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Agriculture: A First Evaluation with No Surprises

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This chapter assesses the impact of the Morocco-US Free Trade Agreement (FTA) on the agricultural and agrifood sectors, beginning with a summary of the positions of the two countries. A description of the content of the agreement sets the stage for a report on the quantitative status, followed by an analysis of the effects from a political economy perspective. The concluding section reflects on some unresolved questions raised by the implementation of the agreement. The observations developed in this chapter are:

1. The agreement was built on an asymmetric foundation largely favorable to US commercial interests and was cast as an opportunity for Morocco to stimulate reform of agricultural policy and boost foreign investment in Morocco.
2. This asymmetry arose from differences in prenegotiation protection levels and in the ability of operators to develop long-term strategies.
3. The negotiations avoided commitments that might have proven highly contentious on either side. The Moroccans obtained the partial exclusion of wheat and red meat from the requirement to reduce barriers, thanks to a quota mechanism that capped the volume of imports exempt from duties; the United States inserted a minimum price clause for all competitive fruits and vegetables of Moroccan origin for the 18-year "dismantling" period.
4. The compromise model that came out of the negotiations seemed at

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first to favor the weaker party, Morocco, the country that needs more time to adjust. However, analysis shows that the compromise favored firms with medium- and long-term strategies, which are predominantly US firms.

5. The quantitative analysis confirms an increase in the projected Moroccan trade deficit with the United States.
6. Reports from observers in the two countries confirm the "structural" nature of the asymmetries between firms with a medium- to long-term perspective and those with a short-term view.
7. Many questions remain unanswered. Of particular interest are the agreement's limited success in raising Morocco's attractiveness for trade and investment and the implications of reforms envisioned under Plan Maroc Vert, Morocco's Green Plan.

A Political Agreement to Help Sectors in Crisis and Asymmetrical Benefits

The political inspiration for the Morocco-US FTA lies in both the Middle East Partnership Initiative (MEPI) and the commitment made by the two heads of state in April 2002. For the United States, this was the first US agreement with an African country and, after Jordan, the second with an Arab country.[1] For their part, Moroccans were sensitive to US comments after the terrorist attacks of September 11, 2001, especially those concerning the necessity of "reforming" Arab countries and emphasizing economics, democracy, women's rights, and freedom of the press. It was in this context that the Kingdom adopted important legislation in these four areas, moving in the directions indicated in the US comments. Over the next several years the two parties reached a trade accord, despite difficulties related to trade in agricultural products and textiles, which somewhat slowed the completion of negotiations.

The FTA covers trade in goods (agricultural and fishery products as well as industrial products including textiles and clothing), services (including financial and telecommunication services), and public procurement. It also covers intellectual property and environmental and labor standards. Preferential treatment consists of either a complete exemption or a progressive reduction of the base (import) duty, with or without a quantitative limit on preferential imports (a tariff quota), depending on the product.

Before implementation of the agreement, Moroccan exports to the

1. In his notice to Congress on the subject, then US Trade Representative Robert Zoellick wrote, "The completion of an FTA with Morocco will support this Administration's commitment to promote more tolerant, open, and prosperous Muslim societies" (Ahearn 2005).

United States were subject to import duties averaging 4 percent, while US exports to Morocco were subject to an average duty of 20 percent. Thus the United States would clearly benefit the most from bilateral liberalization. Generally, US farmers hold a positive view of FTAs despite the US agro-industry sector feeling increased competitive pressure from major producers in Latin America, Central and Eastern Europe, Asia, and Australia since the end of the 1990s.

On the eve of the negotiations, the Moroccan agro-industry sector had a two-tiered structure: a competitive and profitable subsector (the processors) and a protected subsector (the farmers). The country's farmers have a complex system of price supports and subsidies that serves as a social safety net in rural areas. For Moroccan decision makers, the FTA was perceived as a risky undertaking that would be difficult to sell to the populace.

