

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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22-23 June 1994**

TRADE POLICY REVIEW MECHANISM

TUNISIA

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the first review of Tunisia's trade policies and practices, welcomed the Tunisian delegation headed by Ambassador Mohamed Ennaceur, members of the Council, and the discussants, Mr. Jean Saint-Jacques and Mr. Mehmet Onaner, who would speak in their personal capacities.

2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Tunisia (C/RM/G/47) and the other by the GATT Secretariat (C/RM/S/47 and Corrigenda 1 and 2). He reminded the Council of the procedures for conducting reviews, introduced since May 1993 (document L/7208).

3. The Nordic countries and the United States had given advance notice in writing of points they wished to raise during the meeting.¹ These were conveyed to the Tunisian delegation and copies made available at the meeting to Council Members.

¹Australia and Canada also submitted written questions on the morning of the meeting.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF TUNISIA

4. The representative of Tunisia, after introducing his Government's report and thanking the Chairman, discussants and the Secretariat, proceeded to the following statement:

Tunisia's participation in the GATT and the Uruguay Round

5. Under provisional accession status to the GATT since 1959, Tunisia ratified the Protocol for its full accession to GATT only four years ago.

6. Our formal accession to the General Agreement at a critical period of the Uruguay Round of trade negotiations is further proof of our determination to reorganize our economic system and appropriately redefine our trade policy objectives, both domestic and foreign, within the framework of a large-scale structural adjustment programme which began in 1987.

7. Since then, the reform of our trade policy has taken place in two stages:

- The first stage, covering the period 1987-1990, had the dual objective of tackling immediate economic difficulties and reducing structural difficulties, progressively integrating the national economy into the world economic setting. This period, which was inaugurated with the introduction of the Structural Adjustment Programme, began with a far-reaching programme of liberalization of trade and investments privatization of State enterprises.
- The second stage began in 1990 with Tunisia's accession to GATT, and was marked by the introduction of tariff adjustments permitting the binding of 909 tariff lines out of a total of 6,052.

8. Tunisia's active participation in the Uruguay Round negotiations led to the submission of substantial offers of commitments in the industrial, agricultural and services fields.

9. As regards non-agricultural products, the concessions offered by Tunisia concern 1,498 tariff lines, of which 639 are for industrial products, where the bound rates range from 27 to 43 per cent, and 859 are for textile products, for which the bound rate is 90 per cent, to be cut to 60 per cent by 2005.

10. For agriculture, the conversion of non-tariff measures into tariff equivalents made it possible to fully bind all products at variable levels according to the nature of the product. The bound rate is now 100 per cent. The fact that Tunisia is a net importer of foodstuffs makes this achievement all the more commendable.

11. With regard to services, the offer essentially concerns tourism, insurance and the financial and banking areas. The services sector is a strategic and commercially thriving sector, and this offer was a substantial one.

12. Thus, Tunisia played an active rôle in the Uruguay Round negotiations and made a significant contribution during each of its phases.

13. Tunisia has demonstrated its unflagging commitment to the globalization of the economy and has given proof of its confidence in the multilateral trading system by signing the Final Act and the

Agreement Establishing the World Trade Organization adopted at the Marrakesh Ministerial Meeting. Tunisia has already initiated the ratification procedures.

The economic reform programme

14. In its effort to sustain the Structural Adjustment Programme and to restore market mechanisms at all levels, Tunisia has been focusing, inter alia, on:

- Price liberalization at the production and distribution stages with liberalization rates of 87 per cent and 70 per cent, respectively, as of 1993.
- The progressive liberalization of imports. This liberalization currently covers 86 per cent of imports, and the figure will reach 92 per cent by July 1994.
- The scaling down of State intervention through a policy of privatization and restructuring of State enterprises. This privatization process has steadily improved over the years.

Through this strategy, it has been possible to create a more dynamic private sector whose contribution to national economy is constantly growing. Private investment now accounts for about 50 per cent of overall investment.

15. Moreover, the limitations of the local market combined with a highly competitive world environment have led the Government to step up its efforts at the legislative and institutional levels towards providing the economy with the strength needed to penetrate world markets, and thus to attain its objective of openness. The measures taken in this respect include the following:

- The foreign trade régime: the Law of 7 March 1994 establishing the Régime applicable to import and export of goods embodies in legislation the principle of freedom of trade as the culmination of the opening up of the Tunisian economy to the world.
- The liberalization of investment: a complete revision of investment codes in the agricultural, industrial and services sectors has been carried out with a view to greater unification. In December 1993, an Investment Incentives Code was promulgated in order to stimulate investment.
- In May 1993, in conformity with its obligations arising out of Article VIII of the IMF Agreement, Tunisia introduced the liberalization of current account transactions in concrete form by establishing the current convertibility of the Dinar. All transactions related to foreign trade are now considered to be current transactions.
- Customs duties: with the gradual dismantling of non-tariff measures, customs duties have more than ever become the chief trade policy instrument, in conformity with GATT principles. In this respect, three timely decisions were taken in support of the integration process: firstly, the adoption of the Harmonized System nomenclature; secondly, the harmonization of the customs duty range with a minimum rate of 17 per cent and a ceiling of 43 per cent; and finally, following Tunisia's accession to GATT in 1990, and its contribution to the Uruguay Round negotiations, the binding of more than 60 per cent of its Customs Tariff.

16. In this same connection, it should be added that Tunisia has maintained the balance of its trade relations with its different partners by favouring non-discriminatory treatment based on the most-favoured-nation clause at both the bilateral and the multilateral levels.

17. Bearing in mind the aggregate economic balances, Tunisia's strategy aims at improving the national product and at further diversifying its trade, thereby reducing its balance-of-payments deficit thanks, *inter alia*, to the increase in direct investment flows and partnership operations.

18. However, Tunisian exports still suffer from a number of problems inherent in the structure and geographical distribution of the country's trade, and in international constraints connected with market access for its products.

