



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 12.5.2004  
SEC(2004) 570

**COMMISSION STAFF WORKING PAPER**

**European Neighbourhood Policy**

**Country Report**

**Tunisia**

{COM(2004)373 final}

## TABLE OF CONTENTS

1.	INTRODUCTION .....	3
1.1.	The European Neighbourhood Policy .....	3
1.2.	Relations between the European Union and Tunisia - The existing contractual framework under the Association Agreement .....	3
2.	POLITICAL ISSUES .....	5
2.1.	Democracy and the rule of law .....	5
2.2.	Human rights and fundamental freedoms.....	7
2.3.	Regional and global stability .....	10
2.4.	Justice and Home Affairs .....	10
3.	ECONOMIC AND SOCIAL SITUATION .....	12
3.1.	Macroeconomic and social outlook.....	12
3.1.1.	Recent economic developments and outlook .....	12
3.1.2.	Fiscal management, monetary and exchange policy .....	12
3.1.3.	External situation.....	12
3.1.4.	Social situation and human development policies.....	13
3.2.	Structural reform and progress toward a functioning and competitive market economy .....	14
3.2.1.	State involvement in the economy and private sector development .....	14
3.2.2.	Regulatory framework.....	14
3.2.3.	Financial sector.....	15
3.2.4.	Sustainable Development .....	15
3.2.5.	Relations with the IFIs and other donors.....	16
3.3.	Trade, Market and regulatory reform .....	17
3.4.	Transport, Energy, Information Society, Environment, and Research and Innovation .....	20

## 1. INTRODUCTION

### 1.1. The European Neighbourhood Policy

On 1 May 2004, the enlargement of the European Union took place with the accession of ten new Member States. It has brought changes to the EU's political geography offering new opportunities to deepen existing relations between the Union and its neighbours to the East and to the South. The Union is determined to further develop partnerships with its neighbours to mutual benefit, promoting security as well as stability and prosperity. The EU's external borders will not become new dividing lines but the focus of enhanced cooperation.

The European Neighbourhood Policy sets ambitious objectives for partnership with neighbouring countries based on strong commitments to shared values and political, economic and institutional reforms. Partner countries are invited to enter into closer political, economic and cultural relations with the EU, to enhance cross border cooperation and to share responsibility in conflict prevention and resolution. The Union offers the prospect of a stake in its Internal Market and of further economic integration. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The policy builds upon and reinforces the existing framework of cooperation.

In the present report, the Commission provides an assessment of bilateral relations between the Union and Tunisia. It reflects progress under the Association Agreement, and describes the current situation in selected areas of particular interest for this partnership: the development of political institutions based on the values – democracy, the rule of law, human rights - underlined in the Agreement, regional stability and cooperation in justice and home affairs, and economic and social reforms that will create new opportunities for development and modernisation, for further liberalisation of trade and for gradual participation in the Internal Market. The report provides guidance for the preparation of joint action plans, and may also serve as a basis for assessing future progress in the Union's relations with Tunisia.

### 1.2. Relations between the European Union and Tunisia - The existing contractual framework under the Association Agreement

Tunisia and the European Community first established diplomatic relations in 1976. In the same year a first cooperation agreement was signed.

The **Euro-Mediterranean Partnership** inaugurated at the 1995 Barcelona conference established a policy with ambitious and long-term objectives. The three main fields of activity within the Barcelona process are (a) the political and security partnership, (b) the economic and financial partnership, and (c) the partnership in social, cultural and human affairs. Tunisia has played a proactive role in this partnership; reaching an Association Agreement quickly, and playing a constructive role as a EuroMed coordinator within the Arab group. The Association Agreement with Tunisia sets out in more detail the specific areas in which these objectives can be developed bilaterally.

The **Association Agreement** has governed bilateral relations between the European Union and Tunisia since March 1998. The Agreement provides an extensive framework: the sections dealing with the free trade area, sectoral cooperation and social issues are the

most developed. The Agreement also contains provisions which allow political questions (international, domestic, human rights and democracy) and migration issues to be covered. Tunisia has decided to embark on cooperation in the areas of good governance and justice and home affairs on a very gradual basis only.

Under the Association Agreement, four Association Councils and three Association Committees have taken place between the EU and Tunisia. Sectoral activities have included trade, customs, industry, social affairs, migration, vocational training and research and development, whilst meetings have also taken place on international standardisation and economic dialogue. A meeting was held on the impact of EU enlargement based on Tunisian and European studies. The sectoral meetings will in future take the form of sub-committees covering: (i) the Internal Market; (ii) Industry, trade and services; (iii) Transport, the environment and energy; (iv) Research and innovation; (v) Agriculture and fisheries; and (vi) Justice and security. There is also a working party to deal with social affairs and migration. In addition to the bilateral meetings on the above, contacts also take place in the Euro-Mediterranean regional framework, and there are numerous informal contacts at ministerial and senior official level.

Tunisia is one of the four signatories of the **Agadir free trade agreement** with Morocco, Egypt and Jordan, which is open to accession by other countries.

EC and EIB assistance to Tunisia (in million €)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
<i>MEDA - commitments</i>	20	120	138	19	131	76	90	92	48	<b>734</b>
<i>European Investment Bank (loans)</i>	65	0	130	165	98	150	225	290	395	<b>1 518</b>

Tunisia has been one of the major beneficiaries of **MEDA**. The annual average commitment has amounted to €85 million. The implementation of "third generation" projects (civil society, media, justice), however, has proved difficult. The Commission's financial cooperation strategy with Tunisia (2002-2006 CSP) aims to achieve the right balance between action in the political and in the economic and social spheres. MEDA II financial resources are focused on a limited number of priority sectors. Since 1988, Tunisia has not required any macro-financial assistance. It holds regular consultations with the IMF under Article IV of the Fund's statutes.

With an overall indicative budget of almost €250 million, the **National Indicative Programme (NIP) 2002-2004** covers the following priority areas: Improving the quality of governance, in particular with a view to enhancing the rule of law; developing the media and modernising justice (€30 million); - Continued liberalisation of the economy; economic transition programme, programmes to modernise ports and industry (€168 million); - Improving youth employability: programmes to modernise higher education and access to the Community TEMPUS programme (€52 million).

Tunisia participates in the **European Initiative for Democracy and Human Rights (EIDHR)**, with civil society as the principal beneficiary. JHA issues (legal system,

migration flows, new forms of crime) are included in the programme for the modernisation of justice to cover the period 2005-2008.

