



AMERICAN CHAMBER OF COMMERCE IN MOROCCO

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A SUMMARY OF THE AMCHAM FTA WORKSHOP

THURSDAY, OCTOBER 17, 2002

8:45 AM – 5:30 PM

HYATT REGENCY HOTEL, CASABLANCA

PRESENTATION ONE:

The U.S./Jordan Free Trade Agreement: the negotiation process, the provisions of the accord, and its macro-economic impact

- **Nissreen Haram, Managing Director, International Business Legal Associates**

A free trade agreement with the United States will open a window of opportunity for Morocco but will guarantee no outcomes, because positive outcomes result from hard work and planning. The FTA with the United States was a milestone for Jordan, but it came after concrete policy measures were taken to pave the way.

Jordan had pursued export-led and investment-led growth in the private sector in the four years prior to the signing of the accord, because it was aware that the domestic market alone was insufficient to generate that growth. Supporting measures included the streamlining of the bureaucracy, compliance with WTO intellectual property rights standards, and the signature of other bilateral trade accords (including an association agreement with the EU and the Arab Free Trade Area). There is a need to reduce government reliance on customs revenue, bearing in mind that import liberalization increases consumer choice and that competitive exports depend on cheaper imported inputs.

Key provisions of the Jordan/U.S. FTA include:

- *A progressive tariff elimination* designed to cushion the impact of industrial dislocation and government revenue loss. This is achieved by accelerating or decelerating the elimination of tariffs on certain products, and, more generally, by phasing out lower tariffs earlier and faster than others.

The FTA tariff elimination strategy covers all products, with the exception of tobacco, while alcohol is the only product category on which tariffs are reduced but not eliminated ultimately. For further information on this, see the tutorial on the JABA FTA website <<http://www.jordanusfta.com/>>.

- *The standard rules of origin*: FTA preferential treatment applies to goods that satisfy the rules of origin. These rules require that the product be either wholly produced in Jordan or be a new and different article of commerce (“substantial transformation”) relative to the inputs used, and to meet a 35% local content requirement. The agreement includes detailed provisions as to what constitutes a new and different article of commerce in the case of textiles.
- *The inclusion of services*: Jordan’s WTO commitments are incorporated, but the accord goes beyond them to match U.S. commitments. The inclusion of services was unprecedented and this part of the accord therefore required a substantial amount of work.
- *Strengthened intellectual property rights*: Jordanian legislation was already TRIPS-compliant, and the FTA strengthens IPR even further.
- *Provisions covering e-commerce, labor, and the environment*: Jordan took the position that the agreement should in no way promote trade at the expense of labor rights or the environment.
- *A framework for implementation*: this included a joint committee, technical cooperation, consultation, and an amicable approach to dispute resolution.

Challenges and opportunities of the Jordan/U.S. FTA include:

- *The tariff advantage*: the removal of high tariffs on textiles generates large gains, and, although the gains on other products are less because the tariffs to be removed are lower, an FTA will generate dynamic gains in productivity and investment.
- *The opportunity to build export capacity*: the FTA has stimulated exports thanks to a framework of technical cooperation and capacity-building, with firms receiving direct export assistance in marketing and strategic planning. Early FTA success stories include the air conditioning industry, stone products, and Dead Sea cosmetics. The benefits of the FTA were enhanced because Jordan was already well integrated into the regional economy.
- *The role of investment hub and gateway*: there is a need to organize sectorially and strategically, and Jordan is restructuring its investment promotion organizations. Private sector research on FTA opportunities is extremely important: the private sector should think for the government instead of complaining and waiting for a response.
- *Greater competition from cheaper imports*

The process of negotiating the FTA was characterized by:

- *Clear policy objectives.*
- *An effective technical team.*
- *Margin to maneuver* and an effective negotiating strategy
- *Stakeholder input showing vision and leadership*: genuine give and take resulted in deal that is fair to both parties.

