United States Employment Impact Review of the U.S.-Morocco Free Trade Agreement

Pursuant to section 2102(c)(5) of the Trade Act of 2002, the United States Trade Representative, in consultation with the Secretary of Labor, provides the following United States Employment Impact Review of the U.S.-Morocco Free Trade Agreement. The report was prepared by the U.S. Department of Labor.

July 2004

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Executive Summary

This employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the U.S-Morocco Free Trade Agreement (FTA) and assesses the potential economic and employment effects of the FTA. In addition, the review summarizes the content of the labor provisions of the FTA.

The major finding of this review is that the U.S.-Morocco FTA is expected to have a negligible effect on employment in the United States. This finding regarding the absence of any significant domestic employment effects from the FTA is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that about two-thirds of all U.S. imports from Morocco already enter the United States duty free, provisions in the FTA for the gradual removal of U.S. tariffs on import-sensitive goods from Morocco over an 9 to 18-year period, and safeguards contained in the FTA to attenuate the effects of any increases in imports that may cause serious injury to a domestic industry. These findings are reinforced by the results of two modeling studies commissioned by the U.S. Department of Labor.

The U.S.-Morocco FTA will give U.S. exporters a more equal footing with those from the European Union in the Moroccan market. When the U.S.-Morocco FTA enters into force, all but a few U.S. industrial goods will gain immediate duty-free access to Morocco's markets and U.S. service providers will gain greater access. As U.S. goods- and service-producing industries become more competitive in the Moroccan market, it is expected that U.S. merchandise and service exports to Morocco will increase. This especially should be the case for the current leading U.S. merchandise exporters and service providers to Morocco in areas such as capital and industrial goods, including aircraft, automobiles, machinery and equipment, lumber and wood products, and paper and paper products; and financial and other business related services, including banking, financial services, and insurance. New U.S. export opportunities may also arise in the areas of manufacturing, services, and agriculture as the Moroccan market--though extremely small--becomes more open. U.S. imports from Morocco are also expected to increase as the result of the FTA, especially in products such as textiles and apparel.

I. Introduction: Overview of the United States Employment Impact Review Process

A. Scope and Outline of the United States Employment Review

This employment impact review consists of three additional parts. Part II discusses the background and contents of the U.S.-Morocco Free Trade Agreement (FTA), including the bilateral economic setting, current barriers to bilateral trade, and the major elements of the FTA. Part III considers the potential economic and employment effects of the FTA, with special emphasis on industrial employment and occupational labor markets in the United States and rules in the FTA to ensure only products that satisfy origin requirements of the Parties benefit from the FTA, mechanisms to attenuate the effects of any increases in imports that may cause serious injury to a domestic industry, and longer phase-in of tariff reductions for especially sensitive products. Part IV describes in greater detail the labor provisions of the FTA, including a labor cooperation mechanism.

B. Legislative Mandate

This review of the employment impact of the U.S.-Morocco FTA is pursuant to section 2102(c)(5) of the Trade Act of 2002 ("Trade Act") (Pub. L. No. 107-210). Section 2102(c)(5) provides that the President shall:

> review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public.

The President, by Executive Order 13277 (67 Fed. Reg. 70305), assigned the responsibility for conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 Fed. Reg. 71606).

The employment impact review is modeled, to the extent appropriate, after Executive Order 13141 on the environmental review of trade agreements; the guidelines developed for the implementation of that order have been adapted for use in this employment review.[1]

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[1] Executive Order 13141, on Environmental Review of Trade Agreements, was signed on November 16, 1999. The Order commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order directs that, in certain instances, written environmental impact reviews be made available to the public in final form. Also, the Order directs the Office of the U.S. Trade Representative (USTR) and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for the Implementation of Executive Order 13141--Environmental Review of Trade Agreements*. The Order and Guidelines are

C. Public Outreach and Comments

1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice on February 7, 2003 in the *Federal Register* announcing the initiation of a review of the potential impact on U.S. employment of the proposed U.S.-Morocco FTA, including the effects on domestic labor markets, and requesting written public comment on the review and provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States as well as other likely labor market effects of the FTA.[2]

Two submissions were received in response to the notice:

- The American Dehydrated Onion and Garlic Association (ADOGA) argued that duty-free treatment of dehydrated onion and garlic from Morocco would potentially open the U.S. market to lower-cost imports and constitute an unacceptable risk of transshipments through Morocco of lower-than-fair-value products from China which would severely affect the employment opportunities of the more than 4,000 workers within the U.S. dehydrated onion and garlic industry. ADOGA also noted that the Moroccan market presents no export opportunities for its products. If U.S. duties for dehydrated onion and garlic are eliminated under the FTA, ADOGA called for tariff-rate quotas on Moroccan dehydrated onion and garlic, an extended tariff-phase-out period of 15 or more years, and the equalization of U.S. and Moroccan labor and environmental regulatory structures. [The FTA provides an 15-year phase-out of U.S. tariffs on dehydrated onion and garlic imports from Morocco and a special agricultural price-based safeguard during the tariff phase-out period that allows for tariffs to increase if import prices fall below specified levels; see section III.C.2 of this review for further details.]

- The California Olive Association, representing the U.S. table olive industry that is made up of approximately one thousand growers employing several thousand persons, argued that Moroccan olive production is controlled by the government and subsidized and if U.S. tariffs were eliminated on olive exports from Morocco, the effects on the domestic industry would be negative. Further, this organization argued that a reduction in the Moroccan table olive tariffs would not help U.S. exports of these items since wages and production costs are lower and labor laws are less strict in Morocco. [The FTA provides for an 10-year phase-out of U.S. tariffs on canned pitted olives in a saline solution imported from Morocco and a special agricultural price-based safeguard during the tariff phase-out period that

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available on the USTR web site at: http://www.ustr.gov/environmental.shtml. USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through its Trade Policy Staff Committee (TPSC), is responsible for conducting individual reviews.

[2] See 68 Fed. Reg. 6529-6530 (February 7, 2003).

allows for tariffs to increase if import prices fall below specified levels; see section III.C.2 of this review for further details.]

2. Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) and Other Advisory Committees

Section 2104(e) of the Trade Act requires that advisory committees provide the President, USTR, and Congress with reports under section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. The advisory committee reports were all submitted on April 6, 2004, and are available on the USTR web site.[3]

The Advisory Committee on Trade Policy and Negotiations (ACTPN) and the other 29 trade advisory committees virtually all expressed the view that the U.S.-Morocco FTA is in the economic interest of the United States and stated their support for the FTA. The findings of a majority of the ACTPN were that the FTA "is strongly in the economic interest of the United States" and should "be adopted quickly." ACTPN also noted that the FTA would not be disruptive to the U.S. economy since "adequate transition and adjustment times have been built into the agreement." A labor representative on the ACTPN dissented from the views of other ACTPN members.

The Industry Sector Advisory Committees (ISACs) on Aerospace Equipment (ISAC-1), Capital Goods (ISAC-2), and Lumber and Wood Products (ISAC-10), in particular, commented that the FTA would benefit the exports of their respective industries. ISAC-13 (Services) noted that the lack of temporary entry provisions in the FTA is a disappointment. The ACTPN and a number of ISACs indicated that the investment provisions of the FTA would improve the opportunities and conditions for U.S. investments in Morocco; however, some expressed concerns that dispute settlement provisions apply only to prospective investments. Some ISACs welcomed retention of duty-drawback privileges under the FTA; several expressed concerns about rules of origin based only on content value.

The report of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) argued that the FTA would lead to a deteriorating U.S. trade balance and the loss of U.S. jobs, citing their views of NAFTA. The LAC noted "it is hard to know if our trade balance will fare much better under the Morocco agreement," and "it is possible that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel." Reiterating the concerns they raised regarding the recently negotiated free trade agreements with Chile, Singapore, and Australia, the LAC expressed concerns about the FTA's labor provisions that commit the Parties to enforce their own labor laws. The LAC argued that the FTA's dispute resolution procedure provides for lower penalties that are capped with little punitive or deterrent effect for violations of the Labor Chapter than for other violations. The LAC also opined that the FTA's rules of origin and safeguard provisions would invite circumvention by producers and fail to protect workers from import surges that may result, and that the FTA

[3] See http://www.ustr.gov/new/fta/Morocco/advisor_reports.htm.

provisions on investment, procurement, and services would constrain the ability of the U.S. government to regulate in the public interest and provide public services.

II. Background and Contents of the FTA

Morocco was the first country in the world to recognize the newly sovereign United States in 1777; the Treaty of Peace and Friendship between the United States and Morocco, negotiated in 1787, is the longest unbroken treaty relationship in U.S. history. The U.S.-Morocco FTA will not only strengthen our bilateral ties, but also advance the U.S. goal of a Middle East free trade area. While the economic effects of the FTA on the United States are not expected to be large, the FTA will serve, over time, to reinforce the process of economic reform and economic development in Morocco and serve the U.S. interest in encouraging economic and political reform in moderate Arab states like Morocco.

The FTA will create new opportunities for U.S. workers, farmers, businesses, and consumers by eliminating barriers to trade in Morocco. Over 90 percent of bilateral trade in consumer and industrial products will be duty-free upon entry into force of the FTA, with all remaining tariffs on non-agricultural, non-textile items eliminated within nine years. Several key U.S. export sectors that are likely to benefit include information technology products, construction equipment, machinery, and chemicals, among others. The day that the FTA enters into force nearly 99 percent of the U.S. market will be open, with duty-free access, to goods originating from Morocco. The Moroccan textile sector is expected to benefit from the FTA. Since the Moroccan economy is heavily dependent on its agricultural sector to provide jobs and income, the United States, for the first time in a free trade agreement, has agreed to limit its access to the Moroccan market in some sensitive areas such as beef, wheat, and poultry to small quantities that would not disrupt the Moroccan market and would ensure that rural incomes are preserved.

The FTA will make U.S. exporters more competitive in the Moroccan market with those from the European Union, as Morocco has begun implementing an Association Agreement that provides preferential tariff treatment for most EU industrial products and some agriculture exports to Morocco. When the U.S.-Morocco FTA enters into force, U.S. service providers will gain greater access to the Moroccan market.

A. Bilateral Economic Setting

1. Population and the Economy

Morocco’s population in 2002 was 29.2 million (or 10.1 percent of that of the United States). With a land area slightly larger than California, Morocco’s gross domestic product (GDP) was $37.3 billion in 2002, approximately 0.4 percent the U.S. GDP of $10.4 trillion. Morocco’s economy is comparable in size to that of Maine, which had a gross state product of $37.4 billion in 2001. Morocco’s gross national income (GNI) per capita in 2002 was $1,190, approximately 3.4 percent of U.S. per capita GNI of $35,060.

2. Labor Force

a. U.S. Labor Force

In 2003, the civilian U.S. labor force totaled 147 million workers (slightly above its level of 145 million in 2002); nearly 47 percent (68 million) of the labor force was female.[4] The service-producing industries are the major source of employment in the United States. In 2003, service-producing industries accounted for 78 percent of total U.S. employment of 138 million; within this group, services, including professional and business, education and health, public administration, and other services, accounted for 49 percent of total U.S. employment and wholesale and retail trade accounted for 15 percent. Other major sectors of employment include manufacturing, which accounted for 12 percent of total U.S. employment, mining and construction, which accounted for about 8 percent, and agriculture, which accounted for about 2 percent. On an occupational basis, approximately 35 percent of all the employed persons were in either managerial professions (15 percent of total employment) or professional and related occupations (20 percent of total employment); other major occupational categories of U.S. employment were sales and office occupations (26 percent of total employment) and service occupations (16 percent of total employment). On the industrial basis used for cross-country analysis,[5] U.S. employment in 2002 was distributed across industrial sectors as follows: 2.5 percent in the agricultural sector, 20.8 percent in industry, and 76.7 percent in the service sector.

The unemployment rate in the United States was 6.0 percent for 2003, a slight increase from 5.8 percent in 2002. The majority of the unemployed in 2003 were persons displaced from jobs and those who had completed temporary jobs (55 percent). Reentrants to the labor force made up 28 percent of the unemployed in 2003, new entrants represented 7 percent, and job leavers accounted for 9 percent. From an industry standpoint, the unemployment rate rose moderately during 2003 in mining, construction, transportation, utilities, and services; while it edged down in manufacturing, wholesale and retail trade, and information services.[6]

Educational attainment has had a favorable influence on finding and keeping a job in the United States. In 2003, 10 percent of the employed workers 25 years or older had less than a secondary degree, 30 percent had finished secondary schooling but had no college, 27 percent had some tertiary schooling, and 33 percent had a college degree. Of those unemployed in 2003, 18 percent had not completed secondary school, 34 percent had

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[4] The labor force consists of employed and unemployed persons in the civilian non-institutional population age 16 and older. See *Employment and Earnings* 51:1(January 2004).

[5] *Agriculture* includes agriculture, forestry, hunting and fishing; *Industry* includes manufacturing, mining, and construction; and *Services* includes transportation, communication, public utilities, trade, finance, public administration, private household services, and miscellaneous services. See *Comparative civilian labor force statistics*, *ten countries: 1959 - 2002*, U.S. Bureau of Labor Statistics, February 11, 2004; available at: http://stats.bls.gov/fls/home.htm.

