

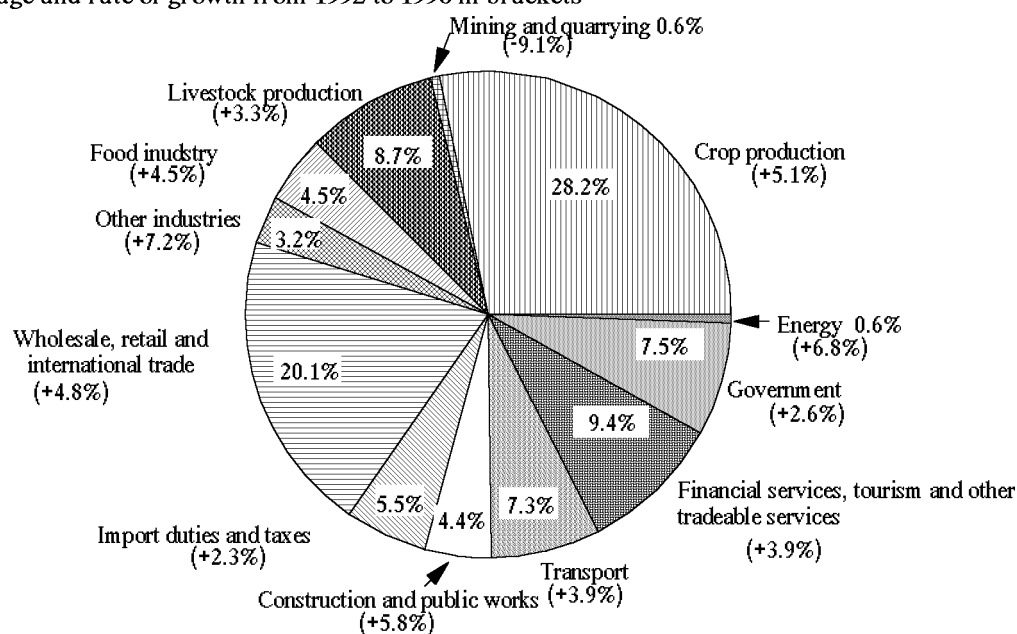
IV. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Introduction

1. Benin's natural resources, although varied, are generally speaking limited. They began to be exploited during the socialist period from which most of the existing enterprises date. By and large, these enterprises have managed to adapt to the free market principles introduced in connection with the structural adjustment programmes, although their success in doing so remains fragile. Trade is an important activity (Chart IV.1) but often consists in circumventing the trade restrictions in place in the neighbouring countries. As these neighbouring markets are opened up, Benin's commercial services sector, which accounts for as much as 20 per cent of GDP, will have to find other outlets.

Chart IV.1
Structure of GDP at current prices, 1996,
and average annual growth rate at 1992 prices

Percentage and rate of growth from 1992 to 1996 in brackets



Source: Beninese Government.

2. Trade policy has not been liberalized to the same extent in all sectors of activity. The manufacturing sector, including agri-food production, has been extensively exposed to international competition since the abolition of quantitative restrictions on imports in 1988 and the lowering of import duties in 1994. These are essentially agricultural product processing industries which are apparently developing without being directly subsidized. In general, these industries are profit making and have been the recipients of most of the modest investment made recently. Certain commercial services (for example, road transport, transit, wholesale and retail trades) are also open to competition. The cotton sector continues to be State-controlled, although private ginning mills were authorized in 1996.

3. Most of the other service industries are wholly protected from competition, which is delaying adaptation to new technologies and market development, especially in telecommunications. Similarly, the supply of services in the banking, insurance and air transport sectors is not well adapted to the

demand; high prices are possible because of exclusive domestic and foreign-trade rights. The consequences, in terms of cost and efficiency for the economy as a whole, illustrate the need to apply the deregulation which has been successful in other sectors to these segments of the economy also.

4. Many activities are being carried on within a legal and regulatory framework in transition. In sectors as vital as the distribution of pharmaceuticals, petroleum products, fertilizers and pesticides, and telecommunications equipment it is essential to establish regulations which satisfy health and public safety requirements, while avoiding the privileges associated with exclusive importation or distribution.

5. In general, despite the considerable efforts made since 1990 to establish an institutional framework adapted to a modern market economy, serious weaknesses persist. Many activities remain under State control. Private activity is restricted by non-existent or outmoded legislation which discourages private investment while allowing certain interest groups to exploit dominant positions. In this context, measures designed to strengthen the legal and judicial framework might be the best way of making more of the country's resources.

(2) Agriculture, fisheries, forestry and related industries

(i) Agriculture and agro-industry

6. Together with trade, agriculture is the country's principal economic activity, providing about 70 per cent of employment and more than 90 per cent of export earnings. In volume terms, the principal crops are cotton, cassava, maize and yams (Table IV.1). The value-added in the agricultural sector, including fisheries and forestry, has been estimated at CFAF 428 billion for 1995 (37 per cent of GDP). Its average real growth between 1992 and 1996 was nearly 5 per cent, slightly higher than the growth recorded for GDP as a whole. Cotton accounts for almost all the export earnings.

7. After triggering an initial increase in prices, the devaluation of January 1994 was followed by a decline in the value of foodstuff imports from countries outside the franc zone. Given that the Nigerian Naira was simultaneously devalued by a similar amount against the US dollar, the cross-border agri-food trade does not seem to have been affected by the currency changes, especially as most of this trade is conducted on a non-monetary barter basis. On the other hand, the trade has been seriously affected by the changes in trade regulations.¹

8. Contrary to the general expectation, following devaluation, overall food production stagnated in 1994 and did not increase significantly in 1995, which led to serious food supply problems in 1996. In fact, because of the lack of cereal storage capacity, difficulties with preserving certain perishables and the high cost of transport for farmers due to the poor state of the roads, most of the food consumed in rural areas is produced on the spot and trading food crop products between zones with a surplus (or foreign countries) and those where there is a shortage is difficult and unprofitable.

¹Up to a quarter of Benin's food imports are directly re-exported to Nigeria on an informal basis, since the products in question are prohibited imports in Nigeria and, by agreement between the two countries, prohibited exports in Benin. Nigeria's liberalization of rice imports in 1996 has resulted in the halving of this trade, which illustrates the dependence of Benin's trade on Nigerian trade policy.

Table IV.1
Production of food crops and major cash crops, 1989-1996
('000 tons)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
<u>Food crops</u>							
Maize	424	410	431	460	483	492	563
Sorghum	106	99	115	110	106	113	119
Millet	23	22	27	26	24	25	25
Paddy rice	9	11	10	11	12	14	18
Total cereals	562	542	583	607	625	644	732
Cassava	977	937	1,046	1,041	1,147	1,146	1,329
Yams	1,010	1,046	1,178	1,125	1,185	1,250	1,288
Beans	49	48	55	62	58	65	63
<u>Cash crops</u>							
Palm nuts (fruit)	55.0	...	...	...	...	...	...
Palm nuts (kernels)	9.0	...	...	...	...	...	...
Seed cotton	104.7	146.1	177.1	162.0	277.5	266.4	345.0
Groundnuts	69.2	63.9	74.1	73.7	73.8	77.6	...
Shea nuts	1.5	5.8	5.0	...	...	...	...
Coffee	0.3	0.2	...	...	...	...	...
Tobacco	0.4	0.3	0.3	0.5	0.2	0.3	0.3

... Not available.

Source: Beninese Government.

9. One reason for the feeble increase in food crop production may be the Government decision to raise the administered producer prices for cotton by 50 per cent between 1994 and 1996 while maintaining the other administered prices at their old levels. As indicated by Chart IV.2, this increase was far from reflecting world price trends. The producers increased cotton production to the detriment of food crops whose prices, not administered by the State, had not risen to the same extent. In this context, in 1994, the Government took a temporary decision (still in force in April 1997) to prohibit exports of food crop products in order to ensure food security. The agricultural products traditionally exported by Benin's farmers (food crops and unginned cotton) go to the neighbouring countries and the transactions are generally informal, which may have weakened the effect of the ban.