19. Like many developing countries, Tunisian goods suffer from significant fluctuations in the terms of trade. In the textiles sector, which is both strategic and important in terms of employment and foreign exchange earnings, the progressive dismantling of the Multifibre Arrangement (MFA) together with a change in the orientation of the world market has created a number of difficulties which Tunisia will try to overcome in the framework of its international commitments.

20. In an effort to restructure the agricultural sector and to make it more dynamic, self-sufficiency in food has become a strategic objective of the Agricultural Structural Adjustment Plan, drawn up exclusively for the agricultural sector.

21. In this connection it is worth stressing the important share of this sector in the country's GNP and its essential rôle in stabilizing the population and maintaining employment.

External relations

22. Tunisia, which is still in the process of restructuring and diversifying its economy, is doing its utmost to sustain regular growth and to make the most of current international developments.

23. In this new situation characterized by the emergence of regional groupings, we feel that it is urgent to step up the process of Maghreb construction on a healthy basis of cooperation, complementarity and integration.

24. At the same time, we are also endeavouring to strengthen our relations with the European Union, Tunisia's main trading partner, in which 400,000 Tunisians live and work.

25. It should be recalled in this connection that the cooperation agreement between Tunisia and the European Communities signed on 25 April 1976, and revised in 1988 following the entry of Spain and Portugal into the Community in 1986, covered three areas:

- trade;
- social issues;
- economic, technical and financial matters.

26. Tunisia is currently conducting negotiations with a view to extending the agreement and setting up a free-trade area with the European Communities.

27. Aware of the changes which have taken place at the international level, Tunisia is introducing reforms aimed at making the national economy as competitive and dynamic as possible in order to penetrate new markets and open up new prospects for cooperation and trade with its regional surroundings:

- Tunisia is a contracting party to the Agreement signed within the framework of the League of Arab States with a view to forming an Arab Common Market and achieving better inter-Arab integration.
- Tunisia is a signatory to the Treaty of Abuja creating the African Economic Community, a preliminary stage in the creation of an African Common Market.
- Tunisia has signed a Framework Agreement on the system of trade preferences among Islamic countries.
- Finally, Tunisia is also a signatory to the Agreement establishing the Global System of Trade Preferences among developing countries.

Outlook

28. Encouraged by its achievements thus far, confident of its choices and convinced that the process of reconstruction has not yet been completed, Tunisia will continue along the path which it has marked out in spite of the geopolitical upheavals and the shifts in trade relations, in order to provide its development process with the necessary structural conditions for sustained growth, greater control over economic variables and better integration into the world economic system. In 1994 and 1995 Tunisia plans, together with the consolidation of its liberalization strategy, to continue to deepen its reform process. The planned measures are based on the following main pillars:

- total liberalization of interest rates;
- implementing external financial liberalization;
- strengthening the banking systems;
- stimulating the financial market; and
- restructuring the industrial sector.

29. One of the great merits of the process of restructuring the Tunisian economy is clearly that it is taking place calmly and gradually, a stage-by-stage basis. The margin of progression of the Tunisian economy permits us to be very ambitious, but calls for increased efforts. We are proud of the fact that the principle of participation at all levels has taken over from the principle of assistance and has permitted us to achieve progress without any political upheavals or excessive social costs, while maintaining basically sound aggregate economic balances.

III. STATEMENT BY THE FIRST DISCUSSANT

30. The first discussant (Mr. Saint-Jacques) noted that the economic structure as well as direction of economic policy in Tunisia had considerably changed since 1986. The Structural Adjustment Programme launched in 1986 had transformed the economy from a highly-regulated and oil-dependent one to a more market-oriented economy with a diversified export structure. The results achieved were significant, particularly in terms of sustained growth and contained inflation. This remarkable performance was added to positive social developments bequeathed from the previous decades, such as improvement in education and in demographic situation. On the external side, however, resulting high growth in exports had stopped short of overcoming the persistent trade deficit and lack of diversity in exports.

31. The discussant then focused on four aspects of Tunisia's trade policy, i.e., border protection for exporting industries; rôle of outward-processing operations in the textiles and clothing sector; self-sufficiency goal in agricultural policy; and impact of the Uruguay Round agreements.

32. Firstly, he pointed out that leading exporting industries in Tunisia (e.g., textiles and clothing sector) benefitted largely from export promotion incentives, while being protected by high and escalatory tariffs and other non-tariff barriers. The Tunisian delegation was asked the reasons why such a high border protection was maintained in apparently competitive industries.

33. As for the second point, the discussant noted that Tunisia's clothing industry was largely integrated into European outward-processing operations (*opérations de perfectionnement*), and said that this could be a possible source of vulnerability in Tunisian industry. Questioning the rôle of trade policy in this context, he suggested that reduction of border protection might help diversify and develop Tunisian industry along lines that were more reflective of its long-term competitive advantage.

34. Turning to the third point, he noted that, under the policy of food security, price controls and State monopolies were maintained for certain key agricultural products. He queried the viability of such sectoral protection within a policy directed toward increased market openness, and enquired whether the Tunisian Government envisaged eventual reduction of such State intervention, with a view to render the sector more competitive in the long run. A question was also raised concerning high border protection maintained for major exporting products.

35. Finally, the discussant noted that implementation of the Uruguay Round agreements, particularly elimination of export subsidies and phasing-out of import quotas under the MFA, could have an important impact on the Tunisian economy. He enquired whether the Tunisian authorities envisaged any transitional measures to mitigate such impact, i.e., increase in subsidies and border protection. In this context, a question was also asked regarding the rôle of macro-economic and exchange rate policies in ensuring the continued competitiveness of Tunisia's industry.

36. In concluding his statement, the discussant reiterated his compliments for the considerable efforts made by the Tunisian Government as well as the remarkable results obtained. He stated that Tunisia was now better positioned to benefit from international trade as long as it maximized its competitive advantage.

