United States International Trade Commission

# U.S.-Morocco Free Trade Agreement:

## Potential Economywide and Selected Sectoral Effects

Investigation No. TA-2104-14
USITC Publication 3704
June 2004

# U.S. International Trade Commission

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# U.S. International Trade Commission

Washington, DC 20436
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# U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects

Investigation No. TA–2104-14


**Publication 3704** **June 2004**

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# PREFACE

On March 16, 2004, the United States International Trade Commission (the Commission), instituted Investigation No. TA-2104-14, U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects. The investigation, conducted in accordance with section 2104(f) of the Trade Act of 2002, was in response to a request from the United States Trade Representative (USTR), (see appendix A).

The purpose of this investigation is to assess the likely impact of the U.S.-Morocco free trade agreement on the United States economy as a whole and on specific industry sectors and the interests of U.S. consumers. As specified in section 2104(f)(2)-(3) of the Trade Act, the Commission shall submit to the President and the Congress (not later than 90 calendar days after the President enters into the agreement) a report including

- an assessment of the likely impact of the agreement on the United States economy as a whole and on specific industry sectors, including the impact the agreement will have on the gross domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the agreement, and the interests of the United States consumers; and

- a review of available economic assessments regarding the agreement, including literature regarding any substantially equivalent proposed agreement, and shall provide in its assessment a description of the analyses used and conclusions drawn in such literature and a discussion of areas of consensus and divergence between the various analyses and conclusions, including those of the Commission regarding the agreement.

The Commission solicited public comment for this investigation by publishing a notice in the *Federal Register* of March 23, 2004 (see appendix B). Interested party views are summarized in chapter 9 of this report.

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U.S.-Morocco Free Trade Agreement: Potential
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# List of Frequently Used Abbreviations and Acronyms

| | |
|---|---|
| ACTPN | Advisory Committee on Trade Policy and Negotiations |
| AfDB | African Development Bank |
| ATC | Agreement on Textiles and Clothing |
| CGE | computable general equilibrium |
| EU | European Union |
| FAO | Food and Agriculture Organization |
| FAS | Foreign Agricultural Service |
| FDI | foreign direct investment |
| FSU | former Soviet Union |
| FTA | free trade agreement |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| GDP | gross domestic product |
| GNP | gross national product |
| GSP | Generalized System of Preferences |
| GTAP | Global Trade Analysis Project |
| HTS | Harmonized Tariff Schedule of the United States |
| IFAC | Industry Functional Advisory Committee |
| IMF | International Monetary Fund |
| IPR | intellectual property rights |
| MFN | most-favored-nation |
| MRA | Mutual Recognition Agreement |
| MT | metric tons |
| ISAC | Industry Sectoral Advisory Committee |
| NAFTA | North American Free Trade Agreement |
| NTR | normal trade relations |
| OECD | Organization for Economic Development and Cooperation |
| ROO | rules of origin |
| SPS | sanitary and phytosanitary |
| TBT | Technical Barriers to Trade |
| TDA | U.S. Trade and Development Agency |
| TEPAC | Trade and Environment Policy Advisory Committee |
| TPL | tariff preference level |
| TRIPs | Trade-Related Aspects of Intellectual Property Rights |
| TRQ | tariff rate quota |
| UN | United Nations |
| US&FCS | U.S. and Foreign Commercial Service |
| USDA | U.S. Department of Agriculture |
| USDOC | U.S. Department of Commerce |
| USITC | United States International Trade Commission |

# List of Frequently Used Abbreviations and Acronyms—Continued

| | |
|---|---|
| USTR | United States Trade Representative |
| WCO | World Customs Organization |
| WCT | WIPO Copyright Treaty |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |

# EXECUTIVE SUMMARY

On March 16, 2004, the U.S. International Trade Commission (Commission) received a letter from the Office of the United States Trade Representative (USTR) requesting that the Commission prepare a report in accordance with section 2104(f) of the Trade Act of 2002, to assess the likely impact of the U.S.-Morocco Free Trade Agreement (FTA) on the United States economy as a whole, on specific industry sectors, and on the interests of U.S. consumers.[1] Section 2104(f)(3) also requires that the Commission, in preparing its report, review available economic assessments regarding any substantially equivalent proposed agreement, and discuss areas of consensus and divergence between the various analyses and conclusions, including those of the Commission regarding the FTA.

## Principal Findings

The quantifiable benefits of the U.S.-Morocco FTA are related to the immediate reciprocal tariff elimination, including the immediate elimination of duties on more than 90 percent of the value of current bilateral trade in consumer and industrial products. The FTA also provides immediate bilateral tariff elimination on many agricultural products, with most other tariffs phased out within 15 years. U.S. agricultural producers also will benefit from new tariff rate quotas (TRQs) that provide enhanced access to the Moroccan market. This trade liberalization is likely to increase the competitiveness of U.S. manufacturers and farmers in the Moroccan market not only relative to Moroccan producers, but also relative to other foreign suppliers such as the European Union—with which Morocco already has an FTA.

The FTA also establishes specific obligations in important areas that are more difficult to quantify but nevertheless are likely to benefit the U.S. economy—including rules of origin; trade in services; investment; trade facilitation (including customs administration, technical barriers to trade, sanitary and phytosanitary regulations, electronic commerce, and transparency); and the regulatory environment (including safeguards and trade remedies, government procurement, the protection and enforcement of intellectual property rights, labor, and the environment).

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[1] On Oct. 3, 2002, President Bush authorized and directed USTR to notify Congress of the President's intention to initiate FTA negotiations with Morocco. Negotiations were launched on Jan. 21, 2003. On March 2, 2004, USTR announced that the United States and Morocco had successfully concluded negotiations for the FTA. President Bush signed a letter notifying Congress of the intent to enter into the U.S.-Morocco FTA on March 8, 2004, starting the countdown for when the agreement can be signed. The text of the U.S.-Morocco FTA was made available to the general public on April 2, 2004. On April 7, 2004, USTR received reports from 32 trade advisory groups commenting on the U.S.-Morocco FTA, and relevant reports were reviewed for this investigation. The U.S.-Morocco FTA was signed by the two parties on June 15, 2004. USTR, "USTR Resources: U.S.-Morocco Free Trade Agreement," found at *http://www.ustr.gov/new/fta/morocco.htm,* retrieved June 21, 2004.

## Scope and Approach of the Study

This analysis examines all 22 chapters of the U.S.-Morocco FTA including its annexes and associated side letters. To assess the likely effects of the U.S.-Morocco FTA on the U.S. economy as a whole and specific economic sectors, the Commission employs an approach that combines quantitative and qualitative analyses. In this report, the Commission quantifies the likely impact of the FTA to the extent that the necessary data are available. Thus, the quantitative assessment is limited to the liberalization of tariffs and the portion of TRQs collected as duties on originating goods—that is, provisions related to increased market access.[2] Remaining components of the FTA, for which the likely effects could not be quantified, are analyzed using qualitative analysis. Combining the quantitative and qualitative analyses provides a comprehensive assessment of the likely impact of the U.S.-Morocco FTA on the U.S. economy.

## *U.S. Trade and Investment Relationship with Morocco*

In 2003, U.S. domestic merchandise exports to Morocco were valued at $462 million, while U.S. imports for consumption from Morocco were $396 million. The United States recorded a $66 million trade surplus with Morocco in 2003, as Morocco ranked as the 69th largest market for U.S. exports and the 82nd largest U.S. supplier of imports. The leading U.S. exports to Morocco in 2003 were aircraft, soybeans, corn, and wheat. Leading U.S. imports from Morocco in 2003 included transistors, integrated circuits, minerals, calcium phosphates, and women's and girls' underwear and trousers. Approximately 5 percent of shipments from Morocco entered the United States duty free in 2003 under the U.S. Generalized System of Preferences (GSP) program. In all, about 60 percent of shipments from Morocco entered the United States duty free in 2003 on a normal trade relations (NTR) basis or under GSP or other U.S. provisions.

Services represented approximately 45 percent of Morocco's real gross domestic product (GDP) in 2002, with the majority of Morocco's services exports generated by the travel and tourism sector. France, Portugal, and Spain combined accounted for more than 90 percent of foreign direct investment in Morocco in 2001.

The World Bank ranks Morocco as a middle income developing country (its GDP per capita was $3,888 in 2002). The Moroccan economy (as measured by GDP) is 1.1 percent the size of the U.S. economy, and its population about one-tenth the U.S. population. Morocco's geographic proximity and historical ties to Spain and France mean that most of Morocco's economic and trade linkages are with Europe. Morocco is a member of the World Trade Organization (WTO), and in the WTO has bound its tariffs at rates ranging from zero to 380 percent. Morocco has been liberalizing its trade regime since the late 1990s, and has improved efficiency and transparency in its customs administration.

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[2] The Commission did not explicitly quantify the impact of rules of origin, but the quantitative analysis is consistent with the existence of rules of origin. This is discussed in more detail in chapter 4 of the report.

## *U.S.-Morocco Free Trade Agreement*

Under the market access commitments of the U.S.-Morocco FTA, most originating U.S. exports of industrial goods other than textiles and apparel are eligible for immediate duty-free entry into Morocco; 12 duty staging categories apply, eliminating duties ranging up to 324 percent over periods of up to 18 years. Morocco's exports of such goods to the United States are covered by 6 different duty staging categories, with duties phased out over periods of up to 9 years. TRQs apply to some agricultural commodities, with new TRQs for such U.S. exports as beef and poultry meat, durum and common wheat, and almonds. The FTA's rules of origin determine eligibility for FTA treatment and, in many respects, resemble the corresponding provisions of the U.S. FTAs with Israel and Jordan. Origin criteria are based mainly on value content, with some based on specific changes in tariff classification applicable to third-country inputs.

Many of the substantive commitments in the U.S.-Morocco FTA reflect obligations of the parties under WTO agreements on the same subject matter, and the language in this FTA in many places closely parallels provisions in recent U.S. FTAs with Jordan, Singapore, and Chile. Like other recent FTAs to which the United States is a party, the U.S.-Morocco FTA includes bilateral safeguard provisions that allow a party to impose temporary relief measures during the agreement's transition period.

## *Methodology*

To provide a comprehensive assessment of the effects of the U.S.-Morocco FTA on the U.S. economy and specific sectors, the Commission employs an approach that combines quantitative and qualitative analyses. The quantitative analysis focuses on the liberalization of tariffs and TRQs (corresponding to the market access provisions of chapters 2-4 of the FTA). The qualitative analysis focuses on the non-quantifiable effects associated with provisions of the FTA related to trade in goods (including the rules of origin) and services, investment, trade facilitation, and the regulatory environment (corresponding to chapters 5-20 of the FTA).[3] These effects are not readily quantifiable due to the lack of necessary data and the intangible nature of some of these effects. Information to assess the liberalization of the nontariff barriers in these areas was obtained from government, industry, academic, and other public sources; international organizations, including the World Bank, the International Monetary Fund, and the WTO; and written submissions in response to the Commission's Federal Register notice of institution for this investigation.[4]

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[3] Chapters 1, 19, 21, and 22 of the agreement address administrative and legal matters with respect to the FTA.

[4] The Commission scheduled a public hearing in connection with this investigation for April 29, 2004. The hearing was canceled, as the scheduled witnesses elected to have their written submissions serve as substitutes for their oral statements. Copies of the *Federal Register* notices for this investigation are in appendix B.

For the liberalization of tariffs and TRQs, the study employs a multicountry model with economywide coverage of merchandise and service sectors (a global computable general equilibrium model). The analysis is static, and assumes the U.S.-Morocco FTA is fully implemented and its full effects felt on January 1, 2005. That is, it assumes that the FTA's provisions will not be phased in over time, or its effects gradually realized over time. The modeled results can be considered to be long-run effects, after all adjustments have worked their way through the economy, of a fully implemented FTA in a U.S. economy otherwise identical to the baseline 2005 economy.[5] This simulation liberalizes trade completely in all goods subject to liberalization under the U.S.-Morocco FTA. The United States has relatively low tariffs, averaging 4 percent ad valorem on imports from Morocco. The average tariff rate for U.S. goods entering Morocco is in excess of 20 percent.[6] It is expected that those sectors that face relatively higher trade restrictions will show larger effects from the implementation of the FTA.

## Summary of Findings

The Commission's comprehensive assessment of the U.S.-Morocco FTA addresses four substantive areas: market access, trade facilitation, investment, and the regulatory environment. A summary of the impact assessments is presented below for each of these four areas.

### *Market Access*

Market access refers to the extent to which one country's goods and services can compete with local goods and services in another market. The term relates to the degree of openness or accessibility that one country's goods and services experience in another market. The entire array of trade policy measures that a country employs to administer, measure, and support its trade regime affect the ability of foreign produced products or services to enter another country under nondiscriminatory conditions.

Market access provisions provide the principal guarantee of national treatment under the U.S.-Morocco FTA for originating goods in bilateral trade. Relying upon broader commitments both parties have made in the WTO, the specific obligations in these provisions commit the two parties to progressively eliminate duties on originating goods and to implement a wide array of customs procedures that would enhance this trade to ensure consistent customs treatment by both parties. Many of these measures already apply to U.S. imports, under HTS chapter 98, but the FTA would make the

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[5] Models are highly simplified descriptions of an economy, dependent on parameter estimates and subject to potential biases due to product and regional aggregations. See appendix C for additional information on the model used in this report.

[6] In this report, all duty rates expressed as a percent refer to percent ad valorem.

treatment of U.S. exports clear and simple. The U.S.-Morocco FTA also provides that no new duties or charges would be imposed, that the parties can not apply import and export restrictions other than in limited cases, that administrative fees relating to trade would be limited to the cost of services rendered, and that merchandise processing fees must be eliminated. A Subcommittee on Trade in Goods is to provide institutional support in implementing and maintaining these measures.

Figure ES-1 presents an overview of the potential effects, both quantitative and qualitative, of the U.S.-Morocco FTA in the market access area.

## Economywide Effects of Tariff Liberalization

The most relevant and comprehensive measure of the impact that the quantifiable components (tariff liberalization) of the U.S.-Morocco FTA is likely to have on the U.S. economy as a whole is the change in welfare (i.e., the value to consumers of the agreement in terms of increased income). It summarizes the benefits to consumers of tariff liberalization, as well as the effects on households in their roles as providers of labor, owners of capital, and taxpayers. According to the Commission's simulation, after tariff liberalization has been fully implemented and all economic adjustments have occurred under the agreement, overall U.S. welfare should increase in the range of $110.5 million to $131.6 million. That is, when fully implemented, the U.S.-Morocco FTA is likely to provide benefits to consumers within this range. Total U.S. exports to the world are likely to increase by approximately $267.4 million, and total U.S. imports from the world are likely to increase by about $237.9 million, with minimal impact on U.S. employment and output. U.S. exports to Morocco are likely to increase by $740.0 million, and U.S. imports from Morocco are likely to increase by $198.6 million after full implementation of the FTA.

## Sectoral Effects

The largest percentage increases in trade are found in those sectors undergoing the greatest degree of tariff liberalization. According to the Commission's analysis, the sectors showing the greatest value increase in exports to Morocco are machinery and equipment; grains; processed food and tobacco; petroleum, coal, chemicals, rubber, and plastic products; and textiles and apparel. The greatest increases in the value of imports are estimated to occur in textiles and apparel and in processed food and tobacco.

Overall, some sectors of the U.S. economy are likely to experience increased import competition from Morocco, while other sectors are likely to experience increased export opportunities in Morocco. However, given Morocco's small economy and market size relative to the United States, any such increases would be from a small initial level and, thus, are likely to have a minimal impact on production, employment, or prices in corresponding U.S. sectors.

## Figure ES-1
## U.S.-Morocco Free Trade Agreement: Impact of Market Access Provisions

Subject negotiated and FTA chapter

Likely economic impact on U.S. economy: *Quantitative Assessment*

**Market Access Provisions**

***Goods, ch. 2***
- Tariff elimination on a wide range of goods.

***Agriculture, ch. 3***
- Tariff elimination on a wide range of agricultural products.
- Improved market access under TRQs for U.S. exports of certain products (including wheat, beef, and poultry).

***Textiles, ch. 4***
- Duty-free trade for many imports that meet the rules of origin, but TRQs apply.
- Temporary duty perferences for qualifying apparel and textile articles to have third-country content.

Model based results

**Complete implementation, full phase-in of tariff liberalization**

### Economywide results

*Welfare*—Effects of tariff removal under the U.S.-Morocco FTA on U.S. economic welfare and GDP are likely to be minimal (less than 0.005 percent of U.S. GDP). Actual simulation results: between $110.5 and $131.6 million.

*Exports*— After full phase-in of tariff elimination, U.S. world exports are likely to be higher by 0.02 percent. For U.S. exports to Morocco, the largest increases are expected to be in: machinery and equipment; grains; processed food and tobacco; petroleum, coal, chemicals, rubber, and plastic; and textiles and apparel. Key U.S. exports gain immediate duty-free access.

*Imports*—After full phase-in of tariff elimination, U.S. world imports are likely to be 0.02 percent higher. For U.S. imports from Morocco, the largest increases are expected to be in textiles and apparel, and in processed food and tobacco. In most cases, the increases in trade with Morocco come at the expense of trade with other partners.

*Production*—Little or no change in U.S. production in distinct industry sectors. The largest proportional impact is on grains, output of which increases by 0.16 percent.

*Employment*—Little or no change likely in U.S. employment in distinct U.S. industry sectors.

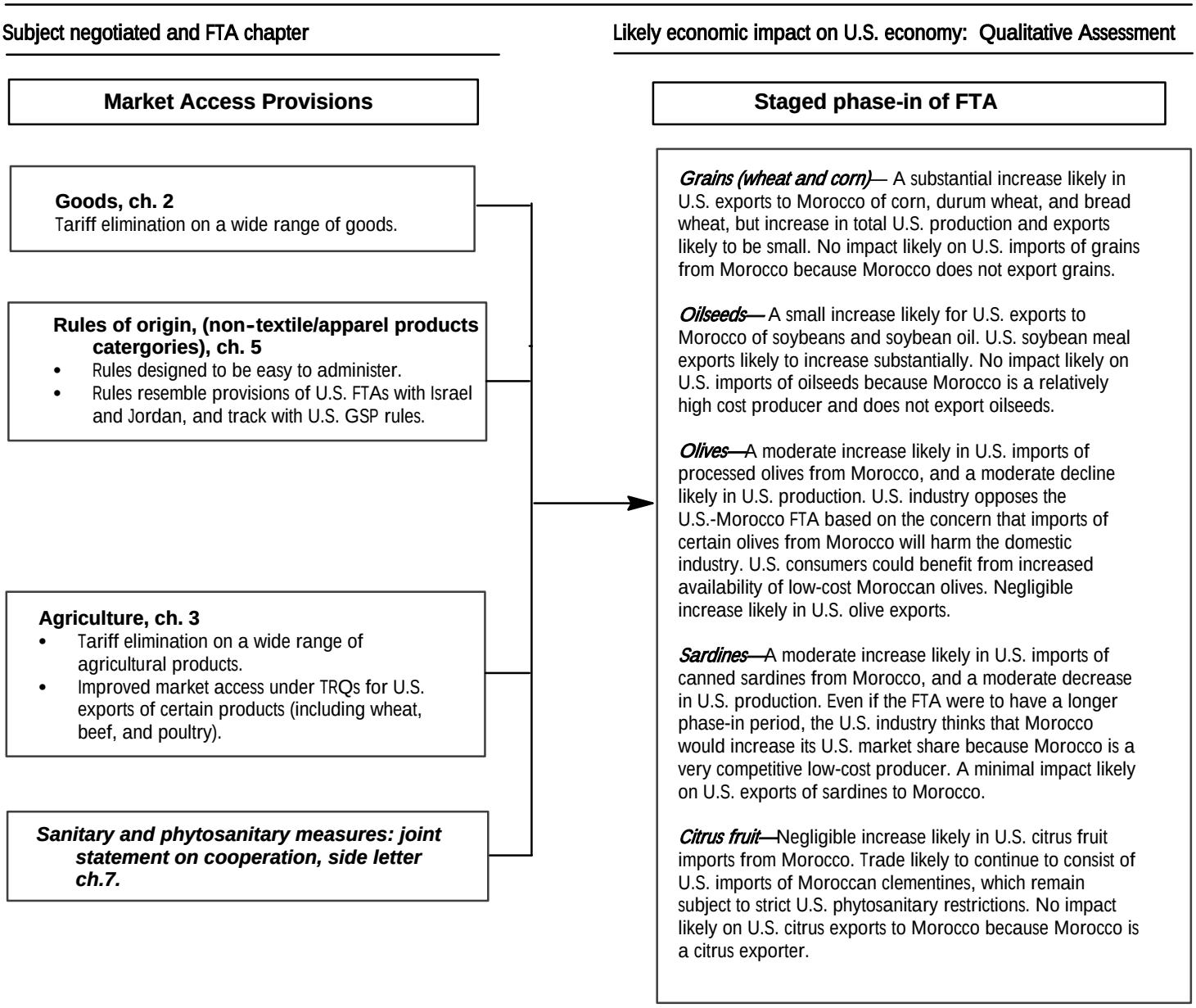
*Consumers*— Little or no impact on U.S. consumers (household prices).

### Sectoral results

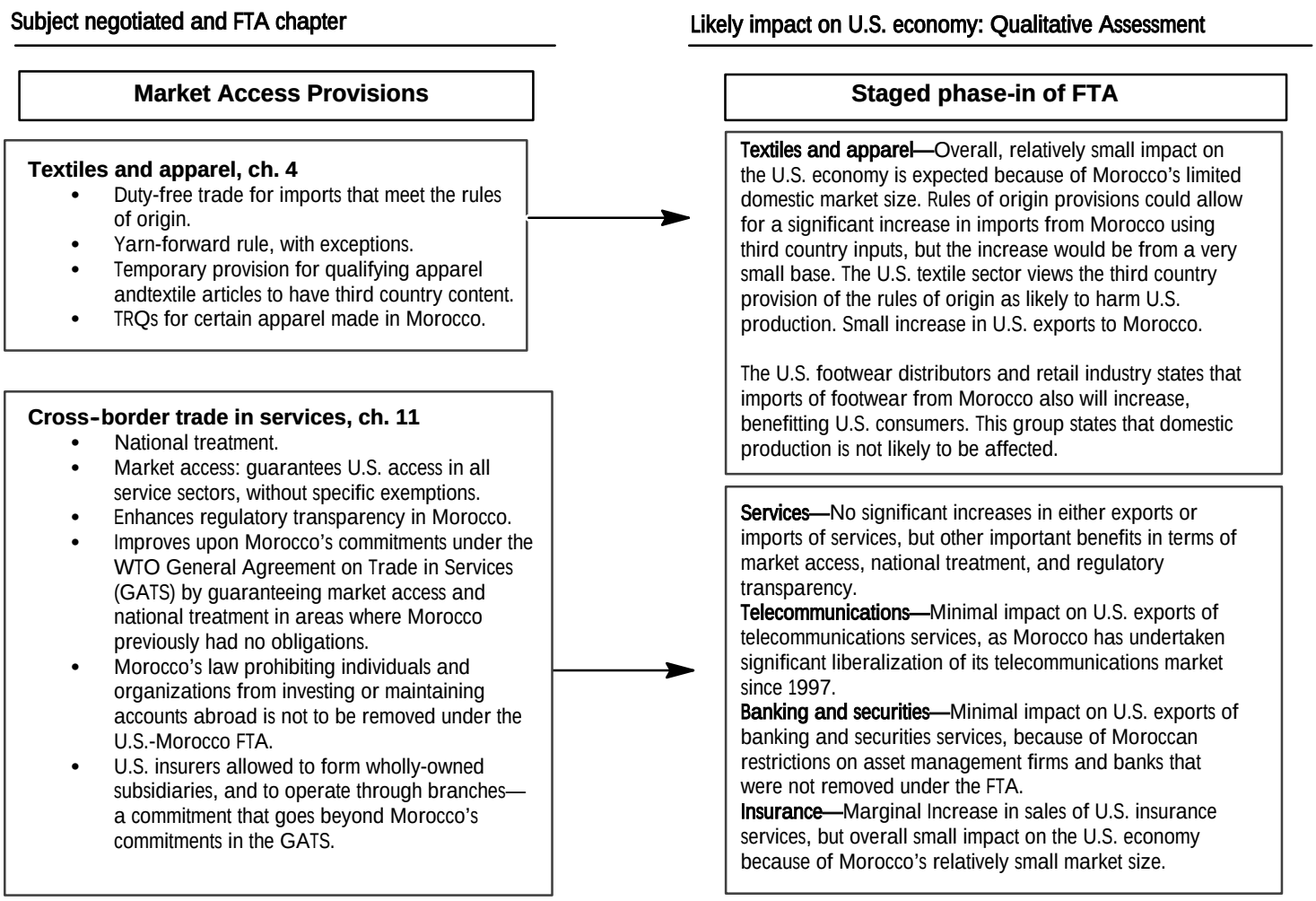
*Exports*—After full phase-in of tariff elimination, U.S. exports to Morocco of machinery and equipment would likely increase by $128.5 million; grains, $113.9 million; processed food and tobacco, $96.8 million; petroleum, coal, chemicals, rubber, and plastics, $90.7 million; and textiles and apparel, $85.7 million. U.S. exports to Morocco as a whole would increase by $734.2 million (40.8 percent).

*Imports*—After full phase-in of tariff elimination, U.S. imports from Morocco of textiles and apparel would increase by $164.2 million, and processed food and tobacco imports increase by $22.6 million U.S. imports from Morocco as a whole would increase by $198.3 million (14.3 percent).

## Figure ES-1—Continued
## U.S.-Morocco Free Trade Agreement: Impact of Market Access Provisions



## Figure ES-1—Continued
## U.S.-Morocco Free Trade Agreement: Impact of Market Access Provisions




Source: Text of the U.S.-Morocco FTA, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*. Impact estimates obtained from USITC estimates and calculations and compiled from multiple sources cited elsewhere in this report, including written submissions in response to the *Federal Register* notice for this investigation (see appendix B), USITC staff interviews with industry officials, and reports filed by the various U.S. government trade policy advisory committees.

A more detailed analysis also was conducted for some sectors at a more disaggregated level. The sectors were chosen based upon a number of criteria, including: the extent and speed of trade liberalization under the FTA and its potential for increasing U.S. trade; the importance of the sector in terms of bilateral trade; the likelihood of increased export opportunities for U.S. producers; the views of Commission industry analysts; the opinions of industry representatives; and the apparent sensitivity of certain U.S. industries to trade liberalization.[7] The most significant sectoral impacts of the U.S.-Morocco FTA are likely to be on: U.S. exports of grains and oilseeds; U.S. imports of olives; U.S. exports and imports of sardines; U.S. imports of citrus fruit; and U.S. imports, and to a lesser extent exports, of textiles and apparel.

### *Grains (wheat and corn)*

Under the U.S.-Morocco FTA, Morocco's duty on U.S. corn is to be reduced to 17.5 percent in year one, then is to be reduced to zero in 5 equal annual stages. Without the duty, U.S. corn exporters are likely to supply nearly all of Morocco's corn imports, displacing third-country suppliers such as Argentina and Brazil.

The U.S.-Morocco FTA creates a new TRQ for U.S. durum wheat and, beginning in year 4, reduces the duty to zero in 7 equal annual stages. The lower in-quota tariff is likely to lead to an increase in U.S. durum wheat exports to Morocco as U.S. wheat becomes more competitive relative to wheat from Canada, Morocco's other leading durum wheat supplier. The FTA also provides a new TRQ for U.S. bread wheat under which, after 10 years, the United States is to have the same preferential access to the Moroccan bread wheat market as the EU. As a result, U.S. bread wheat exports to Morocco could more than double.

The U.S.-Morocco FTA is likely to result in a substantial increase in exports of U.S. grains to Morocco. However, the impact on total U.S. production and total U.S. exports of grains is likely to be small because the increases would be from a small initial levels, and because of the small size of the Moroccan market relative to total U.S. production and exports.

Morocco does not export grains, as it is a relatively high-cost producer and is not competitive in world markets. Thus, the U.S.-Morocco FTA is likely to have a minimal effect on U.S. imports of grains.

### *Oilseeds*

Under the U.S.-Morocco FTA, Morocco's 2.5 percent duty on U.S. soybeans for crushing is to be eliminated immediately. The FTA is likely to lead to a small increase of U.S. exports of soybeans to Morocco.

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[7] The Commission's sectoral analysis considered the entire range of agricultural and manufactured goods. Only those sectors that met specific criteria were selected for detailed analysis. Those criteria are described in chapter 3 of the report.

Under the U.S.-Morocco FTA, Morocco's 2.5-percent duty on crude U.S. soybean oil is to be eliminated immediately; the 25-percent duty on refined U.S. soybean oil is to be reduced to 12.5 percent in year one of the FTA, and then reduced to zero in 5 equal annual stages. The FTA is likely to lead to a small increase in U.S. exports of these oilseed products to Morocco.

Under the U.S.-Morocco FTA, Morocco's 25-percent duty on U.S. soybean meal is to be reduced to 12.5 percent in year one of the FTA, and then reduced to zero in 5 equal annual stages. The FTA is likely to lead to a substantial increase in U.S. soybean meal exports to Morocco, as U.S. soybean meal becomes more competitive vis-à-vis Morocco's other leading soybean meal suppliers (Argentina and Brazil).

Morocco is a relatively high-cost producer of oilseeds and exports virtually no oilseeds. Thus, the U.S.-Morocco FTA is likely to have no measurable effect on U.S. imports of oilseeds from Morocco.

### *Olives*

Under the U.S.-Morocco FTA, U.S. duties on most categories of Moroccan processed olives are to be eliminated immediately, while duties on one category of Moroccan canned olives (HTS subheading 2005.70.60) would have the existing tariff reduced to zero in 10 equal annual stages. U.S. olive imports from Morocco in this category are to be covered by a safeguard provision that provides for a variable additional duty. The FTA also provides that all imports of processed olives from Morocco are to be covered by rules of origin provisions to prevent transshipments. The U.S.-Morocco FTA is likely to result in a moderate increase in U.S. imports of processed olives from Morocco, which may result in a moderate adverse impact on U.S. olive growers and processors, but possibly benefit U.S. consumers through increased availability of low-cost Moroccan olives.

Under the U.S.-Morocco FTA, Morocco's 50-percent duty on U.S. olives is to be reduced to zero in 10 equal annual stages. Even though the United States will get improved market access for olive exports to Morocco, this duty elimination likely would still leave U.S. exporters at a comparative disadvantage vis-à-vis geographically closer European suppliers. Europe is a historical supplier to the Moroccan market and EU countries, which also have preferential access to the Moroccan market under the EU-Morocco FTA, have significant investments in the Moroccan distribution chain for food products. The U.S.-Morocco FTA is likely to result in a negligible increase in U.S. exports of processed olives to Morocco.

### *Sardines*

Under the U.S.-Morocco FTA, the U.S. duty of 15 percent on Moroccan canned sardines, packed in oil, not smoked, neither skinned nor boned (HTS 1604.13.20) is to be reduced to zero in 9 equal annual stages. The FTA is likely to result in a moderate increase in U.S. imports of these sardines from Morocco which, in turn, is likely to result in a moderate decline in U.S. production.

Under the U.S.-Morocco FTA, the U.S. duty of 20 percent on Moroccan canned sardines, packed in oil, not smoked, skinned or boned (HTS 1604.13.30) is to be

eliminated immediately. The domestic industry reports that, although there is no U.S. production of this exact product, similar products are produced in the United States. The FTA is likely to result in a moderate increase in U.S. imports of these sardines from Morocco, and Morocco is likely to gain additional U.S. market share at the expense of domestic production as well as of other foreign suppliers.

Under the U.S.-Morocco FTA, Morocco is to immediately eliminate its 50-percent duty on U.S. canned sardines. The United States is a small-volume producer of canned sardines, and Morocco is a very competitive low-cost producer (Morocco's seafood imports are negligible). The U.S.-Morocco FTA is likely to have a minimal impact on U.S. exports of canned sardines to Morocco.

### *Citrus fruit*

Under the U.S.-Morocco FTA, U.S. duties on most fresh citrus imports from Morocco are to be removed immediately, and duties on many processed citrus products such as orange juice are to be phased out over 18 years. Virtually all U.S. imports of citrus fruit from Morocco are clementines, which would remain subject to strict U.S. phytosanitary restrictions with respect to the Mediterranean fruit fly. Moreover, Europe is likely to remain Morocco's primary export market given the EU-Morocco FTA and lower transportation costs to Europe versus to the United States. Morocco processes a small portion of its citrus into juice, and juice production is not likely to expand significantly. The U.S.-Morocco FTA is likely to result in a negligible increase in U.S. citrus imports from Morocco.

Under the U.S.-Morocco FTA, Morocco's 50-percent duty on U.S. fresh and processed citrus fruit is to be removed immediately, and is to be phased out in 10 equal annual reductions for processed citrus such as orange juice. Morocco is not likely to increase citrus imports from the United States because Morocco is an important citrus producer and, even with no duties on U.S. citrus fruit, it would still be less costly for Moroccans to purchase local fruit than to import more expensive citrus from the United States. The U.S.-Morocco FTA is not likely to have any impact on U.S. citrus exports to Morocco.

### *Textiles and apparel*

The U.S.-Morocco FTA provides for the elimination of duties over 5 years for most textile and apparel articles that meet the agreement's rules of origin, requiring that imports of most textile and apparel articles be assembled from inputs made either in the United States or Morocco, generally from the yarn stage forward. However, the FTA contains significant exceptions to the yarn-forward rule for Morocco. The FTA also contains tariff preference levels (TPLs) that provide duty preferences for specified quantities of certain goods made of yarns and/or fabrics from countries other than the United States and Morocco. The FTA also grants immediate duty-free treatment under TRQs to specified quantities of U.S. imports of certain apparel made in Morocco.[8]

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[8] Rules of origin under the U.S.-Morocco FTA are described in chapter 2 of this report. Provisions with respect to textiles and apparel are described in more detail in the section "Textiles and Apparel" in chapter 3.

The FTA is likely to result in a substantial increase in the quantity of U.S. imports of textiles and apparel from Morocco; however, since the current level of U.S. imports from Morocco is very small, the increase in total U.S. textile and apparel imports from the world is likely to be very small, and the impact on U.S. production and employment in the textile and apparel sector as a result of the agreement is likely to be negligible. Any increase in shipments from Morocco as a result of the FTA is likely to displace imports from other high-cost exporting countries, particularly those that do not benefit from preferential market access. Moreover, any increase in textile and apparel imports from Morocco as a result of the FTA could be tempered by increased global competition following quota elimination under the Uruguay Round Agreement on Textiles and Clothing in January 2005. In addition, as the TPL is phased out and ultimately eliminated, the growth in U.S. textile and apparel imports from Morocco as a result of the FTA is likely to become attenuated. There could be substantial growth of certain apparel imports from Morocco beginning in year 6 of the FTA, after TRQs are eliminated and duties on originating goods entering under 43 6-digit HTS levels are eliminated.

The U.S.-Morocco FTA is likely to result in a small increase in U.S. textile and apparel exports to Morocco. Morocco's tariffs on textiles and apparel currently range from 2.5 percent to as high as 50 percent. Under the FTA, a major share of Morocco's tariffs on textile and apparel imports will be reduced by 50 percent in year one, and then in 5 equal stages to zero. Other tariffs are to be phased out in nine equal stages to zero. A smaller number of products are to receive immediate duty-free treatment.

### *Services*

The U.S.-Morocco FTA improves upon Morocco's commitments under the WTO General Agreement on Trade in Services by, in some instances, guaranteeing market access and national treatment in areas where Morocco previously had no obligations. The FTA also provides improved regulatory transparency and it establishes a secure and predictable framework for U.S. investors operating in Morocco—addressing longstanding U.S. concerns.

The U.S.-Morocco FTA provides other important benefits, particularly for U.S. providers of telecommunications, banking and securities, and insurance services. With respect to telecommunications, the two parties commit to provide reasonable and nondiscriminatory access to the telecommunications network; in banking and securities, U.S. financial service suppliers will have the right to establish subsidiaries and joint ventures in Morocco; in insurance, U.S.-based companies will have the right to provide insurance on a cross-border basis. The U.S.-Morocco FTA is not likely to generate significant increases of U.S. exports or imports of services, however, primarily because of the relatively small market size and low income levels in Morocco.

## *Trade Facilitation*

The U.S.-Morocco FTA contains a number of provisions that may facilitate the movement of goods and the provision of services between the two parties. The FTA

offers specific improvements with respect to customs administration, technical barriers to trade, sanitary and phytosanitary regulations, electronic commerce, and transparency. With the gradual decline in the significance of NTR duties as a result of successful multilateral rounds of tariff and trade negotiations, and the increased reliance on technology to aid in the international movement of goods and services, measures with respect to trade facilitation can directly affect the cost of doing business. An FTA can attempt to lessen such costs and inefficiencies. Figure ES-2 presents the likely effects of the U.S.-Morocco FTA in the area of trade facilitation.

The Commission's analysis suggests that the provisions with respect to trade facilitation under the U.S.-Morocco FTA are likely to benefit U.S. producers, exporters, service providers, and investors. However, the overall impact of the FTA on the U.S. economy with respect to trade facilitation are likely to be very small because of the small size of the Moroccan economy and the Moroccan market relative to the United States.

## *Investment*

The U.S.-Morocco FTA establishes a secure, predictable legal framework for U.S. investors operating in Morocco—addressing many longstanding U.S. concerns and providing assurances to U.S. investors that go beyond those afforded in the 1991 U.S.-Morocco Bilateral Investment Treaty. Figure ES-3 presents the likely effects of the investment provisions of the U.S.-Morocco FTA on the U.S. economy.

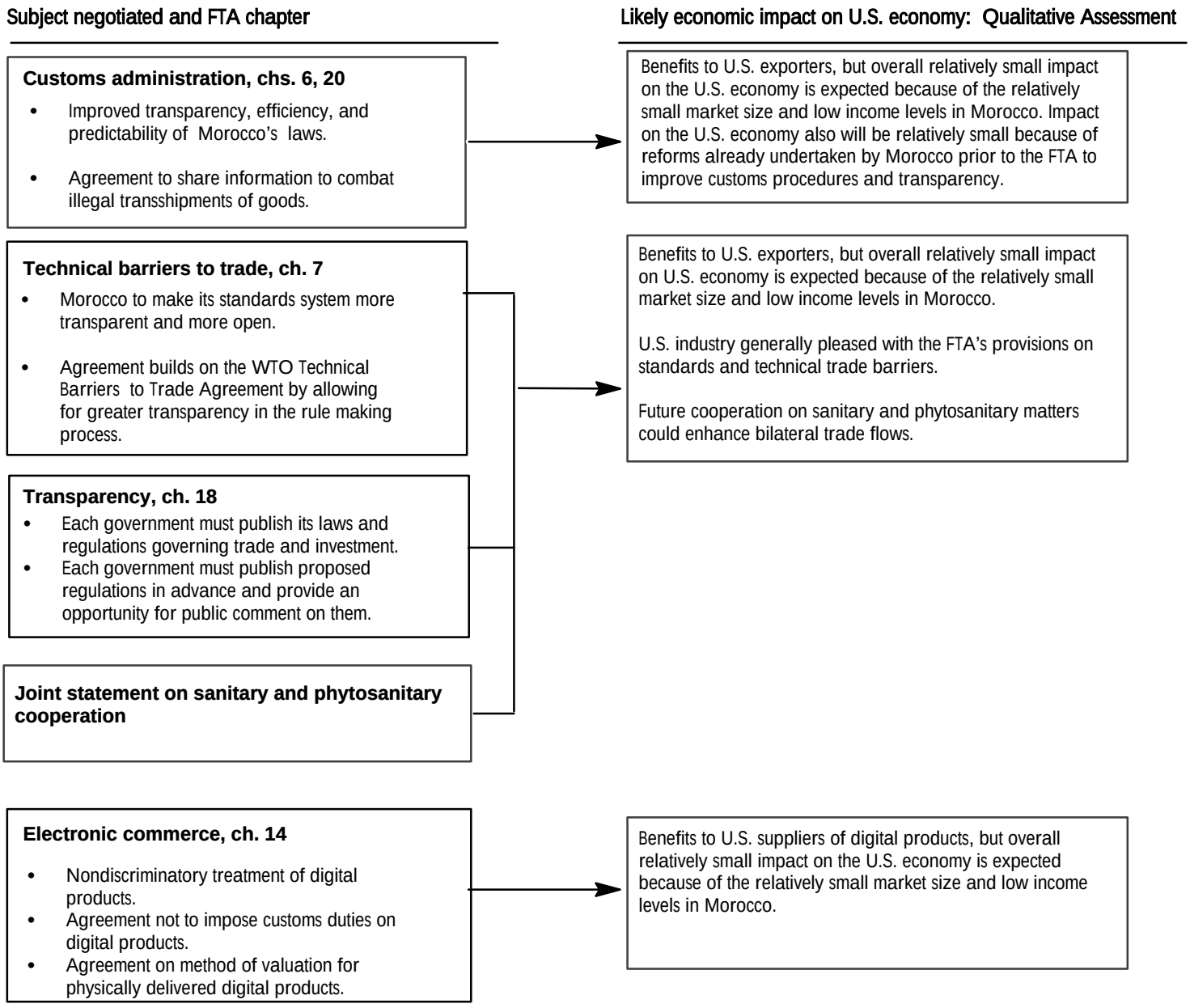
The Commission's analysis suggests that the effects of investment provisions of the FTA are likely to benefit U.S. investors, service providers, and exporters. However, the overall impact of the agreement on the U.S. economy with respect to investment are likely to be very small because of the small size of the Moroccan economy and the Moroccan market relative to the United States.

## *Regulatory Environment*

The U.S.-Morocco FTA contains a number of provisions that may improve the regulatory environment for bilateral trade and investment. The FTA provides dispute settlement procedures, enforcement mechanisms, and measures for trade remedies; includes government procurement disciplines; provides for improved protection and enforcement for copyrights and other intellectual property which exceed the protection afforded in the WTO Agreement on Trade-Related Aspects of Intellectual Property; and provides commitments and cooperation in the areas of worker rights and measures to protect the environment. Figure ES-4 presents likely effects of the U.S.-Morocco FTA with respect to the regulatory environment.