10. The State intervenes by administering prices in several agricultural sectors, including export sectors (Table IV.2). Despite the recent increase, cotton producer prices remain well below world levels.² The sector is subject to levies which represent one fifth of the State budget. However, the Government's objective remains "to raise the standard of living of the rural population by winning

²For example, in the case of cotton, in 1994/95 the producer price was CFAF 140 per kg., the equivalent of 304 francs of ginned cotton (assuming a return of 46 per cent). In 1995, the average world price for cotton was about US 100 cents per pound, or 220 cents and CFAF 1,100 per kg. (based on an exchange rate of CFAF 500 per US\$ and a pound-kg. conversion rate of 0.45359). This difference is illustrated in Chart IV.2.

markets and by improving the competitiveness of the Benin farmer rather than by seeking mere self-sufficiency in food at the regional or national level".³

Table IV.2

Producer price for the major cash crops, 1989-1996
(CFAF/kg.)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Palm nuts (fruit)	30	30	35	35	30	30	...	...
Seed cotton								
Top quality	100	100	100	100	110	140	165	200
Medium quality	75	80	80	80	95	95	135	150
Groundnuts, not shelled	50	65	65	85	85	85	...	...
Shea nuts	20	40	40	40	30	30	...	...
Cashew nuts	90	100	115	115	115	115	...	...
Coffee								
Top quality	160	160	140	115	115	115	...	...
Medium quality	100	100	90	60	60	60	...	...
Tobacco								
Top quality	135	135	135	135	135	135	...	...
2nd quality	115	115	115	115	115	115	...	...
3rd quality	70	70	70	70	70	70	...	...

... Not available.

Source: Beninese Government.

11. Most of the agricultural production (except for palm oil) comes from small individual producers. The latter are, in principle, supported by the staff of the Regional Action Centres for Rural Development (CARDER) who, in particular, provide all the inputs, in some cases on credit. Most of the agricultural development projects for which the CARDER are responsible are financed from external sources and continue to focus mainly on cotton production.

12. The State's contribution to the financing of agricultural development programmes seems relatively modest as compared with the taxes levied on the cotton sector.⁴ Thus, it seems that agricultural incomes might benefit from a lower net tax take, in the absence of more substantial State financial support. Moreover, the present allocation of aid for agriculture seems to be concentrated on cotton and, consequently, incomes remain heavily dependent on this single basic product.

13. The import duties and taxes (fiscal duty, community solidarity levy) seem to be dictated by the existence of an informal transit trade rather than intended to protect domestic production. For example, despite the existence of local production the duty on rice is zero in order not to impede the re-export trade. VAT, at 18 per cent, is not applied to the following: cereals, wheat flour, bread,

³Ministry of Rural Development (1995), Table ronde du secteur rural. The rest of this section is largely based on this source.

⁴For example, in 1995, public investment expenditure on rural development amounted to CFAF 16 billion, or 22 per cent of total State investment expenditure. Of this total, CFAF 62 billion was financed from external sources. The levies on the cotton sector amounted to CFAF 24 billion.

maize, seed potatoes and vegetables, cocoa, fish and food industry waste, breeding animals, tobacco and milk. However, despite the existence of the transit trade, VAT is collected at the border on imported rice.⁵

14. Most farms were created or nationalized under the previous regime and are currently under the supervision of the Ministry of Rural Development. It seems that since 1985, these farms have not been maintained. Pursuant to a decree issued in 1991, these farms are to be redistributed to the unemployed or to volunteer civil servants wishing to invest in agriculture.⁶ The Government's stated priority, however, is to promote this investment "through a programme for the integration of youth in agriculture". Finally, it appears that the State is currently seeking domestic or foreign private investors to rehabilitate and run them.⁷ According to the authorities, under the present system of land tenure based on private property, a foreign investor can freely purchase agricultural land.⁸

15. Many aspects of the regulations in force are not clear and the legislation sometimes seems to conflict with the Government's stated objectives. For example, according to the Chamber of Trade and Industry of Benin, agricultural investments are not eligible for the preferential regime under the Investment Code (see Chapter II).⁹ At the same time, private, in particular foreign investment in cotton production is prohibited. In some cases, the legislative framework appears not to have been defined. For example, there do not yet seem to be any regulations governing the transfer of title to the old State farms. Agricultural products can be purchased from the producers only with an agricultural product purchasing card which is issued exclusively to Beninese residents or companies.

16. The encouragement of private investment in the agri-food industry is another Government priority. Several plants dating from the planned economy period (for example, tomato concentrate, mango preserves, sugar, maize processing, cashew-nuts) are currently seeking private capital (Table III.4). Although the investment might be protected by relatively high import duties on legally imported competing products, by relief for imported inputs and by tax exemptions (Chapter III(2)(ii)(d): Tariff and tax exemption, once the enterprise has been established, its production would be exposed to competition from the foreign products imported informally, that is without paying tax, available on the Benin market.

17. Assuming that the ban on the export of food crop products (see above) is lifted, the development of new agri-food export outlets might benefit from simplification of the administrative and customs procedures. For each shipment it is necessary to obtain a permit from the Ministry of Trade, Handicrafts

⁵Since the liberalization of rice imports into Nigeria, the operators have no longer been able to re-export under the VAT regime in force, and at the beginning of September 1996, 36,000 tons of rice were reported to be sitting in warehouses in the port of Cotonou. In order to enable outlets to be found for the stocks, the authorities have apparently authorized an abatement equal to 40 per cent of the c.i.f. value of imports, which has led to a CFAF 800 million fall in customs revenue (La Lettre Afrique -Expansion, 20 January 1997).

⁶Decree No. 91-31 of 14 February 1991.

⁷Jeune Afrique, 3 March 1997.

⁸Law No. 61-26 of 10 August 1961 concerning the definition and arrangements for the development of rural planning and management areas, and Law No. 65/25 of 14 August 1965 on the organization of the land tenure system in Dahomey.

⁹Chamber of Trade and Industry of Benin (1995), p. 29.

and Tourism, issued automatically for statistical purposes. Road taxes and shipper's charges can also add to the cost of Beninese products on export markets.

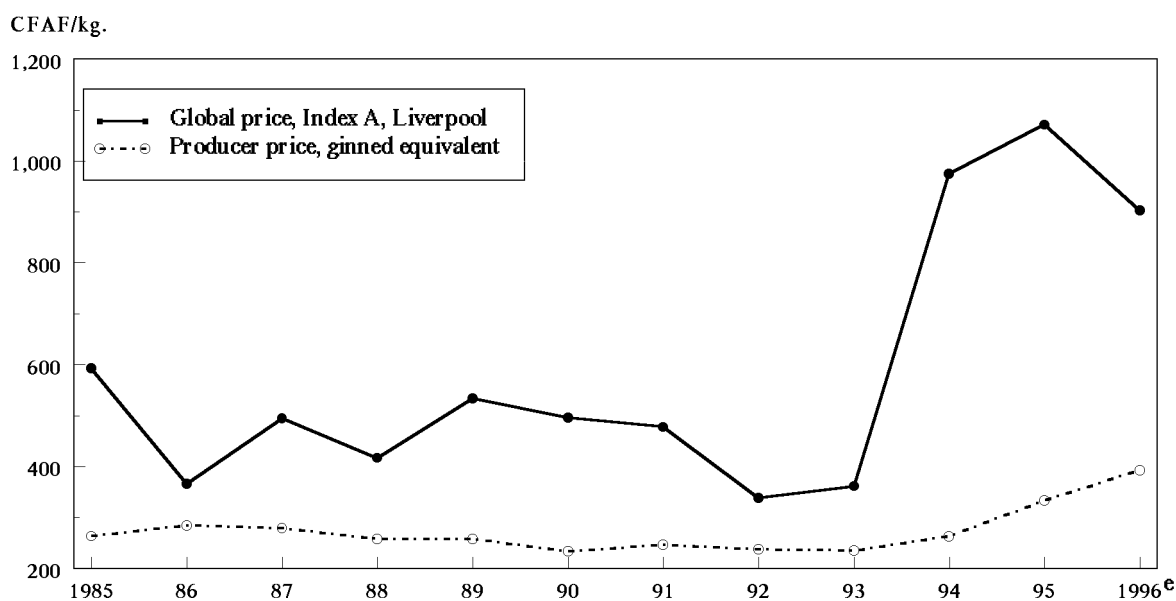
18. The development of the basic infrastructure (roads, markets, storage units) is another condition of agricultural development. Despite recent progress, the authorities stress the need to build 9,000 km. of roads to serve the rural areas. Another Government priority is to build warehouses, as food storage losses sometimes exceed one third of the volume stored.