Various programmes in the MEDA **regional cooperation** framework (2002-2004), dealing with transport, energy and migration, touch on aspects relating to neighbourhood and **cross-border cooperation**. Tunisia wants greater EU involvement in the financing of projects within the Maghreb, particularly concerning major infrastructure. The 5+5 summit in Tunis in December 2003 discussed this approach, which is supported by the Member States concerned (France, Spain, Italy, Malta, Portugal) and the Commission.

Tunisia participates in Euro-Med programmes such as Euro-Med Youth, which promotes people-to-people contacts and co-operation between actors of civil society, associations and NGOs in the youth field. The same applies to the Euro-Med audiovisual and Euro-Med heritage programmes for co-operation in the audiovisual and cultural sectors. In addition a bilateral MEDA programme supports mainly training of Tunisian journalists. Regarding higher education, Tunisia is eligible for participation in the Community programmes Tempus and Erasmus Mundus.

Tunisia is one of some 30 focus countries under the European Initiative for Democracy and Human Rights (EIDHR) for 2002-2004 and has been allocated support amounting to € 2 million. The EIDHR supports civil society initiatives that aim to promote democracy and human rights.

The **European Investment Bank** has loaned Tunisia a total of €1431 million from own resources since 1997. The Bank's activities centre on three separate but complementary tasks: reinforcement and development of economic infrastructure (long-term loans), transport (railways, roads, Tunis metro), energy (electricity and gas supply networks), water (dams), environmental protection (treatment of water, elimination of solid waste and other projects), support for private sector development.

---

The degree of economic integration, particularly in trade, between Tunisia and the European Union shows that it has the technical potential to go beyond the current level of cooperation. Tunisia has demonstrated its intention to participate fully in the **European neighbourhood policy** and in the working methods which the policy will require. This fundamental foreign policy choice is based on experience gained in the Association Agreement framework since 1998. However, Tunisia sees the new neighbourhood policy as a means of establishing its relations with the EU on a more individual basis and has stated its willingness to discuss all subjects in this context.

## 2. POLITICAL ISSUES

### 2.1. Democracy and the rule of law

Tunisia is a constitutional **presidential republic**. The President of the Republic is the Head of the Executive. He is elected by universal suffrage. The current President, Zine El Abidine Ben Ali, has been in power since 1987 and in the last elections in 1999 received 99.4% of the votes. The constitutional reform approved by referendum in May 2002 abolished the limit on the number of presidential mandates.

The Constitution upholds the principle of the separation of powers but gives the President of the Republic pre-eminence over the legislative, in particular as regards the

power of initiative and legislative enactment. The President watches over the regular functioning of the public powers and enjoys discretionary powers with regard to the use of referenda (constitutional, legislative or consultative). He is Supreme Head of the armed forces. Referral to the Constitutional Council is the exclusive prerogative of the President of the Republic, except in the case of electoral appeals. The President of the Republic appoints the President and the other three members of the Constitutional Council.

The **Chamber of Deputies** is made up of members elected by direct universal suffrage. A minimum of 20% of the 182 seats are guaranteed by law to opposition parties, consisting of 5 parties and a total of 34 seats. The electoral law does not contain any positive discrimination with regard to women who occupied 12% of seats in 1999. The constitutional reform of 2002 set up the Chamber of Counsellors consisting of representatives of the governorates, professional classes and members appointed by the President of the Republic. It will assume its duties following the October 2004 elections. The President of the Republic has the power to dissolve Parliament. In practice, Parliament's capacity to oppose government policy is limited.

The Constitution defines the role of **parties**: "The political parties help to educate citizens so as to organise their participation in political life". Parties must be organised on a democratic basis and may not rely fundamentally on a religion, a language, a race, a sex or a region.

Despite the constitutional guarantees on democracy and freedom of association, a number of factors militate against the development of political pluralism in Tunisia, such as unclear rules regarding the criteria for setting up a political party, the conditions governing authorisation of a party by the Ministry of the Interior and the existence of an electoral system favouring the party in power. Institutions and political life are dominated by the Democratic Constitutional Party (RCD) which is led by the Head of State.

The President of the Republic is the Head of the **Executive** and appoints the Prime Minister who coordinates **government action**. Regulatory power is invested in the President of the Republic. He has general powers at two decision-making levels: (i) implementing decrees and (ii) complementary decrees (thus, there are implementation decrees, complementary decrees and even autonomous decrees without any basis in a specific law).

A policy of administrative decentralisation began in 1989 with the setting-up of regional councils. The elected members of these councils are headed by the regional Governor, representing the State. The Tunisian Government's *Tenth Development Plan 2002-2006* sketches out the improvements required to achieve the aims of regional decentralisation, for example greater administrative and financial autonomy through the creation of a regional tax. On the whole little progress has been made on implementing this policy.

The Constitution and the law lay down the principle of independence of the judiciary and a two-instance judicial system. The legal system recognises an administrative order and a judicial order. The former consists of the administrative court and the court of auditors. The judicial order comprises a court of cassation, appeal courts, courts of first instance and district courts. There is also a labour court and a housing court. There are some 1400 magistrates including approximately 25% women. They are appointed by the President of the Republic on a proposal by the Supreme Judicial Council. The training of magistrates, more theoretical than practical, takes place at the Higher Institute of Magistrates.

The foundations of an independent judiciary are laid down in the law. However, the Supreme Judicial Council and the Public Prosecutor's Office remain heavily under the influence of the Executive. The principle of irremovability has never been established and judges may be transferred at any moment. In 2001 a judge who had written an open letter to the President criticising the lack of independence of the judiciary was removed. The Lawyers' Association nevertheless manages to maintain a degree of independence from the Executive even if it cannot always guarantee the rights of defence.

Despite much recent progress towards improving the formal rights of defendants and convicted offenders (legal aid, community service, placing the prisons service under the aegis of the Justice Ministry), the reform of the judiciary is one of the major challenges for the years ahead. A MEDA programme on the "modernisation of the judiciary" will be funded by the EC in 2004.

The Tunisian **civil service** is run by staff that is generally qualified and it is relatively efficient, especially at central level. However, it is still very centralised, hierarchical and with strong links to the party in power. The authorities have adopted measures to improve the quality of service (the one-stop shop Agency for the Promotion of the Industry - API, a programme to reduce red tape) and allow the use of modern technologies (Tunisia Trade Net, as well as a database and online administrative forms). Running this administration comes at a high cost for the budget; the public sector wage bill accounts for practically 12% of GDP. The Government is consequently considering a reform of budget spending which would allow savings to be made and at the same time improve the quality of expenditure. One of the consequences of the reform will be the devolution of responsibilities.

There are currently few independent regulatory bodies despite the authorities' efforts to separate the regulatory activities of the bodies concerned from their commercial ones (telecoms, transport, financial markets).

