

TRADE POLICY REVIEW

KINGDOM OF MOROCCO

Report by the Secretariat

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

Document WT/TPR/G/8 contains the policy statement submitted by the Government of Morocco.

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

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SUMMARY OBSERVATIONS

(1) The economic environment

1. Confronted with internal and external payment imbalances, in 1983 Morocco embarked on a series of economic adjustment programmes. The monetary and budgetary policy and trade liberalization measures adopted have yielded significant results. The government deficit and inflation have been contained and at the end of 1994 foreign exchange reserves represented about five months of exports. The dirham has been made convertible for current transactions and for capital transactions effected by non-residents. The dirham has held up relatively well against the principal foreign currencies. The external debt fell from more than 100 per cent of GDP in the mid-eighties to less than 70 per cent in 1994, but debt service is absorbing almost one third of current revenue in the balance of payments.

2. The country's present problems include unemployment and drought, which has been a frequent occurrence in Morocco for nearly 20 years. Because of its severity, the drought of 1995 is regarded as the drought of the century and the resulting poor harvests could chop 4 to 6 per cent off real GDP. These adverse climatic conditions have aggravated the exodus from rural areas and also unemployment, which has now reached about 16 per cent of the labour force at national level. The social impact of unemployment has been softened by the existence of an extensive informal sector which, however, is having a negative effect on government revenue and helping to increase the burden on tax-paying enterprises.

3. Transport costs (including freight costs for air, sea and road transport) are relatively high as compared with those in other countries in a similar economic situation. Moreover, the taxes levied do not reflect the level of basic infrastructure (including electricity and telecommunications) required by industry as government revenue is mostly used for paying civil service wages.

4. With a view to promoting investment, especially foreign investment, the law limiting foreign holdings in Moroccan companies, known as the "Moroccanization" law, was abolished in September 1993, new banking regulations were adopted and a privatization programme was launched. Out of the 113 State-owned companies and hotels scheduled for privatization, 32 had already been privatized by June 1995 and today public investment is concentrated in the social and infrastructure sectors. Foreign financing for joint ventures with Moroccan partners is now being encouraged; such investment could also help to finance the replacement of obsolete plant and equipment.

(2) Morocco in world trade

5. Morocco's merchandise exports comprise three main groups of products which account for about 80 per cent of the country's merchandise export earnings: agricultural produce and seafood, textiles and clothing, and phosphate and phosphate derivatives. Morocco possesses more than half the world's phosphate reserves and, internationally, is the leading phosphate exporter. Moreover, it is phosphates that enable Morocco to maintain a presence in a large number of foreign markets.

6. The structure of Morocco's merchandise imports has changed in recent years to reflect the needs associated with the investment encouraged by economic adjustment and growth. The shares of food and energy imports are declining whereas imports of machinery and other capital goods, together with imports of raw materials needed by the chemical industry, are increasing.

7. The services sector in Morocco is mainly based on tourism which is favoured by the natural beauty of the country and its cultural heritage. Tourist activities bring in as much foreign currency as agricultural and seafood exports combined (about 30 per cent of merchandise export earnings). European tourists represent about 60 per cent of the total.

Although considerable, tourist earnings and the remittances from Moroccans working abroad are not sufficient to absorb the structural deficits of the trade balance.

8. The European Union continues to be Morocco's main trading partner. It supplies about 54 per cent of merchandise imports, receives 63 per cent of exports and every year is responsible for about 75 per cent of direct foreign investment. Within the Union, France, Spain, Italy and Germany have the largest shares in the trade with Morocco. Outside the EU, Morocco's trade with Japan and the United States is on the increase.

9. The factors that have favoured trade with the EU include both Morocco's lower labour costs and the preferential treatment granted to many Moroccan products. However, some categories of agricultural products are subject to tariff quotas and the country has also agreed to restrict its exports of trousers to the Union. Morocco and the European Union intend to conclude an association agreement which should eventually make it possible to establish a free-trade area.

(3) Institutional and legislative framework

10. The Kingdom of Morocco is a constitutional monarchy; the executive power is in the hands of the King, as Head of State, and his Government. The King signs and ratifies international treaties. Where trade is concerned, bills are generally initiated by the competent Ministers and then submitted to the Chamber of Representatives for approval. The Chamber is composed of 333 Members, two thirds of whom are elected directly by universal suffrage and one third by an electoral college.