(a) Cotton sector

19. Since cotton began to be grown in 1960, production has fluctuated considerably as a result of changes in development strategies and improvements in varieties and farming techniques. The very significant progress in seed cotton production since 1982 can be attributed to the improved organization of the cotton sector with a producer price that regularly increases; unfavourable selling prices for food crop products; the lack of other profitable and organized sectors; and better application of the recommended techniques, which has led to an appreciable increase in yields and hence income. At present, the cotton sector accounts for 20 per cent of GDP and more than 90 per cent of export earnings.

20. Producer prices are established by the Government (Chart IV.2) so as "to maintain the sector in balance" (Box IV.1). In 1995, cotton exports worth CFAF 95 billion generated about CFAF 38 billion in income for the producers and CFAF 24 billion in revenue for the Government, the remainder being shared among traders, ginning mills and input suppliers.

Chart IV.2
Cotton prices, 1985-96



^e Estimate.

Source: UNCTAD, IMF and Beninese Government.

Box IV.1: Pricing mechanism in the cotton sector

The producers are guaranteed a floor price for seed cotton purchases, generally extending over several seasons, to protect them from world price fluctuations. It is calculated on a sectoral balance basis while ensuring the producers a minimum income for a day's work equivalent to the average daily cost of labour in the rural areas. The price also takes into account the capital invested, the cost of the production factors for cotton growing, and the conditions and prices on the world market.

The prices of seed cotton and fertilizer are established by a national commission which includes rural producers as well as representatives of the President's Office, the Ministries and the Chamber of Trade and Industry. The Commission is presided over by the Ministers of Trade (Chairman) and Rural Development (Vice-Chairman).

When the market price is such that it is possible to sell at a profit, a portion of the profits is placed in reserve in the Stabilization and Support Fund instead of being distributed immediately. When the selling price falls to the point at which losses are being incurred, the Fund disburses part of the amount placed in reserve to support and maintain the purchase price at a level economically tolerable for the producers over two or three seasons. However, if selling prices continued to fall over a long period, the reserves would be exhausted and the organization responsible for support and stabilization would be obliged to lend money to make up the shortfall and/or to recommend a downward revision of purchase prices.

When it purchases seed cotton from the producers, SONAPRA pays a "floor price" which constitutes the minimum that the producer needs to cover his expenses (fertilizer, insecticides, etc.) and to have an income equivalent to the minimum rural income. This price is paid whatever the results of the cotton season; it can only vary if the price of agricultural inputs or the selling prices of cotton fibre on the world market rise or fall by more than 10 per cent.

The stabilization rules provide that, after ginning and the sale of the finished product and if the season is in profit, some of the profits may be allocated to the producer; the allocation of this share of the profits to the producer makes it possible to pay him a price supplement on top of the "floor price" which he receives at purchase. This supplement is intended to improve his income. It is taken out of the year's profits for distribution during the following year.

The rules also provide that once the final results are known and show that a profit has been made, part of the profit may be paid out to all the producers. This seasonal "surplus" is shared out as follows: the State takes 40 per cent of the net profit after tax, and of the balance 30 per cent goes to the producers, 40 per cent to the Stabilization and Support Fund, and 30 per cent to SONAPRA.

Source: Beninese Government.

21. Despite this distribution of earnings, cotton is the farmers' most profitable activity. Thus, the producer floor price is determined annually by decree and guaranteed at the start of the season. Producers have the assurance that all their production will be bought at that price by the mills of the SONAPRA which is State-owned. All the inputs are sold to the farmers under the supervision of SONAPRA which entirely manages most of the production in conjunction with the CARDER. A supplement calculated in accordance with a pre-established scale is paid to the producers when SONAPRA's earnings exceed expectations.

22. The producers can also sell part of their production to the private ginning mills set up since 1996. SONAPRA has a 35 per cent stake in the new private companies. At present, the private sector is reported to have a capacity of 75,000 tons out of a total of 345,000 tons of cotton ginned in 1995-1996. The private cotton ginning enterprises are obliged to purchase their raw cotton exclusively from

SONAPRA at prices established by the latter. The private ginning mills are exempt from direct and indirect taxes (VAT and BIC).

23. In general, SONAPRA and the private mills sell cotton on a f.o.b. port of Cotonou basis. Exports, arranged by private traders approved by the Ministry of Rural Development, go mainly to Brazil, China, other countries of the Far East, Europe and Africa. One tenth of output is consumed by local industry.

24. The Government's objective is to double cotton production to reach 450,000 tons of raw cotton by the year 2000. However, guaranteeing the permanence of the national environmental heritage is also a declared priority of the Government.¹⁰ The cotton sector is the only one with a relatively large amount of inputs supplied to growers on credit by the State at prices established by decree at the beginning of the season. According to the authorities, fertilizer consumption has not yet, on average, reached the recommended level, particularly as fertilizer prices have risen following the devaluation of the CFA franc. As a result, the soil is being exhausted and this, in the long term, could pose a threat to the production of cotton itself. For most cotton producers, in the short term, the least expensive system is still clearing new land.¹¹

25. Chemical pollution is the other externality generally associated with cotton growing, which requires particularly large amounts of pesticides.¹² These can enter the bloodstream directly, for example through contact in the fields, or indirectly as a result of the presence of residues in water or food. In fact, according to the authorities, Brazil has already refused entry to some cotton imports from Benin because of the presence of pesticide residues. An alternative would be to diversify production towards "bio" cotton, by using biological insecticides, which would make it possible to reduce the intensive use of chemicals.¹³ Measures of this type, however, involve initial investment in training for the farmers and in research and development relating to inputs, which because of financial constraints the Government does not at present envisage.

26. More generally, the present lack of diversification beyond the cotton sector is a consequence of the undertaking to purchase the entire output at guaranteed prices and the availability of credit. At the same time, other branches of agriculture are failing to develop because of uncertain markets and lack of credit. According to the authorities, there is an urgent need to build up these branches, starting with those which could be better developed in the cotton growing regions, so as to relieve that sector by attracting producers in marginal cotton areas to other crops, thus enabling them to earn a more secure living from a variety of sources.

¹⁰Ministry of Rural Development (1995).

¹¹Since 1996/97 the State has been encouraging the use of fertilizers by means of subsidies (about 15 per cent of the price).

¹²UNCTAD (1995).

¹³Integrated Pest Management is based on interactions within the agro-ecological system and reduces the use of chemicals by combining techniques intended for controlling sanitary and phytosanitary diseases, insects and other agricultural pests. The methods employed include labour-intensive manual control techniques and biological control techniques involving the breeding and use of organisms that prey on harmful insects. (UNCTAD (1995)).

(b) Other agricultural and agri-food production

27. A 15-year master plan, launched in April 1994, provides for a research effort to develop, in parallel with cotton, efficient varieties of oil palm and coconut palm. Palm oil exports have been a major economic activity. At present the country is barely self-sufficient. The difficulties relate to the lack of maintenance of the plantations, which in its turn appears to be linked to the problems of defining the ownership of the land.

28. In general, the small producers sell part of their production to the *Société nationale pour l'industrie des corps gras* (SONICOG) which operates three palm oil mills, an edible oil refinery, a palm kernel oil mill and a groundnut oil mill. SONICOG also produces soap. The producers are not obliged to sell to SONICOG and non-industrial production is relatively important. The devaluation of the CFA franc has made it possible to reduce local unit production costs while raising the price of competing imports. In February 1997 the Government was seeking purchasers for this company.

29. In the opinion of the authorities, horticulture, in particular mangoes and fresh pineapples, has considerable development potential. The Government is aware of the need to develop complete marketing channels, including access to cultivatable land, credit, inputs, packaging and road and air transport (see (5)(i)(d) below: Air transport). In 1996, there were only 90 hectares of pineapple plantations, with exports of about 200 tons per month being shipped to France and Belgium. The Government's objective is to increase pineapple exports ten-fold by the year 2000.

30. According to a study of the sector, the *Société agricole industrielle et de transformation* (SAIT) produces and exports pineapple juice at the regional level. The obstacles encountered by this company include an inadequate supply of fresh fruit and the difficulty of finding bank financing for its working capital. It seems that the enterprise, which had a turnover of CFAF 33 million in 1994, was not registered either with the Directorate of Taxes or the Ministry of Trade, Handicrafts and Tourism.¹²

31. Given substantial investment, the cashew nut plantations could, according to the authorities, also become a profitable export sector. Cashew nut trees can be grown in combination with cotton. The rehabilitation of the sector should include, among other things, the financing of units for processing cashew nuts for export, since the processing plant dating from the planned economy period has been shut down and does not seem to be worth rehabilitating.

