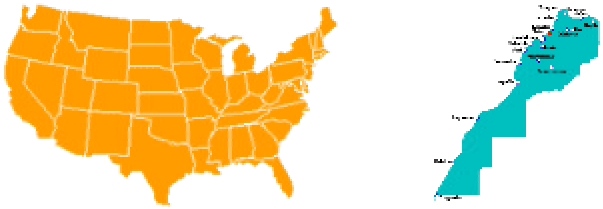
Opportunities for Enhancement of U.S.-Morocco Trade and Investment



FINAL REPORT

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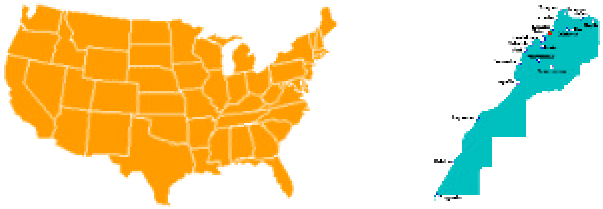

Prepared for the Directorate of Foreign Trade of the Moroccan Ministry of Commerce, Industry, Energy, and Mines

Report prepared by

Saâd Belghazi, Daniel Plunkett, and B. Lynn Salinger

The authors are, respectively, professor at Institut National de Statistique et d'Economie Appliquée (Rabat, s.belghazi@iam.net.ma) and Senior Economists at Associates for International Resources and Development (dplunkett@aird.com, lsalinger@aird.com).

Associates for International Resources and Development
185 Alewife Brook Parkway, Cambridge, MA 02138 USA
(617) 864 7770 tel (617) 864 5386 fax www.aird.com

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Opportunities for Enhancement of U.S.-Morocco Trade and Investment

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List of Acronyms

ADMT	Air dry metric tons
AIRD	Associates for International Resources and Development
AmCham	American Chamber of Commerce
AMIR	Access to Microfinance & Improved Implementation of Policy Reform Project (funded by USAID/Jordan)
AMITH	*Association marocaine des industries du textile et de l'habillement,* or Moroccan Textile and Clothing Industry Association
ATAP	Temporary admission with payment (*admission temporaire avec paiement*)
ATSP	Temporary admission without payment (*admission temporaire sans paiement*)
CMT	Cut-make-trim services in the apparel industry
DAPS	*Direction des Assurances et de la Prévoyance Sociale* (Directorate for Insurance and Social Security)
Dh	Dirhams
EFTA	European Free Trade Agreement
EU	European Union
EUAA	European Union Association Agreement
FDI	Foreign direct investment
FISA	*Fédération Interprofessionnelle du Secteur Avicole,* or Poultry Producers' Association
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GWh	Giga-watt hours
HS	Harmonized System
IFC	International Finance Corporation (part of World Bank group)
IPR	Intellectual property rights
MW	Mega-watts
NAFTA	North American Free Trade Agreement
OFPPT	*Office de la Formation Professionnelle et de la Promotion du Travail,* or National Professional Training and Work Promotion Office
ONE	*Office National d'Electricité,* or National Electricity Office
ONICL	*Office National Interprofessionnel des Céreales et des Légumineuses,* or National Cereals Office
PHRMA	Pharmaceutical Research and Manufacturers of America
QIZ	Qualifying industrial zone
RAM	Royal Air Maroc
SAP	Structural Adjustment Program
TIFA	Trade and Investment Framework Agreement
TPA	Trade Promotion Authority
TFZ	Tangier Free Zone
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

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Opportunities for Enhancement of U.S.-Morocco Trade and Investment

Prologue

The Kingdom of Morocco and the United States of America have enjoyed a long, vital, and supportive relationship. Morocco was the first foreign country to recognize the fledgling, newly independent United States of America in 1787. The Moroccan-U.S. treaty of peace and friendship, renegotiated in 1836, is still in force, constituting the longest unbroken treaty relationship in U.S. history.

In an interview given on October 31, 2001, Majesty King Mohammed VI described an unprecedented religious service which took place in the Cathedral of Rabat, the Moroccan capital, on September 16, 2001, just after the attacks in New York and Washington. The service was attended by the King and members of his Government and included representatives of all religious faiths present in Morocco: Muslim, Jewish, and Christian. When asked whether this service was meant as a sort of communal Moroccan prayer to honor the victims of the September 11 attacks, the King explained:

> I felt that an opportunity was needed for Moroccans to express their horror at these acts. […] It demonstrated once again the 'Moroccan difference,' our way of being both 100% Muslim and loyal to all its beliefs, proud of its spirituality and its convictions, and yet completely committed to the universal values of humanism and modernity which are broadly shared throughout the world.
>
> *(Excerpt from interview given to Paris Match magazine. For complete text, see http://www.mincom.gov.ma/french/generalites/samajeste/mohammedVI/discours/index.htm. Unofficial translation.)*

Today, Morocco is a modern, vibrant country of nearly 30 million people of Arab, Berber, and Jewish descents. It has pursued economic modernization since the 1980s. Long connected to Europe by political history and geographic proximity, its leaders increasingly look to the U.S. for new educational and commercial opportunities. Just as the United States and the Kingdom of Jordan solidified their relationship through the signing of a free trade agreement in 2001, so too Morocco now seeks to deepen its relationship with its American partner just across the Atlantic. Never has that relationship meant more than in 2002, as the U.S. seeks to solidify its alliances with international partners in its search for global peace and prosperity.

Opportunities for Enhancement of U.S.-Morocco Trade and Investment

Executive Summary

This report has been prepared by AIRD for the Directorate of Foreign Trade of the Moroccan Ministry of Commerce, Industry, Energy, and Mines in order to provide U.S. and Moroccan policy makers with two assessments. The first is an analysis of the impact of the European Union Association Agreement (EUAA) on patterns of trade in Morocco and the effect of this on market opportunities for U.S. companies in Morocco, both now and in light of possible tariff reductions under a U.S.-Morocco Free Trade Agreement. The second assessment is a partial survey of trade and investment opportunities available to U.S. firms in Morocco. This report complements an earlier assessment of opportunities prepared in 2000 for the U.S.-Morocco Trade and Investment Framework Agreement (Abbott, Abdelkhalek, and Salinger, 2000).

Evaluation of the advantages and disadvantages of a U.S.-Morocco free trade agreement is complex. For the U.S., political interests supercede economic advantages. On the one hand, there has been a dramatic fall-off in the level of U.S. exports to Morocco in recent years. A few concrete examples of trade diversion in favor of European Union suppliers due to the preferential effects of the EUAA have been identified. However, competition from lower cost suppliers outside the EU and reduced competitiveness of U.S. goods due to the relative strength of the U.S. dollar during the 1999-2001 period were also contributing factors. More significant than equalization of tariff advantages vis-à-vis the EU in Morocco, a free trade agreement would signify to U.S. companies that Morocco is "open for business," i.e. ready to receive U.S. investment, under favorable conditions, in a variety of sectors, including agribusiness, export oriented manufacturing, and service industries such as tourism, financial services, and electricity.

Morocco faces potentially high risks under an FTA in which tariffs on key agricultural products – especially cereals and meats – go to zero. Such a dismantling of protection threatens employment in Morocco's agricultural sector, raising the specter of intense sociopolitical destabilization. This is obviously not in the best interest of the U.S. either, for it highly values Morocco as a moderate and stable North African partner. Strategies must be developed to help counter these threats on the basis of detailed analysis of who stands to win or lose in the rural economy from free trade. Solutions may be grounded in a switch from a system of agricultural price support through border protection to a system of agricultural income support as already observed in Mexico.

Beyond this, Morocco would like to broaden and diversify its trade options beyond its traditional links to Europe and acquire technology and commercial know-how from the U.S. Morocco is also hopeful that an FTA with the U.S. will provide less restrictive access to a large market for its horticultural, fisheries, and manufactured products, access which (for the first two) is less affected by the level of tariffs per se than it is by Morocco's mastery of U.S. safety requirements. In the longer run, it is the alluring potential of this free trade agreement to effect real structural change in the economy that is the real draw. This potential structural change involves shifting employment from agriculture into the industry and service sectors, especially into increasingly sophisticated opportunities both technically and managerially, so that a real middle class begins to thrive in Morocco.

From the analysis and rapid appraisal surveys conducted for this report, three main conclusions emerge. First, while the EUAA may introduce some bias in favor of EU suppliers (bias which will accentuate over

time), Morocco's imports are increasingly sourced *not* from the EU nor from the U.S. but from the rest of the world. Such a shift is indicative of the extent to which Morocco is integrating into global manufacturing supply chains and diversifying its suppliers beyond its traditional ties to the EU. Second, a free trade agreement offers the greatest advantages for U.S. companies in terms of investment, rather than trade, opportunities. Stricter rules of origin under a U.S. FTA would promote even greater investment opportunities into upstream and downstream manufacture and services, as seen in both the Mexico and Jordan FTA experiences, which are also to Morocco's advantage in terms of economic development. Third, the greatest constraints mentioned by foreign companies already doing business in Morocco have less to do with tariffs or customs than with broader institutional issues, such as the needs for land titling and a modern industrial property real estate market, intellectual property rights protection, and attention to workforce development.

Morocco represents a good place for U.S. firms to do business. It has undergone significant trade policy and business climate reform over the last twenty years. Tariffs are down, the customs administration has been modernized, and much of Morocco's institutional and physical infrastructure has been or is in the process of being upgraded.

A broad list of recommendations that go well beyond the narrow considerations of a traditional free trade agreement is offered at the end of the report. Tariffs and rules of origin are certainly important, and will have an effect on the outcomes of an FTA between the U.S. and Morocco. However, unless some of these broader institutional, informational, business conditions, and workforce issues are taken into account, the overall success of the FTA negotiations and implementation may be in jeopardy.

Opportunities for Enhancement of U.S.-Morocco Trade and Investment

Introduction

Objectives of the Study

This study examines the effects of the European Union-Morocco Association Agreement on the competitiveness of U.S. exports to Morocco. Its origin derives from the fact that in 1995 the European Union (EU) committed itself to a "Europe-Mediterranean Partnership" by building a Free Trade Area to comprise all of the countries in the region by 2010. The twelve Mediterranean partners are Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Territories, Syria, Tunisia, and Turkey.

Morocco's Association Agreement with the EU (henceforth, the EUAA), covering economic and financial, peace and stability, and social and cultural areas of cooperation, entered into force in 2000. The EUAA provides for a phased elimination of tariffs for non-agricultural exports from the EU and Morocco. Tariffs are being eliminated on industrial goods traded between Morocco and the EU on a three- to twelve-year time frame, depending on the product. Tariffs for EU industrial equipment have already been eliminated. Duties on primary goods, spare parts, and industrial goods not produced domestically will fall by 25 percent each year until 2004. The phasing of tariff reductions for goods produced in Morocco extends until 2011. Trade with the EU in sensitive agricultural goods is still largely regulated by tariff-rate quotas, re-negotiation of which just opened in 2002.

The U.S. Trade and Development Agency's grant to the Moroccan Ministry of Commerce, Industry, Energy, and Mines sets out the terms of reference for this study. Associates for International Resources and Development (AIRD) has been asked to examine several aspects of the increasing differential treatment between U.S. and European firms in Morocco that are resulting from the EU-Morocco Association Agreement:

- First, the study will explore the question of trade diversion, to identify sectors and products where U.S. companies already export to Morocco, but where they are likely to suffer reduced competitiveness vis-à-vis their European competitors as tariffs for EU products fall.
- Second, the study should identify potential sectors and products where the United States currently does not export to Morocco because of high tariff barriers, but where the U.S. could be competitive if they received the same tariff reductions as the EU.
- In addition, the study should examine the effectiveness of generalized tariff reductions proposed by the government of Morocco in managing the trade-distorting aspects of differential tariffs.[1]
- Finally, the technical assistance should examine the likely impact on U.S. exports to Morocco of an eventual U.S.-Morocco free trade agreement modeled on the U.S.-Jordan Free Trade Agreement.

This report presents the AIRD team's findings, based on interviews with over fifty U.S. and Moroccan public and private sector representatives in Morocco June 3-6, 2002 and July 11-23, 2002 and in the United States between May and August, 2002. A list of interviews held is annexed to this report.

[1] A generalized tariff reduction was to have been proposed as part of Morocco's 2003 budget act. However, no reform proposal was included in the act as presented in August 2002.

Economic and Commercial Overview of Morocco

Morocco is a lower middle income country with a per capita income of nearly $1200, located in North(west) Africa just across the Straits of Gibraltar from Spain. Its economy is composed of agriculture (accounting for 15 percent of its gross domestic product (GDP), or more, depending on rainfall), mining, energy, manufacturing, and construction (30 percent), services (40 percent; two-thirds of services receipts are from tourism), and public administration (15 percent).

Its traditional agricultural economy is based on rainfed agriculture, especially the production of wheat (both durum and bread wheats), barley, pulses, olives, and livestock (especially small ruminants). In order to introduce greater production security and diversity, the development of large-scale irrigation was pursued in the 1960s and 1970s, allowing the production of wheat, corn, feed crops, sugar beet and cane, citrus, and horticultural crops. Morocco is an important supplier of off-season fruits and vegetables (especially citrus, fresh tomatoes, and potatoes) to the European Union. According to the last agricultural census in 1996, 14 percent of total agricultural land was irrigated. Beef, dairy, and poultry are also produced, largely under traditional or semi-industrial systems, and sunflower, peanuts, and cotton are also grown. With over 1,700 miles of Atlantic coastline, its fisheries are an important source of food and exports. The country also extends for 300 miles along the Mediterranean.

Although certain agricultural subsectors have enjoyed strong private investment, such as in the greenhouse production of high quality fruits and vegetables for export, much of the country's agricultural production has stagnated, due to a combination of erratic rainfall, high fragmentation of land ownership, heavy protection from imports, and low incentives to invest in modernization. Extensive opportunities exist to supply modern technologies and know-how in all areas of agribusiness.

Morocco is the world's largest producer of phosphates, and also produces and exports other non-metal and metal resources (e.g. barium sulfate, lead, copper, and manganese). A relatively new refinery produces surplus amounts of refined petroleum products, of which between 88,000 and nearly 300,000 tons have been exported to world markets in recent years. Over 13 thousand GWh of electricity were sold in 2001. Most is produced domestically under thermal (82 percent), hydro (6 percent), and wind (under 2 percent) power conditions. As part of a grid that is managed by the National Electricity Office (ONE), 10 percent of Morocco's electricity needs are also imported from Spain. Electricity sector reforms already introduced allow for private generation and distribution. ONE estimates that 400 MWh of new capacity will be added annually to the grid. The industrial economy in Morocco consists of agro-industry (37 percent), chemicals (32 percent), textiles and leather (16 percent), mechanical and metalworking (12 percent), and electrical and electronic (3 percent). Among manufacturers present in Morocco are textile firms manufacturing for such well-known retail and brand companies as Wal-Mart, Marks & Spencer's, Fruit of the Loom, Sara Lee, the Gap, and Ralph Lauren; automobile cabling companies including Yazaki, Automotive Wiring (Volkswagen), and Delphi Automotive; and electronics firms such as ST Microelectronics and Thalès Microsonics.

In light of Morocco's greatest asset – its inexpensive but capable workforce – the country has had a strong pro-trade attitude for many years in order to encourage export-oriented manufacturing. Morocco's customs regulations allow for duty-free import under temporary admission of all inputs required for companies that re-export 100 percent of their final production. One-third of all Morocco's 2000 merchandise exports were produced under the temporary admission scheme. The fiscal code is also relaxed for exporters, who pay no profit tax for the first five years of operation. The Customs Administration receives high marks from international companies based in Morocco for the modernization of its procedures and computerization of its systems that has taken place in recent years. The Tangier Free Zone, approved in 1997 and launched in 2001, provides additional advantages in terms of access to land and international markets under preferential terms.

Morocco's workforce has been characterized by many informants for this report as extremely well-trained and capable. There is ample supply of literate and numerate high school and college graduates seeking full-time employment. However, companies observe that the number of highly trained engineers and managers is still small. English language capability is limited, but growing. An English-language university in Morocco, Al-Akhawayn University, is associated with several universities in the U.S. It graduates students at the Bachelor's and Master's level with majors in business, technical, and humanities fields.[2] Moroccan mathematics and engineering graduates are in demand internationally as well as at home, resulting in a notable brain drain abroad for those who seek to emigrate. Some large employers are now experimenting with public-private collaborations, either with academic institutions or with Morocco's National Professional Training and Work Promotion Office (*Office de la Formation Professionnelle et de la Promotion du Travail*, or OFPPT), to develop creative work-study programs that will yield workforce-ready graduates in technical and management fields.

Tourism and repatriated earnings from Moroccans residing abroad (especially in Europe) are two important sources of revenue that help to balance Morocco's merchandise trade deficit. With tourism receipts rising by over 10 percent per year, almost 6 million visitors came to Morocco in 2000 to bask in its sunshine, swim at its beaches, and enjoy its unique cultural splendors; the country seeks to raise that figure to 10 million by 2010. Within Morocco's overall balance of payments, the negative balance on current account was offset in 2000 by a strong surplus on capital account due to a highly successful sale of part of its telecommunications company to an international consortium led by the French media company, Vivendi. A portion of those revenues has been set aside in the Hassan II Fund to be used for national development purposes, such as the development of industrial parks and the Tangier Free Zone.

In terms of trade-relevant infrastructure, Morocco offers modern facilities:

- The country ships 53.5 million tons per year out of eight principal seaports (27 seaports total). In 2000, the most active ports were Casablanca (9.5 million tons exported), Jorf Lasfar in El Jadida (3.2 million tons exported), and Safi (3.1 million tons exported). Tangier, with ride on/ride off ferry services traversing 9 miles across the Gibraltar Straits, contributed to total exports of 1.4 million tons. A new deepwater, duty-free seaport, à la Dubai, is planned for construction by 2007 on the Mediterranean coast between Tangier and Tetouan, to compete with Algeciras in Spain. Direct shipping between Morocco and the U.S. is not available at present, but most companies exporting from Morocco report no problem transiting via Spain, either through Algeciras or Cadúz, to Newark, New Jersey or Newport, Virginia (shipping time of two to three weeks).

- Airports exist throughout the country, although Casablanca's Mohammed V Airport is by far the largest. Located just six hours flying time from New York's Kennedy airport, and linked by direct flight via *Royal Air Maroc (RAM)*, which shares its flight listing with SkyTeam partner Delta Airlines, Mohammed V Airport handles half of the country's 7 million passengers and 84 percent of the 51,645 tons of air freight shipped in or out of Morocco. Some companies find it more efficient to send air freight to the States via Europe. U.S. express companies DHL, Federal Express, and UPS are all present in Morocco.

- Divided highways link Rabat-Casablanca, Casablanca-Settat, Rabat-Fes (via Meknes), and Rabat-Tangier (all but the last 50 miles into Tangier), and construction is underway to extend the Casablanca-Settat link to Marrakech. European and Moroccan trucking firms ride Morocco's roads and offer ample freight capacity.

[2] Overall, Morocco has twenty-seven institutions of higher education, including thirteen universities, which serve about 250,000 enrolled students.

- In 2000, the number of mobile phone subscriptions overtook fixed line subscriptions (nearly 3 million and 1.4 million, respectively). Morocco's telecommunications sector has undergone substantial liberalization since 1997, allowing private participation in the national company, Maroc Telecom (35 percent of which is now owned by Vivendi), and in licenses for mobile telecommunications (including participation by European, American, Gulf, and Maghrebi firms and consortia).[3]

Moroccan and U.S. Interests in Free Trade

In outlining the opportunities for enhanced trade and investment between the U.S. and Morocco, it is important to underline the respective political and economic interests of each party in the negotiations. This helps to identify what each side seeks to gain and what each may be willing to cede as part of the negotiating process for a free trade agreement.

At a political level, Morocco values its role in the world as a moderate, tolerant Arab country with historical, cultural ties to Israel and the international Jewish community. It seeks to maintain or even deepen its friendship with the U.S. The U.S., in turn, values Morocco's constitutional monarchy, supports its roles in the Arab community and in the Middle East, and benefits from holding on to Morocco as a solid ally and co-combatant in the fight against terrorism.[4]

The U.S. has economic interests in Morocco as well. U.S. companies exported nearly $600 million to Morocco in 1999 in cereals, oilseeds and edible oils, aircraft and parts, iron and steel products, machinery, and electronic components. However, export value to Morocco fell in 2001 to $286 million due in large part to a sharp fall-off in aircraft/parts sales (from $140 million in 1998, 1999, and 2000 to $17 million in 2001) and a decline in cereals sales (from a high of $126.6 million in 2000 to only $59.8 million in 2001). More detailed product breakdowns are shown in Table 14.

There is strong concern that the United States is losing market share in Morocco because of the EUAA's favorable tariff treatment of European exports into Morocco. The U.S. would like to gain an equal foothold relative to the EU in the Moroccan market for U.S. agricultural and non-agricultural exports. There are opportunities for U.S. investments in Morocco as an off-shore manufacturing platform for export to Europe, back to the U.S., and/or possibly elsewhere into North/West Africa. The U.S. also sees increasing investment and export opportunities in key service industries such as finance, energy generation, construction, tourism, education, and retail.

Morocco's economic interests are more complex. The Kingdom seeks to expand markets for its goods and thereby diversify beyond its traditional trade links to Europe. It has pursued multi- or bilateral free or preferential trade arrangements not only with the EU, but also with other partners in Europe and around the Mediterranean. Although Moroccans recognize that the EUAA will bring important benefits, namely increased access to European technology and commercial know-how, they also seek to balance EU influence in Morocco with that of other global commercial leaders such as the U.S. In addition to technology and commercial know-how, Morocco has a keen interest in negotiating access to the U.S. market for its agricultural exports because of their restricted access into the European market. Moroccans are anxious for advice on how best to meet U.S. customs and sanitary regulations for their horticulture exports.

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[3] International Trade Administration, U.S. Department of Commerce, "Overview of the Telecommunications Sector of Morocco," retrievable from "Market Research" at http://web.ita.doc.gov/ot/.

[4] The dispute that broke out on July 12, 2002 between Morocco and Spain over an islet just off the coast of Morocco, claimed by both countries, sent ripples of concern through the foreign investor community in Morocco. The United States helped to mediate a diplomatic solution to the crisis.

However, in agreeing to negotiate a comprehensive FTA with the U.S., Morocco is confronted with the challenge of defining a future strategy for its sensitive agricultural sector. Since the beginning of agricultural sector reform programs in the 1980s, Morocco's policy makers have sought to protect rural producers from depressed and variable world agricultural prices. With 40-50 percent of the Moroccan workforce employed today in the agricultural sector, policy makers are understandably nervous about the social instability that could ensue from lower protection to farmers. Despite heavy trade protection, rural-urban migration continues to strain infrastructure and social service delivery in major urban areas. Political unrest in neighboring Algeria paints all too clear a picture of the social and political consequences of mounting numbers of unemployed youth.

As mentioned above, Morocco's agricultural potential is high. Production of drought-resistant crops in rainfed areas, livestock, and high-value flori- and horticulture under rainfed, irrigation, and/or greenhouse conditions offer many investment opportunities. However, the agricultural workforce is aging, access to land is thwarted by a persistently heavy rural population load, private suppliers of new technologies and know-how are few, and large-scale irrigation infrastructure is beginning to suffer from slack investments and sinking water reserves due to the cumulative effect of several years of drought. By drawing workers off the land and into employment in the industrial and service sectors, more propitious conditions for increased investment in agriculture would ensue.

Morocco's policy makers understand the structural transformation that liberalization of its agriculture sector to U.S. imports will bring about. In exchange for zero tariffs and higher penetration by U.S. agricultural supplies, Morocco seeks investment flows from the U.S. and elsewhere that will compensate for decreased opportunities in agriculture by offering increased employment outside of agriculture. Morocco's public and private sector representatives welcome foreign investment into the country. Sectors that are frequently mentioned as prime candidates span the economy, including agribusiness (including upstream opportunities supply plant and breed stock, advanced irrigation equipment and technologies, and downstream in modern livestock in beef, dairy, and poultry production, horticulture, fisheries), energy generation, manufacturing (especially in labor-intensive products such as textiles/apparel, automobile components, machinery, and electronics), and services (e.g., information technology, industrial and urban infrastructure, education, and tourism).

Understanding Free Trade Agreements

Why Free Trade Agreements?

Free trade agreements are negotiated treaties that eliminate import duties, either immediately or progressively over time, on flows of trade between or among FTA signatories. Rules of origin are also specified in FTAs in order to assure that the preferential tariff scheme applies to goods with a minimum local content requirement. This can vary from product to product, and cumulative origin may be allowed.[5]

FTAs into which the United States has entered are comprehensive and "deep." They include tariff reduction/elimination and rules of origin definitions for *all* products, i.e. no product or group of products is excluded from consideration under the agreement. This is distinct from the EUAA, wherein trade in sensitive agricultural products is either excluded from consideration or remains subject to calendar-based quotas. U.S. FTAs also typically cover trade in services as well as merchandise, and include clauses on intellectual property rights, the environment, labor, electronic commerce, and government procurement.

Free trade allows each partner country to specialize in its respective areas of comparative advantage. In particular, the experiences of both Jordan and Mexico vis-à-vis the U.S. suggest that free trade arrangements between an industrial country and a developing country tend to maximize areas of respective comparative advantage between the partners. Typically, they have lead to increases in U.S. exports of agricultural commodities such as grains, oilseeds, and meat, the production of which have been highly capitalized in the U.S., as well as of technical inputs into off-shore manufacturing such as electronic integrated circuits, cables, and equipment and parts for machinery assembly, the production of which are capital- and design-intensive. In return, the developing country partner sells increasingly sophisticated, labor-intensive manufactures and high-value food products.

Over time, as the developing country's workforce becomes higher skilled, the country attracts investors into the manufacture of increasingly sophisticated products. Wages rise, and developing countries may find that they can no longer sustain manufactures of basic products, such as garments or footwear. During company interviews conducted for this report, several plant managers observed, "Morocco reminds me of Ireland twenty-five years ago or Portugal ten years ago. Then, they were grateful to find business for their textile firms. Today, you couldn't pay an Irish or Portuguese laborer to sit in front of a sewing machine anymore, they've moved on to better paying jobs. Those jobs are now in Morocco."

The same patterns are observed around the world, as increased connections to global markets raise worker productivity and wages and lead to shifts in production and employment patterns. Filipino workers who once stitched footwear apply their increased manufacturing skills to the assembly of disk arrays for computers, and footwear and clothing companies move on to Vietnam. Textile companies in Mauritius find they can no longer assemble garments as cheaply as they can in nearby Madagascar, and Mauritian workers shift employment into the more capital-intensive knitwear textile sector. In Mexico, employed growth in the maquiladora sector practically tripled in ten years, growing from 446,000 jobs in 1990 to 1,285,000 in 2000. Yet now the sector is suffering, in part because of the economic slowdown in the U.S. and in part because it has become a victim of its own success, leading to a loss in employment of 278,000

[5] By "cumulative origin" one understands that value-added from more than one country of origin may be considered in order to meet the full rule of origin specification. For example, in the case of the Africa Growth and Opportunity Act, yarns and fabrics sourced from either the U.S. or qualifying sub-Saharan African countries counts toward those countries' apparel exports rules of origin. In the case of the U.S.-Jordan FTA, 15% of local value-added may be supplied by Israeli products in order to meet the 25% Jordanian origin requirement.

jobs since October 2000.[6] With increasing productivity, wages are on the rise along Mexico's northern border, where most maquiladoras have traditionally been located. Yet infrastructure investments have not kept pace with growth. Companies seeking to expand production capacity in Mexico now look away from the U.S. border, as did the U.S. apparel company Jordache when it recently built a new, state-of-the-art garment facility in the Yucatan peninsula. Such are the patterns of globalization which a free trade agreement helps to confirm when negotiated between two partners with complementary patterns of comparative advantage.