Tunisia is the leading Arab country in the Transparency International table (39th in the 2003 **corruption** perception index). Law 98-33 of 23 May 1998 added a number of articles to the Penal Code containing clear measures to combat corruption amongst public officials. The penalties specified include fines ranging up to 10 000 dinars (€7100) and prison sentences of up to twenty years. Those found guilty of corruption will be barred from holding public office by the Courts and forbidden to run for or represent public services.

The abuse of influence is also punishable by the Penal Code by a three-year prison sentence and fines of 3000 dinars (€2100). Attempted abuse is also punishable. The penalty will be doubled if the offender is a public servant or equivalent.

## **2.2. Human rights and fundamental freedoms**

Article 8 of the Tunisian Constitution guarantees the **freedoms of opinion, expression, assembly and association**. Despite the constitutional guarantee, the European Union considered in a joint statement made at the fourth meeting of the EU-Tunisia Association Council, "that efforts should be stepped up to ensure respect for human rights, in particular the freedom of expression and the freedom of association. Those freedoms determine the democratic process and are conducive to economic and social development." International observers and NGOs have regularly denounced harassments of human rights activists, and highlighted in particular the need to guarantee respect for the freedoms of opinion and expression in the context of combating terrorism.

Tunisia has ratified the six core UN human rights conventions and their optional protocols, except the two optional protocols to the International Covenant on Civil and Political Rights, the optional protocol to the Convention on the Elimination of All Forms of Discrimination against Women, and the optional protocol to the Convention against Torture. Tunisia has also ratified all of the ILO fundamental conventions (forced labour, freedom of association, collective bargaining, child labour and discrimination).

**Associations** are granted legal recognition three months after lodging the required papers. However, in the human rights' domain, some associations have been refused legal recognition, or had their applications rejected, by the Government. The current legal framework does not in fact facilitate the development of an independent civil society. In a survey of 8000 NGOs, the number that can be considered genuinely independent is very small. These associations are confronted with obstacles by the authorities, and their individual members may also be subjected to intimidation.

The establishment of foreign NGOs in Tunisia is governed by separate legislation. A foreign association may not be formed or carry out its activity in Tunisia unless its articles of association have been approved by the Secretary of State for the Interior, following an opinion by the Foreign Secretary.

On the matter of funding, the Tunisian authorities cite Article 8 of the 1959 Associations Act requiring Ministry of the Interior authorisation for any external financing of the activities of an association. A number of Tunisian NGOs dispute the grounds for this practice. Some projects financed by the Community in the field of democratisation and human rights are blocked on account of this.

The Tunisian Constitution guarantees the **freedoms of press and publication**. However, the Press Code strictly regulates the exercise of these freedoms through conditions governing publication and printing, the coverage of periodical publications, concentration of ownership, the circulation of foreign periodicals, subversion and libel. There is wide censorship of the media, newspapers and foreign publications on the basis of this restrictive legislation. This situation is confirmed by international watchdogs and specialist NGOs.

In May 2002, the Association of Tunisian Journalists (AJT) condemned the gagging of the media in a report which talked of journalists who had been marginalised, subjected to pressures, censored, barred from covering certain events, in some cases interrogated and detained. The President of the AJT, a member of the party in power, the Rassemblement Constitutionnel Démocratique (RCD), subsequently stated that the report was just an internal draft which did not commit the AJT. In March 2004, the AJT was suspended from the International Federation of Journalists.

The authorities also control private means of communication, e.g. telephone, fax and internet. All cybercafes (Publinet) are privately run by individuals who are bound by rules restricting their clients' freedom to use the Internet. In Tunisia, Internet access providers cannot connect directly to a foreign site. All requests for foreign connections must go through a centralised agency, the Tunisian Internet Agency (ATI).

The Penal Code punishes all **ethnic and religious discrimination** as well as public incitement to ethnic and religious discrimination. The Constitution lays down that political parties must respect and defend the country's Arab and Muslim identity. The Islamic party An-Nahda was dissolved on the basis of this Article in the Constitution.



Tunisia is an ethnically homogeneous country with small Berber and Amazigh minorities. The State religion is Islam (Article 1 of the Constitution) which is also the religion of the President of the Republic. There is a small Jewish minority. Despite the Constitutional primacy of Islam, State action is in practice based on secular principles.

As regards international law, Tunisia has ratified the United Nations Convention on the Elimination of All Forms of **Racial Discrimination**.

It has also ratified the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT) and adopted the definition of CAT. The Penal Code makes **torture** a crime which carries a prison sentence of eight years. The Constitutional reform approved by referendum in May 2002 provides further guarantees relating to human dignity.

However, it is reported that acts of torture and other cruel, inhuman or degrading treatment or punishment are practised by way of law enforcement and tolerated by the authorities. In its 2000-2001 report on Human Rights in Tunisia, the Government pointed to the courts' role in criminal enforcement as the guarantee of the rights of prison detainees. But one crucial element is still missing – effective legal action against crimes of torture.

The Constitution prohibits **arbitrary detention** and makes custody subject to judicial control. However, according to civil society reports, custody often extends beyond the maximum allowed by Tunisian law. The detention conditions in Tunisian prisons are influenced by the considerable overcrowding. In 2003 the Higher Committee on Human Rights and Fundamental Freedoms (a national body) was instructed to set up a committee of inquiry into prison conditions. On the basis of the committee's report a package of measures was announced which is now in the process of implementation.

The Penal Code provides for the **death penalty** in cases of high treason and culpable homicide. Tunisian courts are still handing down that verdict but there is a de facto moratorium. The last execution was in 1992.

Tunisia has not signed the agreement establishing the International Criminal Court.

On **equal opportunities**, the Constitution lays down that "all citizens have the same rights and the same duties. They are equal before the law". Under the auspices of the Ministry for Women, the Family and Childhood, the Government has set gender equality as one of Tunisia's development objectives. Under labour law, all statutes adopted since independence make explicit reference to the principle of non-discrimination between the sexes in the workplace and lay down specific rights for women. (In 2002, women made up more than a quarter of the active working population, and more than 5,000 women held leading positions in enterprises). Nevertheless, some discrimination between men and women still exists in law; the practice of Islamic or sharia law as customary law continues to restrict the rights of women, for instance their right to inherit and their family rights. While the Penal Code contains stiff penalties for spousal abuse, domestic violence is reportedly regarded as a problem to be handled within the family.

The Constitution and the Labour Code guarantee trade-union law and the **freedom to organise and form trade unions**.

Technically, Tunisian legislation on trade union rights provides adequate guarantees for trade union activity in defence of workers' rights. In particular, the rules limiting

employers' discretion to dismiss trade union members and requiring the labour inspector's approval are effective in avoiding abuse and intimidation.

