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TRADE POLICY REVIEW

KINGDOM OF MOROCCO

Report by the Secretariat

This report, prepared for the third 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 Government of the Kingdom of Morocco on its trade policies and practices.

Any technical questions arising from this report may be addressed to Ms Ulla Kask (Tel: 022/739 5627) or Mr Jacques Degbelo (Tel: 022/739 5583).

Document WT/TPR/G/116 contains the policy statement submitted by the Government of the Kingdom of Morocco

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SUMMARY OBSERVATIONS

(1) ECONOMIC ENVIRONMENT

1. Since the last review of its trade policy in 1996, Morocco has continued to reform its economy and to implement programmes to combat drought. Although the 1995 drought had a serious impact on real GDP, the measures put in place since then and the continued diversification of the economy have helped to limit the effects of the subsequent droughts, more particularly those of 1997, 1999 and 2000. Between 1995 and 2001, there were three years of strong economic growth. In 2002, per capita GDP was US$1,245.

2. Macroeconomic policy, more especially the monetary component, has helped to stabilize the national currency (the dirham). Competitiveness, measured in terms of the real effective exchange rate, has been relatively stable since 1995 and inflation has been contained at an annual rate of around 2 per cent. The current account has traditionally shown a deficit, however, and the positive balance in services and transfers by Moroccans resident abroad (the main source of foreign exchange, followed by tourism, textiles and clothing, and mining products) have not been able to cover the deficit in the trade balance.

3. Morocco has a relatively diversified economy. Services, dominated by trade, are the largest sector and account for around 60 per cent of real GDP. Earnings from exports of services amount to over 40 per cent of those from exports of goods. The manufacturing sector is dominated by the textile, clothing and leather industries, chemicals and related industries, and the food industry and accounts for around 18 per cent of real GDP and two-thirds of exports of goods in terms of value. It is followed by agriculture (including livestock breeding, forestry and fisheries), which is the country's largest employer (44 per cent of the labour force), contributing almost 14 per cent of real GDP and around 22 per cent of exports. Mining (mainly phosphates) and energy account for around 8 per cent of real GDP.

4. Morocco's major imports and exports are manufactures (around 62 per cent of imports and 65 per cent of exports of goods in value terms in 2001). Imports of textiles are mainly in connection with sub-contracting, particularly with partners in the European Union (EU). Morocco also imports agricultural foodstuffs and mining products, including fuel.

5. In terms of share of trade, the order of importance of the leading partners is the same for imports and exports. The EU is Morocco's principal trading partner. France alone provides over 20 per cent of total imports and takes around 33 per cent of Moroccan exports of goods, followed by Spain, the United Kingdom, Italy and Germany. Outside the EU, Morocco also imports goods from the United States and Saudi Arabia. Trade with other regions is negligible.

6. Foreign direct investment (FDI) fluctuates, although there has been an upward trend. FDI and foreign private loans mainly come from European Union countries, namely, France, Portugal and Spain, and also from the United States. The trend in FDI and its sectoral breakdown are strongly marked by the privatization or restructuring of State enterprises and, to a certain extent, by the conversion of external public debt into investment.

(2) INSTITUTIONAL FRAMEWORK

7. Morocco is a constitutional monarchy. The overriding principle of Moroccan law is the precedence of international legal instruments, including the WTO Agreements, over domestic law. Regarding the hierarchy of regulations, the Constitution is followed by laws, dahirs, decrees, and orders. The Ministry responsible for foreign trade elaborates trade policy. Depending on the subject matter, he coordinates the policy with *the ministries concerned. Changes to the customs tariff are introduced by law; they may be made by decree, on a proposal by the Government, but they must then be endorsed in the finance law for the year following their adoption.*

8. The National Foreign Trade Council (CNCE), composed of representatives of the Government and economic operators, is consulted prior to the preparation of any draft foreign trade-related law. An Advisory Commission on Imports (CCI), chaired by the representative of the Minister responsible for foreign trade, provides advice on all matters relating to requests for tariff protection or the adoption of contingency trade measures. Morocco also consults its trade partners on trade-related matters through joint commissions set up under bilateral, regional and multilateral agreements. The Moroccan Export Promotion Centre (CMPE), a State entity, is responsible for promoting and developing exports of the majority of products and services.

9. Commercial courts have been set up to hear trade disputes and have been functioning since 1998. In 1996, under the supervision of the Ministry of the Economy, Finance, Privatization and Tourism, a Foreign Investment Department was established in order to promote foreign investment in Morocco. In 1998, the Interministerial Investment Commission (CII), an appeals and arbitration body chaired by the Prime Minister, was set up. The regional investment centres established in 2002 are expected to lead to an improvement in the investment climate.

