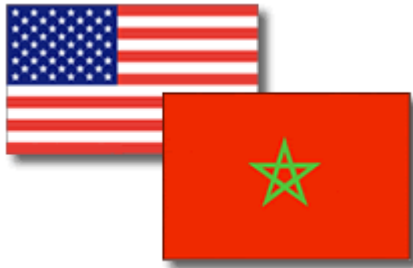




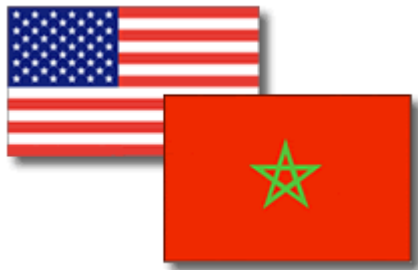
Morocco – U.S. Free Trade Agreement

Wally Tyner



Morocco – U.S. Free Trade Agreement

- Why a FTA between Morocco and the US?
 - The US has grown a bit impatient with the pace of progress in WTO negotiations and decided to pursue at the same time bi-lateral negotiations
 - The private sector in the US has a strong preference for bi-lateral agreements because they go further and are negotiated quicker.
 - The US wanted a FTA with Morocco because it is a friendly Arab country – Morocco was the first country to sign a friendship treaty with the US in 1787
 - Morocco wanted the FTA to provide another market opening and to counter-balance a bit the EU

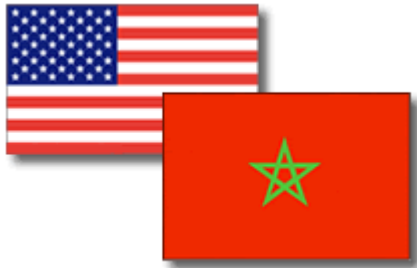


Morocco – U.S. Free Trade Agreement

- US FTA must be viewed also in the context of other Moroccan trade agreements
 - EU Association agreement
 - Arab free trade agreement
 - Agadir agreement (Morocco, Egypt, Jordan, and Tunisia)
 - Turkey
- New EU negotiations begin this fall

Leading Exports and Imports to and from USA (2000)

Exports (\$US million)	Value	%	Imports (\$US million)	Value	%
Total Exports	269,35	100	Total Imports	683,60	100
<i>including:</i>			<i>including:</i>		
Phosphates	64,68	24,01	Corn (Maize)	84,24	12,32
Wearing apparel	55,23	20,50	Crude and chipboard coal	51,33	7,51
Hosiery and Cosmetics	28,13	10,44	Wheat	59,16	8,65
Preserved vegetables	21,06	7,82	Tobacco	45,73	6,69
Preserved fish	24,57	9,12	Machinery and devices	27,18	3,98
Phosphoric acid	8,62	3,20	Oil seeds	26,64	3,90
Agar-Agar	5,66	2,10	Chemical products	13,88	2,03
Dried vegetables	3,04	1,13	Electric and phone equipment	9,90	1,45
Citrus fruit	0,30	0,11	Boilers	11,39	1,67
Fresh, frozen brined vegetables	3,28	1,22	Transmitters	6,87	1,00
Carpets	2,12	0,79	Engines	6,26	0,92
Essential oils	0,70	0,26	Extraction equipment	5,93	0,87
Olive oil	0,22	0,08	Industrial vehicles	1,84	0,27
			Aircrafts	138,34	20,24
			Raw vegetable oils	4,53	0,66
Total Leading Exports	217,61	80,79	Total Leading Imports	493,22	72,15
Source: Office des Changes (2003)					



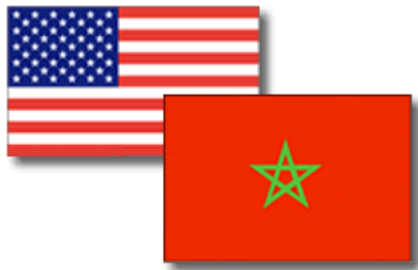
Morocco – U.S. Free Trade Agreement

- The negotiations
 - Began in January 2003 and were completed in March 2004 (a bit more than 13 months)
 - Formally signed June 15, 2004
 - Most of the industrial issues were settled fairly quickly
 - Agriculture, textiles, and rules of origin were the most difficult areas
 - Becomes effective July 1, 2005



