GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/W/138
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Limited Distribution

Committee on Balance-of-Payments Restrictions

CONSULTATION WITH TUNISIA (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration. It updates the paper prepared for the 1988 consultation (BOP/W/123).

I. Tunisia's accession to GATT

2. Tunisia acceded provisionally to GATT in November 1959 (BISD 8S/15). On 20 February 1990, the GATT Council approved the report of the Working Party on the terms of the Protocol for Tunisia's accession to GATT (C/M/239). At this Session, the Tunisian Minister for the National Economy said that Tunisia was implementing a national economic restructuring programme in accordance with the spirit and letter of the General Agreement. He said that full membership would provide Tunisia with the necessary experience to adapt to the world economy, and enable it to contribute to a dynamic and more equitable trading system. The decision on Tunisia's accession was subsequently taken by the CONTRACTING PARTIES on 12 March 1990 (L/6656).[1]

3. On 27 April 1990, the Minister for Economy and Finance of Tunisia signed Tunisia's Protocol of Accession to GATT. In becoming a full member of GATT, Tunisia has agreed to bind some 1,000 tariff headings, including both industrial and agricultural products, at levels ranging from 17 to 52 per cent. In addition, it has undertaken to abolish import licences or other quantitative restrictions for some tariff headings. Tunisia has stated that these concessions should be seen as its contribution to the Uruguay Round negotiations.

4. At the time of deposit of the instrument of ratification of its Protocol of Accession to GATT, on 20 July 1990, the Government of Tunisia invoked Article XXXV in respect of Israel and South Africa (L/6713).

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[1]The text of the Protocol for the Accession of Tunisia to the GATT is annexed to document L/6656.

II. Previous consultations with Tunisia

5. Four full consultations have been held with Tunisia since its provisional accession to GATT in November 1959. At the last full consultation, held in November 1979, the Committee welcomed the trend towards a progressive relaxation of import restrictions. It noted the view of the IMF that the overall restrictiveness of the import régime did not go beyond what was necessary to prevent a decline in Tunisia's international reserves. The Committee noted also with satisfaction the Tunisian authorities' determination to continue relaxing the remaining restrictions and expressed the hope that positive developments in Tunisia's external financial position would enable the authorities to accelerate this process (BOP/R/110, paragraph 16).

6. Four simplified consultations were subsequently held in November 1981, December 1983, December 1985 and September 1988. At the 1988 consultation, one member of the Committee asked whether Tunisia could provide a negative list of the restrictions remaining in place for balance-of-payments reasons. The Tunisian representative took note of the request and undertook to pass it to his authorities. Tunisia would honour all its obligations under the General Agreement (BOP/R/179).

7. The list of Non-Tariff Measures applied by Tunisia as of October 1988 was notified to GATT and issued as part of document NTM/W/6/Rev.5. Non-automatic licensing was the only notified measure affecting imports into Tunisia.

III. Tunisia's trade and exchange system: evolution since the last consultation

8. Imports into Tunisia are classified either as "liberalized", "prohibited" or subject to quota. Importers must receive a customs code number as a prior condition for obtaining an import certificate, an import authorization, an import licence, an importer's card, or under traders' quota.

9. The import of "liberalized" products (listed in Annex 1 of the Notice to Importers and Exporters published periodically by the Tunisian authorities) does not require prior authorization and is effected by means of an import certificate, which is obtained upon presentation of a commercial contract. Import certificates are valid for six months from the date of domiciliation with a domestic bank; this period may not be extended.

10. Products not included in the list of "liberalized" products, other than those banned for health, religious or other similar reasons, are classed as "prohibited". This does not imply that imports are not permitted, but that importation of such products requires a specific import licence, an annual import authorization, or an import card. These documents are issued by the Ministry of Industry and Commerce and endorsed by the Central Bank of Tunisia.

11. Import licences are normally valid for six months and may be

extended at the discretion of the competent authorities. In granting an import licence, the Tunisian authorities take into account the market situation for the domestic product and eventual financial constraints.

