SUMMARY

1. In spite of the socio-political crisis that hit Tunisia at the end of 2010 and the disruptions that followed, including the series of attacks culminating in 2015, economic growth has remained positive, thanks largely to the relative diversification of the country's economy to its trade performance, and to its well-educated labour force. As a result, with a per capita GDP equivalent to €3,250 in 2014, Tunisia is still classified by the World Bank as an upper-middle income country. Trade remains extremely important for the Tunisian economy, with a ratio of trade in goods and services to GDP of about 90%. However, the fall in the share of exports in GDP (form 45% in 2005 to 39% in 2015) coupled with a rise in the share of imports (45% to 50%) suggest that reforms are needed to revive the competitiveness of Tunisian enterprises.

2. In fact, trade policy has not been modernized since Tunisia's last trade policy review (TPR) in 2005, and was not included in the far-reaching reforms introduced following the adoption in 2014, in the wake of the socio-political crisis, of a new Constitution. On the other hand, this constitutional reform paved the way for radical changes in the legal, political and institutional frameworks. Transparency and the rule of law are now declared principles. All draft legislation is now subject to a mandatory public consultation procedure. Similarly, the new Constitution provides that duties and taxes applicable to certain products may only be increased, reduced or suspended by laws, and not by specific decrees, which means that the country's economic policy is more transparent and predictable. A so-called "regulatory guillotine" project involving a systematic review of regulations is expected, once it is up and running, to contribute considerably to the business climate – a much needed improvement particularly when it comes to cross-border trade.

3. The Government embarked on a reform of the Investment Incentives Code of 1993, initially designed to attract direct investment, especially from abroad, in activities targeting economic development and, in particular, exports. The Code offers generous tax and financial incentives, but also contains numerous restrictions that tend to discourage investment. For example, the Code allows for importation free of duties and taxes of equipment needed to carry out investments, provided there are no locally manufactured equivalents. It is these provisions, which have proven not only complex and contradictory, but also costly to administer and not very effective, that are currently being reviewed.

4. A new law on competition and pricing adopted in 2015 gives greater power to the Competition Council, and imposes stricter sanctions for anti-competitive practices. However, numerous goods and services are still excluded from the free pricing regime because they are considered to be "essential" goods subsidized by the state. They include bread and other food products as well as goods and services furnished under state monopolies (water, electricity, gas, postal services, port and airport services) and certain cars. Thus, the State continues to influence vehicle imports by granting subsidies for various cars from a number of foreign manufacturers and by resorting to a quota system for other vehicles.

5. New laws are currently being pushed through in an effort to modernize the banking sector's legal framework, and another recently adopted law has enabled the struggling public sector banks to recapitalize. The Government also introduced reforms to its insurance system, after further opening the sector to foreign presence in 2008. On the whole, these measures should help the financial sector to play its role in providing credit to the economy and mobilizing savings. Reforms would also be welcome in the transport and communications sector, which are essential to facilitating international trade and attracting foreign investment. Companies wishing to offer services in these sectors are still required to have a Tunisian partner, and the state has remained an important shareholder in the main transport, postal and telecommunications companies, sometimes incurring considerable losses. The same nationality requirements apply to most professional and business services.

6. In the agro-industrial sector, numerous State-owned enterprises – of which many are struggling – as well as several marketing boards (e.g. the Trade Board, the Cereals Board and the Oils Board) continue to be involved in international trade in goods and services. Tunisia being one of the world's leading exporters of olive oil and specialities (such as dates, "harissa", oranges and seafood) for which it is internationally recognized, the existence of these entities is currently the subject of a national review. A new development plan scheduled to be launched in 2016 should help to define the role of international trade and investment in the promotion of these activities. The drivers of the Tunisian economy also include tourism and the "wholly exporting" industries

that are open to foreign presence, in particular activities such as hotels, electric cabling, electronic and electrical equipment, parts and accessories of motor vehicles, and textiles and clothing.