IV. STATEMENT BY THE SECOND DISCUSSANT

37. The second discussant (Mr. Mehmet Onaner) stated that Tunisia was an active supporter of the multilateral trading system, despite its relatively recent accession to the GATT as a full member. He then focused on Tunisia's recent changes in policy orientation, from inward-oriented policies relying on modest agricultural output and petroleum revenue to export-led, market-oriented policies launched by the Structural Adjustment Programme in 1986. He noted that, given its strikingly high dependency on external trade, the Tunisian economy had no option other than an outward-oriented economic policy aiming to improve the productivity and the competitiveness.

38. The discussant then raised several questions relating to the rôle of public sector in the external trade of Tunisia. Noting that a considerable part of trade was still carried out by State-trading enterprises, he sought information on medium- and long-term plans for further liberalization. More specifically, information was sought concerning consequences of the elimination of export monopoly on olive oil and the reasons behind the continuing major rôle of the *Office national de l'huile*, particularly through its control of exports under European Union quotas.

39. Regarding investment policy in Tunisia, the discussant stated that the new investment code, by eliminating the inefficiencies created by the five previous complex sectoral codes, would give an impetus to both domestic and foreign investment. In this connection, the discussant, noting that only few privatizations in Tunisia had so far involved foreign investors, sought information on the process of privatization in Tunisia, e.g., the existence of specific legislation for such purpose, the participation of local entrepreneurs in the process, and the sectoral distribution of privatization.

40. Turning to tariffs and other levies and charges, he praised the progress achieved by Tunisia in reducing and rationalizing tariff barriers since the mid-1980s. He noted, however, that the process of liberalization had slowed down since 1991, and duties were raised by 10 to 30 percentage points through the introduction of Provisional Complementary Duties (DCP). He recognized that Tunisia had agreed to phase out the increased duties by 1 January 1997.

41. With regard to import licensing, the discussant noted that, despite the significant liberalization undertaken in the last years, import restrictions were still maintained for some 27 per cent of all tariff lines. He welcomed Tunisia's efforts to further eliminate quantitative restrictions under the BOP provision (Article XVIII: B). In this connection, he questioned reasons why the validity period of an import certificate could not be extended, while that of an import licence, the stricter form of licensing, could be extended.

42. As for the recently enacted Law No. 94-41, which aimed to establish the principle of free trade and complete the liberalization process of Tunisia, the discussant asked for the list of products whose import was transitionally restricted under Article 39. Clarification was also sought as to envisaged modifications regarding the current anti-dumping and countervailing duty scheme (Article 11 of the Customs Code and 1993 Decree) and the Foreign Trade and Foreign Exchange Code of 1976, as a result of the implementation of the new law.

43. The discussant recognized that, given the importance of external trade in the Tunisian economy, there was a need to diversify the direction of its trade, which had remained concentrated on the European Union market.

44. In concluding his statement, the discussant expressed his appreciation for the efforts made by Tunisia to integrate itself into the world economy, and wished that durable solutions to the current drawbacks be sought within the continuation of such process.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

45. Council members thanked the discussants for their constructive introductions. They also complimented Tunisia and the Secretariat for the efforts made in preparing their respective reports, which provided a highly informative basis for the review.

46. Council members joined in commending Tunisia for its considerable efforts made, as well as significant results achieved, since the mid-1980s, with a view to transforming itself from a highly-regulated inward-looking economy to a more open and market-oriented one. While acknowledging Tunisia's commitment to the multilateral trading system, in particular to the future WTO, representatives encouraged Tunisia to pursue further liberalization within the multilateral framework.

47. The representative of the European Communities noted that the Communities enjoyed a privileged place in Tunisia's trade in merchandise and services. He remarked that, while bilateral relations were currently covered by the 1976 Cooperation Agreement, negotiations for an agreement to establish a free trade area were underway. He noted that Tunisia had formally acceded to the GATT only quite recently, but had actively participated in the Uruguay Round negotiations. He also invited Tunisia to accede to plurilateral agreements.

48. While commending the remarkable efforts made by the Tunisian Government since the mid-1980s towards the liberalization of the economy, he pointed out several areas where further progress could be expected: tariff reduction, which had been slowed down by the re-introduction in 1994 of the DCP; import restrictions, which were still maintained for 27 per cent of total tariff lines, and were to be reduced, according to the Tunisian authorities, to some 8 per cent of imports in 1994; State enterprises, which continued to play a dominant rôle in the energy sector; the fact that Tunisia's comparative advantage appeared to be increasingly challenged; and its structural vulnerability, aggravated by relative insufficiency in savings.

49. The EC welcomed Tunisia's intention to ratify the Final Act of the Uruguay Round and to become a founding member of the WTO. He stated that the scope of the concessions made by Tunisia confirmed its firm commitment to pursue the trade liberalization within the multilateral framework.

50. The representative of Senegal complimented Tunisia for the impressive progress it had achieved, particularly in terms of convertibility of the dinar, confidence obtained from investors, competitiveness of Tunisian products, political stability as well as dynamism shown by its people. The representative, noting Tunisia's active participation in the Uruguay Round negotiations, enquired how Tunisia would assure the conformity of its domestic legislation to the Uruguay Round agreements (Article XVI of the WTO Agreement). With regard to external relations, the representative stressed that Tunisia had earnestly made efforts to deepen its trade relationship with African countries, even though the volume of trade had remained modest.

51. He concluded his statement by suggesting that the Trade Policy Review, going beyond only verifying aspects directly related to GATT rules, could be used to identify problems in each country under review and to propose possible solutions in the light of experiences in other countries of the comparable situation.

52. The representative of Turkey joined other participants in praising Tunisia for positive and significant progress it had achieved in the implementation of outward-oriented trade policy within the framework of the Structural Adjustment Programme, and hoped that further liberalization be achieved within the new trade régime based on the Law No. 94-41. She then raised questions concerning the

exact trade coverage of EU preferences for Tunisia; conditions to initiate review procedure on anti-dumping and countervailing duties; Tunisia's compliance to notification requirement on State trading enterprises (Article XVII); and details on the Authorized Price Régime and its effects on flow of goods (Secretariat report, Appendix Table AIV.1).