There are only two trade union associations in Tunisia, the Tunisian Farm and Fisheries Workers Union (UTAP) and the Tunisian General Workers Union (UGTT). The members of the latter account for 15% of the 3.3 million strong workforce. Though legally independent of the Government and the ruling party, the UGTT does not appear to be protected from certain de facto restrictions on its freedom of action.

### **2.3. Regional and global stability**

Tunisia has welcomed and plays an active role within the **Common Strategy on the Mediterranean** adopted by Council Decision 2000/458/CFSP of 19 June 2000, which sets out the strategic framework of the EU towards the Mediterranean. Its aim is to make significant and measurable progress towards achieving the objectives of the Barcelona Declaration; to promote the core values embraced by the EU and its Member States, including human rights, democracy, good governance, transparency and the rule of law; to encourage and assist Mediterranean partners with the process of achieving free trade with the EU and among themselves, economic transition and attracting investment to the region; to strengthen cooperation in the field of justice and home affairs and to pursue the dialogue between cultures and civilizations in order to fight intolerance, racism and xenophobia.

In terms of **membership in regional and international organisations**, Tunisia belongs to the UN, WTO, IMF, Arab League, Arab Maghreb Union, Community of Sahel and Saharan States, and the African Union. It is also a party to the informal 5+5 dialogue to which Tunisia attaches a considerable political importance. Tunisia is also one of OSCE's six Mediterranean Partners, which involves regular meetings of a Contact Group, and seminars dedicated to Mediterranean issues.

Tunisia cooperates on **non-proliferation of weapons of mass destruction**, and has signed up to and implements the relevant instruments and systems for the regulation of international exports.

Tunisia is generally cooperative and plays an active role in **fighting international terrorism**, in particular at bilateral level with the EU Member States. The April 2002 bomb attack claimed 19 victims. The country has signed and ratified most international conventions, including the UNSC resolutions 1373/01 and 1267/01, and has an anti-terrorism law from December 2003.

Tunisia is not engaged in any **territorial disputes** and, by dint of diplomatic efforts, is on good terms with its two larger neighbours, Algeria and Libya.

### **2.4 Justice and Home Affairs**

Tunisia is a country of emigration and transit to Europe. However, increasing numbers of nationals of the countries of sub-Saharan Africa are looking to settle in Tunisia. The current legislation is very strict. Law No 2004-6 of 3 February 2004, amending Law No 75-40 of 1975 on passports and travel documents, introduced strict rules to curb the flow of migrants. Entry controls and the procedures for issuing visas, residence permits and residence permit renewals are centralised with the Aliens' Police. Illegal or undesirable aliens are deported. The accommodation conditions of applicants for entry to Tunisian territory or persons in the process of deportation are far from comfortable.

Although Tunisia has ratified the main international legal instruments in the **asylum** field (the 1951 Convention relating to the Status of Refugees and its 1967 Protocol, the OAU Convention Governing the Specific Aspects of Refugee Problems in Africa), a legal vacuum exists in Tunisian legislation on the question of determining refugees' status. Since 1992, at the Foreign Ministry's request, asylum applications have been examined by the UNHCR's Delegation in Tunisia in order to assess the status of applicants. The Delegation informs the authorities, allowing them to decide whether applicants can stay in Tunisia. In practice, this solution is unsatisfactory since it denies applicants a clearly defined legal framework. Tunisia consequently remains principally a country of transit.

The frontier is controlled by the police with a total force of approximately 13 000. They are backed by a 12 000 strong paramilitary contingent of the National Guard. Joint Italo-Tunisian naval patrols operate to combat illegal immigration to the EU by organised groups across the Strait of Messina. Between the end of 1998 and the beginning of 2003 the Tunisian authorities apprehended more than 37 000 persons crossing the border illegally. 20 000 of these were of Tunisian nationality, while the remainder were repatriated to their countries of origin.

Tunisia has recently (19 June and 14 July 2003) ratified the Convention on **Transnational Organised Crime** and its two protocols on trafficking in human beings and smuggling of migrants. While there are no specialist agencies, the Ministry of the Interior has special internal units dealing, for example, with forgery of money and trafficking in drugs, organs and human beings, etc.

Tunisia and the EU set up a working party under the Association Agreement to cover social questions and **migration**. A number of areas were identified in relation to migration, e.g. co-development, social integration, visas, illegal immigration, transit migration, improvements to information and actual cooperation projects, and are now the subject of regular dialogue. The Tunisian Authorities have stated a willingness to discuss an EC *readmission* agreement on the condition that this issue is addressed in discussions within the wider Association Agreement framework, as a corollary of discussions on socio-economic development.

The sub-Committee on Justice and Home Affairs was, *inter alia*, established to address all issues of co-operation in the JHA field.

Tunisia has ratified the main United Nations conventions on **drugs** (1988, 1971, 1961). The use of drugs and trade in toxic substances are heavily restricted and controlled by the police authorities.

Law No 2003-75 of 10 December 2003 on support for international efforts to combat terrorism and prohibit **money laundering** has put a range of legal instruments at Tunisia's disposal in this field where there were none before. The law lays down six-year prison sentences and fines ranging from 5 000 to 50 000 dinars (€3 600 - €36 000) for anyone found guilty of money-laundering. The amount can be raised to an amount which is half the value of the goods laundered. The law imposes obligations on financial establishments relating to identity checks, the declaration of cash transactions above a certain limit and verification of transactions involving persons whose identity is suspect. Under Article 77 of the Law, the authorities which regulate banking and non-banking financial establishments and persons subject to the declaration requirement by virtue of their profession are required to develop suitable programmes and practices for tackling money laundering and the financing of terrorism, ensure their implementation and take

the appropriate disciplinary measures in accordance with the rules in force. The Finance Ministry is responsible for overseeing these operations.

Financial fraud and economic crimes are monitored by the Trade Ministry and financial market regulatory bodies.

### **3. ECONOMIC AND SOCIAL SITUATION**

#### **3.1. Macroeconomic and social outlook**

##### *3.1.1. Recent economic developments and outlook*

Following a period of high growth rates (5.2% on average for the period 1997-2001), a combination of negative domestic and external shocks led to a modest GDP expansion of 1.7% in 2002. An export-led recovery followed in 2003, driven also by increased agricultural production. GDP grew 5.6% in 2003. Export revenues increased by around 12% in the first eight months. The Iraq crisis and the Casablanca terrorist attack had an impact on the tourism industry in early 2003, although relatively moderate (tourism fell by 9%).