12. Annual import authorizations are given to defined categories of economic enterprises for a total value in each case equivalent to the import programme estimated by the enterprises concerned and approved by the Ministry of National Economy. The authorization can be used for any products on the "prohibited" list.

13. The import card is a document issued to natural or legal persons for the importation of products related to their business activities for an amount not exceeding 1,000 dinars per importer and per year.

14. "Traders' quotas" are applied to certain products, particularly consumer goods, allocated among traders on a points system related to the sectoral balance of trade, the turnover of the enterprise, its employment and the number of trading outlets.

15. Various exceptions to the need to obtain specific licences exist:

- Authorized manufacturers of pharmaceuticals may freely import, through the import certificate procedure, all raw materials and semi-finished goods (whether or not on the liberalized list) necessary for the manufacturing process.

- Industrial manufacturing enterprises that export less than 15 per cent of their turnover are similarly allowed to import all raw materials and semi-finished products for their business, up to the value of their exports; enterprises which export 15 per cent or over of their turnover are entitled to import raw materials and semi-finished products without limitation on value.

- Sales to "export companies" as defined under Tunisian law, or to domestic companies which are entirely export-oriented, are counted as export sales under these regulations.

- The import certificate procedure may also be used for imports of normally prohibited capital goods by promoters of authorized or declared investment.

16. Imports of energy products, which in 1988 represented 9.5 per cent of Tunisia's imports, are subject to State monopoly, as are those of sugar, coffee, tea, meat, vegetable oils, tobacco and pharmaceutical products.

17. In principle, all import documents involving payments must be handled by authorized banks. Foreign currency may be purchased from the Central Bank or a delegated commercial bank for all payments that have received general or specific prior authorization. An import licence entitles the importer to purchase the necessary foreign exchange. All payments for invisibles require the approval of the Central Bank.

18. An analysis of import restrictions in force in Tunisia in mid-1990, based on information made available by Tunisia to GATT, is presented in the Annex to this background paper (BOP/W/138/Add.1).

19. Customs tariffs on imports of capital goods were cut considerably in 1988 and 1989, with the maximum rate being reduced from 220 per cent to 43 per cent and the minimum raised from 5 to 10 per cent. Data supplied to the GATT Secretariat show that the currently applied rates of duty in Tunisia range between 17 and 43 per cent.

20. On accession to GATT, Tunisia introduced a schedule of tariff bindings covering some 1,000 tariff headings (defined at the seven-digit HS level), out of a total of nearly 6,000. Bindings on industrial products cover a much higher share of the total than in agriculture (23 per cent as against 8 per cent) (Table 1).

Table 1

Tunisia: Bound tariff items
(Defined at seven-digit HS level)

	Bound		Partly bound		Unbound	
	Items	Imports 1988 (US$ m.)	Items	Imports 1988 (US$ m.)	Items	Imports 1988 (US$ m.)
Agriculture (HS 1-24)	31	84	27	106	718	405
Industry (HS 25-99)	665	844	278	314	4,142	2,380
Total	696	928	305	420	4,850	2,785

Total bound + partly bound = 1,001 items, US$1,348 m. imports.
Unbound = 4,850 items, US$2,785 m. imports.

Source: GATT.

IV. Economic and trade developments

Overview

21. During the last three years, Tunisia has continued its programme of structural reforms (the Seventh Development Plan 1987-1991) aimed at containing domestic demand and increasing exports, especially of non-oil

products. The programme permitted a rapid recovery after the balance-of-payments crisis of 1986. However, the growth of real GDP slowed from almost 6 per cent in 1987 to 1.5 per cent in 1988, largely as a result of a severe drought that affected agricultural output, and the rate of inflation increased. In 1989, because of late and uneven distribution of rainfall, agricultural output again grew by less than expected. Despite that, economic growth recovered to over 3 per cent, inflation fell from 8½ per cent to 6½ per cent and aggregate domestic demand accelerated, to over 4 per cent in 1989.

