



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 4 December 2006  
SEC(2006) 1510

**COMMISSION STAFF PAPER**

**accompanying the  
COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE  
EUROPEAN PARLIAMENT**

**ON STRENGTHENING THE EUROPEAN NEIGHBOURHOOD POLICY**

**ENP Progress Report  
TUNISIA**

**{COM(2006) 726 final}**

## **Background and overall assessment**

The Action Plan, which was adopted in July 2005 and became operational in 2006, is now a coherent framework for dialogue between the European Union (EU) and Tunisia. It has enabled an in-depth dialogue to be launched on economic and business matters and on various sectoral policy issues. Five subcommittees met during the first seven months of 2006 (economic dialogue, agriculture and fisheries, transport, environment and energy, research and innovation, customs cooperation).

Improving living standards remained a constant priority of government policy, in line with the ENP objective of creating an area of shared prosperity. Good progress has been made on most of the economic and social reforms and the sector-specific measures indicated in the Action Plan, including in the transport, energy and scientific research fields.

On a more general note, there is a high degree of cohesion between the Action Plan and Tunisia's own priorities. These priorities, which were established by the guidelines to the XIth plan (2007-2016), focus on creating productive employment by making the Tunisian economy a knowledge-based economy, and hence more competitive. This objective is all the more relevant in view of the challenge that high growth in unemployment among young graduates, and the social unrest and migration which it generates, presents to Tunisia and Europe. In other words, the Tunisian authorities are using the Action Plan to implement this objective and as a launch pad to further the country's development.

There has been less progress on the political front in recent months, however, particularly as regards cooperation and **dialogue on political and security issues**.

Preparations by the Subcommittee on Human Rights and Democracy are still focused on its rules of procedure. A start should be made on implementing the modernisation programme for the justice system, which was signed at the end of December 2005. Civil society projects with the EU have so far proved problematic, especially as regards implementation of the Tunisian League of Human Rights projects.

As regards aid, there is a high degree of cohesion between cooperation programmes for 2007-2010 and the Action Plan's economic and social priorities. This is reflected in the large number of twinning programmes and the institutional reforms linked to budget aid.

## **Political dialogue and reform**

The Chamber of Counsellors was set up in July 2005 to consolidate democratic institutions and the rule of law. Forty-one counsellors are directly appointed by the President of the Republic; forty-three are elected by local authorities and forty-two by trade associations. The Confederation of Tunisian Unions (UGTT), which is entitled to fourteen seats, declined to take part. The forty-three elected representatives of local authorities are all members of *Rassemblement constitutionnel démocratique*, the ruling party.

The financing agreement for the justice system's modernisation programme, on which preparatory work was started at the beginning of 2002, was signed at end-December 2005. It has not yet been fully implemented, although it is just the prototype of the new generation programme that the neighbourhood policy is designed to encourage, and implementation provides Tunisia with an opportunity to demonstrate its positive commitment.

As regards human rights and fundamental freedoms, there has been little progress on freedom of association and freedom of expression. The activities of independent civil society (NGOs, political movements, trade associations) have also been obstructed. The obligation for daily newspapers and magazines to deposit a number of copies with the authorities prior to publication was abolished in 2006 under the organic law but remains in force for the foreign press. In practice, journalists continue to face various obstacles (e.g. media access to advertising).

Relations between the steering committee of the Tunisian League of Human Rights and the authorities continue to be problematic, which makes it difficult for the League to function normally, whereas it is often referred to as a major national asset which should be preserved. Progress was also limited on other civil society projects funded by the European Community, such as the "Santé Sud" project or the project for the Association of Tunisian Women for Research & Development (AFTURD).

The International Conference on Employment and the Right to Work in the Euro-Mediterranean area, which was scheduled to take place in Tunis at the beginning of September 2006, was cancelled at the last minute. A step towards improving detention and prison conditions was taken in April 2005 when the International Committee of the Red Cross was authorised to make regular visits to all detention centres and prisons. Approximately 100 political prisoners were freed in February 2006 (of a total of 1298 prisoners, 5% of the prison population), who received pardons, mainly under ordinary criminal law.