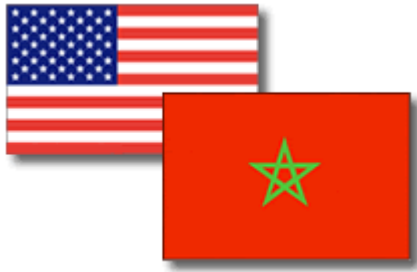
Morocco – U.S. Free Trade Agreement

- The negotiations
 - I worked as “principal international consultant” to the Government of Morocco on agricultural issues from May 2003 to March 2004
 - During that time we explored scores of different options for each group of products
 - Three products in agriculture were labeled “explosive” for Morocco:
 - Wheat, poultry, and beef



Morocco – U.S. Free Trade Agreement

- Widely recognized as a more politically than economically driven agreement
- Both sides approached the negotiations with a high degree of professionalism and with a view to protecting the interests of their country
- Both sides had consultations with the private sector during the course of the negotiations



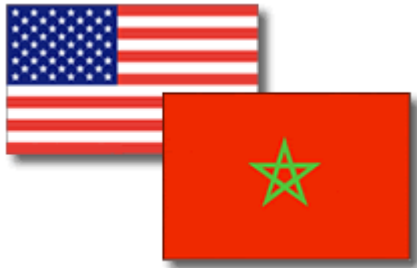
Morocco – U.S. Free Trade Agreement

- Some specific benefits for Morocco
 - Increased access to U.S. market for textiles and apparel
 - Increased access for all industrial products with tariffs falling to 0 immediately for 99% of tariff lines
 - Possible increased exports of artisan and fish products
 - Increased agricultural product access for products such as clementines, dried tomatoes, spices, olives, and organic products



Morocco – U.S. Free Trade Agreement

- Some benefits to the U.S.
 - Duty free trade (both ways) in 95% of consumer and industrial products immediately and the rest within 9 years
 - Tariff-rate quotas for poultry, beef, and wheat
 - New access for services
 - Strong IPR and investor protection
 - Protection for labor and environment



