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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1985 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) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in Paragraph 8 of the Declaration.

I. Tunisia's previous consultations

2. Tunisia acceded provisionally to GATT in November 1979. The Declaration on the Provisional Accession has been extended sixteen times: the seventeenth Procès-Verbal extending it until 31 December 1986 was approved by the Council on 6 November 1985 (L/5908). Four full consultations have been held with Tunisia in the Committee since its provisional accession. At the last full consultation, which took place on 5 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 also noted 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. Simplified consultations were subsequently held in November 1981 (BOP/R/121) and December 1983 (BOP/R/137).

II. Main changes in Tunisia's trade policy since the last consultation

3. Tunisia's foreign trade régime was notified to GATT in a memorandum dated 9 November 1983 (L/5566/Add.1). This memorandum outlined the basis of Tunisia's trade policy and trading system since independence up to 1981, and the trade-related objectives of Tunisia's sixth five-year development plan (1982-1986). The plan identified the balance of payments and the employment situation as crucial constraints affecting the economy in its third post-indepence decade and envisaged an increase and diversification of exports and a reduction of the rate of growth of imports below the planned GDP growth of 6.7 per cent.

4. Material annexed to Tunisia's statement for these consultations (BOP/258) gives details of the import licensing system currently applied. Products are divided into a liberalized list, for which no import licences are required, and which can be imported without prior authorization on the

presentation of a commercial contract and an import certificate; a list of products importable by firms in small quantities (up to 500 dinars per annum) by the use of importers' cards; a list of products in the textiles and clothing sector for which import quotas are established, and for whose import prior authorization is required; and imports prohibited for health, sanitary or moral reasons. Products not included in any of these lists may be imported under prior licence issued by the Ministry of National Economy and countersigned by the Central Bank. Such licences are valid for six months, extensible for a further three-month period. Products subject to import licencing are allocated among traders on a points system related to firm size and volume of imports.

5. While the basic structure of Tunisia's import licensing system has remained unchanged since the last consultation, a number of refinements and modifications have been introduced in the past two years. In particular, during 1983 import authorizations were administered somewhat more restrictively. Subsequently, during 1984 the procedures for the use of annual import authorizations by industrial enterprises were made more flexible in operation, by providing for carry-over to the following year of unused portions of import programmes and for switching imports between products within the overall limit of a particular programme. This led to an increase of some 16 per cent in the value of imports under such programmes between 1983 and 1984, bringing the level back to almost that of 1982 in dinar terms. New provisions for temporary imports entering under "outward processing" conditions for re-export after value added, introduced in June 1985, permit such goods to be imported without a licence (which was previously, in any case, granted virtually automatically). During 1985, new legislation also provided that raw materials, spare parts and equipment up to a value of 20,000 dinars could be imported by enterprises for their own use, without license, if paid for from sources outside Tunisia; for investment goods for approved projects, no limit was set on the value of goods importable under these provisons. On the other hand, conditions for the import of capital goods paid for with foreign exchange, for projects approved by the Investment Promotion Agency, have been tightened; these goods must now be imported under import licence.

6. Under the 1985 Finance Act (Law No.843 of 31 December 1984) Tunisia's import duties were generally increased by around 10 per cent giving a range of between 7.5 and 231 per cent as against 6.5-210 per cent previously for the "minimum" tariff (i.e. that applied to countries with which Tunisia has concluded trade or preferential agreements and to contracting parties which have accepted Tunisia's provisional accession. Imports from other sources bear duties of three times the "minimum" rate). Numerous exceptions were granted from tariff increases for industrial raw materials and other inputs.

7. Under the Act a new tax of 1 per cent on the c.i.f. value of imports was also introduced to finance a newly established export promotion fund. An initial list of goods subject to this tax was adopted in February 1985. In August 1985 all imports were made subject to the tax except for the following products: preserved or concentrated milk, butter, soy beans and oil, sunflower oil, raw sugar, fuel oils, tars and waxes, fertilizers, newsprint, books, postage and fiscal stamps, monetary gold imported by the Central Bank, coins, drilling machinery, agricultural machinery, data-processing equipment, invalid carriages, prostheses, arms and military equipment.

8. The Act also provided for drilling and oil exploration equipment to be exempted from consumption tax, for micro-computers to benefit from a reduced rate of production tax and for plastic sheeting for agricultural purposes and greenhouses to be exempted from customs duties.

