

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TUNISIA

1. In accordance with the provisions of Article XVIII:12(b) the Committee conducted the consultation with Tunisia. In conducting the consultation, the Committee had before it a basic document prepared by the Government of Tunisia (BOF/52) and a background document provided by the International Monetary Fund. The consultation was completed on 3 November 1965.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Tunisia. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Tunisia. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Tunisia dated October 27, 1965.

"The Fund expects to complete in the near future a consultation with Tunisia under Article XIV of the Fund Agreement and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."

Opening statement of the representative of Tunisia

3. The representative of Tunisia made the following statement to the Committee:

"These consultations with the CONTRACTING PARTIES have become a custom and tradition to which Tunisia, being anxious to comply with the rules of the General Agreement, attaches great importance, although this is the first time that my country is participating in the work of this Committee.

"My delegation is attending this meeting in order to describe and explain the quantitative restrictions which Tunisia has had to introduce. Before going into the substance, however, it may be useful to give a brief outline of the historical background of this policy, so that it can be better understood.

"Tunisia is a young country and upon becoming independent it chose the difficult and hazardous path of economic and social development in which it has been resolutely engaged since 1962. It drew up projections for the first ten years, fixing a general outline for the planned development of Tunisia's economy to form a set of overall estimates and forecasts by sector, based on certain objectives in regard to quality and quantity. The objectives were to be attained in an initial stage through a preliminary Three-Year Plan (1962-1964), mainly designed to prepare Tunisia's economic structures for the growth effort and to pave the way for the directly productive investment planned for the second stage, with a view to a rapid increase in national product.

"These preparations were aimed at a three-fold target comprising the fundamental objectives of the preliminary Three-Year Plan.

"First of all, the objective of decolonization, implying at the domestic level the "Tunisification" of the foreign sector through an accelerated process, and at the external level a lesser degree of dependence on one or another trading partner.

"The second objective was to carry out a set of structural reforms designed to adjust the national economy to the planning effort and to facilitate smooth and rapid development.

"Lastly, the third objective was on the one hand to find out how the Tunisian economy would react to the various structural reforms, to gain a better appreciation in the three years of the possibilities of harmonizing development policies in the Magreb and, on the other hand, to prepare the elements and studies required for more thorough elaboration of the next plan.

"The implementation of the preliminary Plan was to cost 270 million dinars, only one third of that amount coming from external resources.

"Tunisia therefore had to make a considerable effort, and had to rely first on itself, all the more so since the investments were to help to meet its own needs, and delays in obtaining foreign aid made it necessary to pre-finance a large proportion of the projects.

"In addition the early part of the Three-Year Plan was affected by a chronic trade deficit and rather limited foreign exchange reserves.

"In order to meet this situation and to give the maximum assistance to the development effort, four objectives were set for foreign trade:

- (1) to take account of balance-of-payments difficulties;
- (2) to protect economic sectors which were in the process of development;
- (3) to reduce consumption of imported products in order to release productive savings (this being mainly aimed at luxury goods);
- (4) and in general to prohibit all imports which were not in conformity with the provisions of the Plan.

"These were the principles considered whenever the Tunisian Government introduced prohibitions or quotas on any particular product, or any quantitative restrictions.

"These same objectives will prevail in the implementation of the Four-Year Plan for the period 1964-1968.

"Having regard to the efforts already made in earlier years to improve infra-structures and train the managerial personnel required for development, the Four-Year Plan gives priority to investment in producing sectors while maintaining a fairly substantial part of the total effort for the completion of work on infra-structures and the continuation of the personnel training programme.

"A further objective is the development of international co-operation in order to help Tunisia to attain its objectives of expansion and self-development.

"So far as foreign trade is concerned, the Four-Year Plan provides for a reform of the import régime from three aspects:

"First, as regards the customs tariff: The adoption of a more detailed nomenclature is envisaged so that products can be distinguished with greater precision and the system of import charges can be better suited to the objective. In addition, fiscal charges will be reduced to the minimum on raw materials and equipment goods, and raised on luxury articles and certain consumer goods.

"An ad hoc committee has already begun to study certain aspects of this tariff reform.

"Secondly, as regards import prohibitions: There is to be a further review of the various import prohibitions in force in Tunisia, to readjust them in the light of Tunisia's own economic interests.

"Thirdly, as regards quantitative import restrictions: The principle is to eliminate protection by means of quotas and to replace it by tariff protection.

"In summary the new régime would be along the following lines:

- a large number of non-essential products would be free of quota restrictions but would be subject to high customs duty;
- a list of global quotas would cover the majority of products;
- bilateral quotas would cover a small number of products which cannot be controlled by other means;
- essential products would be under a liberal system and subject to low customs duties.