At regional and international level, dialogue is ongoing with the EU but there is scope for consolidation. Although Tunisia's defence policy is constrained by limited resources and objectives, comprehensive legislation is in place to fight terrorism and considerable funding has been made available for that purpose.

Tunisia has been praised by the Member States and the United States as a very reliable partner in the fight against terrorism; cooperation in this area is mainly bilateral. The Council's Working Party on Terrorism (COTER) has decided to provide technical assistance to Tunisia. It remains to be decided what this assistance will comprise, but it should focus on money laundering, security requirements for travel documents and judicial cooperation.

In the field of regional cooperation, Tunisia is actively involved in the "5 + 5" process.

## **Economic and social reform and development**

### **Macroeconomic framework**

Thanks to prudent budgetary and monetary policies and improvements to debt management, Tunisia's macroeconomic framework is stable and the outlook is favourable. GDP growth ran at 4.2% in 2005 and should exceed 5% in 2006 in spite of the difficult external environment (low EU demand, severe competition from Asia and rising prices for raw materials). The main reasons for this growth are marked expansion in the service and industrial sectors and an upturn in agricultural production.

### **Budgetary and fiscal policy**

The Government has not merely pursued a prudent budgetary policy but also set itself an ambitious strategy to place public finances on a sounder footing with a view to making budgetary policy more responsive to economic development objectives. In 2005 the deficit

amounted to 3.2% of GDP (excluding donations), up from 2.9% the previous year. For 2006 it should be around 3.6% of GDP, reflecting in part higher State subsidies to petroleum products and significant expenditure on civil servants' salaries.

In 2005 the public debt amounted to almost 59% of GDP. The regulatory and institutional framework of debt management was consolidated in line with the recommendations of the study carried out under the Structural Adjustment Facility (SAF) III. A directorate-general for debt and financial cooperation (DGDCF) has been set up at the Ministry of Finance. This new directorate-general is organised according to function (front, middle and back office), meaning that the latter two functions of debt management could be merged. However, the Ministry of Finance and the Ministry of Development and International Cooperation remain jointly responsible for negotiating and taking out external loans. Each financing agreement must be ratified by Parliament.

Efforts to reinforce the macroeconomic framework and improve debt management are supported by the European Commission, the World Bank and the African Development Bank within structural adjustment programmes. FAS IV has received funding from the Commission to the tune of €78 million.

The Government is planning to use two-thirds of the revenue from the recent privatisation of Tunisie Télécom to reduce the foreign debt, currently at 69.9%.

### **Employment, social policy, sustainable development**

Despite the country's good economic performance, unemployment remains high (14.3% in 2005), with graduates increasingly affected. In 2005 the Tunisian authorities started to implement policies to align labour supply and demand and to put in place reforms to make recruitment more flexible by introducing temporary work. But if this policy is to be truly effective, the rules governing dismissal will have to be made less stringent too, and no action has been taken on this.

The European Community is funding a number of projects to improve vocational training and promote job creation and educational reform. An EC-funded programme to modernise secondary schools, improve links between universities and businesses and promote recognition of foreign qualifications was launched in 2005. It should have a positive impact over the coming years.

In its dialogue with the EU, Tunisia is gradually making progress on social rights in accordance with the International Labour Organisation Declaration. Work still needs to be done on social dialogue, which is still too often prohibited by the authorities, including collective bargaining. The EC has stepped up financial and technical assistance for the reform and extension of the social security system and for efforts to consolidate and monitor safety in the workplace.

As regards poverty, work has been started to tackle the causes of marginalisation and social division. The official figures show that poverty levels have been reduced to 3.9% and that the middle class now accounts for 80% of the population. Per capita income is growing steadily, most households are home-owners and basic amenities and modern means of communication are available to most Tunisians.

A whole chapter of the Xth plan is devoted to Tunisia's commitment to sustainable development, and the XIth plan builds on this commitment with structured measures. Institutions are highly developed and the legislative and regulatory framework is fairly comprehensive. The national committee for sustainable development, which was founded in 1993, is continuing to coordinate the work of interested parties. Sustainable development indicators were established for Tunisia in 2003, and even more detailed regional indicators produced by the Tunisian Observatory for the Environment and Sustainable Development were published in 2005.

