

II. INDUSTRIAL ACTIVITY

National programmes targeting higher performance in the industrial sector, enhanced competitiveness and a greater contribution to development were pursued in 2008. A better environment for the sector and ongoing implementation of the upgrading programme helped boost progress in industry, despite the adverse effect of international conditions and fallout from the world financial crisis on exports by manufacturing industries over the closing months of the year. To help companies encountering difficulties because of deteriorating conditions in the world economy and lower foreign demand, measures related to current conditions and structural measures to prop up exporting companies and foster economic recovery were taken at the ministerial Council held on 23 December 2008. Implemented early in 2009, these measures seek to stimulate exports and maintain activity and jobs. Of particular interest is State assumption of 50% of the employer's contribution to the legal regime of social security when working hours are cut and 100% when employees are put on technical unemployment, along with 50% of the value of insurance contracts for exports and two percentage points of the interest rate on rescheduled loans for businesses that have suffered reduced activity or delays in collecting on export claims.

In this context, the industrial upgrading programme continued apace, with a total of 4,157 participating businesses up to the end of 2008. The proposals of 2,837 of these companies were approved by the steering committee for overall investment of some 4,658 MTD (4,064 MTD for equipment, 553 MTD for intangible investment, and 41 MTD for diagnostic operations). State premiums in this framework came to 649 MTD or about 14% of approved investment. Building materials/ceramics/glass, textile/clothing, and agrofood industries absorbed more than 58% of overall approved investment, for respective amounts of 927 MTD, 920 MTD and 875 MTD. 193 proposals for upgrading were approved in 2008 involving some 380 MTD in investment, compared to 233 proposals involving 559 MTD in 2007, for average investment by company of almost 2 MTD vs. 2.4 MTD a year earlier.

262 companies have participated in the upgrading programme for services to industry since it was launched in February 2000 through the end of 2008 with 109 proposals approved for overall investment of some 50 MTD. State premiums related to this investment came to 13.6 MTD or a 27.2% share.

Industrial added value expressed in real terms continued to rise in 2008, although at a slower pace than in 2007 : 2.7% vs. 7.7%. Thus the sector's contribution to economic growth fell from 32.9% (2.1 percentage points) in 2007 to 15.9% (0.7 percentage point) in 2008. This slower pace was attributable to lower growth in mining and hydrocarbons (mainly because of falling production of lime phosphate and crude oil) and slower growth in manufacturing industries (suffering from lower foreign demand starting in October). Still, expressed in current terms, industry's share in nominal GDP rose from 31.9% in 2007 to 34.1% in 2008.

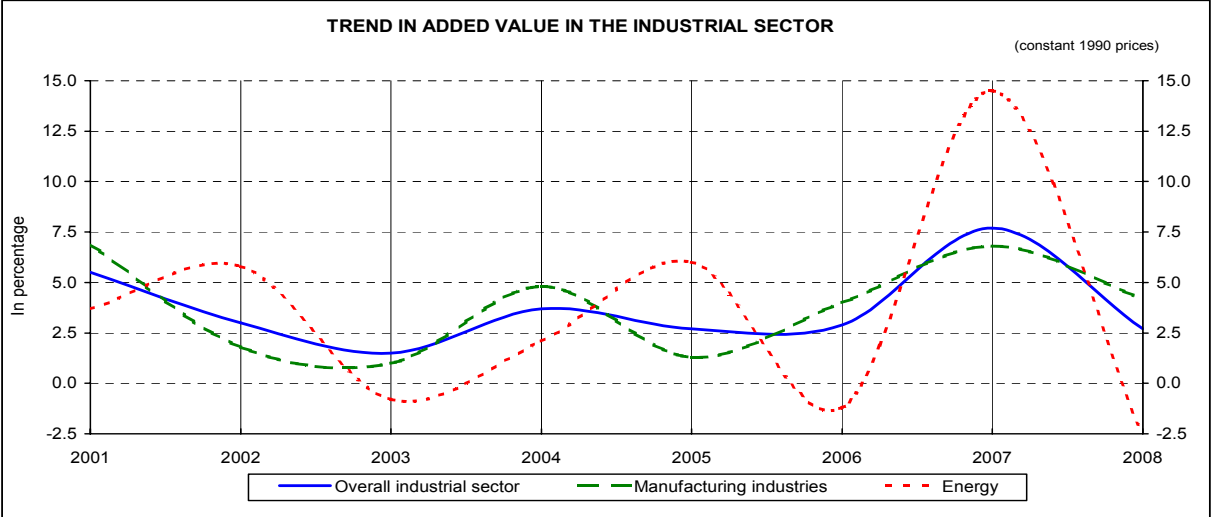
TREND IN ADDED VALUE IN REAL TERMS

(In %)

Description	2004	2005	2006	2007	2008
Mining	1.0	-19.2	7.6	1.0	-4.0
Energy	2.1	6.0	-1.2	14.5	-2.6
<i>of which : Hydrocarbons</i>	1.1	6.5	-4.7	22.5	-6.5
Manufacturing industries	4.8	1.3	4.0	6.8	4.2
Building and civil engineering	1.8	7.2	3.1	4.5	4.1
Overall industrial sector	3.7	2.7	2.9	7.7	2.7

Source : Ministry of Development and International Cooperation

Industrial exports grew at a slightly slower pace of 22%, down from 24.7% a year earlier, posting some 23,020 MTD. This included 18,735 MTD in exports by manufacturing industries, 4,080 MTD for the energy sector, and 205 MTD for mining. Four sectors led the manufacturing export effort in 2008 : mechanical/electrical industries (33.3% of total), textiles/clothing (27.6%), processing of phosphates (15.7%) and agrofood industries (8.2%). These sectors together generated some 15,898 MTD in income, representing 67.3% of overall export of goods.



The industrial sector received 4,607 MTD in investment. This was 24.4% more than in 2007, representing 36.8% of overall gross fixed capital formation (GFCF). There was an increase in all sectors but especially building materials/ceramics/glass, chemical industries, mining and energy, for respective increases of 65.6%, 29.8%, 35.7% and 27.2%. Foreign direct investment (FDI) flows in the sector came to 2,575 MTD, more than 75% of the total recorded for the country as a whole. The energy sector continued to receive the majority of FDI, with an amount that was up by some 42% to 1,934 MTD. Manufacturing industries received a major increase of some 32% in FDI, accounting for 19% of the overall total. This helped create notably 173 new companies that potentially could create some 11,000 new jobs. Already in 2008, industry set up 27,300 new jobs, corresponding to 34.2% of all new jobs in the economy, exclusive of agriculture. This compares to 25,200 jobs (31.5%) in 2007.

