

**Trade Policy Review Body**

**TRADE POLICY REVIEW**

**BURUNDI**

**Report by the Secretariat**

This report, prepared for the first Trade Policy Review of Burundi, 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 the Government of Burundi on its trade policies and practices.

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Document WT/TPR/G/113 contains the policy statement submitted by the Government of Burundi.

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



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**SUMMARY OBSERVATIONS****(I) ECONOMIC ENVIRONMENT**

1. The economic reforms undertaken by Burundi following the signature of the Peace and Reconciliation Agreement in 2000 have in all likelihood contributed to the first signs of a recovery in the economy in 2001, with a growth rate of 2.1 per cent in real GDP. Burundi's economy nevertheless remains marked by the impact of the sociopolitical crisis that has prevailed since 1993, with sporadic new outbreaks of tension. The crisis brought to a halt the reforms initiated at the end of the 1980s and has hindered Burundi's development: Burundi's real GDP fell by almost 30 per cent between 1993 and 2000 and over two thirds of its population are currently living below the poverty threshold.

2. The increase in military spending, mainly due to the crisis (25 to 30 per cent of overall government expenditure), subsidies to State enterprises in difficulty and the loss of revenue caused by exemptions from duties and taxes have resulted in relatively high budget deficits. Together with the successive devaluations of the Burundi franc, the increase in production costs as a result of the crisis, and a monetary policy that has been adapted to the fiscal policy, these deficits have kept inflation at a high level (at an average annual rate of 18 per cent between 1995 and 2001). Such an environment has hardly been conducive to investment, 60 per cent of the US\$47 million invested at the end of 2002 dated from prior to 1990. Public investment has also stagnated at around 6 per cent of the GDP.

3. This economic situation is the reason for the priorities fixed by the Government in its new economic reform programme, namely, improved macroeconomic management and the achievement of a growth rate that will allow poverty to be reduced. To achieve this, a system for the monthly control of spending and special units to monitor the granting of exemptions from duties and taxes have been set up. The Government is considering establishing an independent court of audit and

a strategy for the reduction of its external debt, whose current net value amounts to 1,061 per cent of Burundi's exports in 2001. Consideration is being given to including Burundi among the beneficiaries of the Highly Indebted Poor Countries Initiative. In addition, reform of the exchange policy, particularly the abolition of the system based on a positive list of goods eligible for foreign currency kept by the Bank of the Republic of Burundi and the frequent holding of currency auctions for the purpose of determining the exchange rate for the Burundi franc, have helped to bridge the gap between the official and black market exchange rates.

4. The crisis, the imposition of international economic sanctions between 1996 and 1999, and the distortions caused by certain government policies, have fostered the emergence of parallel trade and subsistence activities. Exports (except for re-exports of gold) strongly focus on primary products, particularly coffee, and to a lesser degree tea. Although the share of exports of manufactures rose from 2 per cent in 1999 to 11 per cent in 2001, the Government's desire to promote exports of non-traditional products has not led to any noticeable diversification, even though coffee prices fell by around 57 per cent between 1999 and 2002. Europe and North America are the major markets for Burundi's exports. The share of African countries has increased since the lifting of economic sanctions in 1999; African countries are presently the main importers of manufactures produced by Burundi.

5. Burundi's principal imports are manufactured and semi-manufactured goods, capital goods, foodstuffs, petroleum and chemical products. European Union countries, notably France and Belgium, are the major sources of imports. The share of African countries, especially those belonging to the Common Market for Eastern and Southern Africa (COMESA), in Burundi's imports gradually rose from 1994 onwards and these countries are now the second source of imports. Burundi is a net importer of services, especially trade-related services (for example, freight and insurance). The sharp

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*fall in imports of these services – imports of freight services currently only amount to one third of the figure for 1994-95 – is indicative of the impact of the crisis on Burundi's trade.*

**(2) INSTITUTIONAL FRAMEWORK**

6. *Burundi's institutions are governed by a transitional Constitution adopted in October 2001 for a period of 36 months, which should lead to a post-transition Constitution to be adopted by referendum in compliance with the principles set out in the Arusha Agreement. Executive power is entrusted to a transitional government, whose President must hand his office over to the Vice-President after 18 months. The President is also the Head of State; he appoints the Ministers who compose the Council of Ministers. Legislative power has been given to a parliament, composed of a National Assembly and a Senate.*