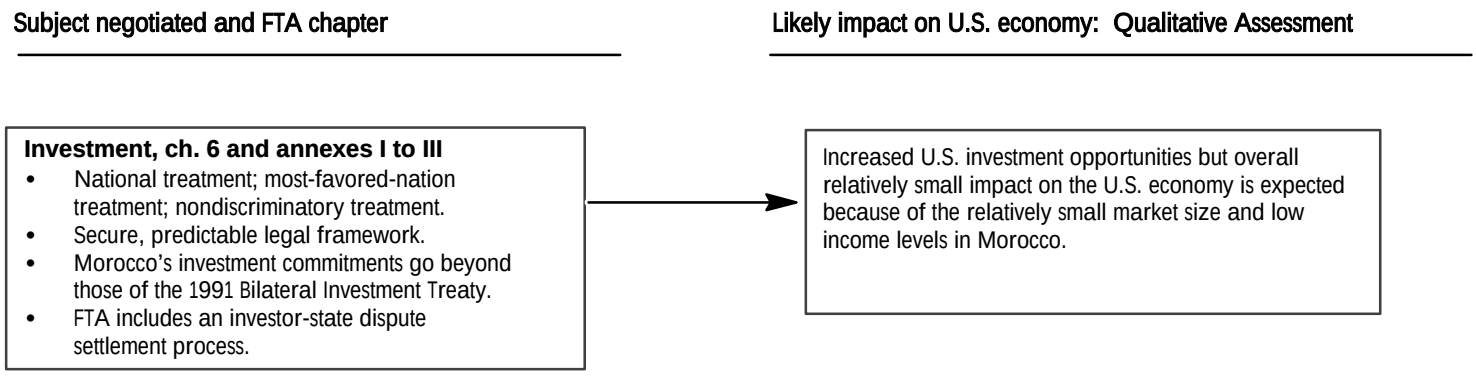
The Commission's analysis suggests that U.S. firms are likely to benefit from the application of these provisions by Morocco, primarily as a result of improvements in

## Figure ES-2
## U.S.-Morocco Free Trade Agreement: Impact of Trade Facilitation Provisions




Source: Text of the U.S.-Morocco FTA, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*. Impact estimates obtained from USITC estimates and calculations and compiled from multiple sources cited elsewhere in this report, including written submissions in response to the *Federal Register* notice for this investigation (see appendix B), USITC staff interviews with industry officials, and reports filed by the various U.S. government trade policy advisory committees.

**Figure ES-3**
**U.S.-Morocco Free Trade Agreement: Impact of Investment Provisions**




Source: Text of the U.S.-Morocco FTA, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*. Impact estimates obtained from USITC estimates and calculations and compiled from multiple sources cited elsewhere in this report, including written submissions in response to the *Federal Register* notice for this investigation (see appendix B), USITC staff interviews with industry officials, and reports filed by the various U.S. government trade policy advisory committees.

regulatory transparency. The FTA's intellectual property provisions are likely to increase revenues for U.S. industries dependent on copyrights, trademarks, patents, and trade secrets. U.S. labor representatives expressed concern about the impact of the FTA on sensitive U.S. sectors, such as the textiles and apparel sector. However, these effects are likely to be very small because of the small size of the Moroccan economy relative to the United States.

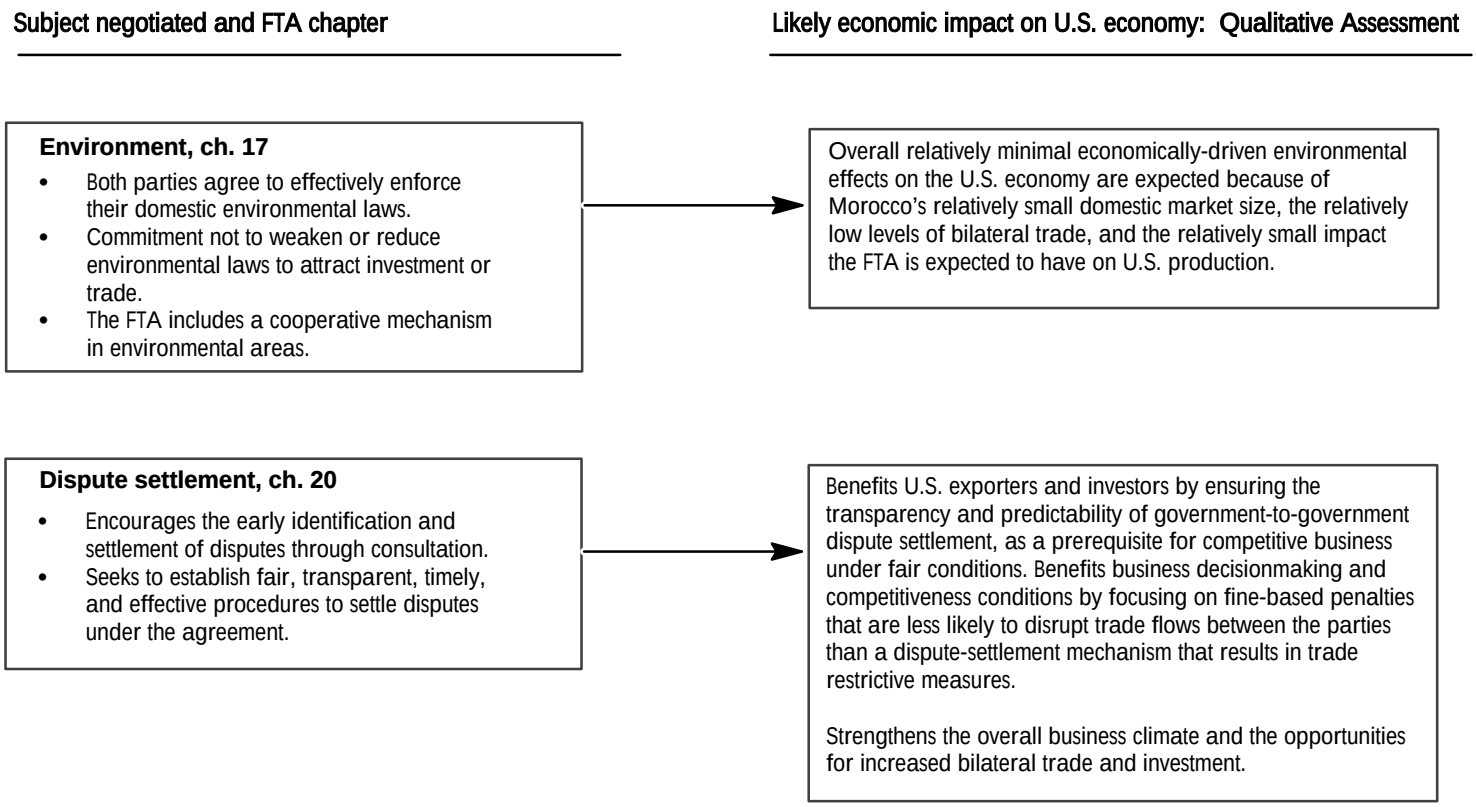
## Literature Review and Comparison with Commission Findings

Studies of the economic impact of FTAs generally entail investigating static effects (such as trade creation and trade diversion), as well as terms of trade (the price of exports relative to the price of imports). In addition, related scale effects (the extent that FTAs integrate and, hence, enlarge markets) as well as nonquantifiable effects also are taken into account. The effects of an FTA that are attributable either to the liberalization of trade in services, investment, and provisions regarding intellectual property rights, usually remain unmeasured. As the review of literature shows, the nonquantifiable effects of an FTA could be more significant than the effects of removing tariffs.

## Figure ES-4
## U.S.-Morocco Free Trade Agreement: Impact of Provisions With Respect to the Regulatory Environment

| Subject negotiated and FTA chapter | Likely economic impact on U.S. economy: Qualitative Assessment |
|---|---|
| **Safeguards, ch. 8**<br>• The FTA provides the framework for fair procedures in administrative proceedings covering the application of safeguards. | The FTA makes no changes to U.S. antidumping and countervailing duty laws. Benefits U.S. exporters and investors, but relatively small impact on the U.S. economy is expected because of Morocco's limited domestic market size. Negotiated provisions help increase the effectiveness of trade remedies, as well as minimizing the possibility of misuse of trade remedy measures. |
| **Government procurement, ch. 9**<br>• Nondiscriminatory treatment for covered government purchases in excess of agreed monetary thresholds.<br>• Transparent disciplines on procurement procedures.<br>• Both parties to maintain criminal and other penalties for bribery in government procurement. | Benefits to U.S. exporters and service providers, but overall relatively small impact on the U.S. economy is expected because of Morocco's relatively small domestic market size. |
| **Intellectual property rights, ch. 15**<br>• New, higher IPR standards, including certain TRIPs-plus provisions for IPR protection.<br>• Strengthened copyright, patent, trademark, and data protection measures.<br>• Provisions that address Internet and other digital piracy issues.<br>• Most provisions become effective upon entry into force of the agreement, without long transition periods. | Potential increase in revenues for U.S. industries dependent on copyrights, patents, trade secrets, trademarks, and for industries that could benefit from stronger Internet and digital piracy provisions, as well as enhanced enforcement. Overall relatively small impact on the U.S. economy because of Morocco's relatively small domestic market size. |
| **Labor, ch. 16**<br>• Both parties commit to effectively enforce their domestic labor laws.<br>• Agreement includes cooperative mechanism for labor issues. | Overall, provisions are expected to ensure that existing labor laws are enforced. U.S. labor representatives concerned that deficiencies will continue and that the FTA may have an adverse impact on sensitive U.S. sectors, such as textiles and apparel. |

**Figure ES-4—Continued**
**U.S.-Morocco Free Trade Agreement: Impact of Provisions With Respect to the Regulatory Environment**




Source: Text of the U.S.-Morocco FTA, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*. Impact estimates obtained from USITC estimates and calculations and compiled from multiple sources cited elsewhere in this report, including written submissions in response to the *Federal Register* notice for this investigation (see appendix B), USITC staff interviews with industry officials, and reports filed by the various U.S. government trade policy advisory committees.

A small number of studies have directly assessed the impact on the United States of a hypothetical U.S.-Morocco FTA.[9] There are three studies employing computable general equilibrium analysis of a U.S.-Morocco FTA that directly assess the impact of such an FTA on the United States.[10]

[9] The Commission's analysis in this report is based on the final text of the negotiated U.S.-Morocco FTA, and reflects actual commitments on tariff concessions made by the two parties. All of the available literature reviewed predates the public release of the actual agreement, and is based on a hypothetical U.S.-Morocco FTA through various assumptions about tariff concessions.

[10] John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the Free Trade Agreements and US Trade Policy Conference, Institute for International Economics (Washington, DC: May 7-8, 2003); Akka Ait El Mekki and Wallace E. Tyner, "The Moroccan-American FTA: Effects on the Agricultural and Food Sectors in Morocco," May 2004, found at *http://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1462,* retrieved May 17, 2004; and Drusilla K. Brown, Kozo Kiyota, and Robert M. Stern, "Computational Analysis of the U.S. Bilateral Free Trade Agreements with Central America, Australia, and Morocco," Feb. 8, 2004, found at *http://www.fordschool.umich.edu/rsie/seminar/BrownKiyotaStern.pdf,* retrieved March 2004, p. 5.

These studies all found a positive, but very small effect of a hypothetical U.S.-Morocco FTA on the United States. These studies generally estimated the effects of removing all tariffs and selected non-tariff barriers, although one, with the largest estimated effects, included a very large service barrier tariff equivalent. The welfare benefit to the United States estimated by these studies ranged from 0 percent change in U.S. GDP to a 0.06 percent change in U.S. GNP. The USITC welfare estimate was similarly small and within the range of estimates in the literature.

To more directly compare the outcomes of other models to that of the Commission, the USITC model was used to prepare welfare estimates using the tariff assumptions of the other models. The objective of applying the alternative trade barriers to the USITC model was to determine the extent to which the results obtained by other authors depended on the assumptions made about barriers, as opposed to other differences among the models. For the most part, differences did not depend on assumptions related to trade barriers, but on the assumptions related to substitution elasticities, investment effects, and scale economies.

## Interested Parties

Interested party views of the U.S.-Morocco FTA, submitted in writing to the Commission, expressed a wide range of opinions. Four submissions (American Dehydrated Onion and Garlic Association, California Olive Association, National Council of Textile Organizations, and Olive Growers Council of California) expressed significant concerns about or opposition to the U.S.-Morocco FTA based on the view that the FTA would provide benefits to Morocco while harming U.S. domestic production. One submission (Florida Citrus Mutual) expressed concerns about specific provisions of the U.S.-Morocco FTA, but did not oppose it. Three of the submissions (Association of Food Industries, Inc.; Footwear Distributors and Retailers of America; and Lloyd W. Benjamin, III, President, Indiana State University) expressed support for the FTA.

# CHAPTER 1
# Introduction

## Purpose of the Report

This report analyzes the likely impact of the U.S.-Morocco Free Trade Agreement (FTA) on the U.S. economy as a whole and on specific industry sectors and the interests of U.S. consumers. The U.S. International Trade Commission (USITC or "the Commission") initiated work on this fact-finding investigation in accordance with section 2104(f) of the Trade Act of 2002 following receipt of a letter of request from the United States Trade Representative (USTR) on March 8, 2004.[1]

As specified in section 2104(f)(2)-(3) of the Trade Act, the Commission shall submit to the President and the Congress (not later than 90 calendar days after the President enters into the agreement) a report assessing the likely impact of the U.S.-Morocco FTA on the U.S. economy as a whole and on specific industry sectors, including the impact the FTA will have on the gross domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the FTA, and the interests of the U.S. consumers.[2]

Section 2104(f)(3) provides that the Commission, in preparing its assessment, review available economic assessments regarding the agreement, including literature regarding any substantially equivalent proposed agreement, and provide in its assessment a description of the analyses used and conclusions drawn in such literature and a discussion of areas of consensus and divergence between the various analyses and conclusions, including those of the Commission regarding the FTA.

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[1] A copy of the request letter from USTR is in appendix A. The Commission's *Federal Register* notice of institution for this investigation is in appendix B.

[2] On Oct. 3, 2002, President Bush authorized and directed USTR to notify Congress of the President's intention to initiate FTA negotiations with Morocco. Negotiations were launched on Jan. 21, 2003. On March 2, 2004, USTR announced that the United States and Morocco had successfully concluded negotiations for the FTA. President Bush signed a letter notifying Congress of the intent to enter into the U.S.-Morocco FTA on March 8, 2004, starting the countdown for when the agreement could be signed. Most of the text of the U.S.-Morocco FTA was made available to the general public on April 2, 2004. On April 7, 2004, USTR received reports from 32 trade advisory groups commenting on the U.S.-Morocco FTA. The U.S.-Morocco FTA was signed by the two parties on June 15, 2004. USTR, "USTR Resources: U.S.-Morocco Free Trade Agreement," found at *http://www.ustr.gov/new/fta/morocco.htm*, retrieved June 21, 2004.

## Scope of the Report

This report provides an analysis of the likely impact of the U.S.-Morocco FTA on the U.S. economy as a whole and on specific sectors and the interests of U.S. consumers. It includes a brief profile of the Moroccan economy as well as a summary of the U.S.-Morocco FTA. It also includes a review of relevant economic literature on the FTA.

The Commission's analysis examines all 22 chapters of the final text of the U.S.-Morocco FTA including its annexes and associated side letters.[3] A quantitative assessment is conducted for chapters 2 through 4 of the FTA (i.e., liberalization of tariffs and selected nontariff barriers) that increase market access on a bilateral basis for U.S. and Moroccan products. This computational analysis is supplemented with a qualitative analysis of the potential impact of increased market access on certain product sectors including citrus fruit; grains; oilseeds; olives; sardines; textiles and apparel; and such service sectors as banking and securities services, insurance, telecommunications services, and e-commerce (FTA chapters 5, 10 through 14, and 16). A qualitative assessment also is conducted for negotiated objectives that facilitate trade (FTA chapters 6, 7, and 18); enhance investment opportunities (FTA chapters 10 and 12); and improve the regulatory environment (FTA chapters 8, 9, 15 through 17, and 20).

## Approach of the Report

To assess the effects of the U.S.-Morocco FTA on the U.S. economy as a whole and specific economic sectors, the Commission employs an approach that combines quantitative and qualitative analyses. In this report, the Commission quantifies the impact of the FTA to the extent that the necessary data are available. Thus, the quantitative assessment is limited to the liberalization of tariffs and the portion of tariff-rate quotas collected as duties. Remaining components of the FTA are analyzed using qualitative analysis. Combining the quantitative and qualitative analyses provides a comprehensive assessment of the impact of the FTA on the U.S. economy.

A qualitative analysis is conducted to assess the impact of the market access provisions of the U.S.-Morocco FTA for U.S. product and service sectors that were selected based upon a comprehensive examination and consideration of the following: examination of the trade liberalization schedules of the U.S.-Morocco FTA to assess the relative liberalization of sectoral trade with respect to tariffs and nontariff measures; U.S.-Morocco bilateral trade flows; assessments of the apparent sensitivity of specific industries, commodities, and service sectors; and determinations made based on the expertise of Commission industry analysts. This qualitative assessment takes into account the staging process under the FTA as tariff and nontariff barriers are phased out over time.

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[3] The preamble and chapters 1, 19, 21, and 22 of the U.S.-Morocco FTA address primarily administrative and legal matters with respect to the agreement and are not analyzed in this report.

Other nonquantifiable effects of the U.S.-Morocco FTA are associated with provisions with respect to trade in services, investment, trade facilitation provisions (including customs administration, transparency, and technical barriers to trade), and the regulatory environment (including intellectual property rights, government procurement, trade remedies, labor, and the environment). These effects are harder to quantify due to the lack of necessary data and the intangible nature of some of these effects.

For the quantitative assessment of the economywide effects of the U.S.-Morocco FTA, the Commission employs a multicountry model with economywide coverage (a global computable general equilibrium model). This USITC model is based on the Global Trade Analysis Project (GTAP) database, which is described more fully in appendix C. Unlike the qualitative analysis, which is done at a disaggregated level, the USITC model estimates the likely trade and economic impact of the tariff and tariff rate quota (TRQ) reductions or elimination of the U.S.-Morocco FTA for 23 aggregated sectors.[4] The commodity aggregation adopted here identifies sectors that have relatively high domestic-world price gaps due to tariffs and TRQs and relatively large trade flows. The economies covered in the analysis included the United States and Morocco, as well as 11 regional aggregates representing the rest of the world.

The GTAP database, which represents the global economy in 2001, was adjusted to reflect expected economic growth in the world and in the two FTA partners to 2005, the year the proposed U.S.-Morocco FTA is scheduled to enter into force. The adjusted database reflects the scheduled removal of textile and apparel quotas under the Agreement on Textiles and Clothing, as well as other international agreements.[5] The analysis is static, and assumes the U.S.-Morocco FTA is fully implemented and its effects felt on January 1, 2005. In the model, the FTA's provisions are not phased in over time, nor are its effects assumed to be gradually realized over time. The modeled results can be considered to be long-run effects, after all adjustments have worked their way through the U.S. economy, of the fully implemented U.S.-Morocco FTA in a U.S. economy otherwise identical to the baseline 2005 economy.[6] A series of simulations was conducted to determine the sensitivity of impacts to the critical parameters that determine the response to changes in trade prices. The analysis and discussion of FTA impacts are based on the ranges obtained from the sensitivity analysis.

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[4] The relationship between the disaggregated sectors analyzed in chapter 3 of this report and the aggregated sectors used in the model is shown in table 4-3.

[5] In addition to reflecting the recently enacted U.S. FTAs with Chile and Singapore, the adjusted database also reflects Uruguay Round tariff reductions insofar as they are reflected in trade data projected to 2005. Moreover, the FTAs between Morocco and its trading partners are modeled for selected products where necessary data are available.

[6] Models are highly simplified descriptions of an economy; they depend on parameter estimates, and are subject to potential biases due to product and regional aggregations. The USITC model is discussed in more detail in appendix C of this report.

The literature review for this investigation includes a description of analyses of the economic effects of FTAs substantially similar to the proposed U.S.-Morocco FTA. The economic literature reviewed was drawn from relevant academic, public sector, and private sector institutions.

Data and other information for the study were obtained from interviews with government and industry contacts, official reports of the USTR advisory committees, written submissions to the Commission,[7] industry reports, and the GTAP database. Other data sources include the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Department of State, the International Monetary Fund (IMF), the World Trade Organization (WTO), and the Moroccan Ministry of Foreign Trade (Ministère du Commerce Extérieur).

## Organization of the Report

Chapter 2 of this report presents an overview of the U.S.-Morocco FTA. Chapter 3 presents the results of a qualitative analysis of the likely impact of the U.S.-Morocco FTA on selected sectors. Chapter 4 reports quantitative estimates of the likely trade and economywide effects for the United States of increased market access due to the removal of tariff and selected nontariff barriers (for which tariff equivalents were available) in the United States and Morocco. The assessment of the U.S.-Morocco FTA reports a number of measures of U.S. economic activity, including exports, imports, production, and employment. Chapter 5 discusses the potential impact of trade facilitation provisions of the U.S.-Morocco FTA on the United States. Chapter 6 discusses the investment provisions of the U.S.-Morocco FTA, and provides a qualitative assessment of the potential impact on the United States. Chapter 7 provides a survey of the provisions of the U.S.-Morocco FTA with respect to the regulatory environment-including intellectual property provisions and provisions with respect to trade remedies (safeguards and dispute settlement), labor, and the environment-and provides qualitative assessments of the potential impacts on the United States. Chapter 8 presents the literature review as well as the comparison between the Commission's findings and the findings from studies reviewed. The report concludes with chapter 9, an overview of the positions and views of interested parties who responded to the Commission's Federal Register notice inviting public submissions on the impact of the U.S.-Morocco FTA.

## Country Profile

Figure 1-1 provides an economic profile of Morocco, presenting data on the recent macroeconomic indicators, important products in Moroccan world trade, Morocco's leading trade partners, and the major products in bilateral trade with the United States. The overview highlights key features of the Moroccan economy relevant to the Commission's assessment of the U.S.-Morocco FTA.

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[7] The Commission scheduled a public hearing in connection with this investigation for April 29, 2004. That hearing was canceled, as the scheduled witnesses elected to have their written submissions serve as substitutes for their oral statements. Copies of the *Federal Register* notices for this investigation are in appendix B.

# MOROCCO

## ECONOMIC PROFILE

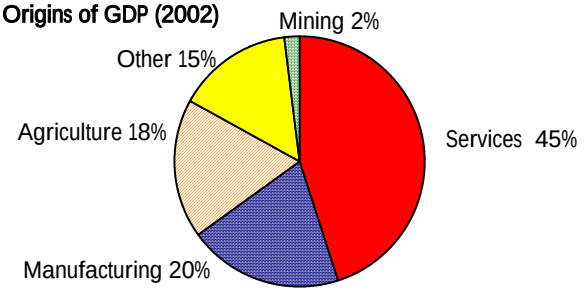
**Economic indicators**

| | 2002 | 2003 |
|---|---|---|
| Population (mn) | 30.1 | 30.5 |
| GDP (US$ bn, PPP) | 112.7 | 120.7 |
| GDP per capita (US$, PPP) | 3,745 | 3,888 |
| Real GDP growth (%) | 3.0 | 5.2 |
| Goods exports (US$ mn) | 7,839 | 8,466 |
| Goods imports (US$ mn) | 10,900 | 12,752 |
| Trade balance (US$ mn) | -3,061 | -4,286 |

Note.-PPP indicates purchasing power parity measures used.

Sources: IMF, World Economic Outlook Database, April 2004, and World Bank, Morocco at a Glance, Aug. 2003.

**Origins of GDP (2002)**




Source: Economist Intelligence Unit, Viewswire, Morocco: Economic Structure, April 2004.

**Main trade commodities, US$ million, 2002**

| Exports | | Imports | |
|---|---|---|---|
| Apparel & footwear | 2,616 | Cereals | 749 |
| Electronics | 883 | Motor vehicles | 582 |
| Fish and shellfish | 918 | Computers | 3,576 |
| Fertilizer | 332 | Machinery | 906 |
| Inorganic chemicals | 471 | Medicines | 181 |
| Petroleum | 286 | Petroleum | 1,386 |
| Phosphates | 364 | Yarn and fabric | 1,483 |

**Main trade partners, percent of total, 2002**

| Export markets | | Suppliers | |
|---|---|---|---|
| EU total | 74.5 | EU total | 49.4 |
| France | 26.7 | France | 21.0 |
| Spain | 14.4 | Spain | 12.7 |
| United Kingdom | 8.0 | Italy | 6.4 |
| Italy | 5.6 | Germany | 5.3 |
| United States | 3.4 | United States | 4.6 |

Source: UN Trade Statistics

**Economic overview**

- Morocco is a middle income developing country. Its economy, measured by gross domestic product (GDP), is 1.1 percent of U.S. GDP. Morocco's population is about 10 percent of U.S. population.
- Services account for almost one-half Morocco's GDP. Tourism ranks as the second most important source of foreign currency after transfers from Moroccans resident aboard.
- The agriculture sector employs more than one-third of Morocco's labor force. Strong economic growth in 2003 was largely due to agricultural performance.
- Morocco is the world's leading exporter and third largest producer (after the United States and China) of phosphates. Related indutries include the production of fertilizers and phosphoric acid. Morocco also has a diverse manufacturing base. Apparel and footwear accounted for one-third of Morocco's total exports in 2002.
- In the World Trade Organization (WTO), Morocco has bound its tariffs at ad valorem rates ranging from zero to 380 percent. According to WTO estimates, Morocco's simple average bound rate is approzimately 42 percent.
- Morocco has been liberalizing its trade regime since the late 1990's, resulting in more efficient and more transparent customs administration.
- Geographic proximity and historical ties to Spain and France have created longstanding economic and trade linkages between Morocco and Europe.
- Morocco has regional FTAs with:
  - European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland). In force since 1999. Eliminates tariffs on industrial goods, fish products, and processed agricultural goods over12 years. Bilateral agricultural agreements with Iceland, Norway, and Switzerland.
  - European Union. In force since 2000. Eliminates tariffs on indutrials goods over 12 years.
  - Arab free trade area. In force since 1998. Eliminates tariffs over 10 years. Other members are: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syra, Tunisia, United Arab Emirates (UAE), and Yemen.
  - An FTA with the Gulf Cooperatin Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) is in the early stages of discussions.
- Morocco has negotiated bilateral FTAs with:
  - Turkey (signed Aprill 2004), and
  - Egypt, Jordan, and Tunisia (eff. 1999).

## ECONOMIC OVERVIEW-Continued

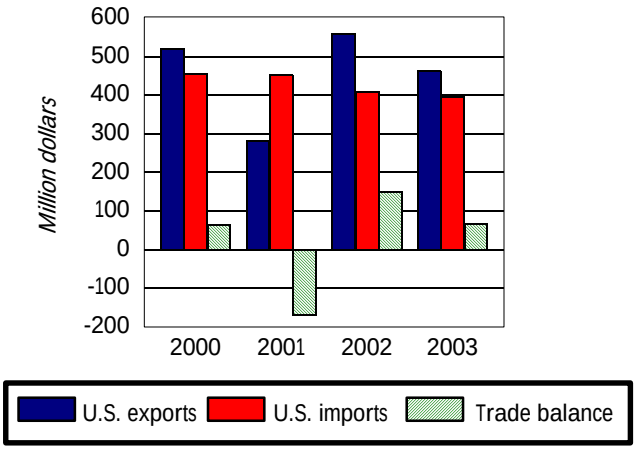
❑ U.S. exports to Morocco
- Exports valued at $462 million in 2003.
- Morocco ranked as the 69th largest market for U.S. exports in 2003.

**U.S. exports, US$ million, 2003**

| | |
|---|---|
| Aircraft | 107 |
| Soybeans | 55 |
| Corn, other than seed corn | 35 |
| Wheat (other than durum wheat) and meslin | 26 |
| Aircraft parts | 18 |
| Bituminous coal | 18 |
| Durum wheat | 14 |
| Sulfur | 9 |
| Soybean oil | 8 |
| Petroleum coke | 8 |

Source: Compiled from official statistics of the U.S. Department of Commerce.

❑ U.S. trade balance with Morocco
- U.S. exports to Morocco have fluctuated widely since 2000, ranging from a period low of $283 million in 2001, to a high of $560 in 2002.
- The $169 million U.S. trade deficit with Morocco in 2001 reflected sharply lower U.S exports of cereals and aircraft that year.




Source: Compiled from official statistics of the U.S. Department of Commerce.

❑ U.S. imports from Morocco
- Imports valued at $396 million in 2003.
- Morocco ranked as the 82nd largest U.S. supplier in 2003.
- Approximately 5 percent of U.S. imports from Morocco, valued at nearly $20 million, entered duty-free under the U.S. Generalized System of Preferences program in 2003.
- In all, about 60 percent of shipments from Moroco entered the United States duty free in 2003 on a normal trade relations basis or under GSP or other U.S. provisions.

**Leading U.S. imports, US$ million, 2003**

| | |
|---|---|
| Transistors, other than photosensitive, with a dissipation rating of less than 1 W | 726 |
| Electrical monolithic integrated circuits other than digital | 615 |
| Other mineral substances, nesoi | 267 |
| Women's/girls' briefs and panties of manmade fibers, knitted or crocheted | 163 |
| Natural calcium phosphates, natural aluminum calcium phosphates, and phosphatic | 159 |
| Women's/girls' trousers, bib/brace overalls, breeches and shorts of cotton, not knitted or crocheted | 140 |
| Berries except barberries, dried | 135 |
| Olives (not green), in a saline solution, canned, pitted | 121 |
| Naphthas (ex. motor fuel)from petroleum oils and bitumin minerals 70% + by wt. from petrol oils | 110 |

Source: Complied form official stastics of the U.S. Department of Commerce.

# CHAPTER 2
# Overview of the U.S.-Morocco FTA

## Background on Free Trade Agreements

Like other free trade agreements (FTAs) to which the United States is a party,[1] the proposed agreement between the United States and Morocco would create a preferential regime with a specific, negotiated range of goods and services measures of mutual benefit or interest to the parties, and with commitments covering other trade-related matters. Under the FTA, duties on originating goods[2] would be phased out over periods of up to 18 years. The FTA would not cover every aspect of bilateral trade or give preferences to all goods under any tariff category; its rules of origin grant special tariff treatment to particular goods, and some tariff benefits are limited during the transition period. The preamble states that the FTA would strengthen the bilateral partnership, raise the standard of living in the two countries, enhance the competitiveness of firms in the member countries, set a structure of predictable rules on bilateral trade, build on commitments in the World Trade Organization (WTO),[3] and improve the business environment.

## Brief Summary of Treaty Provisions

### *Introduction*

The text of the U.S.-Morocco FTA[4] is largely modeled upon recent FTAs negotiated and implemented by the United States; some provisions draw upon multilateral instruments of the WTO or other treaties, or state that the same obligations apply under the FTA. For example, the text contains preferential agricultural tariff-rate quotas[5] (TRQs), as

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[1] The United States has FTAs with Israel, Canada, Mexico, Jordan, Singapore, and Chile to date.

[2] Goods are evaluated to identify the particular country to which they are attributable in the ordinary customs sense so as to determine whether they are eligible for either normal trade relations (NTR) or column 2 duty rates, in the case of the United States. Additional rules, more clearly described as "rules of preference," determine if a good that would otherwise be dutiable at NTR rates can be accorded a special duty rate upon importer compliance with Customs requirements. In U.S. FTAs, a good that meets all requirements is referred to as an originating good of the FTA partner in question, and the importer must claim the preference and establish eligibility to Customs' satisfaction.

[3] See Marrakesh Agreement Establishing the World Trade Organization (WTO), as posted on the web site of the WTO on April 2004, *http://www.wto.org/english/docs_e/legal_e/legal_e.htm.*

[4] The U.S.-Morocco FTA was signed by the two parties on June 15, 2004. The final text of the FTA is posted on the web site of the Office of the United States Trade Representative (USTR), *http://www.ustr.gov/new/fta/Morocco/final/index.htm.*

does the WTO. The U.S.-Morocco FTA includes express commitments to observe certain obligations found in WTO agreements between the parties, and these commitments exist separately even if the corresponding WTO agreement provisions were eliminated. Some FTA obligations deal with specific aspects of bilateral trade relations, and side letters provide for ongoing cooperation or cover other specific matters. The discussion is a brief summary of the text of the FTA chapters; it is not intended to interpret them or to identify the negotiators' intent.

## *Summary of Tariff Commitments*

The final text of the U.S.-Morocco FTA contains Morocco's French language schedule of concessions, the U.S. schedule, and the two partners' general notes and TRQ provisions, setting forth the tariff treatment of originating goods. Morocco would eliminate duties on many U.S. exports immediately, while phasing out duties on some U.S. agricultural goods (including TRQ categories) and more sensitive industrial products over periods of from 2 to 25 years. Morocco's base rates of duty commonly reach 50 percent ad valorem and in some cases—related to TRQ products and other sensitive agricultural imports—reach up to 324 percent. TRQs are proposed for originating U.S. beef and poultry meat, durum and common wheat, products related to durum or common wheat, almonds, sugar and some sugar-containing products, and apples. The schedule suggests that duty rate differentiation may occur at either the 8- or the 10-digit level.[6] The U.S. schedule of concessions would grant immediate duty-free access for most Moroccan industrial products, taking into account Morocco's status as a beneficiary of the U.S. Generalized System of Preferences (GSP) and existing U.S. normal trade relations rates of free on many tariff categories. Some Moroccan agricultural products would receive immediate duty-free access, while others would receive phased duty reductions over periods of up to 18 years. TRQs would apply to Moroccan beef, dairy products, sugar and sugar-containing products, peanuts, tobacco, cotton fibers, wine, dried onions and garlic, and various prepared tomato products.

## *Chapter-by-Chapter Review*

### Chapter 1—Establishment and Definitions

The parties set forth their agreement to set up a free trade area that is consistent with the GATT 1994, reaffirm that existing bilateral rights and obligations continue to

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[5] In a TRQ, two rate lines are minimally required, with one according a lower duty rate to imports up to a specified trigger quantity, and a second one according a higher duty rate to all other shipments. It should be noted that an importer may choose to enter a shipment into the United States under either rate line, until the trigger quantity is filled, and that this might occur where unit values of the good in question vary by country, quality, time of entry, etc. In the Uruguay Round, as of Jan. 1, 1995, TRQs replaced prior absolute quotas imposed under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) or other measures. The over-TRQ duty rate is intended to be economically prohibitive, thus restricting imports to the in-quota or trigger quantity.

[6] In the U.S. tariff schedule, 10-digit nonlegal statistical reporting categories can not have individual duty rates.

apply, and restate that nothing in the FTA is to be read as altering any legal obligation under another international pact. Among the general provisions, it is worth noting that the term "territory" is defined with respect to the United States as including the customs territory, U.S. and Puerto Rican foreign trade zones, and the undersea international economic zone (the coastal waters under U.S. legal control are presumably included), but not the insular possessions and not any area of outer space, but no such definition is provided for Morocco. "Goods of a party" are defined as those so treated in the GATT 1994 or the agreement's rules of origin, and also such other goods as the parties may agree. These two provisions differ from the corresponding provisions of other recent FTAs, in that the definition suggests a future agreed expansion of preferential treatment beyond originating goods.

## Chapter 2—National Treatment and Market Access

The commitments on national treatment made in this chapter are similar to the corresponding provisions of the GATT 1994 but apply only within the region. The chapter provides that the national treatment commitment, with respect to a regional level of government, is to be interpreted at that level of government rather than the national level. The parties agree to eliminate their customs duties on originating goods under the attached schedules,[7] to refrain from increasing any rate or imposing a new rate, and to apply the WTO Customs Valuation Agreement to determine the customs value of goods in trade. Other expressed commitments in the chapter are very similar to those included in recent FTAs to which the United States is a party. The parties would also be barred from adopting or expanding duty waivers related to performance requirements. Recognizing that GATT 1994 controls provisions on export price requirements and certain other areas, article 2.8 reiterates that the parties' rights under various WTO agreements—of which both are members—are dictated by those agreements.

As with other FTAs, administrative fees and formalities must be directly related to the cost of services rendered by governmental authorities, and certain fees must be limited to the cost of services rendered. The two countries would not be allowed to require "consular transactions, including related fees and charges" with respect to any importation of originating goods. All fees and charges on trade in goods are required to be published by means of the Internet. Annexes set forth each party's exclusions from coverage under the chapter, including U.S. log export controls and the Merchant Marine Act, and Moroccan exemptions on agricultural marketing arrangements for various goods and a few other limited categories; both parties exempt actions authorized by the WTO Dispute Settlement Body and the United States adds an exemption for actions authorized by the ATC.

With regard to scheduled tariff concessions, the base duty rates are the 2003 U.S. column 1-general rates of duty (although Morocco may be receiving duty-free entry

[7] See annex IV to the FTA and schedules for staging categories on tariff elimination.

under the GSP for some shipments under many tariff rate lines) and Morocco's 2003 duty rates applicable to U.S. goods. The following 12 staging categories (A through L) for annual duty reductions (in equal stages except as mentioned) are established, with three categories (U through W) applicable only to the United States: (A) immediate duty-free entry; (B) 2 stages; (C) 5 stages; (D) a 50-percent reduction in year 1, then 5 stages; (E) 8 stages; (F) 9 stages; (G) 10 stages; (H) 3-percent per year reductions for 5 years, then 6 stages; (I) 12 stages; (J) 15 stages; (K) delayed onset reductions starting in year 7 and continuing at varied levels through year 18; (L) continued duty-free entry; (U) immediate free access on goods of named HTS chapter 98 provisions; (V) immediate removal of duty pursuant to WTO schedules; and (W) duty-free access in year 9 for three named rate lines in HTS chapter 98.

## Chapter 3—Agriculture and Sanitary and Phytosanitary Measures

Under the U.S.-Morocco FTA, originating agricultural products would be given tariff concessions and TRQ access,[8] and are covered by various types of regulatory provisions to facilitate and regulate trade under the FTA. In addition, certain barriers to trade (particularly with respect to U.S. exports) would be eliminated, and the two parties agree to work together at the WTO and to administer agricultural measures in accordance with GATT 1994 and the WTO Agreement on Import Licensing Procedures. FTA TRQs are to be nondiscriminatory, transparent, minimally burdensome, responsive to market forces, and available to the public. Allocations of TRQ trigger levels are to be in commercially viable shipping quantities as requested by the importer, wherever possible—but no allocations are to be given to nongovernmental organizations and these bodies are to play no role in TRQ administration. Food aid and other noncommercial shipments cannot be counted against any applicable TRQ on a good. Export subsidies on sector goods are to be banned. The Joint Committee or subcommittee thereof is to handle any disputes or issues on these goods, as discussed below in the summary of FTA chapter 19.

A major subject of the chapter is bilateral agricultural safeguards on originating goods, the ceiling for which is limited to the lower of the prevailing most-favored-nation (MFN) duty rate or the MFN applied duty on the day before the date of entry into force of this FTA. Such safeguards cannot be applied after the tariff elimination period or after an agricultural good is free of duty under the FTA, and the text provides that they can apply only to over-TRQ quantities of imports.

Section B of the chapter covers all sanitary and phytosanitary measures on bilateral trade in originating goods. Again, the Joint Committee or its subcommittee will serve as a forum for discussions on these matters, and no other dispute settlement on these issues is allowed by the text.

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[8] Duties on eligible products not receiving immediate duty-free access would be phased out over periods of up to 25 years; the TRQs would guarantee preferential access for covered shipments under new disciplines for TRQ administration, including protections against barriers to filling within-quota quantities.

U.S. annex 3-A.A sets forth rules for bilateral price-based safeguards and lists trigger prices for covered goods, while Moroccan annex 3-A.B on quantity-based safeguards is not yet available. Annex 3-B covers Moroccan import licensing for U.S. high-quality beef for sale to designated hotels and restaurants, while annex 3-C deals with a new Moroccan wheat auction system and licenses to be given to U.S. exporters. Side letters deal with U.S. beef and poultry safety and commit Morocco's veterinary services and the U.S. Food Safety Inspection Service to "work together in good faith" to determine how these goods will be certified as safe.

## Chapter 4—Textiles and Apparel

The tariff elimination provisions on originating sector goods would operate under the terms of staging categories A, D, F, or H.[9] Articles eligible for GSP treatment on the day before the date of entry into force would be free of duty effective from the date of such designation. Annex 4-B would eliminate duties for specified quantities of certain items, and shipments in additional quantities would be subject to category D staging. Importers of these items must declare at importation that duty-free status is warranted. Either party could ask the other to consult on accelerating the elimination of customs duties.

The chapter discusses special bilateral textile safeguard measures at some length. A party could increase the duty rate on originating goods to the MFN rate in effect at the time the action is taken or the MFN rate at the date of entry into force of the FTA, whichever is lower, but only after investigation by a competent authority. No such safeguard could be maintained for more than 3 years, with a 2-year extension, and action may not be taken more than 10 years after the elimination of customs duties for that good. The party imposing the safeguard would be required to provide trade-liberalizing compensation. The parties could still restrain imports in accordance with the WTO ATC or Safeguards Agreements.

Rules of origin on originating sector goods could be discussed in separate consultations from those on other goods. De minimis foreign content (usually 7 percent by weight for this sector) is allowed, and other provisions would regulate the origin of goods put up in sets, create transition-period TRQs for named apparel and tariff preference levels (TPLs) for specified nonoriginating fabrics and apparel, and establish a permanent TPL relating to nonoriginating cotton fabrics. Other provisions deal with customs cooperation on sector issues, verification, and enforcement.

Annex 4-A contains specific rules of origin for goods imported under HS chapters 42, 50-63, 70, and 94 based on changes in HS tariff classification from third-country inputs to more advanced goods made or processed in one or both parties. For some basic textile products such as unprocessed wool or cotton, a "fiber forward"

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[9] As described above, the staging categories are: (A) immediate duty-free entry, (D) a 50-percent reduction in year 1, then 5 stages, (F) 9 stages, and (H) 3 percent per year reductions for 5 years, then 6 stages.

principle[10] would determine FTA origin; for textile luggage, a "fabric forward" rule would appear to apply; and for apparel and many other made-up goods, a "yarn forward" principle would generally determine eligibility for FTA benefits. Some other FTAs use somewhat simpler rules for goods of this sector; for instance, the NAFTA utilizes mainly a yarn-forward standard. The U.S.-Jordan FTA uses different rules for textile and apparel articles, specifying process requirements rather than tariff shifts as set forth in general note 18(d).

