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Morocco-U.S. Free Trade Agreement

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Summary

The United States and Morocco reached agreement on March 2, 2004 to create a free trade agreement (FTA). The FTA is intended to strengthen bilateral ties, boost trade and investment flows, and bolster Morocco's position as a moderate Arab state. More than 95% of bilateral trade in consumer and industrial products will become duty-free upon entry into force of the agreement. The Senate approved implementing legislation (S. 2677) on July 2, 2004 by a vote of 85-13 and the House approved identical legislation (H.R. 4842) on July 22, 2004 by a vote of 323-99. The next day, the Senate passed House approved H.R. 4842 without amendment by unanimous consent. The legislation was signed by President Bush into law (P.L.108-302) on August 3, 2004. While the FTA was initially scheduled to be implemented on January 1, 2005, it is now expected to go into effect on July 1, 2005. The half-year delay in implementing the agreement is due in part to the fact that the Moroccan government did not finish ratifying the agreement until January 18, 2005. This report will be updated later this year.

Introduction

President Bush and Moroccan King Mohammed VI announced at a meeting in Washington, D.C. on April 23, 2002, that the two countries would seek to negotiate a free trade agreement. On October 1, 2002, U.S. Trade Representative Robert Zoellick sent Congress formal notification of the Administration's intention to begin FTA talks with Morocco. In his notification letter, Zoellick stated that the completion of an FTA with Morocco would "support this Administration's commitment to promote more tolerant, open and prosperous Muslim societies."[1] This FTA is also an integral part of President Bush's strategy to create a Middle East Free Trade Area by 2013.

[1] Office of the U.S. Trade Representative Home Page. Found at [http://www.ustr.gov/Document_Library/Letters_to_Congress/2002/Morocco_FTA_Senate_Notification_Letter.html] and [http://www.ustr.gov/Document_Library/Letters_to_Congress/2002/Morocco_FTA_House_Notification_Letter.html]

Negotiations for the FTA were launched on January 21, 2003, in Washington. After a total of eight negotiating rounds, U.S. Trade Representative Robert Zoellick and Moroccan Minister Taib Fassi-Fihri reached agreement on March 2, 2004 on a comprehensive FTA. After the required 90-day congressional notification period expired, the two sides signed the agreement on June 15, 2004. Both the Senate and House approved implementing legislation in July 2004, and President Bush signed the legislation into law (P.L. 108-302) on August 3, 2004. The Moroccan Parliament ratified the agreement on January 18, 2005.

According to the Office of the U.S. Trade Representative, Morocco was chosen as an FTA partner for multiple reasons. First, USTR officials stated that a trade agreement with Morocco would further the executive branch's goal of promoting openness, tolerance, and economic growth across the Muslim world. Second, Morocco has been a strong ally in the war against terrorism. Third, the FTA would ensure stronger Moroccan support for U.S. positions in WTO negotiations. Fourth, USTR officials maintained that an FTA would help Morocco strengthen its economic and political reforms. Fifth, the agreement is expected to provide U.S. exporters and investors with increased market access. When implemented, the Moroccan trade pact will become the second the United States has with a reforming Muslim Arab country (the Jordan FTA implemented in 2002 was the first).

Background

Morocco is a moderate Arab state which maintains close relations with Europe and the United States. Situated in North Africa on a land mass slightly larger than California, Morocco borders the North Atlantic ocean and Mediterranean Sea between Algeria and Western Sahara. Approximately 99% of its 30 million people are Muslim.[2]

The government of Morocco today is a constitutional monarchy. King Mohammed VI, who assumed the throne in July 1999, is the head of state. The constitution grants the King extensive powers, including the authority to appoint the prime minister and several key ministers individually, and approve the Council of Ministers, the power to dismiss the government, the power to dissolve the parliament, and the power to rule by decree. The King also serves as the supreme commander of the armed forces and serves as Morocco's religious leader or "Commander of the Faithful." The King, and not the Prime Minister, also defines the policy directions and priorities of the government.[3]

On the one hand, there have been some calls from elements of the Moroccan press for reform of the constitution to reduce the powers of the King, while enhancing the powers of the Parliament. On the other hand, many analysts believe that King Mohammed VI is dedicated to addressing Morocco's underlying social problems, while gradually liberalizing the political system further.[4]

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[2] For general information, see CRS Report RS21579, *Morocco: Current Issues*, by Carol Migdalovitz.

[3] Economic Intelligence Unit, *Country Report Morocco*, 2003 Main Report, p.12.

[4] Global Insight, Morocco, p.3. Found at [ht]tp://www.globalinsight.com/MyInsight/.

