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GATT TRADE POLICY REVIEW MECHANISM

MOROCCO

As one of the early results of the Uruguay Round, it was agreed in April this year that a trade policy review mechanism be established in the GATT. Its purpose is to enable a regular collective evaluation of the full range of trade policies of individual GATT members. The evaluation is conducted on the basis of two reports - one by the government of the country concerned and the other by the GATT Secretariat.

Attached are the summary sections of the reports on the trade policies of Morocco prepared by the Moroccan Government and the GATT Secretariat. They will be considered at a meeting of the Council on 13 December 1989.

These two reports, together with a record of the Council discussion, will be made available early in 1990 as a single publication, price 50 Swiss francs, from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

TRADE POLICY REVIEW MECHANISMKINGDOM OF MOROCCO

Report by the Moroccan Government - Summary

A. TRADE POLICIES AND PRACTICES(i) OBJECTIVES OF TRADE POLICIES

Over the last twenty years the Moroccan economy has grown steadily more open to the outside world.

The total value of external trade transactions in relation to GDP rose from 29.4 per cent in 1969 to 38.3 per cent in 1988.

This tradition of openness has been maintained despite the succession of upheavals in the world economy since the early 1970s. Neither the two oil crises, nor the disorders which have become a feature of international financial and monetary markets, nor the present debt crisis have fundamentally shaken our belief in the importance of the fair and transparent operation of the multilateral trading system.

Even when external financial constraints were at their greatest in early 1983, the system of generalized quantitative import controls was introduced only to safeguard the country's solvency. Thus, the bulk of the quantitative import restrictions introduced in March 1983 were removed as of July 1983, by which time a structural adjustment programme had been established.

The year 1983 therefore marks a watershed in the evolution of Morocco's trade policy. It marks the end of a period in which, despite the economy's openness to world markets, restrictive practices continued to exist to a varying extent according to the sector of activity concerned, to provide protection for infant industries.

This period, which originated with the Kingdom's independence in 1956, was one in which the foundations of a modern economy were laid. It was necessary to establish the essential economic and financial institutions (central bank, commercial banks, industrial and agricultural development institutions, etc.), build the basic infrastructure, train key personnel, etc.

The process of setting up the main processing industries and modernizing agriculture and fisheries and the mining sector was launched in this phase. It was likewise during this period that services began to develop (tourism, air and sea transport, etc.).

These achievements were carried out despite the limited human, financial and technological resources available, and essentially as a result of public sector initiatives. Private enterprise has only really

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developed over the last ten years and gradually taken over from the State in the attainment of the objectives of economic growth. A modicum of time

was obviously needed for economic operators who were at the agriculture, handicrafts and small-business stage to evolve to the sophisticated industrial stage which requires a class of entrepreneurs trained in modern management methods.

Thus, 1983 represents a historic break with a period in which:

- the economy was centrally managed and strictly planned as far as State activities were concerned (five-year plans);
- local activities were automatically protected regardless of their economic efficiency;
- production was primarily for the local market, in the context of a deliberate import substitution policy (only the mining sector - in particular phosphate - agriculture, fruit and vegetables and fish preserves had an exporting tradition inherited from the colonial period);
- State intervention in production and trade was on a large scale, and monopolistic in many branches of the economy.

The structural adjustment programme implemented as of 1983 was designed to respond to a number of objectives which are all linked with a central concern: easing of the external financial burden.

To that end, many measures were applied progressively with a view to freeing private enterprise and making it more responsive to market forces, eliminating administrative obstacles to external trade and fostering a neutral policy on investment incentives. One particular aim was to eliminate the distortions of all kinds which penalized imports to the benefit of activities orientated towards the local market.