SECTOR-RELATED SHARE IN GDP AT CURRENT PRICES

(In %)

Description	2004	2005	2006	2007	2008
Non manufacturing industries	10.6	12.3	13.2	14.9	16.2
Mining	0.6	0.6	0.6	0.6	1.0
Energy	4.5	5.9	7.0	8.8	9.7
-Hydrocarbons	3.1	4.4	5.5	7.4	8.2
-Electricity	1.0	1.1	1.1	1.0	1.2
-Water	0.4	0.4	0.4	0.4	0.3
Building & civil engineering	5.5	5.8	5.6	5.5	5.5
Manufacturing industries	17.7	17.2	16.9	17.0	17.9
Agrofood industries	3.3	3.2	3.1	3.1	3.2
Manufacturing industries other than agrofood	14.4	14.0	13.8	13.9	14.7
-Building materials, ceramics and glass	1.7	1.7	1.8	1.7	1.7
-Mechanical and electrical industries	3.0	3.2	3.6	4.0	4.2
-Chemical industries	1.8	1.8	1.7	1.6	2.2
-Textiles, clothing, leather & footwear	5.6	5.1	4.6	4.6	4.5
-Miscellaneous industries	2.3	2.2	2.1	2.0	2.1
Overall industrial sector	28.3	29.5	30.1	31.9	34.1

Source : Ministry of Development and International Cooperation

A. MINING ACTIVITY

Because of the drop in production of lime phosphate, added value in mining, expressed in real terms, posted a drop of 4% in 2008, compared to an increase of 1% the year before. Still, the sector's contribution to GDP in current prices went up by 0.4 percentage point to 1%. Similarly, investment in this sector rose by more than 35% to 76 MTD.

MINING PRODUCTION

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Lime phosphate	8,051	8,220	7,801	8,002	7,623	-4.7
Iron ore	256	206	214	180	211	17.2
Lead ore	8.5	13.6	0	0	0	
Zinc ore	52.6	29.2	0	0	0	
Barytine	1.9	0	0	0	0	
Aluminium fluoride	41.8	42.1	42.5	42.1	42.8	1.7
Sea salt	1,117	1,132	1,127	933	1,063	13.9
Of which: COTUSAL	834	710	753	722	859	19.0

Source : Directorate General for Mining (Ministry of Industry, Energy and Small and Medium Sized Businesses)

1. LIME PHOSPHATE

Mining of raw phosphates, the main activity in this branch, was down in 2008 with extraction of some 11.6 million tonnes vs. 12.3 million a year earlier (-5.7%). Quarries in Kef Eschfaier, Kef Eddour and Jallabia continued to account for the largest share of overall production, with respective shares of some 30%, 19% and 17%. The rest came from mining units at Metlaoui, Redeyef, Oum Laraies and Mzida. Processing of lime phosphate at the washing sheds of the Gafsa Phosphate Company (CPG) yielded 7.6 million tonnes of marketable phosphate, about 5% of world production. But this level was 4.7% less than in 2007 and 9.3% less than initial projections. Average yield at these washing sheds rose from 64.5% of the volume of

mined phosphate in 2007 to 65.6% in 2008. As for marketing, sales of phosphates on the local market to the Tunisian Chemical Group (GCT) posted renewed growth of some 3% to 6.5 million tonnes, after dropping by 4% a year earlier. On the other hand, exports went down by some 29% to 879,000 tonnes, putting Tunisia in eighth place as a world producer of phosphates. The exceptional increase in prices on the international market had a positive effect on export earnings, which increased by two and a half times to 180.5 MTD. At the end of 2008, there were stocks of 5.6 million tonnes of marketable phosphates and 855,000 tonnes of raw phosphates, compared to 5.4 million and 874,000 tonnes respectively at the end of the previous year.

2. IRON ORE

After dropping in 2007, production of iron ore grew by 17.2% in 2008 to 211,000 tonnes. As in the past, the Djerissa mine provided the major portion of production, turning out 117,000 tonnes of hematite (pure iron ore) and 14,000 tonnes of iron carbonates. The Tamera-Douaria mine enjoyed some 8% increase in production, coming to 80,000 tonnes of hematite. As for marketing, local sales of iron ore went up by some 17% to 195,000 tonnes. Small quantities of iron carbonates from the Djerissa mine (some 11,000 tonnes) were sold on foreign markets, down from 13,000 tonnes in 2007. And there were 25,400 tonnes of imported iron ore in 2008 (vs. 13,600 tonnes in 2007) to cover the needs of the steel industry, mainly El Fouladh.

3. NON FERROUS METAL

The only such metal produced these past three years has been aluminium fluoride, up by a slight 1.7% in 2008 to 42,800 tonnes. Exports of this mineral dropped by 6.7% to 42,900 tonnes.

4. SEA SALT

Overall production of sea salt rose once again in 2008, up by 130,000 tonnes or 13.9% to 1,063,000 tonnes. The Tunisian Salt Company (COTUSAL) accounted for more than 80% of this volume, an increase of 19%, while the rest was provided by private companies. And while exports went up considerably to 1,031,000 tonnes (vs. 724,000 in 2007), local sales fell by 4,000 tonnes to about 107,000 tonnes, made up mostly of processed salt.

B. ENERGY

The balance of primary energy in 2008 yielded a larger deficit than the year before : 669.000 tonnes of oil equivalent (toe) vs. 195,000. This situation was due to a drop in national resources, especially crude oil, combined with an increase in domestic demand. In effect, following lower oil production and virtual stagnation in natural gas production, national primary energy resources (including gas royalties) fell by 4% to 7,229,000 toe. Demand for primary energy went up by 2.2% to 7,898,000 toe, despite the drop in consumption of oil products. Thus the country's rate of energy autonomy, defined as the ratio between national primary energy resources and primary demand, came to 91.5% in 2008, down from 97.5% in 2007. The foreign trade balance in energy yielded a deficit of 833.9 MTD compared to a surplus of 136.2 MTD in 2007, under the combined effects of slower growth in exports (after a year of exceptional growth) and the high increase in imports. Thus the rate of coverage fell by 21.5 percentage points to 83%. In this context, added value in the energy sector dropped

in 2008 by 2.6% in real terms vs. an increase of 14.5% the year before, especially because of the falloff in hydrocarbons (-6.5% vs. +22.5%). Despite this drop, the sector's contribution to nominal GDP rose from 8.8% in 2007 to 9.7% in 2008.

