AMERICAN CHAMBER OF COMMERCE IN MOROCCO

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WRITTEN COMMENTS
TO THE
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
ON THE
PROPOSED U.S.-MOROCCO FREE TRADE AGREEMENT

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1.0 EXECUTIVE SUMMARY

The American Chamber of Commerce in Morocco fully supports the negotiation of a free trade agreement between the United States and Morocco. Such an agreement would offer both direct and indirect benefits for bilateral trade and investment. Direct benefits relate to tariff reduction and the resulting increase in market access, while indirect benefits include competition-generated productivity increases and economies of scale due to larger production runs. Another form of indirect benefit is the improvements to the Moroccan business environment that will be essential to a positive free trade experience.

2.0 BACKGROUND

2.1 The American Chamber of Commerce in Morocco

The mission of the American Chamber of Commerce in Morocco (AmCham) is *to cooperate with all levels of U.S. and Moroccan government and business in maintaining a partnership for sustained economic growth and mutual prosperity.*

AmCham is a non-profit, independent association formed in 1966 by the leaders of U.S. corporations in Morocco as well as by Moroccan companies, multinationals, and other organizations and individuals doing business with the United States. Today, the Chamber's 205 member firms represent a broad spectrum of business sectors and nationalities: 60% of them are Moroccan, 33% American, and 7% other nationalities. Members support AmCham operations through the payment of annual dues; the Chamber receives no governmental or outside financial support.

The work of the Chamber is focused on four areas of activity – events, publications, services, and networking and advocacy – supported by a Board of Directors and five committees: Commerce and Industry, Free Trade Agreement, Corporate Citizenship, Executive Education Center (a joint venture with the American-style Al Akhawayn University), and Events. The Chamber has a full-time staff of four.

2.2 United States Companies in Morocco

Approximately 120 U.S. companies and franchises have production facilities, distribution facilities, or a representation office in Morocco. These firms, which represent more than $630 million in investment and 90,000 direct and indirect jobs, are active in sectors such as telecommunications (3Com, AT&T – NCR), consumer products (Coca Cola, Colgate Palmolive, Gillette), pharmaceuticals (Eli-Lilly, Pfizer, Bristol Myers Squibb), textiles (Jordache, Fruit of the Loom, Gap), and fast food (McDonalds, Pizza Hut). The full range of companies and activities is even more diverse than this small sample would suggest, and the full list can be downloaded from the AmCham web site (www.amcham-morocco.com).

2.3 An Overview of Bilateral Trade

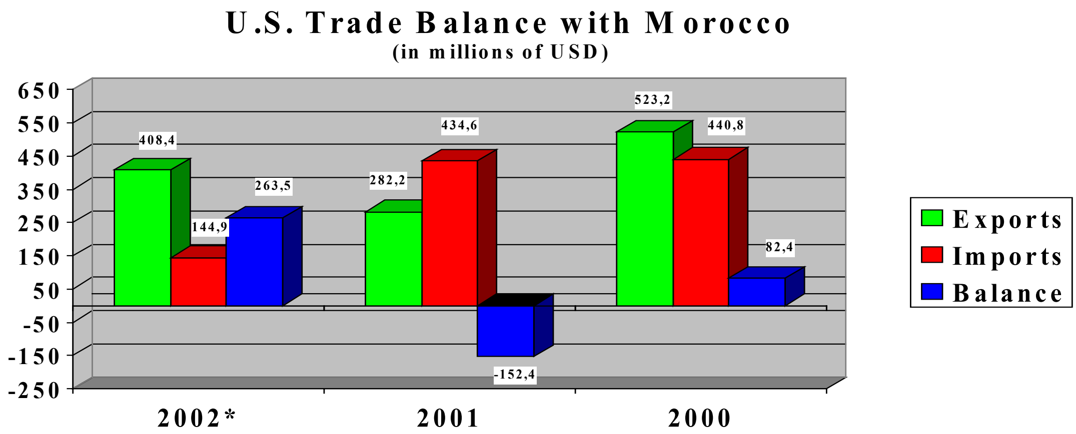
The United States represented only 4.7% of Moroccan foreign trade in 2000, compared to 56.9% for the five largest trading partners among the European Union Member States.