Morocco – U.S. Free Trade Agreement

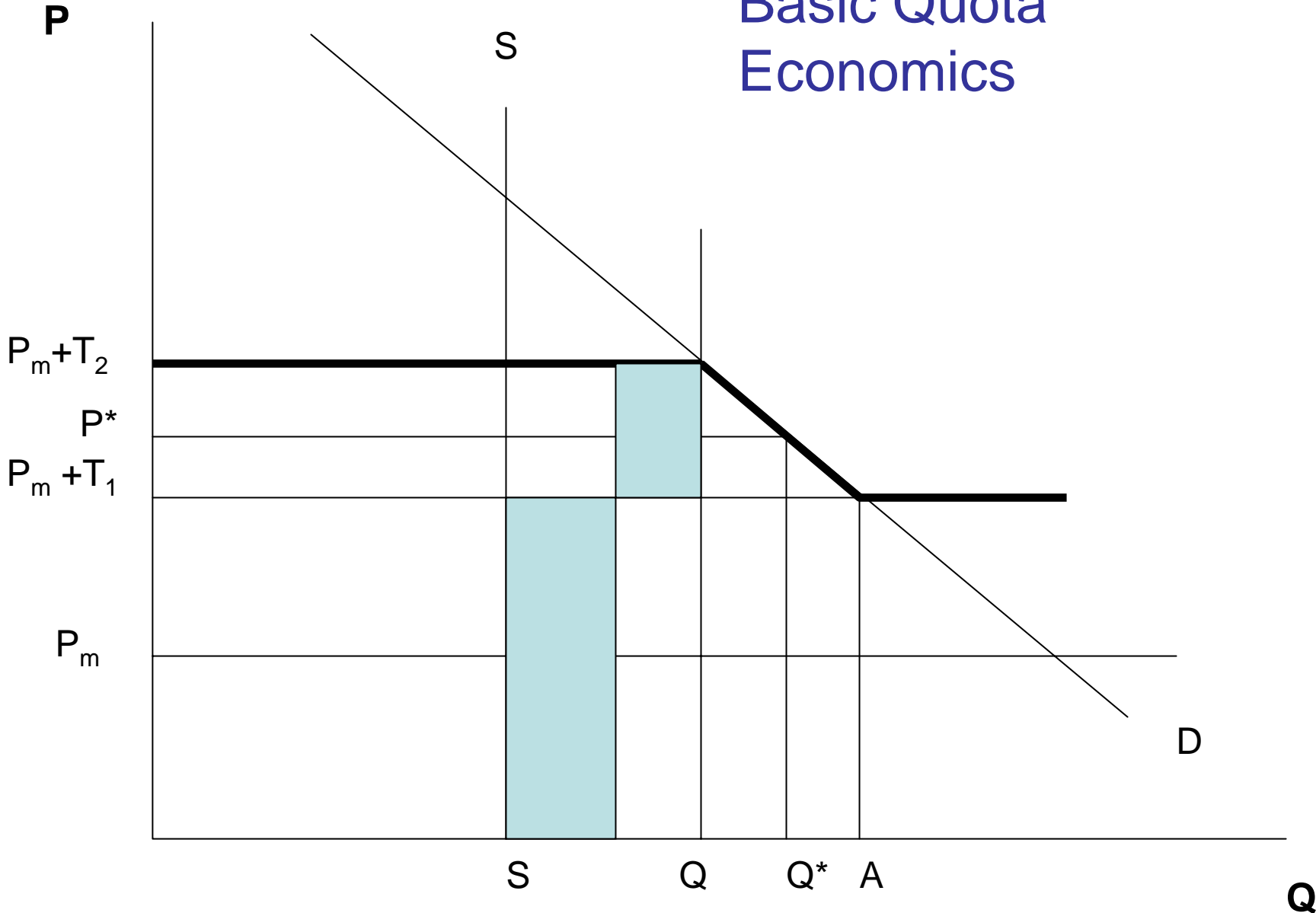
- U.S. access in agriculture
 - For wheat, poultry, and beef, tariff-rate quotas
 - For maize and soybeans, 50% reduction immediately with the remaining tariff phased out linearly over 5 years
 - All ag commodities were classified as follows:
 - A: immediate liberalization
 - B: liberalization in 5 years
 - C: liberalization in 10 years
 - D: special treatment



Morocco – U.S. Free Trade Agreement

- Functioning of a quota
 - It is a specific quantity of imports allocated to the partner for which there is a lower duty applied
 - If the size of the quota is greater than total imports, the in-quota tariff determines the national price
 - If the size of the quota is less than total imports, the national price is determined by the out-of-quota (usually MFN) tariff
 - Administrative system matters

Basic Quota Economics





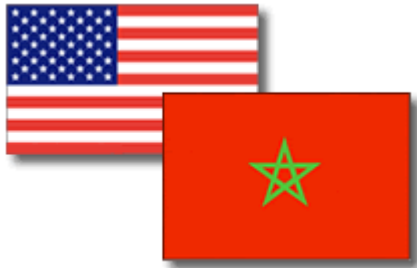
Morocco – U.S. Free Trade Agreement

- Blé tendre – quota linked to Moroccan production
 - If production < 2.1 mil. tons, quota = 700,000
 - If production > 3.0 mil. Tons, quota = 280,000
 - Between these levels, quota = $1.68 - 0.47 \cdot \text{prod}$
 - For example, prod = 2.5, quota = 505,000
 - Sum of US and EU quotas less than total import demand
 - 10 year simulated average = 68%
 - 10 year range: 43 – 86% of total imports
 - US quota increases to EU level over 10 years
 - In-quota tariff reduced 38% - same as EU agreement
 - Out-of-quota tariff unchanged



Morocco – U.S. Free Trade Agreement

- Wheat quota administration is through competitive bidding
- Thus the quota rents are bid away assuming competition in the import market