1. ELECTRICITY

National electricity production in 2008 came to 14.6 billion kWh, an increase of 4.4% vs. 4.2% a year earlier. The Tunisian Electricity and Gas Company (STEG) provided 10.3 billion kWh of electrical power, about 70% of total, an increase of 2.1%. Production by this public enterprise was marked by a 25.8% drop in electricity generated at combined cycle plants, offset by an 8.2% increase in energy produced by steam thermal plants. By source of fuel, 93% of production of thermal-based electricity used natural gas (up from 86% in 2007) and the rest mainly fuel oil. Production of electricity using water and wind power was down to about 38 and 39 million kWh respectively.

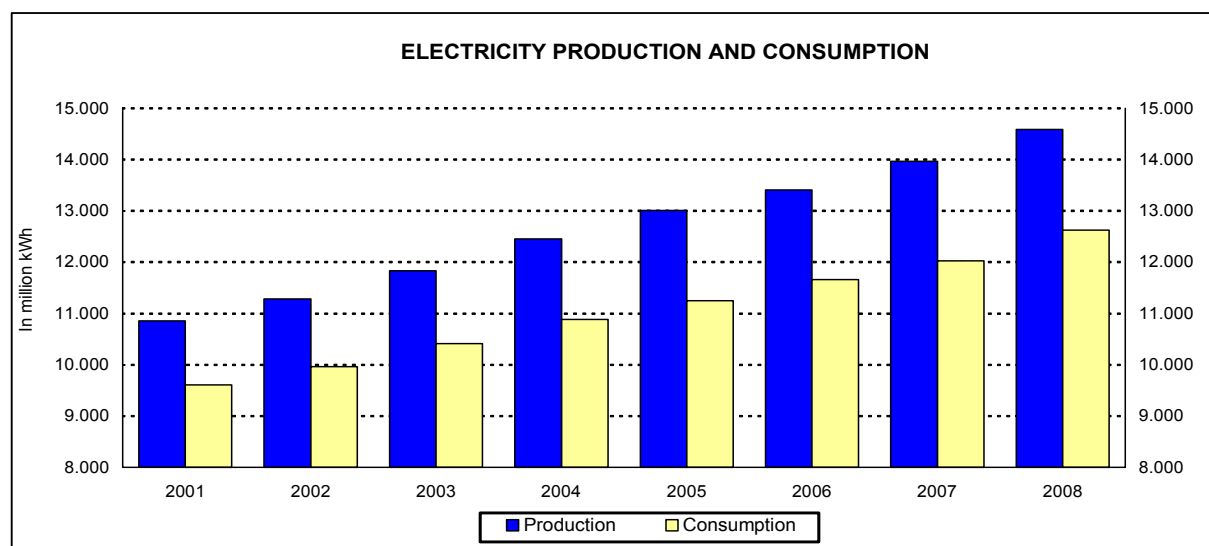
ELECTRICITY PRODUCTION AND CONSUMPTION

Description	In million kWh					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
STEG production	8,664	9,162	9,632	10,036	10,250	2.1
.Thermal	8,466	8,975	9,502	9,944	10,173	2.3
.Hydraulic	154	145	92	49	38	-22.4
.Wind-power	44	42	38	43	39	-9.3
Private independent production	2,844	2,905	2,864	3,054	3,440	12.6
Self-producers	947	939	914	878	895	1.9
National production	12,455	13,006	13,410	13,968	14,585	4.4
Net trade with Algeria	6	-3	5	-8	-7	-12.5
Total energy generated in Tunisia	12,461	13,003	13,415	13,960	14,578	4.4
High and medium-voltage consumption	6,657	6,831	6,987	7,225	7,541	4.4
- Industrial sector	4,537	4,597	4,689	4,814	4,956	2.9
.Mining industries	697	685	643	680	714	5.0
.Steel and metal industries	171	186	198	207	219	5.8
.Chemical and oil industries	701	703	712	707	686	-3.0
.Building materials industries	1,184	1,187	1,227	1,226	1,292	5.4
.Paper and publishing industries	164	167	167	170	177	4.1
.Textile, clothing, leather and footwear industries	544	538	540	564	537	-4.8
.Agrofood industries	470	486	504	506	540	6.7
.Miscellaneous industries	606	645	698	754	791	4.9
- Other sectors	2,120	2,234	2,298	2,411	2,585	7.2
Low voltage consumption	4,227	4,415	4,673	4,796	5,086	6.0
Total national consumption	10,884	11,246	11,660	12,021	12,627	5.0
Exports	34	33	0	0	0	
Losses in transit and energy in metres	1,543	1,724	1,755	1,939	1,951	0.6

Source : Tunisian Electricity and Gas Company (STEG)

Covering 27% of national electricity consumption, private independent production posted a significant increase of 12.6%, up from 3.1 billion kWh in 2007 to 3.4 billion in 2008. Self producers turned out 895 million kWh, up from 878 million in 2007. National electricity consumption went up by 5% (vs. 3.1% the year before) to 12.6 billion kWh, 7.5 billion of which were high and medium voltage. The industrial sector continued to be the largest consumer of electricity, using about 5 billion kWh. Consumption increased in particular for the agrofood sector, steel/metal industries, building materials and mining industries. Sectors other than industry that posted relatively higher growth in consumption of electricity were

agricultural pumping (+14.1%), health services (+10.3%) and transport/communications (+7.6%). Representing 35% of the country's total electrical energy, consumption of low voltage electricity rose by 6% (vs. 2.6% in 2007) to 5.1 billion kWh, due in particular to the increase in the number of STEG subscribers. Almost 91,000 new subscribers were hooked up to the low voltage electrical grid in 2008, bringing the overall electrification rate to 99.5%.



2. CRUDE OIL

After a year of high growth (39%), national crude oil production dropped in 2008 by 9% to 4.1 million tonnes or about 57% of overall primary energy resources (compared to 60% a year earlier), as volume fell at the main wells, notably Adam, Didon and Oudna. In particular, production at Oudna (which began in 2006) fell by some 73% compared to 2007. On the other hand, production rose at smaller and new oilfields, which became profitable as international prices rose. This was the case for Hajeb Guebiba (69%), Oued Zar (23%) and especially Cherouk, where production came to 328,000 tonnes vs. just 4,000 in 2007.

CRUDE OIL PRODUCTION BY OILFIELD

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Adam-Hawa-Dalia	452	763	792	956	821	-14.1
Didon	294	213	233	707	501	-29.1
El Borma	580	520	471	439	435	-0.9
Ashtart	577	530	446	478	494	3.3
Oudna	0	0	94	708	192	-72.9
Other oilfields (Cercina. Franig etc.)	1,439	1,378	1,234	1,259	1,694	34.6
Total	3,342	3,404	3,270	4,547	4,137	-9.0

Sources : National Energy Watch (Ministry of Industry, Energy and Small and Medium Sized Businesses) and ETAP

In 2008, the State's policy of incentives to promote the hydrocarbon sector helped attract five new operators for oil research and exploration, bringing the total number of currently valid licenses to 52, including 36 onshore licenses. These licenses were held by 35 national and international companies, out of 47 companies operating in the field of oil activities. This policy, along with soaring crude prices on the world market until the summer of 2008, helped

support dynamic activity in the oil sector. This included the drilling of 19 wells and 11 new discoveries, compared to 20 wells and 10 discoveries in 2007, increasing the potential for production of oil and natural gas.

