Algeria

Military inventories

Military inventories (IHS)

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### Military inventories (IHS)

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[Continued in full version...]

### Executive overview

Algeria is Africa's largest defence market, with military investment having overtaken that of South Africa. The North African country's top-line defence investment increased 22% between 2008 and 2012.

Relative stability following the end of civil conflict in 2002 and strong global energy demand during the 2000s has put oil and gas-rich Algeria in a stronger position to meet defence spending objectives.

Algiers commenced a rearmament programme in 2006 to recapitalise inventories of largely Cold War-era materiel. Multibillion-dollar acquisitions of naval, land and air systems followed.
Recapitalisation efforts were largely complete (or approaching completion) as of early 2014, although large-scale opportunities may remain in areas ranging from unmanned aerial systems to naval auxiliary vessels.

Russia - Algeria's historic military trade partner - was the principal beneficiary of Algiers' military investment drive. Fully two thirds of equipment ordered (by value) between 2000 and 2011 was of Russian origin.

Moscow appeared to have cemented its position to the detriment of competitors through the broad USD7.5 billion equipment package of 2006, which ranged from fighter jets to missile defence systems. However, Algeria subsequently broadened relations and entered into procurement accords with Chinese, European, African and North American suppliers in the years that followed.

**Market challenges**

**Corruption and transparency:** Corruption has long been a challenge within Algeria, although it is arguably limited transparency and bureaucracy that present the greatest obstacles to those entering the defence market. Large-scale procurement activities are generally conducted through restricted tenders, with openly advertised opportunities typically limited to smaller or less sensitive requirements.

**Less dramatic spending growth:** Defence investment is likely to remain positive until at least 2018, with double-digit percentage growth of top line spending anticipated (2014 to 2018: 13%). However, softer oil prices and continuing economic challenges are likely to dampen Algeria's capacity for spending growth. The diversion of state funds to quell social discontent is also plausible.

**Stability:** Algeria has enjoyed a period of relative stability following the end of its civil conflict in 2002. The country also avoided the more extreme aspects of the 2011 Arab Spring. However, social discontent has been apparent as living costs rise and perceptions of elite corruption remain. The influence of the military over Algerian civil society also remains a cause for concern. While the defence and intelligence forces have seen their role wane in recent years, their capacity to destabilise arguably remains intact. A further issue of note is that long-serving President Abdelaziz Bouteflika (in power since 1999) initially ruled out standing for election again in 2014 (the election was scheduled for the second quarter of 2014); a decision that had apparently been reversed by February 2014. His health remains open to question, however. In addition to social and political turbulence, Algeria faces the continuing threat of militant activity; a challenge highlighted by the occupation of the In Amenas gas plant in January 2013.

**Industrial participation demands:** Algeria's industrial participation requirements are typically demanding, with a commitment to local production and joint venture activity frequently a prerequisite of market success. The limited capabilities and inefficiencies of the Ministry of National Defence (MND)-controlled industrial base make meeting such obligations challenging.

**Market potential index:**

Algeria
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<th>Factor/risk</th>
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**Note:** 1 = high risk/low appeal. 5 = very low risk/very high appeal

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**Major procurement programmes**

**Land and armour**

**Self-propelled howitzers**

**Value:** N/A

**In service:** N/A

**Status:** Unconfirmed

**Summary:** *IHS Jane's* reported in January 2014 that Algeria was updating its artillery inventory with Chinese self-propelled howitzers; believed to be 155 mm NORINCO PLZ45 units. The report was based on photographs published in the forcesdz.blog on 14 January 2014. Algeria acquired 18 NORINCO 155 mm WA 021 howitzers (towed version of PLZ45) in 2010.

**6x6 wheeled armoured vehicles**

**Value:** Up to USD1.85 billion

**In service:** By 2021

**Status:** Committed (unconfirmed)

**Summary:** Algeria's requirement for more than 500 6x6 wheeled armoured vehicles to replace older BTR platforms emerged in the late 2000s. Suppliers from China, Germany, Russia, South Africa and South Korea were initially linked to the procurement. German national press reports in 2011 and 2012 suggested that the Rheinmetall Fuchs 2 platform had been selected. The procurement remains formally unconfirmed at the time of writing. However, Rheinmetall appears to have established a joint venture in Algeria with local companies related to the production of special vehicles.