32. The approximately 75,000 tons of (hill) rice produced covers about 10 per cent of domestic consumption. The Government intends to extend the cultivated area by 20 per cent between the 1995/96 and 1998/99 seasons. The price of imported rice is twice that of rice produced locally, which is a reflection of the difference in quality. The Government is trying to encourage production by developing irrigated plots. Rice imports, which peaked at 164,000 tons in 1993, are mainly re-exported informally to Nigeria. The elimination of import restrictions on rice has considerably reduced the Nigerian demand for rice in transit through Benin, since the operators can import directly through the port of Lagos.

33. Among other agri-food activities, two mills share the production of wheat flour which, following devaluation, is reported to have increased by 36 per cent in 1994, to reach over 11,500 tons. Flour production is exempt from VAT and protected by 16 per cent customs duties. The authorities have noted the existence of a promising export market for cassava. However, cassava exports are prohibited because of the ban on the export of food crop products.

¹²Société française de conseil en développement (1994).

34. The *Société béninoise de brasserie* (SOBEBRA) owns a brewery and two aerated beverage plants and has been making a profit since privatization in 1994. The State now has only an 8 per cent stake in this company, 20 per cent of whose shares were reserved for nationals at privatization. There is a tobacco industry which is able to compete with imports despite the low level of tariff protection (the fiscal duty varies between 5 and 10 per cent but most cigarettes are imported informally and hence without payment of duties or taxes).

35. In 1990, 99 per cent of the *Société béninoise de tabac* (SOBETA), which accounts for the entire output of the sector, was purchased by the Rothmans group. SOBETA exports 90 per cent of its production and imports most of its inputs. Devaluation increased the relative burden of the company's foreign-currency loans, at a time when rising prices were reducing the overall demand for cigarettes.

(ii) Livestock production

36. In 1994, livestock production (Benin has about a million bovine cattle, two million small ruminants, 400,000 pigs and 10 million poultry) represented about 4 per cent of GDP and a quarter of primary sector production. The lack of water and the resulting transhumance are the main obstacles to the development of this sector. In 1994, meat production, estimated at 30,000 tons, was supplemented by 2,500 tons of imports. Milk production (40,000 tonnes of milk in 1994) is not sufficient to meet the domestic demand for dairy products because of the extensive stock-farming conditions. Dairy product imports amount to about 8,000 tons a year.

37. The authorities have noted the depressing effect on the Benin market of subsidized meat imports from the European Union. The import duties on meat and basic dairy products are less than 10 per cent.

(iii) Fisheries

38. There are more than 50,000 fishermen in Benin and fishing represents about 2 per cent of GDP. Fishery products provide almost 40 per cent of animal protein consumption. The potential domestic demand, measured in terms of daily food protein requirements, is estimated at over 70,000 tons, whereas production amounts to about 10,000 tons for sea-fishing and 30,000 tons for fresh-water fishing. Benin imports about 12,000 tons of frozen fish.

39. The non-existence of up-to-date laws and regulations on fishing activities is making it difficult to administer the sector. The main problems are the lack of domestically owned vessels suitable for sea-fishing and the over-exploitation of lakes and lagoons which are becoming silted up as a result of erosion.

(iv) Forestry and wood products

40. The forests of Benin supply 90 per cent of the energy consumed, in the form of firewood and charcoal used for preparing food. This is accelerating the deforestation process, a situation which is further aggravated by the settlement of migrants in the forest areas, transhumance and land clearing for farming. The *Office national du bois* (ONAB) has organized reforestation programmes, but the approximately 3,000 hectares of new planting each year do not make up for the annual destruction, estimated at 100,000 hectares.

41. Half the constructional timber consumed in Benin is imported, mainly from Nigeria, Togo and Ghana. There is a ban on exports of wood in the rough which must be sold to the wood processing plants operated by ONAB or to private sawmills.

(3) Energy and mining sectors

42. The energy and mining sectors each represent less than 1 per cent of GDP. Imports meet about 90 per cent of the demand for electrical energy, oil and natural gas. With a view to encouraging private, particularly foreign investment, the Government has undertaken a review of the legislation relating to the mining and petroleum sectors. In the context of the Uruguay Round, Benin did not include energy or mining sector services in its Schedule of Commitments under the General Agreement on Trade in Services (GATS).

(i) Crude oil and products thereof

(a) Exploration, exploitation and exports

43. The only oilfield currently being exploited is that on which the Sémé offshore platform stands. Discovered in 1964, this field only began to be developed in 1982 following the increase in oil prices. In 1996 it produced 1,700 barrels per day. The decline in production since 1993 is partly connected with the depletion of the field (Table IV.3). The platform, a public enterprise with a debt of CFAF 29 billion, is reported to be in the process of privatization following upon foreign investment relating to both the current exploitation of the field and the exploration and future development rights. The sale would be based on production sharing: out of a hypothetical production of 10,000 barrels per day, the State would take 55 per cent plus 12.5 per cent in royalties.

Table IV.3
Production, import and consumption of energy, 1990-1995

	1990	1991	1992	1993	1994	1995 ^a
Production of crude oil (millions of barrels)	1.3	1.4	0.9	1.1	0.9	0.7
Petroleum products ('000 metric tons)						
Official imports	76.8	74.1	80.9	119.9	262.3	238.0
Unofficial imports	109.8	133.2	135.8	99.2	13.4	48.3
Estimated consumption	186.6	209.8	220.3	231.3	242.9	255.0
Electricity (gWh)						
Production available	203.0	221.7	239.1	259.0	262.9	289.6
Including imports from Ghana	181.6	198.7	214.3	233.0	210.2	256.4
Consumption	173.2	188.5	210.6	257.6	225.0	250.2

a Estimate.

Source: Beninese Government.

44. Thirteen contracts are reported to have been signed with foreign or domestic private enterprises for oil and gas prospecting and development activities in Benin.¹⁵ Estimates of the total available reserves vary considerably.¹⁶ On 1 January 1995, proven reserves did not exceed 27,000 barrels.¹⁷ The Petroleum Code regulates activities associated with oil and gas exploration, prospecting and development. The sector is exempt from VAT.

45. All the crude oil is exported since Benin does not have a refinery.

(b) Imports, storage and distribution

46. Since 1974, the petroleum products trade has been organized as a State monopoly with regulated prices and with importation, transportation, distribution and storage in the hands of SONACOP. The prices of petrol at the pump and the price of certain petroleum products are fixed by decree. The prices of lubricants, diesel and kerosene are determined by SONACOP. In practice, SONACOP's monopoly is partially undermined by the informal importation of about one fifth of domestic petroleum product consumption from Nigeria at considerably lower prices (Table IV.3).¹⁸

47. Since 1996, official sales of oil and gas have been subject to an internal tax of 20 per cent, which represents a big increase on 1995 (when the rate was 1.4 per cent). Import duties stand at 15 per cent, and the State also collects revenue through SONACOP's dividends. In 1994, these levies are believed to have totalled CFAF 6.8 billion, or more than 6 per cent of State revenue. Because of increased taxes, between 1994 and 1996 SONACOP's net profit fell from CFAF 1.5 billion to CFAF 124 million.

48. In 1996, within the context of its third structural adjustment programme, the Government undertook to liberalize the fuel trade by transferring some service stations to private companies. The Petroleum Code was apparently also amended to permit and encourage the importation, distribution and storage of petroleum by the private sector.

49. By February 1997, more than 10 foreign companies had been approved for the importation and distribution of petroleum products, but none had begun operations. According to the authorities, these private companies say they want an increase in the official price before investing. Any substantial price rise would immediately increase the share of informal imports at the expense of SONACOP and any other company operating in the sector, and the Government is not currently considering the possibility of establishing ceiling prices instead of fixed prices.¹⁹

¹⁵La Lettre Afrique - Expansion, 6 January 1997.

¹⁶According to a recent study carried out by Beninese and foreign experts, there are reserves of more than 5 billion barrels of oil, 90 billion cubic metres of gas and 200 million barrels of light oil.

¹⁷Sigam, C. (1996).

¹⁸According to SONACOP, half of domestic consumption is imported informally from Nigeria.

¹⁹In 1997, following a price hike, regular petrol has risen from CFAF 170 to CFAF 175, super from CFAF 175 to CFAF 200, diesel from CFAF 135 to CFAF 175, and petroleum from CFAF 100 to CFAF 125.