Background to the U.S.-Morocco Free Trade Agreement

Official discussions between the governments of Morocco and the United States on trade and investment relations have been deepening since the establishment in 1995 of a bilateral Trade and Investment Framework Agreement (TIFA). The TIFA has met annually to discuss economic issues of common concern. Gradually, the idea of a free trade agreement (FTA) between the two countries began to take shape. The potential impact of a bilateral free trade agreement was explored for key Moroccan and U.S. export sectors in a 2000 report prepared for the TIFA.[7] On April 23, 2002, King Mohammed VI and President George W. Bush announced their intention to pursue a free trade agreement between their two countries.[8] The U.S. proposes to negotiate an agreement modeled closely on the U.S.-Jordan FTA in as short a time-frame as possible, preferably in six to twelve months.

Formal negotiations on the U.S.-Morocco FTA will begin now that Trade Promotion Authority (TPA), enabling the U.S. executive branch to negotiate trade agreements without the prospect of direct intervention by the legislative branch, has been approved by the U.S. Congress. Previously known in the U.S. as "Fast Track," TPA was required to assure negotiation partners that the agreement they negotiate with the U.S. will not be further modified by Congress.[9] When the White House formally notifies Congress of its intention to negotiate a free trade agreement with Morocco, a 90-day commentary period is opened before formal negotiations for the U.S.-Morocco FTA can begin. Thus, the earliest FTA negotiations would open is now the end of 2002.

The United States has already established several preferential trade agreements in the Middle East region. The country's first free trade agreement was signed in 1985 with Israel. This was expanded in 1986 to include preferential treatment of goods exported from in the West Bank and Gaza Strip and from "qualifying industrial zones" (QIZ) in Jordan and Egypt.[10] In 2001, the U.S. and the Kingdom of Jordan concluded a Free Trade Agreement. To date, the FTAs with Israel and Jordan represent the only U.S. FTAs outside of the North American Free Trade Agreement (NAFTA) with Mexico and Canada.

The U.S. is also interested in the promotion of regional trade integration in North Africa. In 1998 then-Under Secretary of State Stuart Eizenstat proposed a broader U.S.-Maghreb Economic Partnership. The initiative embraced the themes of 1) enhanced agreement and dialogue with the Maghreb countries; 2)

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[6] See Ian Campbell, "Inside Mexico: Make up in a mess," UPI Chief Economics Correspondent, June 3, 2002, www.upi.com

[7] Abbott, Abdelkhalek, and Salinger, *Future Outlook for Morocco-U.S. Trade and Investment Relations*, prepared for the U.S.-Morocco Trade and Investment Framework Agreement (Cambridge, MA: Associates for International Resources and Development, August 2000).

[8] http://www.whitehouse.gov/news/releases/2002/04/20020423-7.html

[9] President Bush signed the Trade Act of 2002 on August 6, 2002.

[10] Ruebner notes that "Egypt has yet to express interest in participating in the QIZ program, probably because it entails a level of Arab-Israeli economic cooperation that Egypt would prefer to engage in only after the conclusion of a comprehensive regional peace." (2001, p. 3)

regional partnership to encourage increased economic cooperation within the region; 3) the vital role of the private sector as the only engine of sustained, long-term growth; and 4) the importance of structural reforms in laying the groundwork for a flourishing private sector. The United States continues to support North African regional integration since the 2001 change in U.S. government leadership, although efforts are hampered by lack of resolution on the key diplomatic issue in the region, namely the resolution of the future of the Western Sahara.

Morocco's Trade Negotiation Capacity

Moroccan government officials are proud of their long record of trade agreement negotiation experience. In addition to relations with the European Union, Morocco was a key player in the GATT Uruguay Round and the WTO's Agreement on Agriculture, and has already negotiated regional and bilateral agreements with the European Free Trade Agreement (EFTA) countries, Jordan, Egypt, and Tunisia. In the 2001 Agadir Declaration Morocco reiterated support for a proposed Arab-Mediterranean Free Trade Zone. As one senior Moroccan official noted in interviews for this report, "a free trade agreement with the United States is something we *choose* to pursue, not out of naiveté, but because through our many experiences with other agreements, we already know what the advantages and disadvantages might be and are prepared to negotiate accordingly."

Particularly in the area of agricultural sector analysis, the United States has contributed for over twenty years to the development of skilled human capacity to analyze international agricultural trade and negotiate international agricultural trade agreements. Since the 1970s, U.S. universities, government agencies, and consulting firms have helped to train Moroccan agricultural experts and policy makers.[11] This was U.S. Government-financed trade capacity building at its best. In the mid-1980s, U.S. training and technical assistance allowed the Moroccans to negotiate agricultural sector adjustment with the World Bank. Slowly, Morocco began to open its agricultural economy to world markets through the WTO Agreement on Agriculture. When the Uruguay Round of international trade negotiations was launched in 1986, Morocco became a leading player in the developing countries bloc on agricultural trade reform. Of the Moroccans who received advanced degrees in the U.S. or training and assistance through USAID efforts, many now occupy responsible analyst and negotiator positions, either within the Ministry of Agriculture or in affiliated organizations.

What were the main issues of the day? Estimates of rates of protection and efficiency coefficients for a panoply of agricultural products, produced under a variety of technical and climatic conditions revealed that Morocco's system of agricultural prices and incentives introduced biases into its rural economy. Crops were protected at domestic price levels substantially above so-called "international reference prices." At low levels of productivity in many agro-ecological zones, Morocco's farmers used domestic resources inefficiently compared with international producers. Subsidies promoted higher-cost irrigation over lower cost rainfed agriculture (in which most of the poor were engaged). Higher cost irrigation was used to produce lower value crops like cereals, sugar, and feeds, rather than higher value crops like fruits and vegetables. However, Moroccans understood that they were being asked to adjust their agriculture to conform with an international agriculture system that was itself distorted, due to the complex system of

[11] Beginning in the 1970s, a twenty-year cooperative agreement between the University of Minnesota and the *Institut Agronomique et Vétérinaire Hassan II* trained nearly 400 Moroccan doctoral and master's degree level students in agricultural social and physical sciences; the inter-institutional collaboration continues to this day. In the 1980s, USAID technical assistance provided by AIRD helped the Ministry of Agriculture prepare studies of Morocco's "agricultural prices and incentives" system, while a USAID project implemented by the U.S. Department of Agriculture in the Ministry of Agriculture improved surveys, statistics, and economic analyses and provided long-term graduate training in the U.S. for 33 professional staff (Raissouni 1994; Sherman 1994; Tyner 1994). In the 1990s, USAID projects run by Development Alternatives Inc. analyzed the effects of cereals market reform on off-farm aspects of Morocco's cereals economy and opportunities for agribusiness development.

agricultural support and trade policy engaged by the world's largest agricultural producers that depresses world prices to levels below what they would be in the absence of such behavior. Without meaningful employment growth outside of agriculture, the Moroccan government feared that abandonment of support to agriculture would lead to a massive rural-urban exodus, economic disequilibrium, and political disaster.

As is usually the case in the best of these patient, long-term endeavors, the most critical and long-lasting result of U.S. technical assistance and training has been the remarkable accumulation of top-quality human capacity that has been built over the years. The results can be measured in terms of education acquired, views broadened of how the world works, methodological tool chests deepened, and talent finely honed to lead Morocco's policy vision into the 21st century. Among the Moroccan participants and trainees under these programs were numerous junior or mid-level officials who have since distinguished themselves as leaders of Morocco's international agricultural trade negotiations and who are in key positions in the administration today.[12] In 2002, many of Morocco's key agriculture and trade policy makers were involved in the original agriculture prices and incentives studies of the 1980s. It is this capacity which Morocco brings to the table, as it opens free trade negotiations with the U.S.

Early Effects of U.S.-Jordan Free Trade Agreement

There is intense interest in Morocco in the U.S.-Jordan agreement. It is therefore important to assess what kind of economic effects one can discern from the past five years of preferential trade relationships under the QIZ arrangement, which preceded the FTA by fifteen years. Investment flows into Jordan were therefore already encouraged from the U.S., as well as from other countries, before the FTA actually took effect. With a more industrial country like Israel just next door, whose products can contribute to a cumulative calculation for the purposes of assessing Jordan's value-added contribution, Jordan clearly has enjoyed a unique boost of its export potential. Two other important distinctions compared with Morocco are the significantly smaller size of Jordan's population (5 million, versus Morocco's 30 million) and the fact that Jordan's agricultural sector is far less developed than Morocco's (agriculture contributed 5.7 percent of Jordan's GDP in 1998 versus 11.3 percent of Moroccan GDP in 2000).

The U.S.-Jordan FTA phases in tariff liberalization over ten years. Tariffs under 5 percent are to be eliminated by 2003, tariffs between 5 and 10 percent will be eliminated by 2005, tariffs between 10 and 20 percent will be gone by 2006, and all remaining tariffs will be scrapped by 2011. Non-reciprocal concessions are made to Jordan in the case of tobacco, alcohol, and automobile tariffs.[13] Rules of origin stipulate that 35 percent of the value-added of the exported product must be contributed by Jordan, although up to 15 percent may be of American origin.[14]

Working with trade data through 1999, two studies anticipated the economic effects of the U.S.-Jordan FTA (USITC 2000; Lord and Uraidi-Hammudeh 2001). USITC concluded that an FTA would not be expected to have a measurable impact on U.S. imports from Jordan for 15 of the 16 sectors they

[12] A USAID-funded cooperative agreement with the University of Minnesota (1970-1998) yielded over 130 doctoral and 200 Master's degrees in agricultural disciplines. The USAID Planning, Economics & Statistics for Agriculture Project (1983-1994) trained 7 Ministry of Agriculture professionals at the Ph.D. level and 26 at the Master's level, as well as provided 82 person-months of short-term training in the U.S. and local short-term training via seminars and workshops to 90 staffers.

[13] This was done in part because of the cultural sensitivity of the first two products, and in part because of the significance of duties on automobile imports as a percentage of total trade tariff revenue. See Chomo (2002).

[14] Under the Qualifying Industrial Zones amendment to the U.S.-Israel FTA, 35% of the content must come from the QIZ, Israel, and/or the West Bank and Gaza. Of that, 11.7% must be from the Jordanian QIZ, 8% from Israel (7% for high technology content goods), and the remaining 15.3% may be fulfilled from the QIZ, Israel, or the West Bank/Gaza. Source: Jim Barnhart, USAID/Jordan, personal communication.

examined, but that for the remaining sector – textiles and apparel – a likely rise in imports would nevertheless only have a negligible effect on total U.S. imports, production, and employment. USITC also noted that the U.S.-Jordan FTA was not expected to have a measurable impact on U.S. exports for the sectors selected for review. Lord and Uraidi-Hammudeh found that the FTA would open many opportunities of Jordan to expand exports to the U.S. market, particularly for "emerging export products" such as Dead Sea cosmetics, orthopedic appliances, rugs, and machinery, as well as for more standardized products such as apparel and clothing, aluminum, animal feed, and insecticides. Their revealed comparative advantage analyses suggested that U.S. exports to Jordan would grow substantially as a result of the FTA because of the high level of inefficiency of many of Jordan's industries. Third, because Jordan's services sectors are considerable more protected than those in the U.S., it was expected that the FTA would open new opportunities for U.S. service sectors in Jordan.

With the benefit of two additional years of trade data now available from the U.S. Department of Commerce, one sees in fact that the level of U.S. exports to Jordan has remained unchanged, still at just under $350 million per year, whereas the level of imports from Jordan has climbed dramatically, from just $25 million in 1996 to $229 million in 2001 (Table 1). Nevertheless, this still represents just 0.02 percent of all U.S. imports, worldwide.

Table 1: U.S.-Jordan Trade Flows

(thousands U.S. $)		1995	1996	1997	1998	1999	2000	2001
U.S. Exports								
HS code	**Total**	**331,993**	**341,680**	**397,655**	**352,893**	**275,577**	**316,696**	**343,266**
10	Cereals	135,468	122,366	118,695	57,522	52,082	70,946	94,732
84	Machinery	29,183	31,322	39,186	30,995	37,415	44,482	39,098
88	Aircraft parts	21,262	27,402	48,400	59,858	27,741	19,616	27,332
85	Electrical machinery, parts	17,249	17,049	18,921	21,759	13,726	23,551	24,341
24	Tobacco	1,761	4,737	6,775	13,710	11,208	17,218	18,365
90	Optical equipment	7,789	7,224	12,815	17,299	14,703	15,803	17,465
98	Spec. classification provisions	14,379	17,795	31,481	17,602	15,210	9,863	13,357
15	Edible oils	9,242	19,327	8,784	17,535	22,811	8,071	10,685
47	Wood pulp	5,532	10,637	4,399	8,645	7,302	14,706	8,208
87	Vehicles	18,057	18,384	38,068	15,302	9,863	8,476	7,952
	All other	36,635	32,383	30,730	92,666	63,515	83,964	81,730
U.S. Imports								
HS code	**Total**	**28,693**	**25,105**	**25,634**	**16,403**	**30,856**	**73,259**	**228,971**
61	Apparel, knitted or crocheted	5,727	4,590	893	945	392	16,636	118,999
62	Apparel, not knitted or crocheted	9,155	5,883	2,025	2,424	1,779	26,078	64,723
71	Jewelry	2,796	2,717	2,342	2,657	4,492	9,388	8,942
98	Spec. classification provisions	4,954	6,362	13,636	3,211	18,539	4,034	6,645
84	Machinery	502	393	1,264	866	228	488	3,080
97	Antiques	11	10	186	225	814	1,787	1,237
99	Spec. import reporting provisions	113	113	189	129	404	319	540
57	Carpets	294	775	667	902	738	490	494
76	Aluminum	380	1,042	1,005	559	385	747	171
37	Photographic goods	0	0	0	0	341	0	0
	All other	4,761	3,220	3,427	4,484	2,743	13,293	24,139

Source: U.S. Department of Commerce

Although overall U.S. exports remain flat, this masks several structural shifts within the U.S. export basket, away from agricultural commodities and toward more sophisticated components and machinery. Whereas U.S. exports of vehicles (-57%), edible oils (-45%), and cereals[15] and wood pulp (-23% each)

[15] Anecdotal evidence from the U.S. Department of Agriculture suggests that U.S. cereals exports to Jordan are extremely dependent on climatic conditions in Jordan. There is also evidence that elimination of Jordan's 5% duty on coarse grains imports has contributed to increased corn shipments to Jordan in 2002, although financial instability in Argentina is clearly another factor influencing Jordan's sourcing decisions.

have declined, U.S. exports of machinery (+25%), electrical machinery (+43%), and optical equipment (+142%), and tobacco (+288%) have increased.

On the import side, the value of aluminum (-84%) and carpets (-36%) imports from Jordan have declined, whereas imports of jewelry (+229%), machinery (+684%), woven apparel (+1000%), knit or crocheted apparel (+2493%), and antiques (+12274%) have increased. These impressive percentage increases are estimated from extremely small base values. For example, total imports of clothing from Jordan (both knitted and woven, combined) still only represent 0.3 percent of all U.S. apparel imports. Compared with an overall import penetration level of 0.02 percent into the U.S. market, Jordan would appear to have a revealed comparative advantage in several product groups, measured as those whose import penetration into the U.S. market exceeds its overall penetration level, e.g., apparel (0.31%), leather handbags (0.22%), salt/sulphur/lime (0.10%), soaps (0.06%), essential oils, carpets, and precious jewelry (each supplying 0.03% of U.S. imports).

Early Effects of U.S.-Vietnam Bilateral Trade Agreement

One of the U.S.' fastest growing trade partners is Vietnam. As reported by the Progressive Policy Institute, changes in status of bilateral trade agreements can have strong effects on trade flows, especially when the country in question is one that has anticipated more preferential (or in this case, less discriminatory) treatment for some time:[16]

> The U.S.-Vietnam Bilateral Trade Agreement, signed in July 2000, committed Vietnam to a comprehensive, seven-year reform of trade and economic policy, and in exchange required the U.S. to grant "Normal Trade Relations" tariff status. Six months after it went into effect, Vietnam's exports of shoes, shrimp, furniture and clothes to the U.S. have doubled. American sales of computers, fertilizer, telecom equipment, tennis balls and power generation goods to Vietnam are growing just as fast. In total, U.S.-Vietnam trade is up by about 60 percent (or $60 million a month); measured by percentage growth, this makes Vietnam America's fastest-growing major trade partner.
>
> Not all is rosy, though. Some U.S. domestic lobbies, ironically, now fear that Vietnam may be too good at capitalism. Southern catfish farmers, losing market-share to Vietnamese aquaculture in the Mekong delta, feel especially aggrieved. Last December, they convinced Congress and the Bush Administration to declare that whiskered, smooth-skinned, bottom-feeding Vietnamese fish are not catfish but a different species, and must therefore be labeled "basa" and "tra" rather than "catfish." American consumers seem to like the fish under any name, though – "basa" sales are down since last year but still strong. Catfish industry lawyers now hope to restrict imports with an anti-dumping case.

Despite the small value of catfish imports from Vietnam compared with total commodity imports from Vietnam and despite the small value of catfish imports from Vietnam relative to the size of the U.S. catfish industry, the lesson here is that a sudden strong increase of imports in one product area can cause significant alarm among domestic interests and thereby jeopardize newly found market access under a preferential trade agreement.[17]

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[16] Information drawn from Progressive Policy Institute, "America's Fastest-Growing Trade Partner: Vietnam," July 31, 2002, http://www.ppionline.org/.

[17] In 2001, $21 million of frozen catfish fillets were imported from Vietnam. This represented but 2% of the total value of imports from Vietnam, but a level that exceeded the 1999 value of catfish imports by more than five times. It nevertheless represents 95% of total imports of frozen catfish fillets, worth $22.75 million in 2001. By comparison, the U.S. catfish farming industry, concentrated in the southern states of Mississippi, Alabama, Arkansas and Louisiana, enjoyed revenues of more than $590 million in 2001.

Economic Effects for Mexico of North American Free Trade Agreement

Mexico's experience under NAFTA is also instructive because of the longer period of implementation to date. NAFTA went into effect January 1, 1994. The agreement provided for immediate tariff reductions on 68 percent of U.S. exports to Mexico, and 49 percent of U.S. imports from Mexico. NAFTA also provided for reductions in non-tariff barriers, including import prohibitions, quantitative restrictions, and import licensing requirements. The United States immediately eliminated quotas for Mexican textile and apparel products that met NAFTA rules of origin. Non-tariff barriers on U.S.-Mexico agricultural trade were replaced by tariff-rate quotas, which are being phased out by 2009.

Table 2: U.S.-Mexico Trade Balance, 1998-2001
(billions $U.S.)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Exports to Mexico	40.3	49.1	44.9	54.7		78.8	86.9	111.3	101.3
Imports from Mexico	38.7	48.6	61.7	74.2		94.6	109.7	135.9	131.3
Net Balance, U.S.	1.6	0.5	-16.8	-19.5		-15.9	-22.8	-24.6	-30.0

Source: USITC (1997) and U.S. Department of Commerce

1994 was not a good year for the Mexican economy, because of the international capital market attack on its peso, the value of which may have been pushed up in part by the flood of foreign direct investment which had been coming into Mexico in anticipation of NAFTA. However, following a $18.5 billion trade deficit with the world in 1994, the first year of NAFTA, Mexico has since posted trade surpluses, both to world markets in general and with the U.S., where imports from Mexico have grown 38.8 percent over the last four years and exports have grown 28.6 percent over the same period.[18] This has led to a reversal of the small trade surplus which the U.S. had with Mexico prior to NAFTA and to a doubling of the trade deficit vis-à-vis Mexico from 1998 to 2001, totaling $30 billion in 2001.

Analysis by the U.S. International Trade Commission (USITC) on the effects of NAFTA on U.S.-Mexico trade suggests that flows in both directions were significantly higher than they would have been in the absence of NAFTA. Specifically, econometrics estimated that the volume of U.S. imports from Mexico increased by 1.0 percent in 1994 as a result of NAFTA, and by 5.7 and 6.4 percent higher in 1995 and 1996, respectively, than they would have in the absence of the Agreement. In the reverse direction, their results indicate that, as a result of NAFTA, the volume of U.S. exports to Mexico increased by 1.3 percent in 1994 and by 3.8 and 3.2 percent in 1995 and 1996, respectively (USITC 1997, p. xix).

The top ten U.S. exports to Mexico comprise 73 percent of all exports, and are all non-agricultural products (Table 3). The top ten U.S. imports from Mexico comprise 84 percent of all imports, and include both apparel categories (knitted and woven) and vegetables.

[18] Chomo (2002, p. 3) points out that non-NAFTA, non-tariff related factors also affecting the evolution of Mexico's economy and its trade with regional and global partners include changes in real exchange rates and economic recessions or expansions both in Mexico and in partner countries.

Table 3: U.S.-Mexico Trade Flows

(millions U.S. $)		1998	1999	2000	2001
U.S. Exports					
HS code	**Total**	**78,773**	**86,909**	**111,349**	**101,297**
85	Electrical machinery, parts	18,737	22,236	29,661	24,750
84	Machinery	11,206	12,543	15,453	14,588
87	Vehicles	7,805	8,091	11,421	10,958
39	Plastics	4,972	5,671	7,157	6,624
98	Special classification provisions	3,382	3,838	4,608	4,009
27	Mineral fuel, oil	1,775	2,274	4,311	3,317
90	Optical equipment	2,284	2,341	2,992	3,202
48	Paper products	1,865	2,048	2,448	2,324
73	Iron or steel products	1,791	1,980	2,619	1,952
29	Organic chemicals	1,421	1,587	2,026	1,860
U.S. Imports					
HS code	**Total**	**94,629**	**109,721**	**135,926**	**131,338**
85	Electrical machinery, parts	25,764	28,899	35,773	33,410
87	Vehicles	16,682	19,955	26,027	26,277
84	Machinery	11,630	14,217	17,043	18,217
27	Mineral fuel, oil	5,290	7,284	12,804	10,148
90	Optical equipment	3,330	3,731	4,440	4,695
62	Apparel, not knitted or crocheted	3,884	4,429	5,119	4,673
98	Special classification provisions	3,033	3,557	4,282	4,219
94	Furniture	2,698	3,336	3,821	3,914
61	Apparel, knitted or crocheted	2,817	3,310	3,505	3,355
07	Vegetables	1,629	1,501	1,584	1,790

Source: U.S. Department of Commerce

The U.S. agricultural trade balance with Mexico is positive. The value of Mexican agricultural exports to the U.S. has increased steadily, but represents a declining share of overall Mexican exports to the U.S. (Table 4). In 2001, $6.1 billion worth of agricultural products (HS chapters 1 through 24) were sold to the U.S., of which the five most important products measured at the 4-digit level were beer, fresh vegetables, fresh tomatoes, bovine animals, and fresh shellfish. In the same year, $7.0 billion worth of agricultural products were sold into Mexico, of which the top five are soybeans, corn, grain sorghum, beef, and animal feed preparations. Under NAFTA, the conversion of import licensing to tariffs or a Mexican tariff-rate quota on grains, especially U.S. corn, aided U.S. grain sales to Mexico. Exports were further encouraged by poor growing conditions in Mexico during 1994-1996, leading Mexican authorities to permit higher levels of maize imports than stipulated under the tariff-rate quota phase-in schedule. The seasonal tariff on U.S. soybeans also declined, from 10 to 5 percent.

In conclusion, the North American Free Trade Agreement has been beneficial for both countries. Mexico has specialized in the manufacture of increasingly technical products to the U.S. market, supported by the export from the U.S. to Mexico of increasingly technical inputs. Within agriculture, the U.S. has a trade surplus with Mexico, especially in grains, oilseeds, and meat, which are produced under more intensive systems in the U.S. Mexican agricultural exports to the U.S. are in more labor-intensive and calendar-sensitive products (fruits and vegetables), as well as in higher value processed foods (especially alcoholic beverages).

Table 4: U.S.-Mexico Agricultural Trade Flows

(millions U.S. $)		1998	1999	2000	2001
U.S. Agricultural Exports					
HS code	**Total, Agricultural**	**5423.3**	**5288.3**	**6009.0**	**6977.6**
1201	Soybeans	759.1	662.7	716.9	770.8
1005	Corn	610.8	552.0	536.1	625.8
1007	Sorghum	354.6	384.9	476.2	514.0
0201	Fresh or chilled beef meat	329.5	392.5	476.1	500.2
2309	Animal feed preparations	111.7	117.5	190.4	349.1
1001	Wheat and meslin	215.0	219.0	214.8	279.3
1806	Chocolate, cocoa products	46.6	52.4	137.8	251.9
0207	Poultry meat	211.8	183.8	220.7	246.9
2104	Soups	79.0	112.7	137.4	187.8
0203	Pork meat	83.5	94.5	170.0	179.8
U.S. Agricultural Imports					
HS code	**Total, Agricultural**	**5355.4**	**5622.7**	**6002.6**	**6110.4**
2203	Beer	552.6	652.2	761.1	880.2
0709	Fresh vegetables	523.5	475.7	616.1	705.7
0702	Fresh tomatoes	567.3	489.6	411.8	484.9
0102	Bovine animals	206.1	292.8	405.6	408.4
0306	Live shellfish	396.9	402.3	425.1	399.8
2208	Spirit beverages	168.0	216.1	383.7	355.0
0806	Grapes	154.5	219.8	146.1	182.1
0807	Melons, papayas	161.1	205.8	159.6	178.4
0707	Cucumbers	142.5	122.8	150.1	165.5
0710	Frozen vegetables	130.0	157.9	151.1	157.4

Source: U.S. Department of Commerce

Impact of European Union Association Agreement on Morocco's Imports

This section analyses how imports from the European Union into Morocco have been affected by changes in trade protection introduced by implementation of the Association Agreement between Morocco and the European Union. The following are examined here:

- the structure of Morocco's imports, distinguishing merchandise that is destined for re-export with or without processing and has entered the country duty-free, from goods destined for final consumption in the domestic market that is taxed upon entry into the market;
- the evolution and structure of trade policy affecting merchandise import flows, notably the tariff and non-tariff measures that apply to consumption goods, for which there is no preferential access to the Moroccan market, with special attention paid to the increased protection introduced by the use of reference prices for customs valuation at Morocco's borders; and
- the level of preference introduced by tariff and non-tariff policy under the Morocco-European Union Association Agreement, particularly the differential effects of reference prices and quotas (either those to which tariff preferences are associated or those that do not receive preferential tariff treatment).[19]

Morocco's Imports, by Import Regime and Geographic Origin

Goods are imported into Morocco under various customs rules. The European Union supplies nearly 60 percent of Morocco's imports, whereas the United States provides less than 10 percent of total import value (Table 5). The most common customs regime is that of "imports destined for local consumption." Goods are delivered to the Moroccan end-user after the importer has taken care of paying all import duties and taxes. In 2001 this customs category accounted for 70 percent of the value of all merchandise officially entering Morocco ender the control of the Customs Administration. The remaining 30 percent entered Morocco under the "temporary admissions regime," i.e. destined for re-export and admitted duty-free. In order to be authorized to introduce these goods without paying import duties, importers are required to pay a deposit or furnish financial or moral guarantees.

Within the temporary admission regime, there are two different categories of merchandise imports. The first is composed of merchandise belonging to exporters who are physically present in Morocco, who own the merchandise and who pay their suppliers in order to acquire this merchandise. Goods imported under this category are referred to as "temporary admission *with payment*" (*admission temporaire avec paiement*, in French, or ATAP).[20] The second category covers goods that belong to locally based contractors of international companies. In this case, the foreign suppliers are the owners of the merchandise and the Moroccan importers are only considered to be local providers of processing services. Importers do not compensate suppliers for the value of these goods, because the former never assume ownership of these goods. This category is referred to as "temporary admission imports *without payment*" (*admission temporaire sans paiement*, or ATSP).

[19] The former refers to those goods for which a specified volume of imports may be admitted, subject to a preferential import duty. Volumes beyond this specified volume, or quota, may be imported, subject to the payment of a non-preferential rate of duty. The latter refers to those goods for which a specified volume of imports may be imported, free of duty. Volumes beyond this specified volume, or quota, may not be imported.

[20] The expression commonly referred to as "temporary admission with payment" has been officially classified as "temporary admission for processing with or without payment" (in French, *admission temporaire pour perfectionnement actif avec ou sans paiement* , or ATPA). This report uses the first, more common, phrasing used by Moroccan professionals.

The share of Morocco's imports supplied by the U.S. has declined between 1999 and 2001. As seen in Table 5, in 2001 imports into Morocco from the U.S. represented 3.7 percent of Morocco's imports, i.e. 4.55 out of 124 billion dirhams, compared with 6.5 percent in 1999. At the same time, there has been modest progression of imports coming from Europe and a very strong increase in imports from the rest of the world. The percentage of imports supplied by the European Union has actually declined.