As for marketing, shipments of crude oil by the Tunisian Oil Activities Company (ETAP) to the Tunisian Refining Industries Company (STIR) went up slightly, from 1,701,000 tonnes in 2007 to 1,786,000 tonnes in 2008. This included 1,174,000 tonnes of Libyan oil and 612,000 tonnes of Tunisian crude, of which some 30,000 tonnes were purchased locally from ETAP's foreign partners, payable in foreign currency. Exports came to 3.4 million tonnes, down from 4 million in 2007 (-13.4%). But the increase in world crude prices helped boost income from export by more than 22%, reaching 3,219 MTD. The average selling price for Tunisian oil (all types taken together) increased by some 30% or USD 21.26 a barrel to USD 92.96. It varied from USD 83.16 for Ezzaouia oil to USD 101.48 for Ashtart oil.

3. NATURAL GAS

Natural gas resources (production and royalties) constitute more than 40% of national primary energy resources, rising in 2008 to 3,317 million cubic metres vs. 3,195 million a year earlier (+3.8%). This increase was due mainly to the 10% increase in overall royalties from the transcontinental gas pipeline, following the entry of new buyers of Algerian gas in the framework of the extension project. National production remained stationary, reaching 2,042 million cubic metres because of the extended shutdown at the Miskar field for maintenance as well as late start up of production at the Chergui field. Thus quantities produced at the Miskar field dropped by 6.8% to 1,471 million cubic metres, corresponding to 72% of overall production vs. 77.6% a year earlier. Furthermore, to meet domestic demand for natural gas, especially from producers of electricity (STEG and private operators), purchases of Algerian gas went up considerably, from 874 million cubic metres to 1,207 million cubic metres (+38.1%). Thus the availability of natural gas rose by 11.2% to 4,524 million cubic metres.

GAS PRODUCTION AND CONSUMPTION

Description	In million cubic metres					Variation
	2004	2005	2006	2007	2008	2008/2007 in %
Production	2,298	2,343	2,136	2,036	2,042	0.3
of which : <i>Miskar</i>	1,858	1,899	1,661	1,579	1,471	-6.8
Total royalties	1,197	1,294	1,281	1,159	1,275	10.0
Purchases	628	567	502	874	1,207	38.1
Total availability	4,123	4,204	3,919	4,069	4,524	11.2
Consumption	3,520	3,629	3,623	3,853	4,244	10.1
- Electricity producers	2,668	2,781	2,718	2,807	3,141	11.9
. <i>STEG</i>	2,141	2,233	2,162	2,200	2,481	12.8
. <i>Private independent producers</i>	527	548	556	607	660	8.7
- Other (industrial clients. residential and tertiary sectors)	852	848	905	1,046	1,103	5.4
Exports	603	575	296	216	280	29.6

Sources : National Energy Watch (Ministry of Industry, Energy and Small and Medium Sized Businesses) and STEG

Natural gas national consumption went up by some 10% (vs. 6.3% in 2007), to some 4,244 million cubic metres. This trend was due to a 11.9% increase in the use of natural gas

to produce electricity, with the 3,141 million cubic metres consumed corresponding to a 74% share in total (79% consumed by STEG and 21% by private independent producers). For other final users of electricity (industrial clients and the residential and tertiary sectors), consumption came to 1,103 million cubic metres, a level that was 5.4% higher than in 2007, due in particular to higher demand by industrial companies that are increasingly turning to use of natural gas instead of oil products. In effect, 77 new industrial subscribers were hooked up to the gas network in 2008, corresponding to substitute energy potential estimated at about 106,000 toe. Furthermore, in the framework of the national programme to encourage use of natural gas, STEG made 67,833 new hook-ups to its gas distribution network for the domestic and tertiary sectors, bringing the cumulative hook-up rate to 96.9% at the end of 2008 and the total number of low-pressure gas subscribers to 393,199 clients.

4. FUEL

National fuel production remained about the same in 2008 as in 2007 : 1.8 million tonnes or about 45% of overall consumption. Higher growth is not possible because of limited production capacity at STIR in Bizerte. Construction of a refinery in Skhira is planned and a portion of that production will be exported. Production of liquefied petroleum gas (LPG), fuel oil, gasoline and white spirit went up fairly sharply, while that of other products such as petrol, paraffin oil and virgin naphtha went down.

FUEL PRODUCTION

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Liquefied petroleum gas	108	109	110	102	123	20.6
Premium and unleaded petrol	356	216	180	146	129	-11.6
Standard petrol	48	0	0	0	0	
Paraffin oil	169	229	136	130	120	-7.7
Gas-oil	432	482	506	555	551	-0.7
Fuel-oil	595	609	604	649	668	2.9
Virgin naphtha	46	130	135	212	184	-13.2
Gasoline	28	23	24	22	25	13.6
White spirit ¹	8	9	10	12	13	8.3
Kerosene	0	0	4	0	0	
Total	1,790	1,807	1,709	1,828	1,813	-0.8
In % of consumption	45.9	46.0	42.1	43.7	45.1	1.4 point

Source : National Energy Watch (Ministry of Industry, Energy and Small and Medium Sized Businesses)

National fuel consumption fell by 3.9% in 2008 to 4 million tonnes. This drop was due in part to some 52% drop in the use of fuel-oil for production of electricity and a 5% drop for industrial use. Consumption of paraffin oil fell by 17.7% between 2007 and 2008 to 102,000 tonnes, following an 18.5% drop in the level of domestic use and a 6.5% drop in industrial use. Inversely, consumption of unleaded premium petrol rose by 12.1% and that of gas-oil 50 by 54%, in line with the gradual switch from premium petrol (-37.6%) and ordinary gas-oil (-1.5%). In any case, overall consumption of petrol remained stationary at 424,000 tonnes and of gas-oil at 1,821,000 tonnes. Consumption of coal-oil (mainly by cement plants) went up by 17.6% to 328,000 tonnes, while that of LPG remained virtually

¹ Intermediary refined product between petrol and kerosene that serves as a paint thinner.

stationary at 463,000 tonnes. And while consumption of LPG for industrial purposes dropped by 10.4% due to the successful programme to change to natural gas, consumption for domestic use went up by just 1%, thanks to mild weather in the fourth quarter of 2008. The structure of national fuel consumption did not undergo any significant change, with ordinary gas-oil and fuel-oil predominating at about 43% and 16% of overall consumption respectively.