(ii) Electricity

50. The demand for electricity, 246 gigawatt hours (GWh) in 1995 and increasing by 9 per cent a year, is largely met by imports, the 12 thermal power stations on Benin territory generating only 33 GWh.²⁰ Generation and distribution are the responsibility of a state enterprise, *Société béninoise d'eau et d'électricité*. The latter purchases its electricity from another State company (established jointly by Benin and Togo), *Communauté électrique du Bénin*, which imports it mainly from Ghana and Côte d'Ivoire (Table IV.3). About 20 per cent of the population has access to electricity.

51. The price of imported electricity, on which the competitiveness of Benin's industries partly depends, is higher than in the neighbouring countries (three times higher than in Nigeria), which to some extent reflects the present lack of alternative sources of supply. The rate for low-voltage electricity varies from CFAF 56 to CFAF 87 per kWh, while that for medium-voltage electricity varies from CFAF 45 to CFAF 73 per kWh, plus a fixed charge.

52. There are several projects under way to increase the supply of electricity and diversify the sources of supply. A dam with a capacity of 40 megawatts (MW), or an average annual output of 1,599 Wh, is to be built at Adjarralla for a total cost of CFAF 124 billion. This project will be carried out under a BOOT (Build, Operate, Own and Transfer) type contract. The Government is also planning to connect the Benin grid with the Nigerian grid and to develop the connection with the Togo grid. At the same time, a policy of solar electrification was introduced in 1993 and is supposed to be extended to the entire country after a pilot experiment. It is intended to bring solar power to 36 villages, but by 1997 only four villages had been fully equipped. Two private companies share the rural solar electrification market between them.²¹

53. The power grid is run down and stands in need of considerable investment to reduce technical losses. The necessary investment, financed largely by multilateral institutions, should remain under State control, since private investment in the sector is not authorized.

(iii) Natural gas

54. The authorities are counting on the recent discovery of a gasfield to reduce Benin's energy dependency and significantly increase electricity generation. A gas turbine power station with a capacity of 120 MW is planned for Sémé Kraké, also on the basis of a BOOT-type contract (see above). SONACOP is responsible for butane gas imports and, in principle, establishes the price of gas on a cost basis.

²⁰One gigawatt-hour is equal to one million kilowatt-hours.

²¹ENERDAS (Société Energie DAHITO Systems) and SATT-Bénin.

(iv) Other mineral products

55. In addition to oil and gas (see above), Benin's principal mineral resources are gold, building materials (limestone, marble, clay, kaolin, ornamental stone) and iron.²² However, most of these resources are not being exploited.²³ Recognizing that private investment is almost impossible under the present legislation, the Government has prepared a new Mining Code, which Parliament is expected to approve before the end of 1997, with a view to attracting private investment in the sector.

56. The draft Code provides for a prospecting licence, issued by the Director of Mines, valid for three years and renewable three times for two-year periods. Exploration permits, issued by order of the Minister responsible for mines, will be valid for three years and renewable twice. Machinery and equipment imported in connection with an exploration permit will qualify for temporary admission. An exploitation permit will be automatically granted, by decree adopted in the Council of Ministers, to the holder of an exploration permit who has furnished evidence of the existence of a deposit within the area defined by his permit. It will be valid for 20 years and renewable twice for ten-year periods. The State will have a 10 per cent interest in the equity capital of the development company without having to make a financial contribution. An *ad valorem* royalty, at a rate still to be determined, will be payable on the value of the effective output.

(4) Manufacturing sector

57. The manufacturing sector and craft trades account for about 8 per cent of GDP. Large-scale public investment programmes, valued at more than CFAF 300 billion during the period 1979-1990, had disappointing economic results, leaving the country heavily indebted and without a genuine industrial fabric. Apart from agri-food products (see (2) above), the industries thus established produce petroleum, textiles, basic chemicals and cement.

58. In a speech made in Paris in December 1996, the Prime Minister said that Benin's new industrial policy was to encourage private investment, domestic and especially foreign; the sectors viewed as promising include, according to the Prime Minister, food crop products, other agricultural products, local medicinal plants, essential oils, dyestuffs and paints, soap and cosmetics.²⁴

(i) Textiles and clothing

59. Downstream from the cotton ginning mills (see above), Benin has a spinning and weaving complex (COTEB), an unbleached cloth manufacturing unit (SITEX) and a printed fabric factory (SOBETEX). Cotton ginned locally by SONACOP is used for spinning, but COTEB is authorized to obtain supplies from private ginning mills at freely negotiated prices.

60. COTEB and SITEX, which are scheduled for privatization, are controlled by the State. In the context of the complete privatization of SOBETEX, 20 per cent of the shares have been reserved for domestic investors. The competition appears to come mainly from Chinese fabrics, which before devaluation cost barely half as much as the comparable Beninese products. Thus, it was only after

²²Office béninois de recherches géologiques et minières (1997).

²³In 1997, eight prospecting licences were issued.

²⁴La Lettre Afrique - Expansion, 6 January 1997.

1993 that the Beninese factories, and, in particular SOBETEX were able to win back a share of the domestic and export markets.

61. There is a very big trade in textiles and clothing, in particular because of the imports of textiles and worn clothing re-exported to Nigeria (Table IV.4). As the importation of these products into Nigeria is prohibited, most of the re-exportation is informal. This activity, important as it is in terms of jobs and earnings, could disappear rapidly if Nigeria liberalized imports, as in the case of rice (see (2)(i)(b) above). Benin is not a participant in the Multi-Fibre Arrangement (MFA) and its exports are not subject to any restriction under the Agreement on Textiles and Clothing. Apart from the restrictions maintained by Nigeria, the authorities have noted that it has become impossible to export to Côte d'Ivoire because of changes in that country's import trade regulations in 1996.

Table IV.4
Trade in textiles and new and used clothing, 1992-1996
(CFAF billion unless otherwise indicated)

	1992	1993	1994	1995	1996
Imports	26	31	35	43	43
(percentage of total imports)	17%	19%	15%	13%	19%
Including:					
Products re-exported to Nigeria	19	16	13	16	...
Exports of local products	2.2	2.4	3.7	2.3	2.3
(percentage of total exports)	9.6%	4.7%	4.1%	2.6%	2.1%

... Not available.

Source: Beninese Government.

62. Import duties are highest (15-20 per cent) for goods that compete with local production and lowest (0-5 per cent) for products used as inputs. The textile industry also benefits from protection inasmuch as its principal inputs, mainly fuel and dyestuffs, are exempt from import duty. There are low duties on cotton fabrics which are either used as inputs by the clothing industry or re-exported informally to Nigeria.

(ii) Other products

63. Benin has three industries producing soap (SONICOG, see (2) above), oxygen and acetylene respectively. Maximum customs duties are imposed on most products that compete with domestic production (16-21 per cent, including PCS). However, most chemicals used as inputs by the local industry are exempt from import duties. Re-exports are important and make use of the transit procedure, informal re-exports being insignificant for this type of product.

64. During the 70s, Benin acquired three state enterprises which were given responsibility for producing and distributing cement. Local cement consumption was about 370,000 tons in 1992. Despite the ban on the importation of portland cement, these enterprises have reported heavy losses. The devaluation of January 1994 appears to have led to a recovery in production and sales. In May 1997, the ban on cement imports was lifted.

65. In 1991, two companies were purchased, one by a Norwegian and one by a French enterprise. In both cases, the State reserved 20-25 per cent of the shares for nationals and 5 per cent for the personnel. The privatization of the third enterprise (Société des ciments d'Onigbolo) depends upon an agreement between Benin which holds 51 per cent of the equity and Nigeria which holds 43 per

cent. The prices of the finished products manufactured by the three enterprises are approved by the State.

66. The tariff equivalent of all the trade measures introduced in this sector, measured as the difference between domestic cement prices and unit import prices, has been estimated at over 300 per cent for 1995.²⁵ Some have suggested that the opening of the frontiers could lead to a fall in the selling price and the abolition of price controls, which, in principle, are intended to guarantee an affordable price everywhere in the country.²⁶

(5) Services

67. The Beninese economy is to a large extent a service economy, in which international trade preponderates (Chart IV.1). Some services have been bound under the GATS.²⁷ Benin has undertaken to keep these activities accessible to competition from enterprises originating in other Members of the WTO. For example, in its Schedule of Specific Commitments under the GATS it has authorized a foreign commercial presence for most tourism services (Table IV.5).