Table 5: Evolution of Value of Morocco's Imports, by Import Regime

	Partner (millions of current dirhams)				Partner (%)			
	EU	**USA**	**Other**	**Total**	**EU**	**USA**	**Other**	**Total**
Destined for Final Consumption								
1999	36914	6388	30612	73915	59.5	92.2	82.8	69.8
2000	41979	6184	39040	87204	63.1	90.9	80.3	71.5
2001	41040	4083	41784	86907	60.2	89.6	81.3	70.0
Temporary Admission with Payment								
1999	7245	158	5361	12764	11.7	2.3	14.5	12.0
2000	7782	321	8178	16281	11.7	4.7	16.8	13.3
2001	8784	248	8255	17287	12.9	5.5	16.1	13.9
Temporary Admission without Payment								
1999	17874	383	995	19252	28.8	5.5	2.7	18.2
2000	16787	297	1415	18499	25.2	4.4	2.9	15.2
2001	18303	226	1358	19887	26.9	5.0	2.6	16.0
Total Imports								
1999	62034	6930	36968	105931	100.0	100.0	100.0	100.0
2000	66548	6802	48633	121984	100.0	100.0	100.0	100.0
2001	68126	4558	51397	124081	100.0	100.0	100.0	100.0
Total Imports (%)								
1999	58.6	6.5	34.9	100.0				
2000	54.6	5.6	39.9	100.0				
2001	54.9	3.7	41.4	100.0				

The structure of imports coming from the U.S. is strongly dominated by the weight of imports destined for final consumption, accounting for about 90 percent of total imports. The share of U.S. imports entering under temporary admission is 10.5 percent. Imports entering under temporary admission *with* payment are increasing, both in absolute value and relative weight, whereas imports entering under temporary admission *without* payment as well as imports destined for final consumption are declining. The share of imports destined for final consumption is distinctly more significant for goods coming from the U.S. (about 90 percent) than for those coming from the European Union (about 60 percent) or the rest of the world (about 80 percent). The share of the United States in total imports of goods destined for consumption has fallen from 8.6 percent in 1999 to 4.7 percent in 2001.

Moroccan Trade Protection Policy

Morocco's system of trade protection in 2002 results from a series of liberalization measures introduced over time. What follows is a brief review of trade protection history, in order to introduce the features of the current regime include customs tariffs, reference prices, and agricultural and food sector measures of protection.

Process of Liberalization Launched in 1984

Until 1984, the objective of Moroccan trade policy was to protect domestic industry and promote import substitution through a system of complex and often quite high import duties and administrative control of imports. Import products were either classified as unrestricted (List A), restricted subject to authorization (List B), or prohibited (List C). During the 1970s and beginning of the 1980s, the policy of administrative

protection of local producers took on unprecedented additional importance. Importers were required to present import applications to allow trade and industry authorities to compare import prices and prices proposed by local producers for similar products. Applications that included *pro forma* bills of lading listing import prices that were lower or close to domestic market were systematically refused. The relative importance of products on List B continued to rise during the 1970s, hitting their maximum point in 1983. At that time, the Moroccan government adopted a structural adjustment program (SAP), of which one of the main themes was the liberalization of trade policy. The first reform measure consisted of substituting tariff protection for administrative regulation of trade, with a rationalization of tariff protection levels. The reduction of non-tariff barriers, in accordance with Morocco's commitments to the General Agreement on Tariffs and Trade (GATT) and to the SAP, translated in practice to a progressive transfer of goods from List C (prohibited imports) of the General Import Program to List B (imports subject to authorization), and from List B to List A (unrestricted). List C was eliminated in 1986 and the transfer of products from List B to List A was completed in April 1994.

Liberalization measures adopted under the structural adjustment framework were reinforced by Morocco's entry into the GATT. Even while Morocco's commitment to eliminate non-tariff barriers and consolidate customs rates confirmed the irreversibility of Morocco's decision to liberalize foreign trade, the slowness with which these reforms were implemented affected the efficiency of the process, and compensatory protection measures (customs reference prices) were adopted.

The Law on Foreign Trade, adopted in 1989, was promulgated in 1992 and only entered into effect in April 1994. To compensate for the loss of protection of industrial activities linked to the elimination of non-tariff barriers, the direct control of prices was replaced by Moroccan authorities in 1986 in favor of a system of customs floor prices that were used as a reference for estimating import taxes.[21] Morocco became a signatory to the Customs Valuation Agreement in 1993, but benefited from the developing countries exemption until 1998. Morocco asked for a first extension until 2000, and a second which was in effect until August 1, 2002.

The list of products subject to floor prices was published in the GATT Trade Policy Review for Morocco.[22] Morocco agreed to refrain from increasing the values and to restrict their application to below 10 percent of the value of industrial imports. The floor prices for taxation being fixed, it was expected that inflation would gradually erode their protective power. Reference price values were adjusted. Institution as well as elimination of reference prices were mandated by decree (the decree 2-98-517 of September 29, 1998 and the decree 2-02-347 of July 17, 2002, respectively), which were publicly distributed in circulars by the Customs and Indirect Taxes Administration.

In January 1995, the method for taxation of petroleum product imports was amended. Import taxes are now based on a system of indexation, taking into account variations in the world price, thereby modifying the translation of those fluctuations onto the domestic market. Moroccan authorities, sensitive to the fact that simple application of an *ad valorem* duty to CIF prices can amplify world price variation in domestic price terms and seeking to minimize domestic price variability for key consumer goods, opted for methods of import taxation for petroleum products and basic agricultural goods that would minimize this amplification, such as indexation, moving averages, or reference prices for estimating the base valuation on which taxation would be estimated.

[21] The first floor prices in 1985 were applied to wood pulp and cardboard waste.

[22] World Trade Organization, "Morocco Trade Policy Review: First Press Release, Secretariat And Government Summaries," January 1996, http://www.wto.org/english/tratop_e/tpr_e/tp23_e.htm.

The liberalization of agricultural and food product imports, which had been under administrative control (in the case of edible oils and cereals) or under state monopoly (in the case of sugar), was supposed to enter into effect with the implementation of the Foreign Trade Law. It was expected that after January 1995 the level of agricultural and food product imports would be decided by foreign trade operators and not by government authorities. Taxation of imports, equal to the difference between the CIF price and a reference price fixed by the authorities, was supposed to have been replaced by a tariff-equivalent fixed independently of administrative initiative. The January 1995 deadline was postponed. Finally, the freedom to import was granted according to a step system for different products. After January 1996, the government monopoly on raw sugar imports was eliminated. Imports of oilseeds were liberalized in March 1996, those of raw edible oils in April 1996, and those of cereals in June 1996.

Customs tariff reform was implemented in two principal stages. The first consisted of lowering the maximum import duty rate to 45 percent, except for certain agricultural products, and reducing the number of tariff positions from 26 to 15. The second stage further reduced the maximum import duty rate to 35 percent, except for certain agricultural products which were maintained at 40 and 45 percent. The number of tariff positions was again reduced to only 9. This second stage was developed on the basis of proposals from the relevant technical ministries, and therefore was better integrated and took full consideration of different economic sector interests (notably those of agriculture, industry, and public health).

From July 1993 to January 1996, only a few marginal changes took place. In July 1996, substantial changes took place, notably in favor of adoption of the Investment Charter and the beginning of implementation of Morocco's commitments vis-à-vis the World Trade Organization (WTO) concerning the protection of agricultural products. Regarding industrial products, the main change concerns capital goods. The import fiscal tax (or PFI in French) on capital goods was eliminated and the applicable customs duty rates were limited to a band between 2.5 and 10 percent. Tariff-equivalents applied to agricultural products are reduced annually by 2.4 percent, according to the WTO commitment to reach reductions of 24 percent over ten years, 1994-2004.

Until July 1, 2000, all imported goods were assessed the fiscal import levy (*prélèvement fiscal à l'importation*, or PFI) of 15 percent in addition to import duties. In line with its WTO accession commitments, the Customs and Indirect Taxes Administration decided to merge the fiscal import levy and the import duty, retaining the latter appellation for the combined amount.

Structure of Customs Duties in 2001

As of 2001, the principal import duty positions vary according to the type of imported product and have been reduced to a total of six levels: 2.5, 10, 17.5, 25, 35, and 50 percent (Table 6). Capital equipment goods (material and tools), as well as components, replacement parts, and accessories, enter at an *ad valorem* rate of 2.5 or 10 percent, according to the Investment Charter. The tariff positions that apply to agro-food products are more dispersed, because of the conversion into tariff-equivalents of the fiscal import levies. More than 88.5 percent of the tariff lines for the food, beverages, and tobacco product class are equal to or greater than 40 percent. This rate is 79 percent for final consumption goods, 46 percent for semi-finished products, 26 percent for industrial equipment, and 24 percent for unprocessed products of vegetable and mineral origin.

Table 6: Number of Tariff Lines and Tariff Positions, by Product Class, 2001

CLASS OF PRODUCT	Current Customs rate positions								OTHER POSITIONS		TOTAL	
	0%	2.5%	10%	17.5%	25%	32.5%	40%	50%	< 50%	> 50%	%	Number
Food, Beverages, and Tobacco		2.2	0.1	2.4	2.5	3.9	6.5	62.0	1.7	18.7	100	1699
Energy and Lubricants		3.9		44.7	36.8	6.6		7.9			100	76
Unprocessed Products of Animal and Vegetable Origin		23.8	0.9	12.2	27.5	10.8	3.4	10.4	2.5	8.7	100	888
Unprocessed Products of Mineral Origin	1.1	11.8	3.4	42.7	28.2	5.7	1.5	5.0	0.4		100	262
Semi-Finished Products		3.1	7.0	23.0	5.9	17.0	20.2	23.7			100	5640
Finished Products (Agricultural Equipment)		55.9	9.9	8.6	6.6		0.7	18.4			100	152
Finished Products (Industrial Equipment)		52.2	9.7	1.5	3.2	7.3	8.4	17.5	0.1		100	2349
Final Consumption Goods		2.8	10.3	3.5	1.5	3.0	29.1	49.8			100	3914
Industrial Gold				50.0	50.0						100	8
TOTAL	**1.1**	**12.5**	**7.1**	**11.9**	**5.8**	**9.5**	**17.5**	**32.6**	**0.4**	**2.6**	**100**	**14988**

In terms of foreign trade flows in 2001, nearly one-third of total imports is realized at an import duty of 10 percent or lower (Table 7). For electrical and electronic goods, 63.5 percent are imported at the 2.5% rate and 14.7 percent at a rate of 10 percent, while for mechanical and metal goods, 47 percent of imports are taxed at a 2.5 percent rate. The 2.5 percent category accounts for 25 percent of agro-industrial products and 9 percent of agricultural product imports. Sectors in which imports are realized at higher tariff rate positions are textiles, food, agricultural, and chemical products (Table 8).

Table 7: 2001 Breakdown of Imports, by Sector and Customs Tariff Position
(%)

SECTOR	Current Customs rate positions								OTHER POSITIONS		TOTAL
	0%	2.5%	10%	17.5%	25%	32.5%	40%	50%	< 50%	> 50%	
AGRICULTURE		8.7		0.8	1.3	4.3	2.0	4.3	77.3	1.3	100.0
MINERALS	62.1		3.1	27.3	5.3	0.4		1.5	0.3		100.0
ENERGY		0.2		99.0	0.6	0.0		0.2			100.0
AGRO-INDUSTRY		24.7	0.1	4.4	12.9	13.2	8.0	7.1	21.3	8.4	100.0
TEXTILES AND LEATHER		8.3	0.3	0.0	0.6	4.3	70.0	16.4	0.1		100.0
CHEMICAL PRODUCTS		13.5	11.0	24.5	11.2	6.1	4.2	29.4	0.1		100.0
MECHANICAL-METALLURGIC		47.0	9.9	13.3	1.3	14.5	3.6	10.2	0.2		100.0
ELECTRICAL-ELECTRONIC		63.5	14.7	0.4	0.4	1.5	7.6	11.9	0.0		100.0
TOTAL (%)	**0.8**	**22.7**	**5.7**	**25.1**	**3.4**	**6.3**	**15.0**	**12.2**	**8.2**	**0.6**	**100.0**
TOTAL (millions of dirhams)	**977**	**28217**	**7019**	**31104**	**4249**	**7796**	**18579**	**15189**	**10193**	**760**	**124083**

Whereas tariff peaks are much higher in the agro-food and agricultural sectors, they are aligned with a maximum rate of 50 percent in the textiles-clothing, chemical, mechanical, metallurgic, and electrical sectors. Nevertheless, certain products in these sectors have remained more heavily protected because of the application of the reference price system for customs valuation.

Table 8: Average Tariff Position, by Import Sector

SECTOR	Weighted Average	% of Imports
AGRICULTURE	28.4	8.9%
MINERALS	7.3	1.3%
ENERGY	17.6	17.4%
AGRO-INDUSTRY	28.6	5.9%
TEXTILES AND LEATHER	38.0	17.2%
CHEMICAL PRODUCTS	26.9	17.4%
MECHANICAL-METALLURGIC	16.1	21.8%
ELECTRICAL-ELECTRONIC	12.7	10.1%
Total	**23.4**	**100.0%**

Amplification of Tariff Protection Due to Reference Prices

Reference prices affect 1,358 positions out of the 14,988 tariff positions in the 1993 ten-digit HS nomenclature. This policy remained in effect for countries outside of the Morocco-EU Association Agreement and was eliminated as of August 1, 2002. For goods coming from the European Union, the number of tariff lines affected by reference prices was reduced from 862 in 2000 to 628 in 2001.

When the reference price used to determine customs valuation is higher than the declared unit value on the importer's bill of lading, the effect of a reference price system is to amplify customs rates. This effect is measured as the value of the tariff in effect multiplied by the ratio between the reference price and the declared unit value on the bill of lading, when this ratio is greater than 1. When the declared unit value is less than the reference price, there is no amplification effect. Before presenting an estimation of the effect of reference prices on the level of import tariff protection, several observations are offered of a methodological character on the data used.

Estimation of the amplification effect is based on annual statistics, comparing actual tariffs and reference prices with the imported values for each ten-digit tariff line. The ensuing database is far from satisfactory, however. Numerous reference prices only apply to subsets of tariff lines. Also, it is difficult to assign a corresponding reference price to each import HS line. Moreover, tariff lines were added or were expanded in 2000 and 2001, rendering the concordance even more difficult. For a certain number of tariff lines, or even subsets of tariff lines, there is a possibility of two or three different references prices being applied, depending on the characteristics of the products. These distinctions are not always taken into account by the ten-digit nomenclature of the Harmonized System, on the basis of which import statistics are established.

The effect of amplification of the customs tariff only applies to imports of final consumption goods. There is no effect on imports entering under temporary admission, with or without payment. Strictly speaking, the averages of the amplification effect can only be weighted by the value of imports entered under the final consumption regime. However, detailed data for imports entering under this category only were not available for analysis.

Considering all tariff positions, weighted by the value of imports registered under each position, the use of reference prices for customs valuation appears to amplify protection levels by an additional 3.7 percent (Table 9). For textiles and clothing, the effect is much higher, on average, 20.4 percent. When only those tariff lines involving reference prices are taken into account, the average rate of tariff protection is 79 percent (30.3 percent for industrial equipment finished products and 86.6 percent for final consumption goods).

Table 9: Amplification of Customs Tariffs Caused by Reference Prices
(Average weighted by total imports, 2001)

CLASS OF PRODUCT	TEXTILES AND LEATHER	CHEMICAL PRODUCTS	MECHANICAL-METALLURGIC	ELECTRICAL-ELECTRONIC	TOTAL
Observations : All tariff lines					
FINISHED PRODUCTS (INDUSTRIAL EQUIPMENT)	1,0	7,3	0,1	1,0	0,5
FINAL CONSUMPTION GOODS	27,3	0,1	1,6	0,2	14,8
Total	**20,4**	**0,3**	**0,3**	**0,5**	**3,7**
Observations : Only tariff lines with reference prices					
FINISHED PRODUCTS (INDUSTRIAL EQUIPMENT)	64,2	13,0	68,8	108,0	30,3
FINAL CONSUMPTION GOODS	90,3	22,2	31,0	24,0	86,6
Total	**88,3**	**11,0**	**33,2**	**83,4**	**79,0**

Note: The amplification effect is a weighted average based on the value of imports in each sector. Two averages are calculated for each sector. The first estimates the amplification effect as the ratio of duties normally paid by the sector, including both products subject to reference prices and products that are not. In the second set, the weighted average is estimated for only those products subject to reference prices.

Average weighted tariffs on products for which reference prices have been in effect are higher than those for other products: 40 percent versus 21.3 percent in 2001 (Table 10). The difference is the greatest for electrical and electronic products (50 versus 12.3 percent). The amplification effect affects 11.2 percent of all imports. This amount affects 50.1 percent of textile product imports and 9.2 percent of mechanical and metallurgic products.

Table 10: Average Customs Tariffs and the Amplification Effect of Customs Reference Prices, 2001

SECTOR	Customs Duty, by Evaluation Mode			Tariff Protection on Products with Reference Prices		Imports under Reference Prices (% of sector)	Total Imports (Millions Dh)
	Billed Value	Reference Price	Together	Amplification Effect	Total Rate of Tariff Protection		
AGRICULTURE	28.4		28.4			0.0	11043
MINERALS	7.3		7.3			0.0	1560
ENERGY	17.6		17.6			0.0	21515
AGRO-INDUSTRY	28.6		28.6			0.0	7334
TEXTILES AND LEATHER	35.2	40.8	38.0	88.3	129.1	50.1	21345
CHEMICAL PRODUCTS	26.3	50.0	26.9	11.0	61.0	2.7	21627
MECHANICAL-METALLURGIC	14.3	33.9	16.1	33.2	67.0	9.2	27074
ELECTRICAL- ELECTRONIC	12.3	50.0	12.7	83.4	133.4	1.0	12583
Total	**21.3**	**40.0**	**23.4**	**79.0**	**119.0**	**11.2**	**124081**

The total protection effect, i.e. the cumulative effect of both the tariff itself and the amplification effect introduced by the use of reference prices, is 119 percent on average, 129.1 percent for textiles and clothing products, and 133.4 percent for electrical and electronic goods. Although more modest on chemical, mechanical, and metal goods, it remains of consequence with total rates of protection, respectively, of 61 and 67 percent.

European Union Association Agreement Clauses Regarding the Application of Duties and Import Taxes

This section analyses the total tariff preference accorded to goods from the European Union under the EUAA since its entry into effect on March 1, 2000.[23] The measure of tariff preference takes account of different effects of tariff and non-tariff protection, linked to the application of reference prices or to the assignment of tariff-rate quotas. The analysis is done for eight broad sectors: agriculture, mining, energy, textiles and leather, chemical products, mechanical and metal goods, and electrical and electronic products.

In order to understand the process of progressive reductions in trade protection resulting from the EUAA, products are first disaggregated into categories (or lists). This allows one to distinguish between those products whose tariffs are reduced progressively according to various timetables and procedures and other products which are excluded from the EUAA and to which tariff reductions do not apply. This analysis also examines the extent of the preferences accorded to the EU in terms of import coverage, broken out by sector, forms of protection, and various progressive tariff reduction timetables anticipated under the EUAA. A third objective of this section is to present the structure of customs tariff protection measured by the rate of nominal reference protection. The average rate of nominal protection is calculated, weighted by the value of total imports, according to a three-pronged classification: by sector, by reduction timetable, and by mode of protection. Finally, this analysis also proposes to quantify the tariff preference accorded to the EU, following the classification outlined below.

Morocco-EUAA and Product Categories, by Tariff Reduction Timetable and Mode

The EUAA will eliminate quantitative restrictions and measures of equivalent effect for products originating in Morocco. Products originating in the EU and imported into Morocco remain subject to the import trade regime. Existing quantitative restrictions and bans remain in place. Tariff preferences exist for some products; these are examined below. Nevertheless, customs exoneration for tariff-rate quotas accorded to certain imported products remain subject to administrative approval, overseen by the Department of Foreign Trade.

The preferential trade regime under the EUAA is only applicable to merchandise transported directly between the two countries. Transportation can occur on loan from third-party territories, with eventual transshipment or storage according to predetermined conditions.

Proof of product origin is confirmed by a merchandise circulation certificate, known as the "EUR.I," for products of greater than 60,000 dirhams exported from Morocco to the EU or greater than 5,110 Euros exported from the EU toward Morocco. Smaller shipments and goods in accompanied baggage are exempt from proof of origin at 5,000 and 12,000 dirhams, respectively.

The following are considered as products originating in Morocco or the EU (Article 2):

- products wholly obtained in Morocco or in the EU (Article 6);
- products obtained in Morocco or in the EU that contain imported materials, provided that the materials in question have undergone sufficient working and processing. Transformation is considered sufficient when the new product is classified in a different four-digit position in the

[23] Using the 1993 Harmonized System Nomenclature, this analysis integrates information concerning import duties, reference prices, and quotas, following the circulars of the Customs and Indirect Taxes Administration. The HS nomenclature is updated by the Direction of Studies of the Department of Foreign Trade in the Ministry of Commerce, Industry, Energy, and Mines. The authors acknowledge the cooperation of the Trade Statistics Service in the Studies Direction of the Department of Foreign Trade, which generously provided the original data files to permit this analysis.

Harmonized System from that in which all the non-originating materials used in its manufacture are classified (Article 7).

Products originating in one of the parties are considered originating in the other contracting party and vice-versa, a quality known as "bilateral cumulation" (Article 3). The EUAA also allows the cumulation of materials and processing from Algeria and Tunisia under the same conditions as those defined in the bilateral cumulation (Article 4).

Tariff preferences are accorded in reference to the general tariff published by the Customs and Indirect Taxes Administration at the moment of the entry into force of the EUAA on March 1, 2000. They are indicated on the lists of products identified by a code (varying from four to ten digits, in the nomenclature of the Harmonized System). In certain cases, products are described by labels and only refer to one part of the products of the referenced HS line.

The EUAA distinguishes eight distinct categories of products in the progression toward free movement of goods with Morocco:

- **List 1:** those for which all customs duties and levies of equivalent effect (e.g., fiscal import levy) are immediately eliminated (products originating in the EU other than those listed in EUAA Annexes 3, 4, 5, and 6);
- **List 2:** those for which the reduction of the import duty and fiscal import levy is implemented by 25 percent per year, as of March 1, 2000 (Annex 3);
- **List 3:** those for which the reduction of the import duty and fiscal import levy is implemented by 10 percent per year, as of March 1, 2003 (Annex 4);
- **List 4:** those for which the reduction of the import duty and fiscal import levy is implemented by 3 percent per year during the first four years, beginning in March 2003, and by 15 percent per year as of March 1, 2007, until complete elimination is achieved;
- **List 5:** used articles are excluded from tariff reductions and remain subject to payment of all import duties and levies;
- **List 6:** for processed agricultural products (Annex 2), there are three possibilities:
  - reduction of the import duty and fiscal import levy only on the industrial component, by 25 percent per year, as of March 1, 2002 (Annex 2, List 2);
  - reduction of the import duty and the fiscal import levy only on the industrial component, by 10 percent per year, as of March 1, 2003 (Annex 2, Lists 1 and 3);
  - reduction of the duties and levies only on the industrial component, limited to a fixed quota (Annex 2, other than those on Lists 1, 2, and 3);
- **List 7:** products identified in circular # 4564/413 of October 5, 1998 are subject to reference prices for customs valuation. These will either be eliminated or reduced by 25 percent as of March 1, 2000, for products originating in the European Union (Annex 5);
- **List 8:** agricultural products originating in the European Union benefiting from reduced rates of import duties and taxes, in the context of preferential tariff-rate quotas. Products imported in quantities in excess of the quotas are subject to the general customs regime (Annex 2, List 1).

Structure of Imports, by EUAA Clauses

Table 11 presents a breakdown of Morocco's imports, by sector, type of protection (tariff, tariff-rate quota, or non-tariff quota), and tariff reduction timetable. Nearly 85 percent of Morocco's imports from the EU either had their tariffs eliminated immediately (column 2), or will see them phased out over four (column 3) or twelve (column 4) years.

Imports of products that benefit from immediate elimination of tariffs (especially mechanical, metallurgic, electrical, and electronic products) represent 26 billion dirhams, or 21.3 percent of imports in 2001

(column 2). Products that benefit from rapid reductions in tariffs, i.e. a reduction of 25 percent per year with complete elimination of duties at the beginning of the fourth year of the EUAA, represent 35 billion dirhams, or 28.1 percent of imports (column 3). Products included here include principally energy, chemical, mechanical, and metallurgic goods.

The largest category under EUAA are products that benefit from average reductions in tariffs, i.e. a reduction of 10 percent per year beginning only in year 3 of the Agreement. This category represents 43.6 billion dirhams, or 35.2 percent of Morocco's imports (column 4), and includes essentially energy, textiles, leather, chemical, mechanical, metallurgic, electrical, and electronic products.

Nearly 14 percent of Morocco's imports are agricultural or other products excluded from the progressive trade protection reductions anticipated under the EUAA (column 1). Of a total value of 17 billion dirhams of agricultural and agro-industrial products imported into Morocco, only 2.4 billion dirhams were covered under the EUAA negotiations. Of this 2.4 billion Dh, 1.33 billion in agricultural products and 0.95 billion in agro-industrial products benefit from preferential tariff-rate quotas.

The remaining categories – certain transportation equipment (1.57 billion Dh, column 5), used goods (0.04 billion Dh, column 6), some agro-food products with various reduction timetables (0.19 billion Dh, column 7, of which three-quarters are subject to a quantitative restriction, i.e. non-tariff quota) – are minor with regard to total imports.

Table 11: 2001 Structure of Moroccan Trade, by EUAA Protection Category, Tariff Reduction Timetable, Sector, and Type of Protection
(Millions of dirhams)

SECTOR Type of protection	Protection Categories, by tariff reduction timetable								(9) TOTAL (millions Dh)	(10) Total across sectors (%)
	(1) Agricultural Products excluded under the EUAA	(2) List 1: 100% Duties Eliminated Beg. 2000	(3) List 2: 25% Reduc. per year Beg. 2000	(4) List 3: 10% Reduc. per year Beg. 2003	(5) List 4: 3% Reduc. per year Beg. 2003, 15% Reduc. per year Beg. 2007	(6) List 5: 100% Duties Remain for Used Articles No change	(7) List 6: Indus./Agric./ Agro-Indust. Products Mixed Reduc.	(8) Data Missing		
AGRICULTURE										
Tariff	9509		105					1	**9614**	**7.7**
Tariff-rate quota	1329								**1329**	**1.1**
Non-tariff quota	69								**69**	**0.1**
MINERALS										
Tariff		1031	488	44				4	**1566**	**1.3**
ENERGY										
Tariff			16806	4706					**21513**	**17.3**
AGRO-INDUSTRY										
Tariff	5212		105	828			46	28	**6219**	**5.0**
Tariff-rate quota	949								**949**	**0.8**
Non-tariff quota							146		**146**	**0.1**
TEXTILES AND LEATHER										
Tariff		1374	314	8802				18	**10508**	**8.5**
Tariff with reference prices				10676					**10676**	**8.6**
Non-tariff quota				174					**174**	**0.1**
CHEMICAL PRODUCTS										
Tariff	17	1374	10077	9587				10	**21065**	**17.0**
Tariff with reference prices				566					**566**	**0.5**
MECHANICAL-METALLURGIC										
Tariff	121	13690	5858	4837	5	37		53	**24600**	**19.8**
Tariff with reference prices			35	872	1568				**2475**	**2.0**
ELECTRICAL- ELECTRONIC										
Tariff	69	8933	1046	2440				3	**12491**	**10.1**
Tariff with reference prices			35	87					**122**	**0.1**
TOTAL millions Dh	**17275**	**26402**	**34868**	**43619**	**1573**	**37**	**192**	**116**	**124082**	**100.0**
TOTAL across protection categories (%)	**13.9**	**21.3**	**28.1**	**35.2**	**1.3**	**0.0**	**0.2**	**0.1**	**100.0**	

Average Levels of Overall Tariff Protection Due to EUAA

Rates of effective nominal protection have been estimated for 2001, equal to the value of import duties actually paid, divided by the CIF value of imports. As seen in Table 12, the slower is the timetable for tariff reductions under the EUAA, the higher is the level of tariff protection for goods in that category. Thus the average level of protection for List 3 is 48.6 percent. Goods included in List 3 are most likely to have reference prices determining their total level of protection. Also, List 3 contains the products that are protected by quotas.