53. The representative of Japan, appreciating Tunisia's supportive position vis-à-vis open and multilateral trading system and its earnest efforts in liberalizing import régime, wished the Tunisian Government to press on with the liberalization process. He raised a question regarding Tunisia's counter-purchase requirements for the import of automobiles, where, according to the Japanese delegation, the issuance of an import licence for automobiles was conditioned to the export of specific products equivalent to more than 50 per cent of the value of imported automobiles.

54. The representative of Norway, speaking on behalf of the Nordic countries, congratulated Tunisia for important steps it had taken towards liberalization, including full accession to the GATT, the liberalization of exchange control and the establishment of convertibility of the dinar. He stated that tasks of further liberalization within a multilateral framework remained yet to be completed. While recognizing Tunisia's concession in the Uruguay Round agreements, which resulted in a significant enlargement of binding scope, he noted that tariff reduction had slowed down in the last years, and that certain products remained subject to a surprisingly high tariff protection, including paper products, fish and wood products. The representative sought information on remaining import restrictions under Article 39 of the Law No. 94-41, particularly restrictions on phosphoric fertilizers and machinery. He also enquired whether the Tunisian Government envisaged any tariff reduction on fish, and sought confirmation on the completion date for import liberalization. Noting that the Tunisian Government procurement scheme extended a 20 per cent preference to domestic suppliers, the representative invited Tunisia to accede to the Government Procurement Code.

55. The representative of Hong Kong noted with appreciation that Tunisia's Structural Adjustment Programme, based on a liberal and market-oriented trade policy, had generated a significant and positive impact on the economy. He expressed his hope that Tunisia would continue its efforts on trade liberalization, which would be vital to economic growth in a country with such a high dependency on foreign trade and a relatively narrow industrial base. Recognizing the significant increase in the scope of bindings as a result of concession in the Uruguay Round agreements, the representative encouraged Tunisia to further reduce tariff protection. He also enquired what measures were to be taken by Tunisia in order to bring domestic legislation in conformity with the commitments under the Uruguay Round agreements, in such area as customs valuation, import licensing, rules of origin, anti-dumping and countervailing duties.

56. The representative of Argentina recognized that Tunisia was moving in the right direction, converting its economy to a more liberalized export-oriented one, and noted important developments accomplished in the area of social policy. The Tunisian economy had achieved considerable growth while containing inflation within an acceptable level; there remained, however, significant structural vulnerability reflecting the export structure, which was limited in products and destinations and was centred on sectors whose demand were instable and unsecured. Turning to specific points of concern, he pointed out that tariff peaks of 73 per cent were maintained for some 300 items, including grain, leather, footwear, paper and chemical products, while variable levies with tariff equivalent of over 200 per cent were imposed on meat products. Regarding the municipal slaughter tax, he questioned whether national treatment was accorded to imports. Information was sought regarding remaining import restrictions under Article 39 of Law No. 94-41. The representative enquired what organization issued a certificate of non-contamination from radioactivity, and whether it was equally required for

both imported and domestically produced goods. Finally, he sought clarification regarding the exception clause (Article 8) in the Competition Law.

57. The representative of Morocco stated that 1994 might mark a turning point for Tunisia, to the extent that the economy would enter into the second year of the VIIIth Plan. The government would need to evaluate the results of the Uruguay Round and take necessary actions to integrate them into its trade policy. He commended Tunisia for its wide-ranging reform engaged since 1986, as well as significant results achieved, particularly in terms of expansion of the economy and recovery of sound economic situation. He also stressed the importance of export-oriented policy and need to secure consistency among fiscal, monetary and trade policies.

58. Regarding Tunisia's trade policies, he noted that the majority (86 per cent) of import restrictions had been lifted, customs tariffs had become the major trade policy instrument, and a considerable share of tariffs had been bound; Tunisian policies were based on the principle of non-discrimination, although a large part of trade was carried out with the European Union and the Arab Maghreb Union; and the trade régime was generally transparent. He also drew attention to problems encountered by Tunisia in external markets (Government report, Chapter 2, Section III). He concluded his statement by encouraging Tunisia to pursue its liberalization process.

59. The representative of Canada stated that his oral comments were supplementary to written questions which had been submitted to Tunisia.² He recognized the number, type and intensity of reforms carried out by Tunisia since 1987, and its active participation in the Uruguay Round as well as its positive commitments. He noted, however, that there was a slowing of reform in some areas, and that tariff arrangements remained complex and bureaucratic procedures demanding. He also encouraged Tunisia to liberalize its growing textiles and clothing sector - one of the most obviously healthy sectors of its economy. He also sought further information on import restrictions, specifically a list of balance-of-payments related restrictions. Recognizing the high geographical concentration of Tunisia's external trade towards the European Union, the representative expressed his hope that the growing market-orientation of the Tunisian economy and the multilateral trading framework embodied by the WTO would encourage Tunisia to look further afield in search of new trading partners.

60. The representative of the United States commended Tunisia for its positive programme of economic reform based on a more market- and export-oriented strategy, and particularly welcomed the scheduled termination of 90 per cent of licensing requirements under Law No. 94-41. However, expressing concern that the momentum of reform appeared have slowed, he asked when the remaining import licensing requirements would be eliminated. He also requested a complete list, at tariff line level, of restrictions maintained for BOP reasons, and asked when these restrictions could be abolished. Turning to tariff measures, he enquired why the temporary surcharges introduced to deal with short-term effects of the Gulf War were effectively made permanent through the incorporation into customs tariffs. Clarification was also sought about the elimination schedule for the supplementary duties (DCP).

61. The U.S. representative also enquired about the timing of introduction, and scope of planned legislation on patents and trademarks, as well as Tunisia's intention of joining the GATT Government

²Questions included: Customs Service Fee on imports and exports; envisaged plans for streamlining complicated customs procedures; reasons for import restrictions on vitamins and antibiotics; clarification concerning Tunisia's anti-dumping and countervailing (e.g., eligibility of petitioner, scope of interested parties, lack of sunset clause); plans for new legislation on patents and trademarks; details on remaining import restrictions; and Tunisia's intention to join the Government Procurement Code and the International Dairy Arrangement.