²⁵World Bank (1996a).

²⁶Société française de conseil en développement (1994).

²⁷General Agreement on Trade in Services, Benin - Schedule of Specific Commitments, 15 April 1994.

Table IV.5
Schedule of Specific Commitments under the General Agreement on Trade in Services
Limitations on market access

Services and modes of supply	Cross-border supply	Consumption abroad	Commercial presence	Presence of natural persons
BUSINESS SERVICES	None	None	Conference centres (CPC 87909): None	Unbound, except for measures affecting the entry and temporary stay of natural persons - who are employees of the company and transferred to a company incorporated in Benin belonging to, controlled by or a subsidiary of the former - in the following categories: - Directors; - senior executives; - specialists who possess knowledge that is essential to the provision of the service.
FINANCIAL SERVICES	None	None	Acceptance of deposits and other repayable funds from the public (CPC 81115-81119): To engage in banking activities it is necessary to have the approval of the Ministry of Finance, Law No. 90-018 of 27 July 1990 on the regulation of banking. Banks must be established in the form of public limited companies with fixed share capital having their principal place of business in the Republic of Benin, or by special authorization of the Minister of Finance after consulting the Banking Commission, in the form of cooperative or mutual societies with variable share capital.	In accordance with Benin Labour Law. In addition, a person may not administer or manage a bank or financial establishment, or an agency thereof, if he does not possess Benin nationality, unless the agreement for the establishment of the bank provides for assimilation to Benin nationals.
			Lending of all types (CPC 8113): Residents may take out loans abroad after first obtaining authorization from the Minister of Finance in conformity with the exchange control regulations for loans of over CFAF 50 million.	Unbound See conference centres
			All payment and money transmission services (CPC 81339): Unbound	Unbound See conference centres.
				In addition to approval as a bank, approval as an intermediary is also required.

(Table IV.5 cont'd)

Services and modes of supply	Cross-border supply	Consumption abroad	Commercial presence	Presence of natural persons
TOURISM AND TRAVEL RELATED SERVICES			<u>Restaurants</u>	
	Unbound	None	None	See conference centres.
		<u>Other hotels and restaurants services</u> (CPC 641-643)		
	None	The manager must have hotel management qualifications.	None	See conference centres.
TRANSPORT SERVICES		<u>Maritime passenger transportation, rental of vessels with crew</u> (CPC 7211/7213):		
	None	None	None	See conference centres.
			<u>Freight transportation</u> (CPC 7212):	
	20 per cent of the volume of maritime traffic open to competition of all shipping companies.	None	None	See conference centres.
		<u>Cargo-handling services, storage and warehouse services</u> (CPC 741, 742):		
	None	None	State monopoly (Decree No. 89-336 of 29/08/89).	See conference centres.
		<u>Customs brokerage services, container stuffing and destuffing services transport agencies and forwarding agencies</u> (CPC 741, 749):		
	None	None	None	See conference centres

Source: WTO document GATS/SC/11, 15 April 1994.

68. The Government has also notified a List of Article II Exemptions indicating the sectors which form the subject of an exception to the most-favoured-nation principle. However, there is still a wide range of service sectors in which there has been no liberalization. In particular, the Government has not participated in the negotiations on telecommunications or financial services held by the WTO within the context of the GATS. Participation would enable the authorities to engage in a general review of the consistency of the laws, decrees and decisions in force in the principal service industries and of the extent to which they serve the Government's current objectives, namely the revitalization of the economy through the promotion of the private sector and international trade.

(i) Transport services

69. Transport activities represent only about 7 per cent of GDP (1994), but no less than 20 per cent of employment. Air and rail transport services are provided by monopolies at regulated prices and direct investment is restricted. Competition in maritime transport has been encouraged by the absence of a national merchant fleet, with operators not being obliged to use vessels flying the national flag.

(a) Port services

70. More than 90 per cent of foreign merchandise trade (formal) is carried by sea. The autonomous port of Cotonou is playing a leading role in the development of the country. In 1996, on average, 100 vessels per month called at Cotonou. Annual traffic has been increasing continuously since 1989 and in 1996 exceeded 2 million tons (Table IV.6).²⁸ Between 20 and 25 per cent of port traffic is for the account of other countries, principally Niger (250,000 tons). The traffic for Nigeria increased ten-fold between 1990 and 1996 to reach 84,000 tons. In 1996, the revenue collected by the autonomous port of Cotonou amounted to 1.1 billion francs, or 0.7 per cent of merchandise imports.

Table IV.6
Traffic in the autonomous port of Cotonou

Description	1995	1996	Percentage change
I. Number of vessels	1,085	1,193	10
of which: merchant vessels	685	772	13
II. Imports ('000 tons)	1,597	1,670	5
of which: Hydrocarbons	262	289	11
Clinker, gypsum	418	392	-6
Other construction materials	47	44	-8
Cereals and similar	213	239	12
Foodstuffs	191	189	-1
Lubricants and bitumen	4	6	48
Fertilizers and insecticides	70	74	5
Vehicles and spare parts	59	91	53
III. Exports ('000 tons)	313	382	22
including: Cotton seed	89	147	65
Cotton	91	123	35
IV. Total goods ('000 tons)	1,910	2,052	8

Source: Autonomous port of Cotonou.

71. The slowness of the port services has been identified as one of the principal obstacles for Benin enterprises seeking to improve productivity. Handling procedures are reported to be on average four times longer than those in the competing port of Lomé in Togo. The transit time for containers is 10 days, or twice the regional average; the efficiency of cotton bale handling is reportedly the lowest in the region.²⁹ These port handling, warehousing and storage services are a State monopoly operated by the *Société béninoise de manutention portuaire* (SOBEMAP) which manages the port equipment and harbour works. Prices are fixed by the Government. In 1992, the various taxes, charges and other levies imposed by SOBEMAP amounted to CFAF 1.2 billion or 0.8 per cent of import value.

72. The autonomous port of Cotonou, which is answerable to the Ministry of Finance, is responsible for coordinating port activities and formulating and applying a port management and promotion policy, including the reform or elimination of inefficient structures.³⁰ In practice, however, it would seem

²⁸Commercial traffic (excluding trawlers, warships and supply ships serving the Sémé oil platform) amounts to about 75 vessels per month, or an increase of 35 per cent on 1995.

²⁹UNCTAD (1996).

³⁰The improvement of port structures is the subject of an ongoing project with the International Development Association (IDA).

that the autonomous port of Cotonou has difficulty asserting its authority over other State entities, in particular SOBEMAP.

73. Among the auxiliary maritime transport services, competition (including foreign) is authorized in connection with the activities of customs brokers who, however, must be approved, container stuffing and destuffing, and transport and forwarding agencies. These activities form the subject of bindings by Benin under the GATS (Table IV.5).³¹ The great majority of sea-land forwarding operations are carried out by six operators, themselves subsidiaries of two multinational groups.

(b) Maritime transport

74. Sea freight represents on average 20 per cent of the f.o.b. cost of imports and 10 per cent of the cost of exports. Since July 1974, the *Compagnie béninoise de navigation maritime* (COBENAM) has been a two-State company. This is the national shipping line with exclusive rights to Benin's maritime traffic.³² Having sold its last ship in 1990, COBENAM is renting all or part of the cargo space of vessels belonging to 20 or so foreign shipping lines in order to provide a regular service on certain routes between Benin, Europe and the Far East. It controls about 8 per cent of the foreign merchandise trade, mainly between Benin and Europe.³³ Among the six ship agencies offering regular services, two companies account for 58 per cent of the merchandise traffic.³⁴ It would seem that not having a national fleet has made it possible to seek out the lowest costs by exploiting the competition, since there is a surplus of maritime transport services in Benin.

75. An offshoot of the maritime conference tradition, the *Conseil national des chargeurs du Bénin* (CNCB) was set up to represent the interests of domestic importers and exporters. It administers traffic rights and negotiates the freight rates for each import or export operation with the shipping companies. Under the UNCTAD Code, it has the right to designate a vessel other than that chosen by the economic operator if it exceeds the quota, in principle in order to support the national fleet. CNCB's resources come from contributions and levies on international maritime transport prices.³⁵ With the dislocation of the liner conferences, the functions of this institution are currently being reviewed by the Ministerial Conference of West African States and the Maritime Transport Centre.