22. In 1988, Tunisia's overall balance-of-payments surplus doubled due to the macroeconomic adjustment measures adopted, and the current account recorded a surplus of about 1 per cent of GDP. Non-oil exports and tourism receipts grew, leading to a sharp increase in international reserves. In 1989, however, the current account moved back into deficit as domestic imbalances increased. Tourism receipts came back to more normal levels, capital goods imports increased and the continuing low level of rain pushed food imports up. However, Tunisia's external debt indicators showed some improvement over the period 1988-89, and debt servicing payments were maintained.

Production, wages and prices

23. Real GDP growth at market prices slowed from almost 5½ per cent in 1987 to 1½ per cent in 1988 (Graph 1). Domestic demand, although less depressed than in 1987, still shrank slightly. Domestic consumption grew slowly while gross fixed capital formation fell by more than 5 per cent, partly due to cuts in public investment.

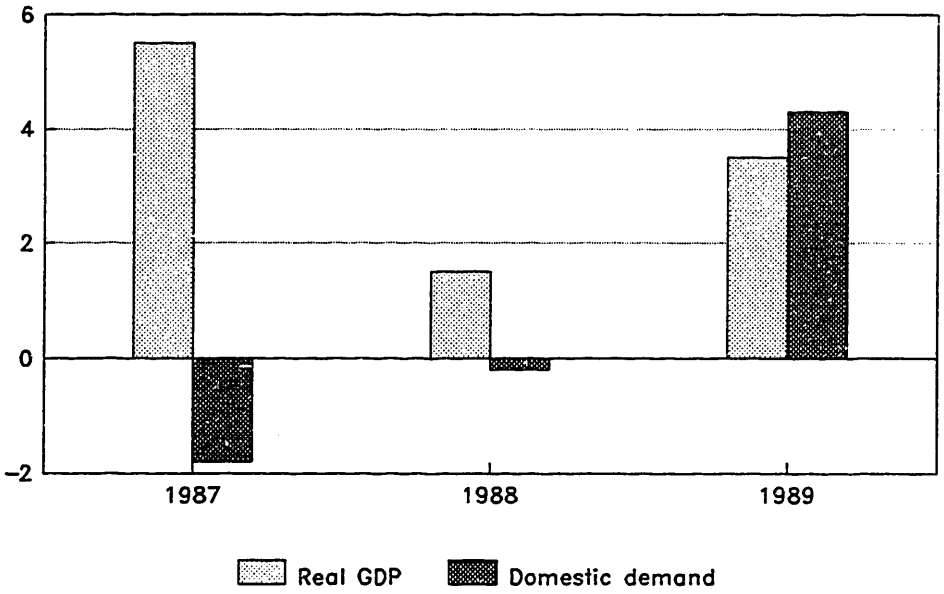
24. The drought which lasted until almost the end of 1988 caused a large decline in agricultural output (equivalent to 3.5 per cent of GDP). Production of cereals was down by more than 30 per cent and output of other agricultural sectors fell by 21 per cent (the contribution of agriculture to GDP is about 16 per cent). In the same year, manufacturing grew by almost 4 per cent. While industries related to agriculture were affected by the drought, other industrial sectors (chemical and rubber industries, textiles, clothing, and leather, construction materials and glass) showed rapid growth. Service sectors, particularly tourism and commerce, also expanded significantly.

25. In 1989, real GDP increased by 3½ per cent and real domestic demand by over 4 per cent. Domestic consumption grew by 3.3 per cent, largely because of a rise in salaries and in government expenditure. Gross fixed capital formation rose by 8.4 per cent, largely confined to the public sector.