Procurement Agreement. While commending the implementation of the new Investment Incentives Code, he sought further details on export incentives. He encouraged Tunisia to urge the Arab League to bring an end to the Arab boycott of Israel. He concluded his statement by urging Tunisia not to ignore, in fostering a closer relationship with the European Union through a free trade area, the wider perspectives of trade liberalization within a multilateral framework.

62. The representative of Madagascar, acknowledging the firm commitment the Tunisian Government had shown towards liberalization of the economy and various measures undertaken for such purpose, encouraged Tunisia to make further steps towards liberalization. She then sought information on Tunisia's incentive measures for foreign direct investment and possible repercussion of the Uruguay Round agreements on the Tunisian economy.

63. The representative of Australia, complimenting Tunisia for the economic reform it had undertaken, recognized that the transformation of the economy was not yet completed, and noted that the year 1994 would be a crucial year for the reform process. Turning to specific questions, she enquired about: the rationale behind introducing variable levies in 1990 on some livestock products; planned changes to the legislation on Government procurement, which allowed a 20 per cent preference for domestic suppliers; tariff data for the period 1990-1994 (Secretariat report, Table IV.1); and plans for further lifting of import restrictions covered by Article 39 of the Law 94-41. Clarification was sought about "particular" reasons for which export restrictions were maintained (Secretariat report, Chapter IV, Section (3)(v)). She also asked for any single document or publication compiling diverse forms of production subsidies; future plans aiming to decrease the effective rate of protection in the manufacturing sector; and the timing for lifting of the remaining restrictions for BOP reasons.

64. The representative of Egypt enquired how Tunisia would strike the balance between its regional agreements (i. e., Arab Common Market and African Common Market) and m.f.n. based commitments under the Uruguay Round. He also asked, given the possible erosion of EU preferences as a result of the Uruguay Round, whether Tunisia would seek for any kind of compensation.

65. The representative of Cameroon praised Tunisia for its efforts to integrate itself into the world economy in the context of the Structural Adjustment Programme. She also recognized that Tunisia's active participation and its offers in the Uruguay Round had reflected the Government's firm commitment to liberalize its economy. Among numbers of questions already raised, her country was particularly interested in hearing Tunisia's reply on those related to the process of disengagement of the State and privatization of State enterprises. The representative concluded her statement by encouraging Tunisia to continue making efforts with a view to increasing welfare of its people.

VI. REPLIES BY THE REPRESENTATIVE OF TUNISIA AND ADDITIONAL COMMENTS

66. The Council invited the representative of Tunisia, in giving his responses, to focus on four major themes: the economic reform programme; Tunisia's participation in the GATT and the Uruguay Round; specific trade measures; and external relations.

(1) Tunisia's economic reform programme

67. The representative of Tunisia depicted the success of the economic reform programme by presenting some of the positive results achieved since 1987: sustained growth rate of around 5 per cent per annum, a decline in the budget deficit (from 3.9 per cent of GDP in 1990 to 2.4 per cent in 1993), as well as in current account deficit (5.3 per cent of GDP in 1990 to 4.0 per cent in 1993); contraction in debt services ratio (from 20.6 per cent in 1990 to 18.8 per cent in 1993); increase in per capita income (from US\$1,350 in 1990 to US\$1,750 in 1993); a contained inflation rate (4.5 per cent in 1993); and acceleration in export growth (from 2.7 per cent in 1990 to 4.5 per cent in 1993). These performances resulted from a series of measures included in the Structural Adjustment Programme, such as deregulation of investment, price deregulation, trade liberalization, privatization of State enterprises, tax reform including introduction of VAT, financial market reform comprising establishment of convertibility of the dinar, deregulation of interest rates, reinforcement of financial intermediation and of stock exchange market. These measures were accompanied by the devaluation of the dinar in the initial phase of reform and the recent creation of a foreign exchange market.

68. As part of its Structural Adjustment Programme, Tunisia had engaged in customs tariff reform, taking into account the development of the Tunisian economy, the need to maintain budgetary balance and commitments made with partners and international institutions. Tariffs had been reduced from a prohibitive level of up to 200 per cent, to the current level of average 30 per cent with maximum 43 per cent; at the same time, a number of non-tariff measures had been tariffed. The tariff structure was further modified by the introduction of the Provisional Complementary Duty (DCP), whose maximum was 30 per cent and which should be eliminated in three years at the latest. Tariff peaks should be seen in relation to the overall tariff situation; tariffs for some of raw materials and semi-finished goods were 17 or 27 per cent. Temporary surcharges (*taxe conjoncturelle*) had been abolished on the occasion of the overall customs tariff reform, which took into account the overall global budgetary balance; the incidence of import duties (*pression fiscale*), which should be an appropriate indicator in this case, remained unchanged.

69. The trade liberalization programme implied the lifting of import licensing requirements; 86 per cent of import value was currently free of import restrictions, and the figure would reach 92 per cent in July 1994. To respond to the question raised by the second discussant, the representative pointed out that the validity period for an import certificate was not extendable, because the certificate was merely a payment formality which could be renewed at any time without restriction, while an import licence was an administrative document which required prior authorization.

70. Law No. 94-41 defined Tunisia's a new trade régime based on the principle of free trade, and completed the trade liberalization process launched in 1987. The law would go into effect in July 1994, when all necessary application decrees as well as a list of non-restricted goods were published. The representative made it clear that Tunisia would notify as soon as possible the list of non-restricted goods, as well as that of goods subject to import licensing requirement, as agreed at Balance-of-Payments Committee. The definitive list not being fixed yet, the representative declined to give any evaluation regarding effects of liberalization measures.

