

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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**COUNCIL
21-22 March 1994**

TRADE POLICY REVIEW MECHANISM

SENEGAL

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Trade Policy Review of Senegal was held on 21 and 22 March 1994. The Chairman welcomed members of the Council, the Senegalese delegation, led by H.E. Cheikh Hamidou Kane, Minister of Trade and Crafts, and the discussants, Mr. Moncef Baati (Tunisia) and Mr. Andrea Meloni (Italy).

2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council's review was to be based on two reports, one by the Government of Senegal (document C/RM/G/41), the other prepared by the Secretariat (S/RM/S/41). He reiterated the Council's procedures for conducting reviews, introduced since May 1993 (document L/7208).

3. The discussants had circulated an outline of the main issues they wished to raise during the review in document C/RM/W/13/Rev.1.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF SENEGAL

4. The representative of Senegal pointed to the unfortunate circumstances, the devaluation of the CFA franc and imperative revisions of trade and social policy measures, which had precluded his attendance at the date originally scheduled for the review of Senegal. He emphasized his Government's determination to contribute to the development and liberalization of international trade. As a long standing participant in the GATT, Senegal supported a multilateral approach, in particular the objectives of the GATT, and had participated in its various rounds of trade negotiations.

5. The Senegalese economy had been marked by considerable State intervention until the end of the 1970s. The policy aimed at fostering economic, subsequently political, independence, remedying a lack of private initiative and contributing to the attainment of social development objectives. As a result, numerous public enterprises were created, civil service employment grew and the State became an important organizer and regulator of economic activities, including price controls and foreign trade. Industry policies focused on important substitution with corresponding emphasis on protection.

6. From 1980, and particularly since 1986, Senegal had turned towards more liberal economic policies. The economic stabilization and recovery programme had been followed by a medium- and long-term structural adjustment programme aiming to re-establish macroeconomic equilibrium, but results had been unsatisfactory due to negative external circumstances and internal difficulties. Objectives included the development of foreign trade through import and export liberalization, except for some specific goods.

7. Broad product classifications had been introduced with a view to reduce tariffs for important items. Economic difficulties had, however, limited the authorities' ability to go as far as desired in reducing tariffs and led to some slippages. Bearing this in mind, he was particularly pleased to present to the Council the most recent fiscal and price reforms undertaken following the 50 per cent devaluation of the CFA franc.

8. New measures involved significant changes in import taxation. The single-rated tariff had been reduced from 15 per cent to 10 per cent, while Senegal continued to apply a 5 per cent tariff on imports of "originating products" under the ECOWAS Treaty. The special rate of fiscal duty (65 per cent) had been abolished, the high rate reduced by 5 percentage points (to 30 per cent), the normal rate by 10 percentage points (to 20 per cent) and although the low rate had been maintained at its previous level (10 per cent), its application had been suspended on all affected products except certain fuels and diesel.

9. The stamp duty, which had been raised from 3 per cent to 6 per cent (12 per cent on certain items) under the emergency economic programme in September 1993, had been brought down to 5 per cent. Moreover, originally levied on a tax inclusive basis, the stamp duty was currently calculated on the basis of the c.i.f. import value only, thus reducing effective taxation on all goods except those fully exempt from border taxes.

10. Regulations imposing minimum rates of fiscal duty on various imports had been abolished under Ordinance No. 94-26 of 15 February 1994. The authorities were in the process of adopting a regulation which would terminate the use of reference prices on imports. An export subsidy programme had also been abolished, since the devaluation had made this form of export incentive redundant.

11. Indirect taxes had also been restructured. The value-added tax, previously levied at four rates ranging from 7 to 34 per cent had been simplified; the 20 per cent "normal" rate and a 10 per cent

"low" rate also implied an overall reduction in VAT. The supplementary tax (taxe d'égalisation) had also been reduced; from 8 per cent to 5 per cent for the "normal" rate, from 4 per cent to 3 per cent for the "low" rate, while the top rate (12 per cent) had been abolished. Social services and basic goods, including the raw materials required to manufacture such products, were exempt from VAT to avoid tax-induced price rises. Excise taxes had been lowered on cola (from 65 per cent to 30 per cent), abolished on cement (earlier 2.5 per cent) and flat rates had been introduced on tobacco products and alcoholic beverages (30 per cent).

12. The aim of the tax reform was to attenuate inflationary pressures, while maintaining revenue compatible with the budgetary policy of the Government. In order to contain inflation at reasonable level in 1994 (40 per cent), some products had been added to the list of items subject to price controls immediately after the devaluation. Prices for powdered milk, concentrated milk, coffee, household soap, carbonated beverages and iron reinforcing bars had been frozen at pre-devaluation levels. However, the purpose to these temporary measures was not to block price increases but to control them. Higher prices accorded to farmers, 6 per cent on paddy rice, 30 per cent on cotton and 43 per cent on groundnuts, had resulted in price increases for consumers of 20 to 33 per cent.

13. The fiscal policy pursued after the devaluation was in line with fiscal harmonization agreed under the establishment of the West African Economic and Monetary Union (WAEMU). The CEMOA treaty, signed in Dakar in January 1994, meant that the West African Economic Community (WAEC) no longer existed.

14. He hoped that the Council, in its review, would take into account Senegal's constant commitment to the GATT, bearing in mind the situation of developing countries, and its efforts to conform to GATT principles. He confirmed Senegal's commitment to participate at the Marrakesh meeting, hoping that the Uruguay Round agreements would bring positive results for his country.

