

Morocco Agricultural Economy & Policy Paper

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Political Situation: Morocco is a constitutional monarchy with a parliament and independent judiciary. Ultimate authority rests with King Mohammed VI, who is the head of the military and the country's religious leader.

The last parliamentary elections were held in September 2007 and were considered largely free, fair, and transparent but disappointing by low voter turnout. The King has highlighted several goals toward which the government should work: gainful employment, economic development, meaningful education, and increased housing availability. The government has emphasized that first and foremost, modernization and revitalization of the country's infrastructure and national economy were necessary toward development progress in Morocco.

In late 2007, the government's attempt to increase bread prices in response to a short local crop and rising international prices sparked unrest in Sefrou, a relatively small city in the Middle Atlas Mountains. The government's immediate response to this security concern was to essentially take control of the market by fixing the price millers pay for wheat and the price of flour ex-mill. The government reimburses importers the difference in import prices and the price they receive from the mill.

A series of suicide bombings in March and April 2007 placed security services on alert and the merger of al Qaeda of the Islamic Maghreb with local terrorist cells is a real threat to Morocco's security. The breakup of terrorist cells and arrest of purported plotters are frequently announced in the Moroccan press by security services.

Economic Situation: Macroeconomic stability, coupled with low inflation and relatively slow economic growth, has characterized the Moroccan economy over the past several years. The government continues to pursue reform, liberalization, and modernization aimed at stimulating growth and creating jobs. Employment, however, remains dependent on the agriculture sector, which is vulnerable to inconsistent rainfall. Morocco's primary economic challenge is to accelerate growth in order to reduce high levels of unemployment and underemployment

Foreign exchange reserves are strong, with over \$16 billion in reserves, the equivalent of 11 months of imports at the end of 2005. The combination of strong foreign exchange reserves and active external debt management gives Morocco ample capacity to service its debt. Current external debt stands at about \$15.6 billion, or 27.8 percent of GDP.

In January 2006, the bilateral Free Trade Agreement (FTA) between the United States and Morocco went into effect. The FTA represents an important step towards a vision of a Middle East Free Trade Area and is the first in Africa. The U.S.-Morocco FTA eliminated tariffs on 95 percent of bilateral trade in consumer and industrial products, but provides protection for sensitive Moroccan agricultural products such as wheat.

Trade Situation: Morocco is a member of the WTO and has signed trade agreements with a range of countries. Morocco also maintains an FTA with its largest trading partner, the European Union. Unlike the FTA with the United States, the trade agreement with the EU is not comprehensive and has been negotiated and implemented in phases by sectors since 2000. Sensitive sectors or product groups were set aside for later discussion. In addition to agreements with the United States and the European Union, Morocco has 13 other trade agreements with countries in the region. Although these agreements often call for the elimination of all customs duties, implementation has faced many challenges and trade and regional economic activities have not been affected significantly.

Morocco is a member of Codex and other international agriculture organizations such as OIE and IPPC, but scarce funding often restricts full and active participation in international forums.

Agricultural Situation: Agriculture represents 15 percent of the GDP and thus impacts heavily on the economy as a whole. Nearly 40 percent of the labor force is in agriculture. Grains account for over 60 percent of agricultural production and area planted to wheat has expanded dramatically over the last 20 years because of the government support.

Moroccan agricultural production depends heavily on rainfall as less than 10 percent of the arable land is irrigated. Agriculture can be divided in three major sectors: 1) Modern, private, irrigated, highly capitalized, and export oriented farms producing mostly fruit and vegetables 2) Agriculture within reorganized large scale dam-irrigated perimeters producing mostly dairy, sugar crops, seeds, fruit and vegetables mostly for the local market 3) Rain-fed agriculture with more favorable land in the northwest (growing mostly grains, olives, pulses, red meat and dairy) and less favorable land in the south and east (growing mostly grains and non-intensive sheep production)

For many commodities (wheat, dairy products, corn, soybeans, sugar), Morocco will continue to depend on imports even during years when rain is plentiful. In contrast, for other commodities (feed, pulses, dairy cattle), the import market will fluctuate dramatically depending on rainfall.