A Proliferation of Lists

Morocco has a long history of agricultural trade negotiations with the European Union. It was one of the first countries to become a member of the World Trade Organization (WTO) in 1996 and has signed many bilateral agreements, notably on foodstuffs, especially with Arab countries. What distinguishes the agreement with the United States was the attempt to dismantle all of Morocco's tariff barriers on agricultural products—negotiations were reduced to a discussion of time frames for completely dismantling tariffs.

With few exceptions, the United States obtained a global and visible agreement that established Morocco's commitment to move toward open borders according to fixed deadlines. Morocco obtained the partial exclusion of wheat and red meat from the dismantling process, thanks to a quota mechanism limiting the volume of duty-exempt imports. In parallel, the United States inserted a minimum price clause for all competitive fruits and vegetables of Moroccan origin for the entire 18-year dismantling period. Furthermore, sugar, candy, and chocolates were classified in Category D (i.e., subject to an 18-year dismantling period), which designates products subject to the "net exporter clause"—Morocco cannot export those products to the United States unless it is a net exporter of those products (the same restriction applies to US products). Neither country has complied with this clause. Accordingly, these products are not commercially traded under the agreement.

The proliferation of categories, defined as a groups of products subject to various dismantling schedules, shows the complexity of the task facing the negotiators, who were caught between a "rock" (no agricultural exception) and a "hard place" (the reality of agricultural policies in both countries).

Moroccan Import Terms and Lists

Morocco gives preferential access to US agricultural products based on a tariff-dismantling schedule for a period of up to 25 years, depending on the sensitivity of the products. Linear dismantling formulas were granted for most products. The agreement allows Morocco to impose automatic protective measures on the importation of agricultural products when the import volume of a given product exceeds the activating threshold. The most sensitive products (wheat, meat, almonds, and apples) are subject to reduced tariffs, with rates of change for quotas and duties adjusted according to specific formulas. Table 3.1 shows the quotas for red meat and poultry and for common wheat and wheat products.

From the US perspective, the openings of greatest interest in the agreement are those for reduced duty on products subject to quotas (wheat and "noble" meats); the progressive reduction or elimination of duties on other grains for animal feed (corn, sorghum, and barley); and the reduction of duties on soybean products for industry and for human and animal consumption.[2] Along with these openings, the agreement sets out significant reductions for certain products of interest to US producers, whether fresh (grapes, cherries, and pears), dried (pistachios), or processed (corn flakes, pizza, and cheese).

The first 24 of the 97 chapters of the Moroccan nomenclature concern the harmonized system on fresh and processed agricultural products and include nearly 2,484 10-digit tariff items. Almost 44 percent (1,088) of these items fell under Category A, which mandated the immediate dismantling of tariffs upon implementation of the agreement. The category includes several Moroccan agricultural exports with a clear competitive advantage over US products, notably fish. Access to US genetics, technology, and livestock feed was also a motivation behind the development of this list.

Category B has no products. Category C calls for a uniform tariff dismantling over five years and applies to some cheeses, entrails, potatoes, tree nuts (e.g., almonds, cashews, and walnuts), bananas, grapes, melons, apricots, olive oils, and corn flakes, among other products.[3]

Category D covers products subject to a 50 percent reduction in base duty in the first year, with the removal of the rest of the customs duties in five equal increments starting in the second year of the agreement. Corn, soybeans, and their derivatives are on this list.

Category E concerns 13 products packaged for individual sale, notably butter, common beans, raisins, prunes, vegetables preserved in cans,

2. "Free Trade with Morocco: A Vital Step Towards Middle East Reform," USTR Factsheet, March 2, 2004, available at http://web.archive.org (accessed on July 13, 2009).

3. Some items appear in more than one category because of differences related to processing and/or packaging of the products.