[6] See *Employment and* Earnings 51:1(January 2004).

completed secondary schooling with no college, 27 percent had attended some college (including those receiving an associate degree), and 20 percent had a college degree.[7]

Labor productivity rose 4.5 percent in the business sector in 2003, a small decrease from the gain of 4.9 percent in 2002. Overall, labor productivity in manufacturing increased 5.1 percent in 2003, with labor productivity increasing 7.7 percent in durable goods and 1.9 percent in nondurable goods.[8]

On average, U.S. workers worked 39 hours per week during 2003; the average full-time worker put in 42.9 hours per week. Persons working in agriculture reported 43.5 hours of work per week.

b. Morocco's Labor Force

In 2002, Morocco's civilian labor force consisted of approximately 10.4 million workers; females made up about 25 percent (2.6 million) of the labor force. Employment stood at 9.2 million in 2002, with nearly 90.0 percent working in the private sector.[9] Persons 15 to 34 years of age accounted for slightly over one-half (51.3 percent) of those employed.

The major sectors of employment in Morocco in 2002 were: agriculture, forestry, and fishing (43.1 percent); industry, including artisan trades (13.4 percent); and wholesale and retail trade (12.9 percent).[10] The top occupational employment groups in 2002 were: workmen, farm and fishery workers, including skilled agricultural workers (29.8 percent); craftsmen and skilled workers of the artisan trades, not including skilled agricultural workers (17.7 percent); and non-agricultural operators, warehouse workers and workers in small trades (14.0 percent).[11] On the industrial basis used for cross-country analysis,[12] Morocco's employment was distributed across industrial sectors as follows: 42 percent in services, 13 percent in industry, and 44 percent in agriculture.

The rate of unemployment in Morocco was 11.6 percent in 2002.[13] The unemployment

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[7] See *Employment and* Earnings 51:1(January 2004).

[8] *Productivity and Costs, First Quarter 2004*, preliminary, U.S. Bureau of Labor Statistics, May 2004.

[9] Data were not available for 2003 when this review was prepared. The 2002 figures are from the Moroccan 2002 National Survey of Employment. Data are from a sample of 48,000 households, including 16,000 households from rural areas. While information is collected from persons under the age of 15 years, in this report we restrict our discussion to the population age 15 years old and older, since 15 is the legal working age in Morocco. The Moroccan survey does not report unemployment for persons age 14 years or less. Unless noted otherwise, the Moroccan labor force refers to persons age 15 years and older that are employed or actively looking for work. Government of Morocco, *Activité, Emploi et Chômage - 2002 Premier résultats*, Direction de la Statistique, Rabat, 2002, p. 12, 29.

[10] Ibid. p. 29.

[11] Ibid, p. 28.

[12] Services include: wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services--corresponding to divisions 6–9 (ISIC revision 2). Industry includes: manufacturing, mining and quarrying (including oil production), manufacturing, construction, electricity, gas, and water--corresponding to divisions 2–5 (ISIC revision 2). Agriculture includes: hunting, forestry, and fishing--corresponding to division 1 (ISIC revision 2).

[13] Government of Morocco, *Activité, Emploi et Chômage - 2002*, p.21.

rate for women was 12.5 percent. By age group, the unemployment rate was 17.6 percent for those 15 to 24 years of age, 17.7 percent for those 25 to 34 years of age, 6.3 percent for those 35 to 44 years of age, and 2.1 percent for those 45 years and over. The unemployed formerly employed in manufacturing accounted for 14.0 percent of all unemployed, wholesale, and retail trade and repair for 8.8 percent, construction for 7.8 percent, agriculture for 5.9 percent, and education, health, and social and personal services for 4.5 percent; another 52.0 percent was accounted for by those seeking their first job.

The relationship between the level of educational attainment and holding a job in Morocco is unclear. The adult illiteracy rate in 2002 in Morocco was 49.3 percent.[14] In 2002, 41.5 percent of the employed had no schooling.[15] Of those who were employed and had some schooling: 38.5 percent had some, or had completed, the primary level (first and second cycles of basic education); 9.0 percent had some, or had completed, the secondary level; 6.0 percent had some, or had completed, a higher level of education; and 5.0 percent had completed some unspecified level of education. For those who were unemployed in 2002, 8.0 percent had no schooling. Of the unemployed that had some schooling, 51.7 percent had some, or had completed, the primary level; 20.0 percent had some, or had completed, the secondary level; 19.0 percent had some, or had completed, a higher level of education; and 1.2 percent had completed some unspecified level of education. Over half of the unemployed (52.0 percent) were seeking their first job and were likely to be persons who had just completed school or training (40 percent of the unemployed) or just reached the legal working age of 15 years (11 percent of the unemployed).

3. *International Trade in Goods*

a. Global and Bilateral Trade in Goods

U.S. trade in goods represented 17 percent of its GDP in 2002. U.S. goods trade with the world amounted to $1.8 trillion ($629.6 billion in exports and $1,154.8 billion in imports) in 2002. Based on available statistics from the World Trade Organization (WTO), the United States was the world's number one merchandise exporter and number one merchandise importer in 2002, or the number two merchandise exporter and number one merchandise importer if intra-European Union trade is excluded.[16]

Morocco's trade in goods represented 52.3 percent of its GDP in 2002. During 2002, Morocco's goods trade with the world amounted to $19.5 billion ($7.9 billion exports and $11.6 billion imports). Based on available statistics from the WTO, Morocco was the world's 50th largest merchandise exporter and the world's 40th largest merchandise

[14] The World Bank, *World Development Indicators 2003,* [online database] 2003 [cited October 3, 2003]; available at: <http://devdata.worldbank.org/data-query/>.
[15] Government of Morocco, *Activité, Emploi et Chômage - 2002*, pp. 27, 36.
[16] Trade rankings, which are based on a general trade definition, are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2003* (Geneva: World Trade Organization, 2003), Tables I.5 and I.6, p. 21-22.

importer in 2002 (excluding all intra-EU trade).[17] Morocco's imports consisted primarily of machinery and transport equipment, textiles, fuel, and chemicals, while its exports consisted primarily of chemicals and clothing. Morocco is the world's leading exporter of phosphates (27 percent of the global market in 2001); export of this product is controlled by a state monopoly run by the Moroccan Phosphates Board.[18]

U.S. bilateral goods trade with Morocco represents a small share of total U.S. merchandise trade with the world, accounting for 0.1 percent ($560 million) of overall U.S. merchandise exports to the world and 0.04 percent ($410 million) of overall U.S. merchandise imports from the world in 2002. Morocco ranked as the 65th largest U.S. goods export market and the 75th largest source for U.S. goods imports in 2002. In contrast, the United States was Morocco's sixth largest export partner (France was first) and seventh largest import supplier (France was first) in 2001 (the latest year that was available), accounting for 3.9 percent of Morocco's merchandise exports and 3.7 percent of Morocco's merchandise imports. Between 1998 and 2002, U.S. merchandise exports to Morocco increased by 2.1 percent, while U.S. merchandise imports from Morocco increased by 16.3 percent.

b. U.S. Merchandise Exports to Morocco

U.S. goods exports to Morocco amounted to $560 million in 2002. On a 5-digit export-based North American Industry Classification System (NAICS) industry basis, over half (53 percent) was accounted for by aerospace products. The remaining top 10 5-digit NAICS industries, which accounted for an additional 26 percent of total U.S. exports to Morocco, covered a variety of products, including: agricultural products such as corn, soybeans, starch and vegetable oils, and wheat; and manufactured goods such as special classification provisions,[19] used merchandise, construction machinery, petroleum refinery products, and resin and synthetic rubbers (see Table II.1).

c. U.S. Merchandise Imports from Morocco

U.S. goods imports from Morocco amounted to $410 million in 2002. Almost nine-tenths (88 percent) were accounted for by the top 10 five-digit import-based NAICS industries, covering a variety of manufactured goods such as semiconductors, women's apparel, men's apparel, iron and steel; food and agricultural products such as fruits and vegetables, seafood, citrus fruits except oranges; and several natural resource- based products such as nonmetallic minerals and fertilizers (see Table II.2).

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[17] Trade rankings, which are based on a general trade definition, are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2003* (Geneva: World Trade Organization, 2003), Table I.6, p. 22.

[18] World Trade Organization, *Trade Policy Review: Kingdom of Morocco* (Geneva: World Trade Organization, 2003), Chapter 1.

[19] Primarily exports of low-value shipments, articles imported for repairs, returned goods, and articles donated to charity.

The only five-digit NAICS industry not in the top 10 in which Moroccan imports accounted for more than one percent of total U.S. imports 2002 was flour and malt--NAICS 31121 ($7 million; 2 percent of total U.S. imports of that item).

4. International Trade in Services

The United States was the world's number one commercial services exporter ($272.6 billion) and number one commercial services importer ($205.6 billion) in 2002, based on data from the WTO.[20] By comparison, Morocco's exports of commercial services to the world amounted to $4.1 billion and its imports of commercial services from the world totaled $1.9 billion in 2002.[21]

The U.S. does not publish statistics on bilateral services trade with Morocco.

Morocco has traditionally run a surplus in the transfers and services account; the transfers are primarily due to revenue from Moroccans working abroad. Earnings from services were equal to over 40 percent of exports of goods and were due primarily to travel operations.[22]

5. Foreign Direct Investment (FDI)

U.S. foreign direct investment (FDI) in Morocco (on a stock basis) was $55 million in 2001, the most recent year for which data were available, and represented an increase of 53 percent over the prior year. Data on foreign direct investment by Moroccans in the United States are not available.

FDI in Morocco was $3 billion in 2001, following an upward trend affected significantly by the privatization or restructuring of State enterprises. Over 80 percent of FDI was in the telecommunications industry, with another five percent in industry. France accounted for almost 85 percent of this FDI with the U.S. accounting for only about two percent.[23]

B. Current Barriers to Bilateral Trade

1. Trade in Goods

Morocco's (simple arithmetic) average applied most-favored-nation/normal trade

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[20] Trade rankings, which are based on a balance of payments definition, are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2003*, Table I.7 (Geneva: World Trade Organization, 2003), p. 23.

[21] See *International Trade Statistics 2003*, Tables A6 and A7 (Geneva: World Trade Organization, 2003), p. 180 and p. 183.

[22] World Trade Organization, *Trade Policy Review: Kingdom of Morocco* (Geneva: World Trade Organization, 2003), chapter 1.

[23] World Trade Organization, *Trade Policy Review: Kingdom of Morocco* (Geneva: World Trade Organization, 2003), chapter 1.

relations (MFN/NTR) tariff rate was 33.4 percent in 2002,[24] with an average rate of 30.1 percent for non-agricultural products (HS 25-97) and 53.2 percent for agricultural products (HS 01-24). Less than one percent of the tariff line items are MFN/NTR duty-free, approximately 20 percent have duty rates between 0 and 10 percent, 20 percent have duty rates between 10 and 30 percent, 58 percent have duty rates between 30 and 50 percent, and 2 percent have duty rates above 50 percent. The highest duty rates, often above 100 percent, apply to meat and live animals. Over one third of Morocco's applied duty rates exceed the rates Morocco will be required to have by 2004 under the World Trade Organization's rules. There are tariff-rate quotas on a number of agricultural products, including meat, milk, wheat, barley, maize, rice, soybeans, sugar, sunflower seeds, and cottonseeds; in practice, these tariff quotas are not applied.[25]

Out of a total of $410 million in U.S. imports from Morocco in 2002, $249 million (61 percent) entered MFN/NTR duty-free. Of the remaining $160 million that was potentially subject to duty, $21 million (5 percent) entered duty free under the Generalized System of Preferences (GSP),[26] and insignificant amounts entered duty free under the Harmonized Tariff System (HTS) 9802 program or other special provisions,[27] and $138 million (34 percent) was assessed duties at an average *ad valorem* rate of 10.5 percent. The majority ($75 million or 54 percent) of the dutiable imports were subject to an *ad valorem* duty rate greater than 10 percent, $24 million were assessed duties at rates between 5 and 10 percent, $9 million between 2 and 5 percent, $23 million between 1 and 2 percent, and $8 million at less than one percent. Total estimated annual tariff revenue collected by the United States on imports from Morocco was $14.6 million, which was less than 0.1 percent of total U.S. tariff revenues in 2002.[28]

On a sectoral basis, the only appreciable amounts of U.S. imports from Morocco that were subject to *ad valorem* tariffs of greater than 10 percent were apparel items. Tariff line items (8-digit HTS) of apparel product imports with value greater than one million dollars and calculated duty rates of greater than 10 percent were: women's or girls' man-made fiber panties ($1.8 million with a duty rate of 15.8 percent); men's or boy's cotton T-shirts ($1.0 million with a duty rate of 17.4 percent); men's or boys' wool suits ($1.3 million with a duty rate of 18.5 percent); men's or boys' cotton trousers ($13.1 million with a duty rate of 16.8 percent); women's or girls' wool trousers ($2.9 million with a duty rate of 14.3 percent); women's or girls' cotton trousers ($14.3 million with a duty

[24] Tariff treatment now known in the United States as "normal trade relations" (NTR) treatment was formerly known as "most-favored-nation" (MFN) treatment and other countries continue to use the term MFN.

[25] World Trade Organization, *Trade Policy Review: Kingdom of Morocco* (Geneva: World Trade Organization, 2003), chapter 3.

[26] The U.S. Generalized System of Preferences (GSP) program, set forth in title V of the Trade Act of 1974, as amended, provides duty-free treatment on eligible articles from designated beneficiary developing countries that meet certain specified conditions.

[27] Chapter 98 of the Harmonized Tariff Schedules (HTS) of the United States contains provisions related to foreign processing of U.S. materials; duties are assessed only on the foreign value added and not on the U.S. content value. Chapter 99 of the HTS contains special or temporary duty exemptions.

[28] Tabulated from official U.S. Department of Commerce trade statistics, using calculated duties reported.

rate of 16.8 percent); women's or girls' wool and synthetic fiber trousers ($4.9 million with a duty rate of 14.3 percent); embroidery brassieres ($2.9 million with a duty rate of 17.1 percent); and non-silk brassieres ($4.7 million with a duty rate of 17.1 percent).

