GENERAL AGREEMENT ON TARIFFS AND TRADE

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The Permanent Mission of Tunisia has provided the note hereunder which reproduces an extract from the Seventh National Development Plan concerning the prices policy of Tunisia. This note is circulated for the information of contracting parties and has no legal status.

PRICES POLICY

1. The prices policy followed in recent years has not always been consistent with the objectives set as regards increasing production, promoting exports and containing prices.

2. Throughout the previous plans, a central feature of the regulations has been direct government intervention in the price formation process for a large number of products, in order to reconcile the need to ensure sufficiently remunerative prices for producers to stimulate investment and production, and the need to hold down price rises to tolerable levels that would preserve consumer purchasing power.

The legislation governing the price system (Law No. 70-26) thus contained five price régimes, namely:

- the fixed price régime, under which the Government fixes a maximum price for most sensitive mass-consumption products and for public utility services;

- the authorized price régime, under which the Government sets prices in advance on the basis of accounting information from undertakings: this régime is applied to certain manufactures for which there is no competition on the domestic market;

- authorized profit margin régime, covering most manufactures; under this system the undertaking fixes its own producer price, raising its cost price by a margin previously fixed by the Government;

- controlled free prices régime, under which prices are fixed at the producer level by the undertaking itself but must be referred to the Government prior to being applied;

- and finally, the régime of total freedom, under which prices are freely fixed by the law of supply and demand; on the eve of the Seventh Plan, this régime applies to most agricultural products, about 10 per cent of manufactures and some services (such as rent).

3. While this prices policy was justified to some extent, at first, and at a time when the promotion of infant industry called for a special framework and support, its maintenance over a relatively long period has not facilitated the proper allocation of resources.

The competiveness of products, in particular manufactures, has not always been sufficiently encouraged; on the contrary, because of the heavy protection enjoyed by the domestic market, the existing system has rather led some undertakings to raise their production costs so as to increase their profit margins, while only partially using their production capacity.

Agricultural production has likewise not been encouraged, in particular for strategic crops. Government price-fixing for such products has discouraged farmers from going in for them, which has had the effect of increasing the country's external food dependency.

Finally, if the rise in consumer prices has been contained over the last 10 years within reasonable limits of around 8 per cent annually on average, this has been the result not of higher productivity but rather of greater government intervention, essentially through the General Equalization Fund, whose intervention under the Sixth Plan amounted to over D 1,000 million, as well as through direct and indirect subsidies to undertakings to maintain certain public charges at levels below production costs (transport, electricity, water and so forth).

4. In the light of the above analysis, a thorough-going revision of the prices system seems called for, given the export-oriented strategy central to the Seventh Plan.

The new policy orientation in this field, in the framework of the recovery programme, is for an acceleration of the move to abolish price controls so that market mechanisms can again play their regulating rôle in the determination of price levels and the optimum allocation of resources.

Of course, this orientation will be introduced gradually and carefully, in step with the programme of liberalization of the economy, in particular as regards investment and imports, so as to avoid distortions that could affect the economy by a sudden shift from a highly regulated system to one based on freedom.

5. With these concerns in mind, the approach taken by the Seventh Plan differs from one category of products to another, according to their nature and sensitiveness.

Thus, manufactures, which were generally subjected to the authorized profit-margin régime will progressively be totally liberalized. This liberalization process has already begun since the introduction of the recovery programme, with the abolition of price controls for a first list of products representing about 45 per cent of all manufactures, in addition to the 10 per cent already under the free régime. This process will be pursued during the second half of 1987 and throughout 1988, with the aim of extending the régime to all products for which there is sufficient competition on the domestic market, as a result either of the existence of a sufficient number of producers or of the free importation of the products. Thus, by the end of 1988 this régime will cover almost two-thirds of all industrial products.

The products concerned are essentially:

- building materials, except for binding agents and sanitary items;
- textile products, excepting underclothing and articles of jute;
- plastic articles;
- footwear and accessories;
- automobile parts, hardware, etc;
- certain chemical products (paints, varnishes, detergents, glues etc.);
- certain food products (preserves, beverages, yoghurts, etc.).

As for the remaining products, for which there is not enough competition and the prices of which therefore cannot be immediately liberated, a transitional régime of controlled freedom will be applied as a stage towards total freedom once competitive conditions exist.

This régime, which will in fact be applied for a relatively short period, not beyond 1991 in most cases, nevertheless includes a major innovation in the price-fixing procedure, which encourages the optimum use of installed production capacity and encourages enterprises to contain production costs and seek to improve their products. Thus, the new price-fixing formula has the following features:

- introduction of standard reference values for consumption of inputs and manufacturing time for the calculation of the cost price;
- consideration of a minimum utilization of 80 per cent of installed capacity in the calculation of fixed costs;
- elimination of raw materials from the assessment basis for profit margins; and
- granting of a premium on the sales price for enterprises making an additional export effort.