FUEL CONSUMPTION

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Liquefied petroleum gas	447	462	458	462	463	0.2
Premium petrol	133	143	124	101	63	-37.6
Unleaded premium petrol	228	261	284	322	361	12.1
Standard petrol	56	9	1	0	0	
Paraffin oil	196	193	148	124	102	-17.7
Kerosene	230	214	211	221	227	2.7
Ordinary Gas-oil	1,801	1,799	1,795	1,770	1,744	-1.5
Gas-oil 50	0	0	0	50	77	54.0
Fuel-oil	804	724	775	854	656	-23.2
Coal-oil	4	119	267	279	328	17.6
Total	3,899	3,924	4,063	4,183	4,021	-3.9

Source : National Energy Watch (Ministry of Industry, Energy and Small and Medium Sized Businesses)

C. MANUFACTURING INDUSTRIES

Manufacturing industries experienced slower growth in 2008, posting 4.2% in real terms vs. 6.8% the year before. This was due mainly to a lower growth rate in textiles/clothing-leather/footwear and mechanical/electrical industries and negative growth in chemical industries. But manufacturing industries continued to be an important part of Tunisia's economic make-up, with a share of about 18% in nominal GDP, accounting for 79% of national export of goods, and attracting more than 11% of overall investment. Furthermore, second only to energy, manufacturing industries have attracted a large portion of FDI flows, taking in 641.6 MTD in 2008 vs. 485.7 MTD a year earlier. These investment flows went largely to chemical industries (215 MTD), miscellaneous industries (120.6 MTD) and mechanical/electrical industries (102.1 MTD).

TRENDS IN ADDED VALUE IN MANUFACTURING INDUSTRIES EXPRESSED IN REAL TERMS

(In %)

Description	2004	2005	2006	2007	2008
Agrofood industries	12.8	-1.0	4.6	5.4	5.5
Manufacturing industries other than agrofood	3.1	1.9	3.9	7.1	3.9
-Building materials/ceramics/glass	3.9	1.9	3.1	2.2	5.1
-Mechanical and electrical industries	8.0	8.6	18.7	15.1	8.4
-Chemical industries	3.5	2.0	-0.6	1.9	-2.2
-Textiles. clothing. leather and footwear	-0.5	-3.2	-4.2	5.7	2.0
-Miscellaneous industries	4.5	4.7	5.0	5.0	3.7
Overall manufacturing industries	4.8	1.3	4.0	6.8	4.2

Source : Ministry of Development and International Cooperation

1. AGROFOOD INDUSTRIES

The agrofood sector grew by 5.5% in real terms in 2008, compared to 5.4% the year before. Consequently, this sector's share of added value in nominal GDP rose from 3.1% in 2007 to 3.2% in 2008. Exports enjoyed renewed growth of 14.4%, after dropping by 7.4% in 2007, coming to about 1,538 MTD. This trend was due to higher selling prices, higher volume of citrus fruits and canned goods (tomato paste and harissa), as well as the high level of income from export of olive oil. Companies in the sector continued to turn to innovation and development of technical and commercial partnership with major foreign groups, especially European, to meet local and foreign demand at the best possible price and quality. Thus, investment went up by 3.7% to 280 MTD or 20% of GFCF in manufacturing industries, along with sustained growth in production in most branches of activity.

Production was up for most cereal-based products except baking flour. Semolina and pasta in particular grew at high rates of 16.7% and 10.4% respectively. In the dairy industry, production of industrial milk and cheese went up in 2008 at a fairly brisk pace (which helped to better meet needs), while production of yoghurt (marked by abundant supply and a wide range of products) dropped by some 14%. Import of milk and dairy products continued to rise, involving 24,100 tonnes worth 79.5 MTD vs. 15,500 tonnes and 49.1 MTD in 2007. Performance in the sector was good enough to lower the need for imports, especially with the livestock sector's potential to increase production of fresh milk and thereby stimulate production of industrial milk and dairy products. Canned food production grew in a satisfactory manner in 2008, particularly concentrated tomato paste and harissa. Export of these two products grew considerably, both in terms of quantity and value. On the other hand, canned fish production fell to 11,400 tonnes because of falling production of seafood. Production of sugar and confectionery was marked by an increase for most products but especially chocolates, although there was an increase for lump sugar. The oil and fats branch saw production of olive oil on the rise again in 2008 (the 2007-2008 agricultural season) to 200,000 tonnes, compared to 180,000 a year earlier. At the same time, quantities of processed seed oils, margarine and vegetable fats continued to grow at a steady pace. Production of beverages rose in 2008 for all products (especially mineral water) except for carbonated beverages.

MAIN PRODUCTION OF AGROFOOD INDUSTRIES

(In thousand tonnes unless otherwise indicated)

Description	2004	2005	2006	2007	2008	Variation 2008/2007 in %
Cereal-based products						
Baking flour	675	677	635	725	684	-5.7
Semolina	534	556	572	576	672	16.7
Pasta	172	186	190	202	223	10.4
Couscous	52	58	60	61	67	9.8
Animal feed (concentrated)	1,400	1,450	1,415	1,500	1,620	8.0
Milk and dairy products						
Industrial milk (in 1,000 hl)	3,360	3,470	3,680	3,817	4,210	10.3
Yoghurt (in million units)	830	884	944	1,190	1,020	-14.3
Cheese	14.8	17	20	24	31	29.2
Canned goods						
Tomato paste	126	125	79	98	138	40.8
Harissa	18.7	18	21.1	22.5	25	11.1
Canned vegetables and fruits	19.9	21.5	22.3	23.2	24.5	5.6
Canned fish	7.5	11.3	12.8	12.3	11.4	-7.3
Sugar and confectionery						
Granulated sugar	130	111	136	136	143	5.1
Lump sugar	17	17.6	18.3	18.3	17.5	-4.4
Candy	41	46	45	48	50	4.2
Chocolates	12	16	12.3	12.6	14.4	14.3
Oil and fats						
Olive oil	280	130	210	180	200	11.1
Margarine and vegetable fats	51.9	55	59.6	65.7	71.3	8.5
Processed seed oils	105	120	125	230	270	17.4
Beverages						
Mineral water (in million litres)	347	368	456	502	609	21.3
Carbonated beverages (in 1,000 hl)	4,100	4,200	4,250	4,333	4,292	-0.9
Beer (in 1,000 hl)	1,050	1,100	1,036	1,104	1,200	8.7
Wine (in 1,000 hl)	375	331	414	197	300	52.3