MOROCCAN FOREIGN TRADE BY LEADING PARTNERS AND COUNTRIES IN 2000		
Partner	**Imports (%)**	**Exports (%)**
European Union	57.9	74.7
United States	5.6	3.4
Saudi Arabia	5.0	0.8
Maghreb Arab Union	2.5	1.9
Others	29.0	19.2

Country	**Imports (%)**	**Exports (%)**	**Ttl Trade (%)**
France	24.0	33.5	27.7
Spain	9.9	13.0	11.1
Great Britain	6.2	9.6	7.5
Italy	4.7	7.1	5.7
Germany	4.9	5.0	4.9
United States	5.6	3.4	4.7

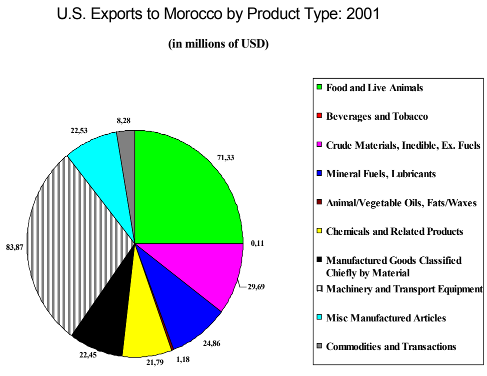
Source: Office des Changes du Royaume du Maroc (2001), Balance Commerciale 2000.

Bilateral trade between Morocco and the United States in 2000 was generally limited to what might be termed the "obvious" product lines given the resource endowment of Morocco and its status as a developing country. U.S. imports from Morocco were dominated by phosphates, textiles and clothing, and fish and vegetable conserves, while U.S. exports to Morocco were composed largely of agricultural products, machinery, industrial inputs, and aircraft. The lack of diversity of this trade profile is a clear indication of the enormous potential for growth.

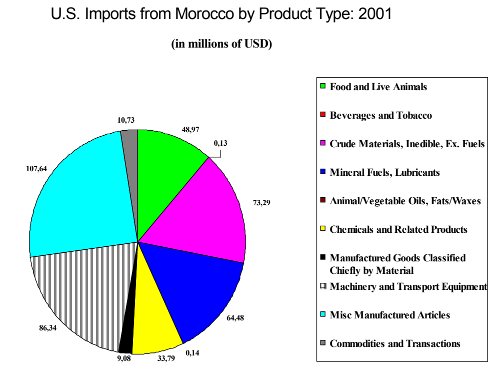


* First five months only.

Data source: U.S. Census Bureau.



Data source: U.S. Census Bureau.



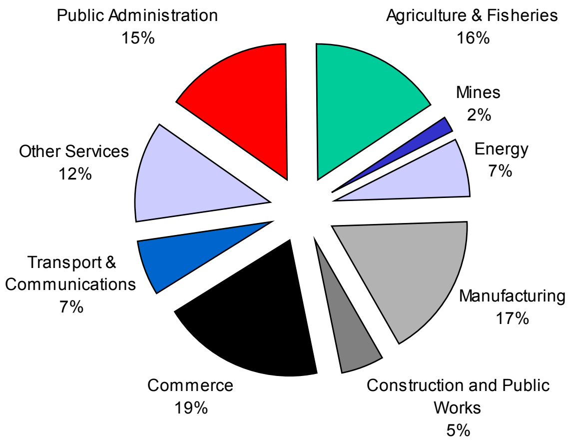
Data source: U.S. Census Bureau.

2.4 An Overview of the Moroccan Economy

The Moroccan economy is dominated by the agriculture sector, which accounts for between 15% and 20% of GDP depending on rainfall as well as approximately 40% of the workforce. This dependence on agriculture means that drought, which is increasingly frequent, has a dramatic impact on overall GDP growth, which is highly volatile. Other key sectors include phosphate and phosphate derivatives, fisheries, tourism, clothing and textiles, and a large public service. Sectors with great potential for future growth include tourism, fisheries, and IT/telecommunications (including call centers and software development). The Moroccan balance of trade on merchandise is structurally in deficit, but that deficit is generally offset by tourism revenue and expatriate remittances. For example, the 2001 merchandise trade deficit was DH 43.6 billion, compared to net tourism revenue of DH 24.8 billion and expatriate remittances of DH 36.8 billion ($1 = approximately DH 10.5).

Moroccan GDP Structure: 2001

(Total GDP: DH 382.9 billion)



Data source: Direction de la Statistique

KEY ECONOMIC INDICATORS 1997-2001					
	1997	1998	1999	2000	2001
Inflation (%)	1.0	2.7	0.7	1.9	0.6
Unemployment (%, 4th quarter)			14.5	13.7	12.8
Urban Unemployment (%, 4th quarter)			22.9	21.5	20.3
Unemployment w/ed. Qual. (%, 4th quarter)			28.4	27.6	26.1
Real GDP Growth (%)	–2.2	+6.8	–0.7	+0.3	+6.5

Source: Direction de la Statistique, IMF

2.5 The Business Environment in Morocco

The first *AmCham Survey of Executive Perceptions about Business and Investing in Morocco*, which was conducted in 2001, included 68 statements pertinent to the local business environment. The participation rate was an exceptional 29%, and full results can be downloaded from the AmCham web site (www.amcham-morocco.com). Respondents were largely members of AmCham, although other chambers of commerce were represented, and included both Moroccan and foreign interests in a variety of industries.