One finds the same pattern for processed agro-food products from List 6 (column 7). The average rate of protection is 44.1 percent for products that can be imported freely and 50 percent for products subject to quantitative restriction.

As for non-agricultural products not covered by the EUAA, the average protection is also high, ranging from 18 to 50 percent (column 1). For agricultural and agro-food products that are heavily imported relative to total demand, on the other hand, protection is low. This low rate is explained by the recognition of a structural agricultural deficit and the need to keep domestic prices at reasonable levels for basic food commodities.

The average rate of protection on List 2 is much lower, 16.4 percent (column 3). However, for certain products on this list, one finds that reference prices amplify strongly the average level of tariff (beyond 50 percent in general, in the textile, leather, mechanical, metallurgic, electrical, and electronic sectors). Tariffs applicable to agro-food products classified in this list are high.

List 1 includes the least protected products (column 2). Logically, an immediate elimination of tariff protection was introduced easily for those products whose nominal protection is less than 5 percent.

Table 12: 2001 Rates of Nominal Protection Effective on Total Imports, by Tariff Reduction Timetable, Type of Protection, and Sector

Rate of Tariff Protection, including Amplification Effects Average weighted by the value of total imports	Protection Categories, by tariff reduction timetable								General Average
	(1) Agricultural Products excluded under the EUAA	(2) List 1: 100% Duties Eliminated Beg. 2000	(3) List 2: 25% Reduc. per year Beg. 2000	(4) List 3: 10% Reduc. per year Beg. 2003	(5) List 4: 3% Reduc. per year Beg. 2003, 15% Reduc. per year Beg. 2007	(6) List 5: 100% Duties Remain for Used Articles No change	(7) List 6: Indus./Agric./ Agro-Indust. Products Mixed Reduc.	(8) Data Missing	
AGRICULTURE									
Tariff	28.2	28.5	25.1	32.5				28.2	**28.9**
Tariff-rate quota	31.2							31.2	**31.9**
Non-tariff quota	3.5							3.5	**3.1**
MINERALS									
Tariff		1.2	18.1	47.1				7.3	**8.2**
ENERGY									
Tariff			17.5	18.0				17.6	**17.6**
AGRO-INDUSTRY									
Tariff	24.3	18.7	47.6	30.3			44.1	25.6	**36.1**
Tariff-rate quota	44.8			50.0				44.8	**49.1**
Non-tariff quota							50.7	50.7	**51.1**
TEXTILES AND LEATHER									
Tariff	50.0	2.5	22.0	40.5		50.0		35.0	**33.0**
Tariff with reference prices			56.5	81.5				81.5	**71.6**
Non-tariff quota				50.0				50.0	**50.0**
CHEMICAL PRODUCTS									
Tariff	41.9	11.0	14.6	40.7		50.0		26.3	**25.8**
Tariff with reference prices				59.5				59.5	**58.3**
MECHANICAL-METALLURGIC									
Tariff	17.5	4.7	15.7	39.7	18.6	15.0		14.3	**13.6**
Tariff with reference prices		10.9	49.0	45.7	32.6			37.5	**36.8**
ELECTRICAL- ELECTRONIC									
Tariff	33.7	3.5	13.1	43.9				12.3	**11.6**
Tariff with reference prices			51.8	117.9				104.6	**121.7**
General Average	**28.1**	**4.4**	**16.4**	**48.6**	**32.6**	**15.1**	**49.1**	**27.1**	**26.8**

Quantifying the Tariff Preference Accorded to the European Union

The overall tariff advantage accorded to the European Union by the EUAA is equal to the difference between the value of customs duties paid and CIF values for imports from countries not belonging to the EU, on the one hand, compared with the value of customs duties paid and CIF values for imports from EU member countries. It is estimated to be 3.3 percent (Table 13). As one would expect, there is no advantage for the products on List 4. It is also insignificant for those products not included in the EUAA (agricultural products and others, with an average rate of 0.5 percent) and for products on Lists 5 and 6 (0.3 and 1.4 percent, respectively). However, it is substantial for products on Lists 1 and 2, at 4.4 and 8.1 percent, respectively.

Table 13: Estimate of Preferential Tariff Advantage Accorded to the European Union, by Tariff Reduction Timetable, Type of Protection, and Sector, 2001

Rate of Tariff Protection, including Amplification Effects Average weighted by the value of total imports	Protection Categories, by tariff reduction timetable							General Average
	(1) Products excluded under the EUAA	(2) List 1: 100% Duties Eliminated Beg. 2000	(3) List 2: 25% Reduc. per year Beg. 2000	(4) List 3: 10% Reduc. per year Beg. 2003	(5) List 4: 3% Reduc. per year Beg. 2003, 15% Reduc. per year Beg. 2007	(6) List 5: 100% Duties Remain for Used Articles No change	(7) List 6: Indus./Agric./ Agro-Indust. Products Mixed Reduc.	
AGRICULTURE								
Tariff	0.0	28.5	12.5	0.0				**0.2**
Tariff-rate quota	0.0							**0.0**
Non-tariff quota	0.0							**0.0**
MINERALS								
Tariff		1.2	9.1	0.0				**3.6**
ENERGY								
Tariff			8.7	0.0				**6.8**
AGRO-INDUSTRY								
Tariff	0.2	18.7	23.8	0.0			5.7	**0.7**
Tariff-rate quota	6.8			0.0				**6.8**
Non-tariff quota							0.0	**0.0**
TEXTILES AND LEATHER								
Tariff		2.5	11.0	0.0		0.0		**0.7**
Tariff with reference prices			20.0	0.0				**0.0**
Non-tariff quota				0.0				**0.0**
CHEMICAL PRODUCTS								
Tariff	0.0	11.0	7.0	0.0		0.0		**4.1**
Tariff with reference prices				0.0				**0.0**
MECHANICAL-METALLURGIC								
Tariff		4.7	7.8	0.3	0.0	0.3		**4.5**
Tariff with reference prices		10.2	5.0	0.1	0.0			**0.1**
ELECTRICAL- ELECTRONIC								
Tariff	10.0	3.5	6.6	0.0				**3.1**
Tariff with reference prices			25.0	0.0				**5.0**
TOTAL	**0.5**	**4.4**	**8.1**	**0.0**	**0.0**	**0.3**	**1.4**	**3.3**

The tariff preferences for agricultural and agro-industrial products included in the EUAA are 28.5 and 18.7 percent, respectively. Concerning products on List 2 (rapid tariff reductions), EU suppliers benefit from an advantage of 11 percent on chemical products, 10.2 percent for mechanical and metallurgic products, and 3.5 percent for textiles and leather goods. For products on List 3 (average rate of tariff reduction), the tariff preference for EU sources is as much as 25 percent on electrical and electronic goods, 20 percent for textiles and leather goods (subject to reference prices), 23.8 percent for agro-industrial products, 11 percent for textile products not subject to reference prices, 9 percent on minerals,

7.8 percent on mechanical and metallurgic products, 7 percent on chemical products, and 6.6 percent on electrical and electronic goods not subject to reference prices.

Preliminary Observations with Respect to the Impact of the EUAA on Moroccan Trade

Given that many tariff reductions under the EUAA have not yet taken effect, it is certainly too soon to say what the overall level of trade diversion in favor of EU suppliers will be. However, a number of preliminary observations can be made.

First, the EU is clearly Morocco's most important trading partner, supplying over half of Morocco's imports. Yet its pattern of trade is distinctly different from that of Morocco's other trading partners, with almost 40 percent of imports from the EU coming in under temporary admission (with or without payment), compared with only 10.5 percent of imports from the U.S. and 18.7 percent from other countries. This also underscores the great potential for shifts in U.S.-Morocco trade and investment patterns as U.S. firms could mimic European firms by increasing their exports of equipment, inputs, and raw materials to Morocco.

The great majority of EU exports to Morocco (85 percent) are on one of three lists whose products have either already had tariffs eliminated or will have them eliminated over four or twelve years. Thus, while the rate of tariff preference for EU suppliers is low right now on average (3.3 percent advantage), it can be expected to increase over time. While trade diversion may not be evident yet, without a preferential arrangement benefiting U.S. firms in the Moroccan market, the likely direction of a trend in favor of European suppliers is clear.

Serious analysis of trade diversion is not really possible – the data series are too short, rendering attempts at estimation of the sensitivity of trade flows with respect to changes in tariffs (i.e. estimation of trade elasticities) cumbersome, if not meaningless. Even assuming one could take two years of observations and infer some trends, trade flows do not react instantaneously to price changes. Even when tariffs change substantially, it may take time for importers to find new suppliers from a totally different region. Of course, the larger is the tariff change, the greater is the incentive to find a new supplier as quickly as possible. Tariffs being set at the ten-digit level, tariff changes must be measured at this level as well and matched with trade flows, disaggregated by origin, at the same position.

Another complicating issue during this period is the impact of the dirham's value relative to other currencies. Until recently, the U.S. dollar had strengthened significantly relative to the euro and other currencies. The dirham's value is pegged to a basket of other currencies, including both the euro and the dollar. However, the exact weighting scheme is not known. To the extent that the peg is trade-weighted by trading partner, import demand from Morocco would have been biased away from dollar-denominated products due to the increase in their costs viewed in dirham terms. These trends suggest that U.S. exports to Morocco suffered additional, exchange rate-related problems of competitiveness relative to European firms above and beyond whatever bias the EUAA may have introduced.

That all said, it should be noted that between 1999 and 2001, the share of Morocco's total imports supplied by the European Union actually *declined*, not rose, from 58.6 to 54.9 percent. In the short period of time since the EUAA went into effect, trade flows have not been diverted to EU sources. This shows that Morocco is actually globalizing more than realized, despite the possible trade diversion pull from EU due to tariff preferences in favor of European suppliers.

U.S.-Morocco Trade and Investment Flows

This section reviews the data with respect to three aspects of U.S.-Morocco economic relations: merchandise trade, services trade, and investment flows.

U.S.-Morocco Merchandise Trade

U.S. Merchandise Exports to Morocco

Table 14 highlights U.S. export trends to Morocco, measured at the 4-digit Harmonized System (HS) code level, representing the twenty most important products exported in 1999. These products were chosen for comparability with Table 5 in Abbott, Abdelkhalek, and Salinger (2000). The concern that U.S. products are losing market share is supported in the declines or total eliminations witnessed in every line, except for aircraft parts.

Table 14: Leading 4-Digit U.S. Exports to Morocco, 1999 ranking

(thousand US $)		1996	1999	2001
HS Code	**Product**			
8802	Aircraft	3,633	131,531	-
7306	Iron & steel pipes & tubing	0	76,404	-
1005	Corn	51,517	47,561	42,056
1001	Wheat	129,184	39,556	17,700
2402	Tobacco products	30,677	32,367	44
1507	Soybean oil	7,756	22,033	-
1201	Soybeans	22,520	19,276	14,052
8407	Internal combustion engines	44	14,931	8,222
8803	Aircraft parts	13,675	11,415	16,557
2304	Soybean cake	3,605	8,232	6,505
8529	Television, radio, radar apparatus parts	7,836	7,294	2,557
8431	Machinery parts (for 8425 to 8430)	4,638	6,767	2,124
1007	Grain sorghum	58	6,357	32
6212	Bras, other undergarments	-	5,142	3,287
8704	Motor Vehicles	1861	5,124	178
8541	Semiconductors	2,886	5,005	152
3907	Polyethers, expoxides & polyesters	640	4,465	3,469
8473	Typewriters, office machine parts	698	4,311	2,109
3815	Reaction initiators, accelerators, catalytic	2,108	4,111	590
8542	Electronic integrated circuits	242	4,037	607
00	**Total, All Commodities**	**476,286**	**573,581**	**282,152**

Source: U.S. Department of Commerce

If one looks at the top twenty products exported in 2001 to Morocco from the U.S. (Table 15), the list is quite different. Thirteen of the original top twenty from the 1999 ranking – including three agricultural and food products (grain sorghum, soybean oil, tobacco products), bras and other undergarments, four of the parts and machinery products categories (reactors/ initiators/accelerators, iron and steel pipes and tubing, and both machinery parts categories), all three of the electronics products (television/radio/radar parts, semiconductors, electronic integrated circuits), motor vehicles, and aircraft – fall off the list. New product categories according to the 2001 "top twenty" ranking include food processing residues, antibiotics, sulfur, coal, coke, chemical wood pulp, Kraft paper and paperboard, woven fabric of synthetic yarns, heating machinery, television and radio apparatus, tanks, and computers. That the mix is quite different is not disturbing, for it gives tangible evidence to a rapidly industrializing economy. That the

total value of exports has fallen to but half of its 1998 levels is, however, suggestive of falling overall U.S. market share in Morocco.

In the case of lumpy purchases such as aircraft, this is not unexpected. For example, *Royal Air Maroc* decided in late 2000 to purchase 24 new Boeing aircraft, but is not likely to engage in purchases of such magnitude on an annual basis. However, further investigation is needed to understand the reasons for the significant decreases in other product lines, discussed in the sector appraisals section below.

Table 15: Leading 4-Digit U.S. Exports to Morocco, 2001 ranking

(thousand US $)		1998	1999	2000	2001
HS Code	**Product**				
1005	Corn	39,769	47,561	63,596	42,056
1001	Wheat	32,132	39,556	58,874	17,700
8803	Aircraft parts	27,064	11,415	12,960	16,557
1201	Soybeans	10,603	19,276	16,482	14,052
2713	Petroleum coke, bitumen & other residues	7,655	3,351	11,536	13,503
5407	Woven fabric, synthetic filament yarn	1,140	1,439	358	8,707
2701	Coal	2,150	-	24,258	8,602
8407	Internal combustion engines	6,845	14,931	12,917	8,222
2304	Soybean cake	7,383	8,232	11,320	6,505
8525	TV/Radio transmission apparatus	2,865	3,119	9,416	6,135
9801	Exports of repaired imports; Imports of returned exports	155	470	945	5,104
4703	Chemical wood pulp	2,917	2,558	7,122	4,741
8419	Heating machinery	5,367	859	1,910	4,356
2303	Residues of starch, sugar, or brewing manufacture	-	882	4,835	4,041
2941	Antibiotics	591	879	903	4,028
4804	Kraft paper & paperboard	1,194	1,861	3,276	3,615
3907	Polyethers, expoxides & polyesters	2,004	4,465	4,518	3,469
8710	Tanks & parts	2,907	1,658	1,629	3,398
2503	Sulfur	2,249	1,808	5,435	3,393
8471	Computers	4,145	3,962	7,324	3,376
00	**Total, All Commodities**	**561,413**	**565,839**	**523,157**	**282,152**

Source: U.S. Department of Commerce
Note: Shaded lines represent new product categories to appear in the 2001 "top twenty" list of U.S. exports to Morocco.

Morocco's Merchandise Exports to the U.S.

An understanding of the evolution of Morocco's exports to the U.S. is also important in order to appreciate areas of growth, and thus opportunities for U.S. companies to supply raw materials and industrial inputs to Morocco.

Morocco's exports to the U.S. have grown 12 percent per year between 1996 and 2001, from $247 to $435 million (Table 16). The fastest growing product categories are refined petroleum oil and phosphoric acid, which grew from nothing in 1996 to $57 million and $16 million, respectively, in 2001, as well as garments (+142%, across four product codes), electronic integrated circuits (+101%), dried vegetables (+66%), semiconductor devices (+38% over the five-year period, although fell from $100 million in 2000 to $54 million in 2001), preserved fish (+23%), and phosphates (+21%). On the other hand, olive oils and cement exports have disappeared altogether, while agar-agar (-22%) and citrus (-19%) have also declined significantly.

Table 16: Leading 4-Digit Moroccan Exports to the U.S., 1999 ranking

(thousand US $)		1996	1999	2001
HS Code	**Product**			
8541	Semiconductor devices (diodes, transistors)	39,101	76,023	54,113
2510	Phosphate rock, chalk	29,485	37,622	35,545
2530	Minerals	25,446	33,921	29,012
6212	Bras, other undergarments	4,217	32,894	22,212
6204	Women's or girls' cotton trousers	20,251	27,269	28,488
8542	Electronic integrated circuits	13,858	25,337	27,786
1604	Preserved fish (sardines, anchovies)	16,854	18,304	20,800
2005	Prepared vegetables (mostly preserved olives)	18,184	17,836	18,041
6108	Women's or Girls' slips, pajamas (knit or crocheted)	6,849	14,409	17,841
2809	Phosphoric acid (other than fertilizer grade)	-	10,314	15,879
6203	Men's or Boys' cotton trousers	4,747	7,952	18,814
0712	Dried vegetables (mostly dried tomatoes)	3,589	7,576	5,942
2710	Oil from petrol (not crude)	-	7,362	56,614
1302	Agar-agar (mucilages & thickeners)	8,522	7,140	6,660
2523	Cement	-	6,800	-
2602	Manganese	5	6,009	12
0805	Citrus, fresh or dried	328	5,824	267
1509	Olive oil	8,873	4,445	137
1510	Olive-Residue oil & blends	379	2,738	-
00	**Total, All Commodities**	**247,077**	**390,320**	**434,573**

Source: U.S. Department of Commerce

Signs of development of Morocco's chemical, mining, and petroleum industries are apparent in the appearance among the "top twenty" exports to the U.S. from Morocco (2001 ranking, Table 17) of such products as complete fertilizers, cobalt, crude oil, inorganic acids, and the ranking of refined petroleum oil at the top of the 2001 list. Footwear now also appears on the list of twenty most important exports to the U.S.

Table 17: Leading 4-Digit Moroccan Exports to the U.S., 2001 ranking

(thousand US $) HS Code	Product	1998	1999	2000	2001
2710	Oil from petrol (not crude)	5,996	7,362	38,903	56,614
8541	Semiconductor devices (diodes, transistors)	71,464	76,536	100,381	54,113
2510	Phosphate rock, chalk	37,602	37,622	30,656	35,545
2530	Minerals	23,770	33,921	28,730	29,012
6204	Women's or girls' cotton trousers	33,831	27,269	39,122	28,488
8542	Electronic integrated circuits	17,167	25,425	38,833	27,786
6212	Bras, other undergarments	20,705	32,894	26,181	22,212
1604	Preserved fish (sardines, anchovies)	19,845	18,304	22,664	20,800
6203	Men's or boys' cotton trousers	11,087	7,956	9,613	18,814
2005	Prepared vegetables (mostly preserved olives)	15,004	17,836	15,877	18,041
6108	Women's or girls' slips, pajamas (knit or crocheted)	21,542	14,409	10,828	17,841
2809	Phosphoric acid (other than fertilizer grade)	3,555	10,314	9,709	15,879
3105	Fertilizer	-	-	3,760	10,729
9802	Exports of repaired imports; Imports of returned exports	6,428	6,452	4,842	8,227
2709	Oil from petroleum (crude)	-	-	-	7,870
1302	Agar-agar (mucilages & thickeners)	8,255	7,140	8,092	6,660
0712	Dried vegetables	2,861	7,576	6,119	5,942
8105	Cobalt	-	399	1,167	4,572
6403	Footwear	968	1,780	2,287	3,914
2811	Inorganic acids	-	90	1,150	2,852
00	**Total, All Commodities**	**342,985**	**386,368**	**440,772**	**434,573**

Source: U.S. Department of Commerce
Note: Shaded lines represent new product categories to appear in the 2001 "top twenty" list of U.S. exports to Morocco.

Morocco's Services Trade

Morocco has the multilingual and savvy population, strategic geographic placement, and agreeable tourist environment to distinguish itself in the ranks of services sector providers around the world. Privileged access to U.S. investment capital and the U.S. services market will contribute to Morocco's strategy to become a regional hub for investment and trade in North Africa, as well as toward Europe and West Africa.

WTO GATS Commitments

Four modes of supply are distinguished in the General Agreement on Trade in Services (GATS), on the basis of the origin of the service supplier and the consumer and the degree and type of territorial presence that they have at the time the service is delivered.[24] These modes of supply are referenced in the GATS commitments supplied by signatories, including that of Morocco. Morocco made commitments with respect to some or all aspects of business, communication, construction and related engineering, environmental, financial, tourism and travel related, and transport services but made no commitment with

[24] These include "cross-border" delivery of services (Mode 1), "consumption abroad" as when tourists consume services in a country away from their residence (Mode 2), "commercial presence" in which the service supplier sets up a distribution site abroad (Mode 3), and "presence of natural persons" which requires that service provider natural persons be physically present in the foreign country to which they are delivering a service (Mode 4).

respect to educational, distribution, health, recreational, or other services. In the 155 subsectors of the GATS schedules, Morocco made commitments in only 26 subsectors.[25]

Morocco has more often than not chosen "unbound" or "none" for Modes 1 and 2, which means that in the future, new restrictions incompatible with national treatment or market access may be taken by Morocco without penalty. Exemptions to the GATS are time-bound, may last no longer than 10 years, and are subject to review and negotiation. With Morocco, U.S. negotiators in the FTA negotiations will undoubtedly seek to expand beyond what is available under GATS.

In contrast to many of its WTO partners, the U.S. schedule of liberalization commitments under GATS has less than one stated derogation per category declared. As a result, the U.S. market has relatively few specific exemptions on the myriad service sectors. In the 155 tertiary sub-sectors of the GATS, the U.S. has 93 exemptions across both horizontal commitments and sector-specific exemptions on market access and national treatment (Lord and Uraidi-Hammudeh 2001, p.17). Most of the U.S. commitments relate to the temporary entry and stay of persons in the U.S. under its horizontal commitments. With this liberal WTO access to U.S. services sectors already in hand, plus the possibility of negotiating further bilateral commitments case by case via an inter-governmental process, services sector providers in Morocco could pretty much choose which sector to target. Morocco is likely to become an attractive investment option for both foreign and Moroccan capital in services.

As Morocco's services sectors are presumed to benefit from higher protection than those in the U.S., the FTA should open more opportunities for U.S. services industries in Morocco than vice-versa. Early liberalization under the U.S.-Morocco FTA will improve the attractiveness of investment in Morocco's services sectors. This is an area where the U.S. may be able to outmaneuver the EU in opening privileged access for its services providers.

Services in the U.S.-Jordan FTA

In the U.S.-Jordan FTA, Article 3 on trade in services relies primarily on the liberalization commitments made in the GATS. There is scope for further bilateral concessions to be listed in an annex on new services commitments, whether on market access or derogations from national treatment, although it is unclear if either side made further bilateral commitments related to services sectors under the U.S.-Jordan FTA.

As part of its multilateral GATS commitments, Jordan established a reciprocity requirement for several services sectors, going well beyond the usual recognition of professional certifications. Under the U.S.-Jordan FTA, the two countries were able to develop an ongoing mechanism to satisfy Jordan's reciprocity requirement sector by sector, opening the way to expanded access beyond those concessions made in the GATS. In the U.S.-Jordan FTA, Jordan committed to changing its services sector laws within a 3-year period to allow access for U.S. firms as agreed. The starting point for the 3-year period may vary sector by sector as well, depending on the date of agreement.

Services in the EU-Morocco Association Agreement

In the EU-Morocco Association Agreement, there is no separate schedule for liberalization of services trade beyond those found in the GATS itself. This is good for U.S. services firms; as under the U.S.-Jordan FTA, negotiation of additional bilateral liberalization commitments is likely to be expressly provided for in the U.S.-Morocco FTA. This means that, in relation to EU firms, U.S. services sector

[25] In the seven umbrella sectors in which Morocco made its 26 liberalization commitments, Morocco made no commitments in a further 86 sub-sectors. When added to the additional five sectors and 43 sub-sectors in which Morocco has yet to declare its liberalization commitment, it appears there is much room for discussion for additional bilateral concessions on services in the U.S.-Morocco FTA..

firms suffer no apparent disadvantage in doing business due to the advent of the EUAA. However, U.S. services sector firms establishing operations in Morocco will get no special access to the EU market, as will U.S. investors in Moroccan manufacturing.

Title III of the EUAA relates to the right of establishment and services, but simply reaffirms each side's GATS commitments. Article 53 of the Association Agreement describes the EU's commitment to provide assistance to Morocco to achieve closer common rules and standards in: bolstering and restructuring Morocco's financial services sector; and improving accounting, auditing, supervision and regulation of financial services and financial monitoring in Morocco. Article 58 provides for EU cooperation on tourism, specifically catering management and the quality of service in various fields related to catering, the development of marketing for tourism, and promotion of tourism for young people. While EU development assistance has been slow to deliver to the intended programs in the host country public and private sectors, the EU's use of a multiyear budget framework means that EU money once committed will eventually be spent.

Importance of Services Sectors in the Moroccan Economy

National accounts data on trade in services usually only include GATS Modes 1 (cross-border delivery of services) and 2 (consumption abroad). Economic activity that might now be counted as Mode 3 (economic activity by foreign subsidiaries via commercial presence) is not likely considered as trade in services. In Morocco, the national accounts data show that the tertiary sector overall accounted for $5.57 billion in 1999, an increase of 14 percent from 1995. Services thus represent 39 percent of Morocco's GDP.[26] Services trade is also an important component of Morocco's balance of payments (Table 18). In 2000, services exports accounted for 23 percent of current account receipts and 14 percent of current account payments.

Table 18: Morocco's Balance of Payments, 2000

IMF Method (millions of DH)	Receipts	Payments	Balance
A-Current Account Transactions	**140 574.9**	**145 782.1**	**-5 207.2**
Goods	78 673.8	112 639.9	-33 966.1
Services	31 932.5	19 743.9	12 188.6
Revenues	2 934.0	12 147.6	-9 213.6
Current Transfers	27 034.6	1 250.7	25 783.9
B-Capital Account And Financial Operations	**35 508.2**	**32 323.3**	**3 184.9**
Capital	0.6	64.0	- 63.4
Financial Operations	35 507.6	32 259.3	3 248.3
C-Statistical Variation	**2 022.3**	**-**	**2 022.3**
Total	**178 105.4**	**178 105.4**	**-**

Source: Office des Changes

Morocco consistently ran a substantial surplus in services trade during the late 1990s, typically exporting slightly under $3 billion of services and importing slightly under $2 billion (Table 19). Note that the methods for determining imports and exports of services are distinct from those used for trade in goods. The value of trade in services is even more difficult to estimate than economic activity in services (Findlay and Warren, 2000). The category of travel and related services, such as lodging, accounts for about half of Morocco's trade in services.

[26] The CIA World Fact Book estimates that services represented 52% of GDP in Morocco in 1999. This study relies on Moroccan government data. Given the complexity of estimating economic activity in services, such a substantial difference between the Moroccan estimate and the U.S. estimate is not surprising.