Table 3.1 Products subject to tariff quotas by Morocco (metric tons)

Product	Quota
First choice beef	Unlimited
Standard quality beef	2,208
Whole poultry	Unlimited
Poultry legs and wings	Unlimited
Durum wheat	Unlimited
Common wheat where production is greater than 3 million metric tons	400,000
Common wheat where production is less than 2.1 million metric tons	1,060,000
Almonds	Unlimited
Products derived from durum wheat	1,793
Products derived from common wheat	1,793
Apples	Unlimited
Boneless, skinless, manually produced frozen poultry meat	Unlimited
Other manually produced frozen poultry meat	Unlimited

Source: Centre Marocain de Conjoncture (Morrocan Centre for Business Conditions), *Bulletin mars 2005 Libre-Echange Maroc USA*, p. 29.

jars, and hermetically sealed containers or otherwise packaged, soda extracts, essential oils, and dog and cat foods. The tariffs on these products will be dismantled uniformly over eight years.

Category F sets out a uniform dismantling schedule over nine years for 38 products, notably freshwater fish, snails (other than sea snails), trout and eel fillets, some prepared and preserved fish products, caviar and caviar substitutes made of fish eggs, and crab and shrimp in homogenized preparations.

Category H has no products. Category G, which specifies a linear dismantling of customs duties over 10 years, applies to nearly 20 percent of all the 10-digit tariff items of the Moroccan nomenclature, including some dairy spreads and cheeses, potatoes, peas and beans, dates and apricots, livestock feed, and wines.

Duties on the products targeted in Category I will be removed in 12 equal annual segments. This list includes 10 products derived from milk and cream, concentrated or with added sugar or other sweeteners, children's food preparations, and packaged eels.

Category J specifies tariff items for which the duties will be removed in 15 equal annual installments. More than 300 agricultural products are on this list, or about 12 percent of all tariff items, including live animals of bovine and ovine species, roosters, hens, ducks, geese, turkey cocks and hens, guinea fowl, live domesticated species, milk and dairy products, honey, barley (other than brewer's barley), and some prepared foods.

Category K primarily covers three products: chickpeas in grain form, lentils in grain form, and other lentils. Duties on these products will remain at the base rate until January 1 of the seventh year (2012), when they will be reduced by 5.6 percent of the base duty and by an additional 5.6 percent on January 1 of each following year through 2017. Starting on January 1, 2018, the customs duties will be reduced by 11.1 percent a year so that duties are eliminated by the eighteenth year (2023).

Other products, including animal products, are included in Categories N, O, Q, S, T, and X.

US Import Terms and Categories

The US schedule for dismantling customs duties on agricultural products has 12 categories with transition periods ranging from immediate application to 18 years. The formula for the 18-year dismantling period is progressive (rather than linear).

An analysis of the US dismantling program shows the continuation of heavy protection for processed vegetable-based products, most of which are subject to the longest transitional periods (15 and 18 years). Products subject to US quotas are of little export interest to Morocco.

Categories

Category A specifies the products subject to tariff dismantling upon entry into force of the agreement. It lists 1,033 8-digit tariff items for fresh and processed agricultural products, representing more than 56 percent of the tariff items in chapters 1 through 24. Among these products are:

- fresh vegetables: potatoes, tomatoes, onions, garlic, cucumbers, pickles, peas, green beans, artichokes, hot peppers, bell peppers, and zucchini;
- frozen vegetables: potatoes, beans, peas, and tomatoes;
- fruit: especially oranges, small citrus fruit, grapes, watermelons, melons, apples, pears, stone fruit, and strawberries (fresh and frozen);
- processed vegetables: preserved cucumbers, pickles, capers, artichokes, beans, onions, and hot peppers;
- preserved green olives and most black olives;
- processed fruit: apricot, strawberry, cherry, and citrus jams; and
- fishery products: almost all fishery products, fresh and processed.

No products were retained under Category B, which entails the dismantling of tariffs two years after the agreement's entry into force. By contrast, Category C, specifying the products for which duties will be dismantled five years after entry into force of the agreement, contains nearly

83 products, including melons other than cantaloupe, Ogen and Galia varieties, dried cherries, and peach preserves. No products were retained under Category D, which calls for a 50 percent reduction in base duty by January 1 of the first year and complete dismantling six years after the agreement's entry into force. Category E covers products whose duties will be eliminated in equal installments over eight years. It includes fresh asparagus and grape juice, products for which Morocco has a significant export potential.