III. Developments in production and trade

9. Tunisia's overall balance of payments deteriorated from a surplus of US$28 million in 1982 to deficits of US$15 million and US$150 million in 1983 and 1984 respectively. An important reason for this decline was a fall in net direct foreign investment, from US$402 million in 1982 to US$206 million in 1984. The current account deficit, which was reduced from US$767 million in 1982 to US$625 million in 1983, increased again to US$867 million in 1984. The adverse balance of payments situation led to a reduction in gross official foreign reserves, which were sufficient for only about 2 and 1½ months' imports (c.i.f.), respectively, at the end of 1983 and 1984, and for less than one month's imports at end-July 1985. Outstanding debt as a proportion of GNP increased from 41.5 per cent in 1982, to 45 per cent in 1983 and to 50 per cent in 1984; debt servicing as a percentage of exports of goods, services and transfers increased from 14.7 per cent in 1982 to 19.6 per cent at end-1984.

10. The dinar depreciated against the US dollar by 13 per cent in 1983 and 12½ per cent in 1984. The corresponding depreciation of the trade-weighted real effective exchange rate based on relative wholesale prices was only 5.4 per cent in the two years to the second quarter of 1985, and 1.1 per cent based on relative consumer prices over the same period.

11. The performance of the Tunisian economy has been somewhat constrained in recent years, both because of a weak market for some important export items like energy products and phospates, as well as for, tourism, and lower output particularly of agricultural products. A sharp reduction in output of the "agriculture and fishing", "mining", "hydrocarbons, electricity, and water" sectors led to a stagnation of real GDP in 1982. Subsequently, a high growth rate of the last two sectors contributed significantly to the 4.8 per cent increase in real GDP achieved during 1983. The real output of these two sectors again decreased in 1984, but an estimated 11.6 per cent growth rate of agriculture and fishing provided a significant stimulus to the economy, and real GDP grew by 5.4 per cent.

12. The manufacturing sector, which grew by over 8 per cent in 1983 and 1984, gave a much more sustained impetus to the economy.[1] The services sector was relatively less dynamic, primarily due to the disappointing trend in tourism receipts.

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[1] Within the manufacturing sector, performance varied across industries. For example, while "construction materials and glass" grew by 14 per cent in 1983 compared to 6 per cent in 1984, "food processing" grew by 19 per cent in the latter year following a growth rate of about 3 per cent in 1983.

13. As far as different components of expenditure are concerned, while real consumption increased by about 6 and 5 per cent in 1983 and 1984 respectively, real gross fixed capital formation rebounded with a growth of about 9 per cent in 1984 after a decline of about 5 per cent in 1983. The increase in these expenditure items also had an impact on imports (see below). Despite the rapid growth of the economy in 1983 and 1984, unemployment remained high. The official unemployment rate was 12.9 per cent in 1983 and 13.7 per cent in 1984. (The recent expulsion of a large number of Tunisian workers from Libya will further contribute to unemployment). The official inflation rate (measured by the consumer price index) has hovered between 8 and 9 per cent for the last four years, except for 1982 when prices increased by 13½ per cent. In interpreting the official rate, it is important to keep in mind the fact that most prices are subject to various types of controls.

14. Depressed market conditions for important export items have contributed to declines in the dollar value of total exports (f.o.b.) since 1982. Export receipts fell by 6 per cent in 1983 to US$1,860 million, and by another 3 per cent in 1984 to US$1,797 million. This was despite an increase in volume of exports of 3.8 per cent and 1.7 per cent respectively in 1983 and 1984. The dollar value of energy exports, which account for over 40 per cent of total exports, fell by about 8½ per cent in 1983 and 4 per cent in 1984. The other important export category "phosphates and chemicals" (accounting for about 16 per cent of total exports) registered a small increase in dollar receipts in 1983, which then declined by about 9½ per cent in 1984. However, some products performed well in 1984, such as "agricultural products" whose exports increased by 24 per cent in dollar value, following a 21 per cent fall in the previous year. Similarly, the dollar value of exports of "mechanical and electrical products" also increased rapidly in 1984 after a substantial fall in 1983. The EC countries, of which France and Italy are the most important, continued to be the major trade partners of Tunisia, and accounted for about 58 per cent of both its exports and imports in 1984. However, there is a slight trend towards growing importance of other markets.

15. The dollar value of imports (c.i.f.) in 1983 decreased by about 8 per cent to US$3,117 million, partly as a result of more restrictive administration of import authorizations (see paragraph 5 above). An easing of these policies in 1984 contributed to a 2 per cent increase in the value of total imports. In volume terms they increased even more, namely by 5.7 per cent. The value of imports in 1984 was higher mainly because of growth rates of 5 to 6½ per cent for the dollar value of imports of "raw materials and semi-finished products", "equipment" and "energy", which together accounted for about 70 per cent of total imports in 1984. Among the factors contributing to higher imports were: import costs for sulphur, which represents about 40 per cent of raw material imports, were higher because of an increase in the international price. Purchase of equipment for the Tunis metro system, and a ship bought by a large chemical company, led to a substantial increase in imports of capital equipment. Imports in 1985 are expected to be lower because of the tighter provisions for imports of capital goods introduced in the middle of this year, (see paragraph 5) and the exceptionally good cereal crop.