7. Generally speaking, exporting from Tunisia continues to be considerably more attractive to companies with "wholly exporting" and/or "offshore" status than to other operators, who remain subject to a multitude of regulations relating to foreign currency exchange, banking domiciliation, repatriation of export earnings, tax or financial incentives and import procedures. Moreover, high export taxes continue to erode the profitability of the main exports, in particular olive oil, dates, fisheries products, crude petroleum oil, and scrap of steel and ferrous and non-ferrous metal. A number of products, in particular agricultural products, are also subjected to controls and authorizations to prevent products that have already benefited from consumer subsidies from being exported or to ensure the availability of inputs for the domestic industry. The harmonization of provisions specific to wholly, partially or non-exporting firms and offshore or resident firms, and the rationalization of restrictions and of the different incentives would not only simplify the export regime and make it more transparent and efficient, it would contribute to the promotion of exports, which is one of the Government's declared priorities.

8. While the mining sector, oil and gas in particular, offers considerable potential for development in Tunisia, the heavy presence of the State, which holds exclusive import and production rights, should be reviewed. There has been a sharp reduction in subsidies for energy consumption since 2014, and in 2016 an automatic pricing mechanism was set up to index domestic fuel prices on international prices. Until then, fuel prices had been set at all stages of production and distribution. Phosphate products under public monopoly, which are also important to exports, are currently encountering significant environmental problems: waste disposal at sea needs to be upgraded to comply with domestic and international standards. Meanwhile, in the fisheries sector, Tunisia has imposed biological recovery requirements.

9. Following its 2005 TPR, Tunisia significantly reduced its tariffs: the average rate fell from about 45% in 2006 to 14% in 2016. In 2016 there were only three rates: zero, 20% and 36%. The maximum rate of 150% in 2006 was brought down to 36% in 2009, a decrease which in part reflects the desire to align the MFN tariff on the preferences granted for non-agricultural products under the Agreement with the European Union (EU), Tunisia's main trading partner. Tunisia also grants tariff preferences to imports from certain Arab countries, EFTA members, and Turkey. All in all, Tunisia has concluded trade agreements with about 60 countries, some of which provide for preferential trade arrangements. However, since Tunisia's last TPR in 2005, no new agreement has been signed, with the exception of a preferential trade agreement with Iran, which took effect in 2008.

10. The share of Tunisia's WTO bound rates has remained unchanged at 61% since the last TPR, the Government having signed neither the Information Technology Agreement nor the Understanding on Pharmaceuticals. The average final bound rate is 65.5%, four times the average MFN applied rate in 2016. Tunisia was in the process of ratifying the Agreement on Trade Facilitation in April 2016. All in all, Tunisia's participation in the work of the WTO has been discreet, including when it comes to notifications.

11. Electronic exchange of customs documents through the single window, Tunisie Trade Net, the introduction of digital signatures, and electronic payment of duties and taxes have contributed to the goal of paperless customs clearance. Since 2015, all technical import control documents have been transmitted electronically. Among the formalities that have not yet been computerized are those relating to the numerous tax advantages available: "fiscal privilege" was requested for 42% of customs declarations in 2015. These various suspensions, exemptions and reductions of duties and taxes increase the risk of corruption, destroy the original tariff structure, create distortions between beneficiary and non-beneficiary enterprises, and testify to the need to continue with tariff reforms.

12. In 2015, import duties still accounted for close to one quarter of the State's total earnings from taxes. In addition to the customs duty, taxes levied solely on imports include levies on bovine meat, dairy products, and oils and fruits which should be reviewed for consistency with Tunisia's WTO commitments as "other duties and charges, and because of their instability. As regards to domestic taxes, revenue from domestic value added tax (VAT) and VAT on imports account for 11% and 13% of the State's total revenue respectively. The number of VAT rates has been reduced from 4 to 3 (18%, 12% and 6%) since 2005, the highest rate (29%) having been

abolished. In certain cases, exemptions from VAT on imports apply only if the product concerned has no locally manufactured equivalent.