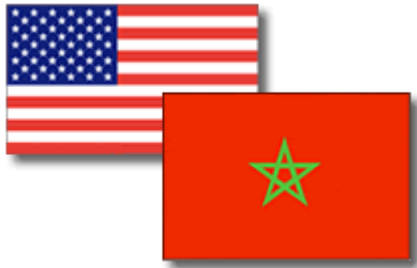
Morocco – U.S. Free Trade Agreement

- Blé dur
 - Initial quota fixed at 250,000 tons
 - Increases each year 10,000 tons
 - Out-of-quota tariff unchanged
 - In-quota tariff reduced to 56% over first 5 years, then reduced 11%/year to reach 0 in year 10
 - Simulated 10 year average import share = 47% with a range of 37-100%
 - Blé dur imports growing, 5 year simulation = 34% with a range of 25-40%
 - Within a few years the sum of the US wheat quotas is equal to the effective level of the EU quota



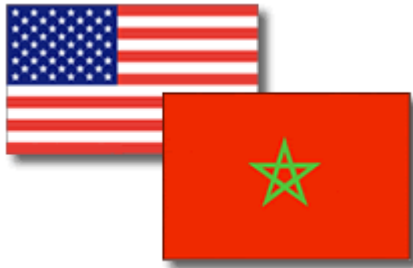
Morocco – U.S. Free Trade Agreement

- Maize and soybeans
 - Fairly quick liberalization
 - Tariff reduced 50% immediately, and then reduced 10%/year to reach 0 at the end of year 5.
 - Morocco does not produce soybeans and uses a deficiency payment system for sunflower, so little or no effect there
 - Small level of maize production mostly with central pivot irrigation, which will be converted to other crops
 - Moroccan tariffs on sorghum and oats eliminated immediately



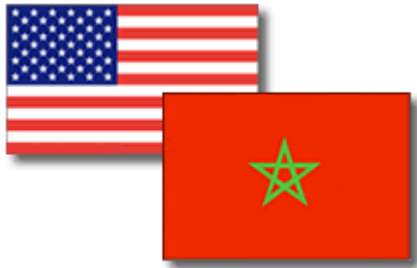
Morocco – U.S. Free Trade Agreement

- Moroccan beef production is currently about 140,000 tons/year
- There is a quota for high quality (aka “Hilton”) beef initially starting at 4,000 tons, about 3% of domestic production
- The quota increases a bit each year
- The in-quota tariff falls to 0 in 5 years
- The out-of-quota tariff falls to 0 in 18 years
- The quota is administered through an import license



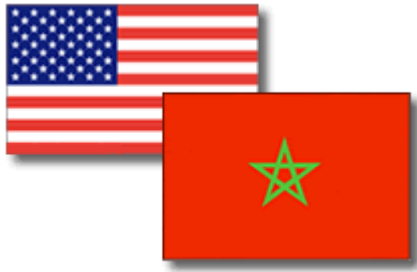
Morocco – U.S. Free Trade Agreement

- Moroccan poultry production is about 315,000 tons of which 50,000 is traditional and 15,000 modern cold chain
- There are two TRQs for poultry - whole birds (19 years) and leg quarters (25 years)
 - Whole bird quota = 1,250 increasing 100/yr.
 - Leg quarter quota = 4,000 increasing 200/yr.
 - In-quota tariff falls 50% immediately, and goes to 0 in 10 years
- Volume based safeguard with tariff snapback
- Out-of-quota tariffs back-loaded with no reduction in first 10 years



Morocco – U.S. Free Trade Agreement

- Textiles
 - Generally, the US requires that apparel coming into the US under preferential agreements use US or national fabric
 - Morocco obtained a concession (TPL) permitting it to export apparel based on fabric from third countries up to 30 million square meters equivalent
 - This TPL is constant for 4 years and phases out in years 5-10
 - The TPL is twice the entire Moroccan exports to the US, but only 0.2% of US imports
 - The TPL is important given the expiration of the MFA at the end of 2004