The United States also imported a number of food items from Morocco which faced significant tariffs that included: $2.0 million of sardines in airtight containers with a duty rate of 20.0 percent, which represented 69 percent of total U.S. imports of this tariff- line item; and $17.8 million of olives under several tariff line items that had tariffs ranging from 5.3 percent to 8.7 percent.

2. Trade in Services

U.S. service firms are now effectively barred from competing in large segments of Morocco's service economy.[29] The government has either stipulated outright bans on foreign participation in the domestic market or included onerous ownership requirements and/or business operation practices.

The U.S. services and investment regimes are generally open,[30] with some exceptions. In the maritime sector, cabotage laws reserve domestic routes to U.S. operators and government support for U.S.-flag vessels. The United States restricts foreign ownership and control of U.S. air transport carriers, and the provision of domestic air service is restricted to U.S. carriers. The United States also restricts foreign investment in telecommunications, radio broadcast, atomic energy, and energy pipelines. Insurance is subject to regulation at the state level, as are professional services. Finally, under the Exon-Florio Amendment to the Defense Production Act, the President has the authority to suspend or prohibit foreign mergers, acquisitions, and takeovers, where there is credible information of a threat to national security.

C. Major Elements of the FTA

The FTA consists of a Preamble, 22 chapters and associated annexes, letters, and joint statements. The chapters are: Initial Provisions and Definitions; National Treatment and Market Access for Goods; Agriculture and Sanitary and Phytosanitary Measures; Textiles and Apparel; Rules of Origin; Customs Administration; Technical Barriers to Trade; Safeguards; Government Procurement; Investment; Cross-Border Trade in Services; Financial Services; Telecommunications; Electronic Commerce; Intellectual Property Rights; Labor; Environment; Transparency; Administration of the Agreement; Dispute Settlement; Exceptions; and Final Provisions. There are four annexes which include the non-conforming measures in services and investment, non-conforming measures for financial services, and the goods schedule. Among the other associated documents are a Letter on Certain Labor and Environmental Provisions and a Letter on Treatment of

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[29] See *Foreign Trade Barriers: Morocco* (Office of the U.S. Trade Representative, 2004), pp. 337-339.

[30] See *WTO Trade Policy Review: United States, September 2001* at http://www.wto.org/english/tratop_e/tpr_e/tp172_e.htm, and *Statement on Foreign Direct Investment Policy* (U.S. Department of Treasury, December 26, 1991).

Foreign Workers. The complete text of the FTA and summary fact sheets are available on USTR's web site.[31]

Following is a summary of the FTA provisions that are most relevant to this employment impact review.

- *Preamble*

Although it does not create specific obligations, the Preamble frames the FTA's obligations and sets out the broad aims and objectives of the Agreement. In the Preamble, the Parties resolve to raise the standard of living and improve the general welfare; promote economic growth and stability and create new employment opportunities in their territories; strengthen the development and enforcement of labor laws and policies; and promote basic workers' rights.

- *National Treatment and Market Access for Goods (Chapter 2)*

The FTA market access provisions set out the schedules for the elimination of tariffs on goods originating in the two countries. (For more details, see section III.C.2.c of this review.)

- *Textiles and Apparel (Chapter 4)*

This chapter includes a schedule that eliminates duties on originating textiles and apparel goods within a 10-year period. (See section III.C.2.c of this review for more details.) The chapter also provides for strict rules of origin for originating textile and apparel items (a so-called "yarn-forward" rule) and extensive monitoring and anti-circumvention commitments to verify a claim of origin. Preferential tariff treatment for some non-originating fabric and apparel goods that are assembled in Morocco is given during the first 10 years of the Agreement. Special treatment is also given to cotton that originated from a least-developed beneficiary sub-Saharan African country. (See section III.C.2.a of this review for more details.) This chapter also includes safeguard provisions for textiles and apparel. (See section III.C.2.b.iii of this review for more details.) The FTA does not modify the use of duty drawback for textiles and apparel.

- *Rules of Origin (Chapter 5) and Customs Administration (Chapter 6)*

The FTA provides strong but simple rules of origin to ensure that only originating products from the Parties receive preferential treatment. The FTA requires transparency and efficiency in customs administration, with commitments on publishing laws and regulations on the Internet, and ensuring procedural certainty and fairness. The Parties agree to share information to combat illegal transshipment of goods.

- *Technical Barriers to Trade (Chapter 7)*

[31] See http://www.ustr.gov.

The FTA includes an enhanced cooperation program to exchange information on subjects covered by the WTO Agreement on Technical Barriers to Trade (WTO TBT Agreement), which addresses technical regulations, standards, and conformity assessment procedures. The FTA does not contain any additional obligations beyond those contained in the WTO TBT Agreement.

- *Safeguards (Chapter 8)*

The Safeguards Chapter allows a Party to restore the MFN/NTR duty if a product is being imported in such increased quantities so as to be a substantial cause of serious injury, or threat thereof, to a domestic producer of a like or directly competitive product. (See section III.C.2.b.i of this review for more details.)

- *Government Procurement (Chapter 9)*

The FTA includes disciplines on the purchases by most Moroccan central government agencies, as well as the vast majority of Moroccan regional and municipal governments. Moroccan procurement officers will not be able to discriminate against U.S. firms, or in favor of Moroccan firms, when making covered government purchases in excess of agreed monetary thresholds. U.S. and Moroccan suppliers will have increased certainty due to transparent disciplines on procurement procedures as well as timely and effective bid review procedures. Also, each Party must maintain criminal and other penalties for bribery in government procurement.

- *Investment (Chapter 10)*

The Investment Chapter supplants the existing Bilateral Investment Treaty that entered into force in 1991. The chapter includes provisions obligating each Party to treat investors of the other Party and their investments no less favorably than its own investors and their investments in like circumstances (national treatment) and no less favorably than the investors of other countries and their investments in like circumstances (most-favored-nation treatment). Likewise, the chapter contains disciplines on imposing specified "performance requirements" on investors of the other Party as a condition of the investment, with appropriate exceptions for non-discriminatory health, safety, and environmental requirements. Investors' rights are backed by an effective, impartial procedure for dispute settlement that is fully transparent.

- *Cross-Border Trade in Services (Chapter 11)*

The FTA's core commitments regarding services are modeled on obligations and concepts in the WTO General Agreement on Trade in Services (GATS), the North American Free Trade Agreement (NAFTA), and other FTAs to which the United States is a party. These include provisions for national treatment and most-favored-nation treatment for services suppliers in like circumstances and obligations concerning transparency in regulatory processes. Services supplied in the exercise of governmental authority (i.e., any service that is supplied neither on a commercial basis nor in competition with one or more services suppliers) are excluded from coverage.

Morocco will accord, subject to very few exceptions, substantial market access across its entire services regime. As a result, U.S. service suppliers will have improved market access opportunities in Morocco. The FTA provides benefits for businesses wishing to supply services cross-border (for instance, by electronic means) as well as businesses wishing to establish a local presence in the other country. Key services sectors covered by the FTA include audiovisual, express delivery, telecommunications, computer and related services, distribution, and construction and engineering.

- *Labor (Chapter 16)*

See Part IV of this review.

- *Environment (Chapter 17)*

The Environment Chapter incorporates Trade Act guidance through a number of core obligations concerning effective enforcement of environmental laws that provide for high levels of environmental protection, which do not weaken environmental laws to encourage trade or attract investment. The FTA also includes articles on environmental cooperation, procedural guarantees (e.g., commitments by each Party to provide remedies for violations of its environmental laws and to provide appropriate public access to environmental enforcement proceedings), and consultative procedures for implementing the provisions of the chapter. Consistent with Trade Act guidance, the effective enforcement provision is enforceable through the FTA's State-to-State dispute settlement provisions.

- *Transparency (Chapter 18)*

The Transparency Chapter requires both Parties to publicize their laws, regulations, procedures, and administrative rulings of general applicability respecting matters covered by the FTA to permit interested persons to become acquainted with them. Also, to the extent possible, such proposed measures shall be published in advance to provide interested persons a reasonable opportunity to comment on them.

- *Administration of the Agreement (Chapter 19)*

The FTA establishes a Joint Committee composed of government officials of each Party to review the general functioning of the FTA and consider specific matters related to its operation and implementation. A side letter to the Agreement establishes a Subcommittee on Labor Affairs to meet at such times as appropriate to discuss matters related to the operation of the Labor Chapter.

- *Dispute Settlement (Chapter 20)*

The FTA sets out detailed provisions providing for speedy and impartial resolution of government-to-government disputes over the implementation of the Agreement. Consistent with Trade Act guidance, the FTA's core obligation to effectively enforce labor laws (as well as an analogous obligation in the FTA's environmental provisions) is subject to the dispute settlement provisions. A side letter to the Agreement provides that in dispute settlement cases related to Chapter 16 (Labor), panelists, other than those chosen by lot, should have experience or expertise related to the subject matter under dispute. As with the Chile, Singapore, and subsequent free trade agreements negotiated by the United States, the enforcement mechanism includes monetary penalties as a way to enforce commercial, labor, and environmental obligations of the FTA. Special provisions give guidance on factors panels should take into account in considering the amount of monetary assessments in environmental and labor disputes, and provide for assessments to be paid into a fund to be expended for appropriate environmental and labor initiatives. The Party making the dispute may withdraw trade benefits to collect the assessment, if the other Party fails to pay the assessment. The dispute settlement provisions also set high standards for openness and transparency, including provisions for open public hearings, public release of legal submissions, and rights for interested third parties to submit views.

III. Potential Economic and Employment Effects of the FTA

This review focuses on the potential employment and labor market impacts of the U.S.-Morocco FTA on the United States. It is based on both qualitative and quantitative assessments of the likely economic effects of removing barriers to trade between the Parties, given the current structure and volume of U.S.-Moroccan trade. The U.S. Department of Labor also commissioned two studies that used different methodologies and assumptions (see Appendix) regarding the possible outcomes of the negotiations to quantify and assess the impact of the FTA on the U.S. economy and industrial employment in the United States. These assumptions do not reflect the actual outcome of the negotiations, but attempt to predict the greatest potential impacts that an FTA could have given the current structure and volume of bilateral trade.

One study (Global Insight) employed a macro forecasting modeling of the FTA that used a stylized representation of the FTA and assumed all tariffs on bilateral trade between the Parties would be removed either immediately or over a 10-year period. In fact, Morocco retains base rates subject to an increasing preferential access at lower duties (a tariff-rate quota) on imports of wheat and certain types of beef from the United States under the FTA and Morocco and the United States also have longer tariff phase-out periods for other agricultural products; so this modeling effort represents an upper bound of the potential effects on U.S. employment from liberalization of trade with Morocco. In a similar vein, the other study (Brown, Kiyota, and Stern (BKS)) used a computable general equilibrium modeling approach that can be viewed as a simulation experiment that uses a stylized or hypothetical representation of the FTA that involves eliminating all tariffs and other trade barriers between the Parties. Again, this model predicts an upper boundary on the potential U.S. employment effects from liberalization of trade between the Parties.[32] Sections II.C and III.C.2 of this review discuss the contents of the final version of the negotiated FTA.

A. Aggregate Economic Effects

This section of the report first presents the aggregate economic effects, then the sectoral employment effects, and finally the potential labor market effects on the United States. The Global Insight study found that the macroeconomic effects of the FTA on the U.S. economy would be positive but small. Their study found that U.S. exports, imports, and employment would all rise slightly as the result of the FTA. The major conclusions of the Global Insight study concerning the aggregate economic effects of the FTA on the U.S. economy are discussed below and summarized in Table III.1:

- If tariffs on goods were eliminated immediately (the “immediate” scenario), real U.S. exports to Morocco--nearly 80 percent of which would be agricultural

[32] See Thomas Hertel, David Hummels, Maros Ivanic, and Roman Keeney, “How Confident Can We Be in CGE-based Assessments of Free Trade Agreements?” NBER Working Paper 10477 (Cambridge, MA: National Bureau of Economic Research, May 2004), p. 16; available at: http://www.nber.org/papers/w10477.

products--(measured in 1997 dollars) would rise by $142 million in 2004 (30.9 percent above the predicted baseline for U.S. exports to Morocco in 2004 and 0.0009 percent above the predicted baseline for total U.S. exports) and by $174 million in 2013 (30.9 percent above the baseline for U.S. exports to Morocco in 2013 and 0.0124 percent above the baseline for total U.S. exports). If the tariff cuts were phased in over ten years (the phase-in scenario), the incremental rise in real exports would be more gradual (starting at $7 million above the baseline in 2004), reaching the same magnitude above the baseline as under the immediate scenario by 2013 ($173 million).

- Under the immediate scenario, real U.S. imports from Morocco--nearly 80 percent of which would be textile and apparel goods--(measured in 1997 dollars) would rise an additional $26 million in 2004 (8.64 percent above the baseline) and $38 million by 2013 (10.10 percent above the baseline). Under the phase-in scenario, real imports from Morocco would increase more gradually (starting at $2 million above the baseline in 2004), reaching nearly the same level as under the immediate scenario by 2013 ($38 million). Real U.S. imports from all countries (total imports) would rise an additional $2 million in 2004 (0.0002 percent above the baseline) and $3 million by 2013 (0.0001 percent above the baseline) under the immediate scenario. Total imports would increase less rapidly as they approach 2013 because some of the increase in U.S. imports from Morocco would come at the expense of increased U.S. imports from other countries. Under the phase-in scenario, total imports would increase more gradually (starting at less than $1 million above the baseline in 2004), reaching $3 million above the baseline by 2013, the same amount above the baseline under the immediate scenario in that year. The impact of the FTA on U.S. imports includes the direct effects (due to tariff elimination). The expenditure-induced effects (i.e., the multiplier effects of higher U.S. exports on GDP, employment, and income), resulting from the induced impact on U.S. imports from Morocco, alone, was found to be insignificant, largely because U.S. imports from Morocco are such a small share of total U.S. imports.