Thanks to prudent macroeconomic management, Tunisia is experiencing a relatively high degree of price stability with inflation levels well below 5% since the second half of the 1990's. Inflation rose slightly to above 3% at the end of 2003, as relaxed monetary conditions and the economic recovery pushed up price pressures. Indeed, most of the inflationary dynamics appeared to come from a weaker exchange rate, which depreciated sharply against the euro, by around 10% in nominal terms in the first half of 2003 compared to the same period of the previous year.

##### *3.1.2. Fiscal management, monetary and exchange policy*

The **overall deficit** stood at 2.6% of GDP in 2003. The budget contains additional employment and wage rises, contributing to a 6.5% increase in recurrent (operating) expenditure. Capital spending is expected to have increased by a more modest 3.9%. On the financing side, the budget law envisioned total financing needs of USD 506 million, of which roughly two thirds were financed from domestic sources.

The Tunisian monetary policy framework has remained broadly unchanged in recent years, but a revision of the current strategy has been ongoing. Targeting growth of broad money – besides pursuing a tightly managed exchange rate regime – still represents the core of the monetary policy framework. Continued extensive restrictions on capital flows enable the monetary authorities to pursue such an independent monetary policy, while **managing the exchange rate** intensively. The Central Bank of Tunisia uses the expansion of credit to the economy as an intermediate target for growth in broad money, whereby in the recent past the target rate has been set in line with the expected expansion of nominal GDP growth. Recently, authorities have started to explore moving to an inflation targeting regime, in view also of possible capital and financial account liberalisation.

##### *3.1.3. External situation*

Recent developments point to a further improvement of the trade and current account balance in 2003 on the back of a strong export performance. The depreciation of the real effective exchange rate stimulated export activities at least until the end of 2003, despite

weak demand from the EU. Import growth has not picked up, displaying a lag with regard to accelerating economic growth. The balance of trade deficit went down by 10.3% between 2001 and 2002 and by a further 1.8% from 2002 to 2003. As a result, the trade deficit contracted by 10% in the first ten months of 2003 compared to the same period in 2002, as exports (in nominal terms) were up by around 8.5%, while imports (in nominal terms) grew at a weaker 3.2%. Tourism receipts dropped by 3.8% during January–October, due to international instability before and during the war in Iraq and, possibly, also the suicide attacks in Morocco, while revenue transfers from Tunisians working abroad were up by 4.3%. These combined evolutions appear to have reduced the current account deficit to 2.9% of GDP and the trade deficit to 9.2% of GDP.

The government expected the financing of the current account deficit in 2003 to be secured by stronger long-term foreign borrowing and relatively stable FDI inflows. Long-term foreign borrowing was expected to remain at the - relatively high - pre-year level of around 8% of GDP, and the government successfully tapped the international bond market in 2003, issuing €300 million of eurobonds. The recourse to private debt markets in order to preserve external reserve coverage was possible thanks to Tunisia's favourable rating (investment grade by Standard & Poor's and Moody's, BBB/Baa2 respectively) and contributed to an increase in Tunisia's external debt in 2003 to USD 13.6 billion. However, as a percentage of GDP, external debt appears to have remained stable (60.3% in 2003, 61% in 2002) at a relatively high level.

#### *3.1.4. Social situation and human development policies*

Unemployment remains relatively high at 14% and there are wide disparities between regions. Employment policy in Tunisia is based on the creation of micro-, small- and medium-sized enterprises.

Women represent approximately 30% of the work force. They have acquired a certain presence in the public administration, while they still face societal and economic discrimination in certain categories of private sector employment.

Due to progress achieved in the **fight against poverty** and in the field of human development, Tunisia continues to figure above the average of developing countries. From 1970 to 2001, real capita incomes grew from USD 700 to USD 2,070, while the overall incidence of poverty has declined from 40% to 10% of the population over the same period<sup>1</sup>. However, poverty remains considerably higher in rural areas.

In the area of **education**, Tunisia has achieved the highest enrolment ratio (98% of all children) for primary school in the region. But whereas literacy rates have improved over the years, illiteracy still affects 19% of the male population and 39% of the female population. In particular, youth illiteracy remains widespread in rural areas.

Over the last decade, the Tunisian Government has put into place a series of reforms designed to improve the efficiency of education at different levels as well as vocational training, with the aim of re-enforcing their alignment with new national development needs. The various strategies implemented by Tunisia have allowed a reduction in the scope of illiteracy between 1970 and 1995. The improvement of gross school enrolment level of 6 to 14 year-olds was more pronounced with girls, being in the order of 70% over 20 years, compared to 27% for boys.

---

<sup>1</sup> Source: World Bank

## 3.2. Structural reform and progress toward a functioning and competitive market economy

### 3.2.1. State involvement in the economy and private sector development

In 2002-03, the privatisation process moved forward slowly and official privatisation targets were not achieved. Privatisation revenues in 2003 were budgeted at TUD50 million. The government aimed at selling 22 companies in 2003, with a combined asset value of around 0.2% of GDP. Positive privatisation results so far include the privatisation of the UIB bank and the start of the procedure for the disposal of the minority stake held by the state in Banque du Sud.

The opening of new sectors of the economy to private investment foreseen in the framework of the 10<sup>th</sup> Plan (2002-2006) has remained slow. This holds true in particular for the transport sector, the waste-management, water and communication sectors. As a result the restructuring of the public sector (financial sector and public service providers) has also been slow. However, some progress can be observed in the energy sector, where British Gas has been authorised to set up a power station with a capacity of 500 MW (representing a derogation of the current regulatory framework, which limits private participation at 40 MW). Furthermore, the whole offshore-sector, which is privately owned, is a dynamic export force.

The national programme of industrial upgrading ("mise à niveau") is increasingly reaching its operational limits. Its focus on supporting physical equipment modernisation becomes less relevant as Tunisian companies are confronted with a more competitive environment. Public enterprises and private firms in sectors such as tourism and textile exports absorb the bulk of subsidised credits and aid provided, while SMEs do not seem to benefit proportionately from the scheme.

### 3.2.2. Regulatory framework

Market forces determine most **prices** in the Tunisian economy, as stated in the relevant legal base (July 1991 Competition and Prices Act). According to the Ministry of Development and International Cooperation, the free interplay of supply and demand determines approximately 87% of prices at the production level and around 81% at the distribution level. Nevertheless, administrative controls remain on many consumer products in particular and account for a large percentage of the typical basket of goods.

The relevant legislation in the field of **anti-trust** is the Competition Law of 1991 (last amended in 2003) which takes its inspiration from French law. It prohibits agreements and concerted practices which restrict competition as well as abuse of a dominant position. However, the Competition Council can authorise exemptions in specific cases. Similarly, the authorities can exclude an activity from the competition framework and set certain prices by administrative means. The legislation also covers the regulation of mergers.