76. During the Uruguay Round negotiations, Benin included certain forms of maritime transport in its Schedule of Specific Commitments (Table IV.5), with certain reservations as regards the most-favoured-nation clause which essentially reflect the provisions of the UNCTAD Code. In particular, the Beninese Government notified, in its List of Article II Exemptions, "existing or future laws, decrees

³¹General Agreement on Trade in Services, Benin - Schedule of Specific Commitments, 15 April 1994.

³²These rights are defined in accordance with the United Nations Convention on a Code of Conduct for Liner Conferences (UNCTAD Code) which provides for the traffic to be shared among shipowners in the ratio of 40 per cent for the national fleet and 40 per cent for the national fleets of trading partner countries, with the remaining 20 per cent open to unrestricted competition.

³³UNCTAD (1996).

³⁴These are SDV (Bolloré group) and SOBEM (SAGA group). The other private shipping lines are: MAERSK LINE (12 per cent) and TRANSCO.

³⁵CNCB's resources derive from contributions made by importers and exporters at the rate of 2 per thousand of the customs value of the goods and from commissions paid by the shipping lines whose vessels call at the port of Cotonou at the rate of 6 French francs (FF) per tonne for imports and 4 French francs for exports.

and decisions, based on bilateral or multilateral agreements which grant cabotage and liner trade rights to trading partners" and apply in principle to all forms of maritime transport, including bulk traffic and the transport of chilled fruit.

(c) Inland transport

77. The supply of railway services is limited to 438 km. of metric track linking Cotonou and Parakou in the north of the country. The coastal lines have been taken out of service since they were not profitable. The two-State *Organisation commune Bénin-Niger* (OCBN) was set up in 1959 to administer and manage the railway which has a capacity of about 500,000 tons per year. Between 1987 and 1990, passenger traffic declined at about the rate of 14 per cent per year. In 1993, a start was made on restructuring the company in order to reduce costs, improve the standard of service and invest in new equipment so as to meet the competition from road transport operators who load up in the port of Cotonou, despite the 1960 decree prohibiting competition with OCBN for the carriage of goods between Cotonou and Niger.³⁶

78. The Government's main objectives in the sector are to make good the "shortage of railway equipment" and to make the services more competitive, in particular by improving rail communications with the new port zones. Although, in the longer term, the authorities intend to abolish the existing State monopoly, private investment in the sector is not currently possible.

79. Road transport between Benin, Burkina Faso, Côte d'Ivoire, Niger and Togo is regulated by a convention dating from 1970. Within ECOWAS, since 1982 there have been two conventions defining the conditions of inter-state road transport, and in particular goods transport.

80. More than 200 transport companies (including individual road transport operators) are registered with the Inland Transport Directorate and to these must be added the informal hauliers. Public transport and transit activities are reserved for Beninese nationals or companies, foreigners who were transport operators at the time the regulations in force were published and foreigners who are nationals of countries which grant reciprocity to Beninese citizens.

81. The authorities note that numerous road blocks (official and unofficial) and other "harassments" add to the cost of Beninese products, particularly exports. For example, the more than 20 control points along the road between Cotonou and the frontier with Niger are estimated to add 20 to 30 per cent to transport costs, with a corresponding reduction in the competitiveness of Beninese products. It was planned to set up a road observation post, managed jointly by the Government and the private sector, to eliminate these roadblocks.

(d) Air transport

82. Air traffic is relatively undeveloped, with about 4,000 commercial aircraft movements per year, or less than a tenth of those recorded in Côte d'Ivoire or Senegal. There are four commercial freight flights per week, with an average individual capacity of 20 tons. There are no storage facilities at the airport.³⁷ In 1994, air transport was used for only 3 and 7 per cent of export and import value respectively.

³⁶UNCTAD (1994).

³⁷UNCTAD (1996).

83. Authorization to engage in an air transport activity is granted by ministerial decree, after the Civil Aviation Directorate has given its opinion on the technical and financial guarantees and evidence of probity offered by the company expressing interest and the "desirability of opening a line", on the basis of the intensity of traffic on that line. A new Civil Aviation Code is awaiting ratification by the National Assembly. According to the authorities, the Benin market is too small to allow a large number of air transport operators to exploit the country's traffic rights.

84. The multinational Air Afrique is the company designated to exploit the international routes. As in most other countries of the subregion³⁸, airline transport is organized as duopolies between Air Afrique and the foreign airlines of the countries served. Benin has signed 22 international air agreements, including four with its neighbours (Burkina Faso, Niger, Nigeria and Togo). At present, there is one regular charter flight to Benin. Charter flights are authorized for passenger transport, but any new charter-type proposal must be submitted first to Air Afrique, which may provide all or part of the transport services at the price proposed.³⁹

85. In 1997, air cargo for Europe continues to be carried exclusively by Air Afrique and Air France under an air agreement between Benin and France based on the principle of single designation.⁴⁰ Air cargo costs, which for some products represent nearly half the selling price, are reported to be twice as high between Benin and France as between Accra and London. This could reflect the existence of air transport monopolies and penalizes Benin's exporters as compared with their foreign competitors. In 1994, a study of the competitiveness of the Beninese economy recommended that charter cargoes be authorized as quickly as possible in order to develop exports, particularly of perishables.⁴¹

(ii) Financial services

(a) Banking services

86. The banking sector was restructured at the beginning of the 90s, following a serious crisis in the financial system involving the liquidation of the State banks which up to then had been the only source of banking services. Five private commercial banks have since been authorized to set up and now control 90 per cent of formal-sector savings.⁴² These banks have few long-term savings instruments suitable for financing investment. The guarantee and legal systems are unreliable, which does not encourage them to manage their risks effectively, especially in the case of small- and medium-sized enterprises. Consequently, lending remains at particularly low levels, which is restricting the opportunities for financing investment in Benin. The other side of the coin is an accumulation of liquidity

³⁸WTO (1995).

³⁹Protocol concerning charter regulations in the Air Afrique multinational zone.

⁴⁰Under this system, a firm wishing to engage in such transport must be appointed by the French aeronautical authorities in lieu of Air France. It is also possible for the French and Beninese aeronautical authorities to hold consultations on the matter and to opt for multiple designation in the future. Another airline could then operate side-by-side with Air France.

⁴¹Société française de conseil en développement (1994), Etude sur la compétitivité de l'économie du Bénin, Final report.

⁴²Bank of Africa Benin (BOA), Ecobank Benin, Financial Bank Benin, Banque internationale du Bénin and Continental Bank, of which the last is now reported to have been bought by Financial Bank Benin.

in the banks, whose demand deposits are reported to exceed CFAF 150 billion. In 1996, value-added in the banking sector represented 1.8 per cent of GDP.

87. Banking activity is subject to the approval of the Minister of Finance, with the consent of the WAEMU Banking Commission.⁴³ Under the legislation in force, only citizens of a WAEMU member country may administer or manage a bank, a financial institution or one of their branches in Benin, unless the bank has been domesticated under an establishment agreement.⁴⁴ These provisions have been bound under the GATS (Table IV.5). The activities of the banks and finance companies are exempt from VAT and subject to a financial activities tax at the rate of 5 per cent of turnover generated inside Benin.

88. The banks established in Benin must obtain the authorization of the Minister of Finance before taking out loans or, more generally, investing outside the franc zone. In practice, this authorization is rarely granted. These restrictions on the freedom of movement of capital have also been notified under the GATS (Table IV.5).

(b) Insurance services

89. The insurance sector is relatively underdeveloped (about 0.2 per cent of GDP), partly because of the monopoly conferred since 1974 on the *Société nationale d'assurance et de réassurance* (SONAR). The Government announced the opening of the insurance sector to competition in 1992, and in 1994 and then 1996 two new life insurance companies were approved by the Ministry of Finance.⁴⁵ However, SONAR still has a monopoly on the supply of non-life insurance services.

90. Importers established in Benin must insure their imports with SONAR. According to a December 1996 report by the National Economic Conference, this obligation doubles the insurance costs, since most supply contracts are on a c.i.f. basis. Other importers apparently take out insurance abroad in order to be sure of being indemnified if problems arise.⁴⁶

91. Benin has signed the Treaty Establishing an Intra-African Insurance Market Conference Code (CIMA Code), the only insurance legislation in the countries of the franc zone.⁴⁷ The Code entered into force on 15 February 1995. This legislation prohibits the establishment in Benin of branches and subsidiaries of foreign companies; only companies established under domestic law, whatever the origin of the capital, and approved by the Ministry of Finance after consultation with the Regional Insurance Control Commission in Libreville are authorized to operate. The CIMA Code requires that life and non-life (fire, accident, miscellaneous and technical risks) insurance activities be separated.