- The total impact on U.S. employment of trade liberalization under the two tariff removal scenarios includes the direct and indirect effects. The direct effect on employment tends to be permanent (about the same amount above or below the baseline each year), while the indirect effect tends to increase initially and then disappear as markets adjust and capacity constraints are reached (see Figure III.1). Since the direct effects are linked only to sectors that are directly affected by the removal of tariffs (i.e., goods-producing sectors such as agriculture, mining, and manufacturing), there will be no direct effects on employment in construction and service-producing sectors; for these, the total effect includes only indirect effects.

- Under the immediate scenario, U.S. employment would rise by an additional 3,394 jobs in 2004 (0.0030 percent above the baseline), peaking at 5,882 additional jobs in 2005 (0.0051 percent above the baseline), and then taper off to 682 additional jobs in 2013 (0.0005 percent above the baseline) as the indirect effects of the FTA begin to dampen and resource constraints begin to set in. Under the phase-in scenario, the number of additional jobs (above the forecasted baseline employment) would increase slowly but steadily from 210 in 2004 to 1,787 in 2013. The annual gains in U.S. employment that result from the FTA would be greater during the early years of the FTA under the immediate tariff removal scenario than under the phase-in scenario, but they would diminish by year 10 of the FTA as the annual gains under the phase-in scenario rise above those realized under the immediate scenario. Thus, the total number of jobs gained over the 10-year horizon will be slightly greater under the immediate scenario than under the phase-in scenario.

- The relatively small size of the value of Morocco's trade with the United States, from a U.S. perspective, makes the macroeconomic impacts on real U.S. GDP too small to measure at the level of analysis conducted by Global Insight.

Overall, the Global Insight study of the economy-wide effects of the FTA suggests that the total effect of the FTA on the U.S. economy under either tariff removal scenario would be negligible. If all tariffs were removed immediately, the positive small changes in U.S. employment would peak in the second year of the Agreement and then begin tapering off; if tariff removal were phased in over 10 years, the positive effects on U.S. employment would be small initially, but then would start rising, and approach the annual incremental level above the baseline by the tenth year that would have been reached after just five years under the immediate tariff removal scenario.

Like the Global Insight study, the BKS study found that the macroeconomic effects for the United States of the FTA would be positive but small. Their study found that U.S. exports, imports, and output would all rise slightly as the result removing all bilateral barriers to trade in goods and services under the FTA. The major conclusions of their study concerning the aggregate economic effects of the FTA on the U.S. economy are:

- There would be small percentage changes in U.S. total exports (an increase of $529 million, mostly in agricultural products; food, beverages, and tobacco; and services) and imports (an increase of $577 million, mostly in services).

- There would be little change in U.S. sectoral outputs.

- The FTA would boost global welfare by $7.45 billion, with U.S. welfare increasing by $5.97 billion (0.05 percent of U.S. GNP) and Morocco's welfare increasing by $0.89 billion (2.02 percent of Morocco's GNP); the rest of the world would experience a negligible welfare effect. However, the BKS study of the FTA assumes that all services trade barriers are removed in the United States, which is not the case, so the welfare effects may be somewhat overstated. Welfare measures how aggregate consumption possibilities may change in a country (i.e., whether a country's population as a whole is worse or better off than before), but it does not indicate how these gains will be distributed across segments of the society.

- The estimated changes in the real returns to both labor and capital (the factors of production in their model) as the result of the FTA would increase in both countries (by less than 0.01 percent for labor and less than 0.01 percent for capital in the United States that would be negligible with virtually no effect on labor or capital and by 1.06 percent for labor and 1.06 percent for capital in Morocco).

The BKS study does not yield aggregate employment effects. The CGE methodology used in their study estimates the changes in sectoral U.S. employment due to changes in production or output arising from the FTA under the assumption that there is no change in *total* U.S. employment (i.e., aggregate employment does not change, but is redistributed across economic sectors as the result of realizing new efficiencies arising from removing trade barriers between the United States and Morocco). Put another way, the BKS study shows the way U.S. sectoral employment might look today if the United States had fully adjusted to a FTA with Morocco.

B. Sectoral Employment Effects

The results of the Global Insight study show that the relative contributions of the direct and indirect effects to the total effect of the FTA on U.S. employment are small and vary across sectors.[33] For example, under the immediate tariff removal scenario, the average annual U.S. employment gain over 2004-2013 would be an annual increase of 2,061 jobs a year above the baseline, of which 3.6 percent would be due to more permanent direct effects and 96.4 percent due to indirect effects. Since the two Global Insight FTA impact scenarios involved only the removal of tariffs (but not the removal of quotas on goods or barriers to trade in services), the direct effects of the FTA account for most of the total effects on employment in the agricultural, mining, and manufacturing sectors--the goods-producing portion of the U.S. economy that is directly exposed to removal of tariffs on imported items they produce domestically. In contrast, the total effect of the FTA on U.S. employment in industries in the construction and the service-producing sectors comes solely from the indirect effects as a result of changes in construction decisions and purchases of services by directly affected mines, manufacturers, or farms (see Table III.2 and Figure III.2).

Since the total effect on U.S. employment under Global Insight's phase-in scenario is small and only starts to reach incremental levels above the baseline in the tenth year (when all remaining tariffs are removed) that were comparable to those reached under the immediate tariff removal scenario in the second year, the discussion here of the sectoral impacts on employment will concentrate on the results under Global Insight's immediate tariff removal scenario (see Figure III.1). Under the immediate scenario, even on a broad sectoral basis, the average annual employment effects of the FTA (measured as average annual percentage above the sector baseline employment) are small but positive: manufacturing (0.001 percent or 87 additional workers a year); construction (0.002

[33] The sector definitions used in the Global Insight study are based on the North American Industry Classification System (NAICS). See Office of Management and Budget, Executive Office of the President, *North American Industry Classification System, United States, 2002* (Lanham, MD: Bernan, 2002).

percent or 130 additional workers a year); service-producing (0.002 percent or 1,832 additional workers a year); agriculture (0.001 percent or 12 additional workers a year); and mining (less than 0.001 percent or one additional worker a year). Within the manufacturing sector, all industries, except apparel, show annual increases above baseline employment. Within the service-producing sector, all industries show annual increases above baseline employment.

In the BKS study, which assumes that all bilateral trade barriers (i.e., agricultural barriers, quotas on goods, tariffs on manufactures, and barriers to trade in services) between the United States and Morocco are removed at one time, the sectoral U.S. employment effects of the FTA are also relatively small.[34]

The BKS study found that the type of trade barrier (agricultural barriers, tariffs on manufactures, or barriers to trade in services) removed on U.S. trade with Morocco would affect sectoral U.S. employment in different ways. The tariff equivalents used in the BKS model for services barriers are generally much higher (while those for agricultural protections are generally only slightly higher) than the tariff rates applied on goods because successive rounds of multilateral trade negotiations have lowered tariffs on goods. Hence, it would be expected that the model will generate much stronger effects as the result of removing barriers to trade in services. Their results show that removal of agricultural trade barriers would increase U.S. employment in the agriculture sector, balanced by employment losses in the mining, construction, manufacturing, and service-producing sectors. Removal of tariffs on manufactured goods would increase U.S. employment in the agriculture and manufacturing sectors that would be offset by employment declines in the mining, construction, and service-producing sectors. Removal of services trade barriers would result in employment increases in the agriculture, mining, and manufacturing sectors that would be balanced by employment declines in the construction and service-producing sectors (see Table III.3).

The BKS study also found that removal of all trade barriers (agricultural barriers, tariffs on manufactures, and service barriers) at one time under the FTA would result in increases in total sectoral U.S. employment in agriculture that would be offset by declines in total sectoral U.S. employment in the mining, construction, manufacturing, and service-producing sectors. However, the size of the change in total employment in each sector would be small: an increase of 0.03 percent (or 1,314 more workers) in agriculture; declines of 0.01 percent (or 44 fewer workers) in mining; declines of 0.01 percent (or 270 fewer workers) in manufacturing; declines of 0.01 percent (or 943 fewer workers) in service-providing industries; and declines of 0.01 percent (or 270 fewer workers) in construction--implying that sectoral employment adjustment to a new equilibrium under the FTA, which the authors suggest might take two to three years at a minimum to reach, would be negligible.

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[34] The sector definitions used in the BKS study are based on aggregations of categories of the United Nations International Standard Industrial Classification System that were used in the GTAP database. See "Methods and Classifications" section of the United Nations Statistics Division's website at http://unstats.un.org/unsd/cr/registry/default.asp for a description of the United Nations International Standard Industrial Classification System (ISIC).

C. Potential U.S. Labor Market Effects

1. Industry, Occupation, and Wage

The degree to which U.S. workers may face new employment opportunities or job dislocations due to the FTA depends, only in part, on the magnitude and significance of the change in industry employment resulting from the FTA. The predicted impact of the U.S.-Morocco FTA on U.S. employment in all sectors is small in relation to the ordinary turnover of workers. For example, during the month of January 2004, the overall hire rate in private industries was 3.5 percent of total private employment (or 3.8 million workers) and the overall separation rate was 3.4 percent (or 3.7 million workers).[35] Equally large rates of hires and separations exist at specific industry levels.[36] Since the Global Insight and BKS studies found that the largest change in employment in any industry due to the FTA would be considerably smaller than one-tenth of one percent, it is reasonable to expect that the employment change at the industry level will be undetectable and indistinguishable from normal labor market turnover.

2. Features in the FTA to Ease the Adjustment Process

While the FTA is expected to have little effect on U.S. employment, it contains rules that help assure only imports from Morocco will benefit from the FTA and mechanisms to help ease the adjustment process to bilateral free trade with Morocco. These include strict rules of origin, rules to protect against transshipment of goods (e.g., a third country using Morocco as an export platform to the United States), mechanisms to address injurious increases in imports from Morocco, and the gradual phase-out of U.S. tariffs on goods originating from Morocco.

a. Rules of Origin and Anti-Circumvention Provisions

The FTA contains strict rules of origin, including requirements that specify that items must undergo substantial transformation within the United States or Morocco to be eligible for benefits under the FTA. Operationally, this means a change in HTS classification--either a change from one subheading (6-digit HTS) to another within or outside the group, a new heading (4-digit HTS), or a new chapter (2-digit HTS), and, for some items, meeting a specific regional content rule of 35-55 percent of the value of the item, depending on the method of valuation used.

Textile and apparel goods produced or assembled by a Party in many cases must meet a yarn forward rule (i.e., be produced from yarns or fabrics that originated in either Party or

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[35] The hire rate is the number of persons hired during the month divided by employment. Likewise, the separation rate is the total number of separations during the month divided by employment. Total separations include voluntary, involuntary, and other separations (e.g. retirement). U.S. Department of Labor, Bureau of Labor Statistics, *Job Openings and Labor Turnover: February 2004*, News release, USDL 04-645, Washington, DC, April 15, 2004.
[36] Ibid.

be cut or knit to shape and sewn in the Party) in order to be considered as originating from a Party and eligible for preferential treatment under the FTA.

The FTA contains a *de minimis* provision for textile and apparel goods that do not meet the requirements of the Agreement to be considered as originating from one of the Parties. Generally, if the value of materials used in the production of a good does not undergo the required change in HTS classification and does not exceed 7 percent of the adjusted value of the good, and the good otherwise meets all other applicable criteria, it qualifies as an originating good.

The FTA contains provisions that commit each importing Party, through its competent authorities, to request that the exporting Party conduct a verification for the importing country to determine if the claim of rules of origin is correct with regard to the rules of origin and rules related to circumvention and its prevention. Circumvention means providing false declaration or information for the purpose or effect of violating or avoiding existing customs, country of origin labeling, or trade laws of the respective Parties. Examples of circumvention include illegal transshipment and false declarations concerning country of origin and product content or description.

Preferential tariff treatment for some non-originating fabric and apparel goods that are assembled in Morocco is given during the first 10 years of the Agreement. The combined annual quantities are limited to 30 million square meters equivalents for the first four years. That amount is then reduced each year in equal increments until it reaches zero beginning in year 11 of the FTA. Special treatment is also given to cotton that originated from a least-developed beneficiary sub-Saharan African country (Benin, Burkina Faso, Chad, or Mali). The quantity of goods under this provision is limited to approximately one million kilograms of cotton per year.

b. Safeguards

The U.S.-Morocco FTA contains three separate safeguard mechanisms—a general bilateral safeguard, an agriculture safeguard, and a special textile bilateral safeguard—that should provide additional means of helping industries adjust to increased imports resulting from the FTA:

i. General bilateral safeguard

If as a result of the reduction or elimination of a customs duty under the FTA, an originating good of the other Party is being imported into the territory of a Party in such quantities so as to be a substantial cause of serious injury, or threat thereof, to a domestic producer of a like or directly competitive product, the Safeguards Chapter of the FTA (Chapter 8) allows a Party to: suspend the further reduction of any rate of customs duty on a good provided for under the FTA for that good; increase the customs rate of duty on a good to a level not to exceed the lesser of the MFN/NTR applied rate of duty on the good in effect on the day at the time the action is taken and the MFN/NTR applied rate of duty on the good in effect on the day immediately preceding the date of entry into force of the FTA; or, in the case of a customs duty applied to a good on a seasonal basis, increase the rate of duty to a level not to exceed the lesser of the MFN/NTR applied rate of duty that was in effect on the good for the immediately preceding corresponding season and the applied MFN/NTR rate of duty that was in effect on the good on the day immediately preceding the date of entry into force of the FTA.