71. Tunisia continued to face structural deficit in balance-of-payments; measures taken for the BOP reasons were still maintained, even though they had been reduced significantly. The relationship between the exchange rate and the balance of payments had become increasingly functional as the economic reform proceeded.

72. Export promotion was an important element of market-oriented policy, which had now become an irreversible process for the Tunisian economy. Enhanced exports were necessary to integrate Tunisia into the world economy, to generate resources to meet rapidly growing imports, and to reduce the trade deficit.

73. The new investment code assured investment opportunities equally to Tunisian nationals and foreigners, resident or non-resident. The code provided common incentives as well as incentives specific to five priority domains (regional development, exporting, agricultural development, environment protection and R & D).

74. The first discussant, acknowledging the considerable progress Tunisia had made in liberalizing the economy, enquired whether the Tunisian Government would pursue further liberalization. As for export promotion and diversification, the discussant, recognizing the Tunisian authorities did not intend to favour specific sectors, asked whether the authorities saw any tensions arising among sectors and, if so, how were they going to handle the problem.

75. The representative of Senegal thanked the Tunisian delegation for its replies.

76. The representative of Tunisia, in replying to the questions raised by the first discussant, confirmed that Tunisia's liberalization was continuing process and the next important date for the reform was July this year, when the new trade law accompanied by a list of non-restricted goods would go into effect. As for diversification, the representative stated that Tunisia fully recognized existence of the tension among sectors, as well as need to diversify its economic structure in the context of restructuring process.

(2) Tunisia's participation in the GATT and the Uruguay Round

77. The representative of Tunisia stated that his country had bound 909 products on the occasion of the full accession to the GATT. However, as the trade liberalization proceeded, minimum and transitional protection for domestic industries were increasingly felt necessary for smooth adjustment; the level of bound tariffs did not appear to be high enough for such protection. The Provisional Complementary Duties (DCP), introduced in this context, comprised three levels: 10, 20 and 30 per cent. It was stressed that these duties would be phased out in three years, in successive 10 percentage point steps.

78. Regarding the impact of the Uruguay Round agreements, he said that Tunisia had already initiated the process of ratifying the agreements and adapting the relevant internal legislation to the Final Act, including anti-dumping and countervailing measures scheme and customs valuation. As for plurilateral agreements, Tunisia had signed the Agreement on Bovine Meat and the others were being studied.

79. The representative of Morocco praised Tunisia for the significant tariff concessions it had made in the Uruguay Round.

80. The representative of Australia, referring to her country's experience with the Industry Commission which had proved useful in promoting economic reforms, enquired whether Tunisia had any plans to establish an independent statutory body to review trade policies.

81. The representative of Tunisia said that Tunisia had an independent advisory body, the CES (*Conseil économique et social*), where a variety of social and professional groups were represented. Reference to the CES was compulsory for all issues related to economic planning and reforms, including accession to the GATT and the Uruguay Round agreements.

(3) Specific trade measures

82. The representative of Tunisia stated that his country had respected provisions of Article XVII regarding State trading enterprises. Tunisia continued to pursue the programme of disengagement of the State, with monopolies being lifted gradually. Trade in olive oil was now open to private operators; the *Office national de l'huile*, however, had been able to maintain its position as the major supplier to the European Union because of its experience.

83. The Government was now studying new legislation on intellectual property, consistent with the relevant provisions of the Uruguay Round agreements.

84. Tunisia's policy did not seek to favour any specific sectors; policy emphasis was rather placed upon fair competition among local goods as well as between local goods and imports.

85. Tunisia had already initiated trade liberalization in the textiles and clothing the sector, particularly regarding raw materials and semi-finished goods; Tunisia's concession in the Uruguay Round also covered this sector. Tunisia would respect its commitments as agreed in the Uruguay Round. This sector was of particular importance in the Tunisian economy, in terms of production, job creation, and foreign currency earnings. In view of open international competition, a programme of restructuring was being studied.

86. With regard to import licences on automobile imports and the use of counter-purchase, he stated that these practices were maintained to help promote Tunisian exports and thus help pay for imports; this question, however, was being studied by competent authorities.

87. Food security was one of Tunisia's priorities in agricultural policy; it implied the achievement of a necessary level of domestic production to meet the essential needs of the population. Testing for radioactivity was carried out by Tunisian central laboratory for analyses and testing and concerned all imported products; moreover, Departments of Health and Environment carried out regular checks on radioactivity. The municipal slaughter charge, whose level was minimal (12.5 millimes/kg), was applied without discrimination between domestic and imported products and revenues were used by the municipalities to cover their costs in operating abattoirs. Variable levies on livestock products had been tariffied in the Uruguay Round offer; Tunisia had accepted comprehensive tariffication and binding in agriculture, and had also cut some existing duties. It was recalled that fishing, which was important for low income families in Tunisia, had not been included in the agriculture negotiations in the Uruguay Round.

88. The second discussant enquired the reasons behind the continuing important rôle played by the *Office national de l'huile*, particularly in exports to the EU market, which alone took up the major part of exports; he asked whether this was related to the fact that these exports were subject to the EU quota restriction. He also sought information on legislation on, and sectoral distribution of,

privatization in Tunisia, recognizing that this issue might not be covered by the current GATT provisions. Finally, he asked about conformity of the Law No.94-41 vis-à-vis the existing trade legislation, such as the Customs Code and 1992 Decree on anti-dumping and countervailing duties.

89. The first discussant, noting that Tunisia was studying a restructuring programme for textiles industry, asked about the rôle of trade policies in this context. He also asked whether Tunisia envisaged any further deregulation in the agriculture sector.

90. The representative of Argentina asked if Tunisia could provide, either now or later, some examples of exceptions allowed under Article 8 of the Competition Law.

91. The representative of Canada asked if Tunisia could provide, either now or later, answers to some of questions included in the Canada's written questionnaire, for example, those on Customs Service Fee and customs procedures.