### **Trade, markets and regulatory reform**

Overall, implementation of the Action Plan's trade component and regulatory convergence with the EU are satisfactory. Good progress has been made with tariff dismantling; Tunisia should be ready two years before schedule. Nevertheless, work is slowing down and there is even some evidence of delays and bottlenecks. This is affecting sectors such as consumer goods and processed agricultural products (which are in competition with local goods) and work on non-tariff barriers. Within the regional context, Tunisia is a party to the Agadir agreement, which sets up a Free Trade Area between four Mediterranean nations. It has been in force since July 2006.

Negotiations on the liberalisation of trade in processed agricultural products, processed agricultural products and fishery products, scheduled to start in June 2006, did not get off the ground because the Tunisian side did not have a negotiating brief, and they may be further obstructed by the current bottlenecks in tariff elimination for processed agricultural products.

Tunisia has adopted the protocol on Pan Euro-Mediterranean origin cumulation, which has been in force since August 2006. The Tunisian customs authorities are continuing work on the comprehensive review of procedures begun several years previously with a view to making them more user-friendly and transparent. The resulting amendments to legislation and operating practice are currently in the final phase of implementation. As regards implementation of the World Customs Organisation's Framework of Standards to Secure and Facilitate Global Trade, Tunisia has already set up think-tanks to examine related concepts such as approved exporters. The customs authorities should play a greater part in combating counterfeiting and piracy; an amendment to the customs code currently in the pipeline would make importing counterfeit goods a customs offence and is a promising first step.

Tunisia has made significant progress on free movement of goods and technical regulations. It has confirmed its willingness to negotiate an agreement on conformity assessment and acceptance of industrial products and has identified the priority sectors which should be covered by the agreement. A work programme has been developed and is currently being implemented. Horizontal legislation for standardisation and accreditation and sector-specific legislation is being drawn up. In addition, the Consumer Protection Act, the Decree on Import and Export Controls and the Food Safety Act are in the process of being aligned with EU law. A bill is being prepared to guarantee the independence of the National Accreditation Council (TUNAC). Administrative capacity for market surveillance should be boosted.

In the sanitary and phytosanitary field, Tunisia is continuing work to set up an animal traceability system (particularly for bovine animals) and has stepped up surveillance. A law on animal products has been adopted which will facilitate convergence with EU rules. Laboratory and border inspections have been increased and arrangements for combating avian influenza have been reinforced. However, much still has to be done to reinforce the regulatory

framework, institutions and laboratories and inspections and surveillance, including residue testing and contingency plans in the event of an epizootic.

Tunisia is continuing to take measures to improve the investment climate, for instance by reducing the number of government approvals and lifting restrictions on purchases of industrial estates by foreigners. Good progress has been made on company law: new obligations for the members of boards of directors, audit committees for large or listed companies, a requirement to appoint external financial auditors and stricter publication requirements. However, concerns remain about economic governance, competition, intellectual property, inflexible labour law and rampant red tape.

As regards services, Tunisia has launched negotiations on a free trade agreement with the European Community and the Member States on services and the right of establishment. A study has been carried out by the *Institut d'économie quantitative* to identify national priorities in the services sector. As regards financial services, implementation of the recommendations of the IMF's 2002 Financial Sector Assessment Programme (FSAP) is fairly advanced. But a number of problems remain in the banking sector, such a lack of transparency of some claims/creditors and an insufficient level of provisioning for certain banks.

Tunisia has made steady but slow progress in implementing its strategy for deregulating payments and capital movements. In addition to advances in macroeconomic stability and strengthening of the financial sector, measures have been taken to open up access to foreign capital, to make it easier for foreigners to buy land and shares in SMEs and to increase the amount of foreign currency that can be freely exported by non-residents. Strict foreign currency controls and the requirement for banks to pay back their foreign currency surpluses continue, however, to brake movements of capital.

In the social field, Tunisia has started talking to the European Commission about implementing the clause on equal treatment for its nationals in the European Union. This should also help to abolish residual discrimination in Tunisia against some EU nationals. Social security for migrants continues to pose problems, e.g. as regards system compatibility and aggregation of benefits in Tunisia and the EU.