A safeguard action may generally be taken for a period of up to three years. An action may be extended for two years, if such extension is necessary to prevent or remedy serious injury and there is evidence that the industry is adjusting. No safeguard action may be maintained beyond five years after the Party taking the action must eliminate the duty on that good, except with the consent of the other Party. The Party taking a safeguard action must provide compensation or be subject to withdrawal of substantially equivalent concessions by the other Party. The Parties' WTO rights are reserved.

ii. Bilateral agricultural safeguards

Agricultural safeguard measures (Article 3.5 of the FTA) may also be taken during the tariff elimination period for agricultural goods subject to each Party's tariff snap-back mechanism. The total duty collected on an originating good under an agricultural safeguard measure must not exceed the lesser of the prevailing MFN/NTR applied rate of duty, or the MFN/NTR applied rate of duty in effect on the day immediately preceding the date of entry into force of the FTA. Neither Party may, with respect to the same agricultural good, at the same time, impose or maintain an agricultural safeguard measure under this Article and a safeguard measure under Chapter 8 of the FTA, or a measure under Article XIX of GATT 1994 and the WTO Safeguards Agreement. Further, neither Party may impose an agricultural safeguard measure after the tariff elimination period or once the good achieves duty free status under the FTA or that increases an in-quota duty on an agricultural good subject to a tariff-rate quota.

Under the U.S. price-based agricultural safeguard mechanism, if the unit import price of the good is more than 10 percent below the trigger price for that item, as specified in Annex 3-A of the FTA, a percentage (based on the spread between the unit import price and the trigger price) of the MFN duty rate may be assessed as an additional duty.[37]

Under the Moroccan quantity-based agricultural safeguard mechanism, during any calendar year if the volume of imports of chicken and turkey whole birds or chicken leg quarters and wings originating from the United States exceeds the quantities specified in Annex 3-A of the FTA, a percentage of the difference between the MFN rate and the preferential FTA rate of duty may be assessed as an additional duty.

iii. Special textile bilateral safeguard

[37] This safeguard provision applies to: dried onions and onion powder or flour; dried garlic and garlic powder or flour; preserved or prepared tomatoes, tomato pastes, sauces, and puree; preserved or prepared asparagus, canned olives in saline solution, pears, apricots, nectarines, peaches, and certain pear, peach, or orange and grapefruit fruit mixtures; and orange juice.

If as a result of the reduction or elimination of a customs duty under the FTA, an originating textile or apparel good of the other Party is being imported into the territory of a Party in such quantities (in absolute terms or relative to the domestic market for that good) so as to be a substantial cause of serious damage, or threat thereof, to a domestic producer of a like or directly competitive product, Article 4.2 of the FTA (Special Textile Safeguard Measures) allows a Party to: increase the rate of customs duty on the good to a level not to exceed the lesser of MFN applied rate of duty on the good in effect on the day at the time the action is taken and the MFN applied rate of duty on the good in effect on the date of entry into force of the FTA.

A special textile bilateral safeguard action may not be in place for longer than three years, but may be extended by up to two years if the competent authorities determine the safeguard measure continues to be necessary. However, no safeguard can be taken or maintained beyond the period ending ten years after the duty has been eliminated under the FTA. Neither Party may impose a safeguard measure more than once on the same good. Upon termination of the emergency action, the rate of customs duty will be the rate that would have been in effect but for the emergency action. The Party taking the action must provide compensation or be subject to withdrawal of substantially equivalent concessions by the other Party. Each Party retains its rights and obligations under the WTO Agreement on Textiles and Clothing and for global safeguard actions under Article XIX of GATT 1994 and the WTO Agreement on Safeguards.

c. Gradual Phase-in of the FTA

About two-thirds of all U.S. imports from Morocco already enter the United States MFN/NTR duty-free or duty-free under the U.S. GSP program. Table III.4 summarizes the tariff removal phase-in schedule for U.S. import tariffs on non-agricultural goods originating from Morocco as well as the phase-in schedule for removal of Morocco's tariffs on these goods originating from the United States under the FTA. Most of the value of two-way non-agricultural and non-textile trade (92-99 percent) will become duty-free on entry into force of the FTA, with most of the balance becoming duty-free by year nine of the FTA, leaving only a small number of most-sensitive items on the Moroccan side (primarily used goods) becoming duty-free by year 10 of the FTA. (See Table III.4-A) Tariffs on originating non-agricultural textile goods will be phased out reciprocally by the Parties over a ten-year period, with the bulk of the value of textile trade (about 99 percent) becoming duty-free in year six of the FTA. (See Table III.4-B)

The FTA covers all agricultural products. The FTA will provide increased access to U.S. exporters of wheat, corn, soybeans, and other agricultural products and open Morocco's previously-closed market to U.S. exports of beef and poultry. The FTA provides for an extended tariff phase-out period for especially sensitive agricultural products (such as beef, dairy products, sugar, peanuts, cotton, tomato products, dried onion and garlic, canned black olives, prepared asparagus, citrus juices, and canned fruit).

Tables III.5 and III.6, respectively, present a summary of the indicative product content of each tariff removal phase-in category (tariff staging category) for U.S. tariffs on goods originating from Morocco and Morocco's tariffs on goods originating from the United States.

The United States will eliminate most of its tariffs on industrial goods and consumer products that originate from Morocco upon entry into force of the FTA. Other import-sensitive items such as agricultural products, textiles and apparel, footwear, glassware, ceramic tiles, and table china have a longer tariff phase-out period to allow for adjustment. The longest phase-out periods (15 and 18 years) are provided for especially sensitive agricultural products with additional provisions for tariff-rate quotas during the implementation period and a tariff snap-back safeguard mechanism for some of these items.

With respect to opportunities for U.S. exports to Morocco, most of Morocco's tariffs on U.S. industrial goods and consumer products will be eliminated upon the entry into force of the FTA. Civil aircraft are currently subject to import duties in Morocco as Morocco is not a signatory of the plurilateral WTO Aircraft Agreement that provides for duty-free entry of civil aircraft. However, the FTA will provide U.S. exporters duty-free access to the Moroccan civil aircraft market. Similarly, while Morocco has not yet signed the WTO Information Technology Agreement, which grants signatories duty-free entry of these products, the FTA will open new opportunities for U.S. exporters of these items. The longest phase-out periods (18 and 25 years) for Morocco's tariffs are reserved for some especially sensitive agricultural products (such as poultry, high quality beef, and dried lentils). Morocco's duties on wheat and standard quality beef imported from the United States will not be phased-out and will remain subject to stringent quotas.

The FTA offers new access to the Moroccan market for U.S. banks, insurance companies, telecommunication companies, audiovisual services, computer and related services, express delivery companies, distribution services, and construction and engineering services.

The FTA provides for anti-corruption measures in government contracting that will help guarantee a fair and transparent process to sell goods and services to a wide range of Moroccan government entities.

IV. The Labor Chapter in the FTA, Including the Labor Cooperation Mechanism

A. Overview

The Labor Chapter of the FTA—Chapter 16—fully meets the relevant provisions of the Trade Act of 2002 (Trade Act). The FTA promotes internationally recognized core labor standards, obligates the Parties to effectively enforce their labor laws, and makes the effective enforcement of a Party's labor laws subject to the Dispute Settlement Chapter of the Agreement.

The labor chapter of the U.S.-Morocco FTA closely tracks the labor chapters of the U.S.-Singapore and U.S.-Chile FTAs, while providing for changes due to the particular circumstances of Morocco labor law and practice. The Morocco labor chapter includes additional language detailing requirements of procedural guarantees and topics specified for consideration under the labor cooperation mechanism tailored to particular needs in Morocco. In support of the process, the U.S. Department of Labor has funded technical assistance projects on child labor and industrial relations totaling $8 million. Furthermore, during the course of negotiations, the two governments discussed the rights and protections that each provides under its labor laws to persons who are not its nationals. In a side letter to the FTA, the U.S. government provides a description of its principal labor laws clarifying that the United States provides non-nationals who are legally present and legally employed in the United States rights and protections that are no less than the rights and protections it provides U.S. nationals.

B. Labor and the Trade Act

The Trade Act sets out a number of provisions with respect to labor rights and standards that must be included in an agreement for it to be considered under the special Trade Act procedures.

As overall negotiating objectives, the United States is to:

- foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy;

- seek the promotion of worker rights and the rights of children consistent with the ILO's core labor standards and an understanding of the relationship between trade and worker rights;

- seek provisions in trade agreements by which the parties strive to ensure not to weaken or reduce the protections afforded in domestic labor law as an encouragement for trade; and

- promote universal ratification and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor*.

As principal negotiating objectives with respect to labor, the United States is to:

- ensure that the parties to a trade agreement do not fail to effectively enforce their labor laws through a sustained or recurring course of action or inaction in a manner affecting trade between the parties;

- recognize that the parties to a trade agreement retain discretionary authority in the enforcement of their labor laws;

- strengthen the capacity of U.S. trading partners to promote respect for core labor standards; and

- ensure that labor, health or safety practices of parties to trade agreements do not arbitrarily discriminate against U.S. exports or serve as disguised barriers to trade.

As a principal negotiating objective with respect to dispute settlement and enforcement, the United States is to seek provisions to treat principal negotiating objectives equally with respect to:

- the ability to resort to dispute settlement procedures;

- the availability of equivalent dispute settlement procedures; and

- the availability of equivalent remedies.

As a negotiating objective with respect to the worst forms of child labor, the United States is to seek commitments by parties to trade agreements to vigorously enforce their laws against the worst forms of child labor.

In the promotion of certain priorities, the United States is to:

- seek greater cooperation between the ILO and the WTO;

- seek to establish consultative mechanisms with the parties to trade agreements to strengthen their ability to promote respect for core labor standards and compliance with ILO Convention 182, and report to the Senate Finance Committee and House Ways and Means Committee on the content and operation of such mechanisms; and

- review the impact of future trade agreements on employment in the United States and report to the Senate Finance Committee and the House Ways and Means Committee.

In pursuing these objectives and priorities, the President is to:

- direct the Secretary of Labor to consult with any country seeking a trade agreement with the United States concerning that country's labor laws and provide technical assistance to that country if needed;
- submit to the Senate Finance Committee and the House Ways and Means Committee a meaningful report on labor rights in any country with which the United States plans to implement a trade agreement; and
- submit to the Congress a report describing the extent to which any country with which the United States plans to implement a trade agreement has laws governing exploitative child labor.

The Trade Act defines core labor standards as: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of any form of forced or compulsory labor; (4) a minimum age for the employment of children; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

C. Summary of FTA Chapter 16: Labor

Chapter 16 of the U.S.-Morocco FTA consists of seven Articles and an Annex as follows:

- In Article 16.1, the Parties reaffirm their obligations as members of the ILO and their commitments under the ILO *Declaration on Fundamental Principles and Rights at Work and Its Follow-up.*[38] The Parties agree that they shall strive to ensure that such labor principles and the internationally recognized labor rights defined in Article 16.7 are recognized and protected by domestic law.
- Under Article 16.2, the Parties agree that they shall not fail to effectively enforce their labor laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties. The labor laws included under this provision are defined as those related to the internationally recognized labor rights listed in Article 16.7 below. This section represents the primary obligation of the Parties under the Agreement and violation of this obligation is subject to dispute settlement procedures that apply to the other chapters of the FTA. The provision

[38] The Declaration, enacted by the ILO in 1998, commits all member countries to "… promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation."

recognizes the Parties' authority to exercise discretion regarding investigatory, prosecutorial, regulatory, and compliance matters.[39]

Under this article, the Parties further recognize that it is inappropriate to encourage trade or investment by weakening or reducing the protections afforded in domestic labor laws and agree that each Party shall strive to ensure that it does not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such laws in a manner that weakens or reduces adherence to internationally recognized labor rights, as an encouragement for trade with the other Party, or as an encouragement for the establishment, acquisition, expansion, or retention of an investment in its territory.

- Article 16.3 provides for procedural guarantees and public awareness in which the Parties agree to ensure that interested and affected persons have access to impartial and independent judicial and non-judicial tribunals for the enforcement of the Parties' labor laws and may seek enforcement of their rights. The Parties further agree to ensure that proceedings are fair, equitable, and transparent and to promote public awareness of their labor laws.

  The Parties agree that such proceedings shall comply with due process of law, be open to the public, except where the administration of justice otherwise requires, and not entail unwarranted delays. They also agree to provide that final decisions in proceedings are to be in writing, are made available to the parties to the proceedings and the public, and are based on evidence on which the parties were able to hear; and that the parties to such proceedings may seek remedies to ensure the enforcement of their labor rights.

- Article 16.4 establishes the institutional arrangements for overseeing the Agreement. It provides for the designation by each Party of a point of contact within its labor ministry for the purposes of implementing the chapter. The points of contact are to provide for the receipt and consideration of submissions by the public on matters related to the provisions of the chapter. A side letter to the Agreement provides for the establishment of a Subcommittee on Labor Affairs to meet as necessary to discuss issues related to the implementation of the chapter.

- Article 16.5 establishes a labor cooperation mechanism between the Parties to promote respect for the principles embodied in the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour*. Annex 16-A of the chapter

[39] In a side letter to the FTA, the U.S. government provides further explanation that the provision requiring enforcement of domestic labor laws is subject to each Party's right to exercise discretion with respect to investigatory, prosecutorial, regulatory, and compliance matters. In the letter, the U.S. government also provides further explanation of the dispute settlement procedures and potential imposition of an annual monetary assessment for failure to comply.

establishes the framework for the cooperation mechanism and lists a range of activities in which the Parties agree to cooperate.