Intellectual property rights and generics in the pharmaceuticals sector:

The public perception was that TRIPS compliance would devastate the local pharmaceutical industry because of the prevalence of generics, but this proved not to be true: there was a favorable impact, with local firms achieving compliance (by producing generics under licensing arrangements) and moving on

to more sustainable investments. The pharmaceuticals sector is the second fastest growing export sector under free trade, with textiles taking first place, although pharmaceutical exports are not typically made under the FTA. The pharmaceutical sector benefits from duty free treatment under the WTO, and WTO rules of origin are less stringent than those of the FTA, although the sector has greatly benefited from FTA technical support and cooperation.

Training:

There have been private sector initiatives to introduce training on FTA issues for companies, and JABA plays a leading role in responding to information requests through its FTA unit.

Dispute resolution:

Jordan initially had a WTO-style view of dispute resolution (formal and court-like), but the United States insisted on informal and amicable dispute resolution processes with no enforcement mechanisms. For the U.S., the basis of the agreement is good faith and not formal litigation. Private entities retain the right to sue over trade issues.

Norms and standards:

Technical standards can be a barrier to trade, be they governmental or private in origin, but Jordanian industry is aware of these issues and responds by raising standards.

Qualifying Industrial Zones:

These are industrial zones on the Jordan/Israel border from which goods may be exported duty-free to the United States, subject to a minimum of 35% local content and of 7% content originating in Israel or the Occupied Territories. QIZ exports to the U.S. have increased from JD 70 million in 2000 to JD 191 million in 2001, and they are expected to reach JD 400 million in 2002.

PRESENTATION TWO:

Moroccan agriculture and free trade

- **Hassan Serghini, Director of Planning and Economic Affairs, Ministry of Agriculture**

An FTA will bring few benefits for the agricultural sector since current Moroccan exports are subject to relatively low U.S. tariffs of 5-6% and at most 10%. This is because the United States supports its agriculture sector through subsidies rather than tariffs, whereas Morocco uses tariffs. So, under an FTA, the U.S. tariffs on Moroccan agricultural products that would be eliminated are small, and the generous U.S. farm subsidies would remain. The Moroccan tariffs on U.S. agricultural imports are high, and their removal would sharply reduce the income of cereal farmers and meat producers.

The Moroccan agriculture sector is very different from its Jordanian counterpart, and tariffs on cereal imports are near 100%: if tariffs were abolished – even over a 10 year period – then cereal farming would be wiped out and the rural-urban drift would be accentuated. A participant noted that, although cereal farmers oppose free trade, poultry farmers support it because it would reduce imported feed prices. Morocco's prospects of breaking into the U.S. market are limited not only by U.S. farm subsidies but also by periodic drought that makes it difficult to reliably meet large U.S. orders.

PRESENTATION THREE:

The role of the JABA in the U.S./Jordan Free Trade Agreement, the impact of the FTA on various sectors, and the Tijara Strategy (the national plan for capitalizing on the accord)

- **Ahmad Tantash, Chairman, JABA, the American Chamber of Commerce in Jordan**

JABA was instrumental in lobbying in both countries for the negotiation of an FTA and in establishing the Tijara Strategy, a public-private partnership of 24 organizations. The Tijara Strategy was initially funded by USAID but is now self-sustaining based on contributions from members and other donors.

The objectives of the Tijara Strategy:

- Increasing bilateral trade levels from \$500 million to \$1.8 billion annually
- Increasing U.S. investment in Jordanian companies to \$200 million annually by 2004.
- Making Jordan into a trade and investment gateway for the region

The tools used to implement the Tijara Strategy:

- Regular forum meetings (for brainstorming)
- An FTA Unit created and housed at JABA that administers the Tijara coordinating committee and the forum meetings, conducts sector or product-specific research, and runs educational events

Potential pitfalls in implementation:

- The duplication of effort and of strategy development
- Lack of awareness that an FTA goes far beyond tariff reduction and is, in fact, an enabling agreement that creates a new business environment
- Lack of awareness of the importance of intensive campaigning to attract FDI

JABA activities:

- *Business development*: trade missions, workshops, executive events, human resources training, business plans
- *Advocacy*: the collection of information relevant to members and the development of concept papers
- *Community services*: the Start and Improve Your Own Business (SIYB) project, advisory services, training, and training of trainers
- *The organization of the American Jordanian Exposition (AJEX)* in Amman, March 26-29 2003