## Chapter 5—Rules of Origin

The duty benefits of the FTA would apply to originating goods, except as otherwise provided.[11] The discipline in the chapter covers all goods, but product-specific rules for textile and apparel goods are detailed in chapter 4 as noted above and such "tariff shift" rules would also cover other tariff categories. In many respects, the origin criteria of this FTA resemble the corresponding provisions of the Israel and Jordan FTAs more than those of other U.S. FTAs. For most nontextile product categories, FTA eligibility could apply to those goods wholly obtained in one or both parties with no third-country contribution; those comprising new or different articles of commerce grown, produced, or manufactured entirely in the territory of one or both parties with a minimum of 35 percent of the direct costs of processing content attributable to the parties; or those meeting other stated requirements. The latter category comprises goods in specified sectors in which each nonoriginating material undergoes the applicable tariff change specified in the chapter's annex as a result of production within the region, or goods that satisfy value content or other specified requirements. Under article 5.2, the term "new or different article of commerce" is defined to mean goods that are substantially transformed, a term that under traditional legal analysis could be broader in coverage than change-of-tariff-classification rules alone would suggest. Certain nonqualifying operations (simple combining or packaging and mere diluting with water) are specified as non-origin-conferring for the FTA. Goods containing inputs from the parties would be eligible without regard to other criteria. Since this FTA treats most tariff categories under criteria that appear to track U.S. GSP rules[12] and requires a basic regional value contribution,[13] no general exemption for de minimis foreign content exists. Other criteria related to origin under the U.S.-Morocco FTA also are set, and these provisions are very similar to the commitments in other recent U.S. FTAs.

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[10] As one example of the rules' operation, a good of chapter 56 or 58 produced from man-made filaments or staple fibers could not be considered originating unless those filaments or fibers were made in the FTA region.

[11] As noted above, during the staging period, in-quota treatment under TRQs is available only to "qualifying goods" (goods meeting agreement ROOs when U.S. contribution is treated as coming from a nonparty).

[12] See general note 4 to the HTS and title V of the Trade Act of 1974 (19 U.S.C. 2461 et seq.) and pertinent Customs regulations

[13] Articles 5.4 through 5.6 set forth rules on computing value contribution.

As with other FTAs, goods must be shipped without substantive change from one party to the other in order to qualify for benefits, which may assist in the enforcement of the agreement's requirements. A claim for FTA benefits would be considered a certification of compliance; importers must be able to establish this status to customs authorities in a thorough declaration. Findings of fact and legal conclusions would be needed for a party to deny a claim. The parties would be required to consult and cooperate on the chapter's subject matter, using ad hoc committees and working groups. Moreover, the parties could later discuss regional accumulation as to materials produced in the two countries and how they are counted for value content purposes.

Some "products of" a party in the ordinary customs sense, goods now receiving GSP treatment, and goods shipped from one party to the other, may not qualify for FTA treatment. However, it is not possible to take FTA rules of origin fully into account in this report, to state whether they are "tighter" than those of other FTAs, or to provide a "bottom line" assessment of the percentage of goods now in trade that would qualify under these rules or the type and volume of trade that might come under them as sourcing patterns change. To quantify the potential impact of the draft rules, the following information about the two partners would be needed: what goods would be traded bilaterally following FTA implementation, what firms make them in the FTA area, where their inputs originate and how these inputs are processed in the region, whether any value contribution thresholds imposed for particular goods are met, and whether eligible goods could in the future be made (assuming capacity, available inputs, and so on). For a few products some of this information may be available for use in an economic model, but for most it is necessary to assume that importers would claim FTA benefits for all current bilateral trade (based on ordinary substantial transformation) and that all such goods would qualify.

## Chapter 6—Customs Administration

This chapter on customs procedures and their implementation generally tracks both other FTAs and existing U.S. law and regulations to a large extent. The United States would assist Morocco's customs authorities by providing technical assistance in various areas, and the parties would continue to explore new "avenues of cooperation." Other provisions deal with review and appeal, penalties, advance rulings, and technical cooperation and implementation. With respect to Morocco, the requirement that importers be able to seek advance rulings does not enter into effect until 2 years after the date of entry into force; the United States already has a system allowing requests for advance rulings.

## Chapter 7—Technical Barriers to Trade

This chapter, whose provisions are applicable only to "central government bodies" under article 7.1.1, is directed toward encouraging the full implementation by the parties of the WTO agreement on the same subject and reflects the same principles and obligations. It rests on enhanced cooperation and the goal of trade facilitation,

and would provide that each party must accredit or recognize the conformity assessment bodies of the other party or in the absence of acceptance to explain why. The parties also commit to allowing their nationals to participate in standards development on a national treatment basis by governmental bodies, and to recommending the same transparency for nongovernmental standards bodies. Several mechanisms to facilitate this participation are established, and the two parties agree to implement this more open approach within 5 years from the date of entry into force of the FTA. A coordinator is designated for each party to monitor implementation; an information exchange provision requires each government to respond to all inquiries within a reasonable time.

## Chapter 8—Safeguards

This chapter would provide the legal framework to allow bilateral safeguards on originating goods, on the same basis as other recent FTAs and following principles already in U.S. law but with provisional safeguards allowed in some cases. Notification of the other party and of the WTO is required, and parties must cooperate in investigating such situations. An FTA safeguard designed to remedy the serious injury and to facilitate adjustment could be imposed for 3 years plus a possible 2-year extension, or up to 5 years after the elimination of duties on originating goods (though with the consent of the exporting party an FTA safeguard could continue after that point). The measures must be progressively liberalized, and only one FTA safeguard can ever be imposed on a particular originating good. In limited circumstances, where delay would cause harm that would be difficult to repair, a provisional safeguard could be imposed for not over 200 days. The rate of duty to be applied at the end of a safeguard is the FTA rate that would have been in effect without the safeguard. Under the chapter, the parties agree to try to provide compensation that would be mutually accepted and would liberalize trade. Although the United States already employs the same procedures under national law, the changes required to be made by Morocco are not known. Each party would retain all rights and obligations of the WTO Agreement on Safeguards but gain none under the FTA.[14]

## Chapter 9—Government Procurement

This chapter covers procurement by any contractual means where the value concerned exceeds thresholds of $175,000 for goods and services and $6,725,000 for construction services (under a set currency conversion). It sets out definitions, general principles such as national treatment and nondiscrimination, and control over the rules of origin used in the normal course of trade. The provisions would also set requirements for publication of notice of intended procurement, time frames,

[14] According to the WTO web site, "Morocco has no legislation concerning GATT Article XIX or emergency safeguard measures. While its foreign trade regulations provide for anti-dumping and countervailing measures, these have never been used." Thus, the FTA provisions would provide clear commitments applicable to U.S. exports. See *http://www.wto.org/english/tratop_e/tpr_e/tp23_e.htm.*

documentation, technical specifications, tendering procedures, conditions for participation, information on awarded contracts and a mechanism for the review of supplier challenges. Threshold amounts for some purchases, covered entities, and types of purchases are covered in the annex to this chapter.

## Chapter 10—Investment

This chapter provides rules on measures of either party relating to investors from the other party and sets forth the types of investments to which it would apply, with financial services covered separately. Each party would be required to give national and MFN treatment to investors of the other party and covered investments. The treatment of investors under the FTA must comply with customary international law. Expropriation could be only for a public purpose; it must be nondiscriminatory and occur upon payment of prompt, adequate compensation in accordance with due process of law. Each party must permit all transfers relating to a covered investment to be made freely and without delay. The provisions cover specific types of transfers, such as contributions to capital, payment of interest, or payments under contracts. The parties could not require the exportation of a given level or percentage of goods, require local content, or give preferential treatment of goods produced within its territory. Neither party could require that senior management or boards of directors be of any particular nationality. The benefits of this chapter could only be denied in limited, delineated instances. The chapter also deals with nonconforming measures, special formalities and information requirements and provides for consultation and negotiation of disputes.

Section B of this chapter provides detailed information and procedures on investor-state dispute settlement relating to the FTA, including submission of claims to arbitration, selection of arbitrators, conduct of the arbitration, transparency, governing law, and awards of monetary damages (not including punitive damages) or restitution. Under the terms of these provisions, each party would give its consent to claim submission under these provisions, and the awards made by any tribunal would have binding force only between the disputants and with regard to the particular case. Section C of the chapter contains definitions of terms, including "investment" and the various instruments involved; both public entities and private persons would be covered by the definition of "investor." An annex defines "customary international law" for purposes of the chapter, while another deals with expropriation (direct and indirect) in some detail. To constitute a covered expropriation, a party's action or series of actions must interfere "with a tangible or intangible property right or property interest in an investment" based on clear transfers of title or on case-by-case inquiry. Other annexes deal with the service of documents in such matters, a possible future appellate body, and the time for submitting a claim to arbitration.

## Chapter 11—Cross-Border Trade in Services

The services measures covered by the chapter would include those of central, regional, or local governments and authorities and by nongovernment bodies, other than

financial services, air services in most cases, government procurement, subsidies, and grants. National and MFN treatment on covered services would be guaranteed. No local presence may be required, and regulation of services and qualification requirements may not be unduly burdensome. There are transparency requirements in addition to those set out in the chapter on transparency. The parties may recognize education, experience, licenses or certifications obtained in a third country, but neither party is required to recognize comparable education or other credentials obtained in the other party. The benefits of this chapter may be denied under limited circumstances, if the service supplier is controlled by persons of a nonparty. Key terms for this chapter are defined in article 11.13. Express delivery services are addressed in an annex; the scope of coverage is defined, a commitment to continued open access is made, and the relationship between covered services and Morocco's postal monopoly is delineated. Another annex discusses professional services and would establish a professional services working group to develop mutually recognized professional standards.

## Chapter 12—Financial Services

Under this chapter, each party must accord national treatment and MFN treatment to investors of the other party and provide market access for financial institutions without limitations on the number of financial institutions, value of transactions, number of service operations, or number of persons employed. Cross-border trade in financial services must be allowed, and each party must permit a financial institution of the other to provide new financial services that it would permit its own institutions to provide without additional legislative action. Neither party is required to furnish or allow access to information related to individual customers or confidential information the disclosure of which would impede law enforcement, be contrary to the public interest, or prejudice legitimate commercial concerns. Pursuant to the chapter, a party could not require financial institutions of the other party to hire individuals of a particular nationality or require more than a simple majority of the board of directors to be nationals or residents of the party. Provisions are made for nonconforming measures and exceptions. The parties agree that transparent regulations and policies are important, commit to publishing in advance all regulations of general application, and agree to maintain or establish mechanisms to respond to inquiries from interested persons. Where a party requires membership in a self-regulatory organization, the chapter provides that such organizations are also subject to some of the obligations of this chapter. The two parties state that they recognize the importance of maintaining and developing expedited procedures for offering insurance services. To deal with these provisions, the chapter establishes a financial services committee. Consultations and dispute resolution are discussed and cross referenced to the provisions covering dispute settlement procedures. An annex contains additional provisions on insurance, banking, and portfolio management.

## Chapter 13—Telecommunications

Under this chapter, each party must ensure that enterprises of the other party will have access to and use of any public telecommunications transport network and service offered in its territory or across its borders, on reasonable and nondiscriminatory

terms and conditions. Various specific commitments are listed, and no conditions may be imposed except as necessary. For major suppliers of the other party, a party is required to accord national treatment relative to its own subsidiaries, affiliates, or nonaffiliated supplier with services at any technically feasible point, in a timely fashion, and of no less favorable quality. Competitive safeguards relating to monopolies and the resale of covered services are addressed.

Other areas of telecommunications services are also discussed. Interconnection options are listed, and interconnection offers must be publicly available. The chapter deals with the provisioning and pricing of leased circuit services, collocation, and access to poles, ducts, conduits, and rights of way. Procedures for the allocation and use of scarce telecommunications resources must be administered in an objective, timely, transparent, and nondiscriminatory manner; dispute resolution and appeals are covered. Each party is required to make all legal and regulatory standards publically available, ensure that its national telecommunications regulatory body is independent of service providers, and authorize any regulatory body to enforce compliance relating to FTA obligations. The parties can choose not to apply regulation where it is not necessary.

## Chapter 14—Electronic Commerce

The subject matter of this chapter is not covered by the WTO in explicit commitments. An FTA party cannot apply customs duties or other duties, fees, or charges on or in connection with the importation or exportation of digital products on a carrier medium or sent by electronic transmission, and the parties must accord nondiscriminatory treatment to digital products. Each party must base customs value findings on the cost or value of the imported carrier medium alone, without regard to the cost or value of the stored digital product. A party cannot accord less favorable treatment to some digital products on the basis on the nationality of the author, performer, producer, developer, or distributor of the products or the grounds that the digital products were created, stored, transmitted, or published outside its territory; certain exceptions apply with regard to nonconforming measures in the investment, services and financial services chapters.

## Chapter 15—Intellectual Property Rights

The provisions of this chapter are quite detailed. Under its terms, each party must ratify or accede to a list of international agreements on intellectual property rights (IPR).[15]

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[15] The listed pacts are the Patent Cooperation Treaty, as revised and amended (1970), the Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite (1974), the Protocol relating to the Madrid Agreement Concerning the International Registration of Marks (1989), the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1980), the International Convention for the Protection of New Varieties of Plants (1991), the Trademark Law Treaty (1994), the World Intellectual Property Organization (WIPO) Copyright Treaty (1996), and the WIPO Performances and Phonograms Treaty (1996). Each party must also use its best efforts to ratify or accede to the Patent Law Treaty (2000) and the Hague Agreement Concerning the International Registration of Industrial Designs (1999).

According to the chapter, the parties may implement more extensive protection in their respective national laws. As a key obligation, national treatment must be granted by each partner to nationals of the other party, and the FTA applies to both existing subject matter and prior acts. Each party must ensure that all laws, regulations, and procedures concerning the protection or enforcement of IPR will be in writing and will be published or otherwise made publicly available. The discussion on IPR in chapter 7 of this report discusses the major achievements of this FTA and the differences between this FTA and the WTO TRIPs Agreement. The major differences include longer terms of protection under the FTA, specific coverage of electronic and digital media, and increased enforcement measures. This FTA would also grant authors, performers, and producers the right to authorize or prohibit the importation of copies of the work, even authorized copies that were produced outside the territory of the party.

The stronger enforcement provisions of the FTA include criminal and civil liability for the knowing circumvention of effective technological measures to protect works, trafficking in devices intended to circumvent such measures, removing or altering rights management information, or trafficking in works from which the rights management information has been removed or altered. Encrypted program-carrying satellite signals are protected by criminal and civil sanctions.

Final judicial decisions and administrative rulings pertaining to the enforcement of intellectual property rights must be in writing, published, and publicly available. In civil judicial proceedings, the rights holder may request destruction of goods that have been found to be pirated or bear counterfeit marks, except in exceptional cases. Judicial authorities are to have the authority to order the infringer to identify third parties involved in the production or distribution of the infringing goods or services and may fine or imprison persons who fail to abide by valid court orders.

Two other commitments are included. First, each party is obliged to provide appropriate criminal procedures and penalties at least to cases of willful trademark counterfeiting or copyright or related rights piracy on a commercial scale. Second, the parties must also provide legal incentives for service providers to cooperate with rights holders and limitations on liability.

## Chapter 16—Labor

In this chapter, the parties reaffirm their obligations as members of the International Labor Organization, and they agree to try both to make their respective domestic laws consistent with international standards and to improve those standards. The parties recognize that it is inappropriate to encourage trade or investment by weakening or reducing the protection afforded in domestic labor laws. Each party agrees to ensure that proceedings for the enforcement of its labor laws must be fair, equitable, and transparent and promote public awareness of its labor laws. Under the chapter, each party is required to designate an office within its labor ministry to serve as a contact with the other party and the public. The chapter provides for cooperation and consultations; to accomplish this result, the parties agree to establish a labor cooperation mechanism, described in an annex.

## Chapter 17—Environment

Under this chapter, each party would ensure that its environmental protection laws provide for high levels of protection and strive to improve those laws, provide appropriate and effective remedies and sanctions for violations of environmental protection laws, provide opportunities for public participation, and promote public awareness. The parties agree that trade or investment should not be encouraged by weakening or reducing domestic legal protections. To that end, the parties agree to ensure that judicial, quasi-judicial, or administrative proceedings are available to sanction or remedy violations of environmental laws. Such proceedings must be fair, open, and equitable; comply with due process of law; and provide access to persons with a recognizable legal interest. The parties agree to pursue cooperative environmental activities and provide for environmental consultations.

## Chapter 18—Transparency

Transparency regarding the parties' actions under the FTA is the main commitment of the chapter, which provides structural rules to govern the application of the agreement. In general, these "public access and information" requirements are similar to those of other FTAs. Article 18.5 contains the FTA's anticorruption obligations, starting with the parties' "existing resolve to eliminate bribery and corruption in international trade and investment" by legal or other means, including criminal prosecution. Specific commitments as to the public officials of each party are also set forth, along with an obligation to protect informers and to work in other international fora to aid and support anticorruption provisions.

## Chapter 19—Administration of the Agreement

Chapter 19 sets up a joint committee of government officials of the two countries—chaired by the United States Trade Representative and the Minister for Trade for Morocco—to supervise the implementation and functioning of the FTA and consider all types of matters raised under it. The committee would meet at least annually to examine the operation of the agreement, provide transparency for the public, and address any environmental concerns arising out of the FTA.

## Chapter 20—Dispute Settlement

Though the parties commit to cooperate and consult in administering the FTA, one party could invoke dispute settlement if it believes that the other has an FTA-inconsistent measure or has failed to carry out an FTA obligation, or that a benefit it reasonably expected has not been given. A complaining party could choose an FTA forum or a WTO forum depending upon the subject matter of the dispute and whether the FTA contains substantive obligations thereon, if the latter exists; procedural rules about written notification are set forth. In consultations on covered issues, at the request of either party, a broad range of perspectives would be sought from nongovernmental entities. Dispute settlement panels would be regulated and would be required to deliver reports and findings within 180 days after appointment of a panel chair. If resolution of the dispute is impossible, the parties are directed to negotiate agreed compensation; a suspension of benefits of equivalent effect under the FTA is allowed, under panel

supervision and review. Annual monetary assessments can be claimed in U.S. dollars for an amount equal to 50 percent of the total benefit the panel deems to have been involved. Absent payment, an actual suspension of benefits could be undertaken in accord with the panel's report. A separate mechanism on disputes dealing with labor or environmental claims could result in an annual assessment of $15 million. A compliance review on a report can be requested of the same panel when a party believes that the other party has not corrected a situation of nonconformity or has nullified or impaired a concession, and the panel must issue a finding within 90 days. The joint committee must review the dispute settlement chapter's operation and effectiveness within 5 years of the FTA's implementation or within 6 months after the imposition of remedies in 5 proceedings under the chapter, whichever occurs first. No private right of action is given. An annex provides an inflation adjustment mechanism.

## Chapter 21—Exceptions

As in earlier agreements dealing with international trade, the chapter provides that each party can act as it deems necessary for protection of its own essential security. Taxation measures are excluded from FTA coverage, except as needed to give effect to the national treatment provisions of the GATT 1994 or certain other commitments; however, the FTA provisions on expropriation and submission of a claim to arbitration would nonetheless apply to a taxation measure claimed to be an expropriation or breach of investment agreement. The final article provides that where a party does invoke balance of payments measures on goods in trade, it must consult the other party and avoid impairing the relative advantage held by FTA goods of that party.

## Chapter 22—Final Provisions

This chapter contains the legal mechanisms for acceding to the FTA and putting it into force, an article on the legal significance of annexes, and another on dealing with WTO changes. Under article 22.6, the FTA would enter into force on the first day of the third month after the exchange of written notifications that domestic requirements have been met and other conditions. Any withdrawal would take effect 6 months after written notice. Unlike the U.S.-Chile FTA, but like the other recent U.S. FTAs (including the recent U.S.-Australia FTA and draft U.S. FTA with Central America and the Dominican Republic), the U.S.-Morocco FTA text authorizes other countries or groups of countries to join the FTA upon approval by the original parties.

## Additional Letters and Statements

In addition to side letters noted with respect to particular chapters, other letters accompany the FTA on subjects including labor and environmental cooperation; taxes; treatment of foreign workers; sanitary and phytosanitary cooperation; and technical assistance regarding trade remedy law, technical barriers to trade, and textiles. These documents represent additional clarification or understandings relating to the scope of FTA obligations in these subject areas.

# CHAPTER 3
# Sectoral Impact of Market Access Provisions of The U.S.-Morocco FTA

This chapter provides a qualitative assessment of the potential impact of the market access provisions of the U.S.-Morocco FTA with respect to bilateral merchandise and service trade. For manufactured goods and agricultural products (chapters 2-4 of the FTA), this includes analysis of the impact of tariff reductions, quota liberalization, and rules of origin provisions, on selected sectors of the U.S. economy. Product sectors selected for analysis (selection criteria are described below) are grains, oilseeds, olives, sardines, citrus fruit, and textiles and apparel. For services (chapters 11, 12, and 13 of the FTA), the analysis focuses on the impact of improved market access conditions and greater regulatory transparency for banking and securities services, insurance, and telecommunications services.

## Benefits from Trade Liberalization Under the Agreement

The U.S.-Morocco FTA provides increased export opportunities for U.S. manufacturers by eliminating immediately upon entry into force of the FTA most Moroccan tariffs on U.S. manufactured goods exports. U.S. agricultural producers also are likely to experience increased access to the Moroccan market as a result of tariff elimination, tariff reductions, and new tariff rate quotas (TRQs) under the FTA. In addition to the enhanced market access for U.S. grains and oilseeds described in this chapter, U.S. beef, poultry, and almonds also could gain enhanced market access to Morocco through new TRQs. This trade liberalization is likely to increase the competitiveness of U.S. manufacturers and farmers in the Moroccan market not only relative to Moroccan producers but also relative to other foreign suppliers, such as the European Union (EU), with which Morocco already has an FTA.

With respect to trade in services, many of the benefits of the FTA are indirect. Such benefits include greater transparency and legal certainty. In addition, the provisions of the FTA will apply to new products resulting from technological advances and other innovations. For insurance services, Morocco's commitments in the FTA are clear improvements over the country's commitments in the WTO General Agreement on Trade in Services.

## Sector Selection Criteria

Sectors were selected for analysis in this chapter based upon a number of criteria, including the extent and speed of trade liberalization under the U.S.-Morocco FTA and

its potential for increasing U.S. trade; the importance of the sector in terms of bilateral trade; the likelihood of increased export opportunities for U.S. producers relative to other foreign suppliers; the views of Commission industry analysts; the opinions of industry representatives; and the apparent sensitivity of certain U.S. industries to trade liberalization. The sectoral analysis in this chapter considered the entire range of agricultural and manufactured goods produced by the United States and Morocco; only those sectors that met the criteria are analyzed. The Commission's assessments in this chapter are based on industry knowledge and expertise of USITC industry analysts, industry sources, reports by U.S. industry and functional trade advisory committees on the U.S.-Morocco FTA,[1] and written submissions received in response to the Commission's *Federal Register* notice of institution for this investigation.[2]

# Impact on Selected Goods

## *Grains (Wheat and Corn)*[3]

### Overview

#### *U.S. industry*

The United States is the leading grain exporter in the world, accounting for one-third of world wheat exports and two-thirds of world corn exports in 2003/04.[4] During that period, the United States produced about 321 million metric tons (mt) of wheat and corn. The value of U.S. grains production (at the farm level) was about $30 billion in 2003, with an estimated 220,000 U.S. grain farmers growing wheat, corn, sorghum, barley, and rice.[5] The United States is a highly competitive exporter of grains. The EU, Canada, Australia, and Argentina are the primary competitors for wheat exports, although in recent years, secondary producers like Russia, the former Soviet Union countries (FSU), and India have expanded production and exports. In corn trade, Argentina, Brazil, and FSU countries are the leading direct competitors to U.S. corn exports; the EU competes through sales of barley, which is used as an alternative feed grain to corn.

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[1] The advisory committees and their role are described in more detail in chapter 5 of this report.

[2] A copy of the *Federal Register* notice is in appendix B.

[3] Includes HTS headings 1001 and 1005. The grain sector includes unmilled wheat and corn. There are two major types of wheat traded in the world: durum wheat destined for pasta products and Middle Eastern products like cous cous and nondurum wheat destined for wheat flour for bread. For purposes of this report, nondurum wheat is called "bread wheat." Wheat flour, bread, pasta, and the more highly processed baked products, cookies and fully prepared consumer products such as pasta, are not included in this sector. Corn is the primary grain destined for livestock feed in the world, and, in Morocco, destined for poultry feed. Corn competes with other grains used largely in animal feed, mostly barley, and such grains are called "coarse grains" or "feed grains."

[4] Marketing year 2003/04. USDA, FAS, *Grain: World Markets and Trade,* April 2004, pp. 11 and 25.

[5] Commission estimates. See USITC, *Shifts in U.S. Merchandise Trade*, publication No. 3611, July 2003, table C-1, sector AG030.

### *Moroccan industry*

Morocco is a substantial producer, consumer, and importer of barley and of durum and bread wheat—used both in animal feed and in food for human consumption. Morocco does not grow corn. There were about 1.5 million farmers in Morocco who grew wheat and barley in 2003.[6] The Moroccan Government provides price support for bread wheat sold to licensed agents, and a retail wheat flour subsidy for low income consumers covering about 1 million mt of bread flour (about one-sixth of domestic wheat consumption).[7]

Moroccan farmers grew 1.0 million mt of durum wheat, 1.9 million mt of bread wheat, and 1.3 million mt of barley annually during the period 1998-2002, although annual production varied considerably depending upon growing conditions and rainfall.[8] Moroccan wheat production has grown irregularly from 2.2 million mt in 1999/2000 to a projected 5.1 million mt in 2003/04.[9] Because Moroccan grain production is rain fed, output is extremely variable from year to year and periodically subject to drought conditions. Moroccan crop yields fell by more than 10 percent in 6 of the 10 years during 1991-2000.[10]

Morocco imported an average of 3 million mt of wheat annually during 1999/2000 to 2002/03, which supplied about one-half of Moroccan domestic wheat consumption during the period.[11] Moroccan imports of coarse grains (including corn) averaged 1.4 million mt annually during 1999/2000 to 2002/03, also supplying about one-half of domestic consumption.[12] To maintain the current level of per capita consumption, Moroccan imports of all grains are projected to grow annually by nearly 1 million mt during 2002-2012.[13]

Recent trends in Morocco's imports of durum wheat, bread wheat, and corn by major suppliers are shown in figures 3-1, 3-2, and 3-3, respectively. Moroccan grain imports generally increased during the period 1998-2002 (the latest year for which UN data are available) as a result of expanding domestic consumption and volatile rainfall patterns affecting Moroccan production of wheat and barley. EU competitiveness as a grain supplier to Morocco is related to the EU's historical trading relationship with and geographic proximity to Morocco, as well as EU export programs for bread wheat.[14]

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[6] USDA, FAS, *Morocco Grain Annual, 2003*, GAIN Report No. MO3004, Mar. 12, 2003, p. 3.
[7] Ibid., p. 2.
[8] Ibid., p. 1.
[9] USDA, FAS, *Grain: World Markets and Trade*, April 2004, p. 11.
[10] Shahla Shapouri and Stacey Rosen, ERS, USDA, *Food Security Assessment 2003*, February 2003, p. 41.
[11] USDA, FAS, *Grain: World Markets and Trade*, April 2004, pp. 10-11.
[12] Ibid., p. 21, and USDA, FAS, *Morocco Grain Annual 2003*, p. 7.
[13] Shapouri and Rosen, ERS, USDA, Food Security Assessment, p. 41.
[14] USDA, FAS, *Morocco Grain Annual* 2003, p. 3.

**Figure 3-1**
**Morocco: durum wheat imports, by source, 1998-2000**

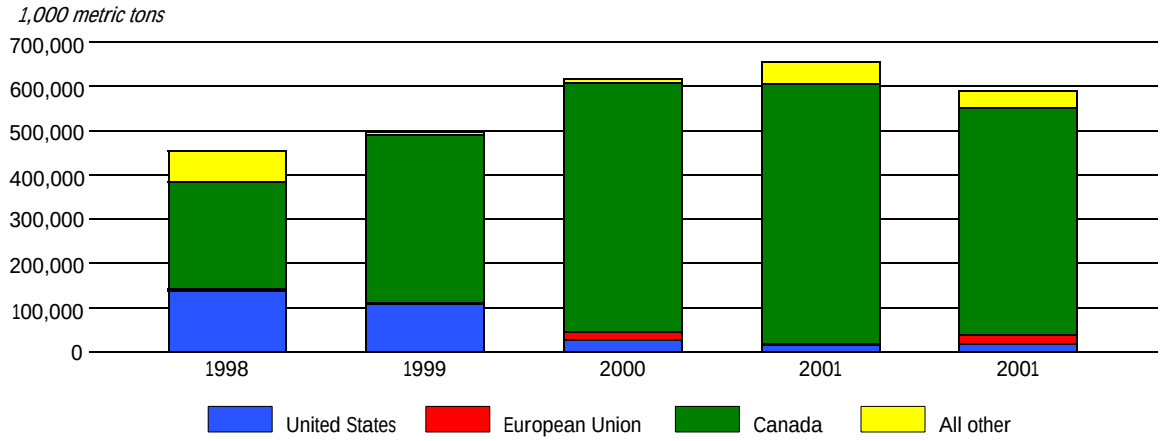



**Figure 3-2**
**Morocco: bread wheat imports, by source, 1998-2000**

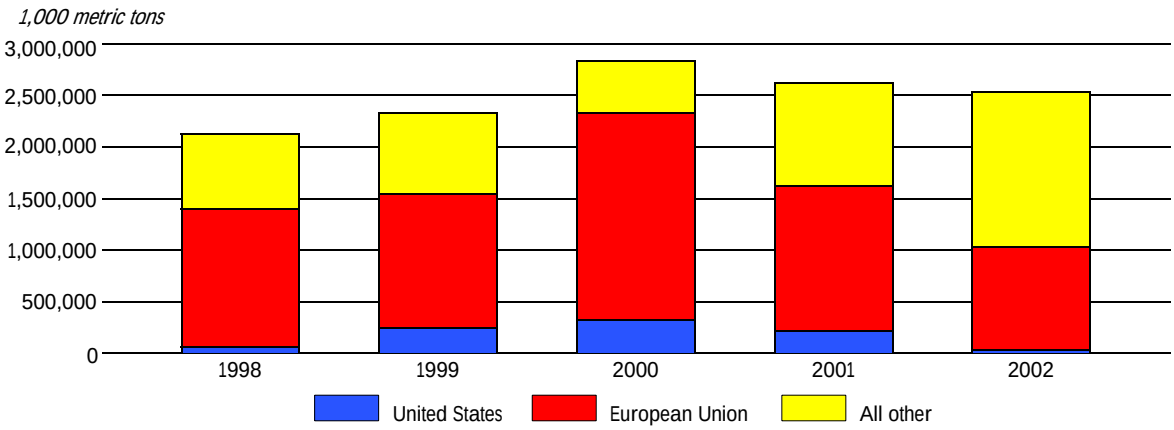
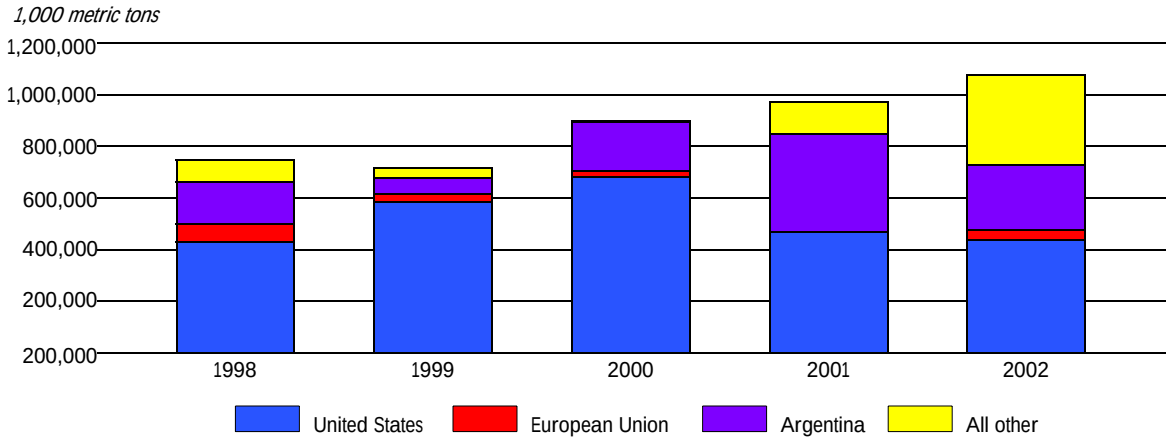



**Figure 3-3**
**Morocco: corn imports, by source, 1998-2000**




Source: UN Trade statistics.

In addition, the EU-Morocco FTA provides preferential TRQ treatment for EU wheat in the Moroccan market. In addition to competition from EU imports, U.S. grain exports to Morocco face stiff competition from third-country exporters like Argentina, Brazil and the FSU countries.

Canada supplied 87 percent of Morocco's durum wheat imports during 1998-2002, followed by the United States (7 percent), and the EU (2 percent) (figure 3-1).[15] As Moroccan imports of durum wheat increased during the period, the U.S. share declined from 30 percent in 1998 to 3 percent in 2002 (figure 3-1). The EU supplied 57 percent of Morocco's bread wheat imports during the past five years (figure 3-2).[16] Moroccan bread wheat imports grew from about 2.1 million mt in 1998, to 2.7 million mt in 2002; the U.S. share of Morocco's bread wheat imports averaged 6 percent, fluctuating between 2 percent to 12 percent (figure 3-2). The United States was the major supplier of corn to Morocco during 1998-2000. However, the U.S. share of Moroccan corn imports declined after 2000 as Argentine and Brazilian corn displaced U.S. corn in the Moroccan market (figure 3-3).

## Potential Impact on U.S. Trade Flows

### *U.S. imports*

Morocco is not competitive in the world market for grains because it is a high-cost producer and does not export grains. The U.S.-Morocco FTA is likely to have no impact on U.S. imports of grains.

### *U.S. exports*

The U.S.-Morocco FTA is likely to result in a substantial increase in U.S. corn, durum wheat, and bread wheat exports to Morocco, although the impact on total U.S. production and exports of grains is likely to be small. The increase in U.S. grain exports to Morocco could range from $130 million to $230 million annually, 6 to 10 years after the FTA is implemented, depending on the actual extent of U.S. access to the Moroccan market.[17] U.S. grain exports to Morocco totaled $75 million in 2003.[18]

Morocco's current tariffs on grains consist of a flat duty and an additional duty based on a threshold price. Duties change frequently, often daily, depending on domestic

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[15] Based on reported Moroccan imports on a volume basis. UN trade statistics.

[16] USDA, FAS, *Morocco: Trade Policy Monitoring, Free Trade Negotiations with EU,* GAIN Report No. MO3024, Nov. 24, 2003, p. 4; and USDA, FAS, *European Union: Trade Policy Monitoring, EU and Morocco Reach Agri-Trade Liberalization Deal, 2003*, GAIN Report No. E23201, Oct. 29, 2003.

[17] Commission estimates. The smaller amount of increased exports ($130 million) assumes the minimum market access for U.S. bread wheat, while the larger amount ($230 million) assumes maximum U.S. market access for bread wheat (if, for example, Morocco experiences a crop failure in a particular year). The calculated increased grain exports consist of $80 million in U.S. corn exports, $20 million in U.S. durum wheat exports, and $30 million to $130 million in U.S. bread wheat exports.

[18] Overall, Morocco was the 25th leading market for the $10.4 billion in U.S. grain exports in 2003.

support prices. During 1998-2003, the average Moroccan duty was 17.5 percent on corn, 28.4 percent on durum wheat, and 83.3 percent on bread wheat.[19]

The U.S.-Morocco FTA sets up a complicated system of market access for U.S. wheat to Morocco that permits Morocco to keep its variable tariffs on bread wheat indefinitely. Ten years after implementation of the FTA, the United States is guaranteed the same in-quota tariff for both bread wheat and durum wheat that the EU enjoys currently (and which is substantially lower than that Morocco charges to all other countries). There is a smaller quota for U.S. bread wheat if Morocco produces a large wheat crop, and a larger quota if Morocco has a small wheat crop (for example, in a period of drought and widespread crop failure). Unlike the in-quota tariff for bread wheat, the in-quota tariff rate for durum wheat is to be reduced over 10 years to zero, and there is to be only a single quota amount for durum wheat regardless of the size of the Moroccan crop. U.S. access for corn is more straightforward as there is no TRQ, and Morocco's tariff for U.S. corn is to be eliminated entirely after 6 years. The following sections provide more detailed analysis of the impact of the FTA on U.S. exports of corn, durum wheat, and bread wheat to Morocco.

### U.S. exports of corn

Under the U.S.-Morocco FTA, the Moroccan duty on U.S. corn is to be reduced to 17.5 percent in year one of the FTA. This duty is then reduced to zero in equal annual stages over the next 5 years.

Absent the duty on corn, U.S. corn exporters are likely to supply nearly all of Morocco's corn imports (about 1 million mt in 2002/03), an increase of approximately 670,000 mt values at about $80 million (based on 2003 prices). The 670,000 mt in additional sales would come at the expense of third-country suppliers, such as Argentina, Brazil, and FSU countries. The U.S.-Morocco FTA will enhance U.S. competitiveness relative to Argentina and Brazil.

### U.S. exports of durum wheat

The U.S.-Morocco FTA creates an initial TRQ of 250,000 mt (expanding to 340,000 mt in year 10) for U.S. durum wheat, and the in-quota tariff is to fall to zero over 10 years. The in-quota tariff is 56 percent in the first 3 years of the FTA. Beginning in year 4, duties are to be removed in 7 equal annual stages, until becoming duty free in year 10.[20]

Annual U.S. exports of durum wheat to Morocco averaged 47,000 mt during 1999-2003, less than 8 percent of total Moroccan imports of 600,000 mt annually. As

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[19] FAS, USDA, *Morocco Grain: New Customs Duties*, GAIN Report No. MO3010, June 19, 2003, p. 3.The analysis in chapter 4 of this report is based on an ad valorem tariff equivalent of 13 percent, which reflects conditions in 2003.

[20] The staging for the in-quota rate for durum wheat is under category N of the General Notes of the Tariff Schedule of Morocco.

shown in figure 3-1, Canada has been the dominant durum wheat exporter to Morocco. However, the lower in-quota tariff for the United States will enhance U.S. durum wheat competitiveness relative to Canadian wheat, thereby increasing (perhaps doubling) U.S. durum wheat exports to Morocco, although this will not occur for 8-10 years after the FTA is implemented. U.S. exports of durum wheat to Morocco totaled $14 million in 2003, and are likely to increase by $20 million annually after the staging period.

### U.S. exports of bread wheat

The U.S.-Morocco FTA provides a TRQ for U.S. bread wheat, but the in-quota tariff will likely remain substantial, and fluctuate based on Morocco's variable tariff on wheat. In the first year of the FTA, the in-quota tariff on U.S. bread wheat would be 39 percent, substantially below the 83-percent rate during 1998-2003.[21] However, the EU already has better preferential access to Morocco, and U.S. bread wheat will not have a duty advantage over EU bread wheat. The amount of the TRQ for U.S. wheat is tied to the level of Moroccan wheat production,[22] following the same procedure in the EU-Morocco FTA.

Other factors that are likely to influence U.S. access to the Moroccan bread wheat market are the changes to Moroccan state trading and auction transparency that have favored EU wheat. Historically, the EU has supplied the vast majority of Morocco's bread wheat imports because of EU export assistance programs and lower transportation costs faced by EU exporters to the Moroccan market. Furthermore, Morocco is free to raise its variable tariffs on both EU and U.S. wheat exports, depending on the Moroccan Government's domestic price support policies for its wheat farmers. Changes to the Moroccan variable tariffs will influence the level of wheat exports from both the United States and the EU.

An important feature of the U.S.-Morocco FTA is that 10 years after implementation, the United States is to receive the same preferential access for bread wheat, under a TRQ of 1,060,000 mt, as the EU does currently. U.S. bread wheat exports to Morocco averaged about 200,000 mt annually over the past several years. This quantity could increase to 400,000 mt if Moroccan production is high, or increase to as much as 1,060,000 mt if Moroccan wheat production is low. U.S. bread wheat exports to

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[21] The staging for the in-quota rate for bread wheat is under category P of the General Notes of the Tariff Schedule of Morocco: "If the prevailing applied MFN rate (MFN) is equal to the base rate, duties on goods shall be reduced to 62 percent of the base rates. If the MFN rate is less than the base rate, duties on goods provided for in the items in staging category P shall be 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 reduction shall enter into force on January 1 of year one." The base rate is 135 percent. The MFN rate was 83 percent in 1998-2003. Using this formula, the in-quota rate for U.S. bread wheat in the first year would be 39.1 percent. Morocco could increase its MFN duty at any time, thereby raising the in-quota rate.

[22] When annual production is above 3 million mt, the TRQ would be reduced; for production below 2.1 million mt, the TRQ would be raised.

Morocco could increase two to three times, or by 200,000 mt to 860,000 mt, which would be valued at $30 million to $130 million.[23]

As shown in figure 3-2, EU wheat generally has been more competitive in the Moroccan market. When U.S. and EU bread wheat share similar access to the Moroccan market, any increase in U.S. bread wheat exports to Morocco is likely to occur at the expense of Argentina, Australia, and the FSU countries, that together supplied about 40 percent of Moroccan bread wheat imports in 1998-2002.

## *Oilseeds*[24]

### Overview

#### *U.S. industry*

The United States has been the leading oilseed producer and exporter in the world over the past several decades. The primary U.S. oilseed crop is soybeans grown on an estimated 220,000 farms in recent years,[25] and valued at $18 billion in 2003/04.[26] According to Commission estimates, oilseeds were processed in the United States into oilseed meal and into crude and fully refined vegetable oil in approximately 500 plants with employment of about 28,000 in 2003.[27] U.S. production of crude soybean oil and production of soybean meal in 2003/04 amounted to an estimated $5.5 billion and $9.6 billion, respectively.[28]

The United States is tied with Brazil as the world's leading soybean producer and exporter, accounting for 40 percent of world exports in 2003/04.[29] The United States is also a major exporter of soybean oil, corn oil, sunflower-seed oil, animal fats (tallow), soybean meal, and related protein meals. Brazil supplied about 40 percent of world soybean exports in 2003/04, and 34 percent of world soybean meal exports in 2003/04. Argentina is the other leading soybean exporter with 16 percent of world soybean exports and 41 percent of world soybean meal exports.

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[23] Commission estimates.

[24] This sector includes soybeans (HTS heading 1201), soybean meal (HTS heading 2304), and soybean oil (HTS heading 1507). The term, "oilseeds," refers to crops containing vegetable oil in significant proportions and for the most part used as raw materials in the manufacture of vegetable oil and oilseed meal. Oilseed products include mainly soybeans, soybean oil, animal fats (tallow), and soybean meal. Soybeans are reduced through processing into soybean oil and soybean meal. Soybean meal is used in livestock feed, whereas soybean oil is consumed in foods, such as margarine, salad and cooking oil, or baking and frying fats.