- Article 16.6 establishes a mechanism for consultations between the Parties to resolve any matter that may arise under the chapter. If a Party believes that the other Party is not in compliance with its effective enforcement obligation in Article 16.2, the Party may either seek consultations under the Labor Chapter or may invoke the consultations provisions of the Dispute Settlement Chapter.

- Article 16.7 sets forth the list of internationally recognized labor covered by the chapter: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of any form of forced or compulsory labor; (4) labor protections for children and young people, including a minimum age for the employment of children and the prohibition and elimination of the worst forms of child labor; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

Under the dispute settlement procedures, if a dispute settlement panel finds that a Party has not conformed to its obligations to effectively enforce its labor laws and the Parties are unable to agree on a resolution or the complaining Party considers that the defending Party has failed to implement the agreed solution, the complaining Party may request that the panel be reconvened to determine the amount of an annual monetary assessment to be imposed on the defending Party. The assessment would be paid into a fund for appropriate labor initiatives, including efforts to improve or enhance labor law enforcement. If the losing Party fails to pay the assessment, the other Party would be entitled to suspend tariff benefits under the FTA sufficient to collect the assessment, while bearing in mind the Agreement's objective of eliminating barriers to bilateral trade and while seeking to avoid unduly affecting parties or interests not party to the dispute.

D. Labor Cooperation

1. The Labor Cooperation Mechanism

The Trade Act includes among its principal U.S. trade negotiating objectives the aim "to strengthen the capacity of United States trading partners to promote respect for core labor standards." Additionally, the Trade Act includes within the trade negotiating objectives the promotion of certain priorities by the President, including to "seek to establish consultative mechanisms among parties to trade agreements to strengthen the capacity of United States trading partners to promote respect for core labor standards . . . and to promote compliance with ILO Convention No. 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour* . . . [and to] direct the Secretary of Labor to consult with any country seeking a trade agreement with the United States concerning that country's labor laws and provide technical assistance to that country if needed."

The FTA includes provisions that fully meet these objectives. The Parties recognize that cooperation provides enhanced opportunities to further advance common commitments, including the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour*. To assist in further implementing these commitments, the FTA includes a Labor Cooperation Mechanism (LCM), which establishes a framework for the two labor ministries to work together to promote respect for core labor standards and compliance with ILO Convention No. 182, and to improve systems of administration and enforcement of labor laws, among other things. The contact point provided for in Article 16.4 of the Labor Chapter will also serve as a contact point for the LCM.

The Parties' labor ministries and other appropriate agencies are to carry out the work of the LCM. The Parties shall work jointly to: (1) establish priorities for cooperative activities; (2) develop specific cooperative activities in accord with such priorities; (3) exchange information regarding labor law and practice in each Party; (4) exchange information on ways to improve labor law and practice, including best labor practices; (5) advance understanding of, respect for, and effective implementation of the principles reflected in the ILO *Declaration on Fundamental Principles and Rights at Work and Its Follow-up*; (6) promote full compliance with ILO Convention 182; (7) seek support from international organizations and agencies, in advancement of common commitments; and (8) develop recommendations of actions to be taken by each Party for consideration by the Joint Committee.

The LCM may undertake cooperative activities on any labor issue it considers appropriate, such as on: (1) fundamental labor rights and their effective application; (2) the worst forms of child labor; (3) labor relations; (4) working conditions; (5) unemployment assistance programs and other social safety net programs; (6) human resource development and life-long learning; and (7) labor statistics.

Cooperative activities under the LCM may be carried out through any form the Parties deem appropriate, including by: (1) exchanging government delegations, professionals, and specialists, including through study visits; (2) sharing information, standards, regulations, procedures, and best practices, including through the exchange of pertinent publications and monographs; (3) organizing joint conferences, seminars, workshops, meetings, training sessions, and outreach and education programs; (4) developing collaborative projects or demonstrations; (5) undertaking joint research projects, studies and reports, including by engaging independent experts with relevant expertise; (6) drawing on the expertise of academic and other institutions in their territories in developing and implementing cooperative programs and by encouraging relationships between such institutions on technical labor issues; and (7) engaging in technical exchanges and cooperation.

In identifying areas for cooperation and carrying out cooperative activities under the LCM, the Parties shall consider views of their respective worker and employer representatives.

2. *U.S.-Morocco Labor Cooperation*

The United States and Morocco have agreed to cooperate to assist Morocco in meeting its labor obligations under the FTA. The two labor ministries have agreed to five priority areas of assistance: enterprise restructuring; combating exploitive child labor; collective labor-management relations; training, enforcement, and compliance efforts; and workforce development. In developing and implementing technical assistance programs, the two governments will consider the capacity for Moroccan agencies to absorb additional outside resources, their ability to institutionalize the assistance efforts to assure long-term compliance, and their ability to secure supplemental resources.

In support of these efforts and the commitment on the part of the Government of Morocco to combat exploitive child labor, the U.S. Department of Labor (DOL) funded two child labor projects in Morocco in 2003. DOL provided $3 million toward a project to combat exploitive child labor through education, principally focused on promoting awareness of and educating child domestics. DOL also funded a $2 million project through the International Labor Organization's International Program on the Elimination of Child Labor (IPEC) focused on combating exploitative child labor in rural areas.

In the area of labor-management relations, DOL funded a $1.5 million ILO project in Morocco in 2001 to strengthen industrial relations practices. The project's objectives include training for workers and employers in current labor law, training for labor administration officials in bargaining techniques and dispute resolution, strengthening of labor ministry inspection strategy and policy, strengthening the capacity and skills of labor inspectors, and developing management training tools for senior labor administration staff. In 2003, DOL funded an additional $1.45 million project to strengthen the capacity of the Moroccan Labor Ministry. The project, which is intended to complement the 2001 project, has as its objectives to increase the knowledge of workers and employers of national labor laws, strengthen the labor inspection system, create new and strengthen existing dispute resolution mechanisms, and pilot test an effective model to transition workers impacted by economic restructuring.

Appendix

The following summarizes the different methodologies used in the two contract studies of the impact of the FTA that are discussed in Chapter III of this review.

In one study, the macroeconomic forecasting firm, Global Insight used their integrated set of proprietary econometric models. The models are based on estimated historical statistical and behavioral relationships among key measures of the U.S. economy to assess the U.S. employment impact of the proposed FTA. Their analysis assumed that all tariff barriers between the Parties to the FTA are removed, but it did not take into account any liberalization of import quotas on goods or trade in services between the Parties. Global Insight examined two forecast scenarios: (1) Immediate—the immediate removal of all tariff barriers between the Parties on January 1, 2004, and (2) Phase in—the gradual removal of these barriers over the 10-year period 2004-2013. Their analysis provided annual forecasts of the economic impact of the FTA, as measured by the difference between the forecast under each tariff removal scenario and the baseline forecast (no change in tariffs). For each scenario, the time paths of the short-term effects of the Agreement on U.S. output, international trade, and employment were calculated. In addition, changes from baseline U.S. employment due to the implementation of the FTA under each scenario were calculated over the period 2004-2013 by detailed U.S. industry to show how industrial employment might adjust over time to the FTA.

The Global Insight analysis estimated the direct and indirect effects of the tariff removal under the FTA. The direct effect captures the effect of bilateral tariff elimination or reduction on U.S. imports and U.S. exports; it was estimated using Global Insight's World Trade Model (which contains 70 countries or aggregate regions and 77 commodity categories) with no or lower tariffs on trade between the Parties. Expenditure-induced effects, which gauge the multiplier impact of the FTA on the U.S. economy and any corresponding higher demand for imports from Morocco and the rest of the world, were (found to be less than one million dollars in increases in U.S. imports from Morocco and too small to measure at the level of analysis conducted) not estimated since the volume of U.S. trade with Morocco is so small. The indirect effect measures the effect of an increase in the exports from one industry on the output of another industry; it was estimated using their Industry Model (input-output based with 128 U.S. industries) with results from their World Trade and U.S. Macro Models. The total effect of the FTA on each variable is equal to the sum of the direct and indirect effects.[40]

In the other study, Professors Drusilla Brown of Tufts University, Kozo Kiyota of Yokohama National University and the University of Michigan, and Robert Stern of the University of Michigan (BKS) used their version of the Michigan Model of World Production and Trade, which is a multi-country computable general equilibrium (CGE)

[40] Global Insight prepared a methodology paper for the U.S. Department of Labor that describes more fully the individual models and linkages used in their assessment of the U.S. employment impact of the FTA; the paper is available upon request from the U.S. Department of Labor.

model,[41] to evaluate the economic effects (including sectoral employment changes) of the proposed FTA.

The version of the Michigan Model used in the BKS study is a CGE model of world production and trade that contains 18 economic sectors in each of 22 countries or world regions.[42] The model incorporates some aspects of increasing returns to scale, monopolistic competition, and product variety. The data for the model are based on Version 5.4 of the Purdue University Center for Global Trade Analysis Project (GTAP) database for 1997, together with some data derived from other sources, which were updated and recalibrated to the year 2005 (the year in which the Uruguay Round of tariff liberalizations will be fully implemented). The model is static in the sense that it is based on a single set of equilibrium conditions rather than relationships that vary over time. Therefore, the model's time horizon depends on the assumptions made about which variables adjust, or do not adjust, to changing market conditions and the short- or long-term nature of these adjustments. The model assumes the aggregate, economy-wide level of employment is held constant in each country. This assumption was made because overall employment is determined by macroeconomic factors and policies that are not contained in the model. The model focuses on changes in the composition of employment across industrial sectors as determined by the microeconomic interactions of supply and demand resulting from trade liberalization. In this model, employment will expand in some sectors and decrease in others, with no change in aggregate employment. No assumptions are made about growth in productivity or the rate of economic growth. (In contrast, the baseline forecast used in the Global Insight study builds in these types of assumptions.) Also, the Michigan Model, like the set of Global Insight models, makes no assumptions about changes in foreign direct investment.

The BKS study assumes that all trade barriers between the Parties are removed at the same time and are not phased out over time. The study simulates the effects of the removal of agricultural barriers, manufactures tariffs, and service barriers by both Parties. Non-tariff measures are estimated with tariff equivalents of the barrier. The services barriers are based on financial data on average gross (price-cost) margins, measured relative to the world's economy with the lowest margin in a sector. BKS note that the tariff equivalents used to approximate services barriers are considerably higher than the tariff barriers on merchandise imports and may be subject to overstatement.

[41] Multi-country computable general equilibrium (CGE) models are based on microeconomic foundations and simulate the workings and inter-relationships of all producing, consuming, and investing, savings, and trading sectors of an economy. CGE models are used to analyze the effects of trade liberalizations on the composition of output, employment, trade and wages across economic sectors and factors of production. CGE models generally assume full employment (or that the aggregate level of employment does not change) and focus on the change in industrial composition of employment resulting from trade liberalization.

[42] For further information about the model, see http://www.Fordschool.umich.edu/rsie/model.

Tables and Figures

Table II.1: Top 10 NAICS-based U.S. Exports to Morocco in 2002

U.S. Export Industry	NAICS Code	Value of U.S. Exports to Morocco ($mil.)	Percent of	
			Total U.S. Industry Exports	All U.S. Exports to Morocco
Total U.S. Exports to Morocco	--	560	0.1	100.0
Of which, the 10 leading NAICS-based were:				
Aerospace products and parts	33641	297	0.6	53.0
Corn	11115	39	0.8	7.0
Soybeans	11111	35	0.6	6.2
Starches, vegetable fats and oils	31122	26	0.6	4.6
Wheat	11114	11	0.3	1.9
Special classification provisions	99000	9	0.0	1.6
Used or second-hand merchandise	92000	8	0.5	1.4
Construction machinery	33312	7	0.1	1.2
Petroleum refinery products	32411	7	0.1	1.2
Resin and synthetic rubbers	32521	5	0.0	1.0

Note: The value of U.S. exports is the free alongside ship (FAS) value of domestic U.S. exports at the U.S. port of export.
Source: U.S. Department of Labor tabulations of official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table II.2: Top 10 NAICS-based U.S. Imports from Morocco in 2002

U.S. Import Industry	NAICS Code	Value of U.S. Imports from Morocco ($mil.)	Percent of	
			Total U.S. Industry Imports	All U.S. Imports from Morocco
Total U.S. Imports from Morocco	--	410	0.0	100.0
Of which, the 10 leading NAICS-based were:				
Semiconductors and electronic components	33441	117	0.2	28.6
Other nonmetallic minerals	21239	85	5.8	20.8
Women's and girls' apparel	31523	55	0.2	13.4
Fruits and vegetables	31142	23	1.0	5.7
Men's and boys' apparel	31522	19	0.1	4.7
Seafood products	31171	18	1.4	4.4
Citrus fruits (except oranges)	11132	13	7.3	3.1
Goods returned	98000	11	0.0	2.7
Iron, steel, and ferroalloys	33111	9	0.1	2.2
Fertilizers	32531	9	0.4	2.2

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones).
Source: U.S. Department of Labor tabulations of official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table III.1: Total Effect on U.S. Real Exports, Real Imports, and Employment under the U.S.-Morocco FTA based on Global Insight's Immediate and Phase-in Tariff Removal Scenarios

Item and Scenario	Year 1 2004	Year 2 2005	Year 3 2006	Year 4 2007	Year 5 2008	Year 10 2013	Average 2004-2013
U.S. Exports to Morocco (mil. 1997 dollars):							
Immediate	142	146	149	153	156	174	158
(% from baseline)	(30.9)	(30.9)	(30.9)	(30.9)	(30.9)	(30.9)	(30.9)
10-year Phase- In	7	16	26	37	51	173	71
(% from baseline)	(1.6)	(3.4)	(5.4)	(7.6)	(10.1)	(30.8)	(13.9)
U.S. Imports from Morocco (mil. 1997 dollars):							
Immediate	26	28	29	30	32	38	32
(% from baseline)	(8.64)	(8.85)	(9.04)	(9.20)	(9.36)	(10.10)	(9.45)
10-year Phase- in	2	5	8	11	14	38	18
(% from baseline)	(0.7)	(1.5)	(2.4)	(3.3)	(4.3)	(10.1)	(5.2)
U.S. Employment (number of jobs)							
Immediate	3,394	5,882	2,354	1,506	1,060	682	2,061
(% from baseline)	(0.0030)	(0.0051)	(0.0020)	(0.0013)	(0.0009)	(0.0005)	(0.002)
10-year Phase- in	210	586	689	642	693	1,787	973
(% from baseline)	(0.0002)	(0.0005)	(0.0006)	(0.0005)	(0.0006)	(0.0014)	(0.001)

Source: Global Insight (2004).