While the survey did not raise any new issues, the surprise was a phenomenon dubbed the “Moroccan Paradox”. Most survey takers had quite negative perceptions about the day-to-day aspects of doing business in Morocco but were positive about their investment and generally would recommend investing in the country. Why this was the case is not clear, but the survey does give some hints, both in some unexpectedly strong scores and in the written comments.

Most respondents believed the market potential is considerable. A vast majority, however, also felt that a comprehensive regional Free Trade Agreement with Algeria and Tunisia – which currently exists only on paper – would have a major positive impact on their business. Overall, basic infrastructure fared reasonably well, as did the customs service, and the new Commercial Courts appeared to garner some support, although their efficiency and responsiveness was in question. Some of the written comments seemed to indicate improvements in the relationship between firms and the government and the customs service, as well as in the general conduct of business. The market potential and these “positives”, which could be an indication that respondents are seeing some progress, coupled with the high hopes vested in King Mohamed VI, might partially explain the positive bias of the Moroccan Paradox.

Many respondents proposed solutions to the issues that disturbed them most:

– Implement a less rigid and more balanced labor code
– Reform the legal system according to international benchmarks
– Enforce laws and regulations consistently and equally
– Simplify the fiscal system, reduce tax fraud and apply the tax code equally to all
– Create and advertise investment tax incentives
– Develop closer relations between schools, universities, and businesses

3.0 THE DIRECT BENEFITS OF AN FTA FOR TRADE AND INVESTMENT

3.1 Greater Access to the U.S. Market for Morocco-Based Firms

An FTA will lead to greater access to the United States market for Morocco-based firms, be they subsidiaries of American companies covering the local and export markets or Moroccan firms attempting to break out of the European Union domination of Moroccan foreign trade by entering the U.S. market. Pharmaceutical firm Cooper Maroc, which currently purchases $20 million worth of raw materials and finished products from Europe annually, would be able to source some of that order from the United States under an FTA. A free trade agreement would also greatly assist Cooper Maroc in its plans to export to the United States. Similarly, CMS Energy, which is a partner in the Jorf Lasfar Energy Company, believes that an FTA may allow it to shift supply sources from Europe to the United States for some goods. These include spare parts for boiler systems, ash handling systems, and precipitator systems, as well as major system valves with associated spare parts, boiler tubing, and conveyors and their associated parts. Related services and technical support would also benefit. In addition, CMS regards an FTA as the “value-added” that will ensure the success of the Jorf Lasfar Industrial Park project.

3.2 Greater Access to the Moroccan Market for U.S.-Based Firms

An FTA will lead to greater access to the Moroccan market for U.S.-based firms that will otherwise be increasingly disadvantaged by preferential access granted to the European Union under the free trade provisions of the Morocco/EU Association Agreement. A Euro-Moroccan free trade zone is being phased in progressively from 2000 until 2012 under the terms of that agreement. Pharmaceutical firm Cooper Maroc has indicated that it could take advantage of an FTA to import and distribute American medical, hygiene, and health care brands, thereby increasing Moroccan market access for its U.S.-based suppliers. Joint ventures with American pharmaceutical firms would also be a possibility. The Moroccan National Food Company, which is the local Domino's Pizza franchisee, would be exempted from a 100% Moroccan tariff on mozzarella cheese under an FTA, allowing it to open 16 new outlets nationwide for a total of 20 stores. Such an expansion would create 400 jobs directly and a much larger number indirectly.

3.3 The Promise and Limitations of Free Trade: The Case of Jordache

The very real direct benefits of free trade described in points 3.1 and 3.2 may, nevertheless, not always be sufficient to ensure a positive outcome, as evidenced by the case of the Jordache Group (J.R.A. Morocco). The Jordache/J.R.A. story, although not representative of the diverse range of AmCham member company activities, does clearly illustrate the business environment and supply chain issues that need to be resolved if an FTA is to be successful.

J.R.A. Morocco, the largest jeans manufacturers in Morocco, is one of several Jordache factories worldwide. All of its production is for export, of which 50% is shipped to the United States (previously 100%) and 50% to Europe. Over the last year, J.R.A. has seen an enormous decline in the incoming orders issued by its New York office and has downsized from a workforce of 1200 to just over 600. Production has dropped from almost 120,000 units a week to half of that. This decline has occurred because Jordache, in its factories in Kenya, Jordan, and Mexico (with another due to open in Madagascar), can turn out a garment for anywhere between $1 and $2 less than they can in Morocco. There are two main reasons for this:

(1) *Tariffs*. The U.S. import duties applicable to the other factories are lower by between $1 and $2 per garment. Furthermore, a Free Trade Agreement or a Textile Duty Exemption Act already exists between those three (soon to be four countries) and the United States. This means that Jordache New York does not have to pay the import taxes of between 17% of F.O.B value (for 100% cotton denim goods) and 35% of F.O.B value (for polyester goods) that are presently required on textiles imported from Morocco. At this time, all Moroccan production being exported to the U.S. is 100% cotton denim, which at least is on the lower end of import costs for Jordache New York, but it is still more expensive than the other above-mentioned factories. It should be noted that goods exported to the U.S. from China and other sub-Saharan countries plus the Caribbean Basin are also not subject to import duties.

