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Trade Policy Review Body

TRADE POLICY REVIEW

Report by the Secretariat

KINGDOM OF MOROCCO

Revision

This report, prepared for the fourth Trade Policy Review of the Kingdom 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 Kingdom of Morocco on its trade policies and practices.

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Document WT/TPR/G/217 contains the policy statement submitted by the Kingdom of Morocco.

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SUMMARY OBSERVATIONS

(1) ECONOMIC ENVIRONMENT

1. The macroeconomic and structural reforms, including trade reforms, pursued by Morocco since the previous trade policy review (TPR) in 2003 have contributed to the growing diversification and positive overall performance of its economy, with an average annual rate of growth in real GDP of 4.6 per cent during the period 2002-2007 and 5.6 per cent in 2008. GDP per capita nearly doubled, progressing from 1,386 US dollars in 2002 to approximately 2,435 US dollars in 2007, also influenced by the depreciation of the dollar. Economic growth was underpinned, in particular, by strong internal demand and increased investment. However, the economy is beginning to feel the impact of the decline in demand from abroad in the wake of the international financial and economic crisis. Unemployment remains a major concern, even though it fell from 11 per cent in 2002 to 9.8 per cent in 2007. It remains particularly high in urban areas (15.4 per cent).

2. The continuing fiscal reform and the control of operational spending has helped to bring the public deficit down from 3.9 per cent of GDP in 2005 to 1.5 per cent in 2006. A slight surplus of 0.7 per cent of GDP was recorded in 2007, and a surplus of 0.4 per cent of GDP is estimated for 2008. The Treasury's total debt fell from 64 per cent of GDP in 2002 to 54 per cent in 2007. Morocco's external debt has also been reduced and is around 10.7 per cent of GDP, and the external debt/export ratio decreased from 128.7 per cent in 2002 to 62.6 per cent in 2007, thanks in particular to the conversion of the external debt into public and private investment, the refinancing of expensive debt, advanced repayment, and improvement of the foreign currency structure. Monetary policy coupled with fiscal policy helped to stabilize the national currency (the dirham) and to keep inflation (as measured by the consumer price index) down to between 1.2 and 3.3 per cent per year over the period in question, until it rose to 3.9 per cent in 2008. Since the 2006 reform, monetary policy, which was formerly under the joint responsibility of the Bank Al-Maghrib (BAM) and the Ministry of the Economy and Finance, has been under the sole responsibility of the BAM.

3. Morocco has a relatively diversified economy, although the services sector's contribution to GDP is sizeable and increasing overall (around two thirds). The manufacturing sector occupies second place in terms of its contribution to GDP, followed by the agricultural sector (including livestock breeding, forestry and fishing), where the share is declining; the mining and energy sector only makes a modest contribution to GDP. Generally speaking, tourism is Morocco's principal source of foreign currency, followed by financial transfers from Moroccans resident abroad, and phosphate products. Consequently, Morocco is a net exporter of services. Earnings from exports of services more than doubled between 2002 and 2006, chiefly thanks to tourism; they are equivalent to over 80 per cent of exports of goods. Morocco's imports of goods, like its exports, mainly consist of manufactured goods (around 63.7 per cent of imports and 65.3 per cent of exports of goods in value terms). Machinery and transport equipment, textiles and chemicals are the major imports, while phosphate, clothing, and machinery and transport equipment are the main exports. This composition of trade has resulted in structural trade balance deficits, largely covered by the traditional surplus in transfers (from the income of Moroccans residing abroad) and services, with a surplus in the current transactions account between 2002 and 2006, although there was a slight deficit in 2007.

4. The EC is still Morocco's leading trade partner, as regards both imports (51.4 per cent of the total) and exports (71.9 per cent of the total). Taken individually, France is the main supplier of goods to Morocco, followed by Spain. France is also the main destination for Moroccan goods exports, followed by Spain. However, there have been the

beginnings of a diversification of Morocco's trading partners since 2003.

5. There was a marked increase in foreign direct investment (FDI) during the period under review, reaching a record level of DH 37.6 billion in 2007. The sectors concerned by FDI have chiefly been tourism, but also real estate, telecommunications, transport and industry. The significant increase in investment has been boosted, *inter alia*, by the continued reforms (including privatization) aimed at enhancing the business climate and factor costs, the initiation of infrastructure projects, as well as new sectoral policies. France is still the main investor, followed by Spain, the United Arab Emirates, the United Kingdom, and Germany.