Table III.2: Sectoral U.S. Employment Effects of the U.S.-Morocco FTA Under Global Insight's Immediate Tariff Removal Scenario

(number of employees and percent change from baseline employment)

Change in U.S. Sector Employment	**Year 1 2004**	**Year 2 2005**	**Year 3 2006**	**Year 4 2007**	**Year 5 2008**	**Year 10 2013**	**Average 2004-2013**
All Industries							
Direct	81	79	77	75	74	71	75
Indirect	3,313	5,803	2,277	1,430	986	611	1,986
Total	3,394	5,882	2,354	1,506	1,060	682	2,061
Percent change from baseline	0.0030%	0.0051%	0.0020%	0.0013%	0.0009%	0.0005%	0.002%
Agriculture							
Direct	12	12	12	12	11	11	12
Indirect	0	0	0	0	0	0	0
Total	12	12	12	12	11	11	12
Percent change from baseline	0.0005%	0.0005%	0.0005%	0.0005%	0.0005%	0.0005%	0.001%
Mining							
Direct	1	1	1	1	1	1	1
Indirect	0	1	0	0	0	0	0
Total	2	3	1	1	1	1	1
Percent change from baseline	0.0003%	0.0003%	0.0003%	0.0003%	0.0002%	0.0002%	0.000%
Construction							
Direct	0	0	0	0	0	0	0
Indirect	158	816	381	120	95	-170	130
Total	158	816	381	120	95	-170	130
Percent change from baseline	0.0023%	0.0117%	0.0053%	0.0016%	0.0013%	-0.0020%	0.002%
Manufacturing							
Direct	68	66	64	63	62	59	62
Indirect	53	55	25	23	20	9	25
Total	121	121	89	86	81	67	87
Percent change from baseline	0.0008%	0.0008%	0.0006%	0.0005%	0.0005%	0.0004%	0.001%
Service-Producing							
Direct	0	0	0	0	0	0	0
Indirect	3,102	4,931	1,871	1,286	871	772	1,832
Total	3,102	4,931	1,871	1,286	871	772	1,832
Percent change from baseline	0.0035%	0.0055%	0.0020%	0.0014%	0.0009%	0.0008%	0.002%

Note: Direct and indirect employment effects may not sum to total due to rounding.
Source: Global Insight (2004).

Table III.3: Michigan Model Estimates of the Changes in U.S. Employment Due to Removal of Trade Barriers in Agriculture, Manufacturing, and Services Under the U.S.-Morocco FTA

(number of workers affected and percent change in sector employment)

Sector	Removal of Agricultural Barriers	Removal of Manufactures Tariffs	Removal of Service Barriers	Total
Agriculture	783 (0.02%)	439 (0.01%)	92 (0.00%)	1,314 (0.03%)
Mining	-14 (0.00%)	-40 (-0.01%)	10 (0.00%)	-44 (-0.01%)
Construction	-19 (0.00%)	-7 (0.00%)	-31 (0.00%)	-57 (0.00%)
Manufacturing	-341 (0.00%)	49 (0.00%)	20 (0.00%)	-270 (0.00%)
Service-Producing	-408 (0.00%)	-443 (0.00%)	-92 (0.00%)	-943 (0.00%)

Source: Brown, Kiyota, and Stern (2004).

Table III.4: Bilateral Tariff Removal Phase-In Schedule for Non-Agricultural Goods under the U.S.-Morocco FTA

A. Non-Agricultural and Non-Textile Goods

Tariff Line Items Duty-Free Beginning of Year & Staging Category	Phase -Out of U.S. Tariffs on Moroccan Goods				Phase-Out of Morocco's Tariffs on U.S. Goods			
	Number of Tariff Lines	Percent of Tariff Lines	1999-2001 Averge Import Value ($thous.)	Percent of Import Value	Number of Tariff Lines	Percent of Tariff Lines	1999-2001 Average Import Value ($thous.)	Percent of Import Value
Immediate A; L; V	6963	98.7%	$287,665	98.5%	3766	32.6%	$348,300	91.8%
Year 2 B	--	--	--	--	1679	14.5%	$1,071	0.3%
Year 5 C	--	--	--	--	1250	10.8%	$1,148	0.3%
Year 9 F; W	89	1.3%	$4,373	1.5%	4820	42.0%	$28,749	7.6%
Year 10 H	--	--	--	--	41	0.4%	$132	0.0%
Total	7052	100.0%	$292,038	100.0%	11556	100.0%	$379,400	100.0%

Note: The value of imports is based on the 1999-2001 average value of U.S. imports from Morocco and Moroccan imports from the United States in U.S. dollars. For definitions of the staging categories, see notes to Tables III.5 and III.6.
Source: U.S. Department of Commerce, International Trade Administration.

B. Non-Agricultural Textile Goods

Tariff Line Items Duty-Free Beginning of Year & Staging Category	Phase out of U.S. Tariffs on Moroccan Goods				Phase out of Morocco's Tariffs on U.S. Goods			
	Number of Tariff Lines	Percent of Tariff Lines	1999-2001 Average Import Value ($thous.)	Percent of Import Value	Number of Tariff Lines	Percent of Tariff Lines	1999-2001 Average Import Value ($thous.)	Percent of Import Value
Immediate A	205	12.7%	$292	0.3%	NA	NA	NA	NA
Year 6 D	1340	83.3%	$83,584	98.8%	NA	NA	NA	NA
Year 9 F	62	3.9%	$179	0.2%	NA	NA	NA	NA
Year 10 H	1	0.0%	$3	0.0%	NA	NA	NA	NA
Total	1608	100.0%	$84,058	100.0%	NA	NA	NA	NA

Note: The value of imports is based on the 1999-2001 average value of U.S. imports from Morocco; comparable data by staging category were not available for the phasing out of Moroccan tariffs on imports of U.S. textile and apparel goods, but the Moroccan textile and apparel elimination is reciprocal to the U.S. textile and apparel tariff elimination. For definitions of the staging categories, see notes to Tables III.5 and III.6.
Source: U.S. Department of Commerce, International Trade Administration.

Table III.5: U.S. Tariff Staging for Imports from Morocco under the FTA

Duty Free January 1 of Year	Tariff Staging Category and Indicative Product Content
1 (immediate)	**A**: Some agricultural and textile and apparel goods and the majority of industrial items currently subject to duty, including all items currently eligible for duty-free entry under the U.S. Generalized System of Preferences program. **L**: Items now duty-free, continue duty-free. **V**: Certain chemicals; iron, steel, and stainless steel products; paper and paperboard products; and printed matter. **U**: Product samples, items for show or exhibition, and items for repair.
5	**C**: Certain poultry and dairy products and other agricultural products.
6	**D**: Textile and apparel items.
8	**E**: Some agricultural products, including fresh asparagus.
9	**F**: Some textile and apparel items and some other industrial products, including sardines in oil in airtight containers, not smoked, skinned, or boned; petroleum oils; footwear; ceramic tiles and flags; porcelain or china tableware; glassware and drinking glasses; ferromanganese, ferrosilicon, ferrochromium, and other ferroalloys; cast iron or steel fittings or butt welding fittings for pipes and tubes; iron or steel coach or self-tapping screws; ball and roller bearings and assemblies; color televisions and picture tubes; and mufflers, exhaust pipes, and bodies for motor vehicles. **W**: U.S. articles assembled abroad; rum; and ski racing apparel.
10	**G**: Some agricultural products, including certain poultry, certain vegetables and nuts, certain fruits, dried fruit and nut mixtures, fermented milk, yogurt, infant milk, chocolate milk, ice cream, dried egg yokes, and sbrinz cheese. **H**: Used or worn clothing.
11	Wine
12	**I**: Some agricultural products, including peanut oil, lactose and lactose syrup, pure fructose, chocolate with cocoa, and preserved cherries.
15	**J**: Rates on quantities in excess of FTA preferential tariff-rate quotas on: beef, creams and ice cream, cheese, milk powders, butter, other dairy products, sugar, peanuts, tobacco, cotton, preserved tomato products and tomato pastes and puree, dried onions, dried garlic, and tomato sauces.[a] Other agricultural products, including goya cheese, prepared asparagus, mixed nuts, certain citrus juices, certain rum and tafia, and tobacco refuse.
18	**K**: Some agricultural products, including canned fruit and frozen orange juice.

Notes: The base rates are column 1 rates in effect on January 10, 2003. This table assumes that year 1 is 2005. [a]Items are duty-free immediately up to an annual declining FTA preferential quantity; duty-free and quota-free on a first-come, first-served basis January 1 of year 15.

The staging categories are defined as follows:
A: Tariffs are eliminated upon entry-into-force of the FTA.
C: Five equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 5.
D: Fifty percent of the base rate beginning January 1 of year 1; six equal annual tariff reductions beginning January 1 of year 2; duty-free January 1 of year 6.
E: Eight equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 8.
F: Nine equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 9.
G: Ten equal annual reductions, beginning January 1 of year 1; duty-free January 1 of year 10.
H: Beginning January 1 of year 1, the base rate is reduced 3 percent each year until year 5; then six equal annual tariff reductions January 1 of years 5-10; duty-free January 1 of year 10.
I: Twelve equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 12.

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Table III.5—continued.

J: Fifteen equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 15.
K: Duties remain at base rates, years 1-6; then they are reduced by 5.6 percent of the base rate each January 1 of years 7-12; and then reduced by an additional 11.1 percent of the base rate each January 1 of years 13-18; duty-free January 1 of year 18.
L: Already duty-free on the date of entry-into-force of the FTA, continue duty-free.
U: HTS 9812—9814 items duty-free January 1 of year 1, without bond.
V: Duties removed immediately in accordance with WTO commitments.
W: HTS 9802.00.80; 9817.2205; and 9817.6101: rates that would apply to article in Chapters 1-97 under the FTA staging; duty-free January 1 of year 9.
Wine: Depending on the tariff line item, one of the following six staging formulas:
(i) Base rate, years 1-7; reduced by 7.7% from base rate, year 8; reduced by 35.9% from base rate, year 9; reduced by 64.1% from base rate, year 10; duty-free, January 1 of year 11.
(ii) Base rate, years 1-10; duty-free January 1 of year 11.
(iii) Base rate, years 1-7; reduced by 2.7% from base rate, year 8; reduced by 32.4% from base rate, year 9; reduced by 62.2% from base rate, year 10; duty-free January 1 of year 11.
(iv) Base rate, years 1-9; reduced by 41.7% from base rate, year 10; duty-free January 1 of year 11.
(v) Annual reductions from the base rate, beginning on the date of entry into force of the FTA of 16.3%, 24.4%, 32.6%, 40.7%, 48.8%, 57.0%, 65.1%, 73.3%, 81.4%, 89.6%; duty-free January 1 of year 11;
(vi) Base rate, years 1-9; reduced by 33.3% from base rate, year 10; duty-free January 1 of year 11.

Source: *United States-Morocco Free Trade Agreement*, Annex V.

Table III.6: Moroccan Tariff Staging for Imports from the United States under the FTA

Duty Free January 1 of Year	Tariff Staging Category and Indicative Product Content
1 (immediate)	**A**: Some agricultural and textile and apparel goods and the majority of industrial items currently subject to duty. **L**: Items now duty-free, continue duty-free.
2	**B**: Some industrial products.
5	**C:** Some industrial and agricultural products, including cherries, grapes, pears, walnuts, breakfast cereals, and frozen potatoes. **T**: High quality beef (other than HTS 0206.29.0091.aa) within tariff-rate quota with an annual increasing quantity until January 1 of year 18 when such beef will be duty-free. **X**: High quality beef (HTS 0206.29.0091.aa) within tariff-rate quota with an annual increasing quantity until January 1 of year 18 when all such beef will be duty-free.
6	**D**: Some agricultural products, including corn, corn flour, soybeans, and soybean meal; and textile and apparel items.
8	**E:** Some agricultural items, including butter, dried beans, dried raisins, dried plums, pet foods, and certain food preparations.
9	**F**: Some textile and apparel items and a wide range of industrial goods.
10	**G**: Standard quality beef within tariff-rate quota with an annual increasing quantity and some agricultural items, including vegetable oils, cheese, honey, potatoes, peas, beans, dates and figs, dried stone fruit, coffee, barley for malting, rice and rice flour, bakers mixes, toasted bread products, prepared or preserved fruits, olives, capers, potatoes corn, and other vegetables, fruit mixtures and juices, soups and food preparations, certain beer and malt, and wines. **H**: Used or worn clothing; retread rubber pneumatic tires; used non-motorized trailers for transport of goods; used special-purpose motor vehicles; used motorized mobile cranes; used motor vehicles for the transport of goods or persons; and used tractors. **N**: Durum wheat within tariff-rate quota with an annual increasing quantity. **O**: Chicken and turkey whole birds within tariff-rate quota with an annual increasing quantity until January 1 of year 19 when such products will be duty-free. Chicken leg quarters and wings within tariff-rate quota with an annual increasing quantity until January 1 of year 25 when all such products will be duty-free.
12	**I**: Certain dairy products; certain beer products.
15	**J**: Sugar and some other agricultural products, including livestock and live mammals, fresh and smoked cuts of meat and poultry, milk and cream, yogurt, egg yokes, honey, animal glands and organs, dried beans, almonds, barley not for malting, certain sausages, chewing gum, confectionery sugar, sweet biscuits, pasta, bread and pastry products, and fruit purees. **Y**: Over-quota rates on tariff-rate quotas on almonds.
18	**K**: Dried lentils. **Q**: Over-quota rates on tariff-rate quotas on high quality beef.
19	**R**: Over-quota rates on tariff-rate quotas on chicken and turkey whole birds; cuts and offal of chicken or turkey.
25	**S**: Over-quota rates on tariff-rate quotas on chicken leg quarters and wings.
Duties Remain at (or at Reduced) Base Rates	**P**: Common wheat within an annual increasing tariff-rate quota. **Z**: Over-quotas rates on tariff-rate quotas on standard quality beef, durum wheat, and common wheat.