The measures implemented since 1983 include:

- reduction of the level of quantitative restrictions: whereas all imports were subject to restrictions in March 1983, only 12 per cent, by value, of our total imports remain subject to the import licensing requirement. In terms of customs tariff headings, 22 per cent are still subject to quantitative restrictions;
- reduction of tariff protection: the customs duty ceiling has been reduced from 400 per cent in 1983 to 45 per cent today;
- the special import tax was cut from 15 per cent in 1983 to 5 per cent in 1987. For budgetary reasons, it has been replaced by a fiscal levy on imports of 12.5 per cent, which incorporates the stamp duty;

- progressive adjustment of the exchange rate in 1983 and 1985 so as to end the steady appreciation in the real effective exchange rate that was a feature of the period 1973-80;
- elimination of the State monopoly of exports of agricultural and agro-industrial products;
- elimination of the statistical fee on exports;
- elimination of the inspection tax on handicraft products for export;
- gradual reduction of direct and indirect subsidies for agricultural inputs (water, fertilizers, etc.);
- elimination of the prior controls on consumer prices for a wide range of products and services. Some 40 products now have regulated prices. This measure has been implemented in parallel with the reduction of consumer subsidies, which represented 0.7 per cent of GDP in 1988 compared with nearly 3 per cent in 1984;
- reform of the tax system, with the introduction of VAT in April 1986, corporation tax and, very recently, the general income tax, thus providing the Kingdom with a modern tax system. The new system considerably reduces the inconsistencies, distortions and complexity of the previous schedular tax system;
- the financial system is tending towards more liberal management of monetary policy based on monetary instruments rather than quantitative control;

Thus, the ceilings have been eliminated for some credits, in particular those for exporting sectors and investment in general. An element of competition among banks has been introduced in the fixing of certain interest rates, pending the removal of credit ceilings accompanied by the liberalization of most interest rates.

- Administrative procedures, including those relating to international trade, have been greatly simplified.

In particular, the use of special customs régimes has been made more automatic so as to enable exporting enterprises to obtain their supplies of raw materials and semi-processed products on world markets at costs that do not penalize the competitiveness of Moroccan exports.

These measures have had a significant impact on developments in the structure of Moroccan foreign trade, as we shall see below.

The gradual and pragmatic manner in which they have been implemented has won over the private sector to the philosophy underpinning the structural adjustment programme.

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The results obtained through this policy, in terms of the reduction of the balance-of-payments current-account deficit and the budget deficit, are encouraging, although admittedly there have been favourable exogenous factors, due in particular to the improvement in the terms of trade.

While we do not yet have enough hindsight to assess the impact of the adjustment on business structures, we are firmly convinced of the need to continue pursuing the present policy objectives.

TRADE POLICY REVIEW MECHANISMKINGDOM OF MOROCCO**Report by the GATT Secretariat - Summary Observations****(1) The Kingdom of Morocco in World Trade**

1. The Kingdom of Morocco is one of the world's smaller trading nations (0.1 per cent of world exports). Its merchandise exports have expanded rapidly in recent years, both in absolute terms and in relation to output. Between 1970 and 1988, the ratio of merchandise trade (exports plus imports) to GDP rose substantially, from 28 per cent to an estimated 43 per cent. As a result, Morocco's economy is increasingly affected by developments in world markets.

2. In the 1970s, emphasis was laid on industrialization through import substitution. Following a sharp decline in its terms of trade and poor harvests, Morocco experienced a major balance-of-payments crisis in 1983.

3. Since then, Morocco has undertaken a comprehensive adjustment programme, involving trade liberalization, reduced government intervention, and administrative, financial and fiscal reform. A combination of austerity measures, debt relief and rescheduling, and real devaluation of the dirham has contributed to lowering the budget and external deficits. Estimates for 1989 suggest, however, a worsening of the merchandise trade deficit, largely as a result of a weak performance of exports. Morocco continues to be highly indebted, and debt servicing remains a constraint for development.

4. A basic tenet of Morocco's current trade policies is that sustainable growth will depend on export expansion. This has involved reducing the anti-export bias of previous import-substitution policies and promoting more highly value added exports in place of unprocessed agricultural and other primary products. These efforts have contributed to the increase in the share of semi-finished products and manufactures from 44 per cent in 1984 to 51 per cent of total merchandise exports last year.

