; equipment used for mining activities are exempt from custom duties, taxes and custom service fees).

Even with the desire to reduce imports, it can not be overlooked that Algeria has an unfavorable trade balance, that is, it imports much more than it exports, mainly because its production can not meet demand levels. The average consumption of the metal products in Algeria is 482 600 tonnes, of which 86% are imported, that is, only 14% are produced locally. Although there have been some decreases in recent imports (2016-2017) of some products in the metallurgy or electromechanical sector, it is to be noted that in recent years the construction of railway lines in several Algerian cities has led to an increase in imports of locomotives and railway materials. In addition, Portugal has been increasing in the ranking of suppliers of Algeria, having occupied the 15th place in 2016.

The country's strategic development plan is motivating because of the hundreds of construction projects (transport infrastructure, housing, industrial buildings, among others) already approved by the Algerian government.

Over the last 25 years, Algeria has made remarkable efforts to improve human development, with a notable increase in the number of people with a high level of education. It is a fact that there is a high unemployment rate, mainly denoted in people with high level of education, however, one of the measures of the Algerian government is the incentive to job creation. Thus, taking into account the necessary requirements, these incentives range from the exemption of IRC, IRS, among others. The steel, mechanical, electronic and electrical industries are the largest employers in the country, and Algeria is a market with available human resources with a high level of education, some of them unemployed, facilitating the hiring by companies that need skilled labor.

10.4 Threats

When a company intends to export to Algeria, should noticed that public authorities impose more restrictions and controls on imports as a strategy to control public finances and encourage local manufacturing. Just in 2017, imports of transportation equipment fell from US\$ 2.8 billion to almost US\$ 800 million. Between 2013 and 2017 imports of goods vehicles decreased significantly: from US\$ 2.2 billion to US\$ 300 million, representing a decrease of

85%. On the other hand, there are customs barriers with taxes up to 30% (where metallurgical and electromechanical products are affected) or quantitative barriers through import quotas.

On the other hand, local buyers tend to have a long-term business relationship with the same suppliers, which can lead to difficult penetration for other companies.

In the case of companies that want to settle in Algeria, it can be assumed as a threat bureaucracy in certain cases, such as: legal control associated with the payment of dividends and their extradition; or, on the other hand, the obligation to enter into agreements with public entities - such as the Department of Commerce - in order to operate in the country.

It is also worth mentioning the importance of the speculators who dominate the market. This may lead importers to make their stock available at low prices for fear that prices or demand will decline, as speculators often act as intermediaries between importers and wholesalers, stockists and shops, spreading rumors about the imminent increase or decrease in prices. There is no control or regulation imposed on the value chain, as the external commercial activity intensifies, which allows speculators to continue to push the market in Algeria.

11. Opportunities for Portuguese Companies in Algeria

Although Algeria is rich in resource, the metallurgical and electromechanical sector relies heavily on imports (for example, imports of iron, steel and iron and steel), with an average of \$ 4.3 billion and \$ 4,946 586 tonnes of annual imports (2007-2017).

In 2008 and 2009, there was a significant increase in import values due to the oil and gas investment plans (mainly the imports of metal lining, pipes and drill pipes used in oil or gas drilling). Most of the imports are from the European Union (33% of the value of metal imports, including 1% from Portugal) and from China (26% of the value of metal imports).

Even though Algerian public companies represent 93.2% of the companies of the sector, their production stays very limited and inconsistent. The highest production volume was reached in 2009 with a volume of 443 tons. Similarly, the capacity utilization rate of these companies usually stays below 45% (average between 2007 and 2015). Besides that, the production of public companies has been undiversified with only 4 type of products: pipes, tubes and hollow sections (mainly for oil and gas industry) are the most produced type of product, as they account for 77% of the production of public companies. The second largest volume of production is the production of wires which accounts for 13% of the production of public companies. As to the production of sections and semi-finished, they barely account for 5% of the total production. Products which are not indicated not being produced by public, which could mean opportunities for Portuguese companies in Algeria. Taking into account table 6.2, there are products (wire rods, billet, iron bars (including rebars), sections, pipes, tubes and hollow sections) with a larger number of tons of imports than of manufacture, public or private companies.

Algeria has an unfavorable trade balance, that is, imports much more than what exports. Approximately 350 000 tons of imported pipes and tubes are imported annually - for the oil and gas industry - and about 370 000 tons of sections, and the production of these products is very small in relation to their imports. State-owned enterprises only produce one type of wire: Cold-drawn wire from other alloy steel. Despite the high demand for other types of metallic wires (wire, for example), other types of metallic wires are not manufactured in public companies. This situation may become an opportunity for Portuguese exporting companies.

Manufacture of semi-finished cast products is progressively decreasing, reaching its lowest level in 2017 (production of 3 000 tonnes). But as production volume declines (a 75% reduction over the last 10 years), the price of production has risen sharply (an increase of 245% in the last 10 years). This may influence the increase in imports of these products.

The Algerian machinery and equipment market is largely dependent on imports, with an average import of 1.3 million tons and 10 billion dollars over the period 2013-2017. A large part of import comes from USA, China and EU. Although the general trend of imports of machinery and equipment is degressive, yet a significant increase in volume is recorded between 2014 and 2015. The import volume increases from 1.2 million tons in 2014 to 1.7 million tons in 2015. For imports by value, they increased significantly between 2013 and 2014, from 9.5 billion dollar in 2013 to 12 billion Dollar in 2014. However, the trend of imports in value is also a downward trend, imports in value decreased by 62% between 2014 and 2017. This situation can change, since the manufacture of machines and equipment also is not diversified in the public companies. The public sector mainly produces general purpose machines, such as vacuum pumps, air compressors, lifting and handling equipment, agricultural and forestry machinery for mining or construction.

Capital goods and intermediate products are clearly dominant in the structure of Portuguese exports to Algeria, with common metals, machinery and equipment, minerals and ores accounting for 73% of the total in 2016 (78% in the previous year).

According to data provided by the National Statistical Institute (INE), the number of Portuguese companies exporting to Algeria ranged from 314 (in 2012) to 449 (in 2014) over the period 2012-2016. In 2016, 414 exporting companies were registered.

The Government of Algeria has presented a list of future construction projects, all over the country and by various sectors, which may appear as opportunities for Portuguese companies wishing to invest in this country. In addition to the 508 projects for the approximately 14 000 km of road (among new constructions, extensions, modernizations, among others) will also be affected the maritime infrastructures with 75 projects of creation or extension of ports and marines, as well as for the protection of the coast. Airport infrastructures will also be strengthened (construction of new runways or extension of runways and car parks). About 4 400 new infrastructure projects are planned (some examples are schools, health centers, police stations, bookstores and cultural centers, markets, mosques, among others). Finally, the railway line is also expanding, using the latest materials.

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