Sources : National Statistics Institute, Ministry of Industry, Energy and Small and Medium sized Businesses and relevant structures

2. BUILDING MATERIALS, CERAMICS AND GLASS

This sector enjoyed higher growth of 5.1% in real terms in 2008, vs. 2.2% the year before. Its share in nominal GDP however remained stationary at 1.7%. Investment in the sector went up by 65.6% (after falling by 7.7% in 2007) to 298 MTD or 21.3% of overall GFCF in manufacturing industries. 137 upgrading proposals have been approved in this sector since the programme began in January 1996, for investment of 927 MTD or about 20% of overall funds approved in industry. In the branch of binders, production rose by 7.2% for cement but fell by 6.6% for lime, coming to 7.6 million tonnes and 369,000 tonnes respectively. The Tuniso-Andalousian Company in Feriana (SOTACIB) produced 316,000 tonnes of white cement and 262,000 tonnes of clinker, compared to 327,000 and 301,000 tonnes in 2007. Exports of cement, largely to Libya, continued to grow, reaching 1.7 million tonnes worth 187.4 MTD, levels that rose by 7.6% and 23.5%. There were 52,700 tonnes of imports, up from 13,200 a year earlier.

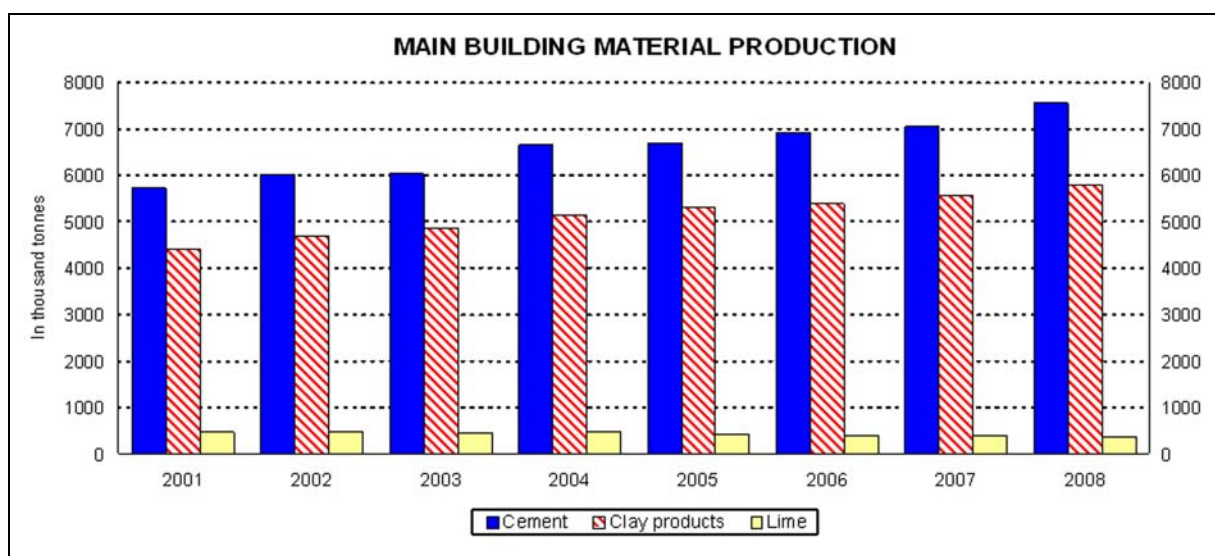
PRODUCTION OF BUILDING MATERIALS, CERAMICS AND GLASS

(In thousand tonnes unless otherwise indicated)

Description	2004	2005	2006	2007	2008	Variation 2008/2007 in %
Cement	6,662	6,691	6,932	7,052	7,559	7.2
of which : White cement	304	333	333	327	316	-3.4
Lime	477	424	401	395	369	-6.6
Clay products	5,140	5,310	5,380	5,550	5,800	4.5
Mosaic tiles (in thousand m ²)	19,750	21,000	22,550	22,550	23,000	2.0
Earthenware tiles (in thousand m ²)	15,100	15,690	15,900	16,300	17,500	7.4
Bottles and drinking glasses	45.0	45.5	46.5	46.9	47.0	0.2

Sources : National Statistics Institute for binding products & Ministry of Development & International Cooperation for the rest

Production of clay products rose by 4.5% in 2008 to 5.8 million tonnes. Similarly, the quantity of tiles produced went up to 23 million square metres of mosaic tiles and 17.5 million square metres of earthenware tiles. Thus exports of ceramic products rose by 13.4% in terms of quantity and by 2.5% in terms of value, involving some 221,000 tonnes worth 93.7 MTD. In the glass industry, production of bottles and drinking glasses more or less stagnated at 47,000 tonnes. Imports of glass and worked glass items continued to increase, reaching about 68,000 tonnes worth 95.8 MTD, increases of some 14% and 24% respectively, compared to 2007 figures.



3. MECHANICAL AND ELECTRICAL INDUSTRIES

After two years of considerable growth, added value in mechanical/electrical industries (expressed in real terms) grew at a slower pace in 2008 (8.4% vs. 15.1% in 2007 and 18.7% in 2006). The sector's contribution to economic growth thus fell from 8.2% (0.5 percentage point) to 6.8% (0.3 percentage point). Still, the share of added value in GDP at current prices went up slightly, from 4% in 2007 to 4.2% in 2008. Similarly, investment continued to rise, although at a slower pace than in 2007 (11.6% vs. 26.7%). Despite weak integration, illustrated by the volume of imported capital goods and input needed for investment and production activity as well as heavy dependency on sale of a large portion of products on foreign markets, this sector continued to rank high among manufacturing industries, with 22.7% of investment in 2008, 23.6% of nominal added value and about a third of exports.

Difficulties in the sector (caused by the adverse international conditions that appeared in the fall of 2008) led to slower growth in exports, down from 30.9% in 2007 to 18.3% in 2008. Recovery measures taken by the Government in December 2008 and going into effect in early January 2009 helped maintain activity in the sector as well as jobs and contributed to boosting performance in the future once the world economic and financial crisis comes to an end. It should be noted that the mechanical and electrical sector has over the past few years enjoyed steady technological development, especially in production of automotive and aeronautical components sold on the European market, in line with international quality norms and competitive prices.