(2) Institutional Framework

5. The Kingdom of Morocco is a constitutional monarchy. Executive duties rest with the King, as Head of State, and his Cabinet. The Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Trade and Industry have direct responsibility concerning trade-related matters. Trade policy is formulated within the context of the fiscal, industrial and development policies contained in the Five-Year (or Orientation) Plan. Decisions regarding changes in import restrictions are generally made through a process of inter-ministerial co-ordination in consultation with representatives of industry. Proposed legislation is submitted to Parliament and approved through the annual promulgation of the Finance Act.

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6. The annual published General Import Programme contains two product lists: List A (goods freely importable without licences) and List B (goods subject to import licensing). Granting of licences for List B imports is based on criteria of price, quality and technical considerations established by the Department of Trade and Industry.

7. Tariff increases or decreases can be introduced by orders issued by the Ministry of Finance, which require subsequent ratification by Parliament. Tariff changes are not infrequent.

8. The Customs and Indirect Taxation Code, which came into effect in 1977, introduced, inter alia, provisions for the suspension of duties under special customs régimes. A new trade law (Projet de Loi portant Code du Commerce Extérieur) to replace outdated trade legislation has been drafted and will be debated by Parliament in the near future. Various instruments of industrial policy, such as the Export and Industrial Investment Codes, contain provisions affecting imports and exports.

9. Information on tariff changes and changes in administrative procedures is published promptly in the Official Bulletin as well as in other news media. The Government intends to produce an annual report on the costs and benefits of protection to the overall economy as well as estimates of producer subsidy equivalents on agricultural crops. In the private sector, the Confédération Générale Economique Marocaine (CGEM) publishes, and reacts to, public policies affecting commercial and social interests.

(3) Trade Policy Trends

(i) Character of trade policies

10. Morocco's bilateral trade agreements, including those concluded before its accession to GATT, are generally based on the m.f.n. principle. The only departures are those made within the framework of some bilateral and regional agreements involving trade with developing countries, which provide for preferential treatment.

(ii) Type and incidence of trade policy measures and recent evolution

11. With the abolition of import prohibitions and the transfer of a large number of items to the liberalized List A, tariff protection has replaced import licensing as the leading instrument of protection.

12. Overall, since 1983, when the Kingdom of Morocco began the reform of its foreign trade régime, maximum tariffs have been reduced from 400 to 45 per cent.

13. Duties are exempted within the framework of the "temporary admission" scheme, under Investment Code incentives and within preferential trade agreements.

14. Tariffs have both a protective and a revenue purpose. In 1937, all tariffs of or below 42.5 per cent were increased by 2.5 percentage points,

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resulting in the maximum tariff level of 45 per cent noted above. A special import tax of 15 per cent ad valorem in 1984 was reduced to 5 per cent ad valorem in 1987. This tax plus a stamp duty of 10 per cent of the amount of duties and taxes, have been replaced by an ad valorem 12.5 per cent fiscal levy in 1988. The introduction of the fiscal levy in 1988 increased duties above bound rates on sulphur, asbestos, coal and newsprint. Morocco has requested and received authorization to renegotiate these concessions with interested parties (L/6326). While the tariff increase and the fiscal levy have been imposed on revenue grounds, they also have a restrictive effect on trade.

15. Reflecting the greater reliance on tariffs, licensing restrictions have been removed across a large range of industries through transfer of items to the liberalized List A. Newly "liberalized" products often receive maximum tariff protection. Currently, close to 80 per cent of tariff positions and close to 90 per cent of imports are on List A. List B contains mainly consumer goods.

16. Morocco has stated in its notifications to GATT that the retention of products on List B (items subject to import licensing) is temporary. Once transferred to List A, import liberalization is permanent.

17. Government officials have made it known that full exemption from import authorization for agricultural products is planned for the early 1990's. For industrial products, no definitive timetable for the removal of licensing requirements has yet been announced. Existing licensing provisions allow for a maximum of five years' protection for products newly added to the list: however, no new products have been added since 1983.

18. Other trade-related measures applied by Morocco include reference prices; health and sanitary regulations; internal consumption taxes; government procurement; some subsidization of food production and consumption; export taxes on minerals; and export authorization on certain products.