Duties on products on Category F will be dismantled nine years after implementation of the FTA. This list includes one of Morocco's main exports, nonsmoked sardines with skin and bones packed in oil in hermetically sealed containers. Category H has no products. Products in Category G will be liberalized in the tenth year of the agreement. They include fresh and dried almonds, avocados, pitted black olives, and orange pulp. Category I specifies the products to be dismantled in the twelfth year and includes cherry preserves. Category J specifies a 15-year transitional period before the liberalization of dried onions and garlic, fresh grapefruit imported between October 1 and July 31, preserved asparagus, and unsweetened orange juices.

Duties on the products of Category K will be abolished in 18 years according to the following schedule: In the first six years, rates remain unchanged; then the base rate will be reduced by 5.6 percent annually between years 7 and 12, and by 11.1 percent annually between years 13 and 18, after which products in List K will be exempt from customs duties. The main products on this list are processed products such as apricot preserves other than pulp, pear, peach, and nectarine preserves and nonfermented orange juices.

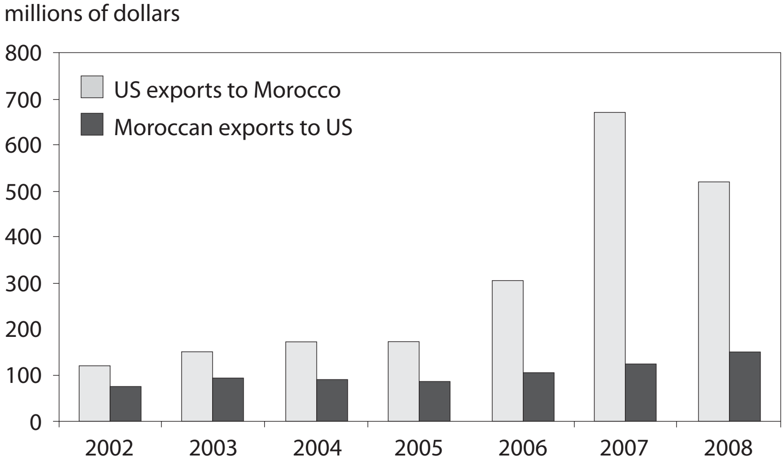
The agreement specifies tariff quotas for beef, dairy products, peanuts, cotton, tobacco, sugar and sweet products (also covered by the net exporter clause), tomato-based products, dried onions, and garlic, all of which are exempt from tariffs for volumes less than the quota caps, which are subject to scheduled increases.

Activating Prices

Under the agreement, the United States determines the activating price for each product. The higher the price, the greater the protection for US domestic products (and thus the more difficult for Moroccan exporters to penetrate the market). Most of these higher prices fall under Categories J and K, which have transitional periods of 15 and 18 years, considerably extending the effective duration of protection. This hedge clause affects dried onions and garlic, tomato preserves and concentrates, asparagus preserves, pitted black olives, pear preserves, apricot preserves other than pulp, and some orange juices.

Horticultural products are also subject to a "floor price": If a product's

Figure 3.1 Agricultural trade between Morocco and the United States, 2002–08



Source: US Census Bureau, CenStats Databases, http://censtats.census.gov.

import price is lower than the activating price, the clause calls for an additional duty proportional to the difference between the two prices.

Of the 35 tariff items affected by activating prices in the Morocco-US FTA, 20 have price levels equal to those under the US-Australia FTA; only two are equal to those in the US-Chile FTA, more than 10 are higher, and 10 are lower.

An Increasing Agricultural Trade Imbalance

As other impact studies have indicated, initial data show that the asymmetry of the terms of the agreement has led to a net increase Morocco's agrifood trade deficit with the United States.[4] Statistical data from the US Census Bureau related to trade between the two countries provide a broad picture of trade in agricultural products among the first 24 items of the SITC (Standard International Trade Classification) as well as three other items related to oils and essences.