In the steel industry, production continued to be handled by the public enterprise El Fouladh and by private companies, which have become more important these past few years. El Fouladh, the sole national producer of iron bars, increased production in this area, up from 61,000 tonnes to 82,000 tonnes, following an increase in its annual production capacity from 65,000 to 100,000 tonnes. Inversely, production of iron rods for concrete and of drawn iron by this company fell by 5.5% and 21.4% respectively to 104,000 and 11,000 tonnes respectively. It should be noted that production of iron rods for concrete will be increasing in the coming years, with start up of a second electrical oven with a capacity of 500,000 tonnes a year, an initiative taken to meet an ever-growing domestic demand. And to ensure regular supply of the local market, El Fouladh imported some 251,000 tonnes of iron rods for concrete in 2008, mainly from Turkey and the Ukraine, up from 149,000 tonnes the year before. It should be noted that prices for this product rose sharply on world markets, due not only to higher demand from emerging countries (especially China and India) but also because of higher needs for major urbanism projects in Gulf countries. Faced with this situation, a series of readjustments in the selling price of iron rods for concrete on the local market were introduced in order to maintain financial balance at companies in the sector while also taking into account trends in world prices. Indeed, the main activity at private steel companies consists in an operation to laminate imported iron bars, annual production of which is estimated at 300,000 tonnes of building iron to meet the needs of the domestic market, estimated at 600,000 tonnes a year.

STEEL ITEM PRODUCTION

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Iron bars	70	66	68	61	82	34.4
Iron rods for concrete	108	105	143	110	104	-5.5
Drawn iron	16	12	12	14	11	-21.4
Metal structures	6	5	6	5	6	20.0

Source : El Fouladh Company

In the branch of automotive assembly, activity by the Tunisian Automotive Industry Company (STIA) in 2008 consisted of assembling 2,700 vehicles (2,185 Mitsubishi pickup trucks, 385 industrial vehicles and 130 buses and coaches), compared to 2,812 vehicles in 2007 (2,129 ; 553 and 130 respectively). The factory in Sousse did not produce any articulated buses or luxury coaches but simply assembled standard buses and coaches along with coaches for tourism. The average rate of integration remains low at about 25% for buses and

coaches and 3% for pickup trucks and industrial vehicles. Electrical and electronic industries continued to grow, as reflected in the 20.7% increase in export, amounting to 3,857 MTD or 16.3% of the country's overall exports of goods. There were higher sales of most products, mainly electrical wire and cables, switches and cut-offs and electrical apparatus for telephones.

4. CHEMICAL INDUSTRIES

Affected by a drop in the volume of exports of phosphate-based products following lower foreign demand because of the unprecedented hike in world prices, chemical industries, dominated by phosphate processing industries, posted a drop in added value of 2.2% in real terms, compared to a moderate increase of 1.9% a year earlier. Still, the sector's share in nominal GDP went up by 0.6 percentage point, to 2.2% or 12.5% of overall added value in manufacturing industries. Similarly, investment rose by some 30% or 31 MTD over the 2007 figure to 135 MTD.

Production of phosphate-based goods fell for several products, notably phosphoric acid, sodium tripolyphosphate (TPPS) and dicalcium phosphate (DCP), along with virtual stagnation for diammonium phosphate (DAP). Inversely, production went up for triple superphosphate, ammonium nitrate and hyper-phosphate. Trends in the level of phosphoric acid and DAP in particular is due mainly to high stocks following difficulty selling on foreign markets. Tunisia is ranked second world producer/exporter of triple superphosphate, fourth producer/third exporter of DAP, and fifth producer/fourth exporter of phosphoric acid.

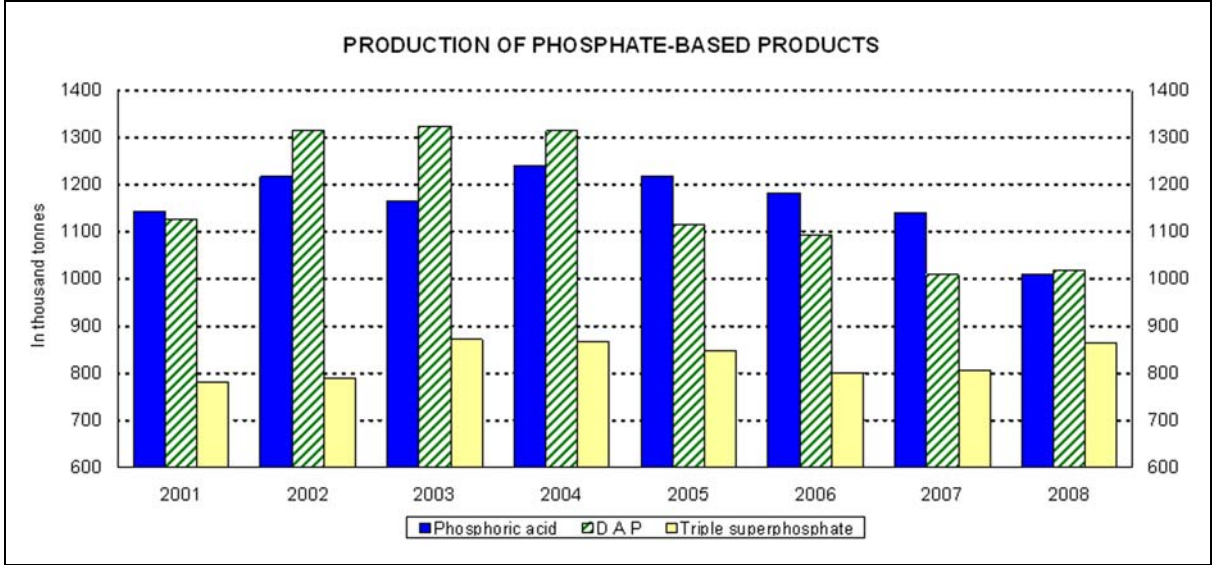
PRODUCTION OF PHOSPHATE-BASED PRODUCTS

Description	In thousand tonnes					Variation 2008/2007 in %
	2004	2005	2006	2007	2008	
Phosphoric acid	1,240	1,217	1,181	1,140	1,009	-11.5
Triple superphosphate	868	848	801	806	863	7.1
Diammonium phosphate (DAP)	1,314	1,115	1,093	1,008	1,017	0.9
Ammonium nitrate	134	149	153	79	124	57.0
Simple superphosphate	9	9	4	4	0	-100.0
Hyperphosphate (granules)	21	30	26	31	36	16.1
Compound fertilisers	32	28	15	25	23	-8.0
Bicalcium phosphate (DCP)	73	100	66	88	72	-18.2
Sodium tripolyphosphate (TPPS)	126	141	142	143	112	-21.7
Ammonium phosphate	0	17	34	0	0	-

Source : Directorate General for Mining (Ministry of Industry, Energy and Small and Medium Sized Companies)

At the level of marketing, exports of phosphate-based products fell for all products but especially phosphoric acid (-26.5%), DAP (-10.2%), triple superphosphate (-8.9%) and DCP (-15.7%). Still, exceptional hikes in world prices had a favourable impact on overall income from exports, more than doubling to some 2,947 MTD. The share of this income in overall export of goods rose by 5.9 percentage points to 12.4%. In particular, sales of DAP, the main product exported, rose from 508.6 MTD in 2007 to 1,074.3 MTD in 2008. This is also the case for income from export of phosphoric acid and triple superphosphate, which went up by some 158% and 136% respectively to 887.2 MTD and 767 MTD. The cost of importing the raw materials required by industries that process phosphates went up considerably, affected

by higher international prices. Thus purchases of unrefined sulphur and ammoniac went by from 154 MTD in 2007 to 1,150 MTD in 2008 for unrefined sulphur and from 104 MTD to 212 MTD for ammoniac. Imports of unrefined sulphur rose by 27.7% and remained stationary for ammoniac.