Table 19: Moroccan Trade in Services
(millions of dollars)

	1997 X	1997 M	1998 X	1998 M	1999 X	1999 M	2000 X	2000 M
Transportation	433	562	464	591	443	581	438	588
Travel	1,423	310	1,816	441	1,808	419	2,032	429
Communication services	88	28	89	37	105	27	113	17
Insurance services	30	39	28	36	24	34	30	29
Royalties & license fees	4	121	7	178	6	186	39	209
Other business services	189	187	259	189	215	177	161	211
Government procurement services	264	450	280	501	289	432	185	371
Total Trade in Services	**2,431**	**1,696**	**2,942**	**1,973**	**2,889**	**1,858**	**2,998**	**1,854**

Source: Kingdom of Morocco, Annuaire Statistique, Table 17-1, various years.
Note: X = exports, M = imports

A look at the growth in bank credit over the late 1990s provides a revealing indication of the catalytic role presently being played by the services sector in Morocco. From 1995 to 1998, bank credit grew 4 percent in the primary sector (agriculture, forestry and fisheries), 7 percent in the secondary sector (extractive industries, energy and water, processing industries, buildings and public works), and 34 percent in the tertiary sector (transport and communications, trade, and other services).[27]

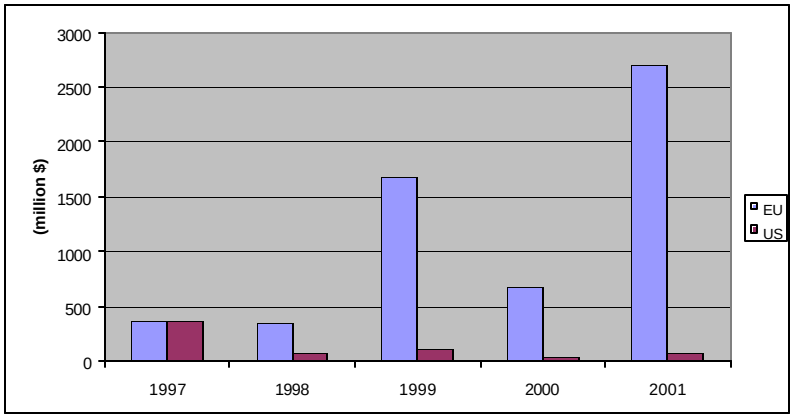
Investment Flows into Morocco

Foreign investments in new companies, export-oriented companies, companies choosing to locate in the Tangier Free Zone or in the north, have been encouraged into Morocco through a variety of fiscal and duty incentives programs. The Hassan II Fund for Economic and Social Development, financed with revenues from the second telecommunications license sale in 1999, offers subsidies on land purchases and construction costs to help jumpstart investments throughout the country. Privatization of a substantial number of state companies and state-owned businesses has also attracted private foreign investment into the country since the early 1990s. At the national level, foreign investments into Morocco are serviced through the Ministry of Finance's Direction of Foreign Investments (www.morocco-invest.com), while at the regional level, King Mohammed VI announced his intention to create regional investment centers to promote local projects.[28]

[27] Kingdom of Morocco (2001), *Annuaire Statistique 2000*, Table 18-7.

[28] "Discours de SM le Roi à l'occasion de la présentation de la Lettre Royale au Premier ministre relative à la gestion déconcentrée de l'investissement," Casablanca, January 9, 2002, http://www.mincom.gov.ma/french/generalites/samajeste/mohammedVI/discours/2002/l'investissement.htm.

Figure 1: Foreign Investment in Morocco



As seen in Figure 1, the level of U.S. foreign investment in Morocco seriously lags behind that of EU countries combined. Ranked in Table 20 according to importance by cumulative contribution (direct investments and loans combined) for the period 1997-2001, the United States is Morocco's third largest investor (9%), after France (46%) and Portugal (10%). The telecommunications sector has drawn the greatest foreign investor interest. Overall, services (including telecommunications, banking, real estate, trade, other services, tourism, public works, transportation, and insurance) have drawn nearly three-quarters of all investment into Morocco.

Table 20: Foreign Investments and Private Loans into Morocco
(millions U.S. $)

	1997	1998	1999	2000	2001*		1997	1998	1999	2000	2001*
By country						**By sector**					
France	168.4	181.9	382.5	197.1	2409.7	Telecommunications	2.6	1.4	1033.9	749.8	2293.3
Portugal	1.9	13.8	513.3	80.8	124.0	Industry	164.4	213.2	384.4	108.2	216.3
United States	362.8	72.8	111.7	39.3	81.0	Banking	220.1	120.8	218.9	71.3	31.0
Netherlands	26.7	30.0	343.2	233.6	14.9	Petroleum	378.8	17.7	5.8	0.7	9.1
Spain	52.9	53.2	211.0	55.9	83.5	Energy and mining	295.3	23.1	39.7	29.5	1.2
IFC	0.0	5.2	0.0	406.8	0.0	Real estate	33.5	55.6	49.6	61.5	71.1
Sweden	376.2	0.2	2.1	2.2	4.5	Trade	20.5	31.5	16.0	66.0	95.3
Germany	63.7	6.3	184.8	18.1	23.2	Other services	26.8	24.6	36.5	28.6	85.5
Great Britain	35.1	27.3	20.6	48.7	26.0	Tourism	49.6	17.4	30.9	18.0	28.7
Switzerland	8.9	32.3	29.9	23.4	40.5	Holding	58.7	29.3	22.2	21.1	9.9
Other	195.2	143.5	76.7	81.7	70.9	Miscellaneous	13.6	15.6	15.1	18.6	8.3
Total	**1291.8**	**566.4**	**1875.8**	**1187.5**	**2878.2**	Public works	22.6	2.9	13.2	8.0	12.9
Only FDI	1095.3	377.2	931.0	258.7	2660.9	Agriculture	2.6	6.0	3.6	1.5	3.2
						Fisheries	0.6	4.5	0.4	1.3	6.2
						Transportation	1.7	0.9	3.4	1.6	2.4
						Studies	0.0	1.6	1.7	1.8	0.7
						Insurance	0.2	0.3	0.5	0.0	3.0
						Total	**1291.8**	**566.4**	**1875.8**	**1187.5**	**2878.2**
						Of which, Services	377.8	255.3	1402.8	1004.8	2623.3
							29%	45%	75%	85%	91%

Source: Office des Changes
*Note: * provisional figures*

Table 21: U.S. Foreign Direct Investment into Morocco, By Sector
(millions U.S. $)

	1997	1998	1999	2000	2001*
Energy and mining	286.8	0.0	0.0	0.5	0.0
Industry	3.1	4.1	84.2	1.1	29.4
Real estate	1.5	0.8	2.9	4.6	6.9
Other services	1.6	0.4	0.8	3.3	6.7
Tourism	0.0	5.7	0.1	5.2	0.3
Trade	0.2	1.1	2.0	0.3	5.9
Holding	0.8	0.0	2.1	0.0	0.2
Miscellaneous	0.8	0.2	0.8	0.5	0.6
Banking	0.0	1.1	0.1	0.2	0.0
Fisheries	0.0	0.1	0.0	0.0	0.6
Telecommunications	0.1	0.0	0.1	0.6	0.0
Textiles	0.3	0.0	0.4	0.0	0.0
Public Works	0.0	0.0	0.0	0.0	0.4
Agriculture	0.1	0.2	0.0	0.0	0.0
Oil	0.0	0.0	0.0	0.2	0.0
Transportation	0.0	0.0	0.0	0.0	0.1
Studies	0.0	0.0	0.0	0.0	0.0
Total	**295.3**	**13.9**	**93.6**	**16.6**	**51.2**

Source: Office des Changes
*Note: * provisional figures*

This section has explored the role of the U.S. with respect to merchandise trade, services trade, and investment in Morocco. Analysis suggests that the fall in the U.S. share of Morocco's merchandise imports is due to widespread declines across all product categories comprising the top twenty U.S. exports to Morocco in 1999: aircraft exports and iron and steel piping and tubing fell off all together, while all other categories declined substantially. In their place on the list of U.S. exports to Morocco appear new inputs into manufacturing processes. In the reverse direction, Morocco's exports to the U.S. have increased, now including in the top twenty such products as fertilizer, crude oil, footwear, and inorganic acids. Analysis of Morocco's services trade highlights travel, which represents two-thirds of Morocco's services exports, and the relatively less importance of other areas of services trade, suggesting areas of possible investment for U.S. companies. In terms of foreign investment into Morocco, the U.S. ranks a distant third behind France and Portugal in terms of cumulative flows (1997-2001), thanks in large part to one significant U.S. investment made in the energy and mining sector in 1997.

Rapid Appraisals of Selected Economic Sectors in Morocco

In order to gain a broader perspective on how a free trade agreement between the U.S. and Morocco might expand opportunities for U.S. trade and investment with Morocco, interviews were conducted not only with U.S. and Moroccan government officials, but also with representatives of professional associations (including the American Chamber of Commerce in Morocco), Moroccan companies, international companies operating presently in Morocco, and American companies already doing business in Morocco. Private companies were drawn from a sample of agribusiness, textiles and clothing, automobile parts, electronics, fiber optics, and pharmaceutical manufacturers and distributors, as well as companies involved in financial, electricity, and tourism service provision. A complete list of interviews held is provided in Annex B.

This rapid appraisal of business conditions and opportunities for U.S. companies in Morocco is not meant to be exhaustive. For instance, it does not reprise several of the sectors explored in Abbott, Abdelkhalek, and Salinger (2000), such as aircraft exports or information technology services.

Private firm interviewees were asked:

- how long their company has been present in Morocco,
- what factors affected the company's decision to come to Morocco,
- what goods or services are produced by the company, and what percentage is sold in Morocco, to the European Union, to the United States, and elsewhere,
- what impact the European Union Association Agreement has had on the business,
- where inputs and raw materials are sourced, and what factors affect those sourcing decisions,
- what non-tariff factors affect the demand and supply for the goods or services sold by the company,
- how a U.S.-Morocco Free Trade Agreement would affect the business,
- whether rules of origin pose any concern for this company,[29] and
- what the U.S. or Morocco could do to promote increased U.S. trade and investment with Morocco.

Interviews were held in Morocco June 3-6, 2002 and July 11-23, 2002. Although such a survey, compressed into a three-week timeframe, cannot be scientifically representative or exhaustive of all business experiences in Morocco, the authors believe that they provide a sufficient basis from which to draw conclusions about opportunities and challenges relating to the pursuit of commerce in Morocco.

General Business Conditions in Morocco

A recent survey of business attitudes among 87 foreign businesses in Morocco, undertaken by the American Chamber of Commerce (AmCham 2001), points to what the authors call the "Moroccan Paradox." This refers to the fact that most survey participants have negative perceptions about day-to-day conduct of business in Morocco, yet remain positive about their investment and recommend that others invest in Morocco as well.

[29] The general rule of thumb of the EUAA's Protocol 4 concerning the treatment of non-originating inputs is that they must demonstrate "sufficient working and processing" to be considered compliant. In certain product cases, detailed in Annex 2 of Protocol 4, a myriad of percentage rules apply that restrict the contribution of non-originating products to total value-added to specific shares. Under both the U.S.-Jordan FTA and the Qualifying Industrial Zone amendment to the U.S.-Israel FTA, percentage rules prevail regarding minimum local value-added contributions (35%).

On the one hand, international business men and women are generally quite upbeat about Morocco. Wages are said to be appropriately matched to productivity levels, compared with international references. Morocco's technical education is said to be quite advanced. While the supply of workers in lower skilled manufacturing positions is ample, at more technical, qualified levels it becomes more difficult to retain workers, as many technically qualified graduates seek (and find) work outside of Morocco. One firm reported that "wages in Morocco are half the level of Mexican wages… but our Moroccan staff picks up new technical material in three months, whereas it takes six to nine months to train our Mexican workers on the same issues… now we train our Moroccan staff first, and then send them to Mexico to train our workers there." Other firms note that Moroccan wages are higher than those along the southeastern fringes of Eastern Europe (Romania, Bulgaria). However, they also wager that with accession to the EU the wages in Eastern Europe will climb and quickly outstrip Moroccan levels.

Companies located in the north of Morocco appreciate the special advantages afforded by Tangier, ranging from the ease of ferry transport across the Straits of Gibraltar to the special tax incentives offered both in the Tangier Free Zone and in industrial zones elsewhere in the city. Companies appreciate the special attention paid by Moroccan authorities to foreign direct investment, and some report that they have been helped in their efforts to acquire land or sufficiently large production and warehouse space. New industrial zones are being developed outside of Casablanca and Tangier where congestion is less of an issue. The Moroccan Customs Administration is considered to have made great modernization strides in the last few years. Container clearance is not a major concern for most companies interviewed.

On the other hand, foreign managers with experience from other developing countries of a comparable level of advancement express concern about corporate governance and legal/regulatory aspects of doing business in Morocco. A number of company managers note the tight circle of leading families that hold critical positions in both government and the commercial sector, saying that it is difficult for foreigners to penetrate and influence decision making in such an environment. A Moroccan manager of an international company offered that "American business people like things to be transparent and clear-cut. When they come to Morocco and find out that they have to pay visits to top authorities in order to arrange for their businesses to be registered or buy land, they get discouraged." Land is said to be difficult to procure for large industrial projects without significant intervention by public authorities, because the lack of a nationwide land registration and titling system constrains the efficient operation of a real estate market. Jurisprudence is often biased against foreign commercial interests. Although not formally declared, there is a sense that foreign companies who pay strict attention to all fiscal and regulatory codes are at a competitive disadvantage versus Moroccan companies who can afford greater flexibility because of lax enforcement. There is concern that Morocco's commitments to intellectual property rights and local commercial legal protection are not solid. There is guarded optimism regarding the ability of Morocco's newly created commercial courts to deal with these concerns. Finally, some companies mention that they consider electricity costs to be quite high in Morocco, and that union activism can be a problem, particularly for larger, more "visible" companies.

Foreign companies that were lured to Morocco by the promise of a Maghrebi free trade zone including Algeria, Morocco, and Tunisia, to be built behind a regional wall of protection, are disappointed by the lack of progress with regional integration. Such integration would offer the attraction of import-substitution for a market of over 70 million consumers. These are not necessarily the same companies that would profit from the more export-oriented EUAA or from a U.S. FTA. On the other hand, some companies that have arrived more recently in the Moroccan market find they are able to penetrate distribution networks and thus consumer markets.

More sector-specific opportunities and concerns are addressed below for specific agribusiness, export-oriented manufacturing, regional distribution, and service subsectors.

Agribusiness

The United States potentially has many agribusiness interests in Morocco. Most notably, the U.S. has historically been an important supplier of grains and oilseeds to Morocco, although it has recently lost market share to EU, non-EU European, and other suppliers. U.S. suppliers of other agricultural and agro-industrial products have explored or even made some inroads into Moroccan markets, ranging from cattle semen to table grapes root stock to wood pulp. In addition, some U.S. food processors of consumer products have located in Morocco to serve local consumers. However, broader penetration by U.S. agribusiness interests of the Moroccan market have been stymied to date by a combination of high (in some cases, prohibitive) tariffs, quality preferences that bias Moroccan demand against U.S. supplies, border valuation practices that give an advantage to non-U.S. suppliers, and lack of intellectual property protection in Morocco.

Grains and Oilseeds

Depending on local production conditions, Morocco imports from world markets for grains and oilseeds include:

- between 1.2 and 3.5 million tons of wheat,
- 1.2 million tons of coarse grains (of which 0.7 million is corn and 0.5 million is barley),
- 250 to 300,000 metric tons of soybeans, as much as 80,000 tons of soymeal, and about 300,000 tons of soybean oil.

Sales of U.S. bread wheat and corn to Morocco have been significant in the past, though especially in the case of wheat they have declined significantly in recent years. In the 1980s, the U.S. supplied 65 percent of Morocco's wheat, but by the 1990s its share of total wheat supply was down to 31 percent and since 2000 has been less than half of that (U.S. deliveries of just 180-490,000 tons). Whereas the U.S. sold $129.2 million worth of wheat to Morocco in 1996, wheat sales of only $17.7 million were registered in 2001.[30] Corn sales into Morocco's animal feed industry are variable without marked trend, registering between $40 and $60 million per year. About half of Morocco's soybean imports, all of its soymeal, and less than 10 percent of its soybean oil imports have been supplied by the U.S. in recent years.[31] In the cereals market, the U.S. competes with EU and Black Sea sources, whereas in the oilseeds and products market the U.S. competes largely with Brazilian and Argentinean supplies.

As described in Abbott et al. (2000a), Morocco's policy with respect to the domestic cereals market is to stabilize domestic prices as much as possible in the face of world market price uncertainty (see Table 22). This has led policy makers to innovate a *ad valorem* tariff scheme that applies a base duty (Duty1, in table below) to the C&F import price, plus a supplemental duty (Duty2) if the C&F price is below Morocco's threshold price. The scheme is consistent with WTO regulations on agricultural protection, because the ensuing effective duty rates are below the ceilings notified by the Moroccan government to the WTO in 1995.[32] At present, this system applies to all international suppliers of grains to Morocco, including those from the European Union. This same scheme also applies to soybean imports by anyone other than

[30] Figures on the value of U.S. cereals exports to Morocco from USA Trade Online, http://208.243.58.31/wds/, Foreign Trade Division of the U.S. Census Bureau.

[31] See USDA, Foreign Agricultural Service, Morocco Agricultural Attaché's office Global Agriculture Information Network reports: "Morocco – Oilseeds and Products: Annual 2002" (2/8/2002) and "Morocco – Grain and Feed: Annual 2002" (3/12/2002).

[32] Ceiling rates notified to the WTO by Morocco for bread wheat (190%), durum (224%), corn (160.5%), and soybeans (146.5), are to be reduced by 24% over ten years, i.e. by 2004. The ceilings after reductions will be: bread wheat (144%), durum (170%), corn (122%), and soybeans (111%). Any scheme resulting in protection levels below those notified to WTO are consistent with Agriculture Agreement obligations.

oilseed crushers (such as by livestock feed millers). Due to a reform introduced in 2000, oilseed crushers can import soybeans with only a 2.5 percent flat rate duty. Table 22 indicates the effective duty rates for bread wheat, durum, corn, and soybeans assuming C&F prices of $135, $200, $100, and $225 per metric ton, respectively. Imports of bread wheat are effectively dutied at a 82.3 percent rate, durum at a rate of 52.9 percent, corn at 43.3 percent, and soybeans imported for non-oil crushing purposes at a rate of 52.7 percent.

Table 22: Morocco's Import Duty Schemes for Key Agricultural Products

	C&F price (US$)	DH/$	C&F price (DH)	Duty1	Duty2	Domestic Threshold Price	Modified Duty (DH)	Modified Duty ($)	Price w/Duty (DH)	Price w/Duty ($)	Effective Duty Rate
Bread wheat	135	10	1350	33.5	103.5	2000	1112	111	2462	246	82.3%
Bread wheat (if over-invoiced)	*175*	*10*	*1750*	*33.5*	*103.5*	*2000*	*833*	*83*	*2183*	*218*	*61.7%*
Durum wheat	200	10	2000	21	93	2700	1059	106	3059	306	52.9%
Corn	100	10	1000	17.5	57	1464	433	43	1433	143	43.3%
Soybeans*	225	10	2250	22.5	100	2900	1186	119	3436	344	52.7%

Source: Moroccan Customs Administration, www.douane.gov.ma

Note: Duty formula also includes 24 Dh/t of port charges, added to the C&F price, and a 0.25% tax, added to C&F+charges.

** The import duty formula applies only to soybeans imported for purposes* other than *crushing for oil. Soybean meal is taxed at a 75.5% ad valorem rate. Crude soybean oil is dutied at 2.5%, while other soybean oils are assessed a 25% duty on import.*

However, a modified tariff system of this kind encourages over-invoicing in order to minimize the overall duty obligation. If, instead of the real C&F cost of $135/ton, an invoice is presented with a cost of $175/ton, then the modified duty is not $111/ton on top of C&F, but only $83/ton. The importer therefore pays in reality $135 + $83, or $218/ton, for an effective duty rate of 61.7 percent, rather than 82.3 percent.

In order to do away with incentives to cheat via over-invoicing, Moroccan policy makers decided in December 2000 to move away from a system whereby duties are estimated on the basis of invoices and in favor of a customs valuation system of reference prices calculated monthly on the basis of internationally published sources. However, this system introduces new biases. For instance, all wheat of European origin is assumed to cost the same as French wheat, although Black Sea origin wheat is presently selling at quite a discount to French wheat. For Canadian and Australian wheat, the Moroccan National Cereals Office (ONICL) uses national wheat board prices provided by Reuters, which are said to be set at levels higher than what is actually paid in the market. Reuters reports the Chicago and Kansas Board of Trade prices for American wheat. As seen from the over-invoicing example above, overpricing the C&F value by using a higher reference price than is actually paid again leads to a lower absolute duty than if the lower, real CIF price is used.

Part of the problem for U.S. wheat sellers is that U.S. wheats contain a higher degree of protein. This both makes them somewhat more expensive than lower protein French wheat, for example, and more difficult for Moroccan bread makers as they blend flours to achieve the consistency and style of "French baguettes." U.S. Wheat Associates has tried to respond to this technical constraint by establishing a milling school in Casablanca, where millers and bread makers are trained in blending techniques to increase demand for higher and more specifically defined quality wheats in their mixes.[33] Another part of the solution, U.S. Wheat suggests, would be to have Moroccan policy makers adopt a multi-tiered import pricing system which would segregate wheat according to protein content. This system is used in the

[33] See David Wilcock and James Jacobs, "Evaluation of the Moroccan Institute of Training in the Milling Industry (IFIM)," prepared for U.S. Wheat Associates and the Professional Milling Association of Morocco (Bethesda, MD: Development Alternatives, Inc., June 1996).

European Union, and U.S. Wheat Associates is lobbying for Morocco to adopt the same.[34] Unless Moroccan consumers significantly change their preferences for French-style baguettes, the move to a protein-weighted border price system is unlikely to dramatically increase the Moroccan demand for U.S. wheat in light of availability of less expensive sources of grains from non-EU and non-U.S. sources.

The high domestic price of cereals imports leads to high domestic consumer prices for bread flour. In order to counteract this tax on the consumer, ONICL does oversee the production of 100,000 tons of bread flour, the "subsidized" sale of which is supposed to be targeted to needy consumers.[35] A second effect of the high protection is that animal feeds are unduly expensive. In a 2000 report to the U.S. Grains Council and the Poultry Producers' Association (FISA), Abbott et al. (2000b) recommended elimination of the tariff on imports of maize and sorghum, as well as reduction of the tariff on gluten feed, in order to bring down the cost of blended feeds and help to kick start Morocco's underdeveloped industrial poultry sector. It was argued then that the present maize protection regime benefits an extremely small number of domestic producers of maize, particularly those who invested in central pivot irrigation systems. Yet Morocco's rapidly changing climate has sharply increased the economic opportunity cost of irrigation water, making continued protection of domestic irrigated maize production extremely ill-advised. The report also argued that sorghum needs no protection, as it is not produced in Morocco in any significant quantities.

In Jordan, where the tariffs on corn and soymeal imports were only 5.2 percent and have already been eliminated, U.S. exports are expected to increase significantly this year.[36] Non-tariff issues, such as drought in Jordan and the disruptive effect of the Argentinean economic crisis on soy crushing plants, have also improved the outlook for U.S. corn and soymeal suppliers in Jordan. Clearly, if the U.S. and Morocco were to move to a free trade agreement whereby U.S. grains would enter duty-free into the Moroccan market, this would have a huge effect on U.S. market share.

Poultry

In the above-mentioned 2000 report to the U.S. Grains Council on strategies for expanding Morocco's poultry sector, whose production conditions along the coast of Morocco are quite ideal, Abbott et al. argued in favor of reductions in blended feed and poultry import duties. The logic of the argument is that Moroccan poultry producers would benefit from greater efficiencies in the feed mixing industry if the duty on blended feed were reduced. In addition, Moroccan poultry consumers would benefit from lower tariffs on final products in part through easier access to consumer products such as frozen leg quarters and in part through induced efficiency increases in local poultry production.

Promoting the import of frozen poultry products into Morocco, although clearly less desired by consumers than fresh, local products, would provide a low-cost poultry meat alternative for Morocco's consumers. It would also increase consumer demand overall for poultry products, fresh and frozen combined. And it might help to promote broader investments in a sanitary, cold chain marketing system towards which the entire national production system could ultimately evolve. The Moroccan feed-poultry value-chain would thus require investments in inputs (feed, veterinary products, breed stock), equipment,

[34] Although private cereals importers have been free to determine their own cereals import contracts in general since 1996, ONICL still tenders for wheat imports to produce subsidized *farine nationale* and for emergency cereals supplies, as necessary.

[35] The word "subsidized" is in quotation marks because while the sales price may be lower relative to the high financial price in the Moroccan market, this is because of the high level of import protection. The wheat flour sales price is not subsidized in an economic sense relative to the border price of wheat.

[36] Conversation with USDA Foreign Agricultural Service, July 5, 2002.

and processing facilities and know-how, which the U.S. could help to supply, to increase the efficiency of the local poultry sector.

In Morocco, the import duty on frozen poultry (chilled or frozen whole or in parts) is 128 percent.[37] Though the duty on frozen poultry was lowered (from 134.5 percent), this rate is still quite high and effectively prevents imported poultry from entering the country. This results in domestic chicken prices in Morocco ranging from $1.20-1.80 per kilogram live or $1.80-3.50 per kilogram processed (and up to $8.00 per kilogram, when sold in parts in the supermarkets).[38] "Farm-raised" chickens (known as *poulets beldi* locally) sell for about $3.50 per kilogram live and $5.00 per kilogram processed. Under a free trade agreement with the U.S., one would expect poultry prices to come down significantly.

Poultry industry analyst Aho (2002) points out that poultry consumption is still a luxury for 60 percent of the world's 6 billion population (and probably 80 percent or more of Morocco's population) who have no refrigerators in their homes. He figures that this low-income population buys live poultry and pays over $1-$2 per pound for chicken, compared with the world's remaining 40 percent, i.e. those wealthy consumers who buy chicken through modern, cold-chain supermarket distribution and only pay $0.75/pound. Aho points out that technologies now exist in the U.S. that permit inexpensive and practical food storage such as the shelf-stable tuna in a pouch now being sold in the U.S. In countries where the tariffs on processed foods are relatively low, this offers a new export market opportunity for U.S. poultry processors. There is no tariff line in the Moroccan customs regime, chapter 2, for ready-to-consume meat products. Negotiation of a preferential duty here might be a way for American poultry products to begin to enter the Moroccan market.

In 2000, Moroccans consumed 4.9 kilograms of chicken meat per capita, compared with 6.9 kg/capita in Egypt, 13.5 kg/capita in Bulgaria, 19.9 kg/capita in Mexico, 21.6 kg/capita in South Africa, and 22.7 kg/capita in Spain.[39] At the other end of the spectrum is the U.S., where consumption is over 40 kg per capita. A free trade agreement between the U.S. and Morocco would bring low-cost feeds and chicken (either frozen or shelf-stable) to Moroccan consumers, whose consumption is bound to soar under more favorable market conditions.

Livestock Breeding

The USDA's export promotion program for small and medium-sized enterprises into emerging markets is known as Worldwide AgLink. With a program office in Casablanca, AgLink provides tailor-made services to small and medium U.S. companies seeking new markets abroad. In recent years, at least three different U.S. companies have expressed interest in exporting either cattle semen straws or live cattle breed stock. When the BSE ("mad cow") crisis in Europe became apparent in November 2000, Morocco closed its market to all imports of live cattle, bovine semen, and of course beef. High rates of protection (284 percent) on beef mean that beef imports virtually never entered anyway.[40] With all reproductive access also closed to Europe, USDA has intensified its campaign with the Ministry of Agriculture, providing information on animal health and animal production issues in order to facilitate entry of U.S. semen suppliers to the Moroccan market.

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[37] There are several exceptions to this, however. One is with respect to chicken imports by McDonalds, which are assessed an ad valorem tariff of 45 percent. That exception was supposed to have been a temporary exception until such time as McDonalds could establish local sources of supply. However, it has remained in place for several years. Another exception exists for the importation of mechanically de-boned turkey meat to process into deli products, which pays 60 percent.

[38] Prices taken from Abbott et al. (2000b).

[39] Source: Commodity and Marketing Programs, Foreign Agriculture Service, USDA, 2000.

[40] The import duty on semen is 2.5% (frozen) or 17.5% (other). Purebred cattle stock is dutied at 2.5%.

These efforts have resulted in the forging of working relationships between Moroccan government representatives and/or private beef and dairy producers in Morocco with dairy and beef breeders and producers in the U.S. Several U.S. bull semen suppliers have been working to develop a market or increase their market shares. Moroccan beef and dairy producers are said to be lobbying the government for greater flexibility with regard to breed stock and semen imports. A U.S.-Morocco free trade agreement would open interesting possibilities in this field.

Plant Genetics: Seed and Root Stock

Morocco exported $370 million in fresh fruits and vegetables in 2000 (of which, just over half was citrus products), 80 percent of which is sold under contract to the European Union. Given such a vibrant horticultural sector, a study by USDA/AgLink (2001) identified export opportunities for American exporters of plant genetics, plant nutrition and soil management products, specialty agricultural and horticultural products, farm equipment, irrigation equipment, fruit and vegetable processing equipment, and providers of technical services.