26. Growth was more balanced across sectors than in 1988. As rainfall remained below average and was not evenly distributed, agricultural output recovered only partially, nevertheless achieving 5.7 per cent growth. Output of cereals was still only 42 per cent of the "normal" annual average level. In 1989, manufacturing output rose by nearly 6 per cent. The most dynamic sectors were textiles, clothing and leather, mechanical and electrical industries, construction materials and glass; output in the

food processing sector declined by 4 per cent. The rise in government investment increased the demand for public works, helping non-manufacturing industries to grow faster than in 1988. Tourism output declined, and other non-administrative services recorded significantly slower growth rates.

Graph 1 – Tunisia – Real GDP and domestic demand
(Annual percentage change)



Source: IMF.

27. Tunisia's efforts to liberalize prices since 1985 have faced serious difficulties in the area of consumer subsidies for essential goods. Government expenditure for those subsidies still accounts for about 3 per cent of GDP. Two successive droughts in 1988-89 and rising world food prices complicated the Government's efforts to eliminate the subsidies. However, in 1988, the share of "free" prices in the total consumer price index rose by 6 percentage points to almost 56 per cent (Table 2).

Table 2

Tunisia: Consumer price index by price régime

	1987	1988	1989
	(Change December-December; 1983=100)		
Fixed prices	3.4	2.9	7.3
Homologation	8.7	11.1	14.8
Auto-homologation	9.1	7.0	5.9
Controlled freedom	3.4	6.1	5.1
Free prices	8.3	11.3	6.1
Total	6.9	8.4	6.7
	(Evolution in price régime weights)		
Fixed prices	27.9	27.9	27.9
Homologation	1.4	1.4	1.4
Auto-homologation	17.2	11.2	11.2
Controlled freedom	3.9	3.9	3.9
Free prices	49.6	55.6	55.6
Total	100.0	100.0	100.0

Note: Prices under the homologation régime are those for which enterprises submit accounting information to the authorities, who calculates prices. The auto-homologation régime allows enterprises to reinforce their own cost calculations according to a predetermined formula. Under the régime of controlled freedom, cost calculations were also performed by the enterprise itself, but using the formula for homologation.

Source: IMF.

28. In May 1988, the minimum wage was raised by 5 per cent. Real average salaries rose by 1.2 per cent during 1988. Otherwise, wages and salaries remained stagnant through the end of 1989 despite the rising cost

of living.[2] Inflation, as measured by the total consumer price index, rose to 8.4 per cent in 1988 largely as a result of the drought. In 1989, inflation dropped to slightly above the 1987 level. It is estimated to have stabilized in 1990.

Public finance

29. In 1988, Tunisia's consolidated government deficit (including grants) increased to 4.5 per cent of GDP from 3.6 per cent (on a commitment basis) in 1987. This resulted largely from higher expenditure on current government transfers to households and consumer subsidies, and from an increase in fixed investment and capital transfers. As the share of government revenue in GDP fell, the increase in government expenditures was largely financed by borrowing, both in the domestic market, where interest rates were lower than abroad, and in international capital markets. In 1988, fiscal authorities introduced a value-added tax and reduced tariff rates. However, as imports of goods and services recovered significantly, revenue from import taxes grew by around 12 per cent.

30. In 1989, despite the adjustment measures adopted, central government financial operations registered a deficit only slightly lower than in the previous year (4.3 per cent of GDP). While capital expenditure and lending fell, current expenditure on consumer subsidies and transfers to households grew significantly. In 1989, the Tunisian Government received foreign grants equalling 1.5 per cent of GDP (up from 0.4 per cent the previous year), and managed to raise revenue (notably tax revenue) in excess of the inflation rate.

31. In the period 1988-89, the Tunisian Government continued its programme of structural reforms, seeking to give the private sector a larger rôle in the economy. Privatization of State-owned firms continued at a slow but steady pace. The plan includes the restructuring of some public firms and the closing down of others. State-owned enterprises in Tunisia are active in the production of petroleum, phosphates, public transport including railways, utilities and many manufacturing and assembling operations. The Tunisian economic programme also includes measures to simplify the tax system, making it more cost efficient, transparent and with lower tax rates. In July 1988, the value-added tax on non-agricultural production was introduced to replace turnover and excise taxes. It was further extended to the distribution sector. In 1990, a new system of direct taxes on personal income was adopted; in 1991 it will be extended to corporate incomes.

