



Algeria² is situated in Northern Africa bordering the Mediterranean Sea, between Morocco and Tunisia. After more than a century of rule by France, Algeria achieved independence in 1962. Algeria's primary political party, the National Liberation Front (FLN), has dominated politics ever since.

Algeria needs to diversify its petroleum-based economy, which has yielded a large cash reserve but has not been used to redress Algeria's many social and infrastructure problems.

Economy

Following years of civil war and continuing political unrest, Algeria is now experiencing a significant economic upturn; in large part aided by strong oil and natural gas export revenues since 1999.

Algeria is important to world energy markets because it is a significant oil and gas producer and exporter. Algeria is also a member of the Organisation of the Petroleum Exporting Countries (OPEC) and an important, growing energy source for Europe. The hydrocarbons sector is the backbone of the economy, accounting for roughly 60 percent of budget revenues, 30 percent of GDP, and over 95 percent of export earnings. Algeria has the seventh-largest reserves of natural gas in the world and is the second-largest gas exporter; it ranks 14th in oil reserves.

Economic policy reforms and debt rescheduling from the Paris Club, in the past decade, have helped improve Algeria's financial and macroeconomic indicators. Because of sustained high oil prices in the past three years, Algeria's finances have further benefited from substantial trade surpluses and record foreign exchange reserves. Real GDP has risen due to higher oil output and increased the Government spending. The Government's continued efforts to diversify the economy by attracting foreign and

PROFILE	
Population:	31.8 million***
GDP (Current US\$):	66.5 billion***
Per Capita Income: (Current US\$)	1,930 (Atlas method)*** 5,760 (at PPP)**
Surface Area:	2.4 million sq. km
Life Expectancy:	69.5 years**
Literacy (%):	61.6 (of ages 15 and above)**
HDI Rank:	108***
Sources: - World Development Indicators Database, World Bank, 2004 - Human Development Report Statistics, UNDP, 2004 (**) For the year 2002 (***) For the year 2003	

domestic investment outside the energy sector, however, has had little success in reducing high unemployment and improving living standards. Structural reform within the economy moves ahead slowly.

Competition Evolution and Environment

Political upheaval and vested interests have made privatisation in Algeria a protracted process, and one that has remained a vexed issue. The first tentative attempts at reform, in fact, go back to 1998, when changes were made in the corporate law. Publicly owned enterprises became joint-stock companies administered by Fonds de Participation (Stockholding Funds), to which the State handed over its role as owner.

The task of the Fonds de Participation was to restructure the new joint-stock companies, known as *Enterprises Publiques Economiques* (EPEs), i.e. publicly owned commercial enterprises; making them more efficient and business-oriented and better at maximising returns.

* Original paper done by Nupur Anclia of CUTS in November 2004. Revised in January 2006

1 Comments received from Pierre Arhel, World Trade Organisation, Geneva, Switzerland

2 <http://cia.gov/cia/publications/factbook/geos/ag.html>

Algeria's first regulations on competition were contained in its 1989 Act on Prices. For the first time, new concepts of cartels and abuse of dominant position entered the legal language through economic reforms, which were aimed at transforming the Algerian economy into a free market economy, which until that point had been centrally planned.

The main aim of the 1989 Act, which was to provide for the gradual liberalisation of prices of products and services, was repealed by a 1995 Ordinance. This set forth, in detail, the regulations and mechanisms for competition as an economic policy instrument.

Thus, there was virtually total price liberalisation, with the exception of a few essential services and products, and the removal of government price controls, which enabled firms to take back possession of a powerful means of resource allocation.

- The immediate effect of price liberalisation was a widespread, steady increase in prices to levels that pushed the inflation rate up to 30 percent during the period 1994 to 1997. At this stage, price competition was still unable to come into play;
- The opening up of the Algerian market and the liberalisation of external trade as well as the elimination of all administrative barriers to imports other than customs duties, stimulated stiff competition between imported products and local ones. Here again, competition was more in the area of quality and product availability than in the area of prices; and
- The Government's withdrawal from the economic sphere, which it transferred to private investors who were again fully authorised to decide on the optimal allocation of resources without reference to the administration, other than as provided under investment promotion mechanisms. A vast privatisation programme of state-held assets was begun and was open equally to domestic and foreign firms on a non-discriminatory basis. However, apart from the hydrocarbons and telecommunications sectors, this programme is not yet delivering the expected results.