7. *The most important ministries participating in the formulation and implementation of trade policies are those of trade and industry, finance, planning and reconstruction, agriculture and livestock. Other ministries or State bodies may have certain responsibilities for sectoral matters such as coffee and tea, mining and quarrying, or the reform of State enterprises, which are closely related to trade policies. A permanent secretariat follows up economic and social reforms under the direction of the Vice-President's Office and is responsible for supervising and coordinating all matters related to the economic reform and structural adjustment programmes. The Economic and Social Council is an advisory body with competence for all areas of economic and social development and it must be consulted on any draft development plan or any regional or subregional integration project. The Government has also taken the opportunity of its trade policy review by the WTO to re-establish an interministerial committee for the coordination of trade matter, which could help to make the formulation of trade policies more consistent.*

8. *The Government sees trade as a catalyst for economic growth. With this in mind, the main objective of its trade policy is to diversify exports, particularly by exploiting non-traditional agricultural subsectors. Reaching this objective will require large-scale reform of trade policy, sectoral reforms, and measures to alleviate supply constraints and upgrade the infrastructure. Trade policy therefore needs to be integrated within a broader strategic framework, is a process that could be facilitated by the implementation of the Integrated Framework for LDCs in Burundi.*

9. *Burundi is one of the original Members of the WTO and as a minimum grants MFN treatment to all its trade partners. It has not signed the various plurilateral agreements negotiated within the WTO. Burundi needs substantial technical assistance from the international community in order to derive maximum benefit from its participation in the WTO, particularly as regards standards and the implementation of customs reforms. It also requires support in formulating policies in certain sectors, for example, in telecommunications, financial services, and energy, so that the liberalization envisaged in these sectors proves beneficial to it. Burundi would also like technical assistance in areas such as contingency trade measures and the protection of intellectual property, for which there is little or no legislation. Burundi could make better use of the potential afforded by the opening of markets including recourse to preferential schemes, if its capacity to analyse and disseminate trade information was bolstered.*

10. *Burundi is a member of the Common Market for Eastern and Southern Africa (COMESA). It is also party to the Treaty on the Economic Community of the Great Lakes Countries (CEPGL), whose trade provisions are not applied. Burundi enjoys non-reciprocal preferential access to the European Union market under the "Everything But Arms" initiative, and to the markets of other industrialized countries under the Generalized System of Preferences. Burundi does not yet*

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benefit from the provisions of the United States African Growth and Opportunity Act (AGOA).

### (3) TRADE POLICY INSTRUMENTS

11. Burundi's major trade policy instrument is customs duties. The tariff structure remained unchanged between 1993 and 1 January 2003, when the maximum rates were lowered from 100 to 40 per cent. This reform has caused the simple average rate of MFN duties to fall from 30.8 to 23.5 per cent. All duties are *ad valorem* and there are eight rates. The 10 per cent rate applies to "staple goods" while the 40 per cent modal rate applies to finished manufactures and consumer goods and, since 1 January 2003, to certain agricultural products such as meat, fish, coffee and tea, which were previously subject to a rate of 100 per cent. The 0.61 coefficient of variation indicates a relatively moderate dispersion of rates. Overall, Burundi's tariff structure shows mixed escalation; setting aside incentives, such a situation does little to encourage investment in certain processing activities.

12. The Government tries to compensate for the impact of customs duties on costs, particularly of inputs, by granting exemptions and reductions in duty under the Investment Code, the Export Promotion Law, and the Tax Code. These incentives are particularly aimed at agricultural activities, small and medium enterprises, cottage industries and promoting the decentralization of economic activities out of Bujumbura. Import substitution is one of the objectives of the Investment Code. The value of the exemptions granted is substantial, around 15 per cent of the overall value of imports. The relatively wide margin of discretion for the granting of exemptions given to the authorities and their scope make the national tariff less transparent. Distortions and the resulting loss of financial resources are considerable. It would be more beneficial, particularly for small producers, to import inputs at uniformly lower customs duties rather than using exemption schemes.

13. During the Uruguay Round, Burundi bound the rates for almost 20 per cent of its

tariff lines. All tariffs for agricultural products (WTO definition) were bound at a ceiling rate of 100 per cent, with the exception of some 6 per cent of lines that had already been bound. For non-agricultural products, rates for less than 10 per cent of the tariff lines were bound, 24.2 per cent for textiles and clothing, 20.2 per cent for leather, rubber and footwear, and 11.2 per cent for transport equipment.