(2) TRADE AND INVESTMENT REGIMES

6. The Kingdom of Morocco is a constitutional monarchy. The underlying principle of Moroccan law is the supremacy of international legal instruments, including the WTO agreements, over domestic law. According to the internal hierarchy of regulations, the Constitution is followed by laws, decrees, orders and internal measures (such as circular notes). The Minister of Foreign Trade formulates trade policy. Depending on the subject-matter, he coordinates the policy with the ministries concerned. Changes to the customs tariff are governed by laws; they may also be implemented by decree, on a proposal by the Government, but they must then be endorsed in the finance law for the year following their adoption and, consequently, approved by the two houses a posteriori.

7. The Ministry of Foreign Trade is assisted by the *Commission consultative des importations* – CCI (Advisory Commission on Imports), whose brief is to provide advice on all matters relating to requests for tariff protection or the adoption of contingency measures. At the same time, the *Conseil national du commerce extérieur* – CNCE (National Foreign Trade Council), established in July 1996 and made up of representatives of the Government and economic operators, is responsible for providing advice on any matters relating to foreign trade relations and for making suggestions with a view to improving the competitiveness of Moroccan products and services. The Council provides its advisory services at the request of the Government or the private sector. Morocco also consults its trading partners through joint commissions established under bilateral, regional and multilateral agreements. Maroc Export (Moroccan Export Promotion Centre), a State body under the supervision of the Ministry of Foreign Trade, is responsible for promoting and developing exports of industrial and agricultural products, and services.

8. In February 2009, the *Agence marocaine de développement des investissements* – AMDI (Moroccan Investment Development Agency) replaced the Investment Directorate, which had been under the responsibility of the Ministry of Industry, Trade and New Technology (MCINET). The AMDI is in charge of investment promotion. The 16 Regional Investment Centres (CRIs) provide investors with the help they need locally. The Investment Commission (CI), for which the AMDI acts as Secretariat, is responsible for taking steps to improve the investment environment.

9. Morocco is an original Member of the WTO, and grants all its trading partners at least MFN treatment. It is not a party to any of the plurilateral agreements concluded under WTO auspices. Morocco has played an active part in the multilateral trade negotiations, and in particular, it contributed significantly to the agreement reached on TRIPS and Public Health as the then coordinator of the countries of the African Group. However, it has fallen behind with its notifications in various fields (in particular agriculture).

10. Morocco is a member of the Arab Maghreb Union (UNA) and the Pan-Arab Free Trade Area. Since 2003, it has concluded bilateral agreements with countries such as the United States and Turkey, and it is currently

engaged in negotiations with partners such as MERCOSUR and the West African Economic and Monetary Union (WAEMU). The Arab-Mediterranean Free Trade Agreement concluded between Morocco, Egypt, Jordan and Tunisia entered into force in March 2007. Morocco has a free trade agreement with EFTA and an association agreement with the EC. It has signed the agreement on the Global System of Trade Preferences among Developing Countries (GSTP) and the framework agreement on the Trade Preferences System (TPS) among Islamic countries, in force since 2003, was ratified by Morocco on 25 July 2006.

11. On the whole, the investment regime is liberal, with most sectors open to private investment, including foreign investment. However, no investment, either foreign or domestic, is possible in the subsectors in which the State has a monopoly (phosphates, hazardous waste management, wholesale fruit and vegetable distribution, fish halls and slaughterhouses, some postal services, and water and electricity supplies) or which are under private monopoly (wholesale importation and distribution of manufactured tobacco). Other subsectors have been opened up to private capital through delegated management or by concession; water and electricity distribution, the management of public sea ports, railway infrastructure management and the operation of rail transport services, and waste management, *inter alia*, are open to private operators (national or foreign). Certain monopolies have been temporarily transferred to the private sector under operating licenses, for example, the monopoly on the marketing of pure ethyl alcohol. Foreign persons are not allowed to purchase agricultural land.

(3) TRADE POLICY INSTRUMENTS

12. Since 2003, Morocco has continued to take trade facilitation measures. For example, the streamlining of customs procedures, notably the *Base automatisée des douanes en réseau* – BADR (Computerized Online Customs Database), which started to operate in January 2009, has raised the level of computerization of customs procedures to over 90 per cent. Import licences or permits are chiefly required for safety, health or environmental reasons, or for goods covered by international agreements.