92. The representative of Australia sought clarification on two points: the reason why export assistance measures, which were extended without any sectoral preferences, tended to benefit certain sectors, such as tourism and textiles and clothing (Secretariat report, Summary observation); and more detailed information on "priority supply".

93. The representative of Turkey sought clarification on details and effects of the Authorized Price Régime.

94. The representative of Tunisia said that, while olive oil exports had generally been liberalized, exports to the European Union continued to be treated by the *Office national de l'huile* (ONH), because of its long experience in this field and, as the discussant had correctly suggested, because of the quota limitation; private operators had not been able to take the place of the ONH in this exports.

95. Privatization was continuing. It covered diverse sectors, including tourism, industry, trade and agriculture.

96. The Law No. 94-41, incorporated and updated relevant provisions on anti-dumping and countervailing duties stipulated in the 1993 Decree and the Customs Code, in order to avoid inconsistency with the provisions of the relevant multilateral agreements.

97. The restructuring of textiles industry was still under study by the competent authorities; no detailed information could be made available at this stage.

98. The "priority supply" (*approvisionnement prioritaire*) clause, which had appeared in regional agreements, had been abolished and replaced by the agreements on the Arab Maghreb Union.

99. The Customs Formality Tax had been abolished in 1988, and the remaining Provisional Complementary Duties (DCP) were to be eliminated in three years.

100. With regard to price controls, considerable deregulation had been undertaken; controls were now limited to essential goods, such as bread and pasta, and these prices had been subject to review. The Government was now studying possibility of replacing these remaining controls with direct social subsidies.

(3) External relations

101. The representative of Tunisia stated that the erosion of preferences was a major element that could not be ignored for his country. The European Union was indeed the principal trade partner of Tunisia, but this should not prevent Tunisia from remain open to the rest of the world. The opening-up of the Tunisian economy and the growing importance of the private sector would allow Tunisia to benefit from comparative advantages and freer trade flows.

102. Tunisia had always endeavoured to place itself within the regional context: Mediterranean, Maghreb, Africa and Arab. Tunisia believed that these efforts would go hand in hand with Tunisia's aspiration to integrate itself into the world economy; promotion of regional cooperation, Tunisia believed, was an important contribution to the globalization of trade.

103. As his concluding observation, the second discussant described the Tunisian experience as an important example of successful transformation from a heavily-regulated, inward-looking economy to a market- and export-oriented one. Sustaining a high growth with low inflation, while strengthening the position of external sector was a challenging task which required perseverance, patience and prudence. For Tunisia to achieve its targets, external market conditions need to be favourable; the discussant expressed his hope that the expected recovery in the European economy would assist the Tunisian economy to pursue its successful path.

104. The representative of Morocco commended Tunisia for results accomplished in the first phase of the economic reform, and noted the firm commitment of the Government to press on with the economic restructuring in the second phase. The representative added that the Uruguay Round Final Act, which Tunisia had signed, would surely become a cornerstone of Tunisia's future trade policies.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

105. In concluding this first Trade Policy Review of Tunisia, I should like to highlight, on my own responsibility, the salient features that have emerged from the discussion. As usual, these remarks are not intended to substitute for the Council's collective appreciation of Tunisia's trade policies and practices; the full report of the proceedings at this meeting, including the statements made by the delegation of Tunisia and the discussants, will be contained in the minutes. I note that the Tunisian authorities have received a number of written questions to which they have responded and may also provide additional responses in writing.

(1) Tunisia's economic reform programme

106. Council members unanimously praised Tunisia for its economic reform programme, engaged since 1986, which had converted a highly-regulated, inward-looking economy into a significantly more open, export-oriented one. Prudent macroeconomic management, combined with ambitious structural reforms including trade liberalization, deregulation and commitment to privatization, had enabled Tunisia to achieve sustained growth with reasonable price stability and to establish current-account convertibility of the dinar in 1993.

107. Council members welcomed the steps taken by Tunisia to cut tariffs, rationalize import restrictions and reduce State-trading practices. They encouraged Tunisia to continue the liberalization process. Participants sought clarification about the scope of, as well as the reasons for, remaining import restrictions and asked whether there was a timetable for further liberalization. The new Single Investment Code was welcomed as a significant contribution to transparency in this area.

108. Some members, however, queried whether the pace of economic reforms was slackening, given that Tunisia's trade deficit had recently widened and that there was a persistent savings-investment gap. Several members raised questions about the extent of privatization achieved and planned, in view of the changing rôle of the State in the economy. Questions were also asked concerning the rôle of macro-economic and exchange rate policies in ensuring the continued competitiveness of Tunisia's industry in the period of transition to full implementation of the Uruguay Round agreements.

109. The representative of Tunisia said in reply:

- His Government had succeeded in the first stage of stabilization of the economy; the second stage, of structural reform, would be implemented with patience, perseverance and prudence. Under its reform programme, Tunisia had reduced and rationalized tariffs, which had come down in some cases from over 200 per cent to a current average of 30 per cent with a maximum of 43 per cent; at the same time, the incidence of non-tariff measures had been reduced. The provisional complementary duty (DCP), which did not exceed 30 per cent, would be eliminated in three years at the latest. Tariff peaks should be seen in relation to the overall tariff situation. Supplementary charges had been eliminated. From July 1994, some 92 per cent of imports would be free from import licensing. Details were provided on the operation of import certificates and import licences.
- Law 94-41 defined the régime for the import and export of goods within the general context of trade liberalization. It was due to come into force in July 1994, when the necessary decrees and the list of liberalized products would be ready. Tunisia would notify this list, and the list of products subject to import licensing as soon as possible

after the list had been completed. Tunisia still faced a balance-of-payments problem and maintained some restrictive measures for this reason. The relationship between the exchange rate and the balance of payments had become more integrated as economic reforms proceeded.

- The market orientation of reforms was irreversible; however, export incentives and export promotion were necessary to generate the revenues to pay for the rapidly growing imports and promote external and internal balance. The new investment code embodied freedom of investment for Tunisians and foreigners, with special advantages in the five priority areas of economic and social development, export development, regional development, agricultural development, protection of the environment and technological development.