10. Morocco is an original Member of the WTO and grants its trading partners at least MFN treatment. It considers the multilateral trading system and trade liberalization to be beneficial for growth, development and the well-being of peoples, but that it is urgently necessary for the benefits to be equitably distributed among all countries. It has underlined the need to strengthen the provisions on technical cooperation (including capacity building), special and differential treatment, and measures in favour of LDCs, so as to make them more effective and operational.

11. Morocco is a member of the Maghreb Arab Union (UMA) and the Arab Free-Trade Area. Since 1996, it has signed bilateral agreements with regional groups such as the EU, the European Free-Trade Association (EFTA) and other trading partners in its region, namely, Egypt, Jordan and Tunisia; and it is currently negotiating a free-trade agreement with the United States. Morocco signed the Agreement on the Global System of Trade Preferences (GSTP) among Developing Countries. A framework agreement on the Trade Preferences System (TPS) among Islamic countries entered into force in 2003. However, belonging to several trade agreements whose geographical scope, liberalization programmes, and provisions on rules or origin (inter alia) differ, is not only difficult to manage, but also makes Morocco's trade regime more complex.

(3) TRADE POLICY INSTRUMENTS

12. Since 1996, Morocco has made a number of changes to its trade regime. The application of rates resulting from tariffication in 1996 put an end to the imposition of quantitative import restrictions on the majority of products. The continued computerization of customs procedures, the development of customs clearance warehouses and areas, and the creation of domiciliation offices or on-site customs clearance procedures have substantially reduced the time taken for customs clearance and enhanced transparency in this area.

13. Customs duties have been lowered on certain non-agricultural products. In 2000, the fiscal import levy (PFI) was incorporated into the customs tariffs with the aim of simplifying imposition at the border. However, this integration, together with Morocco's application of rates resulting from *tariffication and the disaggregation of tariff lines from 8 to 10 digits in the Harmonized System, has increased the simple arithmetic average of rates applies from 23.5 per cent in 1995 to 33.4 per cent in 2002, with ad valorem rates that can reach 339 per cent. Overall, customs tariffs show mixed escalation with higher rates on products at the first stage of processing, rather than the second stage. 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.*

14. Morocco has bound all its tariff lines solely at ad valorem rates ranging from zero to 380 per cent; duties on non-agricultural products have been bound at 40 per cent (with the exception of those bound in 1987). In 2004, the simple arithmetic average of the bound rates should be 42 per cent. Other duties and taxes have been bound at 7.5 or 15 per cent.

15. Currently, over one-third of the tariff lines are subject to rates higher than the bound rates. Moreover, imposition of variable duties (on 40 tariff lines for agricultural products), in reverse proportion to the difference between the minimum threshold price and the import price, does not ensure Morocco's compliance with its commitments, either as regards tariff bindings or in relation to the WTO Customs Valuation Agreement, which Morocco has in principle been applying since October 1998.

16. Morocco has also bound market access for certain agricultural products by introducing tariff quotas which, in practice, are not applied, all imports of the products concerned being subject to the out-of-quota rates. The provisions on contingency trade measures were amended in 1997; a safeguard duty of 130 per cent applies to out-of-quota imports of fresh bananas (the only product currently subject to import licensing intended to administer the quota). Recently, labelling in Arabic for foodstuffs and details concerning the Moroccan importer have been made compulsory for all imported foodstuffs.

17. Subsidies have been abolished for the majority of products, with the exception of locally-produced sunflowers and sugar not intended for industrial use. Subsidies for these two products are granted either in the form of production support or in the form of consumer price support. A number of fiscal, customs and financial benefits are given to investors, especially exporting enterprises, through the 1995 Investment Charter, customs regimes, the free export zone regime, and the Hassan II Fund for Economic and Social Development created in 2002. Subsidies are also granted for the promotion of exports of certain agricultural products by air freight. However, levies are applied to exports of maize, plant fibre and crude phosphates.

18. During Ramadan, reductions in duties and taxes may be granted within the quota limits for the import of certain products. Exceptionally, in cases of drought and to support the selling price of certified cereal seeds (common wheat, durum wheat and barley), the State fixes maximum subsidized prices for their retrocession.

19. In the automobile assembly industry, 60 to 70 per cent of locally-made components is required in exchange for certain advantages. Compulsory reserves of petroleum products and pharmaceuticals must be kept.

20. Structural reform, including privatization, has made progress. Price controls and marketing monopolies have been abolished for almost all goods and services, with the exception of tobacco, certain transport and fixed telephony services and crude phosphates. The legislation on government procurement and competition entered into force in 1999 and 2001 respectively. The Government Procurement Code enhances transparency and incorporates provisions to combat corruption; a price preference of up to 15 per cent is given to

Moroccan enterprises for contracts for works and related design contracts.