**Light protected patrol vehicles**

**Value:** Up to USD140 million

**In service:** By 2015

**Status:** Committed (confirmed)

**Summary:** *IHS Jane's* was informed in early 2011 that Algeria had agreed to procure 100 Marauder
protected patrol vehicles from Paramount of South Africa. Deliveries were believed to have commenced in 2012.

**Main battle tanks**

**Value:** N/A  
**In service:** 2014  
**Status:** Committed (confirmed)  
**Summary:** Algeria committed to the purchase of 185 T-90 main battle tanks (MBTs) from Russia in 2006; an order completed by 2009. A subsequent agreement relating to the supply of a further 120 T-90 units was signed, with delivery expected to have taken place by 2014.

[Continued in full version...]

**Defence budget and spending outlook**

![Graph showing defence spending](image)

*Defence budget and spending outlook (IHS)*

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Overview

Algerian defence spending is the highest in Africa, having overtaken South Africa in 2009.

Growth has been significant in recent years with a rise of 22% between 2008 and 2012, taking top-line investment to USD9.6 billion. Funding increased again in 2013 and 2014, with estimated allocations of USD10.7 billion and USD11.9 billion respectively.

Funding growth has been facilitated by increased world energy prices over the past decade, as Algeria looks to oil and gas for 70% of its national budget.

Algeria currently allocates around 5% of GDP to defence; a figure that is high by international standards but only marginally ahead of regional rivals such as Morocco.
High defence spending is partly a consequence of Algeria's turbulent history. Since the 1950s Algeria has fought a war of independence with colonial power France (1954 to 1962); suffered years of insurgency and autocracy; and a decade-long civil war, which only formally ended in 2002.

Spending growth in recent years has been partly driven by attempts to ensure the loyalty of the armed forces, notably in the wake of the Arab Spring of 2011. The military have been the traditional powerbrokers in Algeria, with significant political and economic influence.

Risks to military investment include the drain on the national budget of a huge USD286 billion economic development plan (2010 to 2014), the possibility of falling energy prices, and the potential for social unrest to further destabilise the economy.

**Trends and observations**

Defence spending has been maintained at a high level for three principal reasons:

**Employment.** Algeria's heavily manned armed forces are used to mop up surplus labour. Unemployment in the country is high, more than 20% among the young. Military procurement is also being used to kick-start national engineering industries.

**Military loyalty.** Algeria's turbulent history and regional challenges point to the importance of maintaining the loyalty of the armed forces with appropriate funding. While the influence of the military has waned in recent years, it has not entirely diminished.

**Strategic threats.** Algeria faces the challenge of tense relations with neighbouring Morocco; instability in neighbouring countries (such as Libya and Mali); and the threat of Islamic insurgents, although procurement has not apparently reflected the issue of insurgency (see Procurement analysis section).

Improved pay and benefits for the armed forces has increased defence spending, as will the decision in 2013 to place the Communal Guard (Garde Communale) directly under the aegis of the MND. The Garde Communale was previously the responsibility of the Interior Ministry.

**Spending by category**
Personnel

*IHS Jane’s* expects personnel costs to rise both in real terms and as a percentage of overall funding over the coming five years. This is based on absorbing the costs of the Garde Communale and efforts to quell unrest among members of the armed forces. Personnel costs were estimated at USD6 billion in 2013, or around 56% of the total budget.

Procurement

Algeria is around seven years into a broad modernisation programme that included the purchase of T-90 MBTs, Su-30 fighter aircraft, Yak-130 training aircraft, and S-300 air defence systems from Russia; two frigates from Germany; three corvettes from China; Super Lynx helicopters from Anglo-Italian AgustaWestland; 6×6 armoured vehicles from Germany; and 4x4 patrol vehicles from South Africa. The build up began in 2006 and will continue for much of this decade.