III. STATEMENT BY THE FIRST DISCUSSANT

15. The first discussant (Mr. Baati) stated that Senegal, one of the first African countries to accede to the GATT, was aiming to restructure and give impetus to its trade through closer integration with the multilateral trading system, despite an unfavourable external environment. This objective had been on the agenda for more than ten years, was a main priority in the reforms adopted in 1986 and had been confirmed in the 1989-95 economic and social development plans. Reforms implemented with the support of international financial institutions had allowed the authorities to launch a privatization and liberalization process.

16. Senegal would bind a major part of its tariffs at relatively low levels as a result of the Uruguay Round negotiations; its market access offers in agriculture and industrial products had just been accepted. Senegal had also made a comprehensive offer in services. Autonomous liberalization measures testified to the Senegalese authorities' willingness to promote adjustment and trade.

17. Senegal's participation in the Uruguay Round demonstrated a desire to diversify exports in terms of goods and markets. Exports were concentrated in a narrow range of goods. However, key exports - groundnuts, phosphates and fish products - were all subject to difficult market conditions. He hoped that the conclusion of the Uruguay Round would assist in stabilizing export revenue and thus, together with other support of the international community, would foster the economic and social development of Senegal.

18. The relatively limited trade among members of regional economic agreements in West Africa (ECOWAS and WAEC), including between countries with a common currency, was a point worth reflection. The 14 countries participating in the CFA franc zone had moved more slowly towards economic integration than certain other countries retaining their own currencies. Senegal had played a leading rôle in regional integration efforts in Africa, including in the process to establish an African common market under the auspices of the Organization of African Unity.

19. The CFA franc, linked to the French franc at a fixed parity for decades, had just been subject to a devaluation. The effects this would have on Senegal's export performance were uncertain, since certain exporting industries had experienced problems in foreign markets and Senegal had difficulties meeting the conditions required for successful penetration of foreign markets. The structural adjustment the devaluation was designed to facilitate could take more time to obtain than presently envisaged. Countries undergoing similar adjustment frequently resorted to efforts to increase investment, by attracting foreign investment or through higher domestic savings. He asked Senegal to outline its strategy in this area.

20. The devaluation had made an immediate impact in the tourism sector. In addition, the Government had streamlined tax, visa and other entry formalities and promoted management training to consolidate the gains. Immediately following the devaluation, measures had been taken with respect to prices for basic goods and civil service salaries. He wondered what rôle the Caisse de péréquation et de stabilisation des prix could play at this critical juncture, and asked for more information regarding measures taken to mitigate price increases on basic necessities caused by the devaluation.

21. Senegal had a complex fiscal system. At a same time, a large informal sector operated to the detriment of public finances and disturbed activities in the formal sector. A coherent fiscal system was an essential prerequisite for an open structured and competitive economy and he invited Senegal to outline its intentions, options and measures taken in this area.

22. Illicit trade had also gained proportions disturbing economic activity and depressing government revenue. Attempts had been made to curb smuggling, but actions would need to be reinforced, rationalized and integrated in a fiscal strategy to become effective. He was certain the Government had an action plan for this problem.

23. The Government report made reference to an interesting feature, "Strategic sectorial groups", which were examining the conditions in each industrial sector and made recommendations to an interministerial council. Established under the industry action plan adopted in July 1986, each group comprised suppliers, distributors, researchers, bankers and trade union representatives, searching for solutions based on consensus. On the other hand, Senegal had no independent body entrusted with examining and advising the Government on trade policies and the regulatory structure was not very transparent. He was wondering whether the UNCTAD/GATT national committee could carry out such tasks; if not, what its actual functions were.

IV. STATEMENT BY THE SECOND DISCUSSANT

24. The second discussant (Mr. Meloni) pointed to the priority of all sub-Saharan African governments, to fight against poverty and under-development. Senegal's import régime was complex and import taxes provided nearly half of government revenue. Border taxes were thus not only a protective instrument, but could present the authorities with a trade policy dilemma as trade liberalization might conflict with the need for financial austerity. He wondered how Senegal intended to liberalize its foreign trade while maintaining efforts to reduce budget deficits. The recent devaluation had changed economic policy variables, but the issue essentially remained.

25. The Government had implemented a series of trade policy measures on 15 February 1994 to complement the devaluation. Import duties had generally been reduced with a view to limit increases in consumer prices, particularly on basic necessities, as an overall rise in government revenue was expected as a result of the devaluation. He requested information concerning the duration of temporary price controls and whether the Senegalese delegation could furnish projections concerning the impact of the recent changes on overall trade flows as well as on principal imports. Senegal would like to encourage export-oriented investment. The devaluation had eliminated an evident obstacle; would changes also be made in the system of export taxes?

26. The new Government installed in Senegal in 1993, the devaluation of the CFA franc and agreements entered into with the international financial institutions should provide a basis for a revival of regional integration. Previous experiences had been rather disappointing. This time, Heads of State had decided to transform WAMU into a full monetary and economic union. He sought more information concerning this agreement, notably with respect to harmonization of tariffs and other trade measures, and its repercussions on existing regional economic arrangements. Regional organizations had a tendency to proliferate in Africa with an inherent risk of dispersion of efforts and financial resources.