Following September 2002 parliamentary elections, King Mohammed named Driss Jettou as Prime Minister and head a six-party center-left coalition government. Mr. Jettou is often described as a forceful technocratic leader. Yet Morocco's over 20 political parties create a fragmented political system, making it difficult for the government to reach consensus on how best to address its many social and economic problems. Critically, high unemployment that averages over 20% in urban areas, increasing income inequality, and widespread poverty provide fertile ground for increasing support for a fundamentalist Islamist movement, al-Adl wal-Ihsane (Justice and Charity).[5]

With a per capita income of about $2,000 (2002), Morocco also faces challenges typical of many poor developing countries. These include preparing the economy for freer trade, reducing public sector wage rates and bloated ministries, increasing labor market flexibility and skills, restoring a crumbling infrastructure, and reducing dependence on imported energy.[6]

Morocco's economy is based on mining, agriculture, fishing, tourism, a growing manufacturing sector, and a deregulated telecommunications sector. Morocco has the world's largest phosphate reserves, and exports of phosphates from state-owned companies account for about 17% of Morocco's total exports. Agriculture accounts for between 15-20% of GDP and employs between 40-45% of its workforce (services employs around 35% and industry around 15%). Morocco is a net exporter of fruits and vegetables and a net importer of cereals, oilseeds, and sugar. Severe droughts often hurt Morocco's farm production, thereby serving as a drag on economic growth.[7]

The Moroccan economy also depends heavily on the inflow of funds from Moroccans working abroad. The illegal production and export of cannabis also plays a role in the economy, particularly in the north. The European Union is its primary trading partner, accounting for nearly 67% of its exports and 55% of its imports in 2002. France is Morocco's single largest trading partner by a wide margin. The United States is a relatively small trading partner, accounting for about 5% of Morocco's total trade.[8]

Why Morocco?

The Bush Administration's decision to negotiate a FTA with Morocco was a surprise to a number of observers. A U.S. Chamber of Commerce official, for example, questioned the decision on the grounds that the United States does not do a lot of business with Morocco and that other Middle Eastern countries, such as Egypt and Turkey, would be more suitable partners.[9] The Bush Administration, backed by a coalition of U.S.

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[5] Ibid., p. 6.

[6] CIA World Factbook, 2002 - Morocco, p.7. Found at [http://www.cia.gov/cia/publications/factbook/geos/mo.html]

[7] U.S. Commercial Service, Morocco Country Commercial Guide FY2002, p.1.

[8] CIA World Factbook, p.9.

[9] *Inside U.S. Trade*, "Chamber Official Says USTR Understaffed, Criticizes U.S. Choice of FTA Partners," February 7, 2003.

companies that support the negotiation, responded that both U.S. economic and political interests (see below) will be well served by the proposed FTA.

U.S. Commercial and Trade Policy Benefits. Currently, U.S. exports to Morocco face an average tariff of 20% versus a 4% average tariff that Moroccan exports face in the U.S. market. By moving towards duty-free treatment, two-way trade flows should expand beyond the current small $ 854 million level (comprising U.S. exports of $469 million and imports of $385 million in 2003). In addition to the current leading U.S. exports to Morocco (aircraft, corn, and machinery), U.S. exports of products such as wheat, soybeans and feed grains, beef and poultry are expected to increase under an FTAA.

New commercial opportunities for U.S. exporters may also be derived by offsetting current tariff preferences as embodied in the European Union-Morocco Association Agreement, which became effective on March 1, 2000. This agreement provides preferential tariff treatment for most EU industrial goods, but largely excludes agriculture. Because agriculture will be included in the U.S.-Moroccan FTA, many U.S. agricultural interests believe they can enhance their position vis-a-vis European producers.[10]

The U.S.-Moroccan Business coalition also argues that an FTA will increase the access American firms have to Morocco's service sector. Besides telecommunications and tourism, the coalition maintains that new opportunities for U.S. firms in the banking, energy, audio-visual, telecommunications, finance, and insurance sectors are likely to be opened up as a result of Moroccan economic reforms.[11]

In addition, the FTA could support the Bush Administration's trade strategy of "competitive liberalization." By helping a developing country that recognizes the importance of trade liberalization as a key ingredient of development, the Moroccan FTA could demonstrate to other developing countries the benefits of economic reform and trade liberalization, including the WTO round of multilateral negotiations - the Doha Development Agenda. As a Chair of the G-77 and Africa Group within the WTO, the Bush Administration maintains that Morocco is in a leading position to promote the benefits of the Doha Round to other developing countries. In addition, the FTA is also seen as an essential building block towards establishment of a Middle East Free Trade Area.

Political Benefits. Similar to the Jordan-U.S. FTA, the FTA with Morocco is viewed by the Administration as a tool to support a moderate Muslim state in the region. By contributing to increased development and prosperity in Morocco, the FTA is intended to contribute to the stability of the region and send a concrete signal to countries in the Middle East about the benefits of closer economic and political ties with the United States. The FTA is also a mechanism for advancing the overall U.S.-Moroccan relationship. As Morocco is one of the strongest U.S. allies in the war on terrorism in the

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[10] Office of the United States Trade Representative, *Free Trade With Morocco*, January 21, 2003. Found at [http://www.ustr.gov]

[11] U.S.-Morocco FTA Coalition: Talking Points. Found at the National Foreign Trade Council Website: [http://www.nftc.org/]