[25] Commission estimates. See USITC, *Shifts in U.S. Merchandise Trade,* USITC publication 3611, July 2003, table C-1, sector AG032 and AGO33.

[26] At the farm level. Office of the Chief Economist, USDA, World Agricultural Supply and Demand Estimates, Apr. 8, 2004, p. 13.

[27] USITC, *Shifts in U.S. Merchandise Trade*, fats and oils sector, AGO33.

[28] Office of the Chief Economist, USDA, *World Agricultural Supply and Demand Estimates, 2004*.

[29] For marketing year 2003/04. USDA, FAS, *Oilseeds: World Markets and Trade*, Apr. 2004, tables 5-8.

The United States (with an 8-percent share) is the third leading soybean meal exporter in the world, and the fourth leading exporter of soybean oil, well behind Argentina and Brazil (with a combined 77-percent share), and the EU (a 9-percent share).[30] Over the past decade, Brazil and Argentina have sharply expanded their soybean production by planting vast acres of unused land which in turn has increased their exports of soy products. As a result, the U.S. share of world exports of soybeans and soy products has fallen.[31]

### *Moroccan industry*

Morocco grows limited amounts of oilseeds, and is a substantial importer of soybeans, soybean meal, and soybean oil.[32] Morocco has 2 soybean crushing facilities (1 of which opened in 2003); 9 vegetable oil refineries; and 35 animal feed mills, devoted almost exclusively to supplying Morocco's growing poultry industry.[33] The soybean mills use imported soybeans and domestic sunflower seed to produce vegetable oil and oilseed meal (the latter destined for poultry feed within Morocco). The feed mills use both domestically produced soybean meal and imported meal to make poultry feed.

Strong demand in Morocco for eggs, poultry, and salad and cooking oil has led to a substantial increase in consumption of oilseed meal and vegetable oil. Although per capita consumption of these three foods in Morocco is well below that of neighboring countries, it is likely to increase over time, particularly as the price of imported grain and oilseed meal drops.[34] Vegetable oil refineries use domestically produced and imported crude soybean oil, in addition to local olive oil, to produce consumer-ready salad and cooking oil.

In 2002, Morocco's imports from all countries totaled 345,000 mt of soybeans, valued at $78 million; 329,000 mt of soybean oil, valued at $142 million; and 106,000 mt of soybean meal, valued at $23 million.[35] The United States supplied about 40 percent of Moroccan imports of soybeans, 60 percent of the soybean meal imports, and 15 percent of the soybean oil imports in 2001.[36] The United States supplied soybeans to Morocco chiefly during the period of September to March, and Argentina and Brazil supplied soybeans to Morocco chiefly during remaining months. The South American countries also supplied most of the remaining soybean meal and soybean oil.

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[30] USDA, FAS, *Oilseeds: World Markets and Trade*, Apr. 2004, tables 5-8.

[31] U.S. soybean exports declined from 58 percent of world exports of 45.5 million mt in 1999-2000 to 40 percent of world exports in 2003-04. U.S. soybean meal exports declined from 19 percent of world exports of 34.9 million mt in 1999-2000 to 8 percent of world exports of 46.2 million mt in 2003-04. U.S. soybean oil exports declined from 9.7 percent of world exports in 1999-2000 to 4 percent of world exports in 2003-04.

[32] In 2002, the only oilseed production in Morocco consisted of 16,000 mt of sunflower seed. USDA, FAS, *Morocco Oilseeds and Products Annual, 2003*, GAIN Report No. MO3002, Feb. 3, 2003, p. 2.

[33] USDA, FAS, *Morocco Oilseeds 2003*, pp. 2-3.

[34] Ibid.

[35] FAOSTAT Database.

[36] USDA, FAS, *Morocco Oilseeds 2003*, pp. 5-7.

## Potential Impact on U.S. Trade Flows

### *U.S. imports*

Morocco is a relatively high cost producer of oilseeds and exports virtually no oilseed products. Therefore, the U.S.-Morocco FTA is likely to have no impact on U.S. imports of oilseed products.

### *U.S. exports*

The U.S.-Morocco FTA is likely to result in a small to substantial increase in U.S. exports of oilseed products to Morocco, although the impact on total U.S. production and exports of oilseeds is likely to be small. In 2003, U.S. exports to Morocco of soybeans, soybean oil and soybean meal amounted to $63 million, 87 percent of which were soybeans and 13 percent of which were soybean oil.[37] In that year, no U.S. soybean meal was exported to Morocco—a sharp drop from the $10 million exported in 2002. The opening of a soybean processing mill in 2003 reduced the need for meal imports.

Under the FTA, Morocco's 2.5 percent duty on U.S. soybeans for crushing is to be eliminated immediately. Without the duty, U.S. exports of soybeans to Morocco are likely to experience a small increase, and U.S. soybean exports are likely to obtain a slight price advantage over Brazilian and Argentine soybeans.[38] U.S. exports of soybeans to Morocco increased by nearly 30 percent in 2003 above the volume exported in 2002 because a new soybean crushing plant opened in Morocco. Thus, U.S. soybean exports to Morocco have increased for reasons unrelated to duties. Nevertheless, the additional soybean meal and oil produced by Morocco is likely to offset Morocco's need to import soybean meal and oil.

The Moroccan duty on crude soybean oil and other leading crude vegetable oils is 2.5 percent; the duty on refined soybean and other vegetable oils is 25 percent; and on tallow it is 17.5 percent. The higher duties on refined vegetable oil protect the extensive domestic refining industry which imports crude soybean oil and refines it into cooking oil.[39] In 2003, the United States exported about $8 million of crude soybean oil to Morocco, but only small amounts of refined vegetable oil (less than $0.5 million) and tallow ($3 million). Under the FTA, Morocco's 2.5 percent duty on crude U.S. soybean oil is to be eliminated immediately; the duty on refined U.S. soybean oil is to be reduced to 12.5 percent in year one of the FTA, and then reduced in equal stages over the next 5 years to free.[40] The removal of duties under the FTA on refined soybean and other refined vegetable oil and tallow is likely to lead to a small increase in U.S. exports of those products.

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[37] U.S. exports of soybeans, soybean oil, and soybean meal to all countries amounted to $9.7 billion in 2003. Morocco was thus a negligible market for these U.S. exports.

[38] USDA, FAS, *Morocco Oilseeds 2003*, p. 3.

[39] Employment in Moroccan refineries and soybean crushers was about 6,000 in 2003. USDA, FAS, *Morocco Oilseeds* 2003, p. 3.

[40] The staging for the in-quota rate for refined soybean oil is under category D of the General Notes of the Tariff Schedule of Morocco.

Under the FTA, Morocco's 25 percent duty on U.S. soybean meal is to be reduced to 12.5 percent in year one of the FTA, and then reduced in equal annual stages over the next 5 years to free.[41] The FTA is likely to allow the United States to export substantially more soybean meal to meet rising domestic demand in Morocco. In 2002, Morocco imported 106,000 mt of soybean meal, valued at $23 million, with the United States supplying about half.[42] Duty-free entry under the FTA is likely to make U.S. soybean meal more competitive in the Moroccan market vis-à-vis Argentine and Brazilian soybean meal.

## *Olives*[43]

### Overview

#### *U.S. industry*

The United States is a small-to-moderate-size producer of processed olives, with the domestic industry composed of about 1,000 growers and 3 canners (2 major independent processors[44] and 1 small cooperative firm) all located in California.[45] Olive groves typically range in size from under 10 acres to over 1,000 acres, with olives harvested from less than 30,000 acres annually in recent years, compared with over 40,000 acres harvested annually a decade ago.[46] The economies of the communities surrounding olive growers and packers are heavily dependant upon revenues from the growing and processing of olives.[47] An estimated 640 persons were employed in California olive processing plants in recent years.[48]

Virtually all U.S.-grown olives are sold as processed institutional or table-stock olives, with limited additional amounts of olives grown for crushing into oil. Olives for processing are harvested from trees usually by the fourth year after planting, and the

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[41] The staging for the in-quota rate for refined soybean oil is under category D of the General Notes of the Tariff Schedule of Morocco.

[42] FAOSTAT Database.

[43] Includes the following olives in a saline solution, not green in color, prepared or preserved otherwise than by vinegar or acetic acid, and not frozen: canned but not pitted (HTS subheading 2005.70.50); other canned whether whole, pitted, sliced, chopped or minced, and other including wedged or broken (2005.70.60); other than canned and in airtight containers (2005.70.70); and other than canned and other than in airtight containers (2005.70.75).

[44] "California Black Ripe Olive Industry," California Olive Association, Sacramento, CA, industry report received Apr. 28, 2004, and "Statement of the California Olive Association to the U.S. International Trade Commission on the U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, Investigation No. TA-2104-14," received Apr. 22, 2004.

[45] Statement of the Olive Growers Council of California submitted to the U.S. International Trade Commission, received May 5, 2004.

[46] Ibid.

[47] Staff conversation with industry officials, Oct. 2, 2002.

[48] Ibid.

trees often remain in commercial production for many decades, with olive trees in production in the Mediterranean region for over 1,000 years and in California for over a century.[49] According to industry officials, commercial olive groves are an expensive enterprise to begin and represent a very long-term investment.[50] Industry processors report that olives are the only crop processed in their plants and that, if their products weren't able to compete favorably with imports, demand for domestically packed olives would fall and their plants would go out of business.[51] U.S. average annual production of table olives amounts to about 90,700 mt, with a farm gate value of around $58 million and a processed-olive value of about $270 million in recent years.[52]

### *Moroccan industry*

The Moroccan olive industry is believed to be made up of many small-volume growers, with most olive production intended for crushing into olive oil.[53] Annual production of olives for all uses is reported to be about 470,000 mt,[54] with estimated production of 30,000 mt to 50,000 mt used to produce canned olives, much of which are the same as the olives produced in the United States.[55] Olive production is not as important a component of the Moroccan agricultural sector as is the production of other crops such as cereals, sugar, and tobacco.[56] Olive production in recent years is believed to have been adversely affected by unfavorable weather conditions.[57] The majority of olive production in Morocco reportedly is government-owned.[58]

## Potential impact on U.S. Trade Flows

### *U.S. imports*

The U.S.-Morocco FTA is likely to result in a moderate increase in U.S. imports of processed olives from Morocco, which may result in a moderate impact on U.S. growers and processors. Current U.S. tariffs on processed olives range from 4.3 cents to 10.1 cents per kilogram.[59] Under the FTA, Moroccan processed olives entered under

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[49] "Olives Through Time," p. 102, found at *http://www.olives.com/OlivesWeb/Olives/History.aspx,* retrieved May 7, 2002.

[50] "California Black Ripe Olive Industry," California Olive Association, p. 3.

[51] Staff conversation with industry officials, Oct. 2, 2002.

[52] "California Black Ripe Olive Industry," California Olive Association, p. 2.

[53] Staff conversation with industry officials, May 4, 2004.

[54] FAOSTAT, found at *http://www.faostat.org*, retrieved May 4, 2004.

[55] Staff conversation with industry officials, May 4, 2004.

[56] "Morocco Exporter Guide Annual 2003," FAS, USDA, GAIN Report Number MO3018, Sept. 25, 2003, p. 1.

[57] Staff conversation with industry officials, May 4, 2004.

[58] "Statement of the California Olive Association to the U.S. International Trade Commission on the U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects," Investigation No. TA-2104-14," received Apr. 22, 2004, pp. 2-3, and staff conversation with industry officials, May 4, 2004.

[59] The bulk of the imports from Morocco enter under item 2005.70.60 with a duty of 10.1 cents per kilogram drained weight.

HTS item numbers 2005.70.50, 2005.70.70, and 2005.70.75 are to receive immediate duty-free entry. Staging for the fourth item, certain preserved olives (HTS 2005.70.60),[60] the most important item included relative to those olives produced domestically, would have the existing duty reduced annually in 10 equal amounts to zero. U.S. imports of certain preserved olives from Morocco also are to be covered by a safeguard provision—a variable additional duty, based on the difference between the unit import price and a trigger price, will be applied if the imports enter the United States at a unit import price below the established trigger price. All imports of processed olives from Morocco also are to be covered by rules of origin provisions defining the country of origin and transshipments.[61]

Industry officials state that U.S. imports of canned olives from Morocco are likely to increase as a result of the FTA.[62] Imports of certain processed olives from Morocco, described by industry sources as being perfectly substitutable with domestically-produced canned olives,[63] were valued at $17.1 million in 2003, up by 10.4 percent from the level in 1999, with the bulk of the imports made up of canned pitted olives. The share of total U.S. imports accounted for by shipments from Morocco averaged between 19 and 25 percent annually over the 1999-2003 period.[64] Spain and Greece are the two most important suppliers to the U.S. market, followed by Morocco and smaller suppliers including Turkey, Italy, and Portugal.

The ratio of overall imports from Morocco to U.S. consumption is believed to have been 5 percent or less in recent years. However, industry officials have stated that imports from Morocco account for an even greater share of consumption of olives packed for the institutional/industrial or food service market segments, considered the primary product driving domestic sales growth in recent years.[65] Sales in this market segment reportedly are driven largely by cost, with the lowest-cost supplier able to capture the largest market share.[66] U.S. industry officials have reported the availability of imported Moroccan olives in institutional-size containers offered at prices substantially below those of California-produced olives.[67] One of the single, largest U.S. purchasers of institutional-size canned, sliced olives recently switched from purchasing both domestically produced and imported product to buying only imported product, reportedly because of substantially lower prices offered for the

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[60] This includes certain preserved olives in a saline solution, not green in color, canned, and whole pitted, sliced, chopped or minced, and other including wedged or broken.

[61] Rules of origin in the U.S.-Morocco FTA are discussed in chapter 2 of this report.

[62] "Statement of the California Olive Association to the U.S. International Trade Commission on the U.S.-Morocco Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects, Investigation No. TA-2104-14," received Apr. 22, 2004, p. 3.

[63] Staff conversation with industry officials, May 4, 2004.

[64] Ibid.

[65] Staff conversation with industry official, Oct. 2, 2002.

[66] Ibid.

[67] Ibid., and conversation with olive growers' industry official, Oct. 15, 2002. Prices for product from Morocco were reported to be as low as $12 to $14 a case, as compared with prices for domestically-produced product of about $22 a case.

imports.[68] Industry officials note that, because most sales from Morocco of institutional-style canned olives are to large-volume purchasers, a few of which individually account for from 2 to 5 percent of total domestic sales in this market segment, a loss of even a few customers could result in a significant decline in overall U.S. sales.[69] According to a U.S. trade association, the increased availability of low-cost Moroccan olives as a result of the FTA is likely to benefit U.S. consumers.[70]

### *U.S. exports*

The U.S.-Morocco FTA is likely to result in a negligible increase in U.S. exports of certain processed olives to Morocco. Over the past 5 years, U.S. exports of all processed olives[71] to Morocco have been negligible. Morocco currently applies a 50-percent ad valorem duty on imported processed foods, including olives.[72] Under the FTA, Morocco's existing 50-percent ad valorem duty on U.S. olives is to be reduced annually in 10 equal amounts to zero.

A U.S. industry source reported that a reduction in Morocco's duties could provide U.S. exporters with easier entry into the Moroccan market.[73] However, the elimination of these duties is still likely to leave U.S. exporters at a competitive disadvantage vis-à-vis other foreign suppliers to the Moroccan market. Europe is a historical supplier to the Moroccan market, and EU countries have invested heavily in the Moroccan distribution chain for food products in recent years. EU countries also benefit from preferential access to the Moroccan market under the EU-Morocco FTA, as well as relatively low transportation costs as a result of their geographic proximity to Morocco.[74]

## *Sardines*[75]

### Overview

### *U.S. industry*

The number of companies canning sardines in the United States declined from 3 in 1999 to 1 in 2002. The Stinson Seafood Company, with packing facilities in Prospect

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[68] Staff conversation with domestic olive canning industry official, Oct. 2, 2002, and statement of Olive Growers Council, received May 5, 2004.

[69] Staff conversation with domestic olive canning industry official, Oct. 2, 2002.

[70] Statement on behalf of the Association of Food Industries, Inc., submission received May 6, 2004.

[71] U.S. exports of processed olives are covered under HS number 2005.70, and are not separately reported as to container size of type, or as to style of pack.

[72] USDA, FAS, *Morocco Exporter Guide Annual 2003*, GAIN Report No. MO3018, Sept. 25, 2003, p. 4.

[73] Ibid., p. 1.

[74] USDA, FAS, *Morocco Retail Food Sector Report 2003*, GAIN Report No. MO3025, Dec. 22, 2003, pp. 5 & 23.

[75] Includes HTS subheadings 1604.13.10; 1604.13.20; 1604.13.30; 1604.13.40; and 1604.13.90. This sector includes sardines, sardinella, and brisling or sprats, in oil and in other mediums such as sauces, in airtight containers.

Harbor and Bath, Maine, is the sole sardine packing company left in the United States. In March 2000, Connors Brothers, Ltd., of Canada, the sole producer of sardines in Canada, acquired Stinson Seafood.[76] A consent agreement was implemented between Connors Brothers and the State of Maine whereby Connors Brothers agreed to continue operating at least one cannery in Maine and to invest $12 million over a 12-year period.[77]

In 1999 (the last year data were publicly reported), domestic production of sardines totaled 12 million pounds (canned weight), valued at $20 million. Since 1999, annual production of sardines is estimated to total 14 million pounds, valued at about $27 million.[78] The Maine packing plants employ modern production technology and are vertically integrated, manufacturing the aluminum cans in which the sardines are packed.[79]

### *Moroccan industry*

Morocco is the world's largest canned sardine producer and exporter. The richest sardine resources are found in the temperate waters off the Iberian peninsula and northwestern Africa. The Moroccan sardine canning industry is highly developed, and high-quality raw material is accessible almost daily. The plants and processing technology are modern and meet international standards. There are 42 canning facilities in Morocco, located primarily in Safi and Agadir.[80]

World canned sardine production totaled 502,145 mt in 2001, valued at $606.4 million.[81] Morocco was the leading producer in quantity terms; such production totaled 170,106 mt and accounted for 15 percent of total world production.[82] In value terms, Spain was the leading producer with production totaling $122.3 million, or 20 percent of world production. Morocco was the fourth largest producer in value terms with production totaling $58.9 million, or 10 percent of the world total. Other leading producers of canned sardines include Latvia, Mexico, Namibia, Thailand, Estonia, Ecuador, Peru, Spain, and Portugal.[83]

Brand preference and price are two factors that affect demand. House-brand products include those specially produced for grocery chains, and are usually lower

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[76] History of Connors Bros., Limited, found at *www.connors.ca*, retrieved Apr. 23, 2004.

[77] New England Fisheries Development Association, Inc., Stinson Seafood Restructures Sardine Canneries, found at *http://www.fishfacts.com/sfdpriv/news1/20010723SSRC.html*, retrieved May 7, 2004.

[78] Staff interview with official for Stinson Seafood, Inc., May 10, 2004.

[79] The Beach Cliff Story Proudly Made in the USA, found at *www.beachcliff.info*, retrieved May 8, 2004.

[80] "Modernization programme for the fish industry," *Eurofish Magazine*, Apr. 2, 2003, found at *www.globefish.org*, retrieved Apr. 23, 2004.

[81] Quantity compiled from statistics of the United Nations Food and Agriculture Organization (FAO), found at *http://www.fao.org*, retrieved May 4, 2004. Value estimated by USITC staff.

[82] Compiled from statistics of the FAO, found at *http://www.fao.org*, retrieved May 4, 2004.

[83] Ibid.

priced than brand-name sardines. Morocco primarily produces canned sardines for house brands, and Moroccan exports are generally very price competitive.[84]

The EU is Morocco's primary export market; Spain, France, and the United Kingdom are among the largest markets within the EU. Competitive pricing has been the primary factor driving Moroccan canned sardine exports, and Morocco's exports have generally increased at the expense of other country suppliers.[85] In 2003, the average unit value for U.S. canned sardine imports from Morocco was $2.50 per kg compared with $4.47 per kg from Portugal and $3.35 per kg from Spain.[86]

## Potential Impact on U.S. Trade Flows

### *U.S. imports*

The U.S.-Morocco FTA is likely to result in a moderate increase in U.S. imports of sardines from Morocco, and will likely result in a moderate decline in U.S. production. Morocco is the second leading supplier to the U.S. market, following Canada, and accounted for 16 percent ($9.7 million) of total U.S. canned sardine imports in 2003 ($59.5 million). Morocco accounted for about 13 percent of U.S. canned sardine consumption in 2003. In 2003, 66 percent (value) of Moroccan canned sardine exports to the United States entered duty free or were afforded duty-free entry under the GSP program.[87] Two items, namely, canned sardines, packed in oil, not smoked, neither skinned nor boned (HTS 1604.13.20) and canned sardines, packed in oil, not smoked, skinned or boned (HTS 1604.13.30) imported from Morocco are subject to significant duties. No TRQs or other nontariff measures are applicable to U.S. imports from Morocco.

The U.S.-Morocco FTA is likely to result in a moderate increase in U.S. imports from Morocco of canned sardines, packed in oil, not smoked, neither skinned nor boned. Under the FTA, the 15-percent U.S. duty on imports from Morocco is to be reduced over 9 equal annual stages to free effective January 1 of year 9. One industry source stated that "in light of the minimal U.S. production of this product, and the low level of imports of this product recorded from Morocco, the lengthy staged reduction period is inappropriate" and this source requested the accelerated elimination of these duties.[88] However, the domestic industry reported that even with a staged duty reduction, the FTA would result in Morocco gaining market share at the domestic industry's expense as Moroccan exporters aggressively price their product.[89]

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[84] Staff interview with official for Stinson Seafood, Inc., May 12, 2004.

[85] Morocco; sardines continue to dominate world canned small pelagic production, Canned Sardines - March 2004, found at *www.globefish.org*, retrieved Apr. 23, 2004.

[86] Average unit prices derived from official statistics of the U.S. Department of Commerce.

[87] In 2003, approximately 90 percent (value) of total U.S. canned sardine imports entered duty-free or at a reduced rate of duty under various U.S. programs such as GSP. Other programs affording duty-free entry include the NAFTA, the Caribbean Basin Economic Recovery Act, the U.S.-Israel FTA, the Andean Trade Preference Act, the U.S.-Chile FTA, and the U.S.-Singapore FTA.

[88] Statement on behalf of the Association of Food Industries, Inc., May 6, 2004.

[89] Staff interview with official for Stinson Seafood, Inc., May 12, 2004.

The U.S.-Morocco FTA also is likely to result in a moderate increase in U.S. imports of canned sardines, packed in oil, not smoked, skinned or boned.[90] Such imports from Morocco currently are subject to a 20-percent ad valorem duty, which is to be immediately eliminated under the FTA. The domestic industry reports that, although there is no U.S. production of this exact product, similar products are produced in the United States, and that the industry would have preferred that U.S. imports of this product be subject to a long-term staged duty reduction.[91] The domestic industry also expressed the concern that the U.S. sardine market is very price sensitive, and that Morocco is likely to gain additional market share at the expense of U.S. production as a result of the FTA duty reductions.[92] It is also likely that U.S. imports from other, less price competitive suppliers will be displaced by Moroccan imports.

### *U.S. exports*

Immediate elimination of Morocco's 50-percent duty on U.S. canned sardines under the U.S.-Morocco FTA is likely to have a minimal impact on total U.S. exports of canned sardines. The United States is a small-volume producer of canned sardines. Exports totaled $11.7 million in 2003, and accounted for about 43 percent of U.S. production, up from 15 percent in 1999. Major U.S. export markets include Japan, Australia, Canada, and the Dominican Republic. Morocco is a very competitive low-cost producer of sardines, and in general, is a major exporter of processed fish (including sardines). Moroccan seafood imports are negligible. There were no U.S. exports of canned sardines to Morocco during 1999-2002.

## *Citrus Fruit*[93]

### Overview

### *U.S. industry*

The United States is a leading world citrus producer, a leading importer, and a leading exporter. The value of U.S. citrus shipments (packinghouse-door equivalent) was $2.3 billion in 2003.[94] In 2003, the United States produced 10.5 million mt of oranges, most of which were processed into orange juice, and exported 620,000 mt of fresh oranges. U.S. domestic consumption of fresh oranges in 2003 was 1.6 million mt, of

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[90] Staff interview with official for Stinson Seafood, Inc., who stated that there is no U.S. production of this product, May 10, 2004.

[91] Staff interview with official for Stinson Seafood, Inc., May 12, 2004.

[92] Ibid.

[93] Fresh citrus is classified under HTS heading 0805, while most citrus juices are classified under HTS heading 2009.

[94] U.S. Department of Agriculture (USDA), National Agricultural Statistics Service, *Citrus Fruits 2003 Summary*, Fr Nt 3-1 (03), Sept. 2003.

which imports, mainly from Spain, South Africa, and Australia, accounted for about 2 percent.[95] U.S. orange juice production in 2003 was 898,289 mt, of which exports were 70,000 mts. Imports accounted for less than one-fifth of U.S. domestic orange juice consumption.

The State of Florida accounts for the majority of U.S. citrus production. Most of Florida's citrus is processed, primarily for orange juice. California produces much of the fresh market citrus, including navel oranges and lemons. Florida accounts for most fresh grapefruit production. There are some 17,000 citrus growers in the United States, most of whom are loosely affiliated through grower associations.[96] For many years, the number of growers has steadily declined through consolidation or as smaller growers have left the industry. The U.S. industry has remained competitive through innovation in growing and processing of citrus and because of ideal growing conditions.

World trade in fresh and processed citrus fruit has expanded considerably in recent years as transportation has become more efficient and because consumers desire yearround supplies of fresh produce. For example, the United States imported virtually no orange juice, its principal citrus import, prior to the mid-1980s, but 10 years later was importing over half of domestic consumption. More recently, imports of other citrus fruits into the United States have fallen as Florida production has increased and prices have fallen. This partly explains the predominance of many Southern Hemisphere countries (Brazil, Chile, Argentina, South Africa, and Australia) as citrus suppliers because their growing seasons are the opposite of the U.S. growing season, and thus can supply fresh produce when fresh fruit is out-of-season in countries such as the United States. In recent years, U.S. consumers have favored smaller, seedless, easy-to-peel citrus fruits such as clementines, particularly for children's snacks and during the winter holiday season, for which Spain and Morocco are the principal suppliers. Florida produces tangerines, a close substitute for the clementine, but no clementines. California produces a limited quantity of clementines.

### *Moroccan industry*

Morocco produces and exports citrus, mainly fresh oranges and tangerines, including clementines. It processes a small portion of its citrus, mainly into orange juice. Although Morocco is not among the largest citrus producing countries, such as Spain, the United States, or South Africa, it exports a relatively large percentage of its production, placing it in the second tier of citrus exporting countries along with Turkey, Argentina, and Mexico.

Morocco's citrus producing areas are located geographically at latitudes between those of northern Florida and southern California, sufficiently far north to be able to

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[95] USDA, FAS, *FAS Quarterly Reference Guide to World Horticultural Trade*, FHORT 1-04, Jan. 2004.

[96] Based on grower memberships in citrus organizations in Florida and California.

produce good quality fresh citrus. Fresh oranges, lemons, and clementines favor a climate sufficiently temperate to produce cool nights and warm days. More than half of Moroccan citrus exports are produced around the area of Agadir in the south of the country near the Atlantic coast. Morocco is sufficiently south of Spain to be able to produce citrus earlier in the season than Spain, thus to some extent complementing Spanish production for the large European market. Morocco is not likely to significantly increase its production of citrus fruit in the near term, despite ambitious plans by the government and Moroccan farmers to expand planted area.[97] Compared to the 4,300 hectares scheduled to be planted by farmers each year, and despite the Government of Morocco's incentives to farmers, only about 1,200 hectares are planted each year, about half of which goes to replace existing orchards.[98] Long-term prospects for fresh citrus exports from Morocco are poor. Increasingly complex EU agricultural standards and requirements have shifted some exports to markets for lower quality, cheaper fruit such as Russia, Lithuania, and Saudi Arabia.

## Potential Impact on U.S. Trade Flows

### *U.S. imports*

The U.S.-Morocco FTA is likely to result in a negligible increase in U.S. citrus imports from Morocco. Virtually all U.S. imports of citrus fruit from Morocco consist of clementines, imports of which declined from $2.8 million in 1999 to $235,000 in 2001, before rising to $13 million in 2003. Morocco's share of the U.S. citrus fruit market is less than 1 percent. U.S. tariff rates on fresh Moroccan citrus are generally less than 3 percent, ad valorem equivalent. Under the FTA, U.S. duties on most fresh citrus from Morocco would be immediately removed. Nevertheless, the EU market, which accounts for 54 to 65 percent each year of Moroccan exports, will continue to be the main outlet for Morocco's fresh citrus exports because of the preferential access given to Morocco under the EU-Morocco FTA, and because of lower transportation costs to Europe versus to the United States. Strict U.S. phytosanitary restrictions with respect to the Mediterranean fruit fly also have been a significant obstacle to Moroccan exports of clementines to the United States.

U.S. citrus juice tariffs are currently relatively high, 30 to 40 percent ad valorem. Under the FTA, U.S. duties on many processed citrus products, such as orange juice, would be phased out over 18 years, with no decrease during the first 6 years, and with most of the decrease coming in years 13 to 18. Morocco, however, is not expected to expand citrus juice production significantly.[99]

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[97] USDA, FAS, *Morocco Citrus Annual 2003*, GAIN Report No. M03021, Nov. 7, 2003.

[98] Ibid.

[99] In contrast to fresh citrus production, which mainly requires land and labor inputs, citrus juice production is more difficult to expand because it requires high investments of capital for the installation of juice extracting and freezing plants, as well as infrastructure such as electricity and specialized shipping terminals.

*U.S. exports*

The U.S.-Morocco FTA is likely to have no impact on U.S. citrus fruit exports to Morocco. The United States does not currently export any citrus products to Morocco, due in part to the high duty rate of 50 percent for fresh and processed citrus, in part to relatively small market size and low income levels in Morocco, and in part because Morocco is an important citrus producer. Morocco's current imports of citrus products are negligible. Morocco is to immediately remove all tariffs on U.S. fresh citrus fruits under the FTA, and phase out in 10 equal annual reductions tariffs on U.S. processed citrus such as orange juice. Even if Morocco removed all duties on U.S. citrus fruit, it would still be less costly for Moroccans to purchase local fruit relative to more expensive imported citrus.[100]

# *Textiles and Apparel*[101]

## Overview

*U.S. industry*

The United States is the world's largest importer of textiles and apparel, accounting for an estimated 24 percent of world imports by value in 2002.[102] The framework for U.S. textile and apparel trade will be liberalized on January 1, 2005, when the United States removes all remaining import quotas on textiles and apparel from WTO countries, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC).[103] As such, competition will intensify in the U.S. market, likely adding to the downward pressure on prices that has reverberated throughout the textile and apparel supply chain. U.S. retailers are increasingly sourcing apparel directly from low-cost foreign producers; and many apparel companies have reduced or eliminated domestic manufacturing altogether so as to focus on product design and marketing. As a result, the U.S. textile industry faces shrinking domestic markets for its yarn and fabric output. Faced with difficult market conditions and the prospect of increased import competition following quota elimination in 2005, the textile industry, along with the apparel industry, has undergone extensive restructuring and consolidation. Between 1999 and 2003, the U.S. textile and apparel sector posted declines of 14 percent in shipments, to $128 billion, and 36 percent in employment, to 752,800 workers, representing a loss of 417,200 jobs.[104]

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[100] USDA, FAS, *FAS Quarterly Reference Guide to World Horticultural Trade*, Jan. 2003.

[101] This sector includes all textiles and apparel classified in chapters 50-63 of the Harmonized Tariff Schedule of the United States, except raw wool and cotton.

[102] The latest year for which United Nations data are available on world textile and apparel trade is 2002.

[103] The ATC came into force with the WTO agreements in 1995 and calls for the elimination of quotas created by the United States, Canada, and the European Union under the 1974 Multifiber Arrangement (MFA) over a 10-year transition period ending on January 1, 2005.

[104] The data are for textiles (NAICS 313), textile products (314), and apparel (315). The data are based on official statistics of the U.S. Census Bureau (shipments) and U.S. Bureau of Labor Statistics (employment).

### *Moroccan industry*

The textile and apparel sector is a major source of economic activity in Morocco, accounting for 14 percent of annual industrial production and industrial investment (about $200 million), 42 percent of the industrial labor force (about 200,000 workers), and 34 percent of total exports in 2001.[105] The sector had shipments of $2.8 billion in 2002 and comprised roughly 1,600 establishments, about 400 of which produce textiles and 1,200 make apparel.[106] Most of Morocco's textile and apparel establishments are small and output is concentrated among a relatively few firms (18 percent of the establishments accounted for 60 percent of the output).[107] The sector has benefitted significantly from foreign investment, particularly from EU based firms. The EU extends special trade preferences for goods made in Morocco.[108]

Moroccan producers of apparel for export rely heavily on imports for their fabric needs, partly because the required materials are not made locally in sufficient quantities or selection.[109] Apparel assembled on contract for EU firms accounts for a major share of Moroccan sector output.[110] Because of Morocco's relatively low-cost labor as well as proximity and preferential access to the EU market, firms in the EU have set up outward processing trade (OPT) arrangements in Morocco, in which they design the apparel, supply the fabric and trim (mostly from Europe or Asia), and export the finished goods to the EU.[111]

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[105] "Textile Represents 14% of Moroccan Industrial Output," Economics, found at *http://www.arabicnews.com/ansub/Daily/Day/030903/2003090324.html*, retrieved May 10, 2004; Trade Point Casablanca, "The Textile Industry in Morocco," found at *www.tpcasa.org.ma/ompx_254.textile_ en.nclk*, retrieved May 6, 2004; and WTO, *Trade Policy Review: Kingdom of Morocco, Report by the Secretariat*, WT/TPR/S/116 (03-2524), p. 83.

[106] "Morocco: Textile, Clothing Sector Posts US$2.8 Billion Turnover in 2002," data attributed to the chairman of the Moroccan Textile and Clothing Industry Association (AMITH), BharatTextile.com, found at *http://www.bharat textile.com/newsitems/1984405,* retrieved May 10, 2004, and Trade Point Casablanca, "The Textile Industry in Morocco.".

[107] In 2001, the sector included four government-owned firms and less than 3 percent of the firms in the sector were subsidiaries of foreign firms. WTO, *Trade Policy Review: Kingdom of Morocco*, p. 83.

[108] "Destination Guide-Morocco-Settat," found at *http://dg.ian.com/index.jsp*, retrieved Apr. 28, 2004.

[109] Reportedly, about 90 percent of the materials used in Moroccan production of apparel for export are imported from Europe and Asian suppliers. Sweatshop Watch, "Garment Industry in Morocco - Clean Clothes Campaign," May 23, 2003, found at *http://www.sweatshopwatch.org/ headlines/2003/ morocco_may03.html*, retrieved Apr. 28, 2004. See also, EmergingTextiles.com, "U.S. Concludes Free Trade Agreement with Morocco," Mar. 3, 2004, found at *http://www.emergingtextiles.com*, retrieved Mar. 4, 2004, and *Study on the Implications of the 2005 Trade Liberalization in the Textile and Clothing Sector*, Consolidated Report, Part I, Institut Français de la Mode, Paris, February 2004, p. 259.

[110] The sectoral analysis in the annual survey of processing industries in 1999 showed that subcontracting accounted for 62 percent of sector shipments and 98 percent of sector exports. WTO, *Trade Policy Review: Kingdom of Morocco*, p. 83.

[111] Saad Belghazi, Daniel Plunkett, and B. Lynn Salinger, "Opportunities for Enhancement of U.S.-Morocco Trade and Investment," Associates for International Resources and Development, Nov. 2002, p. 49, and "Morocco's Clothing Industry Could Overcome Current Crisis," found at *http://www.emergingtextiles.com*, July 4, 2001, retrieved Mar. 4, 2004.

Morocco is likely to face growing competition in the global textile and apparel market following quota elimination under the ATC in 2005, because its production costs are higher than those of major exporting developing countries and it lacks a "quick response" capability except for the EU market.[112] Although labor productivity in Morocco reportedly is comparable with that in China and India, labor costs are much higher.[113] For example, the hourly wage rate for workers in spinning and weaving in 2002 averaged $1.89 in Morocco, compared with $0.41 in China and $0.57 in India.[114] Production equipment in the Moroccan sector tends to be old; however, a growing number of firms are modernizing their operations and some firms have the capability to provide full package services.[115] The Government of Morocco has implemented programs to attract more investment, update technology, launch new products, and to lower production costs.[116]

## Potential Impact on U.S. Trade Flows

### *U.S. imports*

The U.S.-Morocco FTA is likely to result in a substantial increase in the quantity of U.S. imports of textiles and apparel from Morocco in absolute terms. However, since the current level of U.S. imports from Morocco is very small, the increase in total U.S. textile and apparel imports is likely to be very small, and thus the impact of the FTA on U.S. production and employment is likely to be negligible. Morocco is a very small supplier of textiles and apparel to the United States, and the expected increase in its shipments to the U.S. market will likely displace imports from other high-cost exporting countries, particularly those that do not benefit from preferential market access. Moreover, as stated above, the increase in shipments from Morocco as a result of the FTA could be tempered by increased competition following quota elimination under the ATC in 2005, because Morocco does not rank among the low-cost suppliers.[117]

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[112] See, for example, Industry Sector Advisory Committee on Textiles and Apparel (ISAC 15), *The U.S.-Morocco Free Trade Agreement: Report of the Industry Sector Advisor Committee on Textiles and Apparel*, Apr. 2004, p. 2, found at *http://www.ustr.gov/new/fta/Morocco/advisor/isac15.pdf*, retrieved May 19, 2004.

[113] Global Workforce In Transition, "Morocco Workforce Development Assessment," May 13, 2003, p. 5.

[114] Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA.

[115] Full package programs refer to a group of services ranging from procurement of materials, to cutting and sewing, and to finishing and packaging the final products. Belghazi, Plunkett, and Salinger, "Opportunities for Enhancement of U.S.-Morocco Trade and Investment," p. 49, and "Morocco's Decline in EU's Clothing Market," Emerging Textiles, May 28, 2002, found at *http://www.emergingtextiles.com,* retrieved Mar. 4, 2004.

[116] Belghazi, Plunkett, and Salinger, "Opportunities for Enhancement of U.S.-Morocco Trade and Investment," p. 49, and U.S. Department of State telegram, "U.S.-Morocco Free Trade Agreement Update," message No. 2056, prepared by U.S. Embassy, Rabat, Aug. 27, 2002.

[117] ISAC 15, *The U.S.-Morocco FTA: Report of the Industry Sector Advisor Committee on Textiles and Apparel*, p. 2.

U.S. imports of textiles and apparel from Morocco in 2003 were $76 million, or less than 0.5 percent of total imports of such goods. They enter free of quota and were subject to a trade-weighted average tariff of 16 percent ad valorem in 2003. The leading imports from Morocco were men's and women's cotton pants and women's undergarments, particularly those of manmade fibers.

The U.S.-Morocco FTA provides for the elimination of U.S. duties for most textile and apparel articles from Morocco that meet the FTA's rules of origin ("originating goods") over 5 years.[118] The origin rules require that imports of most textile and apparel articles from an FTA party be assembled from inputs made either in the United States or Morocco, generally from the yarn stage forward ("yarn forward" rule).[119] However, the FTA contains significant exceptions to the yarn-forward rule for Morocco, as described below.

The U.S.-Morocco FTA contains tariff preference levels (TPLs) that provide duty preferences for specified quantities of certain "nonoriginating goods" (goods that do not meet the FTA origin rules because they are made of yarns and/or fabrics from countries other than the United States and Morocco).[120] The TPL grants duty preferences for 10 years to nonoriginating knit and woven fabrics and apparel of cotton, manmade fibers, and wool that total 30 million square meter equivalents (SMEs) per year during the first 4 years and that will be reduced in roughly equal increments over the following 6 years, reaching zero after 10 years.[121] In the first 4 years of the FTA, a measurable increase in U.S. textile and apparel imports from Morocco is likely. However, as the TPL is phased out and ultimately eliminated, the growth in U.S. textile and apparel imports from Morocco is likely to slow considerably. The FTA also includes a special TPL of 1,067,257 kilograms[122] for textile and apparel articles of cotton grown in a least-developed Sub-Saharan African country, provided the cotton fibers are carded or combed there.[123]

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[118] An overview of the U.S.-Morocco FTA is provided in chapter 2. In general, the FTA provides for the elimination of duties on qualifying goods as follows: (1) duties for most textile and apparel products will be eliminated over 5 years (duties cut in half the first year and phased out in four equal increments in each of the subsequent years); and (2) immediate duty-free treatment will apply to a limited number of products, such as knit hosiery, girdles, corsets, handkerchiefs, shawls, and scarves.

[119] Under the yarn-forward rule, only the fibers may be from third countries. A fiber-forward origin rule applies to a limited number of products (mainly yarns and knit fabrics), which must be made in an FTA party from the fiber stage forward.

[120] According to the National Council of Textile Organizations, the TPLs negate the benefits of the FTA's rules of origin, and could harm U.S. textile producers. National Council of Textile Organizations, submission received May 5, 2004.

[121] The TPL is almost double the level of U.S. imports of textiles and apparel from Morocco in 2003, which totaled 16.5 million SMEs; apparel imports accounted for 15.9 million SMEs.

[122] This TPL is permanent and, according to industry sources, accounts for 5 percent of Morocco's total imports of cotton. "Morocco Seeks to Boost Exports from Sub-Saharan Africa," found at *http://www.insidetrade.com*, Apr. 9, 2004, retrieved May 12, 2004.

[123] Carded cotton has undergone processing by a machine that separates, aligns, and removes its impurities. Combed cotton undergoes additional processing that straightens the fibers and removes debris and short fibers in order to produce a smoother, stronger, and more compact cotton.

The U.S.-Morocco FTA also grants immediate duty-free treatment under TRQs[124] to specified quantities of originating U.S. imports of certain apparel made in Morocco. The TRQs are at the 6-digit HTS level (43 6-digit HTS headings), and in the first year of the FTA, permit a total of 270 million SMEs of numerous types of apparel imports, including Morocco's leading exports to the United States such as men's and women's trousers, underwear, and sweaters, to enter the United States free of duty. By year 5 of the FTA, the TRQs are to double to 542 million SMEs. It is possible that certain apparel imports could enter duty free under a TRQ for a specific 6-digit subheading as well as the TPL, effectively allowing for nonoriginating goods to enter under the TRQ, up to the TPL limit. Effective on January 1 of year 6, the TRQs are to be eliminated and all duties on originating apparel goods entering under the 43 6-digit HTS headings are to be eliminated. This will allow for substantial growth of many apparel imports from Morocco after the first 5 years of the FTA. In addition, the FTA grants immediate and unlimited duty-free treatment to U.S. imports of underwear and knit pajamas made in Morocco from circular knit fabric produced in third countries (i.e., non-U.S. and non-Moroccan fabric), provided that the fabric is cut and sewn in Morocco (the "single transformation" rule).