As figure 3.1 shows, the balance tipped heavily in favor of the United States in 2006 and (especially) 2007 before dropping slightly in 2008 as a result of volume, price, and exchange rate effects. The US surplus has risen from $80 million in 2004–05 to $200 million in 2006, $550 million in 2007 (largely due to the spike in grain prices), and $370 million in 2008.

This progression shows the cumulative effect of Morocco-US FTA

4. See, for example, El Mekki and Tyner (2004).

preferences for some grains and other products under the tariff quota framework, thanks to the successful implementation strategies of US agro-industry operators and their lobbying associations.

US Exports

US exports to the Moroccan market more than quadrupled between 2002 and 2008, with an especially steep increase after the implementation of the Morocco-US FTA. In addition to traditional products such as wheat, corn, and oilseeds, some remarkable trends are directly linked to the FTA in the sectors of livestock feed, dairy products, fruits and vegetables, and live animals for breeding (table 3.2).

Moroccan Exports

Moroccan agricultural exports to the United States doubled between 2002 and 2008, rising from $75 million to $150 million, largely since 2006. The composition has remained more or less the same over the period, with most changes related to the drop in the foreign exchange value of the dollar (table 3.3).

Private-Sector Strategies and Impacts

The private firms reaping the greatest benefits from the agreement are those with a strong competitive advantage, largely due to their size and organization, as is typical in any liberalization process involving economies of scale. The following sections describe the strategies and impacts that bear out the truth of this trend for both countries.

US Experience

The US products benefiting the most from the agreement (livestock feed and oilseeds) are those in which the firms developed strategies involving both investment and an organized association (US Grains Council, American Soybean Association). These strategies enabled US exporters to use the agreement's preferences to gain advantages against competitive suppliers, especially Argentina and Brazil.

Feed Grains

When the US Congress approved the US-Moroccan FTA in 2004, Chris Corry, Director of the US Grains Council (USGC), declared that his organization had made significant efforts to build demand for grain over many years, preparing to take advantage of the agreement by working with Moroccan

Table 3.2 US agricultural exports to Morocco, 2002–08 (millions of dollars)

Category	2002	2003	2004	2005	2006	2007	2008
Animal or vegetable fats and oils processed; waxes	3	10	10	0	0	0	0
Hides, skins, and furskins, raw	758	291	0	4	0	0	3
Meat and meat preparations	67	0	0	28	17	3	132
Fish (not marine mammals), crustaceans, molluscs	27	138	117	141	82	58	164
Coffee, tea, cocoa, spices, and manufactures thereof	12	38	74	126	186	185	188
Beverages	88	67	155	89	2479	463	462
Sugars, sugar preparations, and honey	88	52	12	81	24	399	784
Miscellaneous edible products and preparations	136	238	397	510	385	974	2,254
Essential oils and resinoids and perfume materials	498	1,941	170	1,922	2,265	2,719	3,941
Tobacco and tobacco manufactures	36	3,167	5,896	7,717	6,694	5,785	6,358
Live animals other than fish, crustaceans, molluscs	19	0	7	134	0	103	6,781
Vegetables and fruit	781	369	215	852	2,854	4,859	7,086
Animal oils and fats	3,354	3,259	1,814	0	4,438	11,360	9,043
Oil seeds and oleaginous fruits	34,687	54,598	29,362	60,101	70,844	96,142	48,523
Dairy products and birds' eggs	0	63	454	64	4,204	22,224	77,774
Feeding stuff for animals (not including unmilled cereal)	14,160	1,126	5,681	17,139	26,968	63,921	90,235
Fixed vegetable fats and oils, crude, refined	16,202	10,383	13,673	59	18,188	52,914	122,612
Cereals and cereal preparations	50,047	75,247	115,078	81,801	163,113	410,585	143,912

Source: US Census Bureau, CenStats Databases, http://censtats.census.gov.