6. The problem is different for agricultural products. Most of these are already under the total freedom régime, and their prices are fixed by the interplay of supply and demand. The aim now is only to improve the price-fixing mechanisms in order to provide greater security for producers and consumers against sharp price fluctuations. Regulation is to be sought through better programming of production and improved organization of marketing networks.

For other products, in particular cereals, oil and some livestock products, prices remain controlled; until recently, their level was fixed more on the basis of considerations of preservation of consumer purchasing power than of changes in production costs. This resulted in great distortions which did not encourage production in these areas. Nevertheless, this policy has been clearly modified in recent years, with the implementation of a programme of enhanced producer prices, in particular for cereals, milk and beef.

This orientation will be pursued under the Seventh Plan, initially by bringing producer prices for these products into line with non-subsidized world prices, and subsequently after 1988 by adjusting domestic prices to the non-subsidized import prices, including transport costs and customs duties (minimum 15 per cent).

7. Finally, with regard to services, the adjustment policy implemented in recent years will be actively pursued so as to improve cost coverage and at the same time ensure better quality services for users.

This policy, which concerns such services as transport, electricity, water and some social services, such as health, should be based on a systematic and periodical assessment of the real cost of the service so as to carry out any price adjustments or make suitable financing arrangements, whenever necessary.

8. This policy of price liberalization and adjustment will not necessarily lead to systematic hikes in domestic prices. The rehabilitation of market mechanisms should a priori, and as it has in fact proved in recent months, on the contrary have a moderating effect on prices of some products by reintroducing the free play of competition, and also thanks to the efforts made by undertakings, in this specific case, to optimize the use of installed capacity and contain their production costs.

Nevertheless, the adjustment of public charges and prices of certain products fixed by the government will necessarily have an impact on the overall level of producer prices, which will have to be either passed on in full to users and consumers or wholly or partly offset by corresponding budgetary subsidies.

The policy on public charges is relatively explicit in this connection, inasmuch as it is henceforth determined in the framework of programme - contracts concluded between the Government and the undertaking concerned. The principle followed at this stage is to avoid any operating subsidy by the State for electricity, water, sanitation and inter-urban transport; any duly justified increase in production costs in these sectors should be systematically passed on to users and beneficiaries with, perhaps and wherever possible, a variation in the increases according to consumption levels, so as to spare as far as possible the less well-off social groups which mostly have low consumption levels. On the other hand, urban passenger transport, which has a pronounced social character, will continue to be subsidized according to rules and modalities laid down in advance in the light of the objectives of public transport development, bearing in mind the benefits accruing to the community in terms of consumption of energy and spare parts.

For mass consumption goods of which the prices are currently subsidized by the General Equalization Fund, the problem is as follows: the Fund's resources, within the framework of the overall balance of the State budget, are limited to D 855 million during the period of the Seventh Plan as a whole, while estimated payments, taking account of the producer price adjustment programme, will total, on the basis of current supply prices nearly D 1,470 million for the same period. Almost half of these (D 742 million) are accounted for by cereals and cereal products for human consumption, the remainder consisting in particular of subsidies for blended oil (D 150 million), milk (D 100 million), sugar (D 182 million), fertilizers (D 146 million) and barley (D 36 million).

Taking into account, however, the programme already laid down for the rapid elimination of the barley subsidy and the gradual elimination of the fertilizer subsidy by 1991 brings these payments down to D 1,350 million and the shortfall to some D 500 million.

How to mop up or cover this gap remains a moot point; the alternative under the Seventh Plan is as follows:

- to freeze current prices and place the burden of covering the difference between real prices and subsidized prices on the better-off social groups; by way of example, the repayment of the subsidy granted to households with an annual per capita expenditure of over D 800, equivalent to a monthly income for the head of the household of D 310, or three times the industrial minimum wage (SMIG), would lead to subsidy savings of D 33 million in the first year, which, with a cumulative effect, would virtually wipe out the deficit without there being any need to raise consumer prices;

- to pass on the increase in payments in consumer prices so as to bring down the Fund's payments from D 189 million in 1987 to D 145 million in 1991.

Each of these solutions has its advantages and disadvantages which must be thoroughly weighed up in the light of the various objectives set for the period.

The former solution has the advantage of satisfying the principle of social justice and of effectively contributing to containing prices. It has a major drawback, however: by maintaining prices at an artificially low level, it does not meet the objective of controlling waste and reducing distortions.

As for the second solution, while it helps to restore the real hierarchy of prices and thus a better allocation of resources, it would on the other hand lead to inevitable price increases for staple products, of about 10 to 20 per cent on average per year, which would affect the purchasing power of the less well-off social groups.

There are, of course, middle ways, which might perhaps constitute a compromise solution meeting both the concern to preserve the purchasing power of the low-income groups and the concern gradually to restore genuine prices. They might perhaps consist in the implementation of a price-adjustment programme accompanied by the introduction of a contribution by the better-off strata to the national solidarity fund, which would make it possible to provide direct, "equalizing" support to the poorest families.