"That, Mr. Chairman, is Tunisia's policy in regard to import restrictions. In conclusion, I should like on behalf of my delegation to thank you for the kind attention which you and the distinguished representatives here have welcomed us."

Balance-of-payments position and prospects

4. The Committee thanked the representative of Tunisia and the representative of the International Monetary Fund for the information which had been provided, and there was general recognition of the difficult situation in which Tunisia finds itself. Hope was expressed that conditions would soon improve. It was recalled that Tunisia's reserves of foreign exchange have declined from some \$85 million in 1960 to about \$75 million in July 1965, owing in large measure to increasing trade deficits incurred in an effort to maintain a rate of growth of some 6 per cent a year and to failure of exports to expand, coupled with the loss of an important market. The measures taken by Tunisia to ease its balance-of-payments situation were welcomed and it was found especially encouraging that an early review of tariffs and quantitative restrictions is contemplated. A question was asked concerning any long-term plans to develop industries the exports of which might replace an important export market which had recently been lost. In reply, the representative of Tunisia stated that Tunisia undertook, in 1965, to carry out a Four-Year Plan, 1965-1968, which aims mainly at the creation of new industries that will make possible savings of foreign currency and an increased ability to export, which in turn will increase Tunisia's foreign exchange earnings. In general, his country does not regard the present level of exports as more than a result of temporary market conditions; as for the wine industry specifically, plans are under study for development of alternative products which would be more marketable, as well as for exploiting more intensively existing foreign markets for wine.

5. Members of the Committee expressed interest in the recent reduction in the rate of expansion of bank credit and in the revaluation of the dinar and inquired whether there were as yet any repercussions to be observed in the balance of payments. The representative of Tunisia replied to the effect that no figures are yet available but that import of consumer goods has been checked by the new discount policy of the central bank and by the limitation of credit for consumption purposes. Moreover, apart from the special case of wine, there was no doubt but that the devaluation of September 1964 had helped to maintain the level of Tunisia's exports, particularly exports of phosphates and other mineral products. Devaluation had especially helped in maintaining the 50 per cent of exports sent to France, where the application of duties to Tunisian products after 1 October could otherwise have had very unfavourable effects. Concerning non-inflationary measures for financing the expected 1965 deficit in the balance of payments, about which a question was asked, the representative of Tunisia indicated hope that foreign aid might be forthcoming in amounts sufficient to permit continuation of his country's investment programme. As for the time-table for completing the tariff reform and simplification of the system of import restrictions, the representative of Tunisia indicated hope that review of the draft tariff might be completed and placed in effect in the course of 1966, and that a revision of the system of quantitative restrictions might also be effected within that period.

6. In response to questions concerning the longer-term outlook for the balance of payments, the representative of Tunisia agreed that the development of petroleum production in 1966 would indeed be likely to result in savings in foreign exchange expenditures for fuel and might even yield some foreign exchange if exportation could be begun. With respect to tourism, he confirmed that his Government is giving great priority to efforts to develop this source of foreign exchange earning, but for the immediate future, as investments involving heavy use of foreign exchange were being made for this purpose, there was no real net gain on this account, even though Tunisia does show net current account earnings from tourism. No doubt in the longer run both these developments might provide basis for substantial earnings, but Tunisia would remain a country in overall deficit for years, though perhaps the difficulties would lessen.

7. Interest was expressed in the actual level of Tunisia's current foreign debt service charges, existing estimates of which vary considerably. This led to the suggestion that Tunisia consider the codification and simplification of regulations concerning foreign investment and the transfer of a larger share of foreign assistance to the private sector, to improve the investment climate as an incentive to a greater flow of private capital from abroad which might substantially assist Tunisia in her development efforts. The representative of Tunisia indicated that Tunisia has enacted domestic laws on foreign investment and has also concluded a number of bilateral agreements concerning terms of treatment of foreign investment. The representative of Tunisia also stated that there were regulations granting a very favourable tax régime to foreign investments. These efforts have yielded considerable benefit in the form of new private and public investment. In the textiles sector, for example, contracts have been concluded whereby European firms are establishing textile manufacturing enterprises in Tunisia. Tunisia has also accepted some tied aid and feels that such aid is also welcome in that it too helps to finance needed foreign equipment and materials.

Alternative measures to restore equilibrium

8. To a question concerning the possibility of increasing the level of domestic savings, which were mentioned as amounting to some 12 per cent of gross national product in 1964, the representative of Tunisia replied that saving had increased from 6 per cent of gross domestic product in 1960 to 12.3 per cent in 1964. It therefore appeared entirely realistic to foresee, as the Tunisian Development Plan does, that savings would reach approximately 18 per cent by 1968. The bulk of these savings (more than one third) is to come from the public budgets (central and local administrations), which implies a large degree of control.