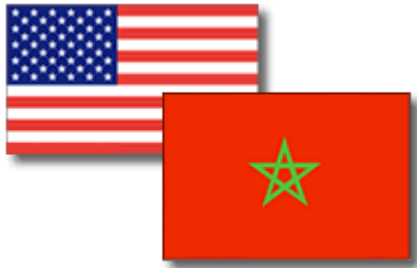
Morocco – U.S. Free Trade Agreement

- Labor and environmental standards are the same as other US FTAs
- Morocco is required to enforce existing laws
- USAID will assist Morocco in strengthening labor and environmental laws
- Purdue has a small USAID contract to assist with agricultural implementation issues



Morocco – U.S. Free Trade Agreement

- Services
 - Wide opening in services sectors in both directions
 - Includes audiovisual, express delivery, telecommunications, banking, computer services, construction, engineering, and other areas



Morocco – U.S. Free Trade Agreement

- Strong intellectual property rights protection for printed and digital products
- Morocco retained the right to produce generic medicines in case of epidemics
- Strong protection and equal treatment for investors in both directions



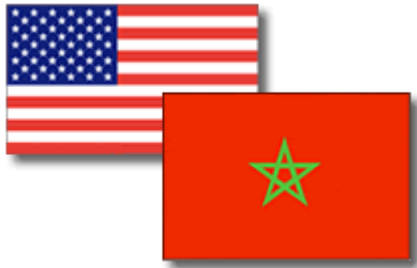
Morocco – U.S. Free Trade Agreement

- Conclusions of the GTAP based analysis
 - This study compared a true US FTA with multilateral liberalization
 - Benefits of multilateral liberalization were large (welfare increase of \$2.6 bil. and real GDP of 4.2%)
 - For the FTA, the trade and welfare effects on both the US and Morocco were very small
 - Moroccan red meat and wheat imports increased significantly and production decreased
 - US imports of processed food and wearing apparel increased significantly



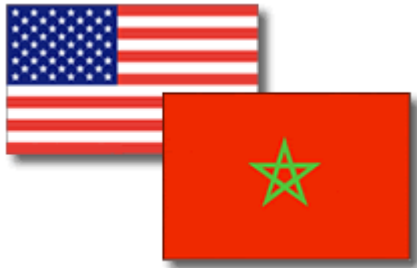
Morocco – U.S. Free Trade Agreement

- FTA Conclusions
 - There are some trade gains for both Morocco and the US, but they are quite small.
 - The real gains will be in the sectoral reforms that Morocco must make to prepare for the liberalization in agriculture that eventually follows, thereby increasing sector efficiency
 - The other real gains will be foreign direct investment that will be stimulated by the agreement
 - American Farm Bureau estimates US farm income increases \$75 mil./year with the FTA



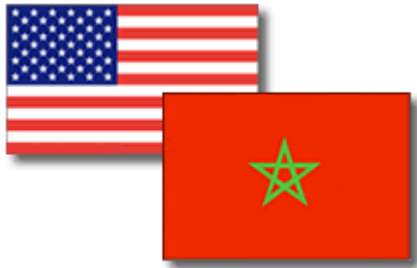
Morocco – U.S. Free Trade Agreement

- Two recent WB studies on the Doha round
 - *Agricultural Trade Reform and the Doha Development Agenda*, edited by Will Martin and Kym Anderson
 - *Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement*, edited by Thomas Hertel and Alan Winters



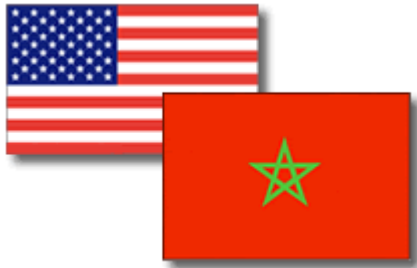
Morocco – U.S. Free Trade Agreement

- Two recent WB studies on the Doha round
 - One conclusion is that trade reform alone will not lead to significant poverty reduction – domestic reforms are key.
 - “In order to generate significant poverty reduction in the near term, complementary domestic reforms are required to enable households to take advantage of new market opportunities made available through the DDA.”
- The same is true of free trade agreements