U.S. agribusiness companies interested in plant genetics, nutrition, and specialty production in Morocco include an American manufacturer of hydroponics equipment that will operate Morocco's first hydroponics facility, being constructed with $8 million in financing, in conjunction with a Moroccan consortium in Tangier. Another American firm is interested in selling several hundred thousand dollars per year in propagation licenses to grow a proprietary table grape it owns. The company is holding up the finalization of the licensing until the implementation regulations for Morocco's intellectual property legislation for plant genetics, passed by the Moroccan Parliament in 1997, are released by the Ministry of Agriculture. American plant breeders are hesitant to license proprietary plant materials in Morocco until the legislation is in force. Several U.S. seed companies are also interested in selling seed into Morocco, and are working on field testing with Moroccan companies before commercial outlets can be sought.

Environmental Products and Services

According to a USDA/AgLink newsletter (2001), several U.S. soil and turf management specialists have traveled to Morocco to explore possibilities for service delivery. In September 2000, two U.S. firms conducted technical workshops for Moroccan golf course directors, agricultural product distributors, and greenhouse managers and growers. Turf management fundamentals, integrated pest management, plant nutrition, and the use of remote sensing technology in identifying problems in turf, and greenhouse and field crops were discussed, with special attention to the problems found in arid environments and saline conditions. The workshop on turf management techniques in an arid environment was held on September 18, 2000, in Marrakech, targeting the management of sixteen Moroccan golf courses. A horticultural workshop proposing remedies to soil salinity, plant water stress, and plant nutrition in greenhouse horticulture held on September 22, 2000, in Rabat targeted high-value horticultural crop producers involved in the European export market.

Wood Pulp

In 1999, the U.S. exported $2.5 million of mechanical and chemical wood pulp to Morocco (HS codes 4701 through 4704). By 2000, exports had nearly tripled, to $7.4 million. However, in 2001 they sank to $4.74 million. At least one U.S. company in the wood pulp industry has felt its market in Morocco evaporate with the advent of the EUAA. American Pulp and Paper, located in Redmond, Washington, first explored the Moroccan market in 1998 and 1999 through USDA/AgLink, and subsequently exported $3.9 million of wood kraft pulp (bleached softwood, bleached hardwood, treated and untreated fluff, and unbleached softwood) to Morocco. It also had a $3-10 million market for pulp in Tunisia and Algeria, countries which are also in the process of negotiating Association Agreements with the EU.

However, since 2000 and the advent of the EUAA, American Pulp and Paper's sales to Morocco from the U.S. have halted, replaced by European imports. In some instances, American Pulp and Paper has actually sourced wood pulp from Finland to sell into North African markets. A 25 percent duty is applied to imports from the U.S., whereas duties on European imports have been eliminated. Thus, a hygienic products company that would normally buy 1000 air dry metric tons (ADMT) per order, at $460.00 per ADMT C&F, pays $575,000 for that shipment if procured from the U.S., but only $460,000 for the order if bought from Scandinavia. The diversion effects of such tariff preferences in favor of European-sourced product are clear. American Pulp and Paper is no longer optimistic about its North African market.

Processed Foods Manufacture and Retailing

At present, an estimated 10-15 percent of total commercial food sales in Morocco are made through hypermarkets or other outlets of "*la grande distribution*," the rest is sold in open markets and through small, family-owned shops.[41] The first hypermarket, *Marjane*, was opened in Morocco in 1990 by the ONA Group, Morocco's largest private industrial and financial group, a chain which now includes seven stores around the country; in 2001, the French company *Auchan* invested in 49 percent of the *Marjane* chain. In Rabat, the hypermarket *Aswak Assalam* provides competition, while the Dutch *Makro* chain also has opened five supermarkets around the country and the Spanish chain *Supersol* is expected to expand into Morocco.

This is an economic area expected to grow substantially in the near future, perhaps reaching 60-80 percent of total sales within five to eight years, according to one prominent industrialist. Sales through large-scale marketing outlets are fairly import-intensive, i.e. apt to increase the market share of imported goods being sold in Morocco. Importers play a major role in supplying imported food products to these outlets, although the large supermarket chains are expected to become more directly involved in their own supply chains. USDA's retail food sector report advises that the best way to introduce new products to the large retailers is to establish commercial relations with local importers because of their installed human and physical infrastructure.

As the retail food market modernizes in Morocco, market opportunities for a wide variety of processed foods also expand. USDA/AgLink conducts annual surveys of retail prices and products in nine supermarkets in Casablanca and Rabat, the results of which are distributed to interested U.S. companies. AgLink also facilitates participation by American companies in grocery food exhibitions in Morocco. Some U.S. companies choosing to sell into the Moroccan market from abroad found that they were adversely affected by the previous strength of the U.S. dollar. Other U.S. companies, such as Kraft Foods, find Morocco to be an attractive regional processing base. Kraft (the food division of Phillip Morris) entered Morocco in 2001 as part of its global market penetration strategy, wherein Morocco serves as the regional headquarters for Kraft's North African and West African operations.

Kraft's factory in Morocco produces roast coffee beans, ground coffee, and other beverage products. Instant coffee granules are imported by Kraft from the United Kingdom, paying a 50 percent tariff.[42] Kraft imports 100 percent of its annual $5 million outlay in packaging materials from the EU, presently paying a 50 percent duty. The company would definitely be interested in sourcing packaging from the U.S., rather than the EU, if there were a zero duty on imports from the U.S. The same holds true for its equipment imports, which are currently valued at about half a million dollars per year. Kraft finds that the

[41] For further information, see U.S. Department of Agriculture, Foreign Agricultural Service, Global Agriculture Information Network Report #MO1024, "Morocco: Retail Food Sector Report 2001," November 26, 2001.

[42] Nescafé, a Swiss brand, benefits from a bilateral agreement between Switzerland and Morocco under which instant coffee receives duty-free treatment. As Switzerland is not part of the EU, Kraft is therefore not disadvantaged by the EUAA.

logistics posed by exporting from the U.S. to Morocco are not particularly onerous, and that sourcing from Spain requires the same time frame as sourcing from the U.S. (4-6 weeks).

Export-Oriented Manufacturing

Morocco's fastest growing export categories in recent years include energy and lubricants, and semi-finished products (e.g., phosphoric acid and complex fertilizers). However, two-thirds of Morocco's exports are now semi-finished products, capital equipment, and consumption product manufactures, compared with just over 40 percent back in the mid-1980s (Table 23). Raw materials, which once accounted for a third of exports, now only provide 10 percent of total export value.

Table 23: Decomposition of Morocco's Exports, by Product Category

	1984	1990	2000	1984	1990	2000
	(in millions of Dh)				(in %)	
Food, beverages, tobacco	4283	8 636	16 751	22.4	24.8	21.3
Energy and lubricants	756	1 250	2 882	4.0	3.6	3.7
Raw materials	5975	6 151	7 569	31.3	17.6	9.6
of animal or plant origin	460	1 485	1 803	2.4	4.3	2.3
of mineral origin	5515	4 666	5 766	28.9	13.4	7.3
Semi-finished goods	5131	8 768	17 029	26.8	25.2	21.6
Finished capital equipment	127	1 258	4 809	0.7	3.6	6.1
Agricultural	3	6	11	0.0	0.0	0.0
Industrial	124	1 252	4 798	0.6	3.6	6.1
Finished consumption goods	2838	8 795	29 753	14.9	25.2	37.7
Industrial gold			33	0.0	0.0	0.0
Total	**19110**	**34858**	**78826**	**100.0**	**100.0**	**100.0**

Source: Kingdom of Morocco, Annuaire Statistique, various

Note: Comparison of data prior to 1998 with data since that year is made problematic by the fact that Moroccan authorities changed their treatment of temporary admission-related exports in the official statistics. Prior to 1998, exports of goods processed from inputs imported under temporary admission without payment were considered as services exports. Since 1998, they have been classified as products exports.

Morocco has long encouraged manufacturing for export via its "temporary admission" customs regime, which allows exporters to import raw materials and inputs from world markets without payment of duty, as long as the manufacturer's end product is re-exported. This regime has helped to focus production in the area of labor-intensive manufactures, such as of automobile parts, clothing, and electronics. However, it has inadvertently also had the effect of discouraging local investment in upstream input manufacture and limiting Moroccan value-added input to labor. The country would be better served by higher domestic local content requirements enforced through FTA rules of origin that would encourage investment in greater economic diversification and create a broader range of employment options for a trained Moroccan workforce.

Some international managers already operating in Morocco observed that for companies already successfully transacting in and out of Morocco via the temporary admission system, the U.S. FTA would offer no particular new advantages. Imported materials and inputs already enter duty-free and products are easily sold into the European market. Some international companies observed that there was little advantage to supplying the U.S. from Morocco, since they would have to compete with their corporate affiliates in Mexico, which already cover the U.S. market. On the other hand, other firms commented that for supplying U.S. east coast consumer markets, or for supplying products into niche U.S. markets, U.S. firms would do well to consider a Moroccan base. One U.S. multinational is even considering relocating some or all of its Mexican and Chinese operations to Morocco because of wage, labor skill, and logistics advantages in Morocco.

As seen earlier, Morocco's biggest export market is the European Union. With both container and truck shipping available from Morocco's seaports, Morocco provides an ideal platform for companies seeking just-in-time access to European markets. Other companies now use Morocco as a manufacturing platform for U.S. or worldwide distribution. Inputs may be imported from the U.S., inclusive of duties, but of the more than 20 companies interviewed for this study, including several from the automobile parts, electronics, and clothing industries, most source the bulk of their inputs from European or global sources.

While decisions to source from Europe (even by U.S. firms based in Morocco) are influenced in part by the EUAA-associated duty advantages in doing so (industrial inputs sourced from the EU are already imported into Morocco free of duty), price or logistics reasons are also cited by the firms as important variables. Textiles and trims are generally sourced from Asia because FOB prices are most competitive. Firms note that sourcing from Europe involves lower turnaround times, allowing companies to minimize their inventory costs. Industrial equipment also tends to be sourced from Europe, although several firms noted that they regularly attend trade fairs in the U.S. and would like to buy from American companies (because of their technical competitiveness), should tariffs go to zero on U.S.-supplied equipment. As far as destination markets, some companies – especially those producing bulky manufactures – say they would never ship to the U.S. from Morocco because transport costs are too high or turnaround times are too long. Other companies – especially those whose goods are lighter in weight and can be more easily air-freighted – report no problem shipping to the U.S. via Spain.

As noted earlier, European firms commented that Morocco's work force is reminiscent of that of Spain or Portugal ten years ago, or Ireland twenty-five years ago. Even including transport costs to southern Europe, Morocco's wages are said to be half the cost of labor in Spain today. Other managers note that Morocco is *not* an inexpensive wage-rate country, compared with other international off-shore platforms such as Kenya, Madagascar, the Philippines, or even Jordan. Some companies complain of labor relations issues. Under most current manufacturing arrangements, Morocco contributes labor for assembly and logistics, but little else. Product design, logistics, and interface with retail customers are usually managed by multinational companies through centralized, overseas operations. Yet international manufacturing companies seek Moroccan employees who are literate and numerate. Many offer literacy and technical training during work hours, as well as health care services, to all employees. Over time, Morocco's goal will be to increase the size of employment in upper and middle management and technical direction positions in these companies.

Morocco's two largest industrial zones are in Casablanca and Tangier. Casablanca's traditional sea-side industrial zone, Aïn Sebaa, located right next to the Casablanca container seaport, is becoming rather crowded. Companies seeking to expand their industrial real estate in the Casablanca area are increasingly turning to industrial land in Bouskoura being developed between the urban center and the Casablanca airport, located less than 10 miles inland. To the north, the Tangier Free Zone (TFZ) is located within ten miles of the Tangier ferry port to Europe.[43] Launched in April 2001, the TFZ offers newly developed industrial spaces varying in size from 1000 to upwards of 20,000 square meters (on a rental or purchase basis), one-stop administrative services for establishing companies, logistics services (e.g., truck parking, shopping, hotels and restaurants, off-shore banking, transit and customs agents, and security), exemption from all customs duties, and special tax incentives (e.g. complete exoneration from registration, unemployment, share yield, and value-added taxes; fifteen-year temporary exemption from payment of license and urban taxes; and exemption from payment of 35% profit taxes for the first five years and payment of only 8.75% from year 6 onward). Firms currently installed in the TFZ include those from the

[43] Tangier used to enjoy special status as a completely international zone. All companies based in Tangier, whether located in the TFZ or not, benefit from a 50% reduction in profit, professional, and urban infrastructure taxes.

textiles, automotive wiring, automotive textiles, ceramics, and fiber optics industries. While the TFZ offers modern facilities and ample industrial space, some firms note that with policy reforms introduced elsewhere throughout Morocco, the relative advantage of siting inside the TFZ becomes smaller.

Textiles & Clothing

Textile companies interviewed for this report can be categorized in one of two ways, depending on the nationality source of their original capital. Some are affiliated with U.S. multinationals, but operate out of Morocco increasingly in order to supply the EU market. Other firms have EU roots, but have displaced themselves from Europe to Morocco to take advantage of lower wages and EUAA-associated duty advantages. In either case, most of the firms interviewed for this report noted that their primary destination market is more likely the EU.

The U.S. imports $90-100 million of clothing from Morocco, especially in the short and long trousers and women's undergarments categories. Companies based in Morocco pursue a variety of brand and market niche strategies, from lower cost, discount products to upper end, fashion garments. Some companies note that Morocco's clothing industry can no longer specialize in basic "commodity" clothing, because its cost structure is too high, but rather should specialize in higher end products and emphasize the ability to turn around small orders into the EU with minimum turnaround time. At least one European company noted that while it used to sell principally into the EU market to EU retailers, it has added American brand labels such as The Gap, Timberland, Ralph Lauren, and Nike to its client list. It should be noted that even if a company manufactures in Morocco for The Gap, a brand label company headquartered in the U.S., its export sales to The Gap may still enter Morocco's trade statistics as exports to France, Germany, or elsewhere, depending on the retail destination. In fact, the European sourcing hub for The Gap is located in Turkey, from which all international CMT orders are placed.[44] Another Morocco-based European clothing firm mentioned that since its primary retail client in the U.K. was recently bought by Wal-Mart, it is now preparing test orders to be sold to Wal-Mart in the U.S. Several of these nimble international companies indicated that a Free Trade Agreement would be of interest to them for pursuing increased market share in the U.S. Many international companies already undergo management audits with international verification firms to confirm that their Morocco operations (and those of their local subcontractors) conform to international standards with regard to human resources and facilities management.

Clothing companies operating in Morocco tend to provide CMT services to international companies, which design garments and source raw materials from overseas and send them to Morocco for processing into final products for export. Some companies provide all CMT services in-house, others use a combination of in-house and CMT subcontractor services to meet clients' demands. As mentioned above, increasing numbers of Moroccan firms are modernizing, and capable of delivering full package services to their clients. Most imported fabric and trims come from either Europe or Asia, rarely the U.S.[45] Given the substantial transformation involved in processing fabric into garments, companies do not report any concerns regarding having to justify Moroccan origin.[46]

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[44] CMT refers to "cut, make, and trim," i.e. only the key manual assembly operations.

[45] In one instance, a U.S. firm just recently installed in Morocco – and thus not yet approved for temporary admission status – reports that the manufacture of its specialized end-product (bulletproof security garments) requires the use of very specialized textile inputs that it could initially only find in the U.S. However, the company recently switched to newly identified European suppliers of the necessary textiles in order to lower the duties it pays from 12 to 6 percent. All output manufactured by this Michigan-based firm in Morocco is presently sold into Germany.

[46] Rules of origin are discussed in greater detail above (U.S.-Jordan rules, p. 2; EUAA rules, p. 2). See also the discussion in footnote 29 on p. 2.

This is not to say that all is rosy in Morocco's textile and clothing sector. The industry has been hit by increased competition from a variety of directions, including central Europe, sub-Saharan Africa, Mexico, and the Caribbean. The Moroccan textile industry association (the *Association marocaine des industries du textile et de l'habillement*, or AMITH) has bemoaned the decline of 40,000 jobs in the Moroccan textile and clothing sector over the past several years. In August 2002, the government announced a $2 billion investment program for the sector, encompassing cuts in employer benefits contributions, lower energy costs, investment assistance for the acquisition of land and buildings, and low interest loans, all designed to stimulate new employment in the sector. The government has also agreed to make funds available to textile and clothing companies for management consultations regarding modernization strategies, for international advertising campaigns in Europe, and to help finance textile worker training programs to increase the multi-skilling of basic operators.

Foreign firms have begun to invest in input manufacturing in Morocco. One example is the Spanish denim company, Tavex, which invested in the Settat-based denim mill, SETTAVEX, in 1991. Producing 22 million linear meters of denim per year as well as woven cloth destined for sportswear, SETTAVEX is now Morocco's leading denim manufacturer. The company features total quality management circles and round-the-clock manufacturing. It also works with Moroccan clothing company clients to develop innovative product development and marketing to local as well as West African denim garment distributors. For the moment, most of the cotton fiber used by SETTAVEX is imported from world markets (with origins in West Africa, Syria, and elsewhere). However, the company is considering greater backward integration with Moroccan cotton producers.

Foreign firms have also invested heavily in downstream services such as laundering facilities. Since many of the final garment finishes that companies use to distinguish their end-products from those of competitors rely on post-assembly processing at the laundry stage, clothing companies are able to deliver a more finished product from Morocco if they have access to these facilities as well.

Such investments in upstream supply and downstream services echo the qualitative change that has occurred post-NAFTA in the type of networks linking Mexican apparel firms to international export markets, noted by Bair and Gereffi (2001). The Mexican denim industry no longer sells to a handful of large jeans manufacturers. Instead, top U.S. retailers (both large distribution and specialty retail) and brand designer-marketers are now connected directly to Mexican denim jeans manufacturers, who handle all aspects of input procurement, textile sourcing, fabric cutting, garment assembly, laundry and finishing, packaging, and distribution. Such a shift in manufacturing dynamics has clearly lead to productivity growth at the industrial and firm levels. This includes not just international companies but also Mexican-owned firms that have acquired sufficient knowledge and trust through the years of *maquiladora* assembly. Bair and Gereffi note, however, that the benefits of access to full-package assembly have been limited to date to a wealthy domestic elite that controls the industry and access to U.S. clients. Industry-wide associations have not proven effective at helping to transmit these benefits to a broader set of smaller companies. While the authors find the shift to full-package manufacturing has put pressure on labor organization and industrial relations, it has had positive ramifications for Mexican labor in terms of employment growth, skills upgrading, working conditions, and wages, which have improved dramatically to levels well in excess of local minimum wages.

Automobile Components

Morocco has become a regional center for the manufacture of automotive wiring and cabling systems. The American firm Delphi Automotive (headquartered in Troy, Michigan), as well as Yazaki (Japanese) and Automotive Wiring (German, producing for Volkswagen) are all located in Tangier, both in- and outside of the TFZ. These companies import bulk cabling and accessories and export complex wiring harnesses (such as power and signal distribution systems) for automobile manufacturers who assemble

vehicles in Europe. Another Michigan-based company, Polydesign, is investing in a plant in Morocco (also located in the TFZ) to produce molded plastic and interior textile components for automobile manufacture.

Electronics and Fiber Optics

Morocco is also home to increasingly sophisticated technology companies producing everything from consumer appliances to fiber optic cabling to semiconductors and smart cards. Fiber optic cabling, a key input into the telecommunications industry, is a technology product with high quality specifications. Morocco Fiber Optics, owned by Maryland-based Fiber-Conn Assemblies Inc. (a division of Emerson Electric Co.) presently exports 98 percent of its production to the U.S. market. Presently operating two shifts per day (and hoping to add a third in the near future), Morocco Fiber Optics produces 40-50,000 cables per month for such clients as the U.S. government and military, as the latter upgrade and protect their intranet networks.

In the semiconductor industry, STMicroelectronics is one of the world's largest manufacturers.[47] Moroccan facilities include three back-end (testing and assembly) sites for semiconductors and electronic components manufacture. These products are sold to international clients such as Alcatel, Bosch, Ford, IBM, Nokia, Nortel, and Siemens. In 1997, satisfied with the economic performance of its operations in Aïn Sebaa and Bouskoura, the company decided to build its third facility in Morocco, also in Bouskoura. In cooperation with the Moroccan government, ST agreed to invest $300 million to establish a world-class high technology manufacturing facility in the country. On a site of almost 45 acres (of which 27 acres were donated by the Moroccan authorities, STMicroelectronics built a 24,000 square meter production space (nearly 260,000 square feet), creating employment for 2,000 workers (anticipated 6,000 employees at full capacity). The factory presently runs 11 automated lines that take silicon wafers produced overseas in front-end fabrication. These are sawed, die-attached, wire bonded, molded onto epoxy frames, tin plated, cropped, tested, and finished, ready for insertion in a wide array of communications, transportation, and consumer electronics products. Semiconductors and other products are shipped by ST from Morocco to regional distribution points in Singapore, Europe, and Phoenix, Arizona, from which they are sold to industrial clients to be installed in everything from Chrysler automobiles to Hewlett-Packard printers.

ST is quite satisfied with the cooperation it has received from Morocco, in terms of land procurement, transport logistics, utilities and infrastructure, and efficient trade institutions, including customs. Customs officials work on site at ST, which is classified as a bonded factory. Equipment as well as raw materials come in duty-free from around the world.

ST reports that the workforce is well-trained, with 65 percent of ST employees having attended school to either the *baccalauréat* or university levels. In collaboration with the National Engineering Institute in Rabat, ST has recently established a design center in Rabat, comprised of thirty persons, mostly engineers. However, it reportedly takes three to five years on-the-job before engineering graduates are mature and productive. ST's in-house training division can turn out 800 new manufacturing operators per year. Along with several other technology companies working throughout Morocco, ST is exploring the feasibility of corporate collaboration with Moroccan universities to provide specialized manufacturing degrees via some kind of "alternative training" that would involve substantial on-the-job internships as part of their post-BA formal education. However, ST's chief concern is that while available labor is technically quite competent, the supply is quite limited and prone to turnover. In particular, after extensive on-the-job training, the biggest risk they face is competition from overseas job markets.

[47] The company was created in 1987 by the merging of the Italian semiconductor firm SGS Microelettronica and its French equivalent, Thomson Semiconductors. It was recently ranked the world's third largest manufacturer, after Intel and NEC, having surpassed Motorola and Texas Instruments last year.

Moroccan graduates from technical departments reportedly seek visas to pursue overseas employment opportunities at higher wages. This turnover represents a heavy cost to employers in Morocco.

STMicroelectronics would like to increase the density of high technology companies operating in Morocco. They see this as an important part of their strategy, not only to lure other electronics input suppliers into the country, but also to reduce the pressure on skilled labor to leave the country. As a result, ST's management has participated in several organized efforts to sell Morocco's capabilities to Silicon Valley leaders and to visiting industry leaders when they come to Morocco, such as for the Eleventh International Electronics Forum, held in May 2002 in Rabat.

U.S. Pharmaceuticals Companies Doing Business in Morocco

A number of U.S. drug companies, including Eli Lilly, Glaxo Smith Kline, Merck, and Pfizer, are represented in Morocco, as investors, licensors of patented products for local manufacture, or distributors. Companies are concerned about government pharmaceutical product price setting policies, which define domestic prices in Morocco using foreign prices (especially from Europe, the source of an important part of total drug imports into Morocco) as a ceiling, leading to squeezed profit margins for U.S. companies.

Opportunities for using Morocco as a regional distribution base into North and West Africa are also stymied by what U.S. firms see as weak protection of intellectual property laws, both with respect to patent application and consumer drug safety review procedures. As one business manager commented, "it's not just lower duties that will attract investment into Morocco, it's confidence that your investment will be protected." In March 2000, Morocco published a law relating to protection of industrial property, containing new patent and trademark legislation, which brought Morocco in compliance with its obligations under the WTO treaty on the trade-related aspects of intellectual property rights (TRIPS). According to the U.S. association Pharmaceutical Research and Manufacturers of America (PhRMA), the law is based on French patent legislation, which is "known not to be fully TRIPS compliant." Additionally, this law does not address the question of data exclusivity protection and does not create any system allowing for the protection of data exclusivity rights.[48] Since 2000, Morocco's new Patent Law is still not in force due to lack of issue of the implementing regulations. However, Morocco is not included on the U.S. Government Special 301 Watch List or Priority Watch List for intellectual property rights.

According to a June 2002 decision by the WTO council responsible for intellectual property, least-developed countries do not have to provide patent protection for pharmaceuticals until 2016. Morocco, however, is not a least-developed country. Developing countries, defined more broadly and including Morocco, have extra periods to delay providing patent protection for pharmaceuticals. But these countries still have to allow investors to submit patent applications during the period, and if a new drug is approved for local sale, the patent applicant has to be given exclusive marketing rights for five years even if there is no patent. PhRMA notes that U.S. companies in Morocco are frustrated by:

- the lack of patent protection for pharmaceutical products;
- the lack of specific protection for confidential clinical research data, whether patented or not, that must be provided to the Ministry of Health for the securing of marketing approvals, and that can be used for the approval of generic copies;

[48] According to PhRMA, pharmaceutical companies invest considerable amounts of time and expense in order to generate scientific data to attest to drug safety. The importance of protecting such proprietary data and prohibiting its use for the approval of copies is recognized in Article 39.3 of the TRIPS Agreement, requiring WTO members to provide protection for confidential test data submitted to regulatory authorities in order to secure a marketing authorization. Morocco had until January 1, 2000 to implement Article 39.3 of the TRIPS Agreement (signed in Marrakech in 1994). To date, Morocco still does not provide specific protection for confidential data.

- local ownership requirements, according to which a pharmaceutical company in Morocco must be majority-owned by individual pharmacists (half of which by Moroccan pharmacists);[49]
- and local production requirements, whereby a pharmaceutical company needs to own a manufacturing facility, which fail to recognize the over-capacity problem faced by all local manufacturers, as well as the tremendous value of multinational companies' investment in Morocco in particular in the training of hundreds of medical representatives (as opposed to factory plant workers).

The U.S. pharmaceutical industry also notes that there are high customs tariffs on drugs imported into Morocco. The duty on imported raw materials and imported finished products that cannot be manufactured locally is about 17 percent, whereas for imported finished products that are deemed to be "locally manufacturable" the tariff is approximately 40 percent.

Morocco's longer term strategy to transform itself into a knowledge economy may be jeopardized by the lack of resolution of the intellectual property rights issue. Lack of intellectual property rights protection has been found elsewhere to deter foreign investment in high technology sectors where intellectual property rights (IPR) play an important role (Smarzynska 2002).[50] International companies that undertook foreign investment in twenty four transition countries of Eastern Europe and the former Soviet Union were surveyed in 1995 by the European Bank for Reconstruction and Development. Their investments were explored across sectors, excluding the oil and gas sector. The four high technology sectors in which the IPR regime was found to play a role were pharmaceuticals, cosmetics and health care products; chemicals; machinery and equipment; and electrical equipment. All else being equal (e.g., size of economy, level of perceived investor risk, degree of privatization, degree of legal regime effectiveness, levels of corruption, and levels of corporate taxation), companies in high technology sectors tended to invest more readily in countries with greater IPR protection. The analysis also found that weak IPR protection tilts foreign investor involvement away from local manufacturing projects and toward distribution activities. Thus, countries with weaker IPR regimes not only lose out on FDI, but they also generate local employment in less technical and possibly less productive skills areas.

Service Sectors

Tourism

> *"Tourism in Morocco does not take enough advantage of the assets and knowledge inherent in the country's cultural heritage."* (Don Hawkins, George Washington University)

Tourism has been a fast-growing industry for Morocco, with the number of foreign visitor arrivals growing by almost 11 percent per year in recent years (Table 24). In addition to being a multicultural and tolerant society, Morocco has exquisite cultural assets and a wide variety of coastal and rural milieus to attract international visitors.

[49] A U.S. firm that does not manufacture directly in Morocco can get around this requirement by establishing itself as a marketing company, or liaison office.

[50] Also of note is the "signaling role" that presence of an IPR regime may play. As pointed out in Lall (1997, p. 244), "… the 'signaling value' of the intellectual property regime has become extremely important in recent years. In general, countries that seek to attract technology-intensive foreign investment also offer strong protection to those investments."