### *U.S. exports*

The U.S.-Morocco FTA is likely to result in a negligible increase in U.S. textile and apparel exports to Morocco. Morocco's tariffs on textiles and apparel currently range from 2.5 percent to as high as 50 percent. Under the FTA, a major share of Morocco's tariffs on textile and apparel imports from the United States are to be reduced by 50 percent in year one, and then reduced in 5 equal annual stages to zero. Other tariffs are to be phased out in 9 equal stages to zero. A smaller number of U.S. products are to receive immediate duty-free treatment. U.S. exports of textiles and apparel to Morocco in 2003 totaled $3 million, representing less than 0.5 percent of total U.S. exports of such goods. Morocco's potential as a growth market for U.S. exports is limited, however, because it is a relatively small market with low per-capita income and a low consumption rate for apparel and other sewn products.[125] Moreover, the inclusion of TPLs in the early years of the FTA is likely to dampen Moroccan demand for U.S.-produced textile fibers, yarns, and fabrics.

## Impact on Selected Services

It is not possible to establish an overall quantitative measure of the effects of the U.S.-Morocco FTA on trade in services. However, it appears likely that U.S.-based

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[124] A TRQ in this FTA specifies a limit up to which imports of a product will be assessed no duties. After that limit has been reached, any additional imports of the product will be subject to the normal rate of duty for the product.

[125] ISAC 15, *The U.S.-Morocco FTA: Report of the Industry Sector Advisor Committee on Textiles and Apparel*, p. 2.

service firms will benefit from improved market access conditions and greater regulatory transparency, though these benefits will be moderated by the small size of the Moroccan economy. U.S. industry notes general satisfaction with the FTA's provisions on investment and electronic commerce, both of which have bearing on U.S. firms' operations. Yet, U.S. industry representatives have expressed concern regarding certain aspects of the investment FTA, worker mobility, and the paucity of substantial commitments in some key service sectors, such as financial services.[126] The following provides an overview of the service sectors in Morocco and the United States, discusses the overall effects of the FTA, and summarizes the expected impact of the U.S.-Morocco FTA on U.S. imports and exports of telecommunication, insurance, and banking/securities services.

## *Market Overview*

The U.S. services sector accounted for 76 percent of U.S. private-sector gross domestic product (GDP) and 83 percent of private-sector employment in 2002. Globally, the United States is the largest services exporter and maintains the largest cross-border services surplus, measuring $74.3 billion in 2002.[127] Travel and tourism accounts for the largest share of U.S. cross-border service exports (23.8 percent), followed by royalty- and license fee-generating services such as software licensing and distribution (15.8 percent), maritime and air freight transportation (10.4 percent), and professional services (10.3 percent).[128] Sales of services by foreign affiliates of U.S. parent firms, the value of which have surpassed that of U.S. cross-border services exports since 1996, totaled $432.2 billion in 2001. Such sales follow U.S. direct investment in foreign markets, and in part reflect the degree to which foreign markets are open to U.S. service firms.[129]

Like the United States, Morocco has a large services market. Morocco's services market accounts for a large share of GDP (approximately 45 percent of real GDP in 2002), and Morocco is a net services exporter (table 3-1).[130] However, by comparison, Morocco's total services exports are equivalent to approximately 1.5 percent of U.S. service exports. In 2001, services accounted for approximately 40 percent of Morocco's total cross-border exports, the majority of which were generated by the travel and tourism sector.[131]

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[126] Industry Sector Advisory Committee on Services for Trade Policy Matters (ISAC 13), *The U.S.-Morocco Free Trade Agreement (FTA): Report of the Industry Sector Advisory Committee on Services for Trade Policy Matters*, Apr. 16, 2004, pp. 3-4, found at *http://www.ustr.gov/new/fta/Morocco/advisor/isac13.pdf*, retrieved May 19, 2004.

[127] U.S. Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), *Survey of Current Business*, May 2003, pp. 14 and D-36.

[128] USITC, "Recent Trends in U.S. Services Trade, 2004 Annual Report," May 2004, p. 2-6.

[129] Ibid., 2-6.

[130] WTO, *Trade Policy Review: Kingdom of Morocco*, pp. 1 and 5. See also the economic profile of Morocco, figure 1-1 in chapter 1 of this report.

[131] Ibid., p. 7; and table 1.

**Table 3-1**
**Cross-border service exports and imports, Morocco and the United States, 2001**

| Service industry | United States | | Morocco | |
|---|---|---|---|---|
| | Exports | Imports | Exports | Imports |
| | *Million dollars* | | | |
| Total services | 276,280 | 210,340 | 4,029 | 2,119 |
| Passenger transport | 18,100 | 22,410 | 397 | 214 |
| Freight transport | 11,940 | 25,660 | 263 | 568 |
| Other transport | 16,380 | 13,160 | (1) | (1) |
| Travel | 90,090 | 62,670 | 2,583 | 389 |
| Other: | | | | |
| Communications | 5,050 | 4,730 | 169 | 17 |
| Construction | 2,610 | 480 | (1) | (1) |
| Insurance | (1) | 4,890 | 29 | 38 |
| Financial | 15,210 | 4,010 | (1) | (1) |
| Computer and information | 5,140 | 660 | (1) | (1) |
| Royalties and licences fees | 38,660 | 16,360 | 22 | 256 |
| Other business services | 49,670 | 37,530 | 324 | 222 |
| Personal, cultural, and recreational | 6,620 | 130 | (1) | (1) |
| Government services, not elsewhere included | 16,900 | 17,650 | 242 | 414 |

[1] Not available.

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook, 2002 Part 1: Country Tables*, Jan. 2003, pp. 686 and 940.

U.S. service firms are effectively prohibited from competing in large segments of Morocco's service economy. The Moroccan Government has either stipulated outright bans on foreign participation in the domestic market or included onerous requirements and/or business operation practices.[132]

Foreign direct investment in Morocco experienced a net increase during 1996-2001, largely as a result of government privatization efforts. The telecommunications sector experienced the largest share of foreign direct investment during 1996-2001, reflecting the high priority the Moroccan Government has given to developing a modern and competitive telecommunications sector.[133] During 1996-2001, the United States was Morocco's third largest investor, following France and Portugal.[134]

## *Overall Effects of the FTA on Services*

U.S. firms and their Moroccan affiliates are likely to benefit from improved regulatory transparency and market access as a result of the U.S.-Morocco FTA. Regulatory

[132] USTR, "Morocco," *2004 National Trade Estimate on foreign Trade Barriers*, p. 338.

[133] Morocco fully opened its telecommunications market to foreign competition at the end of 2002, thereby complying with its commitments under the WTO Basic Telecommunications Agreement. The government has singled out telecommunications as an important development sector, and seeks to develop the country's Internet access market. USDOC, FCS, Morocco Country Commercial Guide, 2004, Jan. 9, 2004.

[134] WTO, *Trade Policy Review: Kingdom of Morocco*, p. 10.

transparency is an important precursor to robust services trade and investment because many services are heavily regulated owing to their influence on public health, consumer welfare, and safety. The FTA's chapter on transparency (chapter 18 of the FTA) promotes the availability and clarity of regulation. The chapter requires designation of contact points for inquiries about regulation, prompt publication of adopted regulations, advance publication of regulations under consideration, and reasonable notice of proceedings held to adopt or modify regulations. In addition to the chapter on transparency, the chapters on cross-border services (chapter 11 of the FTA), financial services (chapter 12 of the FTA), and investment (chapter 10 of the FTA) include provisions that promote regulatory transparency.[135]

The FTA improves upon Morocco's commitments under the WTO General Agreement on Trade in Services (GATS),[136] by in some instances guaranteeing market access and national treatment in areas where Morocco previously had no obligations. This is in part attributable to the "negative listing" methodology employed in the FTA. Using such a methodology, all trade disciplines found in chapter 11 of the FTA, which addresses cross-border trade in services, automatically cover all service industries except for those that are specifically exempted in the FTA annexes on nonconforming measures. Exemptions found in the annexes identify those articles of the services agreement that will be breached, and provide detail on current and future regulatory practice in the affected industry. One forward-looking benefit of negative listing is that these disciplines are automatically extended to services that have yet to be created or brought to market, an element especially important to communication and financial services, where technological advancement and other innovation result in new service offerings and delivery means. This type of approach tends to yield greater market access and transparency than the "positive listing" methodology employed in the GATS, wherein countries must schedule commitments to specific industries in order to guarantee market access and national treatment. Under positive listing, the extension of trade disciplines to new services would have to be negotiated individually.

A comparison of the treatment of management consulting and legal services in the GATS and the U.S.-Morocco FTA illustrates the benefits of negative versus positive listing. In the GATS, Morocco elected not to address either service, leaving trade limitations unbound. While this treatment does not necessarily mean that there are impediments to trade in these service industries, it provides no transparency and confers on Morocco the ability to implement new or additional trade restrictions in the future without penalty. In the FTA, Morocco again elects to leave management consulting unaddressed, but by virtue of negative listing, this means that the trade disciplines found in chapter 11 of the FTA apply in their entirety. U.S. management consultants have unrestricted market access, nondiscriminatory regulatory treatment, and improved transparency (table 3-2). With respect to legal services, Morocco elects

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[135] ISAC 13, *The U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services,* p. 9.

[136] The WTO General Agreement on Trade in Services (GATS) was signed in 1994 at the end of the Uruguay Round of WTO negotiations. It is the first multilateral trade treaty to include rules for trade in services.

**Table 3-2**
**U.S.-Morocco FTA: Examples of increased market access and transparency**

| Industry | GATS measures | FTA measures | Benefits |
|---|---|---|---|
| Management consulting services | Limitations unbound. | No limitations. | • Unrestricted market access.<br>• Nondiscriminatory legal transparent.<br>• Improved transparency. |
| Legal services, excluding foreign legal consultancies | Limitations unbound. | • Limits on forms of establishment.<br>• Nationality requirement.<br>• Residency requirement. | • Improved transparency. |
| Accounting and auditing | • Limits on cross-border provision unbound.<br>• Limit on foreign capital invested in commercial presences.<br>• Moroccan nationality required for presence of natural business persons. | **Certified Accountants**<br>• Membership in Order of Chartered Accountants (OCA).<br>• Nationality requirement.<br>• Residency requirement.<br>**Qualified Accountants**<br>• Nationality requirement. | • Improved transparency<br>• Limits on foreign capital removed. |

Source: Morocco, Schedule of Specific Commitments, GATS/SC/57, Apr. 15, 1994; and U.S.-Morocco Free Trade Agreement, Annex I: Services/Investment Non-conforming measures.

to restrict the practice of Moroccan law by foreign attorneys, but does so in a transparent manner. Annex 1 on nonconforming measures indicates that the practice of Moroccan law is subject to limits on forms of establishment, and requires Moroccan nationality and residency. Significantly, Morocco imposes no restrictions on foreign legal consultancies, which counsel clients on home country and international law. Foreign legal consultancies are the primary means by which legal services are traded.

In other instances, the FTA effectively removes trade restrictions and enhances transparency. For example, in the accounting and auditing services industry, Morocco's GATS schedule includes unbound limitations on cross-border provision, limits on foreign investment, and nationality requirements. While Morocco retains certain of these limitations in the FTA, such as nationality requirements for so-called certified and qualified accountants who provide specific statutory services, it removes restrictions on foreign investment and appears to improve prospects for cross-border service provision.

Industry reports that, aside from greater transparency and improved market access conditions, the FTA generally provides a favorable investment climate. Investment

disciplines provide a "stable and predictable framework"[137] for U.S. service firms, some of which find cross-border investment essential to conducting business. The U.S.-Morocco FTA reduces barriers to investment and reportedly contains many of the protections sought by industry, including a broad definition of investment, a guarantee of "prompt, adequate, and effective" compensation in the event of expropriation, a prohibition on performance requirements, and an investor-state settlement mechanism.[138]

Although the U.S. service sector is generally supportive of the U.S.-Morocco FTA, it has expressed dissatisfaction with certain aspects of the FTA. The services community has expressed concern that the investment provisions under the FTA fail to protect prior investment agreements such as those pertaining to natural resources and other government-controlled assets, and that procedures to review prudential restrictions on financial services are lengthy and onerous.[139] The U.S. services community has also expressed disappointment with the absence of procedures to facilitate the movement of personnel. U.S. firms indicate that without the ability to move key personnel rapidly, they are not able to fulfill obligations to global customers. They describe current procedures for obtaining work permits and visas for short-term assignments and intracorporate transferees as "complex, cumbersome, and time-consuming."[140]

## *Impact of the FTA on U.S. Imports of Services for Selected Industries*

### Telecommunication Services

The U.S.-Morocco FTA is likely to have no measurable impact on U.S. imports of telecommunication services, largely due to the existing level of openness in the U.S. telecommunication services market. Relative to the United States, Morocco's telecommunication services market is small. The United States is the world's largest telecommunications market, with 2002 revenues of $294 billion, accounting for approximately 3 percent of the country's GDP and representing 30 percent of worldwide revenues.[141] By comparison, Morocco's 2002 telecommunication service revenues totaled $2 billion. U.S. commitments as part of the WTO Basic Telecommunications Agreement lifted most foreign investment restrictions in the U.S. market and provided greater regulatory certainty for foreign firms.[142] However,

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[137] ISAC 13, *The U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services,* p. 6.

[138] Ibid., pp. 6-7.

[139] Ibid.

[140] Ibid., p. 7.

[141] International Telecommunications Union (ITU), *World Telecommunication Indicators*, WinStars database, Geneva: ITU, 2003.

[142] The WTO Basic Telecommunications Agreement became effective Feb. 5, 1998.

Maroc Télécom, Morocco's incumbent telecommunication firm, has not made significant investments in the U.S. telecommunication services market. Rather, Maroc Télécom has stated that it intends to pursue foreign investment in nearby countries, particularly those in North and West Africa.[143]

### Banking and Securities

Because the U.S. financial services market is already relatively open and the Moroccan industry is relatively small, the U.S.-Morocco FTA is not likely to have a significant impact on U.S. imports of banking and securities services from Morocco. In 2002, total U.S. imports of banking and securities services registered $3.7 billion.[144] While precise figures on financial service imports from Morocco do not exist, available data indicate that such imports could not exceed $10 million, or less than 1 percent of such imports.[145] However, such imports, if any, are most likely concentrated in the provision of trade financing to U.S. clients importing goods from Morocco, and do not directly compete with U.S.-based banks. Future growth if any in this industry segment will be a result of increased trade in goods between the United States and Morocco rather than a result of financial sector liberalization.

### Insurance

The Moroccan insurance industry recorded total 2001 insurance premiums of $955 million, compared with U.S. insurance premiums of $904 billion, or 38 percent of global premiums,[146] illustrating the small size of the Moroccan insurance market compared to that of the United States. In addition, the U.S. insurance sector is substantially open to foreign investment. There appear to be no U.S. imports of insurance services from Morocco because the country's insurance firms are too small to be competitive in foreign markets, not because of existing U.S. barriers to trade or investment that might be removed as a result of the U.S.-Morocco FTA. Therefore, the FTA is unlikely to have a measurable impact on U.S. imports of insurance services from Morocco.

## *Impact of the FTA on U.S. Exports of Services for Selected Industries*

### Telecommunication Services

The U.S.-Morocco FTA will have little direct commercial impact on U.S. telecommunication services exports to Morocco, largely due to the degree of

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[143] Reuters staff, "Maroc Telecom has $700 million for investments abroad," Mar. 24, 2004, found at http://www.totaltele.com, retrieved Apr. 15, 2004.

[144] USDOC, BEA, *Survey of Current Business*, Oct. 2003, p. 101.

[145] Ibid.

[146] Swiss Re, sigma database.

liberalization that has already taken place in Morocco. As noted, Morocco considers telecommunications a strategic market. In 1997, a new telecommunications law was enacted that allows full competition in all telecommunication sectors. As a result, foreign investment in telecommunications increased steadily during 1998-2001.[147] In 2000, Vivendi Universal purchased 35 percent of Maroc Télécom for $2.3 billion, and the government expects to sell an additional stake in the company by December 2004.[148] In the wireless market, a consortium led by Spain's Telefonica was awarded a mobile license in 2001. The sale of an additional mobile license, scheduled for 2004, is predicted to generate significant opportunities for U.S.-based firms.[149] The Moroccan Internet market is expected to grow significantly. The country hopes to reach 10 million Internet subscribers by 2010, up from fewer than 1 million in 2002.[150]

## Banking and Securities

In 2002, total U.S. exports of financial services were $15.9 billion, with available data suggesting that exports to Morocco could not exceed $85 million, or less than 1 percent of the total.[151] The financial services market in Morocco is very restrictive and U.S. companies have a minimal market presence there. One of the most significant limitations to the provision of banking and securities services in Morocco is its law prohibiting individuals and organizations, including foreign investors operating in-country, from investing or maintaining accounts abroad.[152] These restrictions were not removed for U.S. firms under the FTA. Subsequently, asset management firms are limited strictly to Moroccan investments, and banks cannot fund their own activities with outside investments,[153] making them vulnerable to risks in the Moroccan financial sector. In effect, the law prevents any meaningful increase in exports of banking and securities services by U.S. firms in the near term. However, under the FTA the restrictions will be suspended for U.S. investors after a 4-year period,[154] and it is possible that restrictions on foreign investment by Moroccan mutual funds could be lifted in 3 years.[155] Other restrictions under the FTA that concern U.S. financial services

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[147] Foreign investment in the Moroccan telecommunications sector as a percentage of total foreign investment increased from 0.35 percent in 1998 to 80 percent in 2001 largely as a result of the Moroccan Government's privatization program. This share decreased to 7 percent in 2002, reportedly because of poor competitive conditions in the global telecommunications market. USDOC, FCS, Morocco Country Commercial Guide, 2004.

[148] Reuters staff, "Morocco to float Maroc Telecom stake in 2004," Apr. 5, 2004, found at *http://www.totaltele.com*, retrieved Apr. 14, 2004.

[149] USDOC, FCS, Morocco Country Commercial Guide, 2004.

[150] Ibid.

[151] USDOC, BEA, *Survey of Current Business*, October 2003, p. 100.

[152] ISAC 13, *The U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services*.

[153] Ibid.

[154] Financial service providers will be able to purchase financial services from U.S.-based firms at that time as well. ISAC 13, T*he U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services.*

[155] The FTA stipulates that within 3 years of the agreement entering into force, the Moroccan Government is to revisit the restrictions on foreign investments by mutual funds or the capital dotation regulations related to bank branching. Only one of the restrictions will potentially be removed, marking a disappointment for U.S. industry. Ibid.

providers are those pertaining to capital endowment for bank branches, acquisition of controlling interest in local banks, and issuance of negotiable debt securities by foreign banks or financing firms in Morocco.[156] Further, the Moroccan Government opted for a prudential carve-out on financial services measures that includes a complicated and potentially time-consuming set of review procedures.[157]

Despite the lack of concessions for the banking and securities sector, the U.S.-Morocco FTA includes provisions that will benefit U.S.-based financial services companies already active in or seeking to enter the Moroccan market. The market access commitments allowing banks and asset management companies to enter the market without restrictions on share of ownership or business form (e.g., branches) are viewed favorably by the industry.[158] So too are the provisions regarding national treatment and regulatory transparency, although the latter will be phased in over a 2- year period.

### Insurance

The U.S.-Morocco FTA includes several provisions which will make it easier for U.S. firms to enter the Moroccan insurance market through direct investment or cross-border trade. For the first time, U.S. insurers will be able to form wholly owned subsidiaries and to operate through branches, making Morocco's commitments under the FTA superior to its commitments under the GATS.[159] On the other hand, industry sources report that the FTA's language regarding branching by insurance firms has been left deliberately vague, with the crucial question of the amount of capital required for a new branch left undefined. Industry representatives have indicated some commercial interest in Morocco, but until the regulations regarding branching are clarified, the new branching rights outlined in the FTA are unlikely to spur new exports of insurance services to Morocco.[160] Moreover, any increased trade resulting from the provisions of the FTA are likely to have only a marginal effect on overall U.S. exports of insurance services because of the small size of the Moroccan market compared to the U.S. market. Insurance industry representatives approved of the fact that the U.S.-Morocco FTA generally followed the model established by the insurance sections of previous bilateral FTAs, with the notable exception of the branching regulations.[161]

U.S. insurers would have preferred changes to three other aspects of the U.S.-Morocco FTA. First, two mandatory reinsurance cessions[162] remain: a 5-percent cession to the

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[156] Ibid.

[157] Ibid.

[158] Ibid.

[159] Ibid., and industry representative, telephone interview with USITC staff, Mar. 19, 2004. For further information on Morocco's commitments under the GATS, see Morocco's GATS Schedule of Commitments, GATS/SC/57/Suppl.1, found at *http://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm.*

[160] Industry representatives, telephone interviews by USITC staff, Mar. 9 and 19, 2004.

[161] Industry representatives, telephone interview by USITC staff, Mar. 9 and 19, 2004

[162] Insurers typically cede a portion of their risk to reinsurers, essentially by buying an insurance policy from a reinsurer that will cover a portion of the risk in case of a claim against the original (direct) insurer. These mandatory cessions remove the cost advantages to direct insurers of competitive reinsurance pricing, and take market share away from more competitive, foreign reinsurance firms.

Société Africaine de Reassurance (Africa Re) is untouched by the FTA,[163] and a 10-percent cession to Société Centrale de Réassurances will be phased out only after a long transition period.[164] Second, as noted above, the circumstances under which insurers will be able to establish branches in the Moroccan market were not spelled out by the FTA. In particular, the amount of capital that Moroccan regulators will require insurance branches to maintain in the country remains unspecified. This creates an atmosphere of uncertainty that makes it difficult for insurers to commit to branches in Morocco.[165] Third, Morocco's financial regulations prevent financial services firms established in the country from investing outside of Morocco. Insurance firms routinely invest their premium proceeds widely in order to hedge the risks of medium- and long-term insurance policies. As Morocco is a small market with limited investment opportunities, a prohibition on outside investment makes it "commercially infeasible" for many U.S. financial firms to locate in Morocco.[166] The restrictions are to be lifted 4 years after the FTA enters into force.

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[163] U.S.-Morocco Free Trade Agreement, Side letter on Africa Reassurance, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*, retrieved June 21, 2004.

[164] The transition period is 5 years after the FTA's entry into force with regard to subsidiaries established in Morocco, and 8 years after entry into force with regard to cross-border insurance contracts. U.S.-Morocco Free Trade Agreement, Annex III, p. 16, found at *http://www.ustr.gov/new/fta/Morocco/final/index.htm*, retrievedJune 21, 2004.

[165] Industry representatives, telephone interview by USITC staff, Mar. 19, 2004.

[166] ISAC 13, *The U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services.*

# CHAPTER 4
# Economywide Impact of Market Access Provisions

This chapter provides a quantitative assessment of the likely impacts of those chapters of the U.S.-Morocco FTA that increase bilateral market access for the United States and Morocco (i.e., chapters 2 through 4 of the FTA, which provide for liberalization of tariffs and selected nontariff barriers). Unlike the assessment conducted in chapter 3, where the impact of market access provisions of the FTA is examined at the specific sector or commodity level, the analysis in this chapter considers the impact of market access provisions of the FTA on all sectors in the U.S. economy as well as their relative economic importance.

The analyses in chapters 3 and 4, while directly related, are not directly comparable. Any seeming difference in the assessment of impacts in these chapters is not unexpected, as different degrees of aggregation and different analytical frameworks have been employed in the chapters. That is, the analysis in chapter 3 is based on the staged implementation of the FTA, while the analysis in the current chapter assumes the U.S.-Morocco FTA is fully implemented on January 1, 2005. Table 4-1 shows the relationship between the selected sectors analyzed in chapter 3 and the corresponding aggregated model sectors analyzed in the current chapter. As shown in table 4-1, grains represents the same sector coverage in both chapters 3 and 4. In addition, there is a close correspondence between the textile and apparel sector analyzed in chapter 3, and the textiles, apparel, and leather products sector of chapter 4. A relatively similar relationship exists for the citrus fruit sector. The relationship is relatively limited for the olives, sardines, and oilseeds sectors of chapter 3, and the corresponding sectors in chapter 4.

## Simulation Design

The overall assessment of the likely impact of the U.S.-Morocco FTA includes a number of measures of U.S. economic activity, including the impact on U.S. exports, imports, production, employment, and prices paid by consumers. The method chosen for quantitative analysis is a computable general equilibrium simulation. The model includes the social accounts and trade patterns for multiple regions of the world economy and for multiple products produced in those regional economies. Employing a simulation permits the Commission to quantify the probable impact of the negotiated U.S.-Morocco FTA on individual sectors, labor markets, and exports and imports.

**Table 4-1**
**U.S. Imports from Morocco: Relationship between selected sectors in chapter 3 and model sectors**

| Selected sector in chapter 3 | | Corresponding model sector | | |
|---|---|---|---|---|
| Sector | 2002 imports[1] | Sector | 2005 import[2] | Selected sector share of model sector |
| | *Million dollars* | | *Million dollars* | *Percent* |
| Grains (wheat and corn) . . | 0.0 | Grains | 0.0 | 100 |
| Textiles and apparel . . . . . | 76.2 | Textiles, apparel and leather products | 99.8 | 76 |
| Citrus fruit . . . . . | 13.0 | Vegetables, fruits and nuts | 22.7 | 57 |
| Olives . . . . . | 19.1 | Other processed foods and tobacco prod. | 84.2 | 23 |
| Sardines . . . . . | 7.9 | Other processed foods and tobacco prod. | 84.2 | 9 |
| Oilseeds . . . . . | 0.0 | Other crops[3] | 3.1 | 0 |

[1] Compiled from official statistics of the U.S. Department of Commerce.

[2] GTAP database (see table 4-4).

[3] The GTAP sector "other crops" includes soybeans; soybean oil and soybean meal are included in the GTAP sector "other processed foods and tobacco products."

NOTE.—The analysis in chapter 3 of this report is based on the staged implementation of the U.S. Morocco FTA as provided in the agreement, while the analysis in the current chapter assumes that the FTA is fully implemented on January 1, 2005

Source: GTAP version 6, prerelease 1 data and Commission calculations, unless otherwise indicated.

## Key Assumptions

The Commission's simulation liberalizes trade completely in all goods subject to liberalization under the U.S.-Morocco FTA. There is no implicit or explicit time elapsing in the model, and no adjustment costs are considered. This assumption means, first, that all provisions of the FTA are assumed to be fully phased in immediately on January 1, 2005, rather than staged in over a period of up to 18 years per the FTA.[1] The assumption also means that the modeled results are long-run effects of a fully implemented FTA in an economy otherwise identical to the benchmark 2005 economy—i.e., an economy with the same resources, population, and other characteristics of the 2005 economy. The qualitative assessment of the likely effects of the FTA on selected sectors in chapter 3, on the other hand, considers the short- to medium-term effects, as well as the transitional effects as the FTA is phased in.

A full list of the initial measured trade barriers in the model is shown in table 4-2. These barriers essentially constitute price gaps, or wedges, between world prices and

[1] A summary of the U.S.-Morocco FTA is provided in chapter 2 of this report.

domestic prices, which include the tariffs and other barriers.[2] As tabulated, they consist of tariffs and duties due to tariff rate quotas (TRQs), measured in the Global Trade Analysis Project (GTAP) database as ad valorem equivalent tariffs.[3] The sectors listed in table 4-2, and their corresponding import tariff equivalent measures, are highly aggregated. For example, the "other crops" category includes such commodities such as coffee, tea, oilseeds, cotton, spices, and tobacco. As a result, the listed import tariff equivalent measures are trade-weighted averages of the measures faced by the individual commodities composing the aggregates. The tariffs listed here include the TRQs imposed on certain agricultural products.[4] As shown in table 4-2, the tariffs on Morocco's imports from the United States (i.e., U.S. exports) are significantly higher than the tariffs on U.S. imports from Morocco. Services are restricted by nontariff barriers but are not quantified in the GTAP data, precluding a quantitative assessment of the FTA on this sector. Chapter 3 provided a qualitative assessment of the effects of the FTA on the services sector.

An important component of the U.S.-Morocco FTA, as discussed in chapter 2, is the set of rules of origin (ROOs) that determines the eligibility of goods for the tariff reductions under the FTA. The Commission did not explicitly model the impact of ROOs, but the simulation performed is consistent with the existence of ROOs. In the simulation, it is assumed that traded commodities are differentiated by country of origin, which implies a limit to the ability of FTA partners to source imports from a third country.

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[2] A price gap summarizes the price impact of several border measures: ad valorem duties, specific duties, and variable levies that insulate domestic prices from short-term fluctuations in world markets (as in the case of Moroccan variable levies on grain imports). These price gaps are modeled as constant ad valorem gaps between domestic and world prices. The Commission selected this approach because this is a long-term analysis that abstracts from all other events that may influence world markets.

[3] Version 6, prerelease 1, of the GTAP data has not been published or publicly released at the time of this writing. Version 5 is described in Betina V. Dimaranan, and Robert A. McDougall (2002), *Global Trade, Assistance, and Production: The GTAP 5 Data Base*, Center for Global Trade Analysis, Purdue University. Version 6 of the GTAP data has several advantages relative to version 5. First, trade flows and national economic data have been updated from 1997 to 2001 (although for this study the Commission has further updated the data to 2005). Second, the protection data have been improved significantly. Rather than relying for the most part on WTO bound tariffs, the new data reflect actual applied tariffs (generally smaller than bound rates); for this reason, apparent duties on some commodities have declined from those in previous versions of the data. This is aside from the fact that further implementation of the Uruguay Round and other trade agreements has actually reduced duties. Also, this new version of the data reflects work that is in progress to develop appropriate methods to quantify tariff rate quotas and nontariff measures. Work remains to be done in these areas, but the current prerelease version 6 of the GTAP data provides the best available data for analyses of current trade policy. One recent Commission report used version 6, prerelease 1, of the GTAP database (USITC, *U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, investigation No. TA-2104-11, publication 3697, May 2004). Two prior Commission reports used version 5 of the GTAP database (USITC, *U.S.-Singapore Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, investigation No. TA-2104-6, publication 3503, June 2003; and *U.S.-Chile Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, investigation No. TA-2104-5, publication 3505, June 2003).

[4] Prerelease 1 of the GTAP version 6 database also includes measures of export tax equivalents, primarily measuring domestic taxes or subsidies on exports. These export measures are in general not affected by the FTA, and are not removed in this analysis.

**Table 4-2**
**U.S.-Morocco FTA: Benchmark tariffs, 2005.**

*(Percent)*

| Commodity | Tariffs on U.S. imports from Morocco | Tariffs on Morocco's imports from the United States |
|---|---|---|
| Grains | 0 | 13.00 |
| Vegetables, fruits, and nuts | 3.00 | 49.00 |
| Other crops | 2.00 | 2.50 |
| Cattle and horses | 0 | 0 |
| Animal products n.e.c. | 0 | 25.00 |
| Coal, oil, gas, other mineral | 0 | 17.78 |
| Meat products | 2.00 | 50.14 |
| Dairy products | 0 | 84.00 |
| Sugar manufacturing | 29.00 | 0 |
| Sugar crops | 0 | 0 |
| Other processed food and tobacco products | 8.79 | 75.00 |
| Textile, apparel, and leather products | 16.00 | 39.28 |
| Wood products | 0 | 31.00 |
| Petroleum, coal, chemicals, rubber, plastic | 1.86 | 32.16 |
| Ferrous metals | 1.00 | 31.90 |
| Metals n.e.c. and metal products | 1.00 | 21.00 |
| Motor vehicles and parts | 1.00 | 31.00 |
| Transport equipment n.e.c. | 2.29 | 15.31 |
| Electronic equipment | 0 | 1.50 |
| Other machinery and equipment | 0 | 20.00 |
| Other manufactures | 0 | 33.25 |
| Services | 0 | 0 |

Source: GTAP version 6, prerelease 1 data and Commission calculations.

The U.S.-Morocco FTA establishes separate ROOs for textile and apparel goods and for non-textile product categories. As stated in the section on textiles and apparel in chapter 3, however, ROOs are most likely not to have an immediate impact on limiting U.S. imports of textile and apparel articles from Morocco because the FTA contains tariff preference levels (TPLs) that provide duty preferences for specified quantities of goods that do not meet the FTA ROOS for a period of 10 years.[5] It is possible that, following the elimination of TPLs, the increase in imports from Morocco will be attenuated. In addition, the FTA grants immediate duty-free treatment under TRQs to specified quantities of U.S. imports of certain qualifying apparel made in Morocco. This treatment is at the 6-digit HTS level, and it is possible that some apparel imports could enter duty-free under a specific 6-digit heading as well as under a TPL. Furthermore, the TRQs themselves increase until they are eliminated under the FTA after 5 years. Because of these various provisions, it is uncertain to what extent the

[5] For further information on rules of origin for textiles and apparel and TPLs, see the section on "Textiles and Apparel" in chapter 3 of this report.

FTA's trade liberalization in textile and apparel products might be reduced over time as the TPL is phased out. See chapter 2 for a further discussion of these provisions of the FTA.

The primary data source is the GTAP database, prerelease 1 of version 6, which provides a snapshot of the world economy for 2001. To the extent feasible, the GTAP data are updated to 2005, the year in which this report assumes the U.S.-Morocco FTA will enter into force. The 2005 benchmark incorporates the scheduled removal of textile and apparel quotas (under the Agreement on Textiles and Clothing); the U.S. FTAs with Chile and Singapore; the European Union-Morocco FTA;[6] and Uruguay Round reductions in tariff rates inferred from trade data projected to 2005.[7]

The analysis employs a comparative static framework in which a benchmark equilibrium depiction of the U.S. economy, as of January 1, 2005, is derived through a set of balanced accounts of trade, production, consumption, and taxes. Once this benchmark has been created, policy shocks are imposed on the balanced model. A policy shock simply means a change in policy, typically a tariff removal or reduction, which is imposed on the model in order to measure its effect. In this model the policy shocks consist of the reduction or elimination of tariffs and measurable TRQs agreed to in the FTA shown in table 4-2.

To estimate the impact of the FTA, the trade policies shown in table 4-2 are replaced with new levels (generally zero) to represent the new, post-FTA economic state. The model is rebalanced, and new values for trade flows, outputs, employment, welfare, and GDP are generated. The difference between the benchmark values of these variables and their new values is the estimated impact of the removal of tariffs and measurable TRQs under the FTA. It is expected that those sectors which face relatively high trade barriers will show the largest effects as a result of the implementation of the FTA.

## *Economywide Summary Results*

The change in economic welfare provides a measure of the comprehensive impact of the simulated FTA in a manner that is consistent with economic theory, summarizing the benefits to consumers, as well as the effects on households in their roles as providers of labor, owners of capital, and taxpayers. Table 4-3 presents the simulated welfare

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[6] The Morocco-EU FTA is fully implemented in the base data, including likely declines in U.S. exports to Morocco due to that FTA. In a general sense, the U.S.-Morocco FTA provides U.S. exporters with preferences similar to those provided to EU exporters. The model similarities reflect this, as well as the preferences afforded relative to the rest of the world.

[7] The model used in the assessment of the U.S.-Morocco FTA and in the systematic sensitivity analysis is based on the core model available in the GTAPinGAMS software developed by Rutherford and Paltsev. (See Thomas F. Rutherford and Sergey V. Paltsev, *GTAPinGAMS and GTAP-EG: Global Datasets for Economic Research and Illustrative Models*, Department of Economics, University of Colorado Working Paper, September 2000.) Detailed descriptions of the methodology and model are presented in appendix C.

**Table 4-3**
**U.S.-Morocco FTA: Simulated impacts on U.S. welfare and GDP (relative to baseline)[1]**

| Item | Million Dollars | Percent |
|---|---|---|
| **Welfare** | 119.7 | 0.00 |
| **Decomposition of GDP:** | | |
| Land | 72.4 | 0.12 |
| Unskilled Labor | 52.1 | 0.00 |
| Skilled Labor | 4.5 | 0.00 |
| Capital | 62.0 | 0.00 |
| Balance for lost tariff revenue[2] | – 83.6 | NA |
| Total GDP | 107.3 | 0.00 |

[1] Throughout the analysis in this chapter and chapter 8 the Commission uses the true-cost-of-living index, as measured by the unit U.S.-household expenditure function, to deflate all nominal results. In this case using the true-cost-of-living index to deflate GDP yields a measure that is a close proxy for welfare changes.

[2] This transfer compensates the government for lost tariff revenue in order to hold government expenditure and borrowing constant. Holding fixed the government budget position (and by extension government purchases) is necessary for welfare analysis.

Source: Commission calculations.

impact of the U.S.-Morocco FTA, as well as the simulated impact on gross domestic product (GDP).[8] The Commission simulation of these components of the U.S.-Morocco FTA suggests that the welfare value to the United States of the tariff liberalization under the FTA is $119.7 million (see the sensitivity analysis below for the 95-percent confidence interval), an amount that is less than 0.005 percent of U.S. GDP. This can be interpreted as stating that, when fully implemented, the FTA would provide annual benefits to U.S. consumers worth $119.7 million, in the economy of 2005.[9]

The analysis decomposed the change in GDP into specific changes in payments to primary factors of production—land, unskilled labor, skilled labor, and capital, and a change in the net transfer from households to the government. One of the macroeconomic implications of the simulated U.S.-Morocco FTA is that factor payments to land increase by $72.4 million, an increase of 0.12 percent; payments to unskilled labor and capital increase by $52.1 and $62.0 million, respectively; payments to skilled labor would increase by $4.5 million.[10] The transfer from

[8] Unlike the change in welfare, measures of changes to GDP include both price and quantity changes. The general equilibrium model, however, only determines relative prices, thus a unit of measure for real values must be chosen. Throughout the analysis in this chapter and chapter 8 the Commission uses the true-cost-of-living index, as measured by the unit U.S.-household expenditure function, to deflate all nominal results. In this case using the true-cost-of-living index to deflate GDP yields a measure that is a close proxy for welfare changes. In a simple model without government expenditure and other economic policies they would be the same.

[9] This welfare measure is often referred to as the "equivalent variation."

[10] The increase in land rents is relatively larger than the increase in other primary factor rents because U.S. agricultural exports account for a larger share of agricultural output than the share of total output that is exported.

households to the government compensates for the loss of tariff revenue to the government.[11]

## Simulated Changes in Trade Volumes

Table 4-4 reports the simulated changes in U.S.-Morocco bilateral trade as a result of full implementation of the FTA. The trade impacts are reported on a landed-duty paid basis, and thus reflect changes in the value of trade including tariff payments. As indicated in table 4-2, Morocco has substantially higher trade barriers than does the United States, so the U.S.-Morocco FTA is likely to result in a much greater increase in U.S. exports to Morocco (because of the impact of lowering Morocco's relatively higher trade barriers under the FTA) than in U.S. imports from Morocco (the U.S. economy is already relatively open to Moroccan imports).

Table 4-4 includes a sectoral decomposition of the U.S. Morocco bilateral trade equilibrium as a result of full implementation of the FTA. In general, the sectors facing the greatest trade barriers are the ones experiencing the greatest effects of eliminating the trade barriers. On the U.S. export side, there are moderate increases in other machinery and equipment ($128.5 million), grains ($113.9 million),[12] processed food and tobacco ($96.8 million), petroleum, coal, chemical, rubber, plastic products ($90.7 million), and in the textiles, apparel, and leather products sector ($85.7 million). As has been noted, the high level of tariff protection currently given to many of Morocco's products suggests that their removal under the FTA is likely to have significant effects on Morocco's imports from the United States. Many of these increases in exports, particularly in textiles, apparel, and leather products, represent changes from very small initial levels, so that moderate increases in exports represent large percentage changes, due to the reduction of high levels of protection.[13]

Table 4-4 shows that U.S. imports of three categories—textiles, apparel, and leather products; other processed food and tobacco; and petroleum, coal, chemicals, rubber and plastic products—increase substantially, accounting for $190.9 million of the total increase in imports from Morocco. The greatest increase in sectoral trade occurs in textiles, apparel, and leather products. U.S. imports of these products from Morocco

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[11] Without making up for the government's lost tariff revenue, real government spending and net government indebtedness could not be maintained, and national welfare could not be compared between the benchmark and the counterfactual simulation.

[12] The simulated effect for U.S. exports of grains is based on the assumption that Morocco applies a 13 percent duty on grain imports. In reality, Morocco applies a variable levy on grain imports (described in more detail in the section on "Grains" in chapter 3) and, thus, the impact of the FTA on U.S. exports of grains may be larger or smaller than $113.9 million depending on Moroccan market conditions.

[13] Chapter 3 of this report provides specific analyses of products in some of these and other sectors, with additional discussion of the timing of the implementation of the FTA with respect to them.

**Table 4-4**
**U.S.-Morocco FTA simulated impacts: U.S. imports from Morocco and Moroccan imports from the United States (landed-duty paid)**

| Sector | U.S. imports | | | Moroccan imports | | |
|---|---|---|---|---|---|---|
| | Base value before FTA | Change after FTA full implementation | | Base value before FTA | Change after FTA full implementation | |
| | *—Million dollars—* | | *Percent* | *—Million dollars—* | | *Percent* |
| Textile, apparel, and leather products | 99.8 | 164.3 | 164.70 | 11.1 | 85.7 | 770.70 |
| Other processed food and tobacco products | 84.2 | 22.7 | 26.90 | 31.6 | 96.8 | 306.73 |
| Petroleum, coal, chemicals, rubber, plastic | 36.5 | 3.9 | 10.65 | 28.3 | 90.7 | 319.82 |
| Services[1] | 862.7 | 3.5 | 0.41 | 884.0 | −3.8 | −0.43 |
| Vegetables, fruits, and nuts | 22.7 | 1.9 | 8.26 | 0.7 | 1.3 | 190.66 |
| Electronic equipment | 107.0 | 1.2 | 1.13 | 66.7 | 7.6 | 11.36 |
| Ferrous metals | 13.3 | 0.8 | 6.00 | 4.6 | 17.3 | 371.90 |
| Other crops | 3.6 | 0.4 | 10.17 | 57.3 | 6.0 | 10.43 |
| Metals nec and metal products | 1.2 | 0.1 | 8.35 | 0.6 | 1.7 | 302.99 |
| Motor vehicles and parts | 0.7 | 0.1 | 8.56 | 5.3 | 12.0 | 228.31 |
| Other machinery and equipment | 7.9 | 0.0 | 0.44 | 51.6 | 128.5 | 248.99 |
| Transportation equipment n.e.c. | 0.2 | 0.0 | 13.21 | 470.4 | 45.1 | 9.59 |
| Other manufactures | 3.3 | 0.0 | 0.51 | 9.6 | 37.7 | 391.32 |
| Wood products | 3.1 | 0.0 | 0.32 | 1.7 | 6.1 | 357.18 |
| Animal products n.e.c. | 0.2 | 0.0 | 0.43 | 1.4 | 1.2 | 87.12 |
| Grains | 0.0 | 0.0 | NA | 170.6 | 113.9 | 66.78 |
| Sugar crops | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Cattle and horses | 0.0 | 0.0 | NA | 0.0 | 0.0 | 0.33 |
| Meat products | 0.0 | 0.0 | NA | 3.9 | 32.1 | 827.31 |
| Dairy products | 0.0 | 0.0 | NA | 0.1 | 2.7 | 4,495.73 |
| Sugar | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Capital goods | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Coal, oil, gas, other mineral | 137.2 | −0.2 | −0.15 | 11.9 | 57.5 | 482.83 |
| Total | 1,383.3 | 198.6 | 14.36 | 1,811.4 | 740.0 | 40.85 |

[1] No U.S. tariffs or other quantitative import measures for services were removed in this analysis. The small percentage changes in trade arise from trade balance, changes in demand, and factor supply. See text.