(2) *The high cost of raw materials and other inputs*. In addition to high U.S. tariffs, raw materials and other inputs are expensive in Morocco. When J.R.A. priced fabric made in Morocco for use in goods being exported to the U.S., it was quoted prices of $3 per meter on the lower end of the quality scale and $4.50 per meter on the high end. Most of the fabric currently used for exports to the U.S. is therefore imported from Asia at a much lower average purchase price of $1.65-$2 per meter (low end) and $2.30-$3 (high end). Other high input costs (real estate, direct labor, insurance, energy, etc.) mean that the cost of production in the other Jordache factories is between $0.50 and $1 less than in Morocco.

The high price of local fabric is a key issue. J.R.A. believes that Jordache New York could not justify continued imports of finished goods from Morocco – even with an FTA – if the high cost of using local fabric (required to satisfy the rules of origin) negated its benefits. Until the local fabric industry can expand its production capacities, thereby lowering prices, J.R.A. sees a need for a minimum four-year grace period to permit local textile producers to continue using cheaper non-Moroccan fabric while nevertheless benefiting from the FTA. During that time, assistance would be given to the local fabric industry to help it increase production and lower prices. Otherwise, J.R.A. believes it would gain on one end (tariff elimination) and lose on another (the requirement to use a certain proportion of expensive Moroccan fabric).

J.R.A., which has been in Morocco for more than 12 years, believes that an FTA could be exactly the impetus that Jordache New York needs to strengthen its interests in J.R.A. Morocco, and even more so if a period of transition were possible. According to J.R.A., an FTA might just make the difference between J.R.A. Morocco shutting down completely or continuing to thrive as a dynamic force in the Moroccan economy.

4.0 THE INDIRECT BENEFITS OF AN FTA FOR TRADE AND INVESTMENT

4.1 Competition-Generated Productivity Increases and Economies of Scale

A United States-Morocco free trade agreement, like the more limited EU-Morocco FTA, will expose the Moroccan economy to increased competition on both price and quality in a range of products. This competitive pressure should provoke an increase in productivity on the part of Moroccan firms, many of which play a key support role for U.S. trade and investment interests, and it should also prompt many of them to expand their production capacity in response to the large order sizes that are characteristic of the U.S. market. Such an increase in production capacity and the resulting economies of scale should resolve the raw material cost structure problems of companies like Jordache, as well as at least some of their input cost issues.

4.2 Improvements in the Moroccan Business Climate

The elimination of tariffs, while important, is only one factor in the decision to invest in Morocco. The American Chamber of Commerce believes that a United States-Morocco free trade agreement would generate pressure for improvements in the local business environment that are essential to achieving the objectives of free trade. Such improvements include a balanced and coherent labor code, a transparent and efficient justice system, the enforcement of intellectual property rights, a closer match between educational curricula and labor market needs, and the resolution of other problems identified in the AmCham Morocco business environment survey.

As an expert on the United States-Jordan FTA told an AmCham Morocco workshop in October, an FTA 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 expert said the FTA with the United States had been a milestone for Jordan, but that it came after concrete policy measures had been taken to pave the way. Jordan had pursued export-led and investment-led growth in the private sector, because it was aware that the domestic market alone was insufficient to generate that growth, and it had already streamlined its bureaucracy, achieved compliance with WTO intellectual property rights standards, and signed other bilateral trade accords before concluding the FTA with the United States.

In order to attract significant trade and investment under an FTA, Morocco will be obliged to match tariff reductions with improvements in the overall business environment.

It is important to note that the Moroccan business environment stands to gain not only from domestic reforms but also from greater access for Morocco-based firms to the markets of other countries in the Maghreb region (Morocco, Algeria, Tunisia). The economic integration of the Maghreb, which could make Morocco into the hub of a much larger regional market, would be encouraged by a U.S.-Morocco FTA if the rules of origin allowed for a certain proportion of inputs sourced in Algeria or Tunisia.

5.0 CONCLUSION

The American Chamber of Commerce in Morocco urges full support for the proposed FTA because it has the potential to greatly expand bilateral trade and investment to the benefit of both Moroccan and American companies. It could also constitute a powerful tool in the economic and social development of Morocco, a longstanding friend and ally of the United States.