

**Trade Policy Review Body**

**TRADE POLICY REVIEW**

**Report by the Secretariat**

**CHAD**

**Revision**

This report, prepared for the first Trade Policy Review of Chad, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Chad on its trade policies and practices.

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Document WT/TPR/G/174 contains the policy statement submitted by Chad.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Chad.



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## SUMMARY OBSERVATIONS

### (1) ECONOMIC ENVIRONMENT

1. Since independence in August 1960, Chad has experienced a succession of socio-political crises which have impeded its economic and social development. About two thirds of the population live below the poverty threshold of US\$1/day. According to UNDP, in 2005 Chad ranked 173rd (out of 177 countries) in the human development index. In 2001, it reached the decision point of the Enhanced Heavily Indebted Poor Countries Initiative but in October 2006 had not yet reached the Initiative's completion point; in 2004, its total debt of US\$1.6 billion represented about one third of GDP. In October 2006, its Poverty Reduction Strategy Paper was in process of being revised.

2. The start of oilfield investment in 2000, together with the surge in world prices after production began in 2003, enabled Chad to resume strong economic growth, with a real GDP growth rate of about 15 per cent on average over the period 2001-2005. Under a 1999 law on the management of oil resources, some of the proceeds of their exploitation have been allocated to the fight against poverty, including an important communication infrastructure rehabilitation programme. However, in 2005, despite the considerable increase in oil revenue, the budget (grants excluded) was still in deficit, to the tune of 7.3 per cent of GDP. Likewise, in the same year, because of a deterioration in the services and factor income balances associated with increased expenditure in the petroleum industry, the current account deficit remained high, at over 20 per cent of GDP. These various factors, combined with the vagaries of the weather, contributed to sharp fluctuations in the inflation rate. Moreover, the extremely high rate of turnover in senior, including ministerial, posts, the tax burden, with 40 per cent corporation tax and numerous indirect taxes, and the various practices which, in 2005, led Transparency International to classify Chad as the most corrupt country in

the world have created an unfavourable business environment and more or less confined investment to the petroleum subsector. In 2000, to encourage good governance, an anti-corruption law was adopted and several institutions, including the Ministry of State Control and Ethics, were established.

3. The Chadian economy is traditionally based on agriculture (21 per cent of GDP), mainly livestock and cotton, and since 2003 on oil. An output of about 160,000 barrels a day made it possible to double real GDP between 2000 and 2005. However, since it has no refinery, Chad has had no choice but to export the crude and import refined products, at their current exorbitant prices, further inflated by the country's land-locked situation. Services activities, mainly trade and government services, accounted for about 27 per cent of Chad's GDP in 2005. Manufacturing and crafts activities remain confined to a few enterprises that serve the local market and contribute less than 5 per cent to GDP.

4. The ratio of merchandise trade to GDP rose from 58 per cent in 2000-2001 to 102 per cent in 2005-2006. The sharp climb in the ratio was the result of a tenfold increase in annual exports which reached €2.7 billion in 2005-2006. Exports of cattle came second after crude oil but the trade is largely informal. Cotton is the third biggest export. The main export destinations (including for most oil exports) are the United States, China and the United Kingdom. Imports consist of machinery and transport equipment, medicines, food products and other consumer goods. The European Union (chiefly France) is Chad's foremost supplier. The share of the African countries in Chad's total trade remains small, although in actual fact that share is probably much bigger than the statistics suggest, since trans-border trade is to a large extent informal. Imports of services relate to transport and insurance. Exports are confined to income from travel and the services provided for foreign or international administrations established in Chad.

(2) **TRADE AND INVESTMENT REGIMES**

5. Trade policy falls within the jurisdiction of the Ministry of Commerce and Crafts, which is chiefly responsible for its formulation, evaluation and implementation and for issues relating to Chad's participation in the WTO. The Ministry is assisted, as appropriate, by other ministries and government agencies.

6. Chad took over the status of GATT contracting party on 4 July 1963 and became a Member of the WTO on 19 October 1996. It is not a party to any of the plurilateral agreements concluded under WTO auspices or to the agreements concluded since the end of the Uruguay Round. It accords most-favoured-nation (MFN) treatment as a minimum to all its trading partners. Within the context of the WTO, the specific positions taken by Chad, one of the four co-sponsors of the Sectoral Initiative in Favour of Cotton, have been centred on that product.

7. Chad has done little to fulfil its notification obligations and its participation in WTO activities has been limited. It has not yet notified its applied tariffs to the WTO's Integrated Database (IDB). The priority areas in which further technical assistance is required include the reform of customs procedures and tax collection at the border; and capacity building as regards interpretation and implementation of the WTO Agreements and participation in the trade negotiations, including in the context of the Doha Development Agenda. Since 2004, Chad has taken part in the revised Integrated Framework for Technical Assistance to LDCs. In October 2006, the diagnostic study carried out in this connection, which also involved an evaluation of Chad's technical assistance needs, was in the process of being revised.