The Competition Council and the Directorate-General for Competition, which comes under the Trade Ministry, have joint responsibility for enforcing the Act. While the Competition DG has the task of implementing government policy on competition and prices, the Competition Council is an independent body set up in November 2003 and has a wide range of functions, from the drafting of studies and regulatory proposals to investigation of cases, including the power to impose sanctions and grant injunctions. However, the Council has very limited powers to open investigations on its own

initiative, and the categories of persons who can make complaints to the Council is also restricted. The new Article 21 of the Act introduces a two-instance judicial system as the Council's decisions can be appealed to the Administrative Court's Board of Appeal. The Council is not financially independent.

**State aid**, grants and subsidies are not grouped under a specific authority. There is currently no uniform state aid surveillance or control regime comparable with that of the EU.

### 3.2.3. *Financial sector*

Some reform momentum, both in the banking and the insurance sector, was observed in 2003. The achieved privatisation of UIB and that of the Banque du Sud should contribute to increased competition in the banking sector. Furthermore, the new banking law permits "bank insurance" activities, reducing market entry barriers for both activities. The opening of the financial sector to international competition remains an issue.

In the **banking sector**, Tunisia applies the Basle 1 principles, but the amount of bad debts on banks' balance sheets is too high and the provision ratios for these debts inadequate (41% at end 2002 instead of 100%). In the banking field the reference text is Act 2001-65 of 10 July 2001 which regulates the professional activity of credit establishments. The Act introduced a complete recast of the legal framework for banking activity along with improvements to licensing and supervisory procedures. It lay down the definition of a credit establishment, which groups together banks and financial establishments, and clearly set out the conditions for obtaining a credit establishment licence. The Finance Ministry is responsible for licensing credit establishments but the Act makes the Tunisian Central Bank responsible for issuing prudential management regulations.

The **insurance sector** is characterised by the emphasis on compulsory insurance, particularly in the automobile branch. Insurance companies are governed by the Insurance Code (Act of 9 March 1992). The supervisory authority is the General Insurance Committee (set up by Decree No 2001-2729 of 26 November 2001), which includes an Insurance Monitoring Commission whose main function is the permanent supervision of insurance companies. The Decree also lays down the General Committee's organisation and role.

Measures to reform the insurance sector include the increase of tariffs on automobile insurance and improved prudential surveillance and regulation (establishment of the General Insurance Committee in the Finance Ministry in 2001).

In the **securities** sector, the main law regulating the financial markets is Act No 94-117 of 14 November 1994 as amended by Act No 99-92 of 17 August 1999 on stimulating the financial market. The stock exchange is runs on modern-day lines and the Financial Market Council has a monitoring capacity including powers of supervision and sanctions

### 3.2.4. *Sustainable Development*

The 10<sup>th</sup> Development Plan (2002-2006) contains specific provisions on sustainable development and is based on four pillars: (i) the integration of the environmental dimension in the process of development, (ii) the protection of natural resources and the fight against desertification, (iii) the fight against pollution and the improvement of living standards and (iv) the contribution of the environment to development. A National

Commission for Sustainable Development (CNDD) was set up in 1993 to ensure coordination between various actors, including representatives of the Government, Parliament and NGOs.

### *3.2.5. Relations with the IFIs and other donors*

There is currently no IMF programme in place. The last programme (EFF) dates back to the beginning of the 1990s.

As of December 2003, the World Bank portfolio in Tunisia consisted of 18 active projects amounting to USD 983 million, supporting its three pillar cooperation strategy. First, the Bank's programmes focus on activities related to human resources development, natural resources management and infrastructure development. Secondly, resources were devoted to support economic reforms to enhance competitiveness, foster private sector development and increase employment, while minimising the transitional costs of adjustment. In this respect, the World Bank approved in December 2001 a USD250 million loan to Tunisia, the third in a series of policy reform initiatives (Economic Competitiveness Adjustment Loan, ECAL III). Finally, new initiatives target the strengthening of education institutions and the support of the export sector.

A Structural Adjustment Facility IV, like SAFs I, II and III carried out jointly with the World Bank and African Development Bank, is currently under appraisal. SAF IV will continue the current reforms designed to improve the private investment climate, increase the efficiency of financial intermediation and consolidate the macroeconomic framework in the face of increased external threats and challenges.



**Table 1. Tunisia - Selected Economic Indicators, 1997-2002**

	1997	1998	1999	2000	2001	2002
Real GDP growth (in %)	5.4	4.8	6.1	4.7	5.0	1.7
Unemployment rate	---	---	---	15.6	15.0	14.9
CPI inflation (avg; in %)	3.7	3.1	2.7	3.0	2.9	3.1
Broad money (M2, end of year; % change)	14.2	6.0	18.6	13.2	11.3	5.2
Consolidated government balance (% of GDP)	-4.6	-3.6	-3.9	-3.8	-3.8	-3.5
Current account balance (% of GDP)	-3.1	-3.4	-2.1	-4.2	-4.3	-3.5
Official net international reserves (end of year)						
In billions of US dollars	1.9	1.9	2.3	1.8	2	2.3
in months of imports	3.0	2.7	3.2	2.6	2.5	2.9
External debt (% of GDP) (end of year)	60.7	56.8	59.7	59.6	60.2	61.0
Debt service (in % of exports of GNFS)	19.2	18.9	18.5	22.6	15.6	17.2
Exchange rate (dinar/euro) (end of year)	1.3	1.3	1.3	1.3	1.3	1.5
Real effective exchange rate (1995=100) 1/	100.56	100.47	101.5	100.8	98.3	94.0
Population (million)	9.2	9.3	9.5	9.6	9.7	9.8
GDP per capita, in USD	2155	2052	2130	2210	2045	2074

Source : IMF, various national sources.

1/ A negative sign implies a real depreciation and, therefore, a gain in international competitiveness.

### 3.3. Trade, Market and regulatory reform

Tunisia is the most advanced of the Euro-Med partners as far as the introduction of a free trade area with the European Union is concerned. Tunisia started dismantling tariffs in 1996, before the entry into force of the EU-Tunisia Association Agreement in 1998. Tariff dismantling has seen a speeding up of the country's integration into the European market. 80% of Tunisian exports go to the EU, and the EU represents 71% of Tunisia's imports. Tunisia occupies rank number 35 in the EU's imports and rank 31 in the EU's exports. In February 2004, Jordan, Morocco, Tunisia and Egypt concluded the Agadir free trade Agreement.

The real GDP (Gross Domestic Products) growth accelerated to close to 6% in 2003 (1.7% in 2002) on the back of strong exports and increasing agricultural production. This GDP was € 23 billion in 2003, which represents 0.06% of the world total.