(2) Tunisia's participation in GATT and the Uruguay Round

110. Council members recognized that Tunisia had played an active rôle in the Uruguay Round. They welcomed the commitments made by Tunisia in the Round, in particular the significant increase in tariff bindings since accession to GATT in 1990, as well as concessions in services. It was noted that implementation of the Uruguay Round agreements would entail the elimination of export subsidies and textile import quotas over a period of time.

111. It was noted that a new GATT waiver covering the effects of provisional complementary duties (DCP) had been granted in January 1994. In this connection, members asked about the schedule envisaged for the elimination of provisional complementary duties. Members welcomed the commitment by the Tunisian authorities, in the recent consultations, to identify by tariff line measures used for balance-of-payments purposes.

112. Questions were raised concerning the adaptation of Tunisia's legislation to implement commitments made under the Uruguay Round agreements. In addition, some members asked how the new anti-dumping and countervailing regulations would be applied.

113. In reply, the representative of Tunisia said that rationalization of the tariff had been necessary in 1994 as part of the programme of dismantling import licensing; some time for adjustment to the new conditions of trade was necessary. The three tier DCP was set to disappear in three years, in successive 10 percentage point steps. Tunisia was now in the process of ratifying the Uruguay Round accords and would become a founder member of the WTO. It was in this context that Law 94-41 incorporated new provisions on anti-dumping and countervailing measures, and that customs valuation legislation was to be revised. Tunisia had also signed the Agreement on Bovine Meat, and other plurilateral agreements were being studied.

(3) Specific trade measures

114. Concerns were expressed regarding the high level of Tunisia's tariffs and remaining tariff escalation in a number of sectors. It was noted that import surcharges introduced during the Gulf War had been partly incorporated into the tariff.

115. Several participants noted that the structure of Tunisia's export incentives combined fiscal and financial incentives with high border protection. This increased the dualistic structure of industry, particularly in textiles and clothing, where export-oriented enterprises were largely insulated from domestic industries and incorporated into European outward processing operations.

116. Some members expressed the view that Tunisia's agricultural policy, which aimed to achieve self-sufficiency, had a high protective cost. Information was sought on the scope of, and rationale for, remaining variable levies and the application of the municipal slaughtering charge (*taxe d'abatage*).

117. Clarification was sought concerning Tunisia's counter-purchase requirements for the import of automobiles.

118. Other issues raised included the 20 per cent preference extended to Tunisian suppliers in Government procurement, and Tunisia's non-participation in the Government Procurement Code; the continued decisive rôle of State-trading companies; the persistence of price controls; timing of introduction, and scope of planned intellectual property legislation; and the exception clause in the Competition Law.

119. In reply, the representative of Tunisia said:

- Tunisia was meeting its obligations on State-trading and the withdrawal of the State was being pursued, with monopolies being dismantled gradually. The *Office Nationale de l'Huile*, which now operated in competition with the private sector, had been able to maintain its position as the major supplier to the EU because of its experience; private traders were allowed to compete in this market, which was subject to restrictions on preferential access, but so far they were unable to compete. Sectoral policy was essentially neutral in Tunisia, being aimed at fair competition among local goods as well as between local goods and imports.
- Privatization was continuing; almost all sectors of the economy were covered, including industry, trade, tourism and land.
- Price controls were now only applied on basic goods of mass consumption; even these were now under re-examination.
- On sectoral questions, in respect of textiles, Tunisia had liberalized particularly raw and semi-processed materials; its Uruguay Round tariff offer covered practically all branches of the sector. Restructuring would be necessary to ensure that the sector, which was of prime importance in production and employment, could continue to play an important economic and social rôle. Licences on automobile imports and the use of counter-purchase were applied to help promote Tunisian exports and thus help pay for imports. This question was, however, being studied by the competent authorities. Food security remained a priority in the agricultural sector, implying a level of production necessary to meet the essential needs of the population. Certain details were provided on the operation of sanitary and phytosanitary standards. The *taxe d'abatage*, whose level was minimal, applied without discrimination between domestic and imported products and was paid to the municipalities to cover their costs in operating abattoirs. Variable levies had been tariffied in the Uruguay Round offer; Tunisia had accepted comprehensive tariffication and binding in agriculture, and had also cut some existing duties. It was recalled that fishing, which was important for low income families, was not included in the agricultural sector as defined in the Uruguay Round.

(4) External relations

120. Some members noted Tunisia's high dependency upon trade with the European Union (EU), despite its efforts to diversify the direction of trade flows. A question was raised about the extent of EU preferences for Tunisia, and some participants asked about the effects of the erosion of existing preferences in the Uruguay Round. Council members noted that discussions were taking place regarding the establishment of a free-trade area with the European Union.

121. Some members called attention to Tunisia's widening links with other African countries as well as with the Arab world, in particular the Maghreb countries; one member asked how Tunisia would strike the balance between such regional connections and m.f.n. based commitments under the Uruguay Round.

122. Some members emphasized that an outward-looking Tunisia would be better positioned to integrate itself further into the wider multilateral world.

123. The representative of Tunisia stated that erosion of preferences was a major element that could not be ignored, especially given the importance of the EU as a trading partner. However, Tunisia would continue to open its market in keeping with the principle of comparative advantage, bearing in mind all global and regional considerations, in the overall framework of its commitments in GATT and the globalization of its economy.

(5) General observations

124. In concluding this review, my appreciation is that Tunisia should be commended for its ambitious aspirations, the significant steps it has taken, and the encouraging results it has achieved towards a more open, market-oriented economy. Tunisia is encouraged to press on with liberalizing, and increasing the transparency of its trade and investment régimes, with a view to consolidating its recent reforms. Tunisia's adhesion to the GATT as well as its firm commitment to the future WTO will, I am sure, constitute a strong foundation for its further trade liberalization, which will contribute both to Tunisia's own economic development and to the reinforcement of the multilateral trading system.