Source: GTAP version 6, prerelease 1 data and Commission calculations.

are likely to increase by $164.3 million, or by about 165 percent. This is in line with the expected increase in textiles and apparel imports discussed in chapter 3 (which does not include leather products). As stated above, the U.S.-Morocco FTA provides for TPLs for a period of 10 years; it is possible that, after the TPLs are eliminated and the more restrictive ROOs are applied, the increase in imports from Morocco resulting from the FTA could be reduced.

The impacts of the simulated U.S.-Morocco FTA on total U.S. trade by sector are reported in table 4-5. Total U.S. imports of textiles, apparel, and leather products are

**Table 4-5**
**U.S.-Morocco FTA simulated impacts: U.S. imports (landed duty paid) from the world and exports (f.o.b.) to the world**

| Products | Imports | | | Exports | | |
|---|---|---|---|---|---|---|
| | Base | Change | Percent | Base | Change | Percent |
| | *— Million dollars—* | | | *— Million dollars—* | | |
| Textile, apparel, and leather products | 126,824.7 | 47.0 | 0.04 | 24,790.0 | 61.4 | 0.25 |
| Other processed food and tobacco products | 37,333.6 | 10.4 | 0.03 | 20,451.1 | 94.5 | 0.46 |
| Petroleum, coal, chemicals, rubber, plastic | 165,329.3 | 24.0 | 0.01 | 157,883.1 | 29.1 | 0.02 |
| Services | 223,474.0 | 51.4 | 0.02 | 276,814.8 | –118.8 | –0.04 |
| Vegetables, fruits, and nuts | 9,210.0 | 3.1 | 0.03 | 4,975.9 | –0.3 | –0.01 |
| Electronic equipment | 219,713.4 | 5.5 | 0.00 | 166,129.0 | –62.8 | –0.04 |
| Ferrous metals | 49,119.4 | 6.8 | 0.01 | 33,671.0 | 5.6 | 0.02 |
| Other crops | 10,891.9 | 6.4 | 0.06 | 11,761.6 | –2.1 | –0.02 |
| Metals nec and metal products | 30,366.9 | 2.8 | 0.01 | 18,655.8 | –5.8 | –0.03 |
| Motor vehicles and parts | 178,332.3 | 9.2 | 0.01 | 69,147.8 | –1.8 | 0.00 |
| Other machinery and equipment | 250,077.5 | 32.3 | 0.01 | 234,706.1 | 21.2 | 0.01 |
| Transportation equipment n.e.c. | 51,597.4 | 7.8 | 0.02 | 70,635.1 | 64.6 | 0.09 |
| Other manufactures | 79,535.1 | 11.7 | 0.01 | 38,004.2 | 18.2 | 0.05 |
| Wood products | 21,571.9 | 3.2 | 0.01 | 6,976.5 | 3.3 | 0.05 |
| Animal products n.e.c. | 2,871.9 | 0.7 | 0.03 | 3,362.8 | 0.2 | 0.01 |
| Grains | 1,085.6 | 0.7 | 0.06 | 10,051.6 | 110.3 | 1.10 |
| Sugar crops | 6.6 | 0.0 | 0.10 | 0.0 | 0.0 | NA |
| Cattle and horses | 2,135.7 | 0.7 | 0.03 | 848.1 | –0.4 | –0.04 |
| Meat products | 6,407.6 | 2.6 | 0.04 | 7,858.3 | 20.8 | 0.26 |
| Dairy products | 1,898.1 | 0.6 | 0.03 | 858.7 | 1.7 | 0.20 |
| Sugar | 1,485.2 | 0.6 | 0.04 | 435.8 | –0.2 | –0.06 |
| Capital goods | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Coal, oil, gas, other mineral | 86,764.7 | 12.1 | 0.01 | 8,135.2 | 30.4 | 0.37 |
| Total | 1,556,033.7 | 239.6 | 0.02 | 1,166,152.6 | 269.1 | 0.02 |

Source: GTAP version 6, prerelease 1 data and Commission calculations.

shown to increase by $47.0 million, or by 0.04 percent. Thus, most of the increase in these imports from Morocco is diverted from imports formerly supplied by other countries. (Note that the model assumes that trade between Morocco and the EU has been fully liberalized, so that the simulated implementation of the FTA between Morocco and the United States does not confer preferential treatment on Morocco's imports from the United States greater than that already received by Morocco's imports from the EU) In the case of other processed food and tobacco products, the $22.7 million increase in U.S. imports from Morocco is largely offset by decreases in U.S. imports from other countries, leading to a net increase in imports of only $10.4 million.

Conversely, while U.S. imports of services from Morocco increase by $3.5 million, imports from the world as a whole are shown to increase by $51.4 million. As indicated

in table 4-2, no U.S. tariffs or other quantitative import measures to services were removed in this analysis. The reported changes in trade and output in services arise from secondary general equilibrium effects, including trade balance effects and changes in demand for services by other sectors and changes in supply of services resulting from the reallocation of labor and capital resources to other sectors that are growing more strongly as a result of the policy changes. Thus, while the reported results for services reflect effects of the FTA, they are indirect effects not resulting from policy changes in services trade. For a discussion of the changes in trade in services that might be expected from nonquantifiable provisions of the FTA, see chapter 3.

Aggregate U.S. trade with the world is likely to increase by a very small amount as a result of the increased market access under the U.S.-Morocco FTA. The last row in table 4-5 reports the simulated changes in total U.S. trade. Total imports would increase by $239.6 million (a 0.02 percent increase) on a landed-duty paid basis and total exports would increase by $269.1 million (a 0.02 percent increase) on an f.o.b. basis.[14]

In summary, the simulated impacts of the FTA shown in tables 4-4 and 4-5 suggest that $470.9 million of the increase in U.S. exports to Morocco (i.e., $740.0 million less $269.1 million) is diverted from other U.S. export markets. Even so, the increase in U.S. exports to the world of $269.1 million is larger than the increase of imports from Morocco of $198.6 million. The model makes an adjustment to keep the balance of trade stable, so that to compensate for the large increase in net exports to Morocco an additional $41.0 million is imported from other countries. This brings the total change in U.S. imports to $239.6 million. Similar adjustments in total exports, to balance the large increase in exports to Morocco relative to imports from Morocco, account for the small declines in total exports of electronic equipment, other crops, and metals and metal products reported in table 4-5.

## U.S. Gross Output and Employment Effects

Full implementation of the U.S.-Morocco FTA is likely to result in expansion of those U.S. industries that experience increased export demand due to the removal of Moroccan tariffs. In addition, the reallocation of resources and direct competition from Morocco goods that are given preferential import treatment into the United States is likely to cause the output of some U.S. industries to decline. However, as it is suggested by the percentage changes for total U.S. sectoral trade in table 4-5, these changes are likely to be very small. According to the model estimates, there is likely to be minimal to no impact on output or employment for most sectors in the U.S. economy.[15] The largest

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[14] Net capital flows are assumed not to change in the simulated FTA, requiring balance between the change in the value of imports on a c.i.f. basis and the change in value of exports on an f.o.b. basis. The smaller change in imports reported in table 4-3 is due to the lost tariff revenue that is included in imports measured on a landed-duty-paid basis.

[15] No U.S. sector is likely to experience an output decline greater than 0.03 percent, a revenue decline greater than 0.03 percent, or an employment decline greater than 0.03 percent as a result of the simulated impact of the U.S.-Morocco FTA.

sectoral change are estimated to be for grains, with an output increase of 0.16 percent,[16] a revenue increase of 0.17 percent,[17] and a labor increase of 0.19 percent.[18] This is not an unexpected result, because the sector experiencing the greatest expansion under full liberalization is the grain sector. This finding is consistent with Morocco's relatively high rates of protection in that sector. As is shown on table 4-3, land rents for the U.S. economy are estimated to increase as a result of the U.S.-Morocco FTA.

## Sensitivity of the Commission's Simulated Impacts to the Trade Elasticities

The simulated impacts of a trade policy change on the U.S. economy depend on many data and parameters. Appendix C describes in more detail the USITC model used in this chapter, including its data base and the parameters upon which it depends. The choice of values for these parameters influences the simulated FTA impacts. In order to assess the sensitivity of FTA impacts to the values of the model parameters, the Commission analyzed how one outcome of the model (the U.S. welfare measure) responds to a range of values selected for one set of input parameters.

The most important parameters in the model are the Armington trade elasticities, which measure the extent to which imported goods are similar to, and substitutable for, domestically produced goods. These parameters determine to a large extent the responsiveness of trade flows to changes in trade policy instruments (e.g., import tariffs). Because of the sensitivity of the model to these elasticities, and because there is often uncertainty on the values assigned to these elasticities,[19] the Commission has systematically analyzed the sensitivity of its model to the values assumed for the trade elasticities.

Trade elasticities are drawn from the econometric literature (see appendix C), allowing for the incorporation of uncertainty in the values of these estimates in the numeric simulation. Using 1,000 random draws from the published elasticity distributions, the numeric model was run to generate a distribution of the simulated welfare impacts of the U.S.-Morocco FTA. This distribution is presented graphically in figure 4-1.

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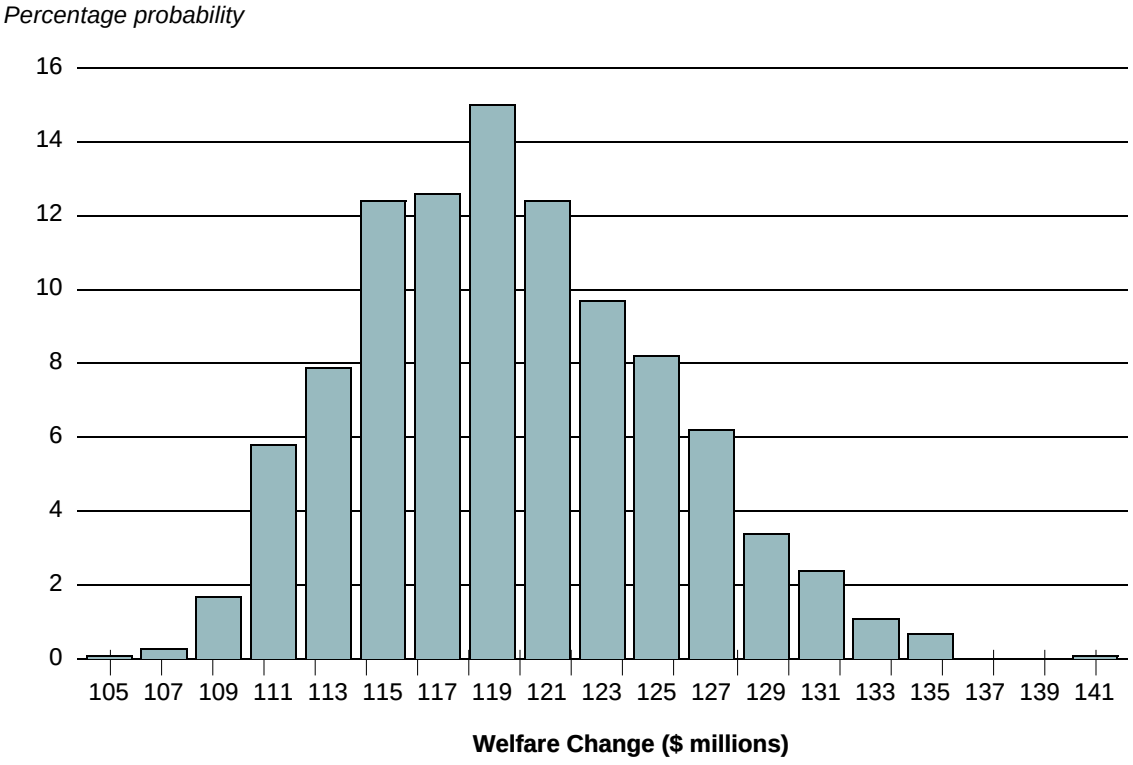
[16] Changes in gross output should be interpreted as pure quantity changes.

[17] Changes in revenues by industry incorporate both the quantity and producer price changes generated in the simulated U.S.-Morocco FTA.

[18] The simulation model does not consider changes in total labor supply, nor does it consider potential unemployment impacts; labor supply in the model is assumed to be fixed, and the labor market clears in equilibrium, as do all other simulated markets either for other factors or for goods or services. The model serves to indicate the ways in which a fixed labor supply would be reallocated among sectors in response to trade policy changes.

[19] Chapter 8 of this report reviews several analyses of a U.S.-Morocco FTA found in the economic literature. As is pointed out there, different assumptions on the appropriate values for the trade elasticities, among other things, distinguish some of the models from each other.

**Figure 4-1**
**U.S.-Morocco FTA: Distribution of simulated U.S. welfare impacts**




Source: Commission calculations

The simulations suggest a 95-percent confidence interval of welfare changes between $110.5 million and $131.6 million. In other words, accepting the distribution of the Armington elasticities as described in appendix C, and disregarding other sources of uncertainty in the model and its parameters, one could be 95-percent certain that the true welfare change resulting from the U.S.-Morocco FTA lies in the interval between $110.5 million and $131.6 million. It is important to recognize that, although the trade elasticities are some of the most important parameters, there is unmeasured uncertainty on a number of other parameters (such as demand and supply elasticities) that are required for computation of the model. Furthermore, this confidence interval pertains only to the welfare change-only one of several measures of the effect of outcome measures in the model. Similar analyses could be performed to examine the sensitivity to the Armington elasticities of GDP and aggregate trade flows, for example.

# CHAPTER 5
# Impact of Trade Facilitation Provisions

The U.S.-Morocco FTA contains a number of provisions that may facilitate the movement of goods and the provision of services between the two parties. This chapter provides a qualitative assessment of the potential impact of the trade facilitation provisions addressed in the FTA, including customs administration (addressed by chapter 6 of the FTA); technical barriers to trade, including sanitary and phytosanitary regulations (chapter 7); electronic commerce (chapter 14); and transparency (chapter 18). Although it is not possible to quantify the economic effect of these provisions, U.S. firms are likely to benefit from the application of these provisions by Morocco, primarily as a result of improvements in regulatory transparency. However, the overall impact of the FTA is likely to be very small because of the small size of the Moroccan economy and the Moroccan market relative to the United States.

The discussion in this chapter relies on the public record for assessments of the trade facilitation provisions of the U.S.-Morocco FTA. For each provision, the analysis in this chapter sets out U.S. negotiating areas and objectives for the FTA, followed by overall judgments on the FTA rendered by the advisory trade committees established by the U.S. Congress. The U.S. negotiating areas and objectives for the U.S.-Morocco FTA were put forward by the United States Trade Representative (USTR) to the leaders of Congress in the Executive Branch notification to the Congress of intent to pursue negotiation of a bilateral free trade agreement with Morocco.[1] Once an FTA is negotiated, the elements of the U.S. Government advisory committee system submit formal reports regarding the probable effects—both benefits and drawbacks—of the agreement reached. Among those committees are the Advisory Committee on Trade Policy and Negotiations (ACTPN)[2] and the various industry functional advisory committees (IFAC).[3] Where the advisory committees express a view of results achieved (or not achieved) by the agreement, their assessment is generally in response to the administration's stated negotiating objectives for that area. In negotiating areas that pertain more to public rather than private sector interests—for example, government policy on safeguards or competition policy—the advisory committees at times have expressed little or no opinion.

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[1] Amb. Robert B. Zoellick, notification letters to Congress of intent to initiate free trade agreement negotiations with Morocco, Oct. 1, 2002, found at *http://www.ustr.gov/releases/2002/10/2002-10-01-morocco-house.pdf and http://www.ustr.gov/releases/2002/10/2002-10-01-morocco-senate.pdf.*

[2] The ACTPN consists of up to 45 members, appointed by the President, who are broadly representative of key economic sectors affected by trade. The ACTPN examines U.S. trade policy and agreements from the broad context of the overall national interest.

[3] The IFACs provide specific technical advice concerning the effect that trade policy decisions may have on its sector. Presently, there are 6 agricultural and 21 other IFACs.

## Customs Administration

U.S. trade negotiating objectives regarding customs matters were to seek rules to require that Morocco's customs operations are conducted with transparency, efficiency, and predictability and that customs laws, regulations, decisions, and rulings are not applied in a manner that would create unwarranted procedural obstacles to international trade.

In its report to the President and the Congress on the FTA, the ACTPN states that it is "pleased with the customs procedures negotiated in the U.S.-Morocco FTA."[4] The report goes on to say that the committee supports the specificity of the FTA's provisions requiring transparency and efficiency in customs administration, as well as the provisions with respect to facilitating the clearance of express delivery shipments through customs. The committee noted that the FTA's customs administration provisions allow both parties to share information to combat the illegal transshipment of goods.[5]

The IFAC on Customs Matters (IFAC 1) provided the President with a more detailed assessment of some of the customs provisions that U.S. negotiators secured.[6] The committee report addresses the following elements in the U.S.-Morocco FTA with respect to customs administration: general provisions, definitions, rules of origin, certification of origin, customs commodity classification, valuation, dispute resolution, trade facilitation, as well as other provisions.

The IFAC 1 report expresses approval that many of the current best practices have been included in the FTA's customs provisions. The committee notes in particular the 48-hour release standard for goods, and stated the view that overall coverage under the FTA's general provisions implements many international customs guidelines. The report states that the FTA provides clear and beneficial descriptions for the terms "temporary admission," "waste and scrap," "used goods," "recovered goods," and "remanufactured products." The report states that the FTA also provides clear rules of origin, and affords the ability to request advance ruling—and an avenue for appeal of that ruling—which allow for more efficient administration of the rules. The report expresses satisfaction regarding the provisions for certification of the handling of origin that U.S. negotiators were able to obtain. In particular, the report highlights the "deemed to certify" language in the FTA as a major step forward in providing for the efficient release of goods that will allow traders to use standard commercial documentation.[7]

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[4] ACTPN, *The U.S.-Morocco Free Trade Agreement: Report of the Advisory Committee for Trade Policy and Negotiations*, Apr. 6, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/actpn.pdf*, retrieved May 3, 2004.

[5] Ibid.

[6] IFAC on Customs Matters (IFAC 1), *The U.S.-Morocco Free Trade Agreement: Report of the Industry Functional Advisory Committee on Customs Matters*, Apr. 5, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/ifac01.pdf*, retrieved May 3, 2004.

[7] Ibid.

On the issue of customs commodity classification, IFAC 1 reports that Morocco has accepted the World Customs Organization's Harmonized Commodity Coding and Classification System (HS), such that no special provision in this matter was necessary. The committee also notes that negotiators obtained in the U.S.-Morocco FTA the obligation to apply the WTO Valuation Code, to seek to ensure its use is transparent in application including a binding ruling process, and to work toward ending the use of preshipment inspection firms to certify value. The report states that the dispute resolution procedure in the FTA appears to be well thought out and workable.[8]

The IFAC 1 report states that trade facilitation provisions of the U.S.-Morocco FTA focus on the simplification and harmonization of customs procedures and practices that support a transparent and predictable process. It notes that the FTA's provisions require the parties to maintain appropriate measures to ensure efficient and fair customs facilitation of goods that are imported and/or exported by express delivery services suppliers. However, the report expresses disappointment that the 6-hour target for release of express shipments in the FTA could not be reduced to half that time. U.S. industry representatives stated that they are satisfied with the FTA's customs provisions, and are of the view that the U.S.-Morocco FTA "provides equity and reciprocity in the customs areas."[9]

Morocco began to reform its customs processes in the late 1990s. As a result of reforms prior to the FTA, Morocco simplified its customs procedures, increased the use of information technology, improved management for special procedures, and improved customs transparency,[10] suggesting that gains to U.S. firms directly as a result of customs provisions of the U.S.-Morocco FTA are likely to be small. Moroccan importers and exporters were encouraged by these reforms, and a 2001 World Bank survey found that custom's processing times had been reduced from 5.5 days in 1997 to 2 days by the end of 1999.[11] The American Chamber of Commerce reports that processing times have been further reduced, and that "the well organized customs service is one of the highlights of doing business in Morocco."[12]

## Technical Barriers to Trade

U.S. trade negotiating objectives regarding technical barriers to trade (TBT) were to (1) seek to have Morocco reaffirm its WTO TBT commitments and eliminate any unjustified TBT measures, and (2) seek to strengthen collaboration with Morocco on

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[8] Ibid.

[9] Ibid.

[10] World Bank, "Best Practices in Customs Reform-Lessons from Morocco," *The Development Economics Vice Presidency and Poverty Reduction and Economic Management Network*, No. 67, Apr. 2002; and WTO, *Trade Policy Review: Kingdom of Morocco, Report by the Secretariat,* WT/TPR/S/116 (03-2524), May 19, 2003, p. 30.

[11] World Bank, "Best Practices in Customs Reform-Lessons from Morocco," p. 2.

[12] U.S. Department of Commerce, Foreign and Commercial Service, "Morocco FY2004 Country Commercial Guide."

implementation of the WTO TBT Agreement and create a procedure for exchanging information with Morocco on TBT-related issues. USTR estimates that the U.S.-Morocco FTA chapter on technical barriers to trade could improve conditions for U.S.-based firms that, in general, are not given adequate notice of new proposals or changes to standards, technical regulations, and conformity assessment procedures.[13]

The IFAC on Standards (IFAC 2) provided the President with a report with comments on the sections that specifically address technical barriers to trade. The committee report states that the U.S.-Morocco FTA adequately addresses the issues put forth by the committee for negotiation. The committee states that it considers that the FTA effectively promotes the economic interests of the United States, and appears to adequately provide for equity and reciprocity with respect to standards and technical trade barriers.[14]

According to the report, the U.S.-Morocco FTA builds upon the WTO's TBT Agreement, which seeks to ensure that regulations, standards, testing, and certification procedures do not create unnecessary obstacles,[15] by allowing for greater transparency in the rule-making process, establishing a process for rapid dispute resolution, and eventually allowing foreign participation in the development of measures related to setting standards and technical regulations.[16] The committee recommends that the 5-year implementation period for transparency obligations be reduced or eliminated in future agreements.[17] Industry advisors indicate that they are generally satisfied with the FTA's provisions on standards and technical trade barriers, reporting that the U.S.-Morocco FTA meets most negotiating objectives and provides equity and reciprocity between the parties.[18] However, the report notes that the FTA does not specifically mention the use of government-to-government mutual recognition agreements (MRAs) that would result in automatic acceptance of foreign certification. In a recent report, the WTO observes that Morocco has not signed an MRA with any country, but that "the revision of the regulatory framework currently under way may address this issue."[19]

## Sanitary and Phytosanitary Regulations

Sanitary and phytosanitary (SPS) regulations are measures designed to protect human, animal, and plant health. The U.S.-Morocco FTA establishes a joint committee

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[13] USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers, p . 337, found at http://www.ustr.gov/reports/index.shtml,* retrieved Apr. 29, 2004.

[14] IFAC on Standards (IFAC 2), *The U.S.-Morocco Free Trade Agreement: Report of the Industry Functional Advisory Committee on Standards*, Apr. 2, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/ifac02.pdf,* retrieved May 3, 2004.

[15] WTO, "Technical Barriers to Trade," found at *http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm,* retrieved May 3, 2004.

[16] USTR, "Morocco," *2004 National Trade Estimate Report*, p. 337, and IFAC 2, Advisory Committee Report.

[17] IFAC 2, *Advisory Committee Report.*

[18] Ibid.

[19] WTO, *Trade Policy Review: Kingdom of Morocco*, p. 45.

to supervise the implementation of the agreement and to review the trade relationship between the parties. The joint committee may establish and delegate responsibilities to ad hoc and standing subcommittees or working groups and seek the advice of interested persons. One of the working groups to be supervised by the joint committee is the Working Group on SPS Cooperation (SPS Working Group). The SPS Working Group, to be made up of government representatives appointed by the United States and Morocco, is directed to devise a plan to identify priority projects for SPS cooperation.[20]

The U.S.-Morocco FTA includes a related United States-Morocco Joint Statement on SPS Cooperation. In that statement, the two parties affirm their intention to pursue efforts to enhance bilateral SPS cooperation. The two governments are to cooperate on SPS matters by engaging in mutually agreed activities. These activities include supporting Moroccan agricultural reform, promoting the full implementation of the WTO SPS Agreement, and facilitating trade between the two countries.[21]

The U.S.-Morocco FTA also includes a related Side Letter on Certification Accompanying Beef and Poultry. Currently, Morocco requires beef and poultry imports to be accompanied by a veterinary certificate to be allowed entry. Morocco's veterinary services and the Food Safety Inspection Service of the United States commit to work together in good faith to define the content of the certificates that were to accompany beef and poultry that Morocco imports from the United States.[22]

## Electronic Commerce

U.S. trade negotiating objectives regarding electronic commerce (e-commerce) were to (1) affirm that Morocco will allow goods and services to be delivered electronically, and (2) ensure that Morocco does not apply customs duties to digital products or unjustifiably discriminate among products delivered electronically.

The ACTPN report states that the e-commerce and digital products provisions of the U.S.-Morocco FTA meet the committee's expectations, and that it considers these provisions "a strong basis for the expansion of this important technology." The committee reports that the nondiscrimination guarantees and a binding prohibition on customs duties on products delivered electronically create a favorable environment for the development of increased e-commerce. The report states that the FTA's e-commerce provisions and the liberal treatment of services are particularly important to ensure future U.S. market access in these key growth areas.

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[20] "Side Letter on Subcommittees," U.S.-Morocco Free Trade Agreement, found at *http://www.ustr.gov/new/fta/Morocco/final/letter-administration.pdf*, retrieved June 16, 2004.

[21] "Joint Statement on Sanitary and Phytosanitary Cooperation," U.S.-Morocco Free Trade Agreement, found at *http://www.ustr.gov/new/fta/Morocco/final/jointstatement-sps.pdf*, retrieved June 16, 2004.

[22] "Side Letter on Certification Accompanying Beef and Poultry," U.S.-Morocco Free Trade Agreement found at *http://www.ustr.gov/new/fta/Morocco/final/letter-beefpoultry.pdf*, retrieved June 16, 2004.

The IFAC on Electronic Commerce (IFAC 4) report provides advice on trade policy matters on a range of issues, including e-commerce negotiating priorities, data privacy, taxation, standards, consumer protection, authentication, and security and content.[23] The report states that the FTA's e-commerce provisions are consistent with the negotiating objectives the committee has established for bilateral trade agreements, as well as the e-commerce negotiations in the WTO. The committee reports that the FTA continues the concept of digital products as defined in previous agreements, and that it affirms the importance of avoiding unnecessary e-commerce barriers and the applicability of WTO rules. The report indicates that the U.S.-Morocco FTA assures the nondiscriminatory treatment of digital products, addresses the valuation of physically delivered digital products, and provides commitments to cooperate on electronic commerce policy. Like the ACTPN, the report notes that the FTA provides that no customs duties be imposed on digital products transmitted electronically, a provision similar to the WTO moratorium on customs duties on electronic transmissions. With respect to the physical delivery of digital products, the report states that Morocco has agreed to apply customs duties on the basis of the value of the carrier medium.[24]

## Transparency

U.S. trade negotiating objectives regarding transparency were to (1) make Morocco's administration of its trade regime more transparent, and pursue rules that will permit timely and meaningful public comment before Morocco adopts trade-related regulations and other measures; and (2) ensure that Morocco applies high standards prohibiting corrupt practices affecting international trade and enforces such prohibitions.

The ACTPN report examining transparency issues in the U.S.-Morocco FTA states that the ACTPN supports the provisions that promote transparency and public participation in rule making and guarantees of fair and prompt administrative proceedings and review.[25] The FTA's chapter on transparency provides regulatory openness for all trade covered by the agreement. According to USTR, lack of transparency and regulatory predictability in Morocco reportedly have inhibited U.S. access to the Moroccan market by reducing the ability of firms to make informed trade and investment decisions[26] U.S. firms are likely to benefit from the FTA's transparency provisions, if they are effectively implemented. The provisions require, among other things, prompt publication of rules; early notification of changes, where possible; and reasonable notice and opportunity to respond to administration of proceedings.

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[23] IFAC on Electronic Commerce (IFAC 4), *The U.S.-Morocco Free Trade Agreement: Report of the Industry Functional Advisory Committee on Electronic Commerce*, Mar. 31, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/ifac04.pdf*, retrieved May 3, 2004.

[24] Ibid.

[25] ACTPN, *The U.S.-Morocco FTA: Report of the Advisory Committee for Trade Policy and Negotiations*, Apr. 6, 2004.

[26] USTR, "Morocco," *2004 National Trade Estimate*, p. 337.

# CHAPTER 6
# Impact of Investment Provisions

This chapter provides a qualitative assessment of the potential impact of the investment provisions of the U.S.-Morocco FTA (chapter 10 of the FTA and investment-related aspects of annexes I-III) on the United States. It begins with a brief description of the U.S.-Morocco bilateral investment relationship, based on the limited available data, and a summary of the major investment provisions of the FTA.[1] The chapter concludes with a discussion of the effects of the investment provisions of the FTA on the United States, taking into account the opinions of U.S. industry representatives. To the extent possible, this discussion considers the potential effects of implementation of the FTA's investment provisions on U.S. industries and on the U.S. economy as a whole.

## U.S.-Morocco Investment

The United States is the world's largest destination for foreign direct investment (FDI), with 2002 inbound direct investment stock of $1.4 trillion (table 6-1), which represents 19 percent of the worldwide total inbound investment stock. Inbound foreign direct investment accounts for 13 percent of the U.S. gross domestic product (GDP). By contrast, Morocco, with a much smaller economy, registered $10 billion in inbound direct investment stock in 2002, which was equal to 27 percent of Moroccan GDP.[2]

**Table 6-1**
**United States and Morocco: Investment data, 2002**

| | Morocco | United States |
|---|---|---|
| Inbound investment stock *($ million)* . . . . . | 9,994 | 1,351,093 |
| Inbound stock as percentage of GDP*(percent)* . . . . | 26.9 | 12.9 |
| Outbound investment stock *($ million)* . . . . . | 863 | 1,501,415 |
| Outbound stock as percentage of GDP*(percent)* . . . | 2.3 | 14.4 |
| Investment inflows *($ million)* . . . . . | 428 | 30,030 |
| Bilateral outbound investment stock *($ million)* . . . . | –23 | 269 |

Note.—Bilateral outbound investment stock reflects U.S. Government statistics for U.S. outbound direct investment position in Morocco on a historical-cost basis, and U.S. inbound direct investment position from Morocco on a historical-cost basis.

Sources: Data on total investment stock and investment inflows: UNCTAD, *World Investment Report 2003.* Data on U.S. bilateral investment: BEA, *Survey of Current Business,* Sept. 2003.

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[1] Additional background information on investment provisions of the U.S.-Morocco FTA is provided in chapter 2 of this report.

[2] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2003*, (Geneva: United Nations, 2003), Annex tables B.3 and B.6.

According to annual data on foreign investment inflows,[3] the United States was Morocco's third largest investor, with investment flows of $37.2 million to Morocco, behind France with $210.1 million and Germany with $42.9 million.[4] By one estimate, the more than 120 U.S. companies in Morocco represent total investment of $600 million and employ 90,000 Moroccan workers.[5] Major U.S.-based investors in Morocco include the Coca-Cola Export Corporation, Delphi Automotive, Goodyear Tire Co., Jordache Jeans, Procter and Gamble, and CMS Energy.[6]

The largest driver of FDI in Morocco in recent years has been the Government of Morocco's privatization program, which was launched in 1993. As of June 2001, 65 firms (including 28 hotels) had been privatized, for a total of 39.4 billion dirhams, almost 60 percent of which comprises the sale of a 35 percent stake in Maroc Télécom to Vivendi Universal, for 23.3 billion dirhams, in 2001. Other firms have been privatized in diverse sectors including fertilizer distribution, insurance, and oil refining.[7] During the first half of 2003, investment in Morocco increased fivefold over the same period the previous year, with total inflows of $1.7 billion,[8] including revenues from the privatization of several state-owned companies, including Régie des Tabacs, the government tobacco authority,[9] and Somaca, the state-owned automobile manufacturer.[10] Additional privatization of the Banque Centrale Populaire and a further 16 percent share of Maroc Télécom,[11]along with government-owned firms in the textiles, sugar, printing, and tourism sectors, is expected.[12] In addition to direct privatization, concession agreements have been signed for private operation of government-owned facilities supplying electricity production, water and electricity distribution, wastewater purification, drinking water supply, and highway management.[13]

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[3] Cumulative investment position (stock) data is not available by country or by sector. Investment inflows data reflect annual changes due to specific investment opportunities in Morocco. The United States ranked fourth in 2001, seventh in 2000, and sixth in 1999.

[4] U.S. Department of Commerce (USDOC), U.S. and Foreign Commercial Service (US&FCS), "Morocco FY2004 Country Commercial Guide," found at *http://www.stat-usa.gov/*, retrieved Mar. 24, 2004.

[5] American Chamber of Commerce in Morocco, Press Release, "L'AmCham se félicite de la conclusion de l'ALE moroco-américain," Mar. 4, 2004, found at *www.amcham-morocco.com*, retrieved Apr. 20, 2004.

[6] USDOC, US&FCS, "Morocco FY2004 Country Commercial Guide."

[7] Organization for Economic Cooperation and Development (OECD) and African Development Bank (AfDB), "African Economic Outlook: Morocco" found at http://www.oecd.org/, retrieved Mar. 26, 2004.

[8] World Bank, "Morocco: Economic Monitoring—Fall update," Sept. 9, 2003, found at *http://lnweb18.worldbank.org/mna/mena.nsf/Countries/Morocco*, retrieved Apr. 22, 2004.

[9] An 80-percent stake of Régie des Tabacs was sold to Altadis, a French-Spanish joint venture, for $1.53 billion in 2003. USDOC, US&FCS, "Morocco FY2004 Country Commercial Guide."

[10] SOMACA was sold to Renault for approximately $84 million in 2003. World Bank, "Morocco: Economic Monitoring," Sept. 9, 2003.

[11] As of January 2004, the further sale of shares in Maroc Télécom had been delayed. USDOC, US&FCS, "Morocco FY2004 Country Commercial Guide."

[12] OECD and AfDB, "African Economic Outlook: Morocco."

[13] Ibid.

## Current Investment Policies of Morocco

Morocco has placed a high priority on attracting foreign direct investment in recent years, and has taken several important steps to improve the country's investment climate.[14] Morocco adopted a new Investment Charter in 1995, aimed at increasing the level of foreign investment in the country.[15] The new charter replaces a system of sectoral investment laws and covers all sectors except agriculture, which remains governed by separate rules. The charter also provides for nondiscrimination between Moroccan and foreign investors, and guarantees free transfer of investment income, including profits, dividends, and capital, without limits on the amount or duration of earnings. Further, the charter contains a number of incentives to foreign investors, including tariff reductions on capital goods, equipment, and tools; exemptions from tax for specified periods; and exemptions from certain import duties and VAT taxes.[16] The charter opened to foreigner investors most sectors (phosphates, one of Morocco's leading exports, is a notable exception), and instituted foreign exchange rules favorable to such investors.[17] Morocco currently welcomes foreign participation in the country's privatization program, and does not employ any screening of new foreign investments.[18]

Following the adoption of the Investment Charter, the Government of Morocco created several institutions aimed at attracting new investment and improving the overall investment regime. The Foreign Investment Department was created as part of the Ministry of the Economy, Finance, Privatization and Tourism in 1996. The Interministerial Investment Commission, charged with enhancing the investment climate and ruling on obstacles to proposed new investment projects, was created in 1998. Also in 1998, Morocco established a system of commercial courts to deal specifically with trade disputes, and several regional investment centers designed to help investors establish new businesses and deal with other investment-related issues by reducing paperwork and centralizing the necessary permits and other "investment-related bureaucratic procedures."[19] According to the WTO, three obstacles to new investment remain: the priority given to large-scale investment, the ban on the purchase of agricultural land by foreigners, and the slow development of industrial zones.[20]

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[14] USDOC, US&FCS, "Morocco FY2004 Country Commercial Guide."

[15] Law No. 18-95 Establishing Investment Charter.

[16] Ministry of Communications, Government of Morocco, "Investor's Guidebook: Investment Charter," and "Outline Law No. 18-95 Establishing Investment Charter," both found at *http://194.204.210.2/english/invest/odi/igbook/7/1.html*, retrieved Mar. 11, 2004; and WTO, Trade Policy Review: Kingdom of Morocco, Report by the Secretariat, WT/TPR/S/116 (03-2524), May 19, 2003, found at *http://www.wto.org/*, retrieved Mar. 25, 2004.

[17] USDOC, US&FCS, "Morocco FY2004 Country Commercial Guide."

[18] Ibid.

[19] Ibid. and WTO, *Trade Policy Review: Kingdom of Morocco, 2003*, p. 13.

[20] WTO, *Trade Policy Review: Kingdom of Morocco*, p. 28.

The United States currently has a Bilateral Investment Treaty (BIT) in force with Morocco, which entered into force in 1991. The U.S.-Morocco FTA provides assurances to U.S. investors beyond the provisions of the BIT. In particular, all forms of investment (including enterprises, debt, concessions, contracts, and intellectual property) are to be protected under the FTA, and all requirements that U.S. investors purchase Moroccan inputs for goods manufactured in Morocco are to be removed.[21]

## Nonconforming Measures of the Agreement

The investment chapter of the U.S.-Morocco FTA contains many provisions similar to those in the investment chapters of previous bilateral FTAs, including the U.S. FTAs with Chile and Singapore. The chapter contains provisions for the treatment of existing or future measures that are inconsistent with certain disciplines (specifically, those concerning nondiscrimination, performance requirements, and senior personnel). Existing measures maintained at the central or regional government level are exempted from these disciplines provided that they are described in annex I of the FTA. Reservations to ensure that a party maintains flexibility to impose measures in the future that may be inconsistent with these disciplines are described in annex II. Nonconforming measures at the local government level are exempted without requiring any notation in an annex. The actual content of the reservations in annexes I and II varies widely. Some reservations are horizontal in nature, meaning that they address general policy provisions that affect all investments, whereas others apply to specific industry segments.

Morocco's horizontal reservations under annex I address the securities industry, stating that (1) enterprises other than banks or financing companies that are not organized under Moroccan law are not permitted to issue negotiable debt securities with a maturity of less than one year in Morocco, and (2) an enterprise not headquartered in Morocco or a natural person who is not a Moroccan resident may effect a public issue of debt or equity securities only after securing the prior approval of the Moroccan finance Minister. Morocco's horizontal reservations listed under annex II include a measure that accords differential treatment to countries under bilateral or multilateral international agreements that have been signed prior to the entry into force of the U.S.-Morocco FTA, including international agreements involving aviation, fisheries, maritime matters, or primary or secondary education.

Horizontal reservations taken by the United States under annex I address the programs of the Overseas Private Investment Corporation and the registration of public offerings of securities, as well as existing nonconforming measures at the state level. Horizontal reservations listed by the United States under annex II include a reservation that appears to ensure that U.S. obligations under the FTA concerning the

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[21] U.S.-Morocco FTA, Chapter Ten: Investment," found at *http://www.ustr.gov/new/fta/Morocco/final/10-investment.pdf*, retrieved June 21, 2004.

cross-border services trade or establishment of a service enterprise are equivalent to those undertaken in the GATS. Annex II of the United States also contains a horizontal reservation for measures that accord preferential treatment to countries under bilateral or multilateral international agreements that have been signed prior to the entry into force of the U.S.-Morocco FTA, including international agreements involving aviation, fisheries, or maritime matters.

The specific sectors for which reservations are listed in annexes I, II, and III are presented in table 6-2 without attempting to characterize the actual substance of the reservation. In many cases, the reservation represents a measure that imposes a potential constraint on foreign investment that may or may not have any significant bearing on the activities of foreign investors. Consequently, the inclusion of a sector in the annex does not necessarily mean that the sector as a whole has been exempted from coverage under the investment disciplines.

## Potential Effects of the FTA on the U.S. Economy

According to U.S. industry representatives, the investment provisions of the U.S.-Morocco FTA are not likely to have a significant impact on the level of U.S. direct investment in Morocco, or the level of Moroccan direct investment in the United States, primarily due to the small size of the Moroccan economy. The U.S. business community has stated that it supports the investment provisions of the U.S.-Morocco FTA insofar as those provisions expand market access and incorporate high standards of protection for investment.[22] Industry representatives stated that they are pleased with the FTA provisions, which include an investor-state dispute settlement process, the free transfer of capital, and protections related to expropriation and fair and equitable treatment.[23]

Industry representatives indicate that they would have preferred that the investment protections contained in the U.S.-Morocco FTA also apply to investment agreements concluded before the FTA's entry into force, particularly given that the BIT currently in force between the United States and Morocco includes protections for investment agreements signed prior to the entry into force of that treaty. The issue particularly arises in the case of long-term investment agreements involving hydrocarbon or other mineral resources.[24] U.S. industry also expressed the concern that the U.S.-Morocco

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[22] U.S. Council for International Business (USCIB), "USCIB Applauds Free Trade Agreement with Morocco," Press Release, Mar. 3, 2004, found at *http://www.uscib.org/*, retrieved Apr. 21, 2004.

[23] Industry Sector Advisory Committee for Services on Trade Policy Matters (ISAC 13), *U.S.-Morocco Free Trade Agreement: Report of the Industry Sector Advisory Committee on Services for Trade Policy Matters,* Apr. 6, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/isac13.pdf*, retrieved Apr. 18, 2004.

[24] Ibid., and industry representative, telephone interview with USITC staff, Apr. 22, 2004.