27. Senegal had made significant commitments in the Uruguay Round with respect to tariff bindings and services. He reminded Senegal that while it could make use of transitional periods and other flexible arrangements provided for developing countries, accession to the WTO and its agreements would be a turning point in the country's trade policy. He was aware that Senegal's preferential access to the EU market would be eroded, but stressed the benefits to be obtained from a new multilateral trading system with stricter disciplines.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

28. The representative of Côte d'Ivoire noted that Senegal, like all other countries in West Africa, was confronted with numerous economic and financial difficulties such as slow growth, chronic balance-of-payment deficits, larger public finance imbalances and a rising debt burden. Senegal had implemented several programmes allowing for sustainable and lasting growth and a trade régime commensurate with the disciplines of the multilateral trading system.

29. Senegal had made its trade policies more liberal and transparent by removing import bans and replacing quotas with tariff based measures, at the same time reducing these taxes. Tariff bindings offered in the Uruguay Round added stability and predictability to the trade régime. Further reforms, notably in the fiscal régime, were still to be completed following the recent devaluation. However, despite significant liberalization Senegal's efforts were not guaranteed success due to the narrow range of exported goods and sanitary and phytosanitary obstacles in principal export markets. A more favourable external environment was required to allow Senegal to benefit from improved market access to restructure, liberalize and improve its economic and trade performance.

30. The representative of Chile encouraged Senegal to continue its structural adjustment and liberalization efforts and complimented the recent measures taken to accompany the CFA franc devaluation.

31. The representative of Madagascar noted that Senegal had made serious efforts, particularly after 1986, to promote a more liberal trade policy. Programmes had been carried out under difficult external and internal circumstances. Senegal had participated actively in the Uruguay Round. She wished Senegal continued success with its liberalization efforts, and asked what effect the recent devaluation was expected to have on Senegal's foreign trade and on investment flows.

32. The representative of the United States appreciated Senegal's commitment to continue to liberalize and rationalize its trade régime. Liberalization was in Senegal's own interest; an environment with open markets and no undue government influence would assist Senegal in fighting a recession and long-term structural inefficiencies. He sought more information concerning additional macroeconomic reforms following the recent CFA franc devaluation. Stressing the disciplines the new WTO would impose on its members, he urged Senegal to sign and ratify the Uruguay Round agreement, thus accepting an entire package of agreements.

33. The Treaty of Cotonou, signed in July 1993, had replaced the previous ECOWAS Treaty, as the ratification deadline expired at the end of 1993. The United States would like to encourage compliance with normal GATT procedures for notification and review, under Article XXIV, of this arrangement. He asked Senegal to confirm the abolition of its export subsidy programme in January 1994, adding that such a move was in line with WTO disciplines.

34. He welcomed trade liberalization and rationalization measures adopted in recent years and requested further details concerning products that would be subject to tariff reductions, assuming that Senegal would ensure maximum transparency in publishing duty reductions. He also invited Senegal to provide details of commitments recently concluded with the IMF, particularly regarding the replacement of import quotas by a temporary 20 per cent surcharge during 1994, and hoped that liberalization would be extended to textiles, used clothing and second hand motor vehicles. He sought more information regarding trade restrictions covering these products and whether existing measures would be affected by the agreement with the IMF. Noting that Senegal had bound relatively few tariffs,

he urged Senegal to include a comprehensive schedule of bound tariffs in its Uruguay Round commitments.

35. The United States was concerned about obligatory loan requirements imposed in November 1993 on companies located in the Dakar Free Zone which contravened the 1974 Law establishing the Zone, and asked Senegal to clarify its government procurement procedures and ensure full transparency. It appeared that publishing of invitations to tender was irregular. Senegal should also remain committed to transparency and equitable treatment for firms bidding to supply parastatal bodies. Senegal was also asked to clarify recent measures adopted to protect the domestic textile industry, which in the view of the United States, were a departure from GATT principles, were hurting U.S. textile exports and had not been notified to the GATT.

36. The representative of Mexico complimented Senegal for its pursuit of structural adjustment and economic stabilization since 1986, including agricultural and industrial policies, deregulation and privatization, despite an unfavourable international climate and worsening terms of trade. Structural deficiencies nevertheless persisted such as low labour productivity, significant unemployment and underemployment, weak infrastructure, a fragile fiscal base, lack of international competitiveness, and generally few exported products, highly dependent on world market prices for commodities. The devaluation might yield positive results if inflation could be contained.

37. Trade policies had been liberalized, most exports had been unrestricted since 1983, and non-tariff measures had been eliminated. Senegal had presented significant offers in the market access and services negotiations on the Uruguay Round, and was participating actively in regional cooperation arrangements, thus adding credibility to its adjustment efforts. Possibilities nevertheless existed for further trade liberalization to obtain a more stable and transparent régime; eliminate remaining import licences, particularly on agricultural products; reduce taxes; and conclude the renegotiation of Senegal's tariff schedule in the GATT. Senegal needed firm support of the international community in its efforts to correct its economic imbalances.