The lack of clear agricultural policy and the prevalence of small farms (75 percent are less than 12 acres, with an average herd of four cows per farm) complicated inherited land status, and the increasing land prices pose serious challenges to agricultural policy makers. Policy makers struggle with the conflicting underlying principles of economies of scale and capitalization requirements necessary to modernize the agriculture sector and the desire to alleviate poverty and maintain the social structure of the traditional rural society.

Agriculture suffers from the lack of public investment in research and development, marketing infrastructure, weak institutional capacity including lack of an effective extension service to transfer suitable technologies to small holders, lack of market information, and weak farmer organization in most sectors.

A new minister of agriculture was appointed in late 2007 and it appears that he has a mandate to revitalize Moroccan agriculture. Over the course of the year we would expect new measures to encourage investment, both foreign and domestic.

Agricultural Trade: Morocco imports each year some \$2 billion in agricultural products and exports about the same value mostly to Europe. The United States exported on average \$290 million over the last five years consisting mostly of bulk commodities including corn, wheat, feed, soybeans, and soybean meal. Trade has grown sharply over the last two years and in calendar year 2007 US exports fell just short of \$700 million. The US share of the consumer oriented product market has been very small mostly because of the high freight compared to the EU origin. Morocco's exports to the United States, while historically low, also grew under the FTA to \$130 million, but still not a significant share of the total as Europe is Morocco's principle market.

Because of its proximity to Europe, Morocco's trade is overwhelmingly concentrated on the EU market (over two-thirds of exports). On average, Morocco exports some \$1.3 billion dollars of agricultural and food products to the EU and imports some \$726 million from the EU per year.

Moroccan agricultural exports consist mostly of seafood, fruit (citrus), and vegetables (tomatoes).

US-Morocco FTA provides the United States with an important competitive edge, especially in the medium and long term. Since its implementation in January 2006, the FTA has already resulted in the United States recapturing significant market share in many products and in an introduction of many new products to Morocco from the United States. The situation is likely to improve as the preference becomes substantial with the progressive phasing down of duties.

The absence of direct shipping lines between Morocco and the United States and the relatively low income are likely to continue to result in Morocco being mostly a market for bulk commodities (grains, feed, semi-finished products). However, because of the high duties on most commodities, some importers might start sourcing from the United States as soon as the preferential duties permit.

Food Inspection and Regulation: Food inspection is carried out by several ministries, but the Ministry of Agriculture Livestock Division and the PPQ-Quality Control Division has the lead when it comes to inspection of plant and non-animal origin food products at entry points. The Livestock Division is in charge of inspection for all animal and animal-origin food products.

Biotechnology: Biotechnology is a politically sensitive issue in Morocco. The geographical proximity to Europe results in many negative perceptions spilling over to Morocco. Also, the heavy dependence of Moroccan agricultural exports on the EU market generates concern among the government and the producers that official acceptance of biotechnology products may result in loss of access to the lucrative EU market. Import of biotech seeds for planting is currently not allowed into Morocco.

FAS Cooperators & other USG Agencies: US Wheat Associates maintains an office in Casablanca and works closely with importers and millers. The US Grains Council covers Morocco from a regional office in Tunis and works closely with the feed manufacturing, poultry, dairy, and ruminant feed sectors. Washington State Apple Commission has actively and successfully pursued access to the market through TRQs under the FTA. USAID has an agriculture and agribusiness project designed to enable Moroccan farmers to capture greater value added from olives, sheep, herbal and medicinal plants and various alternative sources of income. The Millennium Challenge Corporation signed a \$700 million compact with a significant agricultural component, including about \$300 million to increase production of olives, almonds, dates, and figs.