(continued on next page)

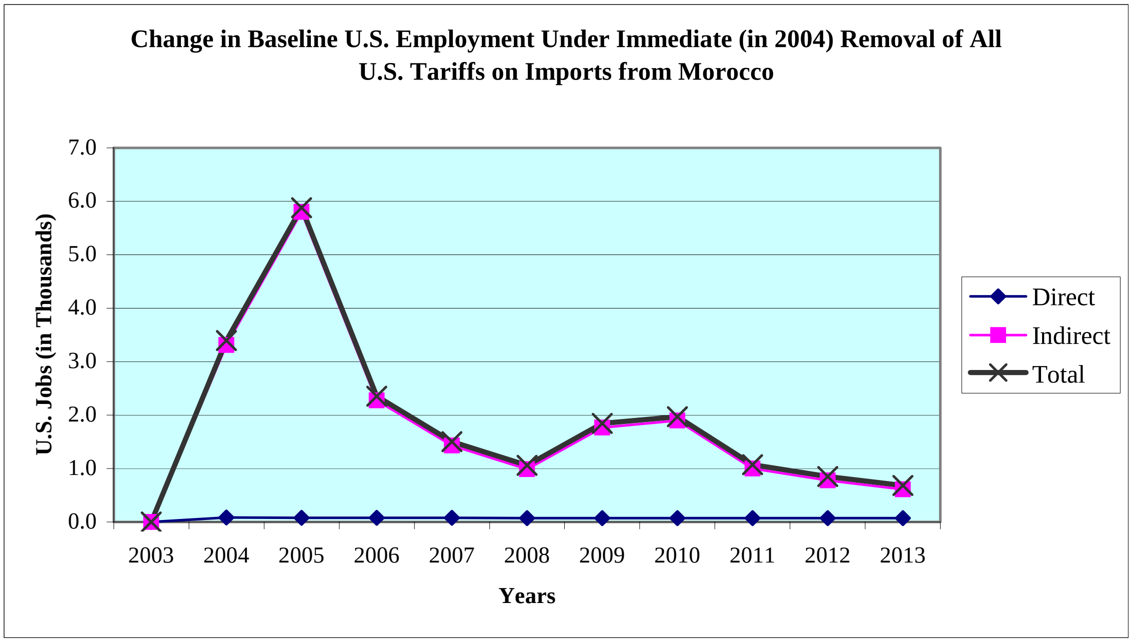
Table III.6—continued.

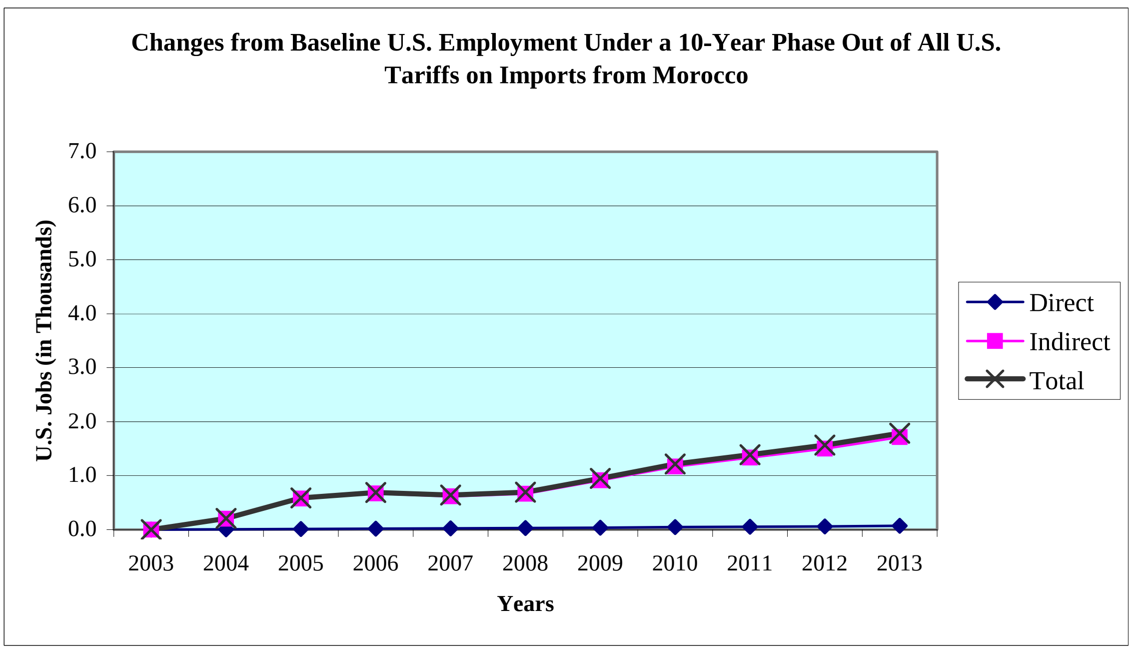
Notes: The base rates are the MFN rates in effect on January 1, 2003. This table assumes that year 1 is 2005.

The staging categories are defined as follows:
A: Tariffs are eliminated upon entry-into-force of the FTA.
B: Two equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 2.
C: Five equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 5.
D: Fifty percent of the base rate beginning January 1 of year 1; six equal annual tariff reductions beginning January 1 of year 2; duty-free January 1 of year 6.
E: Eight equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 8.
F: Nine equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 9.
G: Ten equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 10.
H: Beginning January 1 of year 1, the base rate is reduced 3 percent each year until year 5; then six equal annual tariff reductions January 1 of years 5-10; duty-free January 1 of year 10.
I: Twelve equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 12.
J: Fifteen equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 15.
K: Duties remain at base rates years 1-6; then they are reduced by 5.6 percent of the base rate each January 1 of years 7-12; and then reduced by an additional 11.1 percent of the base rate each January 1 of years 13-18; duty-free January 1 of year 18.
L: Already duty-free on the date of entry-into-force of the FTA, continue duty-free.
N: Tariffs are reduced to 75 percent of the base rate on January 1 of year 1 and continue at that rate until January 1 of year 4; thereafter, tariffs are removed in seven equal annual reductions beginning January 1 of year 4; duty-free January 1 of year 10.
O: Tariffs are reduced by 51.6 percent of the base rate on January 1 of year 1; thereafter, duties are removed in nine equal annual stages beginning January 1 of year 2; duty-free January 1 of year 10.
P: If the prevailing applied MFN rate is equal to the base rate, duties are reduced to 62 percent of the base rate. If the MFN rate is less than the base rate, duties are reduced to 62 percent of the MFN rate and reduced an additional 0.275 percent of the MFN rate for every percentage point difference between the base rate and the MFN rate. Such tariff reductions enter into force on January 1 of year 1.
Q: Eighteen equal annual tariff reductions beginning January 1 of year 1; duty-free January 1 of year 18.
R: Duties remain at base rates during years 1 through 7; then are reduced by 5.6 percent of the base rate on January 1 of year 8; reduced an additional 5.6 percent of the base rate each year thereafter through year 13; reduced by an additional 11.1 percent of the base rate annually through year 19; duty-free January 1 of year 19.
S: Duties remain at base rates years 1 through 10; duties reduced by 4.8 percent of the base rate on January 1 of year 11 and an additional 4.8 percent of the base rate on January 1 of each year thereafter through year 17; beginning on January 1 of year 18, duties reduced by an additional 8.3 percent of the base rate annually through year 25; duty-free January 1 of year 25.
T: Duties are reduced 83.64 percent on January 1 of year 1; thereafter, four equal annual tariff reductions beginning January 1 of year 2; duty-free January 1 of year 5.
X: Duties are reduced by 10 percent of the base rate on January 1 of year 1; thereafter, four equal annual tariff reductions beginning January 1 of year 2; duty-free January 1 of year 5.
Y: Duties remain at base rates years 1 through 5; duties are reduced by 6.7 percent of the base rate on January 1 of year 6 and by an additional 6.7 percent of the base rate on January1 of each year thereafter through year 9; beginning January 1 of year 10, duties reduced by an additional 13.3 percent of the base rate annually through year 15; duty-free January 1 of year 15.
Z: Items continue to receive MFN treatment.

Source: *United States-Morocco Free Trade Agreement*, Annex V.

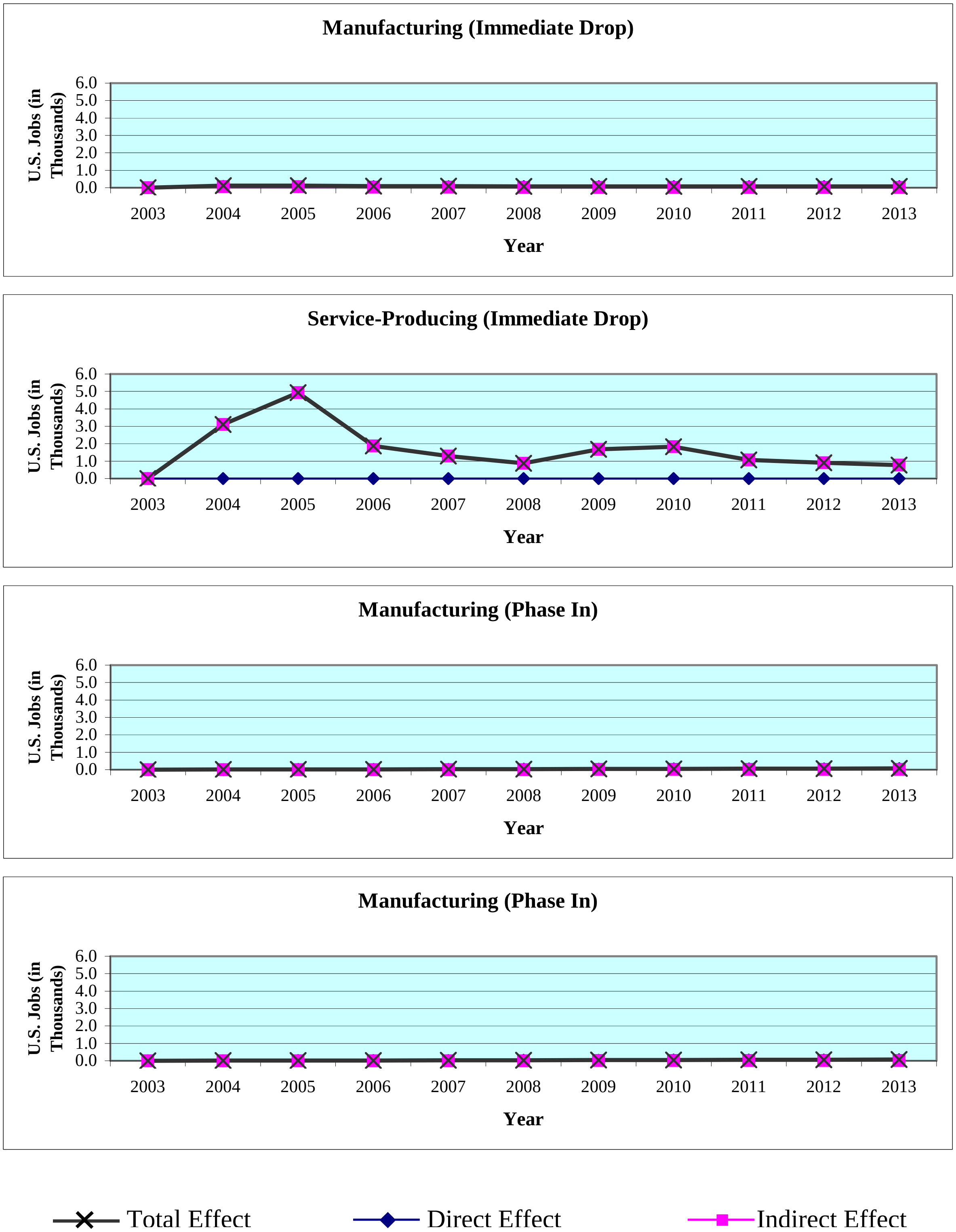
Figure III.1: Change from Baseline U.S. Employment Due to the U.S.-Morocco FTA under Global Insight's Immediate and Phase-in Scenarios





Source: Based on data from Global Insight (2004).

Figure III.2
Change from Baseline U.S. Employment in Manufacturing and Service Producing Industries, Under Immediate (in 2004) and Phase in Removal of All U.S. Tariffs on Imports from Morocco



Source: Global Insight (2004).