38. The representative of Japan welcomed the trade liberalization measures taken by Senegal between 1986 and 1988, including tariff reductions, lifting of import bans and abolition of licensing requirements. Senegal had implemented its structural adjustment plan despite international problems and worsening terms of trade. Japan expected the suspension of "buy back" procedures for CFA francs and the subsequent devaluation to affect the Senegalese economy positively and to facilitate further trade liberalization. The successful conclusion of the Uruguay Round, resulting in, for example, a 33 per cent reduction in Japanese base tariffs on fishery products, would aid Senegal's economic development. He hoped that Senegal would contribute to the maintenance of the multilateral trade system, a system which would facilitate Senegal's economic progress.

39. Senegal had increased its coverage of bound tariffs in the market access negotiations and had made an effort to improve its offer in services. Japan welcomed these initiatives and hoped that economic growth would allow Senegal to proceed with tariff reductions and concessions, and implement in good faith the Uruguay Round obligations in customs valuation, pre-shipment inspection, subsidies and other areas.

40. The representative of Australia recognized the serious challenges Senegal faced as it sought to stabilize its economy, encourage structural adjustment, rationalize industry protection and attain more competitive industries. Senegal had a narrow range of industries and an agricultural sector vulnerable to climatic conditions. Some reforms had been stalled or had not achieved their aims, but Senegal was commended for efforts made thus far and strongly encouraged to stay the course of reform.

41. Senegal had taken a leading rôle in integration efforts in West Africa. Australia supported efforts to develop internationally competitive industries, but was concerned when regional trade liberalization operated to the detriment of multilateralism. Senegal's uniform tariff was not particularly high, but additional duties and taxes resulted in significant border taxation and major incentives for smuggling. She wondered whether Senegal would consider further tax reductions, including in the 15 per cent m.f.n. tariff, and requested more information regarding the maritime tax and the levy on textile fabrics.

42. The Senegalese authorities involved the private sector in the formulation of trade policies. In this regard, she drew attention to Australia's experience with its Industry Commission, an independent advisory body, which ensured public discussion of industry and trade policies and had contributed to a fundamental change in attitudes towards protection. Senegal's approach with sectorial strategic groups would need to be outward looking in order to be successful.

43. The representative of Norway, speaking on behalf of the Nordic countries, observed that intimate ties with France had linked the Senegalese economy closely to the European Union, its main trading partner. The EU thus played a central part in securing export earnings and attempts to stabilize the economy. Trade with other European countries and the Americas was negligible, but Senegal's narrow range of exported products suggested limited potential in other markets in the near future.

44. Senegal had introduced a multitude of duties and taxes in order to curb imports, resulting in considerable illicit trade and measures appeared to have little impact on overall imports. He wondered whether the Government had contemplated other options to reduce imports and thereby ease the debt burden. Different policy measures had been tried to rectify imbalances in the Senegalese economy. He appreciated the liberalization measures announced by the representative of Senegal and encouraged further liberalization.

45. The CFA franc devaluation was likely to reduce imports and tax revenue. He invited Senegal to comment on the medium and long-term effects of the devaluation, in particular with respect to domestic economic activity and the balance between traded and non-traded goods, and requested further information on the future development of ECOWAS and the effect on trade patterns within the West African Economic Community. He also asked whether target dates existed for completion of the renegotiation of Senegal's tariff concessions and the entry into force of the HS customs tariff.

46. The representative of Morocco saw the problems of Senegal as similar to his own country; an economy undergoing significant adjustment, assisted by the authorities' willingness to integrate with the multilateral trading system. Senegal had made a major contribution to the successful conclusion of the Uruguay Round. The new agreement implied a certain erosion of preferences in Senegal's principal export market, but the devaluation, which had positive and negative consequences, would largely compensate for this loss. He wondered whether Senegal was considering other measures to remain competitive in the EU market.

47. The representative of Canada supported the various liberalization measures adopted by Senegal and encouraged continuation of this policy. Membership in the WTO would impose stricter disciplines on Senegal, notably since it was not already a member of any of the Tokyo Round Codes. She also drew attention to local content provisions applicable under Senegal's investment incentives régime. She requested more information concerning the recent agreement with the IMF on structural reforms, in particular with regard to private sector growth and export competitiveness, and how the agreement related to GATT commitments.

48. The representative of Zambia encouraged Senegal to pursue further liberalization. He asked for more information regarding the rôle of export incentives and other efforts to promote and diversify exports; strategies to increase competitiveness of agricultural products; Senegal's perception of future regional integration in Africa, where results had thus far been rather disappointing; how Senegal intended to keep reforms on track and sustain them in a difficult external environment; and what plans Senegal had regarding accession to the various GATT agreements, such as the Customs Valuation Code. He underlined the plight of the international community to assist Senegal in its efforts.

49. The representative of Cameroon stated that Senegal was firmly committed to liberalize trade and integrate with the world economy, despite adverse conditions. Senegal had made important concessions in the market access and services negotiations in the Uruguay Round. The new parity value of the CFA franc had not changed the policies of Senegal, which had proceeded with additional adjustment measures. She encouraged Senegal to continue its efforts, deserving the support of the international community.

50. The representative of the European Union noted that Senegal was one of the first sub-Saharan African countries to engage in stabilization and economic restructuring, essential to attain a more open economy. The CFA franc devaluation would have major consequences for Senegal's economy and improve the trade balance. Debt restructuring agreements indicated the support of financial institutions for the economic adjustment programme.