Table 24: Tourist Arrivals in Morocco by Nationality

	1996	1997	1998	1999	2000
French	496 541	585 154	592 584	759 174	877 346
Spanish	196 511	218 782	226 897	241 742	255 989
Germans	211 879	224 452	240 463	229 830	221 576
Italians	91 485	122 528	112 023	125 687	146 881
British	103 010	83 015	102 096	132 292	137 232
Americans (U.S.)	77 356	87 570	95 980	129 710	121 071
Belgians	44 481	61 159	75 170	86 440	91 233
Dutch	41 378	52 427	61 962	76 189	83 276
Swiss	29 514	28 162	36 370	37 993	44 556
Canadians	25 691	25 096	26 392	30 688	34 320
Other nationalities	314 884	335 103	383 694	425 069	449 453
All foreign tourists	***1 632 730***	***1 823 448***	***1 953 631***	***2 274 814***	***2 462 933***
Moroccans residing overseas	1 060 607	1 248 220	1 141 074	1 541 827	1 638 833
Total	**2 693 337**	**3 071 668**	**3 094 705**	**3 816 641**	**4 101 766**

Source: Kingdom of Morocco, Annuaire Statistique, Table 10-3

As calculated by the World Travel and Tourism Council, travel and tourism in Morocco is expected to generate $5.1 billion in economic activity in 2002, growing to $11.0 billion by 2012 (WTTC 2002, p.1).[51] A far greater number of visitors travel to Morocco each year than go in the opposite direction, resulting in a large surplus for the balance of payments. The trade surplus in tourism services is critical to the Moroccan economy in helping to compensate for a deficit in merchandise trade. A total of 842,000 jobs are directly or indirectly attributable to travel and tourism, about 9 percent of total employment. Capital investment this sector is estimated at $987 million in 2002, about 11 percent of total investment in Morocco. The WTTC has estimated that the September 11th attacks in the U.S. resulted in a 7 percent decrease in travel and tourism receipts by Morocco, compared with prior forecasting (WTTC 2002, p.2).

The Government of Morocco launched a new strategy in 1998 seeking to boost coastal tourism, cultural tourism, and desert and mountain tourism. The prior ineffective Investment Code was abandoned and 37 publicly-owned hotels were privatized. Building off that strategy, a framework plan for the period 2001-2010 between the public and private sectors for stimulating tourism as a national economic priority outlines different goals and concrete steps, notably "re-establishing the competitiveness of the destination" (Kingdom of Morocco 2001, p.13). King Mohammed VI views tourism as part of the "economic and social *Jihad* of creating jobs" and encourages every Moroccan to become a promoter of tourism (Kingdom of Morocco 2001, p.3).

In recent years, the galloping long-term growth in U.S. tourist arrivals around the world finally reached Morocco (Table 24). U.S. tourist arrivals grew even more rapidly than the rest of the world from 1995 to 1999, rising more than 15 percent per year to reach an all-time U.S. market share peak of 5.7 percent of all visitors to Morocco. However in 2000, U.S. tourist arrivals fell 6 percent, despite the strength of the dollar, ranking sixth among foreign nationalities visiting Morocco. Surprisingly, only 38 percent of the U.S. visitors came via air, far behind maritime (56 percent), although well ahead of ground transport (6

[51] All travel-related purchases by a visitor to Morocco (lodging, food spending, housing) are counted as exports. As calculated in the national accounts, receipts from tourism, a narrower category than that used by the WTTC, amounted to $1.573 billion in economic activity in Morocco in 1999, the most recent year for which there is an estimate.

percent). This suggests that most American tourists are arriving via cruise ships and that the charter airline tourist business is not yet fully developed.

For many years, growth in tourism to Morocco by Americans has been hampered by language impediments and lack of knowledge of Morocco as a tourist destination. Morocco is affected by perceptions linking it to the Middle East, as many U.S. tourists are nervous about traveling to the Arab world. In the early 1990s, U.S. tourism to Morocco fell notably due to the Persian Gulf War and Americans' confusion over geography. Clearly, a public relations campaign that would stress the values of tolerance and modernity highlighted by King Mohammed VI in his post-September 11th statement, quoted in the Prologue to this report, would help to update American attitudes about Morocco.

Morocco also needs to do more research about tourism niches that appeal to different categories of U.S. tourists. To date, the main tourism market of interest to U.S. consumers relates to "cultural tourism," e.g., visiting the palaces and other historical sights of the five Imperial Cities of Casablanca, Fès, Marrakesh, Meknès, and Rabat. Cultural tour operators from the U.S. include the Smithsonian Institution and smaller, independent operators. An underdeveloped aspect of American tourism in Morocco is "beach tourism." Morocco's long coastline is endowed with fine sand beaches close to the major airports, tourist hotels, and villas. U.S. tourists seeking sun, sand, and water-sports in a country characterized by political stability, physical safety, good food, and friendly locals may increasingly consider Morocco as a vacation destination. From New York, travel time to Morocco on a direct flight is roughly equivalent to traveling to Cancún, Mexico, or many Caribbean destinations. Tourism industry analysts suggest that U.S. tourists suffer from a lack of knowledge of Morocco as a "beach destination." In addition, there are no direct flights from the U.S. to the main beach resort area, Agadir, the main focus of interest for charters from Europe. As there is only one scheduled flight per week from both the U.K., France, and the Netherlands, the observed growth in European visitors to Agadir has been arriving via unscheduled charter flights. Agadir may not be a sufficiently appealing beach attraction for U.S. tourists to agree to fly through Europe.

A more promising area of growth for U.S. tourism service providers may be "eco-tourism," or more rurally based tourism related to enjoyment of environmentally-based assets. In fact, a new program area for USAID/Morocco under its economic growth office will support the development of strategies with the Ministry of Tourism to promote rural tourism. Given the diversity of Morocco's ecological areas, from the coastline to the Atlas Mountains to the Imperial Cities, Morocco offers numerous opportunities for U.S. companies to promote tourism related to water sports, mountain sports, farm bed-and-breakfasts, tribal village life, arts and crafts, and the desert. In order to boost U.S. tourist visits to Morocco, it is recommended that, accompanying the eventual signing of the FTA, the U.S. and Moroccan governments, in collaboration with their respective tourist industries, consider a publicity campaign promoting visits to Morocco. An increase in U.S. leisure-time visitors will increase the likelihood of visits by potential U.S. exporters or investors.

One limiting factor to tourism development with the U.S. is that the state-run airline, *Royal Air Maroc*, has long held a near-monopoly on access by tourism groups to charter flights to Morocco.[52] The degree of air transport market access available to U.S. firms is unclear. The 2000 "open skies" agreement between the U.S. and Morocco should have a positive effect in permitting U.S.-based charter companies to fly to

[52] Despite the announced intention of the Government of Morocco to privatize some portion of *Royal Air Maroc*, it remains a public company. In November 2001, the government and RAM announced a financial, marketing and technical restructuring plan to enable the carrier to carry on its activities, according to www.arabicnews.com, 11/8/2001.

Morocco.[53] To the extent that Morocco (and *Royal Air Maroc*) permits greater access for charters coming from the United States, U.S. charter airlines and tour operators will benefit from increased flights to Morocco. While both the U.S. and Morocco must agree on any new proposed charter flights, the notification period is only 30 days under "open skies," which should preclude long delays in learning if a proposed route is approved or disapproved. While "open skies" agreements tend to increase competition, lower fares, and freight rates, they may be less effective in doing so in countries that "have a small number of dominant carriers that control a substantial number of takeoff and landing slots" (AMIR Program 2001, p.77). One industry analyst suggested that the various "open skies" agreements negotiated by the U.S. in recent years have been more "pro-government" than "pro-business." As a result, even "open skies" may not provide much market access to Moroccan runways for U.S. charter carriers.

Airlines exercise a disproportionate influence on tourists' destination decisions, and the tight control exercised by RAM over access to Moroccan airports may be a factor limiting market penetration by U.S. tourism service providers. Nevertheless, one tour operator interviewed for this study noted that RAM offers good rates to groups traveling to Morocco and has found the availability and overall performance satisfactory. In the high summer season, there are 6 scheduled direct flights from New York to Casablanca, up from 3 per week during the winter. However, RAM is reported to cancel scheduled flights frequently due to low bookings, causing undue headaches to unsuspecting travelers and causing its reputation to deteriorate. Further, travelers report experiencing difficulties with the code-sharing arrangement between RAM and Delta, in particular regarding the inflexible interoperability of the bookings.

Under Morocco's GATS commitments, U.S. firms interested in providing tourism services in Morocco need to affiliate with a Moroccan firm. A specific provision permits U.S.-based guides to accompany tour groups on their visits. It is possible, in the context of the FTA negotiations, that Morocco would agree to remove the provision requiring affiliation with a Moroccan firm in order for a U.S. tourism services firm to operate in Morocco. While such a concession would certainly represent a greater opening of the market, it is still usually advisable commercially for U.S. firms to seek out Moroccan partners. There is no mention made of tourism in the U.S.-Jordan FTA.

There is a full range of tourist accommodation in Morocco, from one- to five-star hotels, camping opportunities, beach vacations, farmhouse lodging, bed-and-breakfasts, among others. There are 568 hotels in Morocco with 93,383 beds available. However, it was estimated in 1998 that only two-thirds of the beds could be marketed for international tourism (USTDA 2000, p.1). In order to more than quadruple the number of visitors over the next ten years, considerable investment in hotels and other guest facilities will be necessary. One industry analyst asserted that greater investment by hotel chains in Morocco will be limited without significant liberalization of air transport.

Several major U.S. hotel operators are present in Morocco, including Hilton, Hyatt, and Sheraton, among others. While American tourists certainly frequent these businesses, given the evident name-brand familiarity and reliable quality of service, to date there has been a lack of investment in lower-priced U.S.-brand hotels more likely to cater to budget-conscious U.S. tourists, including large groups and U.S. students traveling abroad. European-brand budget hotels are present in the major cities, which facilitates bookings for European visitors.

A new trend in Moroccan tourist accommodations is the conversion of old, traditional homes into small bed-and-breakfast inns (Roberts 2001) and restaurants. Increasing demand by discerning tourists for

[53] *Air Transport Agreement between the Government of the United States of America and the Government of the Kingdom of Morocco*, October 11, 2000, http://www.state.gov/www/issues/economic/tra/opskies_us_morocco.pdf.

individualized touring experiences, rather than group excursions, has led to an increased flurry of renovation of these residences. It has also led to an increased need for historical preservation and skilled architectural renovation services.

In the American Chamber of Commerce's 2001 survey of companies operating in Morocco, 45 out of 87 respondents provided suggestions for improving the business environment in Morocco, three of which related to tourism (AMCHAM 2001, p.37):

- Clean the tour operator industry;
- Research ways to increase the number of tourists visiting Morocco; and
- Eliminate phony guides and people who hassle tourists.

An important deterrent to greater enjoyment of Morocco by U.S. tourists is the presence of *"faux guides"* or unofficial guides who hassle visitors to Morocco's large cities. Although officially licensed city guides can be hired through many hotels and tourist offices, travelers to Morocco frequently encounter young men who seek to force themselves as guides upon unsuspecting tourists using rather intimidating techniques. Such an experience can be rather deterring from a country marketing point of view. One tour leader cited a 40 percent return rate by tourists to Spain but only 2 percent to Morocco, attributing the stark contrast to the presence of these *faux guides.* The operator did suggest that the situation had greatly improved in Marrakesh, as the provincial governor had established plainclothes tourist police who will now actually arrest the *faux guides*.

Financial Services: Insurance

Morocco is the largest insurance services market among Arab countries for insurance services and the second largest in Africa following the Republic of South Africa. The overall value of insurance services to the Moroccan economy amounted to about $1 billion in 2000, with automobile insurance the largest category at about 36 percent, followed by life insurance at 29 percent.[54] The value of insurance services rendered has more than doubled in past decade. About 69 percent of the insurance policies in Morocco are group insurance, with the rest comprised of individual policies. Life insurance is the fastest-growing branch of insurance services.

Currently, nineteen insurance companies with combined market capitalization of $4.5 billion are active in Morocco, with relatively high market concentration. The two largest companies are believed to represent 70-80 percent of market share. Three of Morocco's insurance companies are mutualized. Most insurance company capital comes from private commercial firms, with the National Retirement and Insurance Fund (*Caisse Nationale de Retraite et Assurance*) representing only 3.7 percent of the market share. Of the seventeen companies active in 2000, thirteen turned a combined profit of $14.6 million, while four others turned a combined loss of $1.8 million. By all appearances, the market is largely open to new entrants, with two new firms in operation since 2000.

Trade in insurance services, including foreign firms with a commercial presence in Morocco, accounts for only about 1 percent of Morocco's services exports and 2 percent of imports.[55] The value of trade in insurance services, combining imports and exports, amounted to only $59 million in 2000, or 0.6 percent of the national market. With the EU-Morocco Association Agreement already in place and a U.S.-

[54] Kingdom of Morocco (2002), *Rapport d'activités des entreprises d'assurances et de réassurances au Maroc.* Other major categories of insurance in Morocco include life, bodily injury, workplace accidents, transport, fire, general civil liability, technical risk, assistance, credit and other non-life insurance products such as theft or crop insurance.

[55] Kingdom of Morocco, *Annuaire Statistique 2001*.

Morocco Free Trade Agreement under negotiation, it is possible that Morocco's insurance sector may experience significant market penetration by foreign firms over the next decade.

While no U.S. direct insurance firms presently operate in Morocco, few European firms are present either. One insurance company has Swiss majority among its shareholders. A recent merger in the sector involved the *Compagnie Africaine d'Assurances*, a subsidiary of the ONA Group, and *AXA Al Amane*, a subsidiary of the multinational *Groupe AXA* (headquartered in France), resulting in about 20 percent market share for the new entity. In the reinsurance business, which involves insuring an insurer's risk, there is only one foreign firm presently operating in Morocco. The U.S. reinsurance firm Marsh Inc., a key global player, is active through its local partner *Agma Lahlou-Tazi*.

Under Morocco's original GATS commitments in the late 1990s, foreign investors had the right of establishment in Morocco, but only through some form of association with a Moroccan firm. This restriction has now been lifted.[56] As for the EU Association Agreement, trade in services with Morocco are governed by the GATS commitments; therefore, U.S. firms suffer no apparent disadvantage.

A new Insurance Code, adopted by the lower house of Morocco's parliament and still under consideration by the second chamber, would make two main changes to the legislative framework. Proposed changes to the insurance industry's regulatory framework would increase the range of eligible insurance products that insurance companies in Morocco can offer and increase the number of product categories for which insurance is obligatory. First, Morocco's insurance market would be open to any insurance product offered around the world, as offered by any Moroccan or foreign firm operating in Morocco. The regulatory authority DAPS is ready to evaluate and approve any insurance instrument that meets its risk and prudential criteria. Since U.S. firms are global innovators in insurance products, U.S. investment should perhaps favor the rendering of services in insurance over banking. The second main change is an expansion in the number of obligatory insurance categories, including protection for family members riding together, coverage against the risk of uninsured motorists, and a new crop insurance scheme.

Market regulation is and will continue to be the responsibility of the Directorate for Insurance and Social Security (*Direction des Assurances et de la Prévoyance Sociale*, or DAPS) of the Ministry of Economy, Finance, Privatization and Tourism. The Directorate surveys insurance policy rates, oversees the financial health of the firms operating in the sector, approves the marketing of all new insurance products (with 30 days to issue a decision), and calculates whether the insurance premiums charged are sufficient to cover the implied risk. The Directorate, which publishes the most comprehensive set of statistics and performance indicators for the sector, also serves as the appeals body for policy holders with complaints against the industry.

Morocco uses international standards for market rules and regulation. The regulatory authority oversees an ongoing program of training of regulators in their responsibilities and maintains close dialogue with the firms involved. One rule that is distinct from the U.S. tradition is the 10 percent obligation for reinsurance, which is characteristic of developing country markets. The party seeking reinsurance must surrender 10 percent in cash. Moroccan officials point out that other North African countries require an even higher level of risk coverage on reinsurance, up to 50 percent. Another consideration in Morocco is that the lack of full convertibility of the dirham means that foreign companies investing in Morocco are not allowed to reinvest those assets outside of the country. Also, all foreign companies operating in Morocco must be insured by Morocco-based insurance companies.

[56] As with the pharmaceutical industry, this local ownership requirement has been a sticking point for U.S. investors into the Moroccan insurance market. However, such partnerships not only help to develop local capacity to engage effectively in these industries, they also make smart commercial sense for the foreign firm seeking to penetrate an unfamiliar new market.

One tax law that decreases the attractiveness of the insurance sector for foreign investors is that profits made in financial services are assessed a 39 percent tax rate versus only 35 percent for corporate profits in other sectors. Equilibrating the rate of taxation by the Moroccan authorities would remove a negative bias against new investment in and expansion of Morocco's insurance industry. While the differential taxation rate does not explicitly favor domestic Moroccan insurers over foreign insurers, it does reduce the attractiveness for new market entrants.

One market analyst active in the sector suggests that U.S. firms can compete in Morocco's market for insurance services along three avenues: by introducing new products; by introducing new practices, for example in marketing or advertising; and by offering more attractive prices than those firms presently operating in Morocco. As one government official put it: "Let the Americans come and find out in which sectors they can compete!"

Financial Services: Banking

Morocco's banking sector holds limited promise for investment by U.S. commercial banks, due to the small market size, the collegial nature of the local Moroccan banks, and the tightly-structured links between the Moroccan business and financial sectors. While the lack of opportunities for U.S. banks to operate in Morocco is not expected to hinder investment by U.S. firms interested in other economic sectors, the difficult realities evident in the banking sector may manifest themselves in a variety of related areas.

Commercial bank holdings amounted to $5.3 billion in 1999, compared with $1.2 billion in holdings by the Central Bank.[57] Individuals and non-financial enterprises accounted for a further $730 million in holdings. In terms of outstanding credits to the economy, commercial banks accounted for $17.6 billion and the Central Bank $680 million. Individuals accounted for another $541 million through the National Savings Bank (*Caisse Nationale d'Epargne*) operated by Morocco's Post Office. In 1999, Morocco's Treasury had $5 billion in outstanding notes, with a further $218 million in outstanding public sector loans. An indication of the relatively closed nature of Morocco's banking system is that commercial banks accounted for only $19 million in foreign exchange holdings in 1999, compared with the Central Bank's $5.6 billion.[58]

The U.S. experience investing in banking in Morocco has been profitable at times, but usually at lower rates of return on equity and return to expenses than is standard for U.S. banking. Established in Morocco since 1967, Citibank is the sole U.S. banking operation active in Morocco, engaged in commercial banking and the provision of foreign exchange for commercial transactions.

The few remaining currency restriction hamper lack of access to foreign exchange by Moroccan firms continues to hamper economic development and trade. One of the difficult aspects of providing banking services in Morocco that may be addressable within the context of the FTA negotiations is the uneven application of a 2 percent tax on foreign currency transactions. While foreign banks are subject to paying this tax, which raises their costs of doing business in Morocco, Moroccan firms providing banking services are not uniformly required to pay the tax by Moroccan regulators. The problem appears to be less with the competence of the regulators, but rather with a lack of political will to open access of the banking sector to foreign firms.

[57] Kingdom of Morocco (2001), *Annuaire Statistique 2000*, Table 18-3.

[58] Including gold, convertible and non-convertible currencies, and holdings from the IMF and the Arab Monetary Fund.

A concerted effort by U.S. authorities to convince the Moroccans to level the playing field would remove a persistent thorn in the side for U.S. banking services providers and encourage greater U.S. investment in the sector. Unlike in the U.S., American banking service providers would face competition for saving and other small-holder services from the state-run post office. The Moroccan government subsidizes the loss-making activities of the post office, although it is not readily clear how much of a subsidy is provided and whether those losses are incurred on the banking side of operations or on other types of services. While in the FTA negotiations it would be difficult if not impossible for the U.S. to insist on the cessation of the provision of banking services by state-subsidized entities, it may be possible to reduce the procedural and administrative barriers prohibiting expansion into small-holder operations by U.S. firms.

Infrastructure Services: Electricity

Until 1994, the National Electricity Office (ONE) of Morocco had the monopoly on power generation and distribution. Since substantial liberalization of the sector in 1995, private production of electricity is permitted. ONE retains a monopoly over electricity purchases and high-voltage distribution; other distribution is handled by regional distributors (known as *Régies* in French). Management of local distributors has been privatized. In 2003, ONE expects to be transformed into a regulator of the industry, with distribution to be managed via competition among ONE subsidiaries and other private entities. Eventually, ONE will receive a small transportation fee for all electricity going through its lines. ONE is also considering the possibility of entering the telecommunications market via electricity distribution, as done in France.[59]

Morocco's installed electricity capacity amounted to 4.7 MW in 2000. About 3.2 MW of this installed capacity is thermal generation, 1.2 is hydroelectric, with minor amounts of aeolien or wind power.[60] ONE has set the goal of reaching 7.1 MW of installed capacity by the year 2010, which should present attractive opportunities for investment by U.S. electric power generation companies.

In 2000, total sales of electricity by ONE totaled 12.8 MWh, about evenly split between direct sales by ONE and sales to the *Régies*. Ninety-four percent of sales are supplied by the national grid operated by the *Office National de l'Electricité* (ONE); the remainder is imported from Spain. Two-thirds of ONE's direct sales are high/medium tension electricity to industrial (3.0 out of 4.2 MWh) and other clients, while the remaining one-third is of low tension supply. Morocco has about 43,000 kilometers of high-voltage lines.

The largest direct investment by U.S. interests in Morocco was made in the energy and mining sector in 1997 (Table 21). In 1997, CMS Energy, a Michigan-based exploration, generation, distribution, and marketing company, combined with the Swiss firm ABB Amro, to assume management of two coal-firing units of 300 MW each and to construct two additional units in Jorf Lasfar (near El Jadida, about fifty miles southwest of Casablanca). Of the 316 employees working for CMS, all engineers are Moroccan and only two of the employees are expatriates. Under the terms of a 30-year, fixed-price concession from the National Electricity Office, the Jorf Lasfar plant provides electricity to the national grid. At present, the CMS/ABB coal-firing plants generate 60 percent of Morocco's total electricity consumption. CMS estimates that the plant runs at 90-95% capacity, making it the company's most efficient in the world. CMS sells the electricity produced to the national grid operated by ONE, which distributes the electricity to end-users via the *Régies*.

[59] The U.S. Trade and Development Agency has co-financed an assessment of the technical, economic, marketing, legal, and regulatory feasibility of ONE's potential entry into the fiber optic telecommunications sector. See Annex C for a complete list of studies financed by USTDA in Morocco and the region over the last several years.

[60] Source: Kingdom of Morocco, *Annuaire Statistique 2001*, Table 5-4.

Currently, coal is imported into Morocco without duty or value-added tax, only the payment of a consumption tax per ton imported. Regular duties are paid on imported equipment. As the burning of coal requires regular replacement of certain parts in order to be environmentally sound, the elimination of customs duties on U.S. energy equipment under an FTA would greatly enhance the competitiveness of U.S. equipment. This is the case not only for the CMS plant, but for the other electricity plants in Morocco, run by the state agency ONE and other private concessionaires.

CMS believes that a free trade agreement with the U.S. is important because it will be a motor for overall economic development. In order to increase industrial development in Morocco (and help to expand the demand for electricity), CMS is promoting the development of a modern industrial park adjacent to its El Jadida plant. The park would be constructed as a public-private partnership, with Morocco's Hassan II Fund expected to help finance the actual development of the park. Given the proximity of the park to the CMS power plants, the company may be authorized to supply electricity to firms in the industrial park at rates below prices paid by other users on the ONE grid. Attention to economic development is important to CMS, which also participated in the development of a park in Battle Creek, Michigan in which three-quarters of the tenants are Asian companies. CMS has auto-financed promotion of foreign investment in Morocco to a diverse range of potential investors in the U.S., Japan, and Korea, seeking a lead investor for the project among such industries as electronics and automobile parts. The company has also launched a business incubator program at the site of the proposed industrial park to help set up companies that may eventually become outsourcers for companies located in the park. Development of the actual park has yet to get underway as land issues, particularly the lack of effective titling, continue to hamper a final agreement. Of the over 1200 acres being sought, CMS estimates that the government of Morocco has already acquired about half.

In anticipation of developing the park, a survey conducted by CMS revealed that Morocco's electricity rates – set by the Pricing Directorate of the Prime Minister's Office – are above world reference costs. Data monitored by the ONE from the European Union of the Electricity Industry suggest that Morocco's rates are in fact average for small consumers, but do appear at the higher end of the range for industrial consumers.[61] At present, the high price of electricity to the industrial end-user in Morocco – estimated by ONE to be 10-15 percent above competitive rates elsewhere – is a major disadvantage for Moroccan manufacturing or agribusiness processing. ONE has already lowered the end-user price of electricity twice in recent years and its longer term strategy is to lower rates progressively through phased liberalization of generation and distribution.

CMS remains optimistic about the future of its role in Morocco. ONE anticipates 6 percent annual growth in demand for electricity from several sources: electrification of the rural countryside, targeted for 2010 (50 percent of Morocco's rural population remains without electricity), future industrial growth in Morocco, regional power sharing between Algeria, Morocco, and Spain (and even possible linkage to the West Africa Power Pool), and the possibility of developing wind farms in southern Morocco and Mauritania for export of power to Europe.

Implications of the Rapid Sector Appraisals

Although by no means an exhaustive survey of all opportunities for increased trade and investment in Morocco by U.S. companies, these appraisals suggest that there are many opportunities in a variety of sectors. It is impossible to predict, simply on the basis of trade position or tariff level, which opportunities represent the most attractive to U.S. merchants and investors. Each company interview reveals a different combination of commercial and personal logic.

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[61] Union of the Electricity Industry (EURELECTRIC), "Electricity Tariffs as of 1 January 2001 (Published Tariffs)," April 2001, Ref: 2001-2740-0002, http://www.eurelectric.org/Docs/2001-2740-0002-1.pdf.

One interesting theme to emerge is the importance of the Moroccan diaspora in either staffing international management positions in Morocco or in directing investments from the U.S. vantages they now occupy back into a country that was once a familial home. Another interesting theme emerges from U.S. or international companies that have commercial experience in both Mexico and Morocco and find the labor skill, wage, and logistics advantages compelling to situate themselves in Morocco (either in place of or in addition to Mexico), albeit largely to service clients in Europe.

Also, it is interesting that companies already doing in business in Morocco are not stymied by tariffs or rules of origin as they seek to expand their businesses in Morocco, but by a myriad of institutional issues – e.g., access to land, retention of skilled labor, protection of intellectual property, equal protection in the courts, regulations regarding food or animal safety in Morocco, consumer quality preferences that disfavor U.S. origin wheat, difficult access to Morocco-based service industries such as retailing and financial services. On the other hand, U.S. exports of such diverse products as grains, beef and poultry, processed food products, wood pulp, and bullet-proof fabrics do not enter the Moroccan market at all due either to high tariffs or tariff preferences favoring EU suppliers. Access will grow increasingly limited as EU preferences continue to phase in.

Conclusions

Summary Observations

The authors of this report were charged with identifying the opportunities for increased U.S. trade and investment into Morocco that a free trade agreement with Morocco might engender. A variety of economic and political interests in both Morocco and U.S. converge in support of negotiation of a preferential trade agreement between the two governments. As one senior Moroccan official noted in interviews for this report, "a free trade agreement with the United States is something we *choose* to pursue, not out of naiveté, but because through our many experiences with other agreements, we already know what the advantages and disadvantages might be and are prepared to negotiate accordingly."

Evaluation of the advantages and disadvantages of a possible U.S.-Morocco free trade agreement is complex. For the U.S., political and geo-strategic interests in supporting its long-time North African partner supercede economic advantages. U.S. exports to Morocco have fallen off dramatically in the last two years. The drop in export value has been noticeable not only because of the absence of aircraft exports in 2001, but also due to reductions in the export of iron and steel pipes and tubing, wheat, tobacco products, soybean oil, soybeans, sorghum, and electronic components. This fall-off reflects in part the lumpiness of aircraft exports, in part the fact that Morocco has found lower cost suppliers of basic food commodities from non-EU and non-U.S. sources, and in part the high value of the U.S. dollar which penalized the competitiveness of U.S. goods in the Moroccan market. Thus the United States would also like to expand exports, counter the potential trade diversion effects of the European Union Association Agreement (of which only a few examples were actually identified), and expand U.S. investment in Morocco for off-shore production to export to the European Union, back to the U.S., for the Moroccan market, or possibly into North and West Africa and for service industries.