8. Chad is a member of the Central African Economic and Monetary Community (CAEMC), whose common currency is pegged to the euro. However, intra-CAEMC trade is still limited. Although a Common External Tariff (CET) has been in place since the

period of the ex-Central African Customs and Economic Union (CACEU) in 1993, the members of CAEMC have still to implement the customs union; they are encountering difficulties in establishing a free trade area and in harmonizing a number of trade policy instruments. For example, in general, the planned roll-back of tariffs on intra-CAEMC trade has not yet come into effect.

9. As Chad has not yet adopted the CAEMC 1999 Community Investment Charter, only the ordinary-law regime provided for in its 1987 Investment Code is currently in force. In practice, potential investors negotiate establishment agreements with the Government, with specified concessions being granted by *arrêté* (order). Chad's adoption of OHADA's "uniform acts" in 1996 and the establishment of commercial courts in 2006 to rule on commercial disputes should lead to improvements in legal and judicial certainty. Company establishment procedures could be simplified by the effective implementation of "single windows".

(3) **TRADE POLICY INSTRUMENTS**

10. With a few exceptions, the MFN tariff applied by Chad is based on the CAEMC CET. Its rates are all *ad valorem* and vary from zero to 30 per cent, with an average of 18.4 per cent. The tariff protection accorded to agricultural products (WTO definition) is higher (22.8 per cent) than that accorded to non-agricultural goods (17.6 per cent). As defined by ISIC, agriculture remains the most protected sector (23.2 per cent), followed by manufacturing (18.1 per cent) and the extractive industries (11.4 per cent). The tariff is characterized by mixed escalation due to the heavier protection for unprocessed agricultural products.

11. Altogether, only 15.4 per cent of Chad's tariff lines were bound during the Uruguay Round, at a ceiling rate of 80 per cent on agricultural products and 75 per cent on passenger motor vehicles, giving an average rate of 79.9 per cent. Chad has bound "other duties and charges" at zero but



collects several on its imports. These include, inter alia: a statistical tax of 2 per cent; a CAEMC Community integration tax of 1 per cent; and a Community preference tax of 0.4 per cent. These various charges bring the simple average rate of total import duties and taxes to about 22.6 per cent. Moreover, pre-shipment inspection is required for most imports valued at CFAF 1 million or more and the fees (0.9 per cent of the f.o.b. value) are payable by the importer. Chad has never resorted to contingency measures, for which it has no legislation.

12. The main internal taxes collected by Customs are value added tax (VAT), at a rate of 18 per cent, and excise duties on numerous products. These taxes account for a major share of government tax revenue. In contrast to the treatment of local goods, the tax base for VAT on imports also includes excise duties.

13. Customs procedures lack transparency and are lengthy and costly. Chad does not apply the WTO Customs Valuation Agreement and maintains minimum import prices. It has not applied prohibitions or import licensing for commercial purposes since 1995. Imports are not, generally speaking, subject to technical standards or regulations. Imports of animal and plant products must, in principle, be accompanied by sanitary or phytosanitary certificates, but it seems that these provisions are not being applied. In particular, Chad has placed a general ban on the importation of live birds of any species or product thereof to prevent the spread of avian influenza, but this ban is not being strictly observed.

14. In 1992, Chad introduced a programme to scale back State involvement in production, which has led to the winding up, putting out to concession or privatization of numerous previously unprofitable enterprises. For several State-owned enterprises private investors are still being sought. Some essential goods and services continue to be supplied by inefficient monopolies in areas such as electricity, water and fixed

telecommunications, and in the cotton sector. In principle, intellectual property is protected by the provisions of the revised Bangui Agreement, but these are applied only to a limited extent. Chad does not have any competition legislation; the prices of some goods and services are regulated. In 2003, Chad introduced a new government procurement regime aimed at establishing transparent and competitive procedures for awarding public contracts.

#### (4) **SECTORAL POLICIES**

15. Today, Chad's economy is dominated by the exploitation of its oil resources, ahead of agriculture on which most of the population depends. In 2002, proven hydrocarbons reserves were estimated at over 900 million barrels. In October 2003, the Chad-Cameroon Petroleum Development and Pipeline Project based on the Doba oilfield recorded its first sales. In 2005, oil exports generated income amounting to some US\$2 billion, and total transfers to the State of revenue from these exports amounted to US\$342 million. Following the concession granted to a consortium of three foreign developers for the Doba project, the Government is now giving priority to concessions based on production sharing, with State participation in the capital, in order to maximize Chad's share of the proceeds of the sale of these resources. A new State-owned enterprise, the Chad Hydrocarbons Company, was set up in July 2006 to act for the Government in all oil-related activities, but as at October 2006 this company was not yet in operation. Locally, the use of oil for energy purposes is still not widespread and wood-based fuels (firewood and charcoal) are Chad's main source of energy. Less than 2 per cent of the population has access to electricity. As there is no refining capacity, Chad is entirely dependent on imports of petroleum products brought in by road from Nigeria and Cameroon.