51. Senegal had already proceeded to revise import duties and charges. The development of Senegal was linked to the openness of regional and world markets. The conclusion of the Uruguay Round and the signing of the WAEMU Treaty were important steps in Senegal's further integration. He complimented Senegal for its offers in the Uruguay Round. The European Community was ready to develop financial, trade and technical cooperation instruments with Senegal, notably in the framework of the Lomé Convention.

52. The representative of Argentina recognized the serious economic and political difficulties of Senegal and supported strongly the direction of its economic reforms and trade policies, manifest in its willingness to be examined in a Trade Policy Review. Unilateral reforms deserved praise and concrete assistance from members of the multilateral system.

53. Senegal had many problems which could not be solved simultaneously. A relatively small share of the work force was formally employed, but the authorities appeared to take a pragmatic approach towards the informal sector, despite the fiscal problems this entailed. Exports were concentrated in few items and food products represented a large share of imports. Import taxes were relatively high, provided a high share of government revenue and fiscal reforms tended to increase effective protection. In reply to tax evasion, the authorities had reduced duties on inputs used in the manufacture of import-competing products and specific minimum duties applied to combat underinvoicing. Senegal appeared to follow international guidelines in customs valuation procedures.

54. He asked what measures Senegal could envisage to reduce its trade deficit and diversity trade patterns, and what rôle regional agreements played in this respect, given that intra-African trade was relatively modest. Studies indicated that Senegalese exporters were disadvantaged by high transportation charges and that costs were also higher than in other African countries for inputs such as labour, water and energy.

VI. REPLIES BY THE REPRESENTATIVE OF SENEGAL AND ADDITIONAL COMMENTS

55. The Chairman suggested that the Council debate be structured along the main themes of Senegal's general economic situation, trade liberalization programmes, the devaluation of the CFA franc and its economic effects, and Senegal and its trading partners.

56. The representative of Senegal was grateful for the support and encouragement received during the review and proceeded to respond to questions raised under each theme.

(i) General economic situation

57. Senegal, like many developing countries, was a victim of an economic crisis characterized by current account and public deficits and debt service problems. Painful measures, some of which reduced the purchasing power of the population, had been introduced. The success of these measures depended on firm implementation as well as foreign support, which was already forthcoming from the IMF and Paris-Club creditors. Senegal would abide by its GATT commitments even under these difficult circumstances.

58. Even though its exports were concentrated in few products, Senegal was determined to promote and diversify exports. The industrial free zone, an export insurance and finance agency and other institutions had been established for this purpose. Export taxes were suspended and temporary admission, drawback and industrial warehousing facilities were available. The authorities had simplified administrative procedures, liberalized the labour markets and restructured public utilities with a view to reduce charges. Producer prices had been raised for agricultural products and Senegal was studying market prospects for non-traditional exports. However, multiple sanitary and phytosanitary obstacles hampered access to certain markets.

59. The Senegalese authorities recognized that the fiscal régime could be improved. Reforms introduced with the change in the parity of the CFA franc aimed to simplify and reduce taxes. As noted earlier, the special rate of fiscal duty had been abolished and other fiscal duty rates had been cut. The stamp duty had been reduced and was applied on a lower base value of the c.i.f. import price only. The number of VAT rates had been cut from five to two, and supplementary tax rates from three to two, all involving tax reductions. Excise taxes had also been cut and simplified.

60. Considerable smuggling took place in Senegal although the authorities had no precise estimates and believed the Secretariat estimate was too high. Various measures had been taken to address the problem including tax reductions; stricter control of goods in transit or under suspension régimes; more efficient customs services with respect to customs clearance, ex post controls, the use of pre-shipment inspection and valuation expertise, and expanded and better equipped surveillance units. In addition, buy-back procedures for exported CFA franc banknotes were suspended.

61. The reduction in import taxes would be expected to reduce government revenue. On the other hand, the value of imports was expected to rise and an increase in domestic production would increase the internal tax base. Means to fight smuggling were more efficient than ever due to the devaluation.

62. The informal sector was difficult to identify, but was frequently defined by simple organizational structures, rudimentary bookkeeping and weak adherence to other regulatory requirements.

63. The UNCTAD/GATT Committee was established on 16 July 1992, under Ministerial Order No. 1030, to prepare the GATT negotiations and UNCTAD ministerial conferences. The Committee included government officials, academics and representatives of various sectors, covering also the new areas in the GATT - agriculture, services and intellectual property. Other expertise was drawn into the Committee whenever useful. The Committee met at least twice a year, and a secretariat followed GATT/UNCTAD developments and disseminated information on negotiation issues. The Government had no independent advisory body on trade policies, but was developing contacts with university staff and economic agents on a permanent basis.

64. The second discussant commented that Senegal's commitment to budgetary discipline might constrain the pursuit of trade liberalization in the years to come and noted with interest Senegal's pledge to observe GATT rules in this respect.

65. The first discussant noted the problems Senegal experienced in exporting agricultural products and hoped that Uruguay Round disciplines on technical barriers to trade would assist Senegal. He encouraged the country to liberalize its labour market further, and urged further support of the international community, particularly concerning the easing of Senegal's debt burden.

(ii) Trade liberalization programmes

66. Import duties and taxes had been simplified and reduced following the devaluation, covering border taxes (tariff, fiscal duty and stamp duty) as well as internal taxes (VAT, supplementary tax and excise taxes). The GATT secretariat would receive a diskette containing all pertinent data related to the new fiscal régime.