Trends in other branches of activity continued to grow at a sustained pace, notably pharmaceuticals and to a lesser degree para-chemical industries, but there was no growth in rubber and tire industries. In the para-chemical branch in particular, production rose by 4% for glue and linseed oil and by 1.6% for paint, varnish and ink, up from 8.7% and 1.7% respectively in 2007. Imports of chemical products other than inputs for processing phosphates posted increases of 13.4% for pharmaceutical products, 15.7% for rubber and rubber goods and 19.2% for essential oils and perfumes.

5. TEXTILE/CLOTHING AND LEATHER/FOOTWEAR INDUSTRIES

After some 40 years of experience, this sector adopted strategic reorientation starting in the early 2000s and this has helped it reposition itself and make Tunisia one of the leading world suppliers of goods in this sector. This was achieved through implementation of a development strategy based on partnership. Indeed, this sector currently projects promising prospects following full entry into force on 1st January 2008 of a free trade zone with the European Union. But while this zone presents many opportunities for partnership and thus foreign markets, there are also challenges to be taken up in terms of enhanced competitiveness and respect of international norms. In this regard, Tunisia's enviable positioning needs to evolve and stand out from competing countries, playing the trump cards of political and social stability, geographic proximity to the major markets of Europe and the Middle East, the existence of modern infrastructure and quality of highly skilled, relatively low cost human resources, seeking to attract more FDI. The textile/clothing sector is however highly dependent on the European market, so the drop in consumption there in the wake of the world economic and financial crisis had a direct impact on production and exports. In this context, growth in textiles/clothing-leather/footwear slowed in 2008 to 2% in real terms, compared to 5.7% a year earlier. Thus, this sector's contribution to economic growth was just 1.9% (0.1 percentage point) compared to 4% (0.3 point) in 2007. Trade also experienced

slower growth, both for exports (0.4% vs. 17.1% a year earlier) and imports (0.2% vs. 19.3%). The same trend held for investment (up by 12.2% vs. 24.2% in 2007), with an envelope of 230 MTD, of which some 50 MTD is FDI.

Production by textile/clothing industries posted negative growth for weaving and ready-to-wear clothing and stagnated for spinning and finishing. On the other hand, hosiery production was up, although at a slower pace than in 2007 (3.7% vs. 7.6%). This was accompanied by virtual stagnation (-0.2%) in export of textile goods at 5,180 MTD or 21.9% of overall export of goods compared to 26.7% a year earlier, while imports fell by 1.1% to some 3,482 MTD. Leather and footwear industries saw production drop by 2.6% for shoes and stagnate for parts and accessories, reaching 60.2 million pairs and 5,000 tonnes respectively. Trade in the sector continued to grow, but at a much slower pace than a year earlier, posting some 918 MTD in exports and 595 MTD in imports.

PRODUCTION OF TEXTILE, CLOTHING, LEATHER AND FOOTWEAR MAIN ITEMS

(In thousand tonnes unless otherwise indicated)

Description	2004	2005	2006	2007	2008	Variation 2008/2007 in %
Cotton yarns	25.0	25.0	25.0	25.0	25.0	0.0
Wool yarns	9.0	9.0	9.0	9.0	9.0	0.0
Fabric (million metres)	201.5	200.6	211.2	229.7	220.7	-3.9
Finishing (million metres)	75.0	74.0	74.0	74.0	74.0	0.0
Ready-to-wear clothing (million items)	206.0	195.0	172.0	178.0	168.0	-5.6
Hosiery	34.3	33.5	32.9	35.4	36.7	3.7
Carpets	3.1	3.3	3.3	3.3	3.3	0.0
Shoes (million pairs)	52.9	55.2	56.4	61.8	60.2	-2.6
Footwear accessories	6.1	5.5	5.0	5.0	5.0	0.0

Source : Ministry of Development and International Cooperation

6. MISCELLANEOUS INDUSTRIES

Growth in real added value in miscellaneous industries, which groups other manufacturing activities, dropped in 2008 to 3.7%, down from 5% the year before. Investment rose by 7.7% (vs. 4% in 2007) to 140 MTD or 10% of overall GFCF in manufacturing industries. 590 companies falling under miscellaneous industries have participated in the upgrading programme since it was launched in early 1996, 382 of which have received approval of their proposals for 618 MTD in investment and 90 MTD in State premiums.

In particular, the plastics branch, which occupies a strategic position because of its relationship to other sectors (notably automotive industries) has enjoyed sustained growth over the past few years. Still, these trends went down in 2008, with growth in production falling to 4.2%, compared to 6.8% in 2007 and 7% in 2006. Furthermore, exports of plastics and plastic goods posted slower growth of 10.4% (vs. 71.6% in 2007) to 379 MTD or 44% of overall exports by miscellaneous industries. Companies in the plastics industry, which are increasingly using modern technology that meets quality norms, are in largely small and medium size businesses in the private sector, located mainly in the Greater Tunis Area, Sfax and Sousse. For other branches of miscellaneous industries, production continued to grow for wood industries (especially construction carpentry and particle board), with respective increases of 3.9% and 4.7% vs. 4.3% and 3.8% in 2007. The same trend held for paper industries, up by 2.5% for esparto grass paper pulp and by 2.6% for paper packaging.

D. CONSTRUCTION AND CIVIL ENGINEERING

Despite sustained growth in overall investment, activity in the construction and civil engineering sector grew at a slightly slower pace in 2008. Added value went up by 4.1% in real terms vs. 4.5% a year earlier, while its contribution to economic growth remained practically unchanged (0.2 percentage point). Similarly, the sector's share in nominal GDP remained unchanged at 5.5%. Investment in the sector rose by 18.4% to 225 MTD, helping to create more jobs (8,400 jobs vs. 6,000 in 2007) along with a large number of seasonal jobs.