While there is a strong non-cash element to the Russian deals in particular, the impact on procurement funding is likely to have been considerable. The on-going drain on resources means that *IHS Jane’s* forecasts that procurement funding will remain at a relatively high USD2 billion per
annum to 2018, although as a percentage of the total budget it will decline from around 18% (2014) to 16% (2018).

**External funding**

Algeria receives very small amounts of US military aid through the International Military Education and Training (IMET) programme, typically less than USD1 million per annum. Allocations of a few hundred thousand dollars per year also come through the Regional Defense Combating Terrorism Fellowship Program, which provides education and training to international security personnel as part of the US global effort to combat terrorism. Such aid is used to train a very small number of Algerians.

Russia has provided materiel on advantageous terms relating to energy access, thus allowing Algeria to reduce core procurement spending.

The Algerian MND has control over the bulk of the national defence industrial base. While it would be theoretically possible for the MND to derive income from such interests, the industrial base is not understood to generate earnings.

**Risks to funding**

Aside from the weaknesses associated with the economy (see Economic and Political Overview section), there is the possibility that Algeria may be obliged to direct greater sums towards social and economic programmes to curtail popular unrest.

Algeria escaped the worst of the unrest that led to regime change elsewhere in the region but issues ranging from wealth disparity to youth unemployment remain significant challenges. A long-term social and economic development programme valued at USD286 billion commenced in 2010. In summary, it is possible that government funding may be directed away from military financing.

**Transparency and assumptions**

Transparency associated with the Algerian defence budget is extremely limited. It comprises just a single line in the published national budget. Therefore, *IHS Jane’s* figures of spending by category and service are based on assessments of personnel levels and associated costs, plus forecast and known procurement programmes.

**Economic and political overview**
Overview

The Algerian economy has been on a strong upward trajectory over the past decade given relative stability following the cessation of civil conflict and strong global energy demand.

The country remains heavily reliant on oil and gas exports, which continue to account for around 70% of the national budget, 98% of foreign exchange and 40% of GDP.

Such reliance has proved to be a double-edged sword. Buoyant energy prices over the past decade put Algeria in a strong position to drive military investment. However, the failure to satisfactorily diversify the economy has resulted in persistently high unemployment during a time of regional social unrest. Algeria also faces more subdued economic growth as a result of the weaker world oil price outlook.

The government retains heavy control over tracts of the Algerian economy and the defence industry - almost entirely state-owned under the aegis of the MND - is no exception.
Algerian attempts to reduce unemployment to stem social unrest, reduce currency outflows, and avoid the risk of choked supply in the event of future embargoes have led to a policy of maximising defence industrial involvement through military procurement.

Algeria has been led by President Bouteflika since 1999. With Bouteflika in ill health (although apparently poised to re-run in the 2014 election, Algeria faced a degree of political (and therefore economic) uncertainty.

**Economic issues**

**Offset policy overview**

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**Summary**

Algeria has not historically operated an official offset programme, although in practice there is a policy of seeking returns against military procurement programmes. This has typically been through the establishment of in-country joint venture programmes with supplying organisations.

*IHS Jane’s* understood that Algeria was exploring the possibility of a formal offset programme during 2013, and reportedly was in consultation with allies in the GCC region regarding best practice and approaches to policy formulation.

Indeed, offset activity between Algeria and the United Arab Emirates (UAE) has been particularly notable, not least because it has taken a structured form on the basis of a bilateral agreement. This approach may yet form the nucleus of a broad, codified programme.

Algeria has also looked to energy-for-materiel arrangements, notably in the case of procurement accords with Russia.

In the absence of a published, codified offset policy, assessments of requirements within this section are *IHS Jane’s* own derived from empirical evidence.

**Authority**

Military co-operation is the preserve of the MND's External Relations and Co-operation Directorate (Direction des Relations Exterieures et de la Coopération - DREC).