11. In the early 1990s, the Government began revising the Moroccan legislation, parts of which dated from the last century. A draft Company Act and three new Codes, one for investment, one for trade and one for labour, have been prepared. A draft Competition Act is also in preparation. All these texts, which are based in general on the corresponding French legislation, are intended to adapt the

legislative framework to the various reforms which have been carried out, especially in the area of trade. With the exception of the draft Competition Act, these texts are in the process of adoption.

12. The constitutional reforms of 1993 were concerned, among other things, with reducing the time required for the adoption or ratification and implementation of laws in Morocco. However, there are still many bills which have been signed but not ratified or ratified but not yet implemented.

(4) Features of economic policy

(i) International commitments

13. Morocco acceded to the GATT in 1987. It participated actively in the Uruguay Round negotiations and hosted the Marrakesh Summit in April 1994. It has accepted the WTO Agreements and has therefore committed itself to pursue the liberalization of its external trade in a multilateral context.

14. Within the framework of the WTO, Morocco has completed the binding of all its tariff lines. The country has also bound its fiscal import levy and, like other members of the WTO, it has undertaken the tariffication of the quantitative measures which affect agricultural products. In June 1993, Morocco introduced tariff equivalents of between 100 and 365 per cent for live animals, meat, dairy products and some of their derivatives. Other tariff equivalents are to be introduced in 1996. For some meat categories the ceiling rates reach 380 per cent.

15. Subject to limitations concerning the physical presence of foreigners, Morocco has entered into commitments under the General Agreement on Trade in Services. It has bound the conditions of market access for certain categories of services, in particular professional services, other business services, value-added telecommunications services, environmental services, and financial and tourism services. Morocco is participating actively in the work of the maritime transport services and basic telecommunications negotiating groups. A bill

is currently being prepared with a view to adapting the legislation in force to the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

16. Within the Arab Maghreb Union (AMU), of which Morocco is a member, Tunisia and Algeria are the two most important destinations for Moroccan products. Exports to these markets are exempt from import duties (in the case of Tunisia for certain products) or pay a countervailing tax of 17 per cent rather than a higher rate. The volume of trade within the Union is still limited but the Member countries are planning to establish a free-trade area. Morocco is a member of, *inter alia*, the Organization of the Islamic Conference and has concluded bilateral trade and tariff agreements with several Arab and Sub-Saharan African countries.

(ii) Trade policy instruments and their effects

17. Morocco's current trade policy combines progressive import liberalization with the promotion of industrial exports and heavy protection for certain agricultural staples. On the import side, domestic production is protected by a number of measures such as the licences required for a few products (10.2 per cent of total merchandise imports in 1994 as against 8.4 per cent in 1993), import duties, the fiscal import levy and a parafiscal tax. Subsidies have been granted in order to encourage the consumption of certain locally-produced agricultural products.

18. By 1993, Morocco had considerably simplified its import tariff by reducing the number and the maximum level of duty rates; the maximum rates had generally been reduced to 35 per cent, except for certain products which were subject to duty at 40 or 45 per cent. Since then, the maximum rates have been raised, more particularly as a result of the introduction of certain tariff equivalents. At the end of the first half of 1995 the simple average duty rate was 23.5 per cent. This average conceals a progressivity of duties in the industrial sector,

especially as regards products which have been or could be manufactured in Morocco.

19. The agricultural sector, whose importance resides not only in the proportion of the population that it employs but also in the food security policy now in place, is the sector that receives the most protection: cereals, in particular soft wheat, and oilseed, sugar, milk and meat are the products more especially concerned. The Foreign Trade Act provides for variable levies on imports of certain staple foods. Farmers are exempt from taxation.

20. On the export side, Moroccan goods, especially those with a high level of local processing, are being promoted by means of tariff and tax concessions. These concessions include relief and exemption from or reduction of duties and levies, especially on imported inputs, and concessions with respect to the tax on exporters' profits. Goods for export are exempt from value-added tax. There is provision for refunds on exports of certain agricultural products in surplus on local markets, but so far there appears to have been no instances of this measure being applied. Industrial zones, in which State aid is available for the purchase of land, and a free zone are currently operational. Except for hydrocarbons and certain services, duties and taxes on exports have been progressively abolished; the taxes levied on agricultural and mining exports were abolished by the 1995 Finance Act.