19. Reference prices on industrial imports have been instituted to assure private investors that they would not be undercut by foreign competition. As these prices have not been increased since their introduction, their protective value has been reduced by inflation and depreciation of the dirham.

20. In agriculture, producer support prices remain on staple food crops, including soft wheat, sugar and oilseeds, whose refined products are subsidized at the consumer level. Expenditure on consumer subsidies has been reduced in recent years and such subsidies are targeted for elimination. The liberalization of price controls across a wide range of products and elimination of guaranteed prices in certain agricultural crops reinforce the market orientation of Moroccan trade policy.

21. Semi-public trade monopolies exist in production and trade of refined petroleum products, phosphates and fertilizers. The monopoly over fertilizers is being loosened, however, by involving the private sector in

fertilizer distribution and reducing subsidies to fertilizer production with a view to increasing responsiveness to world prices.

22. When looking at both tariff and non-tariff protection, it appears that levels of protection differ across the various sectors of the economy. Relatively highly-protected areas include some of Morocco's major export items such as phosphoric acid, processed foods and clothing. The Government has reiterated its intention to harmonize levels of protection across all sectors.

23. As part of the reform of the trade régime, Morocco has also made a notable effort to rationalize and clarify administrative trade procedures. Requirements for import authorization have been reduced, licence approvals have been accelerated and customs processing has been streamlined. This has facilitated trade operations and has reduced delays in trade-related transactions.

24. Morocco's programme of trade liberalization is part of a wider programme of structural adjustment aimed at reducing price controls, promoting privatization, achieving tax reform, and implementing prudent fiscal, monetary and exchange rate policies. Specific policies contained in the 1988-92 Orientation Plan aiming at progressive development include self-sufficiency in agricultural production for domestic consumption; increasing local value added in manufacturing production and exports; creating jobs for a rapidly increasing labour force; and strengthening the rôle of the private sector in economic development. The ruling trade policy objective of the Plan is to enhance the competitiveness and export orientation of the Moroccan economy.

(iii) Import relief

25. As noted above, the objective of protection against injurious imports has been dealt with by way of reference prices. With the phasing out of these measure, the introduction of an anti-dumping legislation is being considered. Also, however, under the new trade law, the use of variable levies on certain agricultural products subject to perceived unfair trading practices is being contemplated.

(4) Trade Disputes

26. Morocco has not been directly involved in trade disputes in the GATT framework.

(5) Trade Policies and Foreign Trading Partners

27. The current emphasis of Morocco's trade policies is to build on, and further advance, the major opening up of its market that has been achieved since the early 1980s as a key to improved efficiency and export growth. This approach also serves to expand trade opportunities for Morocco's trading partners. At the same time, Morocco continues to face difficult conditions of competition in the markets for a number of its exports. Several of its agricultural exports such as various fresh and prepared

fruits, fresh flowers, fish and wine meet with trade barriers abroad. Exports of clothing, one of Morocco's leading export items, are subject to voluntary restraints.

28. At the time of accession to GATT, bindings were negotiated only with developed contracting parties, foremost the United States and Switzerland. This is reflected in the fact that the majority of bound imports (textiles, machinery and high-technology goods) tend to be supplied by developed countries.

29. Morocco remains dependent on the European Communities for much of its trade. France is still the number one supplier to Morocco, providing mainly capital and consumer goods.

30. However, diversification of both suppliers and export markets is occurring. Whereas 25 years ago, 75 per cent of Morocco's trade was with the European Communities, this share is now a little over 50 per cent.

31. A small but growing share of trade, especially in primary products, is with developing countries. Principal suppliers are China for tea, Indonesia for coffee, and Brazil for sugar. India has been the leading market for phosphoric acid in the last few years. A number of other trading partners in both developing and developed countries are entering the picture.

32. The growing diversity of Morocco's suppliers and export markets underlines the increasing importance of the multilateral trading system for Morocco. This is reflected in Morocco's accession to the GATT and in its active participation in the Uruguay Round negotiations.