However, bilateral co-operation between Algeria and the UAE has been conducted under the aegis of the Group for the Promotion of Mechanical Industries (Groupement de la Promotion de l'Industrie Mécanique - GPIM); a public sector undertaking operated by the MND. The GPIM has acted as a joint venture partner on behalf of the Algerian state.

**Point of contact**

The DREC can be contacted in writing through the MND. Address: Ministère de la Défense Nationale, Les Tagarins, Alger.
Indirect/direct

Recent activity appears to suggest a preference for direct offset where possible, typically with a focus on local production or support activities. Algeria also appears to accept non-military indirect offset, with an apparent emphasis on national engineering capabilities. There is strong anecdotal evidence too of a growing emphasis on export facilitation.

Foreign direct investment and joint ventures

Algeria has encouraged the establishment of joint venture companies between domestic and foreign suppliers. Under Algerian legislation, all joint ventures (covering both military and commercial activities) must be majority owned (51%+) by Algerian entities. While investors in Algeria are typically granted tax breaks and related incentives, there is an obligation under the 2009 Complementary Finance Law to reinvest equivalent sums in Algeria.

Energy-for-arms

The market-changing USD7.5 billion procurement accord signed between Russia and Algeria in 2006 (see Procurement section) coincided with agreements between Russian and Algerian energy companies relating to exploitation of the North African country’s hydrocarbon reserves. For example, Russia’s Lukoil signed a memorandum of understanding (MoU) in 2006 with Algerian state oil company Sonatrach relating to exploration and oil/gas field development.

Given that Algeria is estimated to have the world’s fourth largest gas reserves (and relatively limited core procurement funding), such arrangements may continue to approve attractive in the future.

Offset policy analysis

Although Algeria has not operated a formal offset programme, economic compensation has often been sought in relation to military procurement.

Local production has typically been the preferred option. Past examples include the production by Algerian aerospace company (Enterprise de Construction Aeronautique - ECA) of the Safir 43 light aircraft, a local variant of the Czech Zlin Z 43. ECA was also reportedly contracted to locally produce some AgustaWestland AW101 Merlin and AW139 helicopters.

Algeria’s emphasis on the development of engineering competencies has remained relatively constant, although there is evidence to suggest that efforts have become more focused and structured in recent years. Co-operative efforts with the UAE are a case in point.

CASE STUDY: UAE
Procurement procedures

Overview

Algerian military procurement is centralised within the MND. Large-scale tenders are often conducted on a restricted basis, with potential participants identified and solicited. However, numerous opportunities are openly advertised on the MND’s website.

Algeria tends to favour local industry where possible. In the case of defence, this means the small cluster of organisations that are primarily controlled by the MND. In practice, limited capabilities make foreign procurement unavoidable. Military procurement is exempt from wider public procurement rules.

Issues associated with the Algerian market are bureaucracy, which can be viewed as burdensome, and the spectre of corruption.

Market entrants should also be aware of specific drivers and obstacles associated with the Algerian market.

Examples include the extensive use of unconventional procurement arrangements, notably energy-for-arms deals with Russia. Algeria has sought to balance relations with suppliers, for example broadening procurement relations with European suppliers after its 2006 deal with Russia (see Procurement analysis section).

There have also been unconfirmed reports carried by Algerian media of the MND demanding guarantees that foreign systems do not feature Israeli components. However, there is no suggestion of suppliers having been disadvantaged because of relations with Israel.

[Continued in full version...]

Procurement analysis

Overview

Algeria commenced a far-reaching programme to recapitalise military inventories in the latter half of the 2000s. Billions of dollars were committed to augment land, sea and air capabilities, as Algeria’s economy benefitted from both stability after the end of the civil war and booming global energy demand.

Russia has historically been Algeria’s principal supplier, although procurement accords have been reached with many other European countries in recent years. China - a key industrial partner of Algeria - has also made inroads into the defence market, while South Africa and the UAE have strong market positions.

Algeria is a significant importer of materiel given requirements that far outstrip the competencies of its small industrial base. Mindful of the costs and strategic weaknesses created by reliance on military imports, Algeria has sought to improve national engineering capabilities and to maximise local involvement where possible.
Local industrial involvement has also been used as a means of absorbing surplus labour and redistributing wealth accrued through oil and gas exports, in addition to reducing foreign currency outflows and strategic chokepoints.