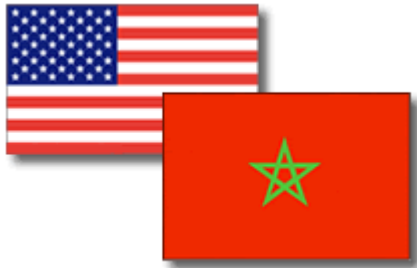
Morocco – U.S. Free Trade Agreement

- Sectoral reforms
 - It is recognized that major reforms of the marketing system are needed for cereals, beef, poultry, and fruits and vegetables
 - The FTA imports of beef and poultry likely will provide incentives for modernizing these chains
 - Reforms of the marketing systems, which include significant retreat of government intervention, are now being discussed
 - Grades and standards will be implemented



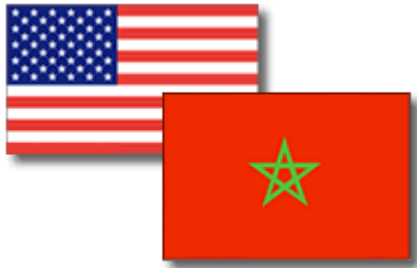
Morocco – U.S. Free Trade Agreement

- Sectoral reforms
 - The Moroccan government is reexamining the entire protection system – it is recognized that the strong incentives for producing wheat and sugar mean that water is allocated to those crops and cannot be allocated to export crops
 - Cereals are also much less labor intensive than export crops
 - This reform will be over the long term, but the debate has been launched.



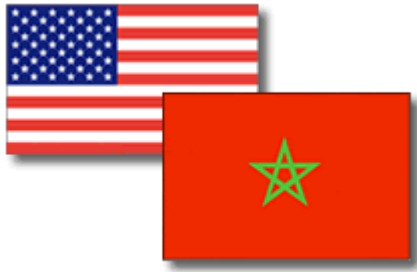
Morocco – U.S. Free Trade Agreement

- Sectoral reforms
 - The difficult questions of land titling and ownership are now being considered
 - Morocco essentially ruled out a compensation program because of the administrative difficulties that would be encountered
 - But it is recognized that clear and secure land titles would increase efficiency in the sector



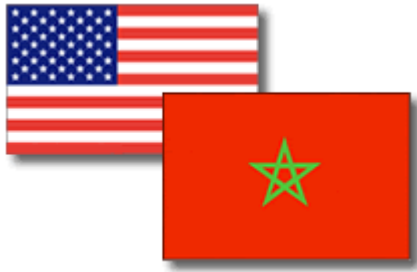
Morocco – U.S. Free Trade Agreement

- Sectoral reforms
 - With the much greater market orientation, the need for a market information system is now widely recognized.
 - It is expected that such a system will be created fairly quickly
 - It will vary by crop or product
 - It will be practical and focus on dissemination
 - For some crops, it will be publicly operated, for others private, and for some a combination



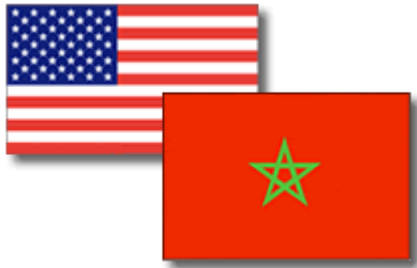
Morocco – U.S. Free Trade Agreement

- Sectoral reforms
 - The government recognizes that the only way to take advantage of the free trade agreements is to create an environment in which the private sector can function efficiently and effectively
 - It is seeking a balance that will avoid major disruptions due to imported products; yet, provide a good enabling environment



Morocco – U.S. Free Trade Agreement

- Increased FDI
 - The government hopes to attract American companies to invest in Morocco not only for the American and Moroccan markets but also for the European market
 - They also hope to attract European investment to take advantage of the opening to American and other markets



Morocco – U.S. Free Trade Agreement

- Conclusions
 - It is these structural reforms and increased foreign investment that will provide the benefits for Morocco
 - The FTA and other trade agreements in and of themselves will not go very far – the accompanying reforms are the key