Tunisia accounts for 0.61% of EU agricultural exports, 1.56% of energy exports, 0.64% of machinery exports, 0.37% of transport material exports, 0.44% of chemical products, 4.67% of textiles and 0.56% of other products. Concerning EU imports, Tunisia accounts for 0.34% of EU agricultural imports, 0.39% of energy imports, 0.39% of machinery imports, 0.21% of transport material imports, of 0.31% chemical products, of 4.15% textiles and 0.35% of other products.

Tunisia is a major exporter of consumer goods and a major importer of intermediate products which it processes into finished products for export. It is also dependent on the outside world for capital goods (27.9% of total imports). Although energy is of relatively minor importance in Tunisia's foreign trade (9% of imports and exports), the negative balance of trade in these products is highly sensitive to international price trends. The food balance is negative while imports of consumer goods are high (6.3% of GDP in 2001, equivalent to 10.3% of private consumption).

The depreciation of the real effective exchange rate stimulated global export activities at least until the end of 2003, despite weak demand from the EU.

The trade deficit of Tunisia contracted by 10% in the first 10 months of 2003 compared to the same period in 2002, as export (in nominal terms) were up around 8.5%, while imports (in nominal terms) grew at a weaker 3.2%.

Inflation also increased at the end of 2003 due to economic recovery and the relaxation of monetary conditions.

Trade in goods with the EU is being liberalised and Tunisian tariffs have been progressively reduced on the basis of the provisions of the Association Agreement (AA). In 2003, 60% of Community industrial products benefit from duty-free access to the Tunisian market, while Tunisian industrial products can access the European market free of charge, since the entry into force of the Association Agreement.

Since 1 January 2004, imports of manufactured goods that compete with local production (together with the other products covered by Annex 5 of the Association Agreement), have been subjected to new tariff rates amounting to 44 % of their 1995 level.

The Tunisian dismantling of tariffs on processed agricultural products has given rise to certain difficulties. Despite this progressive liberalisation however, Tunisia's tariffs still remain at relatively high level with a large number of tariffs (52 rates), various forms of non-tariff barriers, and relatively high average tariff rates.

The body responsible for formulating and implementing **tax policy** is the Ministry of Finance. Taxes on personal and corporate incomes and a value added tax are applied. VAT consists of a general rate of 18%, two reduced rates of 10% and 6% and a 29% rate for luxury goods. A Code of fiscal rights and procedures was adopted in 2000. An investment incentives code covering most sectors of activity was adopted in 1993. It offers a whole series of facilitations, including a limit on VAT on imports of capital goods. The Finance Ministry has developed and implemented a number of integrated tax control systems. The move to paperless administrative and tax formalities is now complete and all these systems are computerised. All the central and regional departments of the Finance Ministry are integrated into a single national network. The link-up between Tunisia Trade Net (customs, forwarding agents and banks) and the Taxation Directorate is operational.

Tunisia has signed double taxation treaties with in total 45 countries, amongst other with 19 EU Member States.

The Directorate-General for **Customs**, which comes under the Ministry of Finance, was reorganised in 1994. There is an Ecole Nationale des Douanes (national customs college), a Higher Customs Council and a General Customs Inspectorate. The 1955 Customs Code is currently being revised.

Tunisia uses the Harmonised System nomenclature and, since 1 January 2000, the EU's Combined Nomenclature. A new customs computer system, SINDA 2000, which automates clearance and provides an integrated tariff database, came on stream across the whole customs territory in 2001. The virtual link-up of all the parties concerned (forwarding agents, banks, customs agents, insurers, etc.) has been completed and operates via the Tunisia Trade Net system that aims at a simple and paperless environment. A customs Internet site in French and Arabic is available to the general public. The introduction of risk analysis is planned but not yet implemented.

Tunisia, as a partner to the Barcelona Process, endorsed on 7 July 2003 the new Protocol on rules of origin allowing the extension of the Pan-European system of cumulation of origin to the Barcelona Partners. The next stage aims at amending the origin protocol in the relevant Euro-mediterranean Agreement in order to insert the changes necessary for the application of diagonal cumulation. This could help fostering economic integration and allow for a better use of the complementarities and the economics of scale in the Euro-mediterranean area.

In the area of **technical regulations and standards for industrial products**, the Tunisian system of standards operates on the basis of a clear conceptual distinction between approved standards (compulsory for all) and other standards (non-compulsory). The Ministry of Industry and Energy has overall responsibility for standardisation policy and supervision. Draft standards are prepared by technical committees under the auspices of the INNORPI, the national institute for standardisation and industrial property. INNORPI has a variety of different roles (quality, weights and measures, industrial property) and is a member of the International Standardisation Organisation (ISO).

In the **intellectual property rights** sector, the main law protecting innovative discoveries and inventions dates back to 2000 (Invention Patents Act). The Act gives a detailed definition of patentable inventions, sets out a preliminary examination procedure of the substantive and formal requirements, lays down the rights and obligations of the patent holder, introduces three types of licence, defines counterfeiting and the associated penalties, establishes preventive border controls and protects the interests of holders of patents under the previous legal arrangement. Since 2001 trademarks and service marks have been covered by separate legislation. Any action prejudicial to the trademark owner's rights constitutes an infringement for which the infringing party is liable under civil and criminal law. Copyright is also protected in Tunisia (Berne Convention). Tunisia has been a WIPO member since 1975. The bodies responsible for enforcement of legislation in these areas are, respectively, the INNORPI and the Tunisian Copyright Protection Organisation (OTDPDA).

The regulations on **public procurement** underwent a thorough revision under a 2002 decree. The decree covers tendering by the State, local authorities, public bodies (including non-administrative public bodies) and state enterprises. Public procurement is overseen by the Commission Supérieure des Marchés (procurement board) and boards at departmental, regional, communal and internal level. There is also a Comité de Suivi et d'Enquête (monitoring and investigations committee) and an Observatoire des Marchés Publics (public procurement agency) responsible for gathering and processing data on public procurement (it can also put forward proposals for improving regulation). Tunisia considers public procurement an instrument for development and grants originating Tunisian products a 10% price preferential over the prices submitted by foreign tenderers.

The situation of the **right of establishment and to provide services** (other than financial services) presents stark contrasts. Tunisia is open to foreign investment generally, but restrictions remain for selected sectors and there are numerous restrictions on the establishment of companies (residence, nationality, national share of equity capital), particularly in the service sector, including non-legal barriers to entry into or access to certain markets or activities. FDI is subject to authorisation in certain service activities where the foreign participation is in excess of 50%, while the Investment Incentives Code excludes certain sectors which are reserved for the State (unless a concession is granted). All real estate transactions require approval, and foreigners may not own agricultural land. Foreign investment in some “strategic” sectors like petroleum refining, the national airline, electricity and water distribution, requires prior authorisation. Portfolio investments are subject to authorisation and generally limited to 49% of the companies' equity capital. Overall FDI flows remained at a rather low level.

