

Algeria : Government admits policy problem for FDI

Foreign companies remain reluctant to invest in Algeria. The government, at long last, has admitted that its tax policies might have something to do with that.

On 17 March the Algerian government awarded two new oil and gas permits: one to Spain's Cepsa and one to local giant Sonatrach. But the bidding round had originally been supposed to result in ten permits being awarded.

On 31 March a senior official from the country's ministry of energy, speaking on condition of anonymity, told Reuters: "we know that (investors) are unhappy with our tax system," and further said that the ministry had expected the March bidding round to be a failure but were pressured into going ahead with it to "show that Sonatrach is not weak" after the numerous scandals that have plagued the Algerian energy parastatal, Africa's biggest company by turnover. In 2010 Sonatrach's CE was fired and put under investigation, and Energy Minister Chakib Khelil was replaced by Youcef Yousfi.

It is not only in the field of energy that Algeria's tax regime is discouraging foreign investment. A tax dispute has driven Orascom Telecom to sell its massively profitable unit in Algeria, Djezzy (a sale that is being held up by the government until the tax issue has been resolved). The tax question is a symptom of a larger strategic shift in Algeria to encourage domestic development at the expense of foreign investment. This was the thinking between the 2009 decision to cap foreign shareholdings in Algerian businesses.

Foreign direct investment in Algeria in 2010 was down 74% from the figure for 2009, according to Anima Investment Network. The current political climate in the country, with people protesting against unemployment and the slow pace of service delivery, makes it unlikely that the government will suddenly adopt policies more favourable to foreign investors... but high energy prices mean that it does not need to.

<http://www.lesafriques.com/en/algeria/algeria-government-admits-policy-problem-for-fdi.html?Itemid=35?articleid=0387§ionid=&releasecatid=&countrytitle=>