**Table 6-2**
**U.S.-Morocco FTA: Industry sectors subject to nonconforming measures**

| Morocco | | United States | |
|---|---|---|---|
| **Current measures** | **Potential measures** | **Current measures** | **Potential measures** |
| Tourism | Communications: radio and television | Communications: Radio | Communications |
| Hydrocarbons | | Atomic energy | Social services |
| Mining | | Mining | |
| Architectural services | | Transportation services: Air transportation | Transportation services: Maritime |
| Education | | Customs brokerage | |
| Professional services: attorneys, translators, certified experts, notaries, bailiffs, auxiliary clerk-notaries, and transcribers | | Insurance | Insurance |
| Health care: physicians, dental surgeons, midwives, nurses, opticians, pharmacists, biomedical analysis laboratories, pharmaceutical firms, and health care facilities | Health care: paramedical professions, including physical therapist, speech therapist, orthopedist, psychomotor therapist, and orthodontist | | |
| Accounting and auditing services | | Banking | |
| Audiovisual services | | | |
| Agriculture | | | |
| Fishing and fish farming | | | |
| Transportation services: Air and maritime | | | |

Note.—Nonconforming measures are found in Annexes I through III of the FTA. Annex I contains reservations for cross-border services, excluding financial services, to preserve existing measures that are inconsistent with the disciplines concerning nondiscrimination, performance requirements, and senior personnel. Annex II contains reservations for cross-border services, excluding financial services, to ensure that a party maintains flexibility to impose measures in the future that may be inconsistent with the disciplines of the FTA. Annex III contains both existing and future nonconforming measures related to financial services, including insurance.

Source: Text of the U.S.-Morocco FTA, Annex I, Annex II, and Annex III.

FTA could allow an overly broad interpretation of prudential regulation in the financial services area, which may be interpreted to permit the Moroccan Government to impose restrictions on transfers of capital, a right that is very important to financial services providers.[25]

[25] ISAC 13, *U.S.-Morocco FTA: Report of the Industry Sector Advisory Committee on Services.*

# CHAPTER 7
# Impact of Provisions with Respect to the Regulatory Environment

This chapter provides a qualitative assessment of the potential impact of provisions of the U.S.-Morocco FTA with respect to safeguards (chapter 8 of the FTA), government procurement (chapter 9), intellectual property rights (chapter 15), labor (chapter 16), environment (chapter 17), and dispute settlement (chapter 20).[1] The U.S. trade negotiating objectives for the U.S.-Morocco FTA were set out in the Executive Branch notification to the Congress regarding the administration's intent to negotiate an FTA with Morocco.[2]

As stated in chapter 5 of this report, although it is not possible to quantify the economic effects of these provisions, U.S. firms are likely to benefit from the application of these provisions by Morocco primarily as a result of improvements in regulatory transparency. However, the effects are likely to be very small because of the small size of the Moroccan economy and the Moroccan market relative to the United States.

## Safeguards/Trade Remedies

U.S. trade negotiating objectives regarding safeguards were to (1) provide a bilateral safeguard mechanism during the transition period, and (2) make no changes in U.S. antidumping and countervailing duty laws. Chapter 8 of the U.S.-Morocco FTA provides for the legal framework to allow bilateral safeguards with respect to originating goods, where such imports increase as a result of the agreement's duty concessions and constitute a substantial cause of serious injury, or threat thereof, to a party's industry producing a like or directly competitive good.[3] Under this FTA chapter, a party could impose a bilateral safeguard measure on originating goods up to the applied MFN tariff rate, but such measures must be progressively liberalized under terms of the FTA. The rate of duty to be applied at the end of a safeguard is the FTA rate that would have been in effect without the safeguard.

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[1] Chapters 1, 19, 21, and 22 of the U.S.-Morocco FTA address primarily administrative and legal matters with respect to the FTA and are not analyzed in this report.

[2] Amb. Robert B. Zoellick, notification letters to Congress of intent to initiate free trade agreement negotiations with Morocco, Oct. 1, 2002, found at *http://www.ustr.gov/releases/2002/10/2002-10-01-morocco-house.pdf* and *http://www.ustr.gov/releases/2002/10/2002-10-01-morocco-senate.pdf*.

[3] For additional information, see the summary the treaty provisions in chapter 2 of this report.

## Government Procurement

U.S. trade negotiating objectives regarding government procurement were to (1) establish rules requiring government procurement procedures and practices in Morocco to be fair, transparent, and predictable for suppliers of U.S. goods and services who seek to do business with the Moroccan Government, and (2) expand access for U.S. goods and services to Morocco's Government procurement market.

The Advisory Committee for Trade Policy and Negotiations (ACTPN) report notes that the FTA covers most Moroccan central, regional, and municipal government agencies. The committee report states that Morocco increased its commitments on nondiscrimination in government services procurements and reinforced its WTO commitments to transparent disciplines on procurement procedures. The report also cited the commitment to maintain criminal and other penalties for bribery in government procurement as a means to ensure transparent processes in government procurement.[4]

The report of the Intergovernmental Policy Advisory Committee (IGPAC)[5] expresses support for the goal of improving transparency and increasing fair market access in government procedures and regulatory decisions that are related to procurement, while preserving the independent authority of state and local governments to adopt legislation, standards, and procedures consistent with their experience and interests. The report states that committee members understand the agreement to cover U.S. Federal and State, but not local, government procurement. The report aims to clarify certain provisions in the FTA related to the procurement process in U.S. States. In particular, the committee report advances a number of recommendations regarding the government procurement provisions of the U.S.-Morocco FTA with respect to article 9.5 (Time Limits for the Tendering Process), article 9.6 (Tender Documentation), article 9.10 (Awarding of Contracts), and article 9.14 (Non-Disclosure of Information), as well as other recommendations and clarifications where the committee considers that the FTA may not include detailed language on the terms and conditions duly specified by each state entity as regards subcentral government (i.e., U.S. State) procurement.[6]

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[4] ACTPN, *The U.S.-Morocco Free Trade Agreement: Report of the Advisory Committee for Trade Policy and Negotiations*, Apr. 6, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/actpn.pdf*, retrieved May 3, 2004.

[5] IGPAC is charged with providing the President with overall policy advice on trade policy matters that have a significant relationship to the affairs of state and local governments within the jurisdiction of the United States. IGPAC, *Advisory Committee Report to the President, the Congress and the United States Trade Representative on the US-Morocco Free Trade Agreement*, Apr. 2, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/igpac.pdf*, retrieved May 3, 2004.

[6] Ibid.

## Intellectual Property Rights

U.S. trade objectives regarding intellectual property rights were to (1) establish standards to be applied in Morocco that build on the foundations established in the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPs Agreement) and other international intellectual property agreements; (2) have Morocco apply levels of protection and practices more in line with U.S. law and practices in areas such as patent protection and protection of undisclosed information; and (3) strengthen Morocco's procedures to enforce intellectual property rights (IPR).

While Morocco has taken steps to strengthen its IPR regime in recent years, Moroccan IPR laws and their enforcement have continued to make it difficult to deter infringement,[7] resulting in a number of problems for U.S. industries dependent on IPR protection.[8] Some of the major U.S. concerns include inadequate implementation and enforcement of all of Morocco's obligations under the TRIPs Agreement and international IPR treaties administered by the World Intellectual Property Organization (WIPO); insufficient copyright, trademark, patent, and trade secret protection; and inadequate IPR enforcement.[9]

The intellectual property provisions of the U.S.-Morocco FTA, which afford protection beyond TRIPs, address many of the most significant concerns U.S. industry representatives and trade officials have expressed regarding IPR policies in Morocco.[10] If Morocco implements the IPR provisions of the proposed U.S.-Morocco FTA and provides increased protection to IPR holders, revenues of U.S. industries dependent on copyrights, trademarks, patents, and trade secrets will likely increase. However, because of the small size of the Moroccan economy and the Moroccan market relative to the United States, any increases in revenues for the U.S. IPR industry as a result of the FTA will likely have minimal effects on the U.S. economy as a whole. Further, there will likely be little, if any, effect on U.S. industries or the U.S. economy based on U.S. implementation of its FTA obligations. The following describes the current status of IPR protection in Morocco, summarizes key provisions of the FTA related to IPR, and describes the potential effects of implementation of IPR provisions in the FTA on U.S. industries and the U.S. economy as a whole.

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[7] USTR, *2004 National Trade Estimate Report on Foreign Trade Barriers*, Mar. 31, 2004, p. 339, found at *http://www.ustr.gov*, retrieved Apr. 2, 2004.

[8] U.S. industry representatives, in-person and telephone interviews by USITC staff, Washington, DC, Jan.-Apr. 2004.

[9] USTR, *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339.

[10] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5, found at *http://www.ustr.gov,* retrieved Mar. 19, 2004; USTR, *2004 National Trade Estimate Report on Foreign Trade Barriers*, Mar. 31, 2004, p. 339; California Chamber of Commerce, "U.S. Morocco Free Trade Agreement," *California Business Issues*, Jan. 2004, pp. 87-88; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Mar. 2004.

## *Current Conditions of IPR Protection in Morocco*

As a member of the WTO, Morocco has assumed obligations under the WTO TRIPs Agreement. According to U.S. government and industry representatives, Morocco has made efforts in recent years to improve its IPR regime and is now "largely in compliance" with its TRIPs obligations.[11] It is also a party to a number of international IPR treaties and conventions, including the Berne Convention (copyright), the Paris Convention (patents and trademarks), the Brussels Convention relating to the Distribution of Program-Carrying Satellite Signals, and the Madrid, Nice, and Hague agreements for the protection of intellectual property. However, several areas continue to concern U.S. industry in Morocco, including problems with respect to copyright, trademark, satellite signal, patent, and trade secret protection, as well as IPR enforcement.

### Copyrights, Trademarks, and Satellite Program Signals

According to U.S. industry and government officials, although Morocco has passed strong copyright legislation, copyright piracy[12] is still a problem as illicit copies of copyrighted U.S. software and entertainment compact discs (CDs) and digital video discs (DVDs)[13] are sold openly in outdoor markets.[14] Further, unlicensed copyrighted software continues to be used in some government agencies and private companies.[15] Broadcast piracy and theft of satellite video signals[16] are concerns cited by U.S. copyright industry representatives, despite Morocco's being a party to several international treaties and conventions prohibiting such infringement.[17] Some industry and government officials also state that Internet piracy could become an increasingly important problem as more Moroccans gain access to computers and other information technologies.[18]

U.S. government and industry officials indicate that Morocco's copyright regime could be improved significantly by adopting measures to address digital piracy included in the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms[19] Treaty (WPPT) (see following text box).[20] Although Morocco has signed both of those

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[11] U.S. & Foreign Commercial Service (US&FCS) and U.S. Department of State, "Morocco Country Commercial Guide FY 2004," *US&FCS Market Research Reports*, 2004, ch. 7, pp.1-4; and U.S. industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[12] Piracy is used to describe copyright infringement.

[13] Also known as "digital versatile discs."

[14] U.S. industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[15] Ibid.

[16] A U.S. government report released in 2004 indicates that a major French satellite subscription has suspended its services in Morocco because of such infringement. US&FCS and U.S. Department of State, "Morocco Country Commercial Guide FY 2004," ch. 7, pp. 1-4.

[17] U.S. industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[18] Ibid.

[19] Phonograms are sound recordings.

[20] These two treaties are often referred to as the "Internet Treaties" because they provide new international standards for the protection of copyrights and related rights in the digital environment. Both treaties went into force in 2002, once the required minimum 30 governments had formally acceded to them. The United States ratified both treaties and implemented them domestically via the Digital Millennium Copyright Act of 1998.

## *The WIPO Internet Treaties*

The WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) are often referred to as the "Internet Treaties" because they provide new international standards for the protection of copyrights and related rights in the digital economy. The two treaties entered into force on March 6 and May 20, 2002, respectively, once the required minimum 30 countries had ratified each. Key provisions of the treaties are:

- The WCT provides that traditional means for copyright protection (for such products as books, movies, and software) should apply to works transmitted on the Internet or otherwise using digital media, technology, and protections.
- The WPPT similarly provides intellectual property protections to producers of sound recordings, as well as performers, with respect to works on the Internet or in connection with use of digital technology and media.
- Both treaties clarify that traditional rights of reproduction continue to apply in the digital environment, including the storage of material in digital form in an electronic medium.
- The treaties establish the right holders' right to maintain control of their works over the Internet and other digital transmission of their works.
- The treaties ensure that right holders can use digital rights management technology to protect their rights on the Internet. The treaties' anticircumvention provisions address security and intellectual property infringement risks by requiring that signatories provide minimum levels of legal protection, including civil and criminal penalties, sufficient to deter the unauthorized circumvention of technical protective measures.
- Another provision in the treaties requires signatory countries to prohibit the intentional modification or removal of digital rights management information. This includes prohibitions against interfering with information and data that can be incorporated into the digital code of a protected work and used "to identify the work, its author, performer or owner, the terms and conditions for its use, and any other relevant attributes."
- Morocco has ratified both of these treaties, as has the United States. The United States implemented the treaties domestically via the Digital Millennium Copyright Act of 1998.

Sources: Adapted, and parts excerpted, by USITC staff from information provided in the following sources: World Intellectual Property Organization (WIPO), "WIPO Copyright Treaty" (adopted in Geneva on Dec. 20, 1996) and "WIPO Performances and Phonograms Treaty (WPPT)" (adopted in Geneva on Dec. 20, 1996); and Chris Gibson, *WIPO Internet Copyright Treaties Coming Into Force*, 2002.

treaties, U.S. industry representatives state that, in practice, Morocco has not yet fully addressed its commitments under those treaties.[21]

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[21] U.S. industry representatives, in-person and telephone interviews by USITC staff, Washington, DC, Jan.-Apr. 2004.

According to U.S. industry representatives, trademark counterfeiting[22] continues to be a problem in Morocco as infringers take advantage of well-established U.S. names, brands, packaging, logos, and other symbols to mislead consumers into purchasing fake versions of the trademarked goods.[23] For instance, counterfeiting of software, apparel, leather goods, consumer goods, and food products is especially problematic in that country.[24] In addition, representatives of U.S. businesses operating in Morocco suggest that illegal importation of goods bearing counterfeit marks into Morocco from Spanish territories off of Morocco's coast needs to be stopped.[25] Finally, misuse in Morocco of well-known names and trademarks occurs in a practice known as "cyber squatting" as individuals and firms secure the rights to Internet domain names identical or misleadingly similar to well-known names to help attract consumers to their websites.

### Patents and Trade Secrets

According to U.S. industry representatives, Morocco has made strong efforts to improve protection of industrial property, including patents and confidential test data.[26] U.S. pharmaceutical companies are generally pleased with Morocco's efforts to pass legislation to address patent and trade secret issues more effectively.[27] However, they are concerned about delays in implementing regulations to such legislation. They are also disappointed with several aspects of the legislation related to protection of clinical test data generated by U.S.-based firms. Although Morocco passed an industrial property law in March 2000, to bring its patent, trademark, and trade secret laws into compliance with its obligations under TRIPs, U.S. drug companies state that the law is not "fully TRIPs compliant,"and does not provide for sufficient protection of "data exclusivity rights,"[28] as required by TRIPs.

U.S. agricultural chemical industry representatives expressed similar concerns that test data and trade secrets submitted to Moroccan Government officials for purposes of

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[22] "Counterfeiting" is a term used to refer to the unauthorized use of a representation or copy of a trademark or service mark, although it is sometimes used to refer to an unauthorized copy of a protected product. In addition to counterfeiting of the packaging, appearance, symbols, and other trademark features of entertainment products contained on such media as video cassettes, CDs, and DVDs, such counterfeiting can also affect a broad range of products from a number of industries, including apparel, leather goods, toys, cigarettes, pharmaceuticals, beverages, and auto parts.

[23] U.S. industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[24] US&FCS and U.S. Department of State, "Morocco Country Commercial Guide FY 2004," ch. 7, pp. 1-4.

[25] American Chamber of Commerce in Morocco, "Enforcement, Education, and Economic Alternatives Are Among Key Features of Anti-Contraband Strategy," [undated], p. 1, found at *http://www.amcham-morocco.com*, retrieved Feb. 19, 2004.

[26] Pharmaceutical Research and Manufacturers of America representatives, interview by USITC staff, Washington, DC, Feb. 25, 2004.

[27] Ibid.

[28] Saad Belghazi, Daniel Plunkett, and B. Lynn Salinger, *Opportunities for Enhancement of U.S.-Morocco Trade and Investment* (Cambridge, MA: Associates for International Resources and Development, Nov. 2002), prepared for the Directorate of Foreign Trade of the Moroccan Ministry of Commerce, Industry, Energy, and Mines, and funded by the U.S. Trade and Development Agency (TDA), p. 45, found at *http://www.tda.gov*, retrieved Mar. 19, 2004.

product marketing approval were not adequately protected against unfair commercial use.[29] The industry is also concerned about Morocco's slow progress in implementing regulations for a Moroccan law passed in 1997 providing intellectual property protection for plant genetics; this delay reportedly discourages U.S. plant breeders from licensing proprietary plant materials in Morocco.[30]

### Enforcement

Although Morocco's IPR laws and regulations, with the exceptions noted above, are generally regarded as compliant with TRIPs, in practice, enforcement is still regarded as inadequate.[31] Some industry representatives assert that the Moroccan customs service needs increased resources for effective enforcement of laws to prevent an increase of importations into Morocco of copyright and trademark infringing goods, such as pirated DVDs, CDs, and other recordings, and counterfeited products, including luggage, apparel, and consumer goods.[32] The U.S. software industry indicates it has increased its efforts to educate Moroccan business and consumers about piracy and counterfeiting issues. Meanwhile, the Moroccan music industry reportedly has had some success in persuading the government to more aggressively combat CD and other optical disc and music recording piracy.[33] U.S. industry representatives indicate that civil and criminal penalties for copyright piracy and trademark counterfeiting must be strengthened to provide a deterrent effect.[34]

## *Major Achievements in IPR Protection of the U.S.-Morocco FTA*

The U.S.-Morocco FTA reaffirms the rights and obligations set forth in TRIPs, to which both the United States and Morocco are bound. However, the FTA affords protections beyond TRIPs by (1) increasing protection of copyrights and trademarks to take into account advances in digital technology; (2) extending protections for copyrights, trademarks, patents, and trade secrets; and (3) increasing IPR enforcement.[35]

### Copyrights, Trademarks, and Satellite Program Signals

According to U.S. industry representatives, an important accomplishment of the U.S.-Morocco FTA is that it addresses Internet and other digital piracy by

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[29] U.S. industry representatives, telephone interview by USITC staff, Mar. 23, 2004.

[30] Belghazi, Plunkett, and Salinger, *Opportunities for Enhancement of U.S.-Morocco Trade and Investment*, p. 52.

[31] US&FCS and U.S. Department of State, "Morocco Country Commercial Guide FY 2004," ch. 7, pp.1-4; and U.S. industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[32] Ibid.

[33] Ibid.

[34] USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339.

[35] U.S. copyright and trademark industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004; and USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339.

incorporating a number of requirements that go beyond TRIPs requirements.[36] In this regard, the FTA includes anticircumvention provisions,[37] prohibiting interference with technologies designed to prevent piracy and unauthorized Internet distribution of copyrighted materials, such as music recordings, movie videos, and business software.[38] Further, the FTA provides that only copyright holders have the right to make their works available online. Copyright holders maintain all rights to their works on computers and networks, thereby protecting copyrighted material from unauthorized sharing on the Internet.[39] Also, protection for encrypted program-carrying satellite signals is extended to both the signals and the programming, in order to deter piracy of satellite television programming.[40] The FTA also requires government involvement in resolving disputes pertaining to unauthorized use of trademarked names by non-rights holders in Internet domain names.[41]

The FTA extends copyright terms of protection beyond those of TRIPs.[42] Under the FTA, where the term of protection of a work (including a photographic work), performance, or phonogram is to be calculated on the basis of a person's life, the term shall be not less than the life of the author plus 70 years after the author's death.[43] No corresponding terms of protection based on the life of the author are explicitly provided for in TRIPs. However, by reference to the Berne Convention, the term of protection in TRIPs is life of the author plus 50 years after his death.[44] When the term of protection of a work is to be calculated on a basis other than the life of a person, the term in the FTA is 70 years from the end of the calendar year of the first authorized publication of the work.[45] The comparable period of protection in TRIPs is 50 years, and does not apply to photographic works. Finally, if there is no authorized publication within 70 years from the creation of a work, the FTA term of protection is to be not less than 70 years from the end of the calendar year of the creation of the work. Again, the comparable period of protection in TRIPs is 50 years and does not apply to photographic works.

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[36] U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Feb. 2004.

[37] USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339.

[38] U.S. Department of State, Bureau of International Information Programs, "Summary of Major Points of U.S.-Morocco Free Trade Agreement."

[39] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Mar. 2004.

[40] Ibid.

[41] U.S. Department of State, Bureau of International Information Programs, "Summary of Major Points of U.S.-Morocco Free Trade Agreement."

[42] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5.

[43] U.S.-Morocco FTA, article 15.5. 5(a).

[44] Although the term of protection based on the life of a natural person is not specifically stated in the WTO TRIPs Agreement, article 9 of that agreement specifies that WTO members shall comply with articles 1-21 of the Berne Convention for the Protection of Literary and Artistic Works (1971). Article 7 of the Berne Convention provides that "the term of protection granted by this Convention shall be the life of the author and fifty years after his death." For more information on the Berne Convention, see *http://www.wipo.org*.

[45] U.S.-Morocco FTA, article 15.5.b (i).

## Patents and Trade Secrets

The U.S.-Morocco FTA also extends patent and trade secret protections beyond what is required by TRIPs.[46] Patent terms may be extended beyond the 20-year term required by TRIPs to compensate for up-front administrative or regulatory delays in granting the original patent.[47] The FTA also ensures that government product approval agencies deny marketing approval to patent-infringing products.[48] Test data and trade secrets submitted for the purpose of marketing approval are protected against disclosure for 5 years for pharmaceuticals and 10 years for agricultural chemicals from the date of approval.[49] Finally, U.S. government officials have pledged to provide technical assistance to Morocco to help it implement its FTA obligations, including its patent responsibilities.[50]

## Enforcement

Under the terms of the FTA, Morocco commits to strengthen its IPR enforcement measures.[51] For instance, the FTA requires both preestablished statutory and actual damages for copyright and trademark infringement[52] to deter IPR infringement and permit damages to be awarded even when actual economic harm cannot be calculated.[53] To further increase deterrence of copyright and trademark infringement, the FTA requires criminal procedures and penalties in cases of willful trademark counterfeiting or copyright piracy, as well as willful importation and exportation of counterfeit or pirated goods.[54] Enforcement provisions of the FTA also require that provisions be made for the seizure, forfeiture, and destruction of pirated goods,[55] goods bearing counterfeit marks, and the equipment used to produce them.[56] Further, IPR laws are to be enforced not only against infringement originating within each country, but also against goods in transit to deter violators from using their

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[46] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Mar. 2004."

[47] U.S. Department of State, Bureau of International Information Programs, "Summary of Major Points of U.S.-Morocco Free Trade Agreement."

[48] Ibid.

[49] U.S.-Morocco FTA, article 15.10.1.

[50] David Shelby, Washington File Staff Writer, U.S. Department of State, "Trade Accord Opens Huge Opportunities for Moroccan Business in U.S.," Mar. 3, 2004, pp. 1-2, found at *http://usinfo.state.gov*, retrieved Mar. 11, 2004.

[51] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004."

[52] U.S.-Morocco FTA, article 15.11.7.

[53] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; USTR. "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004."

[54] U.S.-Morocco FTA, article 15.11.26. Seem also U.S. Department of State, Bureau of International Information Programs, "Summary of Major Points of U.S.-Morocco Free Trade Agreement."

[55] USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339.

[56] U.S. industry representatives, telephone interviews by USITC staff, Jan-Mar. 2004; and U.S. Department of State, Bureau of International Information Programs, "Summary of Major Points of U.S.-Morocco Free Trade Agreement," Mar. 2, 2004, p. 5, found at *http://usinfo.state.gov*, retrieved Mar. 11, 2004.

country's ports or free trade zones to traffic in infringing products.[57] Finally, police and border agents are to be provided with greater authority to pursue IPR criminal enforcement actions on their own initiative.[58]

## *Potential Effects on the U.S. Economy*

According to the USTR, the intellectual property provisions of the U.S.-Morocco FTA address many of the most significant concerns U.S. industry representatives and trade officials have expressed regarding the IPR policies in Morocco.[59] If Morocco were to fully implement and enforce the IPR provisions of the FTA, the increased level of protection afforded to IPR holders would likely result in increased revenues for U.S. industries dependent on copyrights, trademarks, patents, and trade secrets. However, due to the small size of the Moroccan economy and the Moroccan market relative to the United States, any increases in revenues for the U.S. IPR industries would likely have a limited effect on the U.S. economy as a whole.

Among the U.S. copyright industries that would probably benefit most due to the increased digital technology protection by Morocco under the FTA are the motion picture, sound recording, business software applications, entertainment software, and book publishing industries. U.S. industries that might benefit from the greater patent confidential data protections by Morocco include the pharmaceutical industry and the agricultural chemicals industry. A broad range of U.S. industries are likely to benefit from Morocco's implementation of strengthened trademark, trade secret, and other IPR provisions of the FTA. By comparison, because the United States already meets the relatively high standards of IPR protection and enforcement included in the U.S.-Morocco FTA, there is likely to be little, if any, effect on U.S. industries or the U.S. economy based on U.S. implementation of its obligations under the U.S.-Morocco FTA.

The report of the U.S. Industry Functional Advisory Committee on Intellectual Property Rights (IFAC 3), representing a wide range of U.S. IPR interests, states that the U.S.-Morocco FTA IPR chapter is "the most advanced IP chapter in any FTA negotiated so far and meets most of the negotiating objectives. . . . of the U.S. intellectual property-based industries, creators and innovators."[60] IFAC 3 notes in particular that the transitional provisions in the U.S.-Morocco FTA represent a major advance over other FTAs by requiring adherence to its obligations upon entry into force of the agreement.[61] Although the committee expresses appreciation for side letters to the FTA

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[57] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004."

[58] U.S.-Morocco FTA, article 15.11.23.

[59] USTR, "Free Trade with Morocco," *Trade Facts*, Mar. 2, 2004, pp. 3-5; USTR, "Morocco," *2004 National Trade Estimate Report on Foreign Trade Barriers*, p. 339; California Chamber of Commerce, "U.S. Morocco Free Trade Agreement," *California Business Issues*, Jan. 2004, pp. 87-88; and U.S. copyright industry representatives, in-person and telephone interviews by USITC staff, Jan.-Apr. 2004.

[60] Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC 3), *The U.S. Morocco Free Trade Agreement (FTA): The Intellectual Property Provisions*, Apr. 6, 2004, p. 2, found at *http://www.ustr.gov*, retrieved Apr. 8, 2004.

[61] Ibid.

on public health "promoting access to medicines for all," it reports that U.S. negotiatorsshould ensure that the terms of the letters are not used to weaken any of the IPR protections in the FTA. Some other concerns of the committee are (1) that the FTA does not contain provisions requiring the prohibition or cancellation of registrations of marks that are similar to well-known marks (the committee reports that is otherwise satisfied with the trademarks protections, including those of well-known marks), and (2) that requirements in the FTA for destruction of counterfeit and pirated goods do not also apply to the equipment and other means for production of such illicit goods.[62] Notwithstanding its concerns, the committee finds that the U.S.-Morocco FTA provides levels of IPR protection beyond those required by TRIPs.[63]

## Labor

U.S. trade negotiating objectives regarding labor issues were to (1) seek an appropriate commitment by Morocco to the effective enforcement of its labor laws; (2) establish that Morocco will strive to ensure that it will not, as an encouragement for trade, weaken, or reduce the protections provided for in its labor laws; and (3) establish procedures for consultations and cooperative activities with Morocco to strengthen its capacity to promote respect for core labor standards, including compliance with International Labor Organization Convention 182 on the worst forms of child labor, building on technical assistance programs administered by the U.S. Department of Labor.[64]

With the exception of the International Brotherhood of Teamsters, the ACTPN members report that they consider the U.S.-Morocco FTA to fully meet the U.S. negotiating objectives on labor. The committee views the FTA as an effective and balanced means of implementing those negotiating objectives. The committee considers the agreement's labor provisions consistent with the standards set in other U.S. FTAs, and that these provisions set out "strong assurances that the provisions cannot be used as a means of disguised protectionism."[65]

The Labor Advisory Committee (LAC), which includes unions from nearly ever sector of the U.S. economy, states that among its negotiating objectives and priorities is a trade policy that "improves economic growth, creates jobs, raises wages and benefits, and allows all workers to exercise their rights in the workplace."[66] The LAC reports that, while it "is not opposed in principle to expanding trade with Morocco," the

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[62] Ibid.

[63] Ibid.

[64] A report by the U.S. Department of Labor on the employment impact of the U.S.-Morocco FTA, pursuant to section 2102(c)(5) of the Trade Act of 2002, was not publicly available as of this writing.

[65] ACTPN, *The U.S.-Morocco FTA: Report of the Advisory Committee for Trade Policy and Negotiations*.

[66] LAC, *The U.S.-Morocco Free Trade Agreement: Report of the Labor Advisory Committee*, April 6, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/lac.paf*, retrieved May 24, 2004.

U.S.-Morocco FTA "will allow deficiencies in Morocco's labor laws to persist."[67] According to the committee,

> The Morocco FTA's combination of unregulated trade and increased capital mobility not only puts jobs at risk, it places workers in both countries in more direct competition over the terms and conditions of their employment. . . . It is possible that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel. Even where the market access provisions of the agreement themselves may not have much of a negative impact on our trade relationship, provisions on investment, procurement and services could further facilitate the shift of U.S. investment and production overseas, harming American workers.[68]

## Environment

U.S. trade negotiating objectives regarding environment issues were to (1) promote trade and environment policies that are mutually supportive; (2) seek an appropriate commitment by Morocco to the effective enforcement of its environmental laws; (3) establish that Morocco will strive to ensure that it will not, as an encouragement for trade, weaken or reduce the protections provided for in its environmental laws; and (4) help Morocco strengthen its capacity to protect the environment through the promotion of sustainable development, such as by establishing consultative mechanisms.

The ACTPN report considers that the environmental provisions of the U.S.-Morocco FTA provide effective ways of contributing to environmental improvement in that they "cover the critical range of issues that need to be addressed in this arena." However, the committee reports that the provisions for environmental improvement would be stronger had they formed an integral part of the FTA, rather than being included in a side agreement (U.S.-Morocco Joint Statement on Environmental Cooperation).

The Trade and Environment Policy Advisory Committee (TEPAC) report provides the President, Congress, and USTR with policy advice on issues involving trade and the environment, and whether and to what extent negotiated trade agreements promote the interests of the United States.[69] Overall, the TEPAC reports that a majority of the committee members support the conclusion that the U.S.-Morocco FTA provides

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[67] Ibid.
[68] Ibid.
[69] TEPAC, *The U.S.-Morocco Free Trade Agreement: Advisory Committee Report to the President, the Congress and the United States Trade Representative on The U.S.-Morocco Free Trade Agreement*, Apr. 6, 2004, found at *http://www.ustr.gov/new/fta/Morocco/advisor/tepac.pdf*, retrieved May 3, 2004.

adequate safeguards that ensure U.S. environmental negotiating objectives will be met. The report notes that a majority of TEPAC members consider that the public participation provisions in the FTA are acceptable; the dispute resolution procedures are sufficient to meet U.S. environmental negotiating objectives; the monetary penalties in the FTA (up to $15 million per year for noncompliance with rulings confirming violations of enforcement requirements) are adequate; and the U.S.-Morocco Joint Statement on Environmental Cooperation is a reasonable basis for the fulfillment of objectives regarding capacity building and sustainable development. The report expresses the committee's view that the 30 days provided by Congress for the committee to produce reports is an inadequate period. The committee report also points out that several differing viewpoints exist among committee members.[70]

USTR reported to Congress in September 2003 on the probable effects on the United States of the environmental provisions of the U.S.-Morocco FTA.[71] The report is required pursuant to provisions of the Trade Act of 2002.[72] In its report, USTR stated that,

> [b]ased on existing patterns of trade and investment, the small size of the Moroccan economy and changes in U.S. trade likely to result from provisions of the FTA, the impact of the FTA on total production through changes in U.S. exports appear likely to be very small. Therefore, it appears unlikely that there will be any significant economically-driven environmental effects in the United States as a result of the U.S.-Morocco FTA.[73]

## Dispute Settlement

U.S. trade negotiating objectives regarding dispute settlement were to (1) encourage the early identification and settlement of disputes through consultation, and (2) seek to establish fair, transparent, timely, and effective procedures to settle disputes arising under the FTA. A related U.S. negotiating objective regarding customs administration enforcement was to seek terms for cooperative efforts with the Moroccan Government

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[70] These include the opinions that (1) the agreement is inconsistent with the Doha Declaration on the TRIPS Agreement and Public Health; (2) the agreement's investment provisions weaken traditional protections for U.S. investors; (3) the U.S. agriculture phaseouts are unnecessarily long, and, conversely; (4) the longer Moroccan agriculture phaseouts are necessary; 4) the Environmental Cooperation provisions need not be part of the FTA; (5) the agreement's investment protection provisions are too extensive; and (6) the dispute resolution provisions should not contain measures specifically addressing environmental issues.

[71] USTR, *Interim Environmental Review: United States-Morocco Free Trade Agreement*, September 2003, found at *http://www.ustr.gov/environment/tpa/morocco-environment.pdf*, retrieved April 13, 2004.

[72] For further information on the environmental review process, see USTR, *Environmental Reviews and Reports*, found at *http://www.ustr.gov/environment/environmental.shtml*, retrieved May 20, 2004.

[73] USTR, *Interim Environmental Review*, p. 13.

regarding enforcement of customs and related issues, including trade in textiles and apparel.

With the exception of the International Brotherhood of Teamsters,[74] the ACTPN report considers that the U.S.-Morocco FTA contains effective dispute settlement provisions that can ensure that the FTA's requirements can be enforced. The committee report considers that these provisions are likely to allow for the timely and effective resolution of disputes and the application of enforcement mechanisms that provide an adequate incentive for compliance when needed. The committee report goes on to say that, under the FTA, suspension of tariff benefits or the application of fines are available for all disputes, including disputes over enforcing labor and environmental laws. The committee supports the FTA's provisions that allow for the use of fines as a preferred option, stressing that trade retaliatory measures should be taken as a last resort since they can interfere with trade and cause considerable economic disruption. The committee also indicated that it supports the FTA's provisions that seek to deal with trade disputes through consultations and amicable dispute resolution. The committee report concludes that the U.S.-Morocco FTA "sets high standards of openness and transparency for panel procedures."[75]

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[74] The report notes that the Teamsters representative considers that the labor and commercial obligations in the FTA are treated in a different manner from one another, where the labor obligations are enforceable through fines but commercial obligations may be enforced through sanctions.

[75] ACTPN, *The U.S.-Morocco FTA: Report of the Advisory Committee for Trade Policy and Negotiations*.

# CHAPTER 8:
# Literature Review and Comparison With Commission Findings

This chapter reviews the academic and policy literature pertaining to a U.S.-Morocco FTA. Prior to reviewing the studies assessing the estimated impact on the United States of the U.S.-Morocco FTA, a discussion is presented on the conceptual issues regarding free trade agreements. The final section of this chapter makes an analytical comparison between the results obtained by the USITC model described in chapter 4 and selected modeling results from the reviewed literature.

## General Effects of Trade Agreements

Studying the economic impact of an FTA entails investigating static effects such as trade creation and trade diversion as well as terms of trade (i.e., the price of exports relative to the price of imports). In addition, issues related to scale effects and nonquantifiable effects have to be considered. A discussion of these issues is presented below.

### *Static Effects: Trade Creation and Trade Diversion*

Trade liberalization can in general be undertaken in two different manners. First, it can be based on the "most favored nation" (MFN) principle where better market access is granted to all trading partners equally. The classical "gains from trade" argument asserts that such trade liberalization would help consumers have access to more goods at lower prices, and producers to have more sources for their inputs and more markets for their products (for which they may receive higher prices). Second, it can be done in a preferential way, with better market access granted to one partner but not to others. It should be noted that better market access can result not only from bilateral tariff removal but also from other negotiated provisions in the areas of cross-border trade in services, telecommunications, electronic commerce (e-commerce), and government procurement the effects of which are not readily quantifiable. An FTA, such as the one between the United States and Morocco, is an agreement in which preferential liberalization is undertaken reciprocally between participating countries.[1]

[1] It should be noted that, while negotiated bilaterally, some FTA provisions such as those related to customs administration or labor and environment tend to be applied in a nondiscriminatory manner and are closer to the MFN principle.

To the extent that FTAs are designed to liberalize trade, they are likely to engender economic gains similar to those of an MFN liberalization. However, given their discriminatory nature, studying the economic impact of FTAs involves additional issues that are not present in an MFN liberalization. The traditional way to study an FTA is to categorize the FTA-induced trade expansion into trade creation or trade diversion.[2] Trade creation improves welfare and occurs when partner country production displaces higher-cost domestic production. Trade diversion reduces welfare and occurs when partner country production displaces lower cost imports from the rest of the world.[3] The combined effect of an FTA on intrabloc trade will then reflect trade creation as well as trade diversion. Whether the trade-creation (welfare enhancing) or the trade-diversion (welfare reducing) effects dominate depends on a variety of factors, including external trade barriers, cost differences, and relative supply and demand responses and other domestic policies. Thus, the overall welfare impact of an FTA can be empirically determined.

## *Static Effects: Terms of Trade*

The impact of an FTA also can be studied from a "terms of trade" (i.e., the price of exports relative to the price of imports) viewpoint. If the participating countries are large enough to be able to affect import and export prices by their actions, the establishment of an FTA is likely to affect the terms of trade of a given FTA member in three different manners. First, by increasing the demand for its partner's products the country's own preferential trade liberalization may increase the (pretariff) price of its imports from the partner country leading to a deterioration in its terms of trade. Second, tariff reduction by the partner country could increase the demand (and the price) for the FTA member's exports and improve its terms of trade. Finally, the decreased demand for imports originating from nonmember countries tends to decrease their price and improve the FTA members' terms of trade. Therefore, the impact on economic welfare will depend on whether the terms of trade have improved or deteriorated for a given partner country.

## *Scale Effects*

To the extent that FTAs integrate (and, hence, enlarge) markets, some would argue that they offer firms an opportunity to exploit economies of scale (or increasing returns to scale) and to lower costs by expanding production. Moreover, by increasing the intensity of competition, an FTA can potentially induce firms to make efficiency

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[2] The seminal works on this issue are J. Viner, The Customs Union Issue, New York: Carnegie Endowment for International Peace, 1950; and J. Meade, The Theory of Customs Union, Amsterdam: North Holland, 1955.

[3] Losses from trade diversion occur when lost tariff revenue associated with changes in the pattern of trade exceeds efficiency gains from the decline of the prices paid by consumers. These losses will be larger the higher the FTA's margin of preferences (i.e., the trade barriers facing nonmembers relative to intra-FTA barriers).

improvements in order to raise productivity levels.[4] It has, for instance, been pointed out that firms in Canada have long argued that U.S. market access would enable them to exploit economies of scale, and that this access would allow them to increase their exports not only to the countries in North America, but also to the rest of the world.[5] Increasing returns also affect the volume of trade in inputs and intermediate goods used by increasing return industries because as firms expand production and exploit economies of scale, they need to purchase more inputs and intermediate goods. These goods may be imported from inside or outside the FTA.

The enlarged FTA market also may attract investment, including foreign direct investment (FDI), especially investment for which market size is important.[6] It should be noted that the higher the FTA's margin of preference, the more attractive it will be as an FDI destination. In the long run, changes in trade flows can lead to substantial changes in the location of production between member countries of an FTA. These relocations may be determined by comparative advantage (i.e., the removal of barriers might lead each country to produce the goods at which it is best). Alternatively, sectors with strong backward or forward linkages may all relocate to one country and take advantage of the preferential access to cater to the whole FTA market from there. These agglomeration effects are stronger in the presence of economies of scale. The impact of an FTA will depend on the increased level of economic activity within the FTA and on the distribution of the effects among members.

## *Nonquantifiable Effects*

In addition to the generally quantifiable effects discussed so far, regional integration can provide other potential benefits that are more difficult to evaluate. A World Bank publication discusses a variety of additional effects (or classes of effects) that may result from regional integration agreements.[7] One such effect is enhanced security (either against nonmembers or between members).[8] Another potential benefit is that by forming a unit and pooling their bargaining power, FTA members can negotiate more efficiently in international forums. Regional integration can also be useful in "locking in" domestic (trade or other policy) reforms by raising the cost of policy reversal. Another possible gain is the increased possibilities for cooperation in environmental or technological assistance projects. The nonquantifiable effects

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[4] A closely related gain comes from increased competition as firms are induced to cut prices and to expand sales, benefitting consumers as the monopolistic distortion is reduced.

[5] H.J. Wall, "NAFTA and the Geography of North American Trade," *Federal Reserve Bank of St. Louis Review,* vol. 85, no. 2, Mar./Apr. 2003.

[6] In addition to the effects of strictly tariff liberalization, many FTAs have explicit investment provisions (such as improved and secure investment environment) that would further enhance these effects. A qualitative assessment of the potential impact of the investment provisions of the U.S.-Morocco FTA is provided in chapter 6.

[7] The World Bank, *Trade Blocs,* New York: Oxford University Press, 2000, p. 66.

[8] For additional information, see Maurice Schiff and L. Alan Winters, "Regional Integration as Diplomacy," *World Bank Economic Review*, 1998, vol. 12, no. 2, pp. 271–96. As has been mentioned above, the impact of negotiated commitments of an FTA related to intellectual property rights and customs administration and services are not readily quantifiable.

pertaining to the U.S.-Morocco FTA are associated with market access provisions related to cross-border trade in services, telecommunications, government procurement; trade facilitation provisions related to customs administration and technical barriers; investment related provisions; and regulatory environment provisions related to intellectual property rights, trade remedies, and labor and environment.[9]

Table 8-1 illustrates the territory in which economists tend to focus their analytical efforts. It shows how limited the area is where effects of trade policy are discernible. A cell marked "yes" indicates that the given effect of the given policy is generally measurable (or can be modeled in a simulation) and / or has been measured. Note that these occur mainly in the static economic effects. The fact that relatively few cells are marked as measurable does not mean that other effects are not important. By focusing attention on a selected number of FTA effects, analysts provide important insights into specific aspects of trade agreements, but it is possible that other nonquantifiable effects dominate.