Money and credit

32. Since 1987, reform in the financial sector has included the decontrol of banking decisions, the development of a money market -

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[2]As in many countries, some under-recording of increases in personal incomes may exist.

including the creation of new monetary instruments - and the liberalization of interest rates. Since 1989, the Government has held weekly treasury bill auctions. Direct credit controls were also eliminated.

33. Increases in net foreign assets contributed significantly to the growth of broad money in 1987 and 1988. Their rate of growth then slowed to about 24 per cent in 1989. In 1988, the Central Bank reduced credit to the Government and to financial institutions. However, the liquidity of the financial system enabled the Government to borrow to finance its deficit.

34. Domestic credit (largely net claims on the private sector and on the Government) was responsible for the increase in the broadly defined money supply in 1989. In that period, there was a portfolio shift from currency and demand deposits to the new financial instruments introduced by the Government, a move that helped to monetise the economy, rendering monetary policy more effective.

Balance of payments

35. Tunisia's overall balance-of-payments surplus increased from US$143 million to US$395 million between 1987 and 1988, but fell back to US$80 million in 1989 (Table 3). A rising trade deficit was more than offset in 1988 by growing income from invisible transactions, particularly tourism receipts, and from workers' remittances. Tourism receipts almost doubled in 1988 to US$1.3 billion following improved relations between Tunisia and Libya, while workers' remittances increased from US$486 million to US$543 million. The current account balance switched from a deficit to a surplus of US$106 million or 1.1 per cent of GDP (Graph 2). In 1989, tourism receipts and expatriate remittances returned to a more traditional level. Coupled with the effects of rising domestic demand on imports, this caused the current account to move back into deficit, of 3.3 per cent of GDP. This was entirely financed from official sources and receipts from direct investment; a surplus of US$80 million overall resulted.

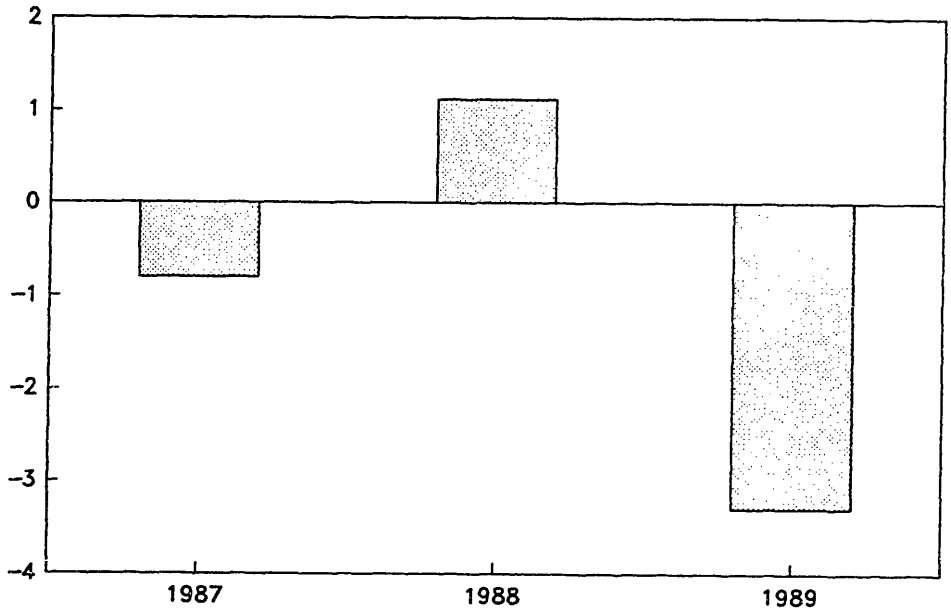
36. During the period 1988-89, the real effective exchange rate of Tunisia's currency was kept largely constant. International reserves (excluding gold) reached nearly US$900 million (3.1 months of merchandise imports) in 1988 up from about US$525 million in 1987. Despite the current account developments, international reserves rose to almost US$962 million at the end of 1989 (equivalent to 2.7 months of merchandise imports). At the end of September 1990, total reserves amounted to about US$906 million.