Middle East, the FTA is intended as a reward for its support, as well as send a signal to the rest of the Arab world that the United States wants closer ties. At a time many voices in the Arab and Muslim world are calling for boycotts against the United States, Morocco is seeking a closer economic relationship and hosting one of the largest Voice of America facilities in the world.[12]

Key Provisions of the FTA[13]

The agreement provides that more than 95% of bilateral trade in consumer and industrial products will become duty-free immediately, and all other remaining tariffs will be eliminated within nine years. U.S. export sectors such as information technology products, construction equipment, and chemical stand to benefit. For the import-sensitive textile and apparel sector, trade will be duty-free if imports meet the Agreement's rule of origin. The Agreement requires qualifying apparel to contain either U.S. or Moroccan yarn and fabric and a limited amount of third country content.

On agriculture, U.S. poultry, beef, and wheat exports will benefit from liberalization of Morocco's tariff-rate quotas. Morocco will also provide immediate duty-free access on products such as pecans, frozen potatoes, and breakfast cereals and more graduated duty-free access on other products such as soybeans, sorghum, and grapes. For its part, the United States will phase-out all agricultural tariffs, most in fifteen years. Morocco will provide U.S. service providers such as audiovisual, express delivery, telecommunications, computer and related services, construction, and engineering with enhanced access to its market. U.S. banks and insurance companies will have the right to establish subsidiaries and joint ventures in Morocco, as well as the right to establish branches, subject to a four year phase-in for most insurance providers.

Protections and non-discriminatory treatment are provided for digital products such as U.S. software, music, text, and videos. Protections for U.S. patents, trademarks, and copyrights parallel and in some cases deepen the standards of other U.S. FTAs.

In the area of telecommunications, each government commits to that users of the telecom network will have reasonable and non-discriminatory access to the network. U.S. phone companies will have the right to interconnect with former monopoly networks in Morocco at non-discriminatory, cost-based rates.

The agreement provides for anti-corruption measures in government contracting. U.S. companies are provided access to bidding on a range of Moroccan government contracts and procurement. Both countries also commit to enforce their domestic labor and environmental laws, and the agreement includes a cooperative mechanism in both labor and environmental areas.

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[12] Testimony of Bill Reinsch, President, National Foreign Trade Council Before the U.S. Trade Policy Staff Committee on a U.S. — Morocco Free Trade Agreement, November 21, 2002.

[13] Office of the United States Trade Representative, "Free Trade with Morocco: Trade Facts." March 2, 2004.

U.S. Reactions to the FTA

Agricultural producers in the United States welcome the tariff reductions that will be phased in as a result of the FTA. In particular, the American Soybean Association said that the duty on soybeans for processing will be eliminated immediately, and soybeans imported for other uses and processed soy products will be reduced by 50% in the first year of the agreement and phased out over the next five years. Current import duties in Morocco are 2.5% on soybeans for processing, 25% on soybean meal, and 75.5% for soy products that are used in human food.[14] The National Cattlemen's Beef Association looks forward to increased market access to Morocco's hotel and restaurant industry as Morocco opens its market to U.S. beef with a low in-quota tariff that goes to zero quickly. According the U.S. Trade Representative's Office, producers of poultry, wheat, corn, and sorghum will also gain from the agreement.[15]

Most U.S. trade advisory committees endorsed the agreement. The most senior committee, the Advisory Committee for Trade Policy and Negotiations, found the agreement "to be strongly in the U.S. interest and to be an incentive for additional bilateral and regional agreements." Advisory committees on services, goods, and intellectual property also expressed broad support. However, the Labor Advisory Committee expressed concerns that were echoed by several Ways and Means Committee Democrats at the July 7, 2004 hearing. These concerns are basically whether the trade agreement goes far enough in encouraging Morocco to meet basic international labor standards.

Ranking Democrat Charles Rangel questioned why the Administration continues to insist on an "enforce-your-own labor law provision" in all trade agreements, even though the quality of worker rights vary from country to country. The Administration maintains that Morocco's new labor reforms largely bring the country up to International Labor Organization (ILO) standards. A new Moroccan labor law that went into effect on June 8, 2004 r(1) raises the minimum employment age from 112 to 15 to combat child labor; (2) reduces the work week from 48 to 44 hours with overtime rates payable for additional hours; (3) call for periodic review of the Moroccan minimum wage; and (4) guarantees rights of association and collective bargaining and prohibits workers from taking actions against workers because they are union members.

In addition, some House Democrats expressed concern that the agreement could prevent Morocco from having access to generic drugs due to a provision requiring a five-year waiting period before generic drug applications could be approved. The Administration responded that a side letter exchanged between the two sides specifies that Morocco retains its rights under the WTO Trade-Related Intellectual Property agreement to issue compulsory licenses for generic drugs for diseases such as HIV/AIDS.

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[14] Food Chemical News Publishing, "Industry Applauds U.S.-Morocco Free Trade Agreement," *Food Chemical News*, March 15, 2004.

[15] Ibid.