The most important feature of the Ordinance was the creation of a competition authority responsible for enforcing compliance with competition regulations and market transparency. Since 1995, the Government's role as final arbiter in matters of economic competition and its powers to impose sanctions have been devolved to the Competition Council.

Competition Law, Institutions and its Competencies

The competition law of 1995 was more explicit regarding objectives, which are as follows:

- to foster economic efficiency;
- to improve consumer welfare; and
- to ensure transparency and the fairness of commercial practices.

The number of cases related to competition was very low during the period i.e. 1995 to 2002. Useful lessons can be gleaned from the fact that there were so few referrals on restrictive practices; as such practices are barriers to the effective implementation of the principles of competition.

Given the rather uninspiring results achieved since 1995, a new Ordinance was added to the legislation on competition, and came into force in July 2003. The new law was apparently in view of the poor results obtained in implementing competition rules since 1995 and for correcting the shortcomings. It is based on two major planks:

1. The basic need is to familiarise and instil firms with the behaviour and reflexes of the market economy. The effort to develop a culture of competition is primordial for the effective application of the law. With this in mind, the new text reduces, quite substantially, the repressive side of the former legislation. It provides for leniency mechanisms so that firms can avoid heavy financial penalties if they undertake to never again indulge in practices that restrict competition.

Furthermore, firms whose behaviour may fall within the scope of restrictive practices can request the Competition Council to issue them a clearance certificate. This certificate enables firms to check whether the Competition Council authorises or rejects the planned behaviour.

2. The second plank is to build up the capacities and functions of the Competition Council, as well as general advisory and decision-making powers to ensure greater market transparency. As regards restrictive practices, the Act grants the Council authority over economic consolidation, where the effect would be to restrict or prevent competition. Those wishing to effect concentration are required to seek authorisation from the council.

Although the implementation of competition policy had a positive impact on freeing up energy and promoting initiative and free enterprise, the behaviour of firms, on the other hand, did not have the desired effect in stimulating and maintaining the competitive process. Thus, private monopolies replaced the old government monopolies, especially in the imports sector.

The abusive use of exclusive purchase contracts and share-outs of the market and procurement zones clearly shows that the behaviour of firms was far from removed from economic competition and the uncertainties and constraints imposed by market transparency. The Competition law in Algeria is very largely inspired by European legislation and jurisprudence.

The entire body of universal guidelines and regulations on restrictive practices is embodied in Algerian legislation. For instance, the law prohibits cartels that distort

competition, the abuse of dominant position and the practice of predatory pricing. Economic concentrations likely to give or increase a strong position on the market are subject to the authorisation of the Competition Council. The law applies to all production, distribution and service activities. The law also applies to public entities. However, the law is not applicable where agreements and practices promote technical or economic progress in public interest.

None of the practices referred to above is punishable *per se* but only if the effect or purpose of such a practice is to restrict or prevent the proper functioning of the market. The market is the yardstick against which such practices reported to the Competition Council are assessed.

The law has vested the Competition Council with general powers to protect competition and to sanction practices that restrict competition. Part of the Council's role is also to advise on regulations that may have an impact on competition. Its opinion may be sought at the request of various institutions and professional or consumer associations.

It can issue injunctions and impose fines of up to seven percent of the turnover of firms found guilty of restrictive practices. It can also authorise or refuse authorisation for plans to concentrate firms, or authorise them provided that they meet certain conditions to the advantage of competition or consumers.

Within its own jurisdiction, the Competition Council is responsible for developing cooperation and coordination with the regulatory authorities in charge of public network services. The Act covers cooperation and joint decision-making by the Competition Council and the regulatory authorities whenever a restrictive practice affects a sector that is under the supervision of a regulatory authority.

The Competition Council is also called upon to develop co-operative and collaborative relationships with foreign competition authorities with respect to the free exchange of information and inquiries relating to restrictive practices that affect trade relations between countries.