Table 3
Tunisia: Balance of payments
(Million US dollars)

	1987	1988	1989
Trade balance	-672	-1,097	-1,214
- Merchandise exports	2,137	2,396	2,930
- Merchandise imports	-2,809	-3,493	-4,144
Other goods, services and income	573	1,145	797
of which: tourism receipts	(685)	(1,266)	(923)
Private and official unreq. transfers	18	58	88
of which: workers' remittances	(486)	(543)	(495)
Current account	-81	106	-329
Direct and portfolio investment	92	105	137
Other long-term capital	66	102	222
Other short-term capital	66	82	50
OVERALL BALANCE	143	395	80

Source: IMF.

Graph 2 – Tunisia –
Current account balance
(Percentage of GDP)



Source: IMF.

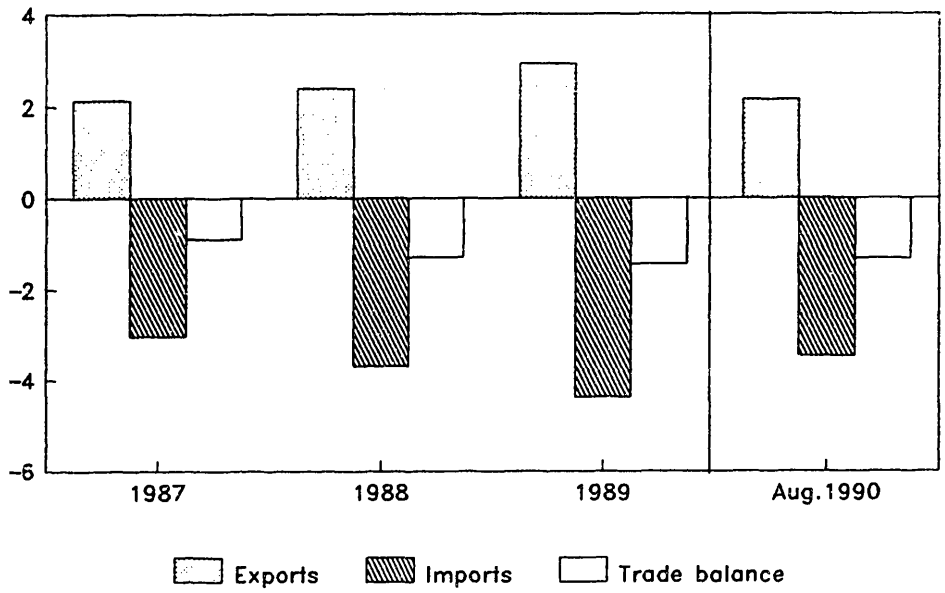
Merchandise trade

37. In 1988, merchandise exports (valued on a customs basis) grew by nearly 12 per cent to US$2.4 billion (Graph 3). This was largely accounted for by exports of manufactures, which grew by 16 per cent in volume terms. Merchandise imports rose by more than 21 per cent to US$3.7 billion as import regulations continued to be relaxed, the growth of manufactured exports required imported inputs and drought country caused a 50 per cent rise in food imports.

38. In 1989, the value of merchandise exports rose by more than 22 per cent to US$2.9 billion and that of merchandise imports by 18.5 per cent to US$4.4 billion. Merchandise import volume grew by more than 16 per cent - less than that of exports for the first time in many years - in part because of purchases anticipating repetition of the high level of sales to tourists of the previous year. In the first eight months of 1990, the deficit in the merchandise trade balance was US$1.3 billion, nearly 38 per cent higher than in the same period of 1989.