**Foreign reliance**

Limited defence industrial competencies (see Defence industrial overview section) have obliged Algeria to import virtually all its military materiel.

Local involvement has been limited to offset-derived assembly and maintenance opportunities. However, Algeria is currently seeking to maximise returns and is placing a greater emphasis on the use of military procurement to invigorate national engineering organisations.

Meaningful self-sufficiency is not on the horizon. Local participation demands will continue to challenge suppliers.

**Procurement relations**

Russia has been Algeria's principal supplier of materiel for a number of decades, accounting for almost two thirds of equipment imports (by value) since 2000 alone.

Moscow benefitted from the reluctance of Western suppliers to equip Algeria during and immediately after its civil war, which formally ended in 2002 (although the formal state of emergency was not rescinded until 2011). The relationship was apparently assured in 2006 with the announcement of a USD7.5 billion-materiel package encompassing MBTs, military aircraft and air defence systems (see below in this section).

The market opened significantly during the latter years of the 2000s. Since 2007 Algeria has signed procurement accords with Germany (armoured vehicles and frigates); China (corvettes and self-propelled howitzers); South Africa (armoured vehicles); UAE (small arms and armoured vehicles); France (patrol craft); and Italy (helicopters and missile systems).

Relative stability and strong procurement investment have served to draw in Western suppliers, while abundant natural resources have attracted Chinese interest.

Western suppliers were generally unwilling to supply materiel to Algeria prior to 2000. For example, the UK partially lifted its embargo in 2001 and fully lifted it in 2005. The United States, meanwhile, lifted its decade-long embargo in 2002. South Africa and Russia supplied Algeria with equipment prior to 2002.

Russia's position, meanwhile, was hampered as a result of disagreements over the supply of equipment relating to the 2006 accord. For example, 15 MiG-29 fighter aircraft were returned in 2008 because of quality concerns.

**Unconventional procurement practices**

Algeria has sought to use its abundant hydrocarbon reserves to offset military procurement, notably in the 2006 Russian procurement package. It also negotiated the discharge of a substantial part of its national debt to Russia.

[Continued in full version...]
**Procurement requirements and objectives**

**Overview**

Algeria commenced a series of programmes in the latter half of the 2000s to re-equip its land, sea and air inventories; a multi-billion dollar investment fuelled by an economy bolstered by global energy demand.

The majority of Algeria's more significant requirements have been met, although opportunities do remain. As examples, it is plausible that Algeria will further improve its UAV, naval supply vessel, and fire support inventories.

It is notable that Algeria has followed the model of its principal supplier Russia in terms of purchases and force structures. While Algeria's primary challenges stem from insurgencies, procurement efforts appear geared towards conventional state-to-state conflicts.

**Sea**

Modernisation of Algerian naval assets became a pressing need as the service transitioned from a fighting force organised along the lines of the Soviet model into a key partner in joint Mediterranean and North African maritime security efforts.

To this end, Algeria has signed a large number of naval procurement agreements since 2006. Major suppliers include China, France, Germany, Russia, and Spain.

French company OCEA won a contract to supply Algeria with 21 patrol craft built to the FPB 98 design. The vessels were delivered between 2008 and 2012.

Italy's Orizzonte Sistemi Navali (a Finmeccanica and Fincantieri joint venture) was contracted in 2011 to provide Algeria with a large amphibious/logistics ship. The vessel launched in January 2014.

Germany's TKMS was contracted to deliver two MEKO A-200 frigates, while three 2,800 tonne corvettes were ordered from China in 2012.

Russia delivered two additional Kilo-class submarines to Algeria in 2010. (while Russia's Rostec said in February 2014 that discussions concerning the supply of two additional boats were active). Discussions with Russia concerning the purchase of a number of Tiger-class surface combatants had apparently been abandoned by 2013.