21. Progress has been made in harmonizing intellectual property legislation with the international agreements signed by Morocco. New legislation has been adopted in each of the following areas: copyright and neighbouring rights; new varieties of plants; and protection of industrial property. Industrial property rights still continue to be governed by the Dahir of 23 June 1916, however, although the relevant law should enter into force six months after publication of the implementing texts.

(4) SECTORAL POLICIES

22. Agriculture plays a key role in Morocco's economy, particularly in terms of jobs. It is the most highly protected sector, with ad valorem tariffs of as much as 339 per cent and an average of 40 per cent. Variable duties apply to some 40 tariff lines for agricultural products, including cereals, oilseeds and sugar. A safeguard duty of 130 per cent is applied to out-of-quota imports of fresh bananas. In addition to drought, which has been increasingly frequent in recent years, agriculture faces structural constraints such as the large number of small family farms, limited use of modern production and storage techniques, high transport costs, and moderate use of irrigation.

23. Fiscal, customs and financial incentives have been implemented in order to boost domestic production; agricultural income is exempt from taxation until 2010. Prices of a large number of products have been liberalized and the import monopoly for staple foods has been abolished. The aim of the fisheries policy is to manage resources with a view to their sustainable exploitation by limiting catches of certain species and prohibiting any action that would increase fishing capacity.

24. The manufacturing sector focuses on exports and is dominated by subcontracting (particularly in the textiles, clothing and leather subsectors). Morocco's automobile industry assembles private and goods vehicles, builds bodies for buses and motor coaches, and repairs and manufactures certain spare parts.

25. The average customs tariff in the manufacturing sector is 33 per cent. The mixed escalation of customs duties, subject to incentives, does not encourage investment in certain industries, more particularly those making semi-finished products. During recent years, the textiles and clothing industry has seen a slowdown in growth due, inter alia, to keener international competition on the relevant markets. The leather industry has been facing difficulties in obtaining supplies of hides and skins because of the diseases and epidemics that have affected livestock in certain countries. The first adjustment measures taken include reducing the cost of energy, promoting investment through the Hassan II Fund, and establishing the Textile Sector Restructuring Fund (FORTEX). Export licensing was introduced and then remained in place for certain types of leather.

26. Morocco is the world's leading supplier of phosphates, which is the country's principal mineral resource. Their exploitation continues to be a State monopoly. Morocco is also the world's second largest exporter of solid fertilizer. The mining sector has the lowest tariff protection, with an average customs tariff of 22 per cent.

27. Morocco is a net exporter of services. Tourism is the second most important source of foreign currency after transfers from Moroccans resident abroad. There are still State monopolies in certain subsectors such as fixed telephony, rail transport, and port and airport services. In recent years, there has been an important flow of foreign investment to the telecommunications and audiovisual subsectors, due in particular to the sale of GSM licences and part of the capital of Maroc Télécom. Regarding transport, the Government has started to update the *legislative framework and embarked upon privatization: a 2003 law provides for the liberalization of road transport, and while it was not possible to privatize the national airline in 2000, its privatization is still planned. A new Insurance Code was adopted in 2002. Other reforms in the financial services subsector include, inter alia, liberalization of interest rates and the lifting of credit restrictions.*

28. While Morocco undertook substantial commitments in 1994 under the General Agreement on Trade in Services (GATS) with respect to tourism, telecommunications and some financial services, its commitments remain limited in the insurance and international road transport areas in particular. In 2000, Morocco completed its schedule of commitments on telecommunications services.

(5) TRADE POLICY AND TRADE PARTNERS

29. Morocco's active participation in the multilateral trading system and in various regional and bilateral agreements reflects its attachment to the liberalism that it would like to see instituted at the multilateral level. Nevertheless, Morocco is currently experiencing difficulty in meeting its commitments on binding and customs valuation because of its current system of protection, particularly in the agricultural sector. In addition to variable duties, the problem is the imposition of customs tariffs at levels that are higher than the bound levels. Moreover, the mixed overall escalation of tariffs, subject to incentives, does not encourage certain production activities (particularly of semi-finished goods), for which Morocco appears to have a comparative advantage.

30. Reform of the trade regime, with special focus on liberalization of the agricultural sector, simplification of tariffs by abolishing variable duties and reducing the number and levels of rates would allow Morocco to comply more fully with its commitments.

31. Recently, privatization, particularly in the areas of telecommunications and air transport, has been delayed as a result of the current international economic situation. In such a climate, by strengthening its commitments under the GATS, Morocco would undoubtedly reinforce the predictability of its trade regime in the areas concerned; make its economy more attractive for foreign capital; encourage privatization; and consolidate reforms in areas such as tourism, for which commitments on binding are not equal to the liberalization efforts already made. Overall, such changes would help Morocco to make better use of its comparative advantages.