21. The instruments designed to protect local industry could make exporting enterprises less efficient. The principle is to give favourable treatment only to goods, in particular inputs, which are not or cannot be locally produced. At the same time, raw materials of Moroccan origin are relatively expensive. In fact, sheltered from foreign competition and benefiting from subsidies, the local producers have little incentive to reduce their costs. Moreover, although the importing countries have not so far taken any countervailing measures against Moroccan exports, the concessions granted could increase the risk of their doing so. These regimes also have a prejudicial effect on exports

of certain services, including tourism, which mainly use locally-produced inputs.

22. Morocco has no legislation concerning the emergency measures described in Article XIX of the GATT. However, the foreign trade regulations currently in force provide for anti-dumping and countervailing measures which, it seems, have never yet been applied. As a precaution, pending the entry into force of a new law intended, among other things, to adapt these measures to the WTO Agreements, a preliminary import declaration was introduced in April 1994. Bananas are the only import for which this declaration is required.

(iii) Sectoral aspects of trade policy

23. Agriculture provides work for about 40 per cent of the Moroccan labour force. However, the contribution of the sector to GDP has fallen from nearly 20 per cent in the mid-80s to less than 15 per cent on average since 1990. During the last 10 years drought has become an increasingly regular feature of the climate and, accordingly, is now a factor which must be taken into consideration in making forecasts. Thus, the Government has reoriented its agricultural policy away from the broader goal of self-sufficiency towards the narrower objective of guaranteed food security. The progressive liberalization of this sector could be facilitated by the commitments entered into by Morocco in the context of the WTO Agreements and the development of more efficient modern production units using irrigation systems. At present, such units are farming about 11 per cent of the cultivated area and account for a quarter of agricultural production and 80 per cent of the country's agricultural exports.

24. In the industrial sector, the aim is diversification, especially of exports. Thus, the range of goods produced by this sector has been extended, even though there has been little change in its share of both GDP and exports. Diversification has consisted in raising the level of processing of certain products, in particular in the mining industry (phosphate), the chemical industry (chemicals and paracheicals), manufacturing (especially textiles and clothing),

and the food industry. The development of the textiles and clothing branch, more particularly outward processing, can be mainly attributed to labour costs and the proximity of the EU. Moreover, the comprehensive programme of dismantlement of quantitative restrictions announced by the EU in the context of the WTO Agreement on Textiles and Clothing is giving Morocco time to adjust: for the most part, the country's exports are among those which the Union intends to integrate under the Agreement by the end of the 10-year period.

25. The motor vehicle sector has been experiencing difficulties for several years. Accordingly, the Government has undertaken to revitalize the local content system introduced in 1982, according to which motor vehicle assembly firms must incorporate, in their production, 60 to 70 per cent of parts of Moroccan origin or offset by exports. A contract recently signed with a European manufacturer calls for a local content of 50 per cent after the first three years; the contract also provides for certain tax concessions.

26. The services sector contributes more than 50 per cent to the formation of Moroccan GDP. The increase in its share is attributable to the decline in that of agricultural activities during recent years. At the same time, the sector has especially benefitted from the dynamism generated by the country's achievements in the area of liberalization. In fact, this is the sector in which the disengagement of the State has been most pronounced in terms of the number of enterprises privatized.

27. The liberalization of the banking subsector has facilitated the entire opening-up process currently under way in Morocco. The liberalization of the other branches of the services sector, such as telecommunications and insurance, is less advanced but, given the commitments entered into by Morocco in the context of the WTO Agreement on Trade in Services, there are plans for certain activities to be opened up.

(iv) Trade policies and foreign trading partners

28. *As in the case of other countries, the liberalization programme carried out unilaterally by Morocco over a period of more than 10 years was made necessary by economic difficulties. As indicated in the first review of Morocco's trade policy in 1989, the thrust of the policy pursued has been to promote exports of manufactures. The favourable results obtained in such areas as economic growth, inflation, government finance and external trade in goods and services should have encouraged the country to continue with the reforms. However, internal resistance and administrative and legislative delays seem to have blunted the initial enthusiasm.*

29. *Morocco's active participation in the Uruguay Round negotiations and the commitments it has entered into in this connection reaffirm its attachment to the multilateral trading system. The WTO Agreements offer it an opportunity to pursue and extend its liberalization policy and to eliminate the distortions inherent in the preferential regimes currently in place. Thus, the conditions are now favourable for Morocco to take up the challenge of the drought and revitalize its adjustment process.*