67. The maritime tax was levied on all seaborne imports to the benefit of the "Conseil sénégalais des chargeurs" (COSEC), for the purpose of establishing a national fleet. A 1 per cent tax was levied on imported textile fabrics.

68. A 20 per cent surcharge had been introduced on luxury items - caviar, champagne and other alcoholic beverages, cigarettes, furs and large motor vehicles - on 15 February 1994 (Ordinance No. 94-26).

69. Regulations imposing selva marking requirements were introduced in December 1990 (Decree No. 90-1372) to facilitate identification of garments sold illegally in Senegal, and thus applied not only to imports. The measure had been criticized by economic agents, particularly importers. The requirement had been suspended following discussions during the adoption of the emergency plan (September 1993) and was going to be abolished. Used clothing had been subject to import licensing since 1978 for sanitary reasons and to avoid closures of Senegalese factories. Restrictions on imports of second hand motor vehicles had been introduced in September 1993, but liberalized following discussions with economic agents in January 1994. The purpose was to improve road safety and business conditions for distribution agents. Currently, the prohibition affected passenger cars more than five years old, public transport vehicles (7 years) and heavy trucks (13 years) (Decree No. 94-004).

70. Import of textiles and clothing had been subject to licensing from 1978 to 1988, when all restrictions were removed except on used clothing. Follow-up measures were intended to reduce costs for domestic producers, but these had been of limited value. Smuggling had contributed to industry closures. The Government had considered certain actions to support the textile industry in September 1993, but these remained subject to consultations with importers and local producers. Any new measures would be notified, as appropriate, under GATT Article XIX or other provisions.

71. He confirmed that Senegal's export subsidy programme had been abolished as the devaluation had made such instruments redundant.

72. All export taxes were currently suspended in accordance with Ordinance No. 94-26 of 15 February 1994.

73. A 10 per cent obligatory loan requirement on 1992 profits had been introduced as a measure of solidarity, also affecting enterprises in the Dakar free zone. However, the Ministry of Finance and Planning had established a commission, including the parties concerned, to examine the issue. The requirement had subsequently been abolished.

74. International calls for tender were normal practice in public procurement in Senegal. He described the specific circumstances that had led SONATEL to reject a tendering offer of a U.S. satellite transmission company.

75. The Senegalese delegation was surprised to learn that overseas transportation charges were particularly high in Senegal. Negotiations of shipping charges were among the tasks of COSEC. Absence of return freight could not alone explain the cost differential mentioned. The question would be studied further and a response would follow later.

76. Reductions in input costs were important to improve the competitiveness of Senegalese industries. The authorities did not believe in administrative decisions to reduce charges of public utilities. A commission had been established to examine restructuring of these enterprises. Improved efficiency might result in lower charges.

77. The first discussant reminded Senegal that measures other than Article XIX actions might be taken to assist its textile industry. He appreciated Senegal's determination to implement reforms which could contribute to lower input costs.

(iii) The devaluation of the CFA franc and its economic effects

78. The devaluation required a healthy supply side to succeed. However, Senegal's industrial base was weak and not immediately capable of exploiting the new parity. A macroeconomic stabilization programme was required to minimize inflationary pressures. The authorities had also raised interest rates and resorted to price controls to fight inflation.

79. The balance of payments was expected to improve markedly in 1994. Exports of fish products, fertilizers, textiles and agricultural products would increase while import substitution would bring increased consumption of local goods, notably foodstuffs. Senegal expected a return of investment and capital flows as high interest rates and subdued inflation would contribute to attractive yields. Additional measures included stimulation of agricultural production through higher prices to farmers and social safety measures to protect vulnerable groups.

80. The structural adjustment programme agreed with the IMF was designed to improve private sector competitiveness and diversify local production. Agricultural and industry reforms would be reinforced in continuous consultation with private sector interest groups.

81. The second discussant requested more precise estimates of the effects of the devaluation on imports over the next two years. The representative of Morocco asked whether Senegal had already made specific export gains. The representative of Argentina wanted specific inflation forecasts for 1994,

if possible by sector. The representative of Zambia drew attention to the increase in producer prices and the negative effect of price increases on basic necessities for the poor population.

82. The representative of Senegal replied that projections indicated average price increases of 40 per cent in 1994. Effective stabilization measures could bring the inflation rate down to 10 per cent in 1995. The authorities did not have precise estimates concerning the effects on production and trade. Imports were expected to decrease while domestic production and exports would be stimulated. The various sectors would be monitored and conclusions would be drawn subsequently. Prices for socially sensitive products were subject to weekly monitoring at ministerial level. Subsidies on rice, cooking oil and sugar had limited price increases to 20 to 30 per cent. International financial institutions and France were contributing to the instalment of a social safety net.

(iv) Senegal and its trading partners

83. The renegotiation of Senegal's bound tariffs had been extended by successive decisions since 1990 and were targeted to end in June 1994. The resulting bindings would be added to Senegal's offer on market access. Senegal would apply a customs tariff based on the Harmonized System as soon as it could be introduced in the computer system of the customs services.

84. Senegal had taken careful note of a request that the Cotonou Treaty should be notified to the GATT, and would conform with the relevant GATT procedures in consultation with other members of ECOWAS.