16. Agriculture, mainly livestock breeding and cotton growing, is an activity of vital

importance for Chad. For its development, agriculture has 39 million hectares of arable land available and extensive water resources, but only 2 million hectares are being cultivated and 30,000 hectares irrigated. In general, Chad's agriculture suffers from very low productivity, and the level of mechanization and input utilization is also very low. In particular, the heavy taxation of agricultural imports is interfering with the proper functioning of the food product market. Transport infrastructure problems are impeding the movement of produce and, combined with the heavy taxation, amplifying the price fluctuations between the harvest and bridging periods.

17. Cotton contributes most of the value of agricultural exports but, since 1997, the sector has been in deep crisis and after having, at the beginning of the 1970s, been the largest cotton producer in the franc zone Chad is now one of the smallest. The country produces seed cotton, as well as cotton fibre in the factories run by COTONTCHAD, the country's cotton company, in which the State has a 75 per cent stake. COTONTCHAD has monopolies on the purchase of seed cotton from the producers, on ginning and on marketing, including exports; every year, it absorbs more than 40 per cent of the budget appropriations for the Ministry of Agriculture. With the crisis, payments to the planters have fallen into arrears. Within the WTO, Chad reserved its third party rights in connection with the Brazilian complaint concerning United States cotton subsidies. Chad is probably the largest exporter of live cattle in Central Africa. The turnover on cattle exports, which for the most part take place outside formal channels, is estimated at more than €200 million a year, placing them at the head of Chadian exports, oil excluded. The groups concerned are economically vulnerable, which makes an appropriate trade policy all the more important. The numerous levies, including those imposed at exportation, do nothing to encourage the development of the sector. The equipment and sanitary inspection procedures in Chad's slaughterhouses reportedly conform to international standards; the main problems

with exporting the meat appear to be those connected with the high cost of air transport.

18. The chief manufactures are a few agri-food products, in particular, meat, sugar, beer and bakery products, together with corrugated iron, soap, paper, and bicycle assemblies. The irregular supply of expensive power and water, the poor quality and high cost of transport and communications services and the difficulties in obtaining access to other inputs (chiefly because of the high duties levied at the border) explain why the manufacturing industries, which produce mainly for the local market, are so few and relatively unprofitable. Despite the almost complete absence of local production and the country's almost total dependence on imports, most manufactured goods are subject to the maximum rate (30 per cent) for which the CET provides, which further reduces the already limited purchasing power of Chad's population.

19. The quality and density of Chad's telecommunications services have increased since the introduction of mobile telephony in 2000. However, the availability, quality and costs of basic fixed telecommunications services (including access to the Internet and international calls) are still less than satisfactory. The privatization of the traditional operator, Sotel Chad, which has a monopoly on basic services, has been envisaged since 2001. A 2005 decree specifies three operators for the mobile networks, including a subsidiary of the traditional operator, and five for the provision of Internet services, including the traditional operator. Postal services are a State monopoly with the possibility of outsourcing.

20. The financial services subsectors, governed by the CAEMC common provisions, are open to foreign enterprises and capital but remain modest in size and make little contribution to the financing of production. Since 2002, there has been a single accreditation system within the CAEMC for certified public accountants and certified accountants. An agreement reserves road

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transportation between Chad and Cameroon for nationals of the two countries, but, overall, the land transport services subsector operates on a largely informal basis. Domestic air transport services are reserved for the national airline Toumaï Air Tchad, established in 2004 with Chadian private capital and 25 per cent State participation. Restaurant and hotel services are the only categories in which Chad has made commitments under the GATS; an extension of its commitments would enable Chad to make the regimes in the liberalized services categories credible and predictable.

**(5) TRADE POLICY AND TRADING PARTNERS**

21. The fact that Chad started exploiting its oil resources just as world prices were about to take off is providing it with the means of addressing some of its main problems. With the support of the international community, Chad now seems to be in a position to take up some of the challenges it faces and pursue initiatives such as the building of new roads and the upgrading of some of the existing infrastructure, a priority for a land-locked country. However, it yet has to adopt concrete measures aimed directly at reducing poverty.

22. The strategy developed to reduce poverty also depends on diversification of the economic base, with special emphasis on rural

activities. Diversification would be facilitated by the reform of the business environment, including the abolition of obsolete provisions and the simplification of restrictive administrative requirements and the system of taxation of imports and exports, in particular with regard to the number of duties and taxes and their rates. These reforms would also make it possible to reduce the role of the informal sector in the economy.

23. Chad would make its trade regime more predictable and credible if it were to improve its multilateral commitments by extending its tariff bindings to non-agricultural products, reducing the bound rates and strengthening its commitments under the GATS. Trade reforms, including reform of the tariff and the introduction of a single entry system, within the CAEMC would bring the Community provisions more closely into line with Chad's economic structure.

24. The rapid introduction of trade reforms and the pursuit of structural reforms would create an environment that was both favourable for business and capable of attracting the capital which Chad needs so badly, in addition to its oil income, for its sustainable economic development and struggle against poverty. Its trading partners could make a significant contribution to these efforts by providing the necessary assistance.