Tunisia has launched a tax reform which reflects the short-term commitments set out in the Action Plan. It plans to reduce the number of VAT rates to three and abolish the 29% rate as of January 2007, to reduce corporation tax from 35% to 30% and to introduce a 10% rate for offshore companies. There are also plans to modernise the tax administration which include setting up a directorate-general for large taxpayers. Legislation on a tax amnesty has been adopted. Further work is needed to simplify the legislative framework and improve relations with taxpayers to encourage voluntary compliance with the rules.

Improvements have been made to competition policy and its implementation in Tunisia, especially with regard to private-sector anti-competitive practices, reflected in a marked increase in the number of referrals. Significant legislative and institutional changes have taken place in competition law, which also applies to state aid, even though further work is needed in the field. No real progress has been made on transparency of state aid. Legislation adopted in 2005 and 2006 consolidated the legal and regulatory framework and the institutions (competition council and directorate-general for competition), one of its effects being to make them more independent. Work has also been done to raise awareness among operators and train judges.

Tunisia has signed up to virtually all the main international agreements and treaties concerning intellectual and industrial property, but there are problems with implementation in the international trade field (customs) and the industrial field (patents). In cooperation with the World Intellectual Property Organisation (WIPO), Tunisia has stepped up efforts to flag up the importance of intellectual property rights by organising seminars and awareness-raising campaigns. During the three and a half years prior to December 2005, more than 900 000 products, most of which were counterfeit, were confiscated in the course of inspections.

Mixed progress has been made on public procurement. An internet site for public calls for tender has been set up, which has increased transparency. The legal framework was reformed in 2003 and 2006 by introducing better planning, reducing the time taken to refund guarantees and improving the right of bidding companies to appeal and apply for a stay of proceedings. However, separating technical from financial bids has made the tendering procedure less transparent and less straightforward. In addition, new preferences have been introduced for Tunisian craftsmen.

In the statistical field, significant cooperation has been undertaken to promote convergence with the EU, particularly as regards agricultural, energy and health data. This cooperation also involves building the capacity of the administrative structures that produce and collect data, improving monitoring of the business environment and improving data dissemination via the internet.

Slow progress is being made on reforming public-finance management. In spite of discussions and studies spanning several years, the reform designed to introduce objective-based budgeting has not been launched. Public-sector consolidated accounts are still not available. Little headway has been made on introducing better international and European standards in internal controls of public finances, in particular, stricter internal audits and increased managerial responsibility. A revised mandate has been produced for the Court of Auditors but this has not yet been adopted.

With regard to enterprise policy, Tunisia has already implemented most of the principles of the Euro-Mediterranean Enterprise Charter and has taken action to improve the business environment. The most significant measures in 2005 included the creation of a bank to promote the development of SMEs (Banque de financement des PME) and the introduction of online business start-ups. The Government has developed a wide range of sophisticated instruments to assist private sector development: the current priorities are business services, access to finance and innovation promotion. Although there is a business-friendly regulatory framework, businesses still suffer from the Tunisian authorities' predilection for red tape.

### **Cooperation on justice, freedom and security**

Tunisia is not a mass transit migration area. That said, it does hold undeniable attractions for sub-Saharan Africans. As regards asylum and refugees, despite having signed conventions and protocols on asylum, Tunisia has failed to adopt national legislation guaranteeing the rights of refugees in the country. Dialogue between the Office of the High Commissioner for Refugees (HCR) and Tunis has been put on ice and the organisation's local office is still awaiting authorisation to operate in Tunisia.

As regards cooperation on the management of migratory flows, at the latest meeting of the Working Party on Social Affairs (May 2005), Tunisia acknowledged the usefulness of cooperation programmes such as Aeneas. It also stressed that more capacity was needed in

departure and transit countries. Progress has stalled on two projects promoted by the International Organization for Migration. In contrast, Tunisia was actively involved in the Rabat conference on migration, where it stressed the need for joint development and triangular cooperation with the sub-Saharan states.