Bankruptcy law is covered by the Commercial Code and the Code of Rights and Obligations. Company information is regularly published and the Tunisian Central Bank operates a business accounts registry.

Several restrictions exist in relation to professional services. Accountants and tax consultants must be Tunisian unless reciprocal agreements are in force. Foreigners can only offer medical and health services through local representatives, importers, wholesalers or agents. Communication, education, training, public works, property development and R&D services cannot be offered by foreigners without the prior authorisation of the investments board.

### **3.4. Transport, Energy, Information Society, Environment, and Research and Innovation**

The national **transport** strategy focuses on the sector's contribution to the external competitiveness of the economy. Policy in the sector is geared to increased containerisation and multimodal management of transport and to the development of logistical services.

The deregulation and privatisation of road transport has been completed and a national programme to upgrade road infrastructure is currently under way. Urban and interurban transport services are still subsidised to an extent and for the most part under public monopoly, though some lines have been offered for privatisation.

The Tunisian national rail company, SNCFT, has undergone a reform of its institutional framework and is currently in the process of extensive financial restructuring. The Government may take the opportunity to open up the operation of some rail services to private investment.

Once the necessary implementing decrees have been adopted, the Aviation Code will allow a range of aviation-related services to be opened to the private sector. The law entrusts the civil aviation and airports office, OACA, with a key role as (i) an operator of aviation services, (ii) licensing authority for some of its public services, and (iii) regulator (by delegation) of aviation activities. Air freight activities, air courier services and scheduled passenger transport operations are still subject to monopoly or cargo-sharing regulations. The air services agreements with EU Member States do not include Community designation and are not in line with Community legislation.

The administration of ports is entrusted to the Office de la Marine Marchande et des Ports (OMMP), which is not only the maritime authority and port authority (supervision of in-port activities) but is also responsible for port infrastructure maintenance and development.

Located between two major producer countries, Tunisia itself has limited own energy resources (gas, petroleum). Tunisia transits natural gas from Algeria to the EU. Demand for **energy**, notably electricity, is rising sharply. The main energy policy priorities as contained in the 10th Development Plan 2002-2006 are the development of national hydrocarbon resources, including an extension of exploration activities, stepping up electricity production, including network rehabilitation and extension, energy use management and promotion of renewable energies. The continuation of rural electrification is also amongst Tunisia's priorities.

The legal framework of the Tunisian energy sector consists mainly of the Decrees/laws on the establishment and operation of the Tunisia electricity and gas company STEG, the Hydrocarbons Code (stimulating hydrocarbon exploration) and decrees on electricity production. Tunisia is one of the signatories of a Protocol of Agreement concerning the Maghreb electricity market and its integration into the EU internal market which was developed in the Euro-Med energy forum. Tunisia wants gradual integration into the internal energy market.

The main feature of the energy sector is the virtual monopoly of the STEG. A vertically integrated company, STEG is responsible for the production, transmission and distribution of gas and electricity. Since 2002, however, a major independent producer, based in Radès, has become the first to start operations. Tunisia does not have a regulatory authority specifically for the energy sector. Distortions exist in energy prices. The National Renewable Energies Agency, under the aegis of the Industry and Energy Industry, is responsible for energy efficiency programmes and the promotion of renewable energy sources. One programme currently in progress in this field is geared to upgrading industry. The potential exists in Tunisia for the development of other renewable energies (solar, wind, biogas and geothermic). Further efforts would require additional financing.

The Ministry of Communications Technology and Transport (MTCT) is responsible for **information society** policy, in particular for electronic communications policy and the sector development strategy, as well as for preparation of legislation, regulation, terms and conditions of licensing and the granting of licenses. The Ministry also approves the fixed telephony service tariffs and determines the maximum rates for Internet services. The National Telecommunications Authority (INT) was established in 2001, and is in charge of numbering, approval of tariffs for mobile telephony services, as well as the resolution of disputes between the Ministry and operators, and between operators.

The National Electronic Agency and the National Agency for Frequencies are in charge of internet and radio spectrum management. The Telecommunications Law of January 2001 as amended in May 2002 created the framework for opening the market to private operators. The Law introduced the regime for concessions, licenses and authorisations and includes provisions on tariffs, numbering, interconnection, Universal Service, rights of way, and type approval of terminal equipment. The market for mobile telephony was liberalised in 2003 by issuing a license to Orascom Tunisia. The opening of the fixed telephony market is planned for 2006.

As regards the **environment**, the 10<sup>th</sup> Development Plan sets guidelines and objectives for environment policy in the period 2002-2006. Mobilisation of water resources, improved access to waste water treatment and drinking water, improved waste management, the fight against industrial pollution and desertification, and protection of biodiversity are identified as main objectives.

Tunisia has adopted several pieces of legislation on the environment since 1975. The Ministry of Agriculture, Environment and Water Resources was established in 2002 to succeed the former Ministry of Environment and Territorial Planning established in 1991. Other Ministries are also responsible for environment-related matters, including the Ministry of the Interior and Local Development. Tunisia is a beneficiary of Community support under MEDA, SMAP and LIFE-Third Countries programmes. Tunisia has ratified relevant international and regional conventions to which it is signatory, except the new Emergency Protocol to the Barcelona Convention. Tunisia has acceded to the Kyoto Protocol.

The State Secretary in charge of **scientific research** and technology in the Ministry of Higher Education, Research and Technology is, *inter alia*, charged with defining strategic R&D objectives and with guiding the roles and activities of the different components of the national R&D system.

An Agreement on scientific and technological co-operation between the European Community and the Tunisian Republic was signed on 26 June 2003 in Thessaloniki; it was approved by the Council of the European Union at the end of 2003 and ratified by the Tunisian Government in March 2004. This agreement will, in the first place, allow the scientific and research co-operation between the European Union and Tunisia to be structured, organised and intensified.

During the 5<sup>th</sup> Framework Programme on Research and Technological Development, 74 Tunisian institutions participated in 51 joint projects (of which 45 projects of the INCO-MED programme). The respective contracts covered, for instance, the integrated management of limited water resources or sustainable systems of agricultural production.

For the first year of the 6<sup>th</sup> Framework Programme (2003), 97 Tunisian partners participated in 73 research proposals, of which 23 were chosen for funding. These proposals principally touched upon specific measures of international co-operation.