Significant upgrade activity has also been apparent. Navantia of Spain signed a contract in 2012 covering the refit of Algerian landing ships: the 2,130 tonne *Kalaat Beni Rached* and sister ship *Kalaat Beni Hammed*.

**Opportunities:**

While Algerian naval requirements have largely been met, some identified opportunities still remain. Firstly, Algeria has a limited logistic support capability with no known support assets capable of replenishing surface combatants with fuel, provisions or ammunition while at sea. This is likely to
prove significant as Algeria moves from coastal defence to a more active regional role. A call for tenders relating to two supply vessels was released in May 2012.

**Land**

Since 2006 Algeria has ordered T-90 MBTs, upgraded its older T-72 tank inventories, and procured 100 Marauder 4×4 mine-protected vehicles from Paramount of South Africa. Algeria has also ordered at least 500 6×6 Fuchs systems from Rheinmetall of Germany. In January 2014 *IHS Jane’s* reported that Algeria had acquired Chinese NORINCO 155 mm PLZ45 self-propelled howitzers to augment the 18 NORINCO 155 mm WA 021 howitzers (towed variant of PLZ45) acquired in 2010.

The aim has been to strike a balance between conventional and unconventional threat scenarios, with lighted wheeled systems procured to meet the threat of insurgents.

**Opportunities:**

Algeria appears to have a requirement for armour recovery systems to support its land systems inventories. Beyond this, land systems opportunities are relatively limited as of 2014.

**Air**

The country’s air capabilities have been enhanced through the acquisition of Russian Su-30MKA combat aircraft (28 acquired in 2006 and a further 16 ordered in 2010), and Yak-130 jet trainer aircraft (16 ordered in 2006 and delivered by 2012). Algeria also ordered six EADS-CASA (now Airbus Military) C-295 transport aircraft in 2004, with deliveries completed by 2006.

Rotary-wing assets were augmented by purchases from AgustaWestland: four Super Lynx surveillance helicopters in 2007; six AW101 search-and-rescue helicopters in 2007; and 25 A109 and five AW139 utility helicopters in 2009.

**Opportunities:**
Procurement drivers

Strategic threats

Internal

Military and security services

**Issue:** The military and security services enjoyed a privileged position in Algeria during the years of instability, with extensive influence over political and economic life. Their influence has waned, although they are far from subordinate to civilian authority. Indeed, uniformed and intelligence services retain the potential to destabilise civilian political structures, notably through the influential Department of Intelligence and Security (Département du Renseignement et de la Sécurité - DRS).

**Implications:** Military expenditure is likely to be maintained at a relatively high level of GDP (about 5%) given the need to maintain stability. Greater personnel investment is also apparent to quell discontent among lower ranks.

Social cohesion

**Issue:** Algeria is a wealthy country with a poor population. Wealth from hydrocarbon exports has not
been successfully used to drive employment and improve living standards. Unemployment continues to hover around 10% (or 20% in the case of younger people), while high consumer price inflation has eroded spending power. Algeria avoided the more far reaching effects of the Arab Spring, although the potential for popular discontent to erupt remains. The issue of the Berber community - who historically have felt marginalised - is also a cause for concern.

**Implications:** Algeria allocated USD286 billion to a four-year development programme in 2010, of which 40% was directed towards "human" development. Other countries in the region have increased social spending in response to the social unrest of 2011. Whether Algeria will invest yet greater sums to quell discontent remains to be seen. However, the practice of increasing local involvement in military procurement programmes to bolster both employment and training opportunities will almost certainly continue.

**External**

**Terrorism/insurgencies**

**Issue:** While Algeria has faced activities by Islamic insurgents for a number of decades, the threat assumed more of an international context post-2001. Organisations such as the Salafist Group for Preaching and Combat re-emerged under the banner of Al-Qaeda in the Islamic Maghreb (AQIM). Bomb attacks were launched in 2007 and 2008. The Islamic insurgency in neighbouring Mali has spilled into Algeria, most notably through the January 2013 hostage crisis at the Amenas gas facility in southern Algeria.