Sectoral Regulation

In the course of the past few years, legislation regulating the network sectors has been introduced, and the activities of these sectors have been opened up to competition. They include air and maritime transport, telecommunications, electricity and gas distribution, and banking and financial services, the goal being to promote competition in these sectors for which regulatory authorities have been set up.

Energy Sector

Algeria's domestic electricity sector is currently in transition as the country seeks to implement a massive overhaul in control and ownership, and increase capacity to meet new development needs. In February 2002,

Box 36.1: The Euro-Mediterranean Association Agreement

Since the first Euro-Mediterranean Conference in November 1995, the EU and 12 Mediterranean countries have engaged in negotiating Association Agreements. The overall objective is to form, by 2010, one Euro-Mediterranean free trade area out of the separate agreements that are currently being implemented.

To date, seven bilateral Association Agreements have been concluded, with Israel (1995), Tunisia (1995), Morocco (1996), Jordan (1997), the Palestinian Authority (1997), Algeria (2001) and Lebanon (2002).

Though many trade provisions in the seven MED agreements are identical, the ones on competition are not. Yet, these do act as a fillip to enabling participating countries to install competition regimes.

Source: www.ecdpm.org

legislation passed by Algeria's Parliament ended Sonelgaz's monopoly over electric power generation, transmission, and distribution; converted the company into a joint-stock company; and cleared the way for Algeria's first independent power projects (IPPs).

The 2002 law also created the Electricity and Gas Regulatory Commission (CREG) to oversee the newly-opened industry and ensure non-discriminatory access to the sector. Algeria aims to eventually split Sonelgaz into separate generation, transmission, and distribution companies, though those plans have faced domestic opposition from organised labour. Following privatisation, Sonalgaz created a joint venture with Sonatrach, the Algerian Energy Company (AEC), in order to pursue partnerships with foreign investors.

Telecommunications Sector

Despite being one of the wealthiest nations of Africa, Algeria's telecom network still requires expansion and modernisation to keep up with demand. The country is slowly emerging from economic as well as political problems that made it difficult to finance these needed improvements. Whilst the fixed-line network is expanding slowly, the mobile sector has enjoyed extraordinary growth since the launch of the second (privately-owned) network in early 2002.

In keeping with the Government's intention to make the telecom sector more competitive, another private mobile licence was issued in December 2003 and commercial service launched in August 2004. 2003 also saw the introduction of ADSL broadband services and the temporary legalisation of Voice over Internet Protocol (VoIP) services, a move from which the Government retreated in 2004.

The Algerian Telecommunication Law of August 2000 set the rules for enabling competition in the sector, and created a regulatory authority in charge of regulating the telecom sector.

Consumer Protection

Algeria has a framework consumer protection law, namely, Consumer Protection Law (CPL) No. 89-02 of February 07, 1989. The law provides general rules for consumers' protection and covers several areas for protecting consumers' interests. The Law also empowers the Government to issue decrees to regulate specific areas. For example, the Executive Decree No. 97-254 of July 08, 1997 on prior authorisations for the manufacture and import of products that are toxic or present a particular hazard. The Law is implemented by the Ministry of Trade and/or the other ministries concerned.

Concluding Observations and Future Scenario

One of the challenges in Algeria is to improve the business environment, and reduce the State's involvement in the provision of goods and services. With a tradition of high savings, good educational standards, abundant hydrocarbon resources, and an advantageous geographic

location, Algeria has great potential for rapid and sustainable growth in the non-oil sector.

A more conducive business environment is needed to support the development of the emerging private sector – the crucial pillar of a sustainable growth and employment generation strategy. The main constraints of a recent survey of 570 enterprises included the following major obstacles to private sector development: large public sector control of economic activity; shortages of industrial real estate; difficulties in raising capital; serious administrative barriers/limited access to information; shortcomings in labour regulations/few skilled workers; inadequate infrastructure; and an ineffective legal/judicial system.

In this context, the structural reforms, virtually stalled at present, constitute a challenging agenda for the future. In particular, critical strands still need to be achieved in the areas of banking sector reform (with better corporate governance, increased competition and privatisation of banks, a more assertive supervision and regulation, and boosted by financial market development); private sector participation in infrastructure, and privatisation and restructuring of public enterprises.

Suggested Reading

OECD paper on Algeria, 2004