85. Senegal was committed to multilateralism and would accept the Uruguay Round Agreement and related codes. Senegal and other African countries were also determined to strengthen regional cooperation, and had thus decided to maintain ECOWAS while WAEC had been dissolved since WAMU would be transformed into a full monetary and economic union (WAEMU). The WAEMU Treaty, to be ratified by 30 April 1994, underlined the need to strengthen the complementarity of participating economies and to harmonize legislation, unify domestic markets and implement common sectoral policies. Integration would be pursued with an outward oriented approach.

86. Studies concerning harmonization of legislation had been undertaken, notably with respect to the customs union; harmonization of indirect taxes; national accounting; harmonization of public finance statistics; and multilateral surveillance and convergence indicators. Proposals would be studied by national integration committees and a steering committee would establish a schedule for the pursuit of integration measures.

87. The first discussant commented that developing countries should invoke the enabling clause rather than getting involved in Article XXIV procedures. Regarding the Uruguay Round Agreement, a distinction needed to be made between the Tokyo Round Agreements included in the single undertaking and other optional codes. He also asked Senegal to comment on the contribution of a common currency to regional integration.

88. The representative of Senegal responded that a single currency alone had proven insufficient, hence the initiative to establish an economical and monetary union.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

89. These remarks are, as usual, made on my own responsibility as Chairman of this Trade Policy Review of Senegal. The full report of the proceedings at this meeting, including the statements made by the delegation of Senegal and the discussants, will be contained in the Minutes.

(1) General economic situation of Senegal

90. Council members recognized that Senegal had for many years experienced problems common to many countries in West Africa, including slow growth, chronic current account deficits, difficulties in balancing public finances and increasing indebtedness. Senegal had been engaged in structural adjustment, including trade liberalization, for some fifteen years, with the process gaining some momentum since 1986. Participation in the West African Monetary Union had given Senegal a stable currency and low inflation, but reduced the flexibility to strengthen sectors producing tradable goods. The decision taken by UMOA members to devalue their common currency by 50 per cent in January 1994 gave the potential to improve Senegal's economic and trade performance significantly.

91. Participants noted that Senegal's exports were concentrated in a limited number of products and markets. Its main export commodities, groundnuts, fish and phosphates, were vulnerable to price fluctuations and often to sanitary, phytosanitary or environmental restrictions in importing countries. Senegalese exporters also suffered from cost disadvantages with respect to labour, other inputs and transportation charges. Most of Senegal's trade was with members of the European Union; exports to many other partners were negligible. The authorities were encouraged to explore other potentially attractive markets and were asked what plans existed to further promote and diversify exports.

92. Members noted that import taxes represented nearly half of government revenue. This presented the authorities with a dilemma between trade liberalization and the maintenance of fiscal balance. High levels of import taxes had apparently spurred considerable illicit trade; participants asked what measures were contemplated to reduce smuggling and tax evasion. It was noted that the authorities were currently taking a pragmatic approach towards the large informal sector, recognizing its dynamic function in the Senegalese economy.

93. In reply, the representative of Senegal called attention to the economic difficulties experienced and the painful measures taken to redress the situation with the support of the IMF, the World Bank and the Paris Club. Liberalization was being pursued despite the difficulties.

94. Senegal had long sought to promote and diversify its exports, inter alia, through the creation of the industrial free zone, export insurance and export promotion agencies; suspension of taxes on exports; temporary admission and drawback régimes; and simplification of administrative procedures. Agricultural producer prices had also been raised. Health and sanitary regulations did, however, pose serious obstacles for exports to certain markets.

95. Following the CFA franc devaluation, taxes had been simplified by the reduction in rates and numbers of fiscal duties, reduction of stamp duty and a change in the base for its application, simplification of value-added tax and equalization-tax structures and the elimination of certain special taxes. Strengthening and rationalization of tax administration were expected to reduce evasion and smuggling.

96. Tariff and other tax receipts were expected to increase, in spite of the lowering of tariffs, as a result of increased demand for imports and domestic products, and the fight against smuggling.

97. The informal sector, although difficult to define, was important for the economy and various practical measures were being taken to assist its integration into the formal economy. A general study of the sector was also underway.

98. The UNCTAD/GATT Committee had performed a vital rôle in preparing for the Uruguay Round negotiations. Its membership was extremely broad. The Committee did not perform a rôle of independent adviser; however, the Government associated university and private sector representatives in its policy process.

(2) Trade liberalization programmes

99. Participants appreciated the trade liberalization efforts undertaken by Senegal, particularly since 1986. Tariffs were not very high; however, the cumulation of various duties and charges resulted in significant levels of import taxation. Members sought details on changes in import duties and charges since January 1994, and urged the Senegalese authorities to observe maximum transparency in publishing such information. Specific queries related to the replacement of import quotas by a temporary import surcharge, and to the objectives of a maritime tax and a tax on textile fabrics.

100. One member sought information concerning marking requirements on garments and trade restrictions on used clothing and secondhand motor vehicles, which appeared to be a departure from GATT principles and had not been notified. The same member posed questions about obligatory loans imposed on enterprises in the Dakar free zone since November 1993 and a lack of transparency in procurement undertaken by Senegalese parastatal enterprises.

101. The recent abolition of Senegal's export subsidy programme was welcomed, raising questions whether changes would also be made in the export tax régime.

102. The representative of Senegal said that following the CFA franc devaluation, tariffs had been reduced by 5 percentage points; fiscal duties had been reduced substantially and the special 65 per cent rate abolished. Stamp duty, set at 5 per cent, was now based on the c.i.f. value alone. VAT rates and other internal taxes had also been reduced and simplified.