14. The positive list which identified products deemed priorities for the purposes of exchange policy has been abolished; licences are now only used for statistical purposes. Burundi requires preshipment inspection for all imports amounting to a minimum of US\$3,000 or US\$5,000 depending on the product, with the exception of petroleum products. Importers are responsible for the cost of inspection, which amounts to 1.5 per cent of the customs value, with a flat rate minimum fee varying from US\$105 to SwF 275. The customs administration uses the Brussels Definition to estimate the customs value and uses the valuation made by the inspection companies for the purpose of comparison with reference values. Depending on their nature, imports may be subject to various internal taxes, the most important being the transaction tax. This applies to certain types of products at rates that are higher for imports than local goods, which is contrary to the WTO principle of national treatment. The revenue earned by applying this tax on imports is fairly substantial.

15. Burundi has abolished the majority of quantitative import restrictions for all goods with the exception of cotton duck. It does not have any national standards. The standards of the CODEX Alimentarius, the International Electrotechnical Commission (IEC) and the ISO are used by Burundi as a reference in certain areas. Burundi has not signed any mutual recognition agreement. A phytosanitary law dating from 1993 on plant protection is in force. The current regulations on sanitary measures date back to the colonial era and apply to coffee, tea, rice and meat in particular, but they are not accompanied by any implementing provisions. Burundi does

*not have any legislation on contingency trade measures and has not undertaken any action in this area. Intellectual property legislation is little developed and takes the form of a fairly outdated law on industrial property and another on copyright, which do not have any implementing provisions.*

16. *Government procurement of a value exceeding the minimum threshold fixed by the Minister for Finance, with the exception of routine contracts awarded by State enterprises, must be examined by the Directorate General of Government Procurement. Invitations to tender must be the principal procedure followed in awarding contracts. Burundian enterprises are granted preferences: 10 per cent for construction contracts, 15 per cent for supplies and services contracts; and 20 per cent for contracts for studies.*

17. *Most exports are subject to a 5 per cent export tax; a 31 per cent tax on green coffee has not been collected since 1999, given the difficulties encountered in this subsector. The Government planned to eliminate export taxes from 1 January 2003. All foreign currency earned from exports of coffee, tea and cotton must be repatriated, whereas for other exports the proportion to be repatriated is 70 per cent. Sugar exports are subject to a quota, which varies according to estimates of local demand. Coffee cherries may not be exported and ivory exports are banned pursuant to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).*

18. *There is a drawback system for the refund of customs duties and tax credits for the refund of indirect taxes on inputs intended to promote exports. The overlapping of these incentives and those granted under the Tax Code and the Investment Code mean that enterprises engaged in similar activities may be eligible for different types of incentives, which can lead to distortions. The legislation on free zone enterprises grants total exemption from all duties and taxes provided that the value added created is at least 35 per cent and*

*that the enterprise exports its entire output. Nevertheless, up to 10 per cent of its output can be sold on the local market; the goods thus sold are treated as normal imports. The performance of enterprises benefiting from these provisions has been mediocre and the value of their exports has been below 0.3 per cent of Burundi's total exports.*

19. *The state is extensively involved in economic activity through State-owned enterprises; the State has shares in 48 enterprises covering 10 areas of activity. In general, these enterprises are inefficient and heavily indebted. The majority of enterprises involved in supplying services have benefited from a de jure monopoly; a large number of other branches and sectors of activity have a dominant position de facto. A privatization programme was initiated in 1991, but the progress made so far has been limited, to a large extent due to the political instability in Burundi; 0.5 per cent of the State's holdings have been privatized. The Government has drawn up a programme for the period up to 2005 for the full or partial privatization or restructuring of 19 state enterprises, including those operating in certain key areas such as telecommunications and electricity. A draft law on competition is currently under consideration.*

20. *Burundi could make its tariff more predictable by narrowing the gap between the bound and applied rates and by increasing the number of bindings. Transposing its former tariff bindings into the Harmonized System and eliminating discrimination when imposing internal taxes, more particularly the transaction tax, would strengthen Burundi's observance of the WTO's principles. Rationalizing the various exemptions granted and measures to improve fiscal management should offset any loss in earnings as a result of tariff reforms. The Government needs appropriate technical assistance to underpin its action in these areas.*