Table 3.3 Moroccan agricultural exports to the United States, 2002–08 (millions of dollars)

Category	2002	2003	2004	2005	2006	2007	2008
Meat and meat preparations	21	51	41	27	0	0	0
Dairy products and birds' eggs	0	0	0	0	0	0	0
Feeding stuff for animals (not including unmilled cereal)	0	0	0	0	0	0	0
Tobacco and tobacco manufactures	0	0	0	0	0	0	0
Hides, skins, and furskins, raw	0	0	0	0	0	0	0
Animal oils and fats	0	0	0	0	0	0	0
Animal or vegetable fats and oils processed; waxes	4	0	0	0	7	6	0
Oil seeds and oleaginous fruits	0	15	0	0	0	18	13
Cereals and cereal preparations	99	0	0	4	3	20	59
Live animals other than fish, crustaceans, molluscs	0	0	21	15	245	254	182
Beverages	213	170	0	212	0	205	219
Sugars, sugar preparations, and honey	10	0	0	0	0	66	558
Miscellaneous edible products and preparations	144	0	407	1,094	2,479	1,683	2,677
Coffee, tea, cocoa, spices, and manufactures thereof	1,083	1,810	2,171	2,565	3,299	4,375	6,489
Essential oils and resinoids and perfume materials	879	2,433	5,250	5,701	8,052	6,552	9,706
Fixed vegetable fats and oils, crude, refined	1,706	877	15,842	13,598	15,066	7,835	10,067
Fish (not marine mammals), crustaceans, molluscs	19,614	23,263	25,111	24,205	24,116	26,783	31,204
Vegetables and fruit	50,273	66,193	41,492	39,704	52,019	77,705	89,900

Source: US Census Bureau, CenStats Databases, http://censtats.census.gov.

ranchers to promote technologies incorporating US products (feedlots). Some initiatives included visits by these ranchers to the United States to observe the production and transportation process from farm to port. Upon implementation of the FTA's preferential reduction of customs duties in 2006, the Moroccans ordered a first load of 30,000 tons of sorghum.[5]

The work of developing the market continued through partnerships with the major ruminant farmers in Morocco, especially the Coopérative Agricole (COPAG; Agricultural Cooperative), whose reputation with producers the USGC had researched in order to maximize the demonstration effects. In 2008 the USGC estimated that its efforts translated into an increase in corn consumption by ruminants of 100,000 tons per year between 2005 and 2007, the equivalent of $23 million in exports. The potential for this market is estimated to reach $72 million in 2011.

Other Products

For the soy sector, the American Soybean Association (ASA) developed and continues to pursue a similar strategy, although Moroccan reforms in this sector have meant that the value of the concessions was lower than for the grain sector. Similar approaches have been successful in seemingly less competitive sectors, such as apples, for which the agreement specified a tariff quota of 1,001 containers as of 2006.[6]

Moroccan Experience

The observations of executives at Moroccan firms are paradoxical. On the one hand, they are quite negative, expressing concern that Moroccan firms are unable to access the US market for finished products because of a US perception that "Morocco is an immense subcontracting workshop."[7] Other complaints concern the burden of technical inspections at the border, especially the systematic scanning of all containers, the high labor cost in relation to Asian competition, and the lack or inadequacy of logistical support (costly air transport and the absence, until June 2009, of a direct maritime line). According to one Moroccan consulting firm, which conducted a study for the Confédération Générale des Entreprises du Maroc (CGEM; General Confederation of Moroccan Enterprises), Moroccan companies encounter seven difficulties in their efforts to export to the United States: price competitiveness, poor knowledge of US markets, difficulties

5. US Grains Council Success Story, "USGC Programs Bring US Grains to Morocco," February 28, 2006, www.usaedc.org (accessed on July 7, 2009).

6. For details, see the US Agricultural Export Development Council's website (www.usaedc.org), which collects success stories.