⁴³Law No. 90-018 of 27 July 1990.

⁴⁴UNCTAD (1996).

⁴⁵These are Union béninoise d'assurance UBA-VIE (foreign majority interest) which has bought SONAR's life portfolio, and Assurance et réassurance du Golfe de Guinée (Beninese majority interest).

⁴⁶UNCTAD (1996).

⁴⁷The contracting parties to the Treaty are Benin, Burkina Faso, Cameroon, Chad, Central African Republic, Comoros, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Senegal and Togo.

92. The insurance companies are exempt from VAT and subject to insurance policy tax at the rate of 10 per cent of premiums for life insurance, 30 per cent for fire insurance, 0.25 per cent for export credit insurance and 7 per cent for other insurance premiums.

(c) Other financial services

93. Apart from the banks and insurance companies, the financial sector consists of the *Caisse nationale d'épargne*, the *Centre des comptes chèques postaux*, a leasing company (EQUIPBAIL), the National Lottery, a rural savings and loans cooperative and a very active informal sector.⁴⁸ The Government has said that it intends to promote the mutual and cooperative financial institutions in order, among other things, to counteract the effects of the disappearance of the banks and establishments specializing in development financing. The *Fédération des caisses d'épargne et de crédit agricole mutuel* (FECECAM) has been set up to develop rural credit. After the tontines system, it is the principal decentralized financial institution with 62 branches all over Benin and about 150,000 customers.

94. Informal credit plays an important role in Benin and more than 80 per cent of the population make use of it. Among the principal informal credit systems, the tontine is a group of people who regularly pay a given amount into a common fund, the balance in which is paid out to each of the members in turn. This enables the participants to receive relatively large sums of money without having to save for long periods. The itinerant bankers (or "*tontiniers collecteurs*") generally travel about collecting deposits or making loans and cater to a clientele which does not have access to the banks. They take off a commission for their services which can amount to 3 per cent per month.⁴⁹

(iii) Tourism, hotel and restaurant services

95. Benin has numerous tourist attractions, few of which are currently being exploited. Since 1990, the number of tourists has grown sharply, reaching 140,000 in 1993 before falling back to 117,000 in 1994.⁵⁰ This fall in the number of arrivals observed in 1994 has been attributed by the authorities to political turbulence in the neighbouring countries. There are about 160 hotels with 2,600 rooms. In addition there are 24 travel agencies. The employment (direct and indirect) generated by the sector (including restaurants) represents more than 7,000 jobs and brings in CFAF 700 million for the State (taxes collected in 1994), i.e. about 1 per cent of budget revenue.

96. In its Schedule of Specific Commitments under the GATS, Benin undertook to maintain hotel industry and catering services open to foreign commercial presence. The entry and temporary stay of directors, senior executives and specialists transferred to a company establishing itself in these sectors in Benin were also bound. Travel agencies established outside Benin (cross-border supply) must work through an agency (Benin or foreign) established in the country. The granting of the licence required to open an agency is based on the probity and professional criteria laid down in the regulations in force but is not, according to the authorities, subject to nationality conditions.

⁴⁸The Caisse nationale d'épargne and the Centre des comptes chèques postaux are services financed by the Office des postes et des télécommunications (OPT), which is a public entity. The National Lottery of Benin is a State company.

⁴⁹Adéchoubou, M. (1996).

⁵⁰The large number of international visitors arriving at Benin's frontiers - 542,000 in 1994 - reflects the importance of trade for the country rather than the importance of tourism. In fact, more than three quarters of visitors come to Benin only for the day or are cruise passengers or crew members.

97. There are several factors limiting the development of tourism. The appreciation in real effective terms of the CFA franc created obstacles to tourist development by making the country more expensive than others outside the franc zone. In this respect, devaluation has had a beneficial effect. However, because of the parity with the French franc, the authorities must constantly endeavour to maintain the prices of tourist services at levels that enable Benin to compete with other comparable destinations outside the zone.

98. In the past, the Investment Code (still in force) banned direct investment in the hotel sector, which was wholly owned by the State. A 1992 law limits privatization in the sector (Chapter II). However, direct investment has been bound by Benin under the GATS (Table IV.5).

99. According to a study of the sector, "the monopoly exercised by the few airlines which serve Benin and the prohibitively high fares they charge are holding back the development of tourism".⁵¹ The participants in the National Economic Conference noted the high electricity costs and recommended that the hotel and tourism industry be charged for electricity at the industrial rate. The Conference also stressed the failure to promote Benin as a tourist destination and the poor quality of the accommodation and domestic transport.

(iv) Telecommunications and broadcasting

100. The telecommunications sector represents about 1.6 per cent of GDP. The supply of services is a State monopoly exercised by the *Office des postes et télécommunications* (OPT), an industrial and commercial public establishment. The turnover of the OPT (about CFAF 8 billion in 1992) declined in real terms between 1990 and 1994. The authorities were not able to provide information on the turnover, value-added, and profits and losses for the last five years or on any subsidies received from the State.

101. The national telephone network, with less than 30,000 subscribers, corresponds more or less to the average for Sub-Saharan Africa in terms of telephone lines per inhabitant. On the other hand, the demand for new lines is growing twice as quickly as the average for the Sub-Saharan countries. The density of the basic network is currently insufficient to meet this demand and heavy investment will be needed to develop both the basic services and the value-added services sectors. Projects estimated at CFAF 25 billion and 95 per cent financed by foreign capital are reported to be under way.

102. The authorities are aware of the need to improve the efficiency and reduce the costs of telecommunications services for Beninese enterprises. For example, 90 faults per year per 100 main lines are recorded, as against 24 in Togo and 8 in South Africa; and there are 17 main lines per employee, as compared with an average of 25 for Sub-Saharan Africa.⁵² The tariffs are fixed by the State at relatively high levels (Table IV.7). However, there are no current plans for privatizing OPT or exposing it to international competition. The Government did not participate in the negotiations on telecommunications held in the World Trade Organization within the context of the GATS.

⁵¹UNCTAD (1994).

⁵²International Telecommunications Union (1996).

Table IV.7
Telephone charges in certain countries, 1994
(US\$)

	Residential		Business		Local call	Monthly subscription as percentage of per capita GDP
	Installation	Monthly subscription	Installation	Monthly subscription		
Benin	158.0	4.1	287.7	4.1	0.11	12.0
Côte d'Ivoire	48.3	12.3	148.3	12.3	0.20	21.1
Ghana	52.3	1.0	52.3	1.0	0.10	3.5
Nigeria	133.7	2.3	201.9	4.5	0.26	9.3
South Africa	74.8	10.5	74.8	10.9	0.06	4.5
Togo	192.7	2.6	192.7	2.6	0.09	9.4

Source: International Telecommunication Union.

103. The authorities were not able to provide an explanation of the regulations in force concerning imports of telecommunications equipment. It would seem that despite the monopoly granted to OPT, most of this equipment is being imported in connection with projects which are externally financed and hence in large part subject to "tied aid" conditions, according to which the equipment must come from the country supplying the finance.

104. The private sector is mainly responsible for the installation and maintenance of the equipment. The Ministry responsible for telecommunications issues private installer's permit for company telecommunication facilities. About 10 installers were approved in 1997. Line terminals and other equipment must be inspected and approved by OPT. There seems to be a legal vacuum with respect to the importation and purchase of equipment (for example, telephones) directly by the consumer.

105. A cellular mobile telecommunications system has been in operation in Benin since 1995; it is managed by OPT which is the exclusive operator. In 1995, the system had 1,050 subscribers. Cellular communications offer an alternative to the fixed-link networks thanks to lower investment costs and quicker installation.

106. Where television broadcasting is concerned, there are satellite pay systems in operation. At present, OPT is not planning to install a cabled communications network providing both television and telecommunications services. The company Canal + is broadcasting by satellite and can be received with individual direct-reception dishes. A television station (TV5) is broadcasting by means of microwave distribution systems (MDS) financed by Canada; this system is favoured by the consumers since it is less expensive than private parabolic antennas.⁵³

107. According to the authorities, Benin has a direct link with the Internet.

⁵³Ibid.

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