9. A member of the Committee drew attention to a new annual economic budgeting procedure which he understood had recently been adopted in Tunisia and asked if it held possibilities of helping to keep actual expenditure to budgeted levels. The representative of Tunisia replied that this involves an annual re-examination of progress in implementing the Plan and a formulation, with adjustments where necessary, of a plan of action for the current year. This would in turn, no doubt help to keep a current accounting of payments obligations, so that it might be easier than heretofore to avoid deficits.

System and methods of the restrictions

10. In response to questions, the representative of Tunisia clarified that global quotas are established annually, generally on the same list of products, although occasionally new products are added or products may be omitted from the list. The amount of the quotas remains roughly the same from year to year except when Tunisia finds it desirable, in accordance with changes in the domestic supply position, to reduce or increase imports of particular products. No priority is given to any country in according licences to import within the global quotas; bilateral agreements which list products that figure on the global quota list merely open the Tunisian market to such products originating in the bilateral partner country, but the agreements give no priority in licensing. In reply to a question concerning private compensation transactions, the representative of Tunisia promised that he would supply information concerning the nature of these transactions after he had had an opportunity to look into the matter.

11. Concerning bilateral agreements in general, the representative of Tunisia explained that it had been Tunisian policy to seek such agreements after Independence partly as a means of developing political ties with other countries and to obtain assurance of markets for exports, partly as a means of acquainting other countries with products of Tunisia available for export, partly as a means of obtaining most-favoured-nation treatment (in the case of countries outside GATT), and in some cases as the only practicable means of obtaining access to the markets of other countries. He noted however that Tunisia has not always been the country requesting the bilateral agreement, as trading partners often take the initiative. He also indicated that he felt it might well become of less importance to Tunisia to conclude such agreements, which would in any case become less important as Tunisia enlarges the scope of its liberalization. He did not anticipate a need, in any case, for Tunisia to conclude more such agreements. Members of the Committee thanked the representative of Tunisia for these explanations, but urged that full consideration be given to an early reduction of reliance on bilateral agreements. In this connexion it was noted that Tunisia is a partner to ten trade and payment agreements of general application, to one additional bilateral payments arrangement involving a few commodities only and to at least fifteen bilateral trade agreements mainly with OECD countries. Although the latter mostly establish quotas on a relatively limited number of products, it was felt that in her own interest Tunisia should endeavour to move away from these arrangements as well as from the more comprehensive bilateral agreements. All such agreements tend to involve elements of discrimination against some countries, including countries parties to GATT, and existence of such an array of agreements makes it all the more desirable that Tunisia's tariff reform be expedited to correct this situation.

12. The question was asked to what extent Tunisia considers that the present system of quantitative restriction, by which certain imports from France and the franc area are exempt from licensing requirement, constitutes discrimination against other parties to GATT. The representative of Tunisia drew attention, in reply, to the historical treaty relationships between his country and France under

which preferential free entry was accorded to trade between the two countries until September 1964. This agreement has lapsed, but in view of Tunisia's membership in the franc zone, Tunisia accords entry free of licensing to goods from the franc zone. The existence of this special relationship was recognized, he noted, in Annex B to the General Agreement. Members of the Committee thanked the representative of Tunisia for his reply while reserving their position on the substance. More generally, the representative of Tunisia added, neither the extensive liberalization to France nor the bilateral agreements to which reference had been made should be regarded as discrimination against any country. Tunisia trades extensively with many countries other than her agreement partners, and, as needs arise, obtains imports from the best available sources, regardless of whether the country of supply is an agreement partner. The system whereby private importers form import groups to buy on bulk terms has greatly helped in seeking out the most favourable terms of supply and undoubtedly the new tariff will lead to a great reduction in the number of quantitative restrictions maintained so that there will be much less risk of discrimination.

General

13. There was a rather general feeling in the Committee that Tunisia's present system of quantitative restrictions hampers the development of Tunisia's trade and risks unnecessary increases in the costs of obtaining needed imports. It was also felt that while increased reliance on tariffs was desirable there was danger that too many products might remain subject to quotas and that rates of duty on those liberalized might be so high as to deprive Tunisian industry of the stimulus to increase productivity which a measure of competition might provide. It was difficult for members of the Committee to understand, in particular, why Tunisia foresaw that some bilateral quotas would need to be retained or why bulk products would need to remain under quota at all, as this appeared somewhat inconsistent with the stated objective of liberalizing essential products. The representative of Tunisia reiterated that in his country priority is given to tariff reform precisely in order to progress as quickly as possible toward liberalization. Tunisia is most interested in promoting economic development and well aware of the need to economize resources to the maximum.