13. Morocco has lowered its customs duties, the simple arithmetic average having fallen by 13.2 per cent since 2002 to the current 20.2 per cent. Agricultural products (WTO definition) are still subject to higher tariffs (an average of 45.5 per cent) than non-agricultural products (16.3 per cent, excluding petroleum). Moreover, variable rates still apply to some agricultural products (37 ten-digit HS lines). Overall, customs tariffs show mixed escalation, with higher rates on products from the first stage of processing than the second, primarily due to the high taxation on basic agricultural products.

14. Morocco has bound all of its tariff lines solely at *ad valorem* rates ranging from zero to 380 per cent, with a simple arithmetic average of 42 per cent (56.9 per cent on agricultural products and 39.6 per cent on non-agricultural products). The other duties and taxes have been bound at 7.5 or 15 per cent. Morocco has also bound access to its market for certain agricultural products by introducing tariff quotas which, in practice, are not applied because out-of-quota tariffs are lower than in-quota duties.

15. For a total of 1,373 tariff lines (compared with 5,887 in 2002), the applied customs duty remains higher than the bound duty. Nor do the variable duties, where there is a negative correlation in the difference between the threshold price (set by the Government) and the import price, ensure that Morocco will respect its commitments, either as regards tariff bindings or in the context of the WTO Customs Valuation Agreement.

16. Imported goods may also be subject to a number of other duties and taxes, including the parafiscal import tax of 0.25 per cent, the value added tax at rates of up to 20 per cent,

and domestic consumption taxes. However, the two VAT regimes ("internal" and "import") do not ensure respect for the principle of national treatment. New safeguard measures in the form of an additional duty have been imposed on imports of ceramic tiles.

17. Many incentives are given to investment or to specific sectors. At the sectoral level, the Hassan II Fund for Economic and Social Development, created in 2000, helps, *inter alia*, to promote investment through financial contributions (in the form of financial holdings, refundable advances or loans and non-refundable financial contributions) to subsectors such as textiles, clothing and wearing apparel; the automotive industry; electronic assembly or sub-assembly; the manufacture of equipment for the aeronautical industry; nanotechnology; and microelectronics and biotechnology. From the time it was set up until the end of December 2005, 111 projects had been implemented involving contributions of over DH 4.5 billion by the Fund, mainly in the textiles sector (51 per cent), followed by sub-contracting in the automotive sector (31 per cent). A large part of the Fund's resources come from privatization revenue.

18. Fiscal incentives are still granted for agricultural products. There are also incentives in the mining sector, the energy sector, and certain branches of the services sector (for example tourism and transport). In order to promote exports, Morocco offers a number of benefits through its customs regimes. Enterprises may also take advantage of the opportunities afforded by the free export zones regime. The State grants subsidies to promote the export of certain agricultural products by air. The remaining export taxes have been abolished, namely the tax on maize and on plant fibre in 2005, and the levy on the exploitation of phosphates in 2008. Moreover, the 60 to 70 per cent local content requirement for the automobile assembly industries was abolished in 2004.

19. Morocco has also continued to shorten the list of goods and services subject to price controls. Currently the State still controls the price of subsidized goods (domestic flour of common wheat, sugar, and energy products), basic services, health products and services, products and services subject to a monopoly (manufactured tobacco, postal services), and certain legal acts. Progress has been made with structural reforms, including privatization, which has enabled Morocco to attract large amounts of foreign direct investment. However, the State monopoly of the wholesale import of manufactured tobacco was handed over to the private sector, and will remain in effect until 2010 before being abolished.

20. In 2007, Morocco introduced a new overall framework for government procurement and its control and management which, among other things, reaffirmed the preference that could be given to Moroccan enterprises for public works contracts and related surveys. Morocco has also made a number of important modifications to its legislative framework for intellectual property, *inter alia* by introducing new legislation on the protection of industrial property (to replace the 1916 Law), copyright and related rights, and distinctive indications of origin and quality of food products and agricultural and fisheries products. The protection of new plant varieties was strengthened by the entry into force of the International Convention for the Protection of New Varieties of Plants for Morocco on 8 October 2006. The new legislation on standardization and sanitary and phytosanitary measures is currently being prepared.