**Implications:** The insurgency threat has historically been used by the military to justify expenditure and national influence and this is unlikely to change. In terms of procurement, Algeria can be expected to bolster C4ISR capabilities, potentially through the acquisition of long-endurance UAV assets. Algeria has strengthened its armoured patrol vehicle inventories through the purchase of South African Marauder units.

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**Defence industrial capabilities**

Algeria’s defence industrial base is small in scale, and based around a network of seven state-owned organisations. In total the industry directly employs more than 10,000 people.

Facilities are concentrated around the industrial region of Oran in northern Algeria.

Capabilities extend to the production of ammunition, small arms, and grenades; ship repair and maintenance; the construction of light aircraft; and the maintenance and construction of armoured vehicles and heavy logistics vehicles.

[Continued in full version...]

**Defence industrial capabilities by domain**

**Summary**
Algerian defence industrial capabilities encompass small arms and ammunition production; the production of hand grenades; the fabrication of wheeled armoured and logistics vehicles; the construction of naval surface ships, such as corvettes and patrol boats; and light propeller-driven aircraft. Local industry also has maintenance and repair capabilities in land and naval systems.

Competencies remain limited and Algeria can only be regarded as self-sufficient in the most basic areas. Capabilities in domains such as defence electronics are virtually non-existent. There is also a dearth of advanced design and development capabilities across the land, sea and air sectors.

**Land systems**

Algeria has three principal land system companies:

National Industrial Vehicles Company (Société Nationale des Véhicules Industriels - SNVI); Enterprise for Industrial Vehicle Development (Entreprise de Développement des Industries de Véhicules - EDIV); and the BCL armoured vehicle maintenance and construction complex.

Capabilities include the capacity to construct wheeled armoured and heavy logistics vehicles. The BCL is also able to maintain, repair and modernise military vehicles. Products with high indigenous content include the BCL-M5 armoured personnel carrier (APC) and SNVI's M120/M210 heavy logistics vehicles.

EDIV was created in 2009 to design, develop and produce all-terrain vehicles to respond to the army's capability needs.

**Air systems**

Aerospace capabilities are limited to the ECA, which is principally a producer of small light aircraft. Its principal product is the four-seater Safir 43 (a derivative of the Czech Zlin Z 43 training aircraft).

**Sea systems**

The Enterprise for Naval Construction and Repairs (Entreprise de Construction et de Réparation Navales - ECRN) focuses on maintenance and repair services. In the past, ECRN constructed naval vessels for domestic use, notably the Djebel Chenoua-class corvette, which was built in the 1980s, reportedly with Bulgarian assistance.

**Arms and ammunition**

Algeria is capable of producing ammunition, small arms, and explosive materials. Notable companies are ERIS (ammunition); ECMK (small arms); and ONEX (ammunition and grenades).

**Electronics**

In 2009 Algeria created by presidential decree a company to focus on electronic systems for the armed forces. Information on the company is very limited, although IHS Jane's understands that it has a focus on the development of GPS, radar and tracking systems. Its capabilities and current status are not known.
Transparency and corruption

Overview

Corruption and patronage are deeply engrained in Algerian political and commercial life. Perceptions of corruption and poor practices at elite levels have been blamed for encouraging political apathy. Despite growing disquiet among the population, corruption can be found at all levels of society.

Efforts have been made to bolster anti-corruption efforts in recent years, although it is open to question whether such mechanisms have been directed equally and fairly.

Public procurement in Algeria is governed by national public procurement regulations, which ostensibly provide a transparent framework for public acquisition. However, military and security procurement is exempt from the code and practices can be viewed as opaque.

Algeria was ranked 105th out of 182 countries in the Transparency International Corruption Perceptions Index (CPI) of 2012; a moderate ranking by regional standards (see Table A).

Anti-corruption measures

Algeria ratified the UN Convention against Corruption in 2004, and introduced an anti-corruption bill in 2006 to meet the terms of the convention. The bill led the way for the creation of the Algerian National Office for the Prevention and Fight against Corruption. Members of the body were appointed in 2010 and it was formally stood up in 2011.