7. Wadie El Mouden, "Accords de Libre Echange: Niches et Contraintes à l'Affiche," *Le Matin*, March 26, 2009.

in meeting the size of orders, lack of promotion and image, problems understanding standards, logistical weaknesses, and cultural gaps. The same consulting firm proposed a voluntary plan that would enable Moroccan exports to the United States (excluding phosphates) to reach $1.2 billion by 2015 (Roland Berger Strategic Consultants 2009).

On the other hand, participants in meetings about the FTA were able to identify virtuous effects of the agreement for Morocco. They cited the need for "electroshocks" to stimulate agricultural policy reform and boost foreign investment in Morocco.

A first group of Moroccan firms interviewed about the conclusions of the consulting firm observed that some of the challenges cited in the report result from a short-term attitude and thus a lack of strategic commitment. The Compania Industrial del Lukus (CIL) shipped its production of powdered tomatoes largely to the US market in a period when its shareholders were associated with US buyers. In an attempt to follow a longer-term approach, CIL developed a new marketing strategy to diversify its customer base and to reduce its heavy dependency on a single market and a single currency. The share of US sales dropped from 65 percent of revenues to 40 percent in 2007–08 and 37 percent in 2008–09.

A second group of firms involved in US distribution chains increased their sales to the US market, especially the Somia Company and Moroccan suppliers to Wal-Mart. And a third group consists of operators who want to believe in new opportunities but cannot realize them due to external constraints and internal failures.

The following sections provide anecdotal accounts of the experiences of some Moroccan companies that specialize in products important for Moroccan exports.

Case Study: SIOF

SIOF, established in Fès, produces and exports olive oil, olive cake oil, and table olives to Canada, the European Union, the Middle East, and the United States. Several characteristics of the US market for table olives in particular pose challenges for SIOF and other Moroccan exporters. First, prices are an important handicap. Spanish prices for table olive exports to the United States are lower than Moroccan prices, although the latter are 15 percent lower than those of its exports to the European Union. Second, it is difficult to satisfy the US demand for large quantities of each size of olive. Third, the US Food and Drug Administration (FDA) applies very strict inspection standards, and its methods of analysis differ significantly from these applied in Morocco. US audits for export certification of Moroccan companies are challenging and onerous.

Furthermore, in the market for oils, the irregularity of SIOF's supply from one year to the next, both in terms of quantities and prices, does not allow it to gain the loyalty of US clients. Indeed, the variation in prices is so great that the company cannot guarantee fixed price contracts for its US customers. This inconsistency affects other Moroccan firms as well and makes it difficult for them to land regular US customers. One possible solution is to find a niche among smaller US buyers, but that requires means of market exploration not available to all Moroccan companies.

Finally, variations in currency exchange rates (euro versus dollar) are so large that some companies simply avoid trade with the United States.

Case Study: Maroc Câpres

This company, also located in Fès, produces table olives and capers. It is the number one global caper production company and handles 50 to 60 percent of Moroccan caper exports, with a large portion destined for the United States and Canada as well as the European Union. Exports to the United States are falling, however, as Asian competitors sell not only a higher-quality product—their caper shipments are 90 percent nonpareils, the best caper quality, compared with Moroccan shipments of only 20 to 30 percent nonpareils—but also at a more competitive price.

A related factor is the unfavorable dollar exchange rate for Moroccan exports during most of the past three years. The reference point for Moroccan firms is the euro, which has generally been strong against the dollar.

Case Study: Sicopa

Sicopa, in Fès, produces table olives, capers, artichokes, stuffed peppers, grilled eggplants, and various condiments, which it exports to Canada, the European Union, the Middle East, and the United States. Moroccan exports of these products to the United States are dropping as the prices Moroccan firms offer to US buyers are lower than prices Moroccan firms can expect on the EU market. Spanish firms, on the other hand, offer highly competitive prices, and their exports to the United States are increasing. Olive purchases (raw material) in Morocco cost 7 Moroccan dirhams per kilogram, whereas the Spaniards charge only 5.