103. All imports by sea were subject to the COSEC levy aimed at encouraging the creation of a national fleet. The parafiscal tax on cloth was levied at one per cent. Imports of luxury goods had been subject to a 20 per cent surcharge from 15 February 1994.

104. All fabrics had been subject to a selva marking requirement, whose aim was to reduce fraud. This requirement was no longer applied following pressure from economic operators, and its abolition was being considered. Used clothing imports were restricted for health reasons and to avoid closure of local manufacturing. Used cars and other vehicles were restricted partly for safety reasons: the criteria had, however, been eased in January 1994.

105. Safeguard measures on textiles, still at the planning stage, would, if taken, be appropriately notified to the GATT.

106. The export subsidy programme had been abolished following the devaluation. Senegal was committed to signing and ratifying the Uruguay Round Agreement and would adhere to all its provisions.

107. Export duties had been abolished in February 1994, as had the obligatory loan by businesses in the free zone. The question of high costs of transport would be examined and a reply sent later.

A commission had been established to examine the solutions to other high costs of production. The justification for the rejection of a specific supplier in one public procurement case was specified.

(3) The devaluation of the CFA franc and its effects

108. Members asked Senegal to comment on the expected effects of the devaluation on the structure of the economy, notably the balance between production of traded and non-traded goods, investment flows, projections for government tax receipts, as well as the outlook for Senegal's trade balance, its principal imports and the trade pattern among members of the monetary union. Members also sought more information about complementary macroeconomic and structural measures taken by Senegal to prevent inflationary pressures following the currency devaluation and to promote savings and investment. In this connection, Senegal was asked to clarify what rôle the "Caisse de péréquation et de stabilisation des prix" was expected to play in controlling basic prices and whether any time limits had been placed on the application of price controls.

109. Senegal had streamlined entry formalities to encourage tourism following the devaluation. Members wondered whether other sectors would be able to take immediate advantage of the new exchange rate, and whether Senegal would contemplate any additional incentives to give its exporters a competitive edge in sales of agricultural products to the EU market.

110. The representative of Senegal replied that devaluation required the accompaniment of a macroeconomic stabilization programme. The main immediate aim was to combat a surge in inflation. Price controls and higher interest rates were among the short-term measures taken. Nevertheless, inflation was expected to reach 40 per cent in 1994. The trade balance may be expected to improve, with a resurgence of exports and a reduction in imports, particularly of food; higher interest rates should also help to attract a return of capital flows. Producer prices were also being raised and a social "safety net" being put in place.

111. The agreement concluded with the IMF contained structural adjustment measures relating to agriculture and industry; accent was placed on export promotion by improving the productivity and competitiveness of the private sector. The strategy was still being worked out with the international agencies and economic operators.

(4) Senegal and its trading partners

112. Members commended Senegal for its active participation in the Uruguay Round, including its submission of substantial offers in market access and services. Members hoped that the renegotiation of Senegal's tariff schedule would soon result in a comprehensive schedule of bindings, allowing Senegal to introduce its new tariff based on the Harmonized System. The conclusion of the Uruguay Round implied a reduction in the trade preferences enjoyed by Senegal in its major export market; on the other hand, members stressed the benefits to be gained by small trading partners from the stricter disciplines applicable in the new multilateral trading system. Some participants observed that Senegal had not joined any of the Tokyo Round Codes and that adherence to the new WTO would impose a number of commitments on Senegal.

113. Senegal was a major proponent of economic integration among African countries. It was suggested that countries with a common currency had been slower to integrate their economies than certain other countries in Africa. Senegal and its partners in the West African Monetary Union had recently decided to strengthen cooperation and move towards full economic and monetary union. Members sought additional information on specific proposals to harmonize tariffs and other trade

measures and on Senegal's perception of future economic integration in Africa. Senegal was reminded that regional trade liberalization should not operate to the detriment of the multilateral trading system. One member urged timely notification of a revised ECOWAS treaty to the GATT.

114. Members recognized that Senegal had, for many years, faced the challenge of implementing and sustaining economic reforms in a difficult external environment. At present, the support of the international community was particularly necessary to ensure that the recent CFA franc devaluation and accompanying adjustment measures could be used to promote effective economic recovery. Some assistance had already been provided in the form of debt relief.

115. The representative of Senegal responded that his country was committed to completing the renegotiation of its GATT schedule by June 1994 and these bindings would be added to those already offered in the Uruguay Round. The Harmonized System would be brought into effect as soon as it was introduced into Senegal's customs computer system.

116. Senegal, with its partners, would conform with the requirements of GATT in relation to the revised ECOWAS Treaty. Senegal was ready to sign and ratify the Uruguay Round Agreement, including the relevant Codes.

117. The new West African Economic and Monetary Union treaty had been signed on 10 January 1994 and should be ratified by 30 April. Strengthening of economic complementarity, harmonization of legislation and introduction of common sectoral policies were key elements, in the overall framework of a competitive and open market economy. Harmonization of various measures was being studied with technical assistance from foreign and international institutions. Proposals would subsequently be examined by national committees and deadlines would be fixed for the implementation of common integration measures.

118. The Council encourages Senegal to pursue its structural economic reforms and adjustment in the light of the CFA franc devaluation and the Uruguay Round results.