Anti-corruption developments

Between late 2009 and early 2010, an investigation relating to alleged corruption at state energy group Sonatrach commenced. The investigation was led by the DRS intelligence agency and concluded with the conviction and imprisonment of a number of senior officials.

While ostensibly a positive step, the motives behind the investigation may be open to question. There is anecdotal evidence that power struggles among the elite may have contributed to the commencement of the investigation.

Relations with major arms exporting countries

Historically, Algeria has looked to Russia for the majority of its defence equipment. This was partly a consequence of Western reluctance to provide Algeria with military equipment prior to 2002 as a result of instability and accusations of human rights abuses.
Russia’s hold on the market has declined but Moscow remains Algeria's principal supplier. Roughly two thirds of equipment imported over the past decade was of Russian origin. Russia's position in the Algerian market appeared cemented by the multi-billion dollar arms accords of 2006.

However, Algeria has since broadened its procurement relations. Over the past five years equipment has been ordered from China, Finland, France, Germany, Italy, South Africa, the UAE, the UK and the United States.

There is a correlation between inward investment, trade and Algeria’s choice of security and equipment partners. Algeria is likely to continue a strategy of broad procurement relations accompanied by the maximisation of benefits to develop national defence industrial capabilities. Algiers is conscious that only a decade has passed since Western countries were willing to drop their arms embargoes.

China

**Summary of bilateral relations:** Relations were historically cordial but of limited significance. However, China has emerged as a significant investor in the Algerian energy sector and military relations have developed significantly in recent years.

**Bilateral trade - status:** Bilateral trade and investment is strong, notably as a result of Chinese activity in the Algerian energy market through a joint venture between China National Petroleum Corporation (CNPC) and Sonatrach.

**Defence trade history:** China was reported to have supplied WA 021/Type 88 155 mm towed guns in 2007. An agreement to supply three 2,800 tonne corvettes was signed in 2012. Reports emerged in 2013 that China had also supplied self-propelled howitzers.

**Defence teamings/joint ventures/live MoUs:** Military industrial activity between China and Algeria linked to the corvette procurement is almost inevitable. Bilateral co-operation and security issues were discussed during the visit of Chinese Vice-Foreign Minister Zhai Jun to Algeria in March 2011.

**Position of Algeria in strategic plans:** Relations should be viewed primarily in the context of energy.

**Prognosis for future defence trade:** Very positive given the cost advantages of Chinese materiel and the potential for unconventional trade terms.

France

**Summary of bilateral relations:** Relations are complicated by a shared colonial history. Algeria achieved independence from France following a fierce conflict in 1962. Despite this troubled history, current economic and cultural links are strong. France is Algeria's number one trade and investment partner. There are estimated to be more than one million Algerians living in France, while almost two million French citizens have at least one Algerian parent.

**Bilateral trade - status:** France remains by far Algeria’s primary trade partner with regard to both imports and exports. In 2006 French imports from Algeria reached EUR4.1 billion (USD5.3 billion), with exports to Algeria standing at EUR4 billion. This surplus in Algeria's favour can be largely attributed to increased oil and gas prices. French investments in Algeria in 2006 reached EUR222 million, second after the United States. For the period 1998-2006, France was the second-leading foreign investor in Algeria, with a cumulative flow of EUR767 million.

**Defence trade history:** France has in recent years supplied Algeria with small craft (OCEA FPB 98) and helicopters (Eurocopter AS355). It has also provided oil pipeline security equipment and services through Thales. However, defence materiel trade has fallen short of French expectations. For
example, hopes of selling large naval craft or indeed fighter aircraft did not materialise.

**Defence teamings/joint ventures/live MoUs:** France and Algeria signed a defence co-operation agreement in 2008 that was intended to strengthen materiel trade.

**Position of Algeria in strategic plans:** The large number of Algerians and descendants of Algerians living in France keeps the former North African colony on the political agenda in France. Trade links are also strong. France has a strong interest in Algeria remaining relatively prosperous and stable given the potential for an influx of refugees.

**Prognosis for future defence trade:** Broadly positive.

[Continued in full version...]

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