39. The adjustment measures adopted in 1986-87 to correct macroeconomic imbalances included a major programme of import liberalization, encompassing the removal of quantitative restrictions and reductions in both the dispersion of the tariff structure and of the average tariff level.

Graph 3 – Tunisia – Value of merchandise trade
(Billion US dollars)



Source: International Financial Statistics, IMF, Dec.1990.

40. Tunisia has successfully diversified its exports in the 1980s, reducing the share of net energy exports (from 20 per cent in 1985 to 7 per cent in 1989) and increasing the share of exports of phosphates, mechanical and electrical goods. Primary products - mostly fuels and food - accounted for one third of total merchandise exports in 1989 (Table 4). Clothing represented more than 26 per cent and chemicals (phosphate fertilizers) almost 20 per cent of exports of manufactures. The distribution of merchandise imports of Tunisia between primary products and manufactures is similar to that of exports (Table 5).

Table 4

Tunisia: Principal merchandise exports
(Percentage shares)

	1988	1989
Primary products	32.0	33.5
Food	12.3	9.9
Raw materials	0.9	1.0
Ores and minerals	2.5	2.4
Fuels	16.1	20.0
Non-ferrous metals	0.1	0.2
Total manufactures	67.6	66.1
Iron and steel	0.7	1.0
Chemicals	21.2	19.1
Other semi-manufactures	4.6	6.0
Machinery and transport equipment	6.9	6.3
Textiles	3.3	3.0
Clothing	27.0	26.5
Other consumer goods	3.9	4.3
Total	100	100
Memorandum:		
Value of exports (US$ million)	2,393	2,932

Source: Comtrade, United Nations Statistical Office.

Table 5

Tunisia: Principal merchandise imports
(Percentage shares)

	1988	1989
Primary products	34.3	34.5
Food	17.1	15.1
Raw materials	4.3	4.6
Ores and minerals	4.6	4.0
Fuels	7.1	9.2
Non-ferrous metals	1.3	1.5
Total manufactures	65.3	65.1
Iron and steel	4.8	4.4
Chemicals	10.1	9.1
Other semi-manufactures	7.7	7.2
Machinery and transport equipment	22.0	24.1
Textiles	13.1	12.6
Clothing	3.0	3.1
Other consumer goods	4.7	4.5
Total	100	100
Memorandum:		
Value of imports (US$ million)	3,681	4,370

Source: Comtrade, United Nations Statistical Office.

Capital account and international indebtedness

41. In 1988, the net inflow of capital into Tunisia increased, after having declined sharply in 1987. This change was largely due to a rise in direct and portfolio investment, and to medium- and long-term borrowing. This trend continued during 1989, as international investment increased following the liberalization of financial markets, the provision of greater incentives to investment, and increased lending from multilateral agencies for agricultural, rural development, education and roads projects. Bilateral aid also increased (France, Italy and Japan are the major donors), and the United States guaranteed the refinancing of Tunisia's military debt.

42. Tunisia has never rescheduled its debt. It enjoys the benefits of long maturities and relatively low interest rates on most of its debt (public foreign creditors hold 82 per cent of the total debt). Following the increased overall surplus in the balance of payments in 1988, external borrowing from private sources declined.

43. In 1988, Tunisia's total external debt was US$6.7 billion, representing 70 per cent of GNP, down from almost 74 per cent of GNP in 1987. The ratio of debt servicing to exports of goods and services fell from 28.5 per cent in 1987 to less than 22 per cent in 1988. This improvement was reversed in 1989, when the increased multilateral and bilateral lending noted above caused total external debt to rise by more than 3 per cent to nearly US$6.9 billion, equivalent to 71.7 per cent of GNP, and the ratio of total debt service to exports of goods and services rose to 22.5 per cent.