The limited availability of raw materials in Morocco does not allow this company to meet US demand and thus it is losing clients because it cannot fulfill its contracts. Yet in hopes of seeing things change, Sicopa is trying to retain clients even as it is losing money in the US market. Its task will become harder if demand for consumer products further weakens in the current economic slump.

Case Study: Framaco

This company in Marrakech produces table olives and apricots. Its export markets have been concentrated in the European Union and the United States, although it stopped exporting olives to the United States a few years ago because its prices were higher than those of (primarily Spanish) competitors. The unfavorable dollar-dirham exchange rate between 2001 and October 2008 made the situation worse. The company is attempting to resume its US exports based on efforts to improve supply and a more favorable exchange rate in 2009 than in most of 2008. However, the stronger euro (and dirham) in mid-2009 will be a discouraging factor.

Assistance Programs

The major difference between support and assistance programs in the United States and Morocco lies in the role of professional associations. In the United States, they are responsible for the design and execution of assistance programs, with support from the government. In Morocco, this approach to assistance programs has been less effective, despite the efforts of leading associations such as the Association Marocaine des Producteurs et Producteurs-Exportateurs de Fruits et Légumes (APEFEL; Moroccan Association of Producers and Exporters of Fruits and Vegetables) and the Fédération des Industries de Conserve des Produits Agricoles du Maroc (FICOPAM; Moroccan Federation of Canned Agricultural Product Industries). Most Moroccan aid programs are led by public or semipublic agencies or through international cooperation with support from the associations. In light of the better results from the US approach, it seems clear that the US method is more effective in implementing long-term market conquest strategies.

Unresolved Concerns

In addition to the challenges described above, two major issues remain unresolved from the Moroccan point of view. The first concerns domestic agricultural policy: Its coherence was compromised by the FTA and, faced with difficulties in implementation, it seems that the state's impetus for reform has now cooled to some extent. The second concerns liberalization-investment-export "triangulation," which has not gained traction despite repeated efforts by Moroccan officials.

Moroccan Agricultural Policy

The agreement translates into a strong incentive for the production of red meat and common wheat in Morocco, while liberalizing trade in their substitutes and in animal production inputs. This situation is favorable to the United States as it establishes in Morocco the same distortions created by the Common Agricultural Policy (CAP) in the European Union before the reforms of the 1990s. The CAP, in its first implementation, led to the over-intensification of EU imports of livestock feeds and an overproduction of meat on the EU coasts.

To avoid such a scenario in Morocco, the country's widely inconsistent grain policy[8] must be immediately dismantled in favor of a policy that is neutral in its production incentives and active in its support of revenue generation. Moroccan leaders rejected such a reform during the negotiation of the agreement. Now, however, it is becoming increasingly necessary.

Foreign Investment and Trade Terms

One of the favorite arguments of Moroccan leaders in promoting the FTA was that it would attract foreign investment to the agricultural sector. The agreement was supposed to reinforce the credibility of Morocco's political opening and to reassure firms looking to exploit Morocco's competitive advantages in a demanding market that needed long-term projects. But no significant investment project has appeared in the FTA window of opportunity. No American investor has been interested in partnership projects on state lands, even though the state placed 80,000 hectares on the market, among the best in Morocco and under terms favorable to large export-oriented operations.

The triangulation experiments with European partners were no more successful. The cases examined for this analysis show that the difficulties in approaching the US market stem from operating margins for "standard" products of 5 to 10 percent, which greatly reduces the chances of a profit-sharing agreement. Only "brands" can achieve operating margins of about 20 percent. But the entry cost for production to achieve such a position exceeds the capacity of Moroccan operators.

Finally, the long-term protection of US agricultural products is a significant hindrance to a more level playing field between the two countries. Acceleration of the liberalization of US agricultural lists, particularly in fruits and vegetables, would open new markets for Morocco and enable the Kingdom to reduce its agricultural trade deficit with the United States.

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8. The levels of protection for grains in the agreement vary between zero (barley and sorghum) and more than 100 percent, with yearly variations in the rates applied to corn, not to mention variable quotas.