13. Consumption tax (excise duty) is assessed on the selling price, all taxes included, of a list of products essentially comprising alcohol, tobacco and vehicles. It may be *ad valorem* or specific, and its rates were as high as 267% in 2016, thereby limiting domestic demand, in spite of the sharp decrease in the rate for alcoholic beverages (liqueurs) from 683% to 50% in order to combat informal trade and smuggling. Tyres, air conditioners, tea and coffee were also withdrawn from the list. The internal consumption tax and the import duty each account for about 4% of Government revenue, a high figure by international comparison.

14. Moreover, a 10% tax on account is levied on imports as income or corporation tax. Subsequently reimbursable, this payment is levied only on consumer goods appearing in a 45-page list. Local purchases are not concerned.

15. Heavy taxation, of imports in particular, has encouraged smuggling, especially in the border areas. The main products smuggled include liquor, tobacco, hydrocarbons, domestic electrical appliances, used clothing and footwear, and drugs. To combat this scourge, in April 2014 the Government introduced a national plan to combat smuggling, whose goals are to step up land and maritime border controls; decentralize and develop border regions; create free zones in certain border areas; and, as mentioned earlier, lower the import taxes on the main products concerned.

16. Commercial activities, including international trade (imports and exports), are generally restricted to Tunisian nationals under a 1961 law. Where such trade is open to foreigners, a foreigner's trading permit is required. The same applies to wholesale and retail trade activities. Foreigners may, however, set up international trading companies provided that at least 30% of the company's annual turnover is derived from the export of goods of Tunisian origin.

17. According to the authorities, more than 10% of tariff lines are still covered by a 1994 decree on products "excluded from the free foreign trade regime", chiefly for non-commercial reasons. These products require import or export authorizations. Tunisia has not so far taken any countervailing, anti-dumping or safeguard actions. In 2004, however, it introduced a "pre-importation surveillance" scheme under which specific products must have a "*fiche d'information*" (fact sheet) whose purpose is to inform the Ministry of Trade of any import transaction prior to bank domiciliation. This scheme has its costs both for operators and for the State.

18. Tunisia's standardization legislation was modernized in 2009 to bring the Tunisian system closer into line with international standards and to strengthen the competitiveness of domestic products and adherence to international quality standards. A draft agreement on conformity assessment and mutual recognition, covering the electrical and mechanical industries and construction products, is currently under discussion with the EU. However, imports are still subject to verification by a whole range of agencies. The planned reduction in the number of technical control agencies and the introduction of an integrated risk management system for each of the agencies should reduce some of the overlaps and simplify the control system. Phytosanitary measures are still based on a 1992 law, last amended in 2001; sanitary legislation governing imports and exports dates back to 1999. Tunisia's only two notifications to the WTO of sanitary and phytosanitary measures were submitted in 2015.

19. There have been important changes in relation to government procurement culminating with the adoption, in March 2014, of a new decree which maintains the possibility of giving a preference for Tunisian products. However, the share of government procurement awarded to foreign companies, which remained stable between 2006 and 2010 at around 7%, rose sharply to close to 33% in 2014. A new law on public-private partnership was adopted in November 2015 with the objective of diversifying ways of meeting government procurement needs and sources of financing by allowing private suppliers to be associated with the building, conversion or maintenance of public works.

20. In 2012 Tunisia acceded to the Hague Agreement Concerning the International Registration of Industrial Designs, and in 2013 to the Protocol to the Madrid Agreement Concerning the International Registration of Marks. It signed the Geneva Act of the Lisbon Agreement on

Appellations of Origin and Geographical Indications, adopted in May 2015 in Geneva. An agreement was signed in July 2014 between Tunisia and the European Patent Organization on the validation of European patents. Tunisia has not yet ratified the Rome Convention for the protection of related rights, but its legislation has already incorporated the provisions of that Convention. Tunisia has also expressed its intention to ratify the Protocol amending the TRIPS Agreement with regard to compulsory licensing. Tunisia's legislative and regulatory framework for copyright underwent substantial reform with the adoption, in 2009, of a law aimed at strengthening the protection of literary and artistic property and encouraging creation.