With regard to organised crime, Tunisia has ratified the United Nations Convention against Transnational Organized Crime and its protocols. A cooperation agreement with Italy entered into force in 2005. Regarding money-laundering and anti-corruption measures, Tunisia signed the 2003 United Nations Convention against Corruption in March 2004 but has not yet ratified it.

Justice professionals clashed with the authorities in defence of their prerogatives in 2006. The governing bodies of the magistrates' association were replaced and the bar protested against a new law which provided for the setting-up of a training institute for justice professionals under the aegis of the Ministry of Justice rather than the profession itself. Independence of the judiciary is still limited, given that magistrates are appointed by the executive. The 2005 Organic Act did not change this state of affairs.

Tunisia has signed bilateral agreements concerning the status of individuals (civil status, military service for dual nationals, custody, pensions) and mutual legal assistance. It is involved in police cooperation (terrorism, illegal immigration, trafficking), but has been less active in the field since 2005.

### **Transport, energy, information society, environment, science and technology**

Tunisia implements a coherent transport policy, the aim being to make the various means of transport more efficient by reforming the sector and improving infrastructure. The current policy objectives include making public transport the long-term priority, renewing the maritime fleet and aircraft, improving transport safety, developing multimodal transport and providing better-quality services. Public transport operators have become more competitive following restructuring in recent years. Aviation has been deregulated (two private companies), as have road public transport and transport infrastructure (airport and port). Tunisia has not yet negotiated an aviation agreement with the European Community but has amended its bilateral air services agreements with the Member States. Although the railway system receives compensation for discharging its public service obligations, keeping low-density lines open remains difficult. Road transport continues to be handicapped by a market structure characterised by small operators. Maritime safety has improved but remains an issue. The port reforms have been successfully implemented.

An energy importer, Tunisia aims to play a greater part in ensuring the EU's energy security. It is increasing the capacity of the Transmed gas pipeline (transit of Algerian gas to Italy), has started preparations for the construction of a new gas pipeline with Libya and is planning to build a liquefied natural gas terminal and a new refinery. Tunisia continues to promote gas consumption and is studying future energy sources, including the nuclear option. Studies have been carried out on the possibility of an electricity interconnection with Italy. There are plans to reinforce the electricity interconnection with Algeria with a view to a future interconnection with the Middle East. This will contribute to the future Euro-Mediterranean electricity network. Tunisia has started to open its fuel distribution sector up to competition, but its stated objective of opening up its own electricity and gas market seems to have been put on the back burner. In short, a great deal remains to be done, including development of an integrated electricity market in the Maghreb. Restructuring of the public electricity and gas



company (STEG) has begun. Energy prices have been aligned with market prices, but the subsidy volume has increased rapidly. Work has continued to renovate the electricity network, reduce network losses and advance rural electrification. Energy efficiency has been improved and renewable energy use increased. A law on energy efficiency has been adopted and an agency for energy efficiency under the aegis of the Ministry of Industry and Energy is now operational.

Implementation of the IT action plan is designed to develop a knowledge-based economy based on new information technology and, at the same time, control the production and dissemination of information. The World Summit on the Information Society held in Tunis in November 2005 highlighted these contradictions. Tunisia still has to complete its regulatory framework for electronic communications and consolidate the national telecommunications authority. The fixed telephone line market has not yet been opened up, although Divona Télécom has been competing with Tunisie Télécom since 2005 to provide satellite communication services (VSAT). There are plans to authorise Tunisie Télécom and Divona Télécom to provide high speed Internet access services via Wimax. The number of internet access providers has increased but free access to the internet and its contents remains problematic. The Government has opened up the audiovisual industry to the private sector. Rules are being drawn up for the electronic press along similar lines to those in force for the written press.