(4) SECTORAL POLICY

21. Since 2003, Morocco has continued to reform its sectoral policies, making notable progress in the services sector, where Morocco is a net exporter, with tourism now the primary source of foreign exchange, ahead of transfers from Moroccans living abroad. The positive trend in tourism is the combined result of the policy of incentives for the subsector and the

air transport liberalization policy. The telecommunications sector has also been expanding rapidly thanks, in particular, to increased competition. The regulatory environment for banking services has been reformed, and its scope extended to "related" institutions such as offshore banks and microcredit associations. The autonomy of the Bank Al-Maghrib in relation to monetary policy has also been strengthened. The 2002 Insurance Code was amended in 2006. Maritime freight transport on scheduled routes has been liberalized. However, there are still State monopolies in subsectors such as rail transport and postal services. The commitments made by Morocco in 1994 under the General Agreement on Trade in Services (GATS) are substantial in the areas of tourism, telecommunications and certain financial services, but they remain limited in the areas of insurance and international road transport, in particular.

22. Agriculture (ISIC Rev. 2 definition) plays a key role in Morocco's economy, particularly in terms of employment. It remains the most heavily protected sector, with *ad valorem* tariff rates as high as 304 per cent, although the average has fallen from 40 per cent in 2003 to 29 per cent in 2009; variable duties apply to cereals and sugar. Common wheat marketing is subject to a complex specific regime, the details of which are established at the beginning of each season. Agricultural policy continues to be influenced by the need to combat the effects of recurrent drought. In addition to public investment, the sector benefits from numerous incentives in the form of financial assistance (subsidies and premiums), tax relief, and concessionary loans. The aim of fisheries policy is to conserve resources, in particular by introducing selective fishing and reducing the level of informal activity. In 2005, a new fisheries agreement, marking the resumption of fishing relations between the two partners, was concluded with the EC.

23. The manufacturing sector is mainly focussed on exports, and is dominated by subcontracting (particularly in the textiles and clothing and the transport equipment industries). The average import tariff in the sector is 19.9 per cent (as compared with 33 per cent in 2003). The most heavily protected branch is food processing. The mixed tariff escalation is unlikely, without incentives, to encourage investment in certain industries, in particular the semi-finished products industry. Thus, there are various tax incentives available to the sector, mainly to promote exports. The textiles and clothing industry is the most important of the processing industries in terms of exports and employment; the present policy is aimed at facilitating its transition from sub-contracting to co-contracting and finished products.

24. Morocco is the world's leading supplier and third-ranking producer of phosphates, the country's principal mineral resource. The exploitation of phosphates continues to be a State monopoly exercised by the *Office chérifien des phosphates* – OCP (Moroccan Phosphates Board). In 2008, the OCP was converted into a public limited company with a view to improving its competitiveness. The OCP is pursuing a new strategy in order to enable foreigners to make equity investments in fertilizer production on Moroccan territory. Morocco imports about 97 per cent of its energy requirements, i.e. practically all of its requirements in petroleum products, electricity being produced locally. The mining sector receives the least tariff protection, with an average duty of 9.1 per cent.

(5) TRADE POLICY AND TRADING PARTNERS

25. Morocco takes an active part in the multilateral trading system, but is also a party to various regional and bilateral preferential agreements. These agreements have resulted in substantial trade liberalization between Morocco and its main partners, in particular the EC. However, belonging to several trade agreements whose geographical scope, liberalization programmes, and provisions on rules of origin (*inter alia*) differ, is not only difficult to manage, but also makes Morocco's

trade regime more complex and reduces its predictability.

26. Morocco still has difficulty respecting its binding and customs valuation commitments owing to its tariff protection, particularly in the agricultural sector. Apart from the tariff structure and the use of variable duties, the problem stems above all from the imposition of tariffs at rates higher than the bound rates. Consequently, a tariff reform involving the simplification of its tariff structure (*inter alia* by eliminating variable duties) and a reduction in the number and level of its rates, particularly in the agricultural sector, would help Morocco to honour its commitments and would further simplify its trade regime. A reform of its domestic tax system, including VAT, would help in this respect. Improved commitments under the GATS would enable Morocco to consolidate its reforms in areas such as tourism and telecommunications, areas in which its commitments fall short of the liberalization efforts already achieved. Together with bold tax reforms, such commitments should help to enhance the transparency, predictability and credibility of Morocco's trade regime.