Morocco faces potentially high risks under an FTA in which tariffs on key agricultural products – especially cereals and meats – go to zero. Such a dismantling of protection threatens employment in Morocco's agricultural sector, raising the specter of intense sociopolitical destabilization. This is obviously not in the best interest of the U.S. either, for it highly values Morocco as a moderate and stable North African partner. Strategies must be developed to help counter these threats on the basis of detailed analysis of who stands to win or lose in the rural economy from free trade. One such strategy may be grounded in a shift to a time-delimited program of agricultural income support instead of the current system of agricultural price support through border protection.

Beyond this, Morocco would like to broaden and diversify its trade options beyond its traditional links to Europe and acquire technology and commercial know-how from the U.S. Morocco is also hopeful that an FTA with the U.S. will provide less restrictive access to a large market for its horticultural and fisheries products, access which is less affected by the level of tariffs per se than it is by Morocco's mastery of U.S. safety requirements. In the longer run, it is the alluring potential of this free trade agreement to effect real structural change in the economy that is the real draw. This potential structural change involves shifting employment from agriculture into the industry and service sectors, especially into increasingly sophisticated opportunities both technically and managerially, so that a real middle class begins to thrive in Morocco.

Other preferential trade agreements concluded by the U.S. with a variety of partners, including Jordan, Vietnam, and Mexico, have yielded quick responses in terms of trade redirections that favor the local comparative advantages of each country. One sees increased exports to the U.S. trade partner of agricultural products that are capital-intensively cultivated in the United States (such as grains, oilseeds, and meat products), as well as of technology-intensive components (of everything from iron and steel

pipes to semiconductors) and industrial equipment required as inputs into off-shore manufacturing processes. In return, the partner country sells agricultural products of strong comparative advantage (such as fruits and vegetables, seafood) and of labor-intensive manufactures to the U.S. There is every reason to believe that Morocco's economy will likely follow a similar pattern under a U.S. FTA. Longer term – and economically more meaningful – responses to free trade agreements are due less to tariff advantages and more to the investment flows induced by the FTA. Such investment flows, whether coming from U.S. or foreign commercial sources, are the engine for the structural economic and social change described above.

Morocco's trade has evolved dramatically over the last ten or fifteen years, as it becomes more integrated with global supply chains. Despite the heavy concentration of Moroccan trade with the EU, Morocco's imports are increasingly sourced from non-EU parts of the world. Both EU and U.S. shares of Moroccan imports fell in recent years (1999-2001). The EU's share in total imports has dropped from 59 to 55 percent, while those coming from the U.S. fell from 6.5 to 3.7 percent over the same period. About 70 percent of Morocco's imports are destined for final consumption. Of the 30 percent entering for processing and re-export, the balance is shifting slightly in favor of goods entering under temporary admission *with* payment, as Moroccan firms increasingly accept responsibility for the goods they process. Morocco's exports are increasingly in the categories of finished capital equipment and consumption goods, rather than the agricultural, raw materials, and semi-finished goods of the past.

Morocco underwent significant trade policy and business climate reform during the 1980s and 1990s. Nearly one-third of goods enter the country at a duty rate of 10 percent or lower now. Higher tariffs (up to a duty maximum of 50 percent, except for goods whose customs valuation is still based on reference prices) are still more important, however, especially in the textiles, food and agricultural, and chemical sectors. Until August 1, 2002 (when the practice was formally abandoned), Morocco applied reference prices for the purposes of customs valuation, a practice that added an additional 3.7 percent protection across all imports. However, when estimated only for those products to which reference prices apply, the additional protective benefit of the practice was found to be 80 percent. In addition, much of Morocco's institutional and physical infrastructure has been or is in the process of being upgraded, making Morocco a much more appealing partner with which U.S. firms can conduct business.

Under the European Union Association Agreement, 85 percent of Morocco's imports are affected. Of this 85 percent, tariffs were either eliminated immediately upon implementation of the agreement in 2000 for 21 percent of EU imports, or are being phased out from 2000 through 2003 (affecting 28 percent of Morocco's imports from the EU) or from 2003 through 2012 (affecting 35 percent). Most of the remaining 14 percent of imports into Morocco from the EU are excluded from the EUAA at present. The choice of timetables for the phasing out of tariffs was fixed as a function of the level of existing protection. The higher was the ex-ante level of protection, the longer is the anticipated tariff phase-out period. Conversely, the products with the lowest protection are those for which protection was phased out immediately or over four years. On average across all product categories, EU goods benefit from a tariff preference over imports from other countries of 3.3 percent. For goods whose tariffs were eliminated immediately or are being phased out over only 4 years, the advantages are 4.4 and 8.1 percent, respectively.

It is not possible to estimate in a scientific way the degree of trade diversion caused by the EUAA thus far, due to the limited period of implementation. In addition to tariff changes, there have been important shifts in exchange rate movements, especially the rise (and more recently, the fall) in the value of the U.S. dollar, which certainly also contributed to shifts in demand for U.S. products. Moreover, it is noteworthy to observe that with Morocco's increased global integration, its imports are actually increasing *from the rest of the world*, not from the EU, as one might hypothesize from a simple glance at the EUAA tariff reduction schedules. What is known is that within the category of products whose tariffs were eliminated

immediately, over half of Morocco's imports were in the mechanical-metallurgic product category (11 out of 21.3 percent). Of the category of goods being liberalized over four years only, almost half of Morocco's imports in 2001 were in the energy products category (13.5 out of 28.1 percent). Fully 70 percent of the products in the category of goods benefiting from tariff reductions over ten years, 2003-2012, are in the textiles and chemical sectors. These represent the sectors in which U.S. goods will be at a sharpest disadvantage by the end of the EUAA implementation period.

Morocco offers the greatest opportunities for U.S. companies seeking to manufacture in Morocco for re-export to the EU. Given Morocco's locational and trade agreement advantages, U.S. firms could take advantage of the just-in-time delivery to European clients already discovered by so many European (and, increasingly, Asian) manufacturers. Morocco's well established temporary admission system allowing duty-free entry of raw materials and inputs and the EUAA facilitating access of Moroccan goods into Europe already offer plenty of incentives for such re-export manufacturing. Thus it is not immediately clear that a FTA will add much new incentive to pursue exports from Morocco. However, the existence of an FTA with the U.S. will make it somewhat more attractive to purchase equipment from the U.S.[62] and should lead to easier logistics between the U.S. and Morocco for the shipping of inputs. Assuming such shipping logistics possibilities do indeed multiply, an FTA will also make it more attractive to manufacture in Morocco for delivery to the east coast of the U.S., because of duty-free access to the U.S. market for final goods from Morocco.

The rules of origin requirements of an FTA with the U.S. should encourage upstream investments in the Moroccan manufacture of inputs. Over time, such investments will allow Morocco to develop full package manufacturing as in Mexico. U.S. companies have certainly had a big role to play in the development of such upstream capabilities in Mexico, and would be likely to do the same in Morocco if they see a Mediterranean strategy as being in their interest. This aspect is critical if Morocco is to derive the maximum benefit of its increased integration with the U.S., for it means the development of a wider web of manufacturing and service sector industries in Morocco that will offer more attractive employment opportunities for Moroccan labor.

Morocco's systems for transportation, ports, telecommunications, energy, and customs administration all receive high marks from foreign manufacturers in the country. Most companies also report that the limited capacity of direct air and sea freight lines between Morocco and the U.S. do not pose a problem, given the ample transshipment alternatives provided in neighboring Spain. However, some firms noted that some constraints still confound expanded U.S. manufacture in Morocco, including difficult access to large plots of industrial real estate, high (albeit decreasing) costs of energy, insufficient access to a large and reliable pool of technical and management trained graduates, and complicated access to the Moroccan business "elite" which can sometimes hamper a firm's ability to get business done. The latter appears to be more restricted in the services sectors that focus on the domestic market (e.g., financial and retail services, and certain aspects of tourism services) than in export manufacturing sectors, where connections to international supply chains are critical to success. On the other hand, certain Moroccan service sectors have already embraced the idea of foreign competition in the local market (e.g., electricity, telecommunications).

It is impossible to predict in which industries new trade and investment opportunities might most appeal to U.S. companies (including U.S. firms in which the Moroccan diaspora are leading decision makers). Specific opportunities in Morocco for U.S. businesses were identified in agribusiness, export-oriented manufacturing, regional distribution, and service sector industries. However, a number of caveats are in

[62] Tariffs into Morocco on capital equipment are already quite low, however (2.5%), and some firms are exonerated from such duties under special development circumstances.

order. In the agricultural sector, Morocco is likely to be extremely reluctant to reduce tariffs to zero for key agricultural products, especially those in which the U.S. has a strong comparative advantage, especially in grains and meat. One major constraint to movement on this point is the lack of detailed, recent information on the rural household economy in Morocco. While serious consideration is being given in some Moroccan policy maker quarters to a shift from agricultural price support to income support, substantial efforts would need to be made to implement a system of land titling in order to know to whom payments should be transferred and on the basis of what land size. The World Bank is presently helping Morocco to evaluate comparable systems in place elsewhere. Another big concern for Moroccan agricultural policy is the development of support mechanisms that take into account drought-related risk and its impact on income variability.

Another stumbling block is the lack of implementation decrees for Morocco's intellectual property rights legislation. Morocco presents attractive market opportunities for U.S. firms interested in supplying both plant and animal reproductive stock. However, they are reluctant to move forward in the absence of strong IPR protection. This is true of U.S. pharmaceuticals firms as well, who fear that their primary research data or patent rights will not be adequately protected.

Recommendations

What follows is a broad list of recommendations that go well beyond the narrow considerations of a traditional free trade agreement. Tariffs and rules of origin are certainly important, and will have an effect on the outcomes of an FTA between the U.S. and Morocco. However, unless some of these broader institutional, informational, business conditions, and workforce issues are taken into account, the overall success of the FTA negotiations and implementation may be in jeopardy.

There are a number of actions that the U.S. government and multilateral donors can consider sponsoring in order to increase the likelihood of successful implementation of a free trade agreement with Morocco. By helping to reduce remaining bottlenecks of both a policy and infrastructure nature, contributing to improved awareness in the U.S. of Morocco, and giving Morocco the tools it needs to address its concerns regarding possible threats to its agricultural competitiveness, the U.S. Free Trade Agreement will be given an improved chance of success, for both U.S. *and* Moroccan companies seeking to benefit from enhanced trade and investment between the two countries.

In order to help Morocco negotiate a free trade agreement with the U.S. and implement programs to assure compliance, monitor effects, take advantage of the opportunities that an FTA will open:

- An assessment of trade capacity needs is needed to ascertain in greater detail areas where technical assistance from the U.S. could help Morocco negotiate, comply with, and implement a free trade agreement with the U.S. (scheduled to be undertaken in October 2002).
- Support for the development of a Moroccan public relations campaign in the U.S. to promote U.S. companies' awareness of Morocco as a modern, tolerant Muslim country with efficient trade institutions and a well-trained and inexpensive workforce as a viable platform in which to do business.
- Assistance with the preparation of a tourism sector development strategy (assistance is already scheduled to be provided via USAID and USTDA).
- Review of the status of Morocco's sanitary and phyto-sanitary, health, and quality standards and its ability to comply with U.S. regulations, particularly with regard to Moroccan agro-food exports to the U.S. and deepening of institutional relationships between Morocco's agro-food exports organizations and the U.S. Department of Agriculture.
- A transportation taskforce could be established to explore the extent to which direct sea and air freight lines can be mobilized quickly in response to increased trade between the two countries.

- Continued assistance from the U.S. Department of Commerce to bring focused trade missions to Morocco (missions scheduled for Fall 2002 include focuses on renewable energy and airport security and safety infrastructure).
- Continued assistance from USDA to promote U.S. agricultural commercial relations in Morocco.

In order to help define strategy for addressing the potential negative repercussions on Morocco's agricultural sector of a U.S. FTA:

- Analysis is needed to identify who the possible "losers" will be in Morocco's agricultural economy if tariffs go to zero for key agricultural products. Such a survey should address which rural households are net buyers and which are net sellers of meat and grain, the status of land ownership of those households, the size of their farms, at what prices they sell throughout the year, what degree of total household income comes from farm sales versus off-farm sources of income (e.g. rural, urban, and overseas employment by family members), and how such patterns are affected by household size and income class. Alternatively, an effort could be made to better exploit rural household survey data collected by the Government of Morocco in the mid-1990s. In either case, the analysis should be conducted by Moroccan actors in conjunction with U.S. agricultural economists who know Morocco well.
- Policy assistance is needed to help Moroccan policy makers evaluate the pro's and con's of an agricultural income support program (currently being provided by the World Bank), especially one that helps to moderate household income swings due to climatic variability.
- If Morocco is to go forward with an agricultural income support program, it will need assistance in implementing a comprehensive land titling system. Improved land titling and possibly revised zoning regulations are also important components of modernizing Morocco's real estate market, especially for industrial property. The possibility of support for a study tour to countries that have successfully undertaken land titling and real estate market modernization should be considered. The U.S. should push for resolution of the land constraint that is presently blocking the development of an industrial park project at Jorf Lasfar in order to bring new multinational enterprises into Morocco.
- In order to compensate for possible declines in grains production, Morocco will need assistance to increase demand for Moroccan barley, likely to remain in the cropping system after a U.S. FTA, such as via the introduction of alternative livestock feed rations. This will be challenging, however, given the degree of substitutability between domestic barley and imported corn in feed rations.
- The U.S. should consider funding an exploratory study to examine investment opportunities for U.S. firms, in conjunction with Moroccan partners, in the cereals (and possibly meat) sector in order to prepare the modernization of production, marketing, storage, and trade stages of these key agricultural supply chains.

In order to get rid of the logjam regarding U.S. plant and animal breed stock exports, as well as pharmaceutical industry development in Morocco:

- Help Moroccans move forward with intellectual property rights implementation by sponsoring a tour to promote live interaction between Moroccan and other transition or emerging economy policy makers on this topic.

In order to help promote Morocco as attractive site for U.S. trade and investment:

- Morocco's educational system is weak. The country needs assistance in developing a workforce development strategy to help workers acquire and use the skills, behaviors, and technologies needed to compete successfully in the global economy. Such a strategy will help to assure a larger and more stable source of well-trained graduates (technical, management) to staff knowledge economy jobs of tomorrow. Morocco could benefit from a fresh perspective on secondary and higher education

strategies, and a review of curricula and pedagogy with workforce requirements in mind. The U.S., with its rich networks of community and state colleges, universities, e-learning, and vocational training and re-training programs, has a wealth of tools and models that it could contribute.

- Continued assistance will be helpful with the feasibility evaluation of infrastructure improvements (such as USTDA is already doing, as listed in Annex C).
- A more detailed feasibility study of investment opportunities should be explored of the Moroccan insurance industry.

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Annex B: List of Contacts Made

Moroccan Government Organizations

Ministry of Agriculture
Hassan Benabderazzik, Secretary General

Ministry of Economy, Finance, Privatization, and Tourism
Hassan Bernoussi, Director, Department of Foreign Investments
Thami El Barki, Director, Insurance and Social Security
Hassan Kacimi, Secretary General, Department of Tourism
Abdeltif Loudyi, Director, Treasury and External Finance
Abderazzk Mossadaq, Director, Customs Administration
Laïla Sbiti, Department of Foreign Investments

Ministry of Foreign Affairs and Cooperation
Fath'Allah Sijilmassi, Director, European Affairs

Ministry of Industry, Trade, Energy, and Mining
Souad Bennani, Service Chief, International Organizations
My Aziz Drissi Yahyaoui, Service Chief, World Trade Organization
Said El Hachimi, Service Chief, European Union
Jamal Eddine El Jamali, Director, Industrial Production
Mohamed Mouhtadi, Service Chief, Trade Statistics
Naïma Noucair, Head of Division, Bilateral Trade Relations
Khaled Sayeh, Director, International Trade Relations

Office des Changes
Noredine Benaceur

Office National d'Electricité
Ahmed Nakkouch, Director General
Amina Lamrani, Director, Strategy and Development

State Secretariat for Post, Telecommunications Technologies, and Information
Abdelaziz Lagmani, Director of Studies and Planning

U.S. Government Organizations

U.S. Department of Agriculture
Merritt Chesley, Attaché Agricole, Morocco
Patricia Jehle Galasso, Director, AgLink-Morocco

U.S. Department of Commerce
Kathleen Kriger, Commercial Attaché, Morocco

U.S. Embassy, Rabat
Peter Haas, Second Secretary
Richard Johnson, Economic Counselor

U.S. Trade Representative's Office
Jonathan Carpenter
Cathy Novelli, Assistant Trade Representative for North Africa and the Middle East

Moroccan Professional Associations

Moroccan Association of Exporters
Ahmed Azirar, Secretary General

Moroccan Association of Textile and Clothing Industries
Salah Eddine Mezouar, President

U.S. Professional Associations

American Chamber of Commerce in Morocco
Carl Dawson, Executive Director
Larry DeWitt, Chair, Free Trade Agreement Committee (Director, CMS/Morocco)
Olivier Rousseau, President
Danielle Tobias, Chair, Commerce and Industry Committee (Export Mager, Laprophan)

Pharmaceutical Research and Manufacturers of America *(PhRMA)*
Susan Finston, Associate Vice President for Intellectual Property (Middle East, Africa, Asia) Affairs

U.S. Wheat Associates
George J. Galasso, Regional Director

Moroccan Companies

Cabinet AB
Abdellatif Bernossi, Expert Comptable

Groupe ONA
Abdellaziz Abarro, Director-General (Sugar, Biscuits, Seafood Products)

Tanger Free Zone
Ali Iraqi, Commercial Director

Foreign Companies Operating in Morocco

Eiremor
Austin Henry, General Manager

Dewhirst Ladies' Wear Trousers
Cennydd Williams, Production Director

ST Microelectronics
Mohamed Lasry, Director General, Morocco

Settavex
Salah Eddine Mezouar, Director General

U.S. Companies Operating in Morocco

American Pulp & Paper
Nicole Benchekroune, Export Sales Manager

Backroads Tours

Citibank
Eric Stoclet, Director General

CMS Energy
Khacem Benslimane, Industrial Development Director

Delphi Automotive Systems
Max Lang, General Manager

Eli Lilly
John Drowley, Area Manager

Goodyear
Olivier Rousseau, Director General

International Underwear (Grupo Sans/Sara Lee Corp.)
Jordi Gibert Genís, Plant Manager

Jordache (J.R.A. Morocco S.A.)
Marcos Arrobas, General Manager

Kraft Foods
Bruno Mauvoisin, General Manager

Morocco Fiber Optics
Oussama Bennani, General Manager

Polydesign Systems
Julianne Furman, General Manager

Second Chance Body Armor
Mohammed Nasrat Tatari, General Manager

Smithsonian Study Tours

Additional Tourism Sector Contacts Made

Don Hawkins, George Washington University School of Tourism Studies
Joan Noble, tour operator
Susan Schaefer Davis, tour operator in Morocco and rug exporter
Scott Wayne, tourism industry analyst

Annex C: USTDA Projects Funded in Morocco or Region to date

CNS/ATM Transition Plan (FS) $325,300 - TDA provided $325,300 to the Direction de l'Aéronautique Civile of Morocco to partially fund a Feasibility Study on the development of a communication navigation surveillance/air traffic management (CNS/ATM) transition plan. (Innovative Solutions International) (FY2002)

FES Solid Waste Management (TR) $100,000 - Grant to the Communauté Urbaine de Fes for training activities on the construction and operation of the Fes controlled landfill. (FY2002)

Azzemour Wastewater Treatment (FS) $200,000 - Feasibility Study grant to the Office National de l'Eau Potable for a feasibility study of a wastewater treatment and reuse project in the city of Azzemour. (FY2001)

Toukimt and Meskala Gas Simulation (FS) $177,063 - TDA provided a $177,063 grant to the Office National de Recherches et d'Exploitations Pétroliores to partially fund a feasibility study on a simulation study of the Toukmit and Meskala gas fields. (FY2001)

Bou Regreg Ozonation Facility (FS) $400,000 - Feasibility Study grant to the Office National de l'Eau Potable for a study on the development of an ozonation facility at Bou Regreg. (FY2001)

GIS and Information Technology (FS) $399,880 - Grant to the Office National de Recherches et d'Exploitations Pétrolieres for a feasibility study on a proposed geographic information system and information technology project. (FY2001)

Casablanca Solid Waste (FS) $350,000 - TDA provided $350,000 to La Région du Grand Casablanca for a study on a proposed solid waste management concession. (FY2001)

Port of Safi (FS) $259,200 - Grant to the Groupe Office Chérifien des Phosphates for a feasibility study to evaluate the development of a new port at Safi. (FY 2001)

Desalination (FS) $250,000 - Grant to the Office Cherifien des Phosphates for desalination and cogeneration project at its Jorf Lasfar location. (FY2001)

Airport Privatization (TA) $200,000 - TDA is providing a $200,000 grant to the Ministry of Economy, Finance, Privatization, and Tourism to provide technical assistance to assess the privatization prospects for selected airports. (FY 2000)

Fiber Optic Telecommunications Backbone (FS) $306,180 - Cost-shared feasibility study grant to Office National l'Electricite for a technical, economic, marketing, legal, and regulatory assessment of its potential entry into the fiber optic telecommunications sector. (Project Finanace Advisors, LLC) (FY 2000)

Cement Plant (FS) $69,280 - Grant to INTRAG Maghreb for Phase 1 of a study on the construction of a cement plant. (Fuller International) (FY 2001)

Fiber Optics Project (TA) $40,000 - The Office Nationale de l'Electricité received a grant to provide technical assistance related to the installation of a fiber-optics network through the ONE power grid. (Project Finance Advisors LLC) (FY1999)

ANRT Moroccan Wireless Telecommunications (TA) $76,000 - Grant to the Agence Nationale des Reglementations Telephoniques (ANRT) to provide technical assistance for the VSAT and second wireless license tenders, and the development of a spectrum monitoring program. (Teleconsult) (FY 1999)

Khouribga Co-Generation (FS) $252,000 - Feasibility Study Grant to the Office Cherifien des Phosphates for the proposed co-generation and phosphate-drying plant project. (Black & Veatch Intl.) (FY 1998)

Airport Security Modernization (FS) $250,000 - Grant to the Ministry of Transport and the Merchant Marine for the proposed modernization of security at three major international airports. (Abacus Technology) (FY 1998)

Can Manufacturing Facility (FS) $187,000 - Feasibility Study Grant to Yabyo International for a can manufacturing treatment project. (Yasmine Enterprises) (FY 1998)

Solid Waste Management (FS) $200,000 - Feasibility Study Grant to the Communaute Urbaine de la Wilaya de Fes for a solid waste treatment project. (Sadat International and Edgeboro International) (FY 1997)

Water Desalination (FS) $295,000 - Feasibility Study Grant to the Office National de l'Eau Potable for a reverse osmosis water desalination project. (D'Sal International) (FY1997)

SELECTED REGIONAL USTDA PROJECTS FUNDED IN AFRICA/MIDDLE EAST

Safe Skies Symposium (OV) - Orientation Visit of sixteen decision-making representatives from four Africa countries participating in the Safe Skies for Africa initiative. The delegates visited sites in Virginia, Maryland, New Jersey, and Oklahoma. (Koeppen, Elliot & Associates) (FY2001)

Port Orientation Visit (OV) - Twelve decision-making representatives from major port authorities in Algeria, Cameroon, Morocco and Tunisia visited sites in Tampa, Miami, Norfolk-Newport News, Baltimore-Washington and New York. The OV was conducted by Decision Analysis Partners. (FY2001)

North Africa Interconnection Reinforcement (FS) $306,116 - Feasibility Study Grant to COMELEC for an in-depth technical, economic and regulatory analyses for SONELGAZ (Algeria), ONE (Morocco), and STEG (Tunisia) to address grid interconnection among the three utility systems. (FY 2001)

Maghreb Trade and Investment Conference (TS) - Technical Symposium focusing on 30 project opportunities in Algeria, Morocco, and Tunisia presented to members of the U.S. business community. Project sponsors from the three countries were brought to the conference as delegates. Transportation and Economic Research Associates organized the conference for TDA. (FY2000)

Africa & Middle East Water Projects Conference and Orientation Visit (TS)) - TDA funded an Orientation Visit of 25 African and Middle Eastern officials to Long Beach, CA, to conduct site visits and participate in a TDA-funded conference presenting water sector opportunities to U.S. firms. The conference and orientation visit were organized by EA International. The briefing book for the event, outlining the projects represented at the event as well as 25 others, was prepared by Labat-Anderson. (FY 1999)

African Stock Exchanges (OV) - Orientation Visit of ten officials representing eight stock exchanges in Africa to New York, Chicago, and San Jose, CA, to meet with U.S. firms manufacturing equipment and providing services for the expansion and modernization of securities exchanges. (Computer Frontiers) (FY 1999)

MENA Telecom Orientation Visit (OV) - Twelve African and Middle Eastern telecommunications and power officials from Lebanon, Morocco, Tunisia, Algeria, Jordan, Egypt, and Oman visited in May 1999. Delegates visited sites in Washington, DC, Austin, TX, Dallas, TX, and San Diego, CA. (SEA) (FY1999)

Solid Waste Orientation Visit (OV) - Orientation visit of eleven African and Middle Eastern solid waste officials from Lebanon, Morocco, South Africa, Algeria, Jordan, Egypt, and Yemen in June 1998. Delegates participated in WasteExpo '98 in Chicago and visited sites in Illinois, New York, and New Jersey. (Chemonics International) (FY1998)

Africa/Middle East Aviation Industries (OV) - The purpose of this OV (April 1998) was to promote the U.S. private sector to African and Middle Eastern sponsors of airport construction, privatization, and management/operations projects; air traffic control projects; and other industry-related activities identified in a TDA-funded briefing book. Delegates traveled to New York, New Jersey, Illinois, and California. (Louis Berger International) (FY 1998)

Africa/Middle East Aviation Industries Conference (TS) - Delegates from Africa and the Middle East traveled to the U.S. to present their public and private sector projects in the aviation sector (April 1998). Projects included airport construction, privatization, and management/operations projects; air traffic control projects; and other industry-related activities identified in a TDA-funded briefing book. (Foreign Trade Association of Southern California) (FY 1998)

Africa/Middle East Aviation Project Identification Book (TS) - TDA contracted with the AAROTEC Educational Foundation to prepare a briefing book outlining the 40 most promising export opportunities for U.S. companies in airport and air traffic control projects in Africa and the Middle East. (AAROTEC Educational Foundation) (FY 1998)

African Power Generation (OV) - Orientation visit for fifteen African power generation officials from Algeria, Cameroon, the Democratic Republic of Congo, Ethiopia, Ghana, Mauritius, Morocco, Namibia, Senegal, Tunisia, Uganda, and Zambia. The group visited Washington, DC, York, PA, Orlando, FL, Charlotte, NC, and Dallas, TX, where delegates participated in the PowerGen '97 conference. (FY 1997)

Solid Waste Orientation Visit (OV) - Orientation visit of six African and Middle Eastern solid waste officials from Lebanon, Mauritius, Morocco, South Africa, Tunisia, and Yemen in May 1997. Delegates participated in Waste Expo 97 in Atlanta, GA, as well as visiting sites in New York, New Jersey, California, and Arizona. (Meridian International Center)(FY 1997)

Health Ministers' Visit (OV) - African health sector officials interested in pharmaceuticals, health equipment, and health services. (Corporate Council on Africa) (FY 1997)

Fertilizer Orientation Visit (OV) - Orientation visit of twelve African fertilizer officials in Spring 1997. (FY 1997)

Port Development and Expansion Orientation Visit (OV) - Twelve African port officials from Angola, Egypt, Eritrea, Ghana, Morocco, Mozambique, Mauritius, South Africa, Senegal, Tanzania and Tunisia. (Koeppen, Elliot & Associates) (FY 1996)

Water Sector Seminar and Orientation Visit (TS) - Technical Symposium in Dallas on pending projects in the water supply, waste water treatment and sewerage industries. (Institute of International Education, Development Finance International) (FY1996)