The main environmental issues are water quality, waste management, marine and coastal pollution and desertification. Tunisia has made good progress on climate change by setting up national bodies, adopting Clean Development Mechanism (CDM) procedures and working on a number of CDM projects. The 10<sup>th</sup> development plan (2002-2006) includes environmental policy objectives. The regulatory framework and sector-specific legislation have been established in most sectors, but require further work. The most recent legislation includes decrees on environmental impact studies and limits on gas emissions (scheduled for June 2006). A new integrated waste management strategy is being drawn up and a review of the biodiversity strategy and action plan is under way. Some measures forming part of the national strategy to combat desertification have been implemented. Work has been done in recent years to reinforce the authorities responsible for the environment and incorporate environmental issues into other sectoral policies. Regional and local implementation is still a challenge although 24 regional strategies have been drawn up. Tunisia has taken action to promote transfers of environmental technology. Reports on the state of the environment are published at regular intervals and a national programme has been developed to raise awareness of environmental issues. However, greater attention must be given to public involvement and access to information. Tunisia has ratified the relevant international agreements and protocols. It takes part in the Council of Arab Ministers Responsible for the Environment, the African Ministerial Conference on Environment, the Maghreb Commission on Environmental Protection and the Action Plan for the Mediterranean and benefits from the activities carried out as part of the EU's water initiative. Some measures have been taken to promote cooperation between Tunisian and European towns, but this is an area requiring further attention. Cooperation on water-related issues with the European Community has continued. Various other issues, including regional cooperation with the European Environment Agency, have been identified as possible areas of closer cooperation.

An ambitious research and innovation policy has been developed, reflected in a 25% budget increase by 2009 and implementation of "technopolis", a theme-based, regional programme. Tunisia is also opening opportunities for researchers by setting up structures to promote

research projects and consolidating interfaces between business and research. The country is making a significant contribution to the EC Framework Programme.

### **People-to-people contacts.**

Education is a key priority for Tunisia, which has provided a decent primary education for many years. The proportion of young people going on to secondary education has increased. The focus is now on raising quality and stimulating interest, and on preparing a wide-ranging education reform. The undergraduate/postgraduate/doctorate model is being reinforced. Introducing IT throughout the education system is a priority. Technical education and training have been reorganised. These reforms have been aided by EC sector-specific programmes (€10 million). In higher education, the Tempus programme has stimulated cooperation between Tunisian universities and the EU and implementation of the university reform. The Erasmus Mundus programme is up and running in Tunisia and will be fully operational shortly. The EuroMed Jeunesse programme provides assistance to exchange projects involving young people and Tunisian organisations.

Tunisia plays an active part in the Euro-Mediterranean cultural programmes. It has not been unaffected by the crisis in the film industry and serious shortcomings in the intellectual property field are not unknown.

Partnership with civil society is problematic. Cooperation with civil society is beset by difficulties, and most of the projects funded by the EC as part of the European Initiative for Democracy and Human Rights (EIDHR) and NGO co-financing thematic lines have been blocked by the Tunisian authorities. As regards consumer protection, Tunisia has decided to step up production, distribution and import controls and to set up a national consumer council.

Improvements have been noted in health indicators (life expectancy, child mortality, maternal mortality) and universal access to health insurance, or to free or subsidised health care for vulnerable groups. The reform process must continue to increase access to health care, improve quality and efficiency in the sector and ensure that insurance systems are sustainable. Levels of HIV infection and AIDS are low but monitoring could be improved.

### **Support aspects**

The Meda Programme now extends to all the key areas of modernisation of Tunisia's economy and society: macroeconomic reforms, customs, ports, privatisation, the financial industry, the whole of the education sector, financial reform, health insurance; new programmes have been set up in the governance field (media, justice), and these will be important tests of future cooperation.

A significant proportion of EU intervention at macroeconomic level and in individual sectors takes the form of budget support (50% of ongoing programmes in 2006). This change in the nature of aid reflects a high degree of maturity in implementation of cooperation between the two partners and maximises the impact of European financial aid to the Tunisian economy.

In total, the Meda programme in Tunisia committed funds to the tune of €946 million between 1995 and 2006, €352 million of which during 2002-2006. Actual disbursements amounted to €58 million for 1995-2006, €405 million of which during 2002-2006.

The European Investment Bank (EIB) is continuing with and increasing funding in the Mediterranean area via its dedicated instrument, the Facility for Euro-Mediterranean Partnership (FEMIP). Tunisia is one of the main recipients of EIB loans.