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**(4) SECTORAL POLICIES**

21. Agriculture plays a key role in Burundi's economy, employing 90 per cent of the labour force and accounting for 36 per cent of the GDP. Agricultural production has been affected by the war and is still subject to adverse climatic conditions. Coffee is the major export and provides over 50 per cent of Burundi's total exports, followed by tea. The third most important export is cotton, but its production has been particularly affected by Burundi's socio-political instability. These products are usually grown by small farmers, but the State has a very strong hold over processing and marketing through State enterprises or semi-public entities. Although there has been some reform, in particular, the implementation of training programmes and the supply of subsidized or free inputs by the state, overall the structure of these subsectors has a negative impact. The State enterprises involved often have a buyer's monopoly; planters are obliged to sell their production to them at prices fixed in advance, which means a relatively substantial loss of income in comparison with sales under competitive conditions. The real prices paid to planters have also gradually decreased. Enterprises in these subsectors find it difficult to achieve their commercial objectives while at the same time supporting planters. Their lack of efficiency leads to large losses, particularly when international markets are sluggish, and these have to be financed from the State budget.

22. Agriculture is still the most protected sector of the economy, with an average customs duty of 32.8 per cent. The highest level of protection applies to products such as meat, fish, fisheries products, coffee, tea, and cacao, and some vegetables (tomatoes and beans, for example). This is not conducive to investment in non-traditional products and jeopardizes the other initiatives taken by the Government to promote these subsectors. The agricultural sector is given a number of exemptions and reductions of duties and taxes, especially on inputs, but for small producers the relevant procedures are complex and they

would be better served if customs duties on inputs were reduced to zero.

23. The manufacturing sector is under developed and in 2001 it accounted for around 16 per cent of the GDP. Exports of manufactures have been very low, even though there has been some growth since 2000 as a result of exports of beverages to neighbouring countries. The average customs duty is 23.2 per cent; nevertheless, taking into account customs duty concessions, the mixed escalation of the tariff structure does not encourage investment in certain manufacturing industries. Textiles and clothing are deemed to be a nascent industry and consequently benefit from certain additional measures of protection (for example, surcharges on certain imports and a ban on imports of cotton duck); the tariff structure shows marked escalation.

24. In 2000, services accounted for almost 40 per cent of the GDP. Most activities in this sector concern transport, communications, or trade. The Government has liberalized mobile telephony, which has led to an improvement in access to telephone services; it is considering opening up the capital of the fixed operator to private entities. The banking sector is relatively undeveloped and the State is closely involved. Loans are mainly for the short term and the 8 to 10 percentage point difference between borrowing and lending rates suggests high transaction costs. The rates imposed by the electricity company penalize commercial and industrial customers, whose consumption subsidizes household consumption. Burundi's commitments under the General Agreement on Trade in Services (GATS) concern business services, construction and related engineering services, distribution services, health-related services, and social services. For these services, Burundi has bound, without limitations on market access or national treatment all the measures concerning their cross-border supply; their consumption abroad and commercial presence with a view to supplying those services. The measures on the presence of natural persons have not been bound except in the case of medical

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*specialists, managers and specialized senior management (through horizontal concessions).*

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

25. *Socio-political stability remains crucial for continued reform and the full realization of the benefits which Burundi should obtain from its membership of the WTO. This situation explains to some extent Burundi's delay in implementing some of its multilateral commitments.*

26. *Despite the 2003 tariff reform, the level of protection applied by Burundi is high and is the source of inefficiency. The protection structure is not conducive to certain non-traditional and processing activities, which is delaying economic diversification and making Burundi increasingly vulnerable to external shocks. It is therefore important to continue the tariff reform. This should be assisted by Burundi's full integration into the COMESA, when it should align its MFN rates and customs duties on the COMESA common external tariff (once this has come into effect). Making further commitments in terms of tariff bindings, bridging the gap between the consolidated and applied rates, transposing the former list of tariff bindings into the HS nomenclature, rationalizing exemptions, improving fiscal management, and eliminating discrimination in the application of internal taxes should make Burundi's trade regime more transparent.*

27. *Boosting the economy's competitiveness will also require the continuation of the privatization programme and the reform of some key sectors such as telecommunications, energy, transport, and financial services. Reforming the customs and taking trade facilitation measures will lessen the cost of trade transactions. Implementing the WTO's customs valuation provisions and undertaking further commitments on trade in services (under the GATS) could further strengthen the reforms already undertaken in these areas. Reducing the State's role in subsectors such as coffee, tea, and cotton*

*could make them more efficient and help to alleviate poverty. In order to carry out all these reforms, Burundi will need substantial technical assistance, including capacity-building to allow entrepreneurs to exploit the potential resulting from the reform and the opportunities afforded by foreign markets. Burundi's partners could also help it by guaranteeing stable access to their markets and supporting its reconstruction efforts.*