## Impact on the United States of a U.S.-Morocco FTA

The Commission found only a small number of studies that directly assessed the impact on the United States of a U.S.-Morocco FTA.[10] Given that U.S. tariff levels are relatively low and bilateral trade and investment flows are relatively small, a priori economywide effects of trade liberalization on the United States resulting from the U.S.-Morocco FTA are expected to be small. Unlike the Commission's analysis in this report, studies described in the literature review assessed a theoretical U.S.-Morocco FTA, and were not based on analysis of the actual negotiated agreement.

Gilbert assesses a number of potential U.S. FTAs using a general equilibrium model which is similar in its underlying assumptions about economic relationships as that employed by the Commission.[11] Gilbert's static analysis is based on the Global Trade

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[9] Qualitative assessments of the impact of the U.S.-Morocco FTA on these negotiated objectives is provided in chapters 3, 5, 6, and 7 in this report.

[10] Section 2104(f)(3) requires the Commission to review available economic assessments regarding the agreement, to provide a description of the analyses used and conclusions drawn in such literature, and to discuss areas of consensus and divergence among reviewed literature, including those of the Commission. The Commission notes that it conducted a classified study at the request of the USTR concerning a potential U.S.-Morocco FTA: USITC, *U.S.-Morocco Free Trade Agreement: Advice Concerning the Probable Economic Effect*, Investigation Nos. TA-131-21 and TA-2104-001, Nov. 2002. Consequently, for the purpose of this report, the Commission discussion consists only of external economic assessments and the Commission's present study.

[11] John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the Free Trade Agreements and US Trade Policy Conference, Institute for International Economics (Washington, DC: May 7-8, 2003).

**Table 8-1**
**Quantifiable FTA effects**

| Effects | Quantifiable |
|---|---|
| Static economic effects: | |
| Trade creation and diversion | Yes |
| Terms of trade | Yes |
| Scale effects: | |
| Pro-competitive effects | Some |
| Efficiency | Some |
| Investment (including FDI) | Yes |
| Industrial location | Some |
| Political Effects: | |
| Enhanced security | No |
| Increased bargaining power | No |
| Locking in reforms | No |
| Cooperation | No |

Source: Compiled by the Commission.

Analysis Project (GTAP) version 5 computable general equilibrium (CGE) model.[12] Gilbert aggregated the GTAP database of 66 regions and 57 sectors into 22 regions and 19 sectors.[13] The model assumes perfect competition, constant returns to scale, and product differentiation by country (i.e., the Armington assumption[14]). The model uses a 1997 tariff base year, focuses on merchandise trade, and assumes full capital and labor mobility implying a long-run estimate of potential impact.[15] In addition to simulations of the proposed bilateral FTAs, Gilbert also simulates the impact of a simultaneous implementation of the 13 proposed FTAs and worldwide multilateral trade liberalization.

Table 8-2 shows the tariffs applied by Morocco on U.S. exports and tariffs applied by the United States on Moroccan exports. For all sectors listed, Morocco's applied tariff rates exceed those of the United States. Morocco's applied tariff rates range from 2.5 percent (coal, oil, & gas) to 70.8 percent (processed food products); and the United States' applied rates range from 0.0 percent (four sectors) to 13.9 percent (other crops). These data lead Gilbert to conclude that, although exports to Morocco represent a small fraction of U.S. total exports, Morocco maintains relatively high levels of protection against U.S. exports. Table 8-3 reports Gilbert's estimated impact

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[12] The Commission's analysis employs GTAP version 6, prerelease 1; and the base trade data is updated to 2005, for Uruguay Round commitments, and for implementation of U.S.-Singapore, U.S.-Chile, and EU-Morocco FTAs.

[13] Ibid., p. 3.

[14] The Armington assumption treats similar products from different sources as imperfect substitutes. The Armington elasticity represents the substitutability of products from different sources; the larger the elasticity, the more easily imports from one source can be substituted for imports from another source. This parameter is included in the model to reflect the empirical reality that bilateral trade flows are not particularly sensitive to relative price changes. The Armington elasticities used by Gilbert range from 1.08 to 5.20 for "Domestic-Imported" (the substitutability of domestically-produced products and a theoretical composite imported good), and 3.60 to 10.40 for "Imported by Source" (the substitutability of products between different foreign sources, used in generating the theoretical composite imported good). Ibid., table 1.2.

[15] Ibid., pp. 3-4.

**Table 8-2**
**Tariffs applied by Morocco and the United States on partner exports, by sector, estimates by Gilbert**

| Sector | Morocco tariffs applied to U.S. exports | U.S. tariffs applied to Morocco exports |
|---|---|---|
| | *Percent* | |
| Grains | 18.1 | 1.9 |
| Other crops | 24.1 | 13.9 |
| Animal products | 22.4 | 0.6 |
| Forestry & fisheries | 9.2 | 0.0 |
| Processed food products | 70.8 | 11.5 |
| Lumber | 28.8 | 2.6 |
| Pulp & paper product | 26.3 | 0.1 |
| Textiles & apparel | 22.6 | 11.8 |
| Coal, oil, & gas | 2.5 | 0.0 |
| Petroleum & coal products | 2.7 | 0.0 |
| Chemicals | 16.5 | 2.8 |
| Metals | 17.3 | 1.4 |
| Metal products | 24.1 | 3.0 |
| Electronic equipment | 8.0 | 0.1 |
| Motor vehicles | 15.4 | 1.3 |
| Transportation equipment | 6.3 | 0.0 |
| Machinery NEC | 12.7 | 3.3 |
| Manufactures NEC | 25.1 | 0.7 |

Source: John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the *Free Trade Agreements and US Trade Policy* Conference, Institute for International Economics (Washington, DC: May 7-8, 2003), tables 1.3 and 1.4.

**Table 8-3**
**Estimated impact on the United States of proposed U.S.-Morocco FTA, import value, export value, tariff revenue, welfare, and equivalent variation, estimates by Gilbert**

| | Estimated impact |
|---|---|
| Total import value (percent change) | 0.04 |
| From partner(s) | 18.20 |
| From rest of world | 0.02 |
| Total export value (percent change) | 0.03 |
| From partner(s) | 88.25 |
| From rest of world | -0.06 |
| Tariff revenue (1997 $millions, change) | -10.9 |
| From partner(s) | -15.2 |
| From rest of world | 4.3 |
| Welfare impact (percent of GDP) | 0.00 |
| Total equivalent variation ($1997 millions) | 178.2 |
| Allocative efficiency | 10.5 |
| Terms-of-trade | 167.8 |

Source: John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the *Free Trade Agreements and US Trade Policy* Conference, Institute for International Economics (Washington, DC: May 7-8, 2003), table 2.1.

on import and export values, tariff revenue, and welfare (represented as percent of GDP and as equivalent variation) for the U.S.-Morocco FTA. His interpretation of a potential U.S.-Morocco FTA increases U.S. imports from Morocco by 18.20 percent and U.S. exports to Morocco by 88.25 percent. The relatively small initial levels of economic activity between the United States and Morocco result in the 0.04 percent change in total U.S. imports, the 0.03 percent change in total U.S. exports, and the 0.00 percent change in U.S. GDP. Table 8-4 lists the estimated sectoral impacts on U.S. production and U.S. exports; sectoral estimate of impact on U.S. imports was not provided. The sector that experiences a relatively larger increase in production is grains. Sectors which experience relatively large increases in exports include other crops, animal products, processed food products, lumber, textiles and apparel, metal products, motor vehicles, and manufactures not elsewhere classified.

Finally, Gilbert notes that, "Trade models are known to be particularly sensitive to the trade parameters (in GTAP, the Armington import elasticities at both levels). As a consequence, systematic sensitivity was undertaken."[16] Based on this sensitivity analysis, Gilbert determines that his estimated results for a U.S.-Morocco FTA are not sensitive to parameter assumptions.[17] Gilbert also states,

> In general, models that incorporate imperfect competition will predict larger net gains from trade liberalization as a consequence of economies of scale and/or pro-competitive effects. The static nature of the GTAP model implies a focus on efficiency effects for a given level of productive capacity. Dynamic models may attempt to incorporate growth in productive capacity through capital accumulation as a consequence of reform, and will also tend to predict larger net welfare gains. . . . For these well-known reasons, the results presented here should probably be regarded as lower bounds.[18]

Because of the additional complexity of implementing dynamic models, the multitude of methods by which a dynamic system can be incorporated into a model, and the sensitivity of results to specific partner country economic structures, Gilbert's general assessment of the welfare implications of implementing a dynamic model are not, however, universally accepted. For example, in an overview of CGE model estimates, Harrison, Rutherford, and Tarr conclude that "it is not the case that $any kind of dynamics' is sufficient to produce larger gains from trade liberalization, or produce larger gains from a regional arrangement."[19]

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[16] Ibid., p. 17.
[17] Ibid., tables 10.1b and 10.2b.
[18] Ibid., pp. 4-5.
[19] Glenn W. Harrison, Thomas F. Rutherford, and David G. Tarr, "Rules of Thumb for Evaluating Preferential Trade Arrangements: Evidence from Computable General Equilibrium Assessments," found at Internet address *http://www.econ.worldbank.org/files/30278_wps3149.pdf*, retrieved Feb. 10, 2004, p. 6.

**Table 8-4**
**Estimated impact on the United States of a proposed U.S.-Morocco FTA, sectoral pattern of production, sectoral pattern of exports, estimates by Gilbert**

| Sector | Production | Exports | |
|---|---|---|---|
| | | To Morocco | Total U.S. Exports |
| | *Percent change in volume* | *Change in value, 1997 $millions* | |
| Grains | 0.15 | 69.68 | 0.57 |
| Other crops | -0.04 | 140.83 | -0.08 |
| Animal products | 0.06 | 187.77 | -0.16 |
| Forestry and fisheries | -0.01 | 61.50 | -0.04 |
| Processed food products | 0.08 | 635.64 | 1.46 |
| Lumber | -0.01 | 302.31 | -0.02 |
| Pulp and paper product | 0.00 | 123.74 | 0.01 |
| Textiles and apparel | -0.02 | 291.22 | 0.13 |
| Coal, oil, and gas | -0.01 | 14.06 | -0.02 |
| Petroleum and coal products | 0.00 | 9.75 | -0.02 |
| Chemicals | -0.01 | 80.07 | 0.00 |
| Metals | -0.03 | 142.95 | -0.05 |
| Metal products | -0.01 | 227.02 | -0.03 |
| Electronic equipment | -0.03 | 48.95 | -0.04 |
| Motor vehicles | -0.01 | 312.45 | -0.01 |
| Other transportation equipment | -0.02 | 44.67 | -0.02 |
| Machinery NEC | -0.02 | 88.36 | -0.02 |
| Manufactures NEC | -0.03 | 238.63 | -0.04 |
| Services | 0.00 | -1.44 | -0.06 |

Source: John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the *Free Trade Agreements and US Trade Policy* Conference, Institute for International Economics (Washington, DC: May 7-8, 2003), tables 7.2b and 7.3b.

Mekki and Tyner also use the GTAP version 5 CGE model to assess a U.S.-Morocco FTA and conclude that a U.S.-Morocco FTA would have an "insignificant" impact on the United States.[20] The authors aggregated the GTAP database into 4 regions and 20 sectors, but make no changes to the basic model assumptions of perfect competition, constant returns to scale, and Armington-based assumption product differentiation.[21] The authors also adjust Moroccan import tariffs to reflect changes that have occurred since 1997, and note that "Moroccan import tariffs have changes for cereals, oil seeds, vegetable oils and meat."[22] Noting the predominance of the agriculture and food sector in Morocco's imports from the United States and the high levels of protection in Morocco, the study's primary focus is on the effect of a U.S.-Morocco FTA on the

[20] Akka Ait El Mekki and Wallace E. Tyner, "The Moroccan-American FTA: Effects on the Agricultural and Food Sectors in Morocco," May 2004, found at *http://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1462*, retrieved May 17, 2004.

[21] Ibid., p. 9. (See Gilbert discussion above for overview of standard GTAP version 5 model assumptions.)

[22] Ibid., p. 5.

agriculture and food sector in Morocco. Consequently, reported effects on the United States are tangential and indirect.

Table 8-5 shows the estimated impact on Moroccan imports from the United States (i.e. U.S. exports to Morocco) and Moroccan exports to the United States (i.e., U.S. imports from Morocco) from Mekki and Tyner. Given the initial high levels of protection in the Moroccan agriculture and food sector, the industries experiencing increases greater than 100 percent in U.S. exports to Morocco are: wheat, other cereals, vegetables and fruit, red meat, other animal products, other agriculture, dairy products, beverages and tobacco, and other food. The wearing apparel industry also experiences a percentage change greater than 100 percent.[23] For U.S. imports from Morocco, only the wearing apparel industry experiences a percentage increase greater than 100 percent. With regard to economywide impact on the United States, Mekki and Tyner find that U.S. real GDP decreases by $65 million, "an insignificant change," and U.S. economic welfare increases by $135 million, "an insignificant change . . . as positive terms of trade effects [$187.5 million] outweigh negative allocative effects [-65.0 million]."[24]

In a study conducted for the U.S. Department of Labor to assess the potential impact of several FTAs on the U.S. labor market, Brown, Kiyota, and Stern (BKS) estimate the potential impact of a U.S.-Morocco FTA using a model that incorporates different market behavior assumptions than the GTAP model used by Gilbert, Mekki and Tyner, and the Commission.[25] BKS use the Michigan Model, a computable general equilibrium model, which has 22 countries/regions and 18 sectors, and allows for monopolistic competition in the nonagriculture sectors (agriculture sector is modeled as perfectly competitive), increasing returns to scale, and product variety effects.[26] The 1997 database is projected to the year 2005 and incorporates full Uruguay Round implementation and the accession of China and Taiwan to the WTO. In addition, the authors extrapolate labor availability to 2012 and scale up major variables by an average weighted growth rate of 2.5 percent.[27] BKS run four simulations: agricultural protection liberalization, manufactures protection liberalization, services barriers liberalization, and all of the above. The authors note that,

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[23] The authors also note that because of the small initial base, the large percent changes in U.S. exports "are not that meaningful." Ibid., p. 7.

[24] Ibid., p. 6 and table 6.

[25] Drusilla K. Brown, Kozo Kiyota, and Robert M. Stern, "Computational Analysis of the U.S. Bilateral Free Trade Agreements with Central America, Australia, and Morocco," Feb. 8, 2004, found at *http://www.fordschool.umich.edu/rsie/seminar/BrownKiyotaStern.pdf*, retrieved March 2004, p. 5.

[26] In contrast, the GTAP model used by the Commission assumes perfect (not monopolistic) competition, constant (not increasing) returns to scale, and product differentiation by source (not product variety). The product variety approach assumes that the well-being of any consumer is greater than the larger the varieties of goods available and, consequently, a policy change that induces increased variety is welfare enhancing.

[27] Ibid.

**Table 8-5**
**Estimated impact on U.S.-Morocco bilateral trade of proposed U.S.-Morocco FTA, estimates by Mekki and Tyner**

| Industry | Moroccan imports from the United States, change | | Moroccan exports to the United States, change | |
|---|---|---|---|---|
| | *1997 $million* | *Percent* | *1997 $million* | *Percent* |
| Wheat | 249.21 | 465.93 | 0.43 | 26.84 |
| Other cereals | 53.63 | 126.24 | 0.11 | 14.15 |
| Vegetables and fruit | 1.07 | 217.42 | 0.80 | 32.92 |
| Oil seeds | 1.13 | 7.18 | 0.01 | 8.83 |
| Red meat | 224.20 | 4,399.50 | 0.15 | 24.04 |
| Other animal products | 12.10 | 2,900.54 | 0.19 | 15.11 |
| Other agriculture | 37.94 | 4,297.80 | 5.60 | 89.28 |
| Fishing | -0.00 | -0.86 | 0.01 | 1.64 |
| Other minerals | 0.00 | 5.50 | 1.05 | 1.74 |
| Energy and metals | 1.33 | 16.07 | 0.40 | 11.00 |
| Vegetable oils and fats | 3.49 | 5.97 | 2.78 | 37.71 |
| Dairy products | 39.65 | 613.00 | 0.07 | 12.30 |
| Beverages and tobacco | 52.99 | 134.00 | 0.10 | 31.31 |
| Other food | 6.39 | 347.56 | 28.20 | 95.32 |
| Wearing apparel | 46.29 | 292.68 | 89.00 | 127.63 |
| Chemical products | 18.23 | 72.10 | 0.83 | 9.27 |
| Electronic equipment | 10.50 | 48.82 | 3.01 | 4.55 |
| Machinery and equipment | 51.20 | 88.24 | 3.34 | 24.63 |
| Other industrial manufactures | 119.89 | 93.41 | 3.31 | 26.68 |
| Services | -6.33 | -1.41 | 11.74 | 3.44 |
| Total | -6.33 | 99.07 | 151.13 | 19.32 |

Source: Akka Ait El Mekki and Wallace E. Tyner, "The Moroccan-American FTA: Effects on the Agricultural and Food Sectors in Morocco," May 2004, found at *http://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1462*, retrieved May 17, 2004, tables 7 and 8.

> . . . the focus is on the effects of the bilateral removal of trade barriers, which lend themselves most readily to quantification. The non-trade aspects of the FTAs may also be important but are intrinsically more difficult to incorporate into a modeling framework. This is the case as well for the possible increases in foreign direct investment and the rate of economic growth and improvements in productivity that may be induced over time as the consequence of the FTAs. The computational results presented for the bilateral FTAs are therefore best interpreted as providing a lower bound for the potential benefits involved."[28]

Table 8-6 shows the estimated economic impact of the four scenarios on the United States of a U.S.-Morocco FTA. The first two scenarios, agriculture and manufactures protection liberalization, produce negligible estimated economic impacts on the United States (0.00 percent of GNP), similar to those reported by Gilbert and the Commission. Because of BKS's relatively large tariff equivalent estimates for services

[28] Ibid., p. ii.

**Table 8-6**
**Estimated welfare impact on the United States of a U.S.-Morocco FTA, estimates by Brown, Kiyota, and Stern**

| | Agricultural protection | | Manufacturers tariff | | Services barriers | | Total | |
|---|---|---|---|---|---|---|---|---|
| | *Percent of GNP* | *1997 billion dollars* | *Percent of GNP* | *1997 billion dollars* | *Percent of GNP* | *1997 billion dollars* | *Percent of GNP* | *1997 billion dollars* |
| U.S.-Morocco FTA . . . . . | 0.00 | -0.01 | 0.00 | 0.36 | 0.06 | 5.66 | 0.06 | 6.00 |

Source: Drusilla K. Brown, Kozo Kiyota, and Robert M. Stern, "Computational Analysis of the U.S. Bilateral Free Trade Agreements with Central America, Australia, and Morocco," Feb. 8, 2004, found at *http://www.fordschool.umich.edu/rsie/seminar/BrownKiyotaStern.pdf*, retrieved March 2004, table 10.

barriers,[29] however, the services liberalization scenario estimates a relatively large result of 0.06 percent of U.S. GNP, which also drives the results for the fourth (combined) liberalization scenario. The authors also assess the estimated sectoral effects, and conclude that, the "FTA has negligible effects on U.S. sectoral employment."[30] No sector experiences an estimated impact greater than a 0.5 percent change in exports, imports, production, or employment stemming from implementation of a U.S.-Morocco FTA.[31]

DeRosa estimates the impact on U.S. trade of numerous potential FTAs, including a U.S.-Morocco FTA, by extrapolating estimates of the typical impact of an FTA on bilateral trade flows from gravity model developed by Rose.[32] DeRosa applies Rose's estimate of the (proportional) impact of regional free trade areas on bilateral trade to 2000 trade flows among the United States and the potential partner countries.[33] Table 8-7 lists DeRosa's estimates of the trade flow impact on the United States of a U.S.-Morocco FTA. Due to the model's inability to segregate the (positive) impact of trade creation from the (negative) impact of trade diversion, DeRosa concedes that the "gross trade impacts are interpreted here as an upper bound on the potential magnitude of trade creation associated with the US free trade agreements."[34] DeRosa also gives two caveats: (1) the appropriateness of applying an average impact of numerous FTAs to any specific FTA without consideration for other economic factors, and (2) the methodology's inability to ascertain whether the FTA increases overall welfare.[35] These caveats are important because, although DeRosa's results indicate increased trade flows, his methodology neither accounts for the diversity of economic structures of potential partners nor ascribes welfare implications.

In an assessment of potential U.S.-Morocco and U.S.-Egypt FTAs, Galal and Lawrence focus on the political and economic structures of and impacts on Morocco and Egypt.[36] The authors do not estimate quantitatively the potential economic impact of a U.S.-Morocco FTA on the United States. However, given Morocco's key industrial and

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[29] "The services barriers are based on . . . Hoekman (2000) and adapted for modeling purposes in Brown, Deardorff, and Stern (2002). [These] barriers are applied uniformly across trading partners. These constructed barriers are considerably higher than the import barriers on manufactures. While possibly subject to overstatement, it is generally acknowledged that many services sectors are highly regulated and thus restrain international services transactions." Ibid., p. 7.

[30] Ibid., p. iii.

[31] Ibid., table 11.

[32] Dean DeRosa, "Gravity Model Calculations of the Trade Impacts of US Free Trade Agreements," paper prepared for the Free Trade Agreements and U.S. Policy conference, held at the Institute for International Economics (Washington, DC: May 2003). DeRosa's analysis is based on estimates of the average impact of an FTA on bilateral trade flows developed by Andrew K. Rose. See Andrew K. Rose, "Which International Institutions Promote International Trade?" Mimeo, Haas School of Business, University of California (Berkeley, CA: 2003).

[33] Ibid., pp. 4-5; DeRosa calculates estimates of impact on trade flows for three scenarios: FTA-led expansion of bilateral trade, FTA-led expansion of regional trade, and FTA-led expansion of multilateral trade. DeRosa's estimated trade flow impact on the United States does not, however, vary among these three scenarios.

[34] Ibid., p. 2.

[35] Ibid., p. 8.

[36] Ahmed Galal and Robert Lawrence, "Egypt-US and Morocco-US Free Trade Agreements," The Egyptian Center for Economic Studies (Cairo: July 2003), Working Paper No. 87 (Forthcoming).

**Table 8-7**
**Impact on the United States of a potential U.S.-Morocco FTA, estimates by DeRosa**

| | Base trade flows (2002) | Bilateral trade expansion | Absolute change | Percent change[1] |
|---|---|---|---|---|
| | | *Million dollars* | | |
| U.S. exports to Morocco . . . . . | 582.6 | 1,270.8 | 688.2 | 118 |
| U.S. imports from Morocco . . . . | 465.2 | 1,014.8 | 549.6 | 118 |

[1] To determine the bilateral trade expansion, DeRosa assumes a 118 percent in trade increase using Rose's estimate that "regional free trade areas tend to add 0.78 to bilateral real trade (measured in log terms)," p. 3.

Source: Dean DeRosa, "Gravity Model Calculations of the Trade Impacts of US Free Trade Agreements," paper prepared for the conference "Free Trade Agreements and U.S. Policy" held in at the Institute for International Economics (Washington, DC: May 2003), table 3, and USITC staff analysis.

economic activities, the authors state that the U.S. sectors most likely to be affected by an FTA include agriculture, phosphates and phosphate derivatives, lead, silver, copper, fishing, textiles and apparel, and traditional craft industries, such as ceramics, metalware, traditional clothing, footwear, and rugs, which represent relatively important output sectors for Morocco.[37] In addition, the authors state that, given the EU's FTA with Morocco, "for the US, an FTA with Morocco can be seen as a defensive measure against an important competitor," and further state that "the primary US objectives [for an FTA] are political."[38] The authors conclude that the United States "could enjoy positive economic benefits, although these are unlikely to be perceptible in an economy of its size."[39]

## *Summary of Literature Findings*

In general, the literature reviewed by the Commission has found that aggregate U.S. economic welfare is not likely to be significantly affected by a U.S.-Morocco FTA. Model assumptions can, however, substantially impact the relative magnitude of potential economic effects. For example, BKS's estimates incorporating relatively large tariff equivalents for service barriers produces an estimated impact on the United States which is over 1,400 percent larger (still representing only a 0.06 percent increase in GNP) than the estimates that do not include the services barrier assumptions. The primary factor driving the finding is the small size of the Moroccan economy relative to that of the United States. In addition, the relatively small role each country plays as a trading partner of the other also lends to small estimated impacts. A summary of methodology, model assumptions, and estimated impact on the United States of the major analytical studies is presented in table 8-8.

[37] Ibid., pp. 14-15.
[38] Ibid., p. 22.
[39] Ibid., p. 23.

**Table 8-8**
**Summary of selected economic literature on the impact of a U.S.-Morocco FTA on the U.S. economy**

| Author | Data base year | Model/ Methodology | Key assumptions | Summary of impact on the United States |
|---|---|---|---|---|
| Gilbert (2003) | 1997 | GTAP 5 CGE model | • static analysis<br>• perfect competition<br>• constant returns to scale<br>• product differentiation by Armington assumption | Minimal impact on the United States.<br>• 0.04 percent change in U.S. imports from Morocco<br>• 0.03 percent change in U.S. exports to Morocco<br>• 0.00 percent change in U.S. GDP |
| Mekki and Tyner (2004) | 1997 | GTAP 5 CGE model | • static analysis<br>• perfect competition<br>• constant returns to scale<br>• product differentiation by Armington assumption | Minimal impact on the United States.<br>• $65 million decrease in real GDP<br>• $135 million increase in welfare |
| Brown, Kiyota, and Stern (2004) | 1997 (updated to 2005 and for Uruguay Round, and China and Taiwan accession) | Michigan Model | • static analysis<br>• monopolistic competition (except in agriculture sector)<br>• increasing returns to scale<br>• product differentiation by product variety | Minimal impact on the United States, however, the services scenario, which incorporates relatively large service barrier tariff equivalents, results in larger impact.<br>• 0.00 percent change in U.S. GNP (agriculture and manufactures scenarios)<br>• 0.06 percent change in U.S. GNP (services and combined scenarios)<br>• sectoral impact negligible |
| DeRosa (2003) | 2002 trade flows | Gravity model estimate | • standard 118 percent increase in trade<br>• trade diversion not accounted for | Methodology precludes conclusions about overall aggregate impact. |
| Galal and Lawrence (2003) | Varies – 2000-2002 | Descriptive statistics | • primarily qualitative assessment of impact | Small positive economic benefits. |
| USITC (2004) | 2001 (base trade data updated to 2005; for Uruguay Round; and for implementation of U.S-Singapore, U.S-Chile, and EU-Morocco FTAs) | Modified GTAP version 6.0 prerelease 1, CGE model | • actual FTA modeled<br>• static analysis<br>• perfect competition<br>• constant returns to scale<br>• product differentiation by Armington assumption | • 41 percent increase in U.S. exports to Morocco<br>• 14 percent increase in U.S. imports from Morocco<br>• $120 million increase in U.S. economic welfare<br>• $107 million increase in U.S. GDP |

Sources: John Gilbert, "CGE Simulations of US Bilateral Free Trade Agreements," Background paper prepared for the *Free Trade Agreements and US Trade Policy* Conference, Institute for International Economics (Washington, DC: May 7-8, 2003); Akka Ait El Mekki and Wallace E. Tyner, "The Moroccan-American FTA: Effects on the Agricultural and Food Sectors in Morocco," May 2004, found at Internet address *http://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1462*, retrieved May 17, 2004; Drusilla K. Brown, Kozo Kiyota, and Robert M. Stern, "Computational Analysis of the U.S. Bilateral Free Trade Agreements with Central America, Australia, and Morocco," Feb. 8, 2004, found at Internet address *http://www.fordschool.umich.edu/rsie/seminar/BrownKiyotaStern.pdf*, retrieved March 2004; Dean DeRosa, "Gravity Model Calculations of the Trade Impacts of US Free Trade Agreements," paper prepared for the conference "Free Trade Agreements and U.S. Policy" held in at the Institute for International Economics (Washington, DC: May 2003); Ahmed Galal and Robert Lawrence, "Egypt-US and Morocco-US Free Trade Agreements,' The Egyptian Center for Economic Studies (Cairo: July 2003), Working Paper No. 87 (Forthcoming).

## Alternative Policy Experiments

This section begins by asking how different the findings of the different models reviewed above are, given that these findings are based on different model structures and policy assumptions. It makes an analytical comparison between the results obtained by the USITC model described in chapter 4 and selected modeling results from the literature review above. The purpose of this exercise is to determine the extent to which differences in outcomes reported by the various models are driven by different assumptions about the trade barriers or policy shocks being modeled, and the extent to which these differences depend on other structural differences among the models in, for example, trade elasticity parameters, the characterization of capital formation, returns to scale, and product variety effects. As will be seen, the differences between results found in the USITC analysis and those found in others can be attributed to all of these different factors.

Some of the most important inputs into the simulation models are the magnitudes of the simulated changes in trade policy. To put the Commission analysis in the context of these other studies, simulations are performed to examine how different assumptions about the policy experiment influence model outcomes.

The alternative simulations use the USITC model with its underlying structure unchanged; in particular, Armington elasticities (i.e., trade substitution elasticities) and other parameters remain at the values assumed for them in the analysis presented in chapter 4. That is, simulations are run applying the tariff and nontariff barrier policy shocks used by other authors on the USITC model. The Armington elasticities in the USITC model are derived independently by Hertel, Hummels, Ivanic, and Keeney (2003),[40] and are generally higher than the standard GTAP values.

The scenarios considered are those of Gilbert, Mekki and Tyner, and BKS, discussed in the previous section of this chapter. These model scenarios are comparable in that they all provide estimates of the effect on U.S. welfare of the U.S.-Morocco FTA, using computable general equilibrium techniques. Table C-3, in appendix C, lists the commodities modeled in the alternative scenarios, and the tariff and nontariff trade measures assumed to be removed by the U.S.-Morocco FTA in those scenarios. Both studies report their trade measures as a combination of tariffs and the tariff equivalent of nontariff measures. No export taxes or export tax equivalents of export quotas or quantitative restrictions are modeled by any of the studies reviewed or by the USITC analysis. Since each of the alternative models uses commodity data aggregated in ways that differ from the USITC model, it was necessary to reaggregate the commodities to correspond to those in the USITC model.

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[40] Thomas Hertel, David Hummels, Maros Ivanic, and Roman Keeney, *How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?* GTAP Working Paper No. 26, 2003, available at *http://www.gtap.agecon.purdue.edu/resources/*.

The alternative policy shocks as applied to the USITC aggregation are also given in appendix table C-3. In matching the alternative policy shocks of other authors to the sectors in the USITC model, the following simple procedures were used. Where one sector in an alternative model includes more than one USITC sector (such as the BKS agriculture sector, which includes the USITC sectors grains, sugar crops, other crops, and vegetables, fruits, and nuts), the shock from the alternative model sector was applied to each of the USITC sectors. Where more than one alternative model sector matches a USITC sector (such as the BKS sectors apparel, textiles, and leather products and footwear, all of which are contained in the single USITC sector textiles, apparel, and leather products), a simple average of the shocks in the alternative model sectors was applied to the USITC sector. Note that these aggregation differences will also lead to some differences in the estimated outcomes of the models. The USITC analysis did not estimate the impact of services liberalization due to unavailability of necessary data on nontariff barriers.

Table 8-9 provides an illustration of the magnitude of the differences in the estimated changes in U.S. welfare found by the other authors, compared to the welfare change when the alternative scenarios are applied using the USITC model.

In comparison to the results obtained by BKS, the USITC model implementation of their shocks generated a far smaller welfare impact from the same liberalization scenario. Their reported welfare gain from liberalization is $6 billion compared to $293 million dollars using the USITC model with the BKS shocks, and with about $118 million obtained from the USITC model as reported in chapter 4.

This result suggests that the majority of the BKS welfare gains come from aspects of their model that emphasize ways in which trade promotes increases in productivity (through exploitation of returns to scale and increased product variety among other things). Those gains, in turn, are most likely focused in the services sectors, which are modeled as featuring increasing returns to scale and undergoing substantial liberalization. Further, the services sectors trade barriers themselves are quite large, and as the authors acknowledge, are "possibly subject to overstatement."[41] In comparison to the BKS liberalization scenario, the Commission benchmark liberalization of the U.S.-Morocco FTA does not model either the United States or Morocco as removing quantifiable barriers to services. In the BKS model, the United States has ad valorem equivalent barriers against imports from all countries of 27 percent in trade and transport; 31 percent in other private services; and 25 percent in government services, which is a relatively high degree of trade restrictions. As was mentioned in chapter 4, the sectors facing the greatest trade barriers generally are the ones that experience the greatest effects of eliminating the trade barriers. The scenario consists of removing those barriers against Morocco (and likewise Morocco's barriers against the United States). In comparison with the USITC model, the BKS study assumes

[41] Brown, Kiyota, and Stern, "Computational Analysis of the U.S. Bilateral Free Trade Agreements, with Central America, Australia, and Morocco," p. 7.

**Table 8-9**
**Comparison of U.S. welfare changes for different scenarios**

| Scenario: | Welfare change | | | |
|---|---|---|---|---|
| | USITC | Mekki and Tyner | Gilbert | BKS |
| | *Million dollars* | | | |
| Implementation: | | | | |
| Author's | 119.7 | 135.6 | 178.2 | 6,000.0 |
| USITC | 119.7 | 91.9 | 90.2 | 293.3 |

Source: Commission calculations and cited reports by Gilbert, Mekki and Tyner, and Brown, Kiyota, and Stern.

much greater shocks in the services industries, but this accounts for only a small part of the difference in welfare effects. The remainder of the very large difference in welfare effects is most likely due to the large scale economies and other unique features of the BKS model.

The differences between results found in the USITC analysis and those found in the Gilbert and the Mekki and Tyner studies are very small. Both of the other studies use GTAP version 5 data and a 1997 trade flow base year. Applying the shocks of these studies in the USITC model gives a smaller U.S. welfare effect than does the USITC model itself, as reported in chapter 4 and the first column of table 8-9. Much of this is a result of the difference in the textiles and apparel tariff applied in these models, which is 11 percent compared with 16 percent in the USITC model. Remaining differences are primarily the result of aggregation differences, differences in base year trade flows, and the modifications of certain tariffs.

# CHAPTER 9
# Summary of Written Submissions

## American Dehydrated Onion and Garlic Association

The American Dehydrated Onion and Garlic Association (ADOGA), an association composed of two firms accounting for the majority of domestic dehydrated onion and garlic production in the United States, opposes the U.S.-Morocco FTA.[1] ADOGA states that Morocco poses a serious threat to the U.S. dried onion and garlic industry because of the country's favorable climate for raising onions and garlic; its existing fresh onion and garlic production for processing; and its existing food processing industry. Morocco also reportedly benefits from its trade-related connections with China—the world's largest producer and exporter of dehydrated onions and garlic.

Most of the production of ADOGA firms is sold to institutional and food service buyers for use, in small quantities, as an ingredient in other processed foods. The cost of the dried onions or garlic used in such foods is a small fraction of the overall cost of the end product produced, with demand for the dried onions or garlic derived from the demand for the end-use product and the price of the raw products a major determining factor in their purchase. ADOGA reports that labor costs in Morocco are substantially lower than labor costs in the United States, and that this difference in labor costs favor Moroccan production. ADOGA also reports that U.S. producers are required to meet federal and state regulatory standards—such as food safety and environmental standards—that are higher than comparable standards in Morocco. In addition, ADOGA states that duty-free entry for dried onions and garlic from Morocco would create an incentive for greater production in Morocco and increased Moroccan exports to the United States, with little or no opportunity for sale of U.S.-produced dried onions and garlic in Morocco. Finally, ADOGA states that increased shipments from Morocco under the FTA could adversely affect the U.S. industry by increasing the potential for transshipment of Chinese dehydrated onion and garlic through Morocco.

## Association of Food Industries, Inc.

The Association of Food Industries, Inc. (AFI), a trade association of about 200 members representing the U.S. food importing industry, strongly supports a

[1] Irene Ringwood, Ball Janik LLP, Washington, DC, counsel for the American Dehydrated Onion and Garlic Association, submission received May 5, 2004.

U.S.-Morocco FTA.[2] AFI states that it supports liberalization of trade through the elimination of tariffs and nontariff barriers which allows for the entry of a readily available and a steady source of a wide range of products (including canned olives, canned capers, and canned sardines), at the lowest possible cost to U.S. consumers. Further, AFI states that the entry of low-cost foods would yield a significant anti-inflationary benefit to U.S. individuals, households, and institutions. AFI also states that the removal of barriers would allow for greater sales to the U.S. market, which in turn would encourage greater purchases of U.S.-produced goods by these same foreign suppliers.

## California Olive Association

The California Olive Association (COA), an association of olive processors accounting for nearly all U.S.-produced processed olives, opposes the U.S.-Morocco FTA.[3] COA states that Moroccan canned ripe olives are being offered in the U.S. food-service sector at prices that are between $8 to $10 per case less than domestically produced olives. COA believes that any reduction in the existing duties will provide added incentive for Moroccan exporters to ship to the U.S. market, which would result in a devastating effect on the domestic industry. Imports of canned ripe olives from Morocco have risen in recent years, with Morocco becoming the second largest foreign supplier behind Spain.

## Florida Citrus Mutual

Florida Citrus Mutual (FCM) of Lakeland, FL, is a voluntary cooperative association whose active membership consists of about 11,600 Florida growers of citrus for processing and fresh consumption.[4] FCM represents more than 90 percent of Florida's citrus growers and up to 80 percent of all oranges grown in the United States for processing into juice and other citrus products, and at least 60 percent of the tangerines grown in the United States for fresh consumption.

FCM does not oppose a U.S.-Morocco FTA that includes citrus products provided that such an agreement satisfy four criteria: (1) provides a long phaseout period for U.S. tariffs on Moroccan citrus, (2) prohibits the granting of both export and domestic subsidies to the Moroccan industry, (3) includes strong sanitary and phytosanitary rules on citrus imports from Morocco; and (4) maintains strict rules of origin to prevent transshipment of nonindigenous citrus and citrus products (especially Spanish

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[2] Jeffrey Levin, Harris, Ellsworth & Levin, Washington, DC, counsel to the Association of Food Industries, Inc., submission received May 6, 2004.

[3] Bill McFarland, President, California Olive Association, Sacramento, CA, submissions received Apr. 22, 2004, and Apr. 28, 2004.

clementines and Brazilian orange juice) through Morocco under the guise of FTA-qualified product. FCM reports that some, but not all, of these objectives have been met in the draft text of the agreement.

FCM favors phasing out U.S. tariffs on fresh citrus from Morocco over an extended period of time so that the U.S. tangerine and clementine industry has time to adjust to the increase in imports. FCM also favors a prohibition on export subsidies on citrus fruit. FCM also expressed the concern about Morocco's export subsidy program for fresh citrus destined to non-EU markets, and the likely adverse impact on the U.S. industry of imports of subsidized Moroccan citrus products.

FCM favors strong sanitary and phytosanitary rules to prevent the importation of citrus from Morocco infested with Mediterranean fruit flies (medflies) or other pests in order to reduce the risk of a U.S. medfly outbreak. FCM favors strict rules of origin that would prevent transshipment of both Spanish clementines and Brazilian frozen concentrated orange juice (FCOJ) through Morocco. There are few obvious visual or tactile differences between Spanish and Moroccan clementines. Thus, FCM requests that the U.S. Customs Service routinely conduct chemical and DNA tests on U.S. imports of clementines from Morocco to ensure that they were indeed grown on Moroccan soil. FCM believes that Brazilian FCOJ could find its way into Morocco and be blended with Moroccan orange juice. Thus, FCM favors chemical and DNA analysis conducted periodically on orange juice imported from Morocco to confirm correct country of origin.

## Footwear Distributors and Retailers of America

The Footwear Distributors and Retailers of America (FDRA) is the trade association representing establishments that account for about three-quarters of all footwear sold at retail in the United States.[5] Its members include the major footwear chain retailers such as Wal-Mart, Payless ShoeSource, and Foot Locker. FDRA states that its members support eliminating duties on all footwear imports on the day that the FTA takes effect.

FDRA asserts that eliminating duties on footwear imports into the United States will not harm the small U.S. shoe manufacturing industry and will benefit consumers. In 2002, total import market share for all footwear was 98 percent. FDRA states that imported footwear is much lower priced than comparable domestically produced footwear and therefore it is impossible for locally made products to compete with imports on the basis of price. FDRA explains that what little U.S. shoe production remains does not compete with imports on price, but instead differentiates its products on the basis of specialized

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[4] Based on written statement submitted by Barnes, Richardson and Colburn on behalf of Florida Citrus Mutual on May 11, 2004.

[5] Michael P. Daniels and Marcus A. Kraker, Loeffler, Jonas & Tuggey, LLP, on behalf of Footwear Distributors and Retailers of America, submission received Apr. 22, 2004.

types of footwear (such as size, widths, hand sewn, etc.), quality, or exclusive channels of distribution, and, especially, with brand names. According to FDRA, previous elimination of most tariffs on footwear under the North American Free Trade Agreement, the Caribbean Basin Initiative, and the African Growth and Opportunity Act has resulted in modest or no increase in shoe imports under those programs.

FDRA states that it supports the use of a "tariff shift" rule of origin (i.e., from parts to shoes) for footwear or a change to headings 6401 through 6405 from any other heading. FDRA opposes the NAFTA rules of origin and a value of domestic content rule. FDRA asserts that U.S. consumers pay a high price for the existing tariffs (for example, $1.6 billion in duties on footwear was collected in 2002). FDRA states that U.S. footwear imports from Morocco are very small and are concentrated in specialty or high-end products. FDRA does not believe that Morocco has the capacity, present or future, to enter the U.S. market in any significant way.

## National Council of Textile Organizations

The National Council of Textile Organizations (NCTO) is a textile lobbying group that works as the central policy development and implementation body of the U.S. textile industry and its allied product and service suppliers.[6] NCTO is comprised of four separate councils representing the fiber producers, fabric manufacturers, yarn spinners, and supplier industries (including machinery, chemicals, and banks and power companies), each with its own board representation.

NCTO expresses its concern that, although the U.S.-Morocco FTA contains a yarn-forward rule of origin, the large tariff preference level (TPL) included in the FTA negates the benefits of this rule.[7] NCTO states that granting Morocco the use of as much as 30 million square meter equivalents of third country inputs, or nearly twice the amount of total sector imports from Morocco last year, will harm both U.S. textile producers and Moroccan makers of yarn and fabric. NCTO predicts that allowing Morocco garment makers to use yarn and fabric from China, India, Pakistan, and other low-cost Asian suppliers could cause further harm to the U.S. textile industry.

## Olive Growers Council of California

The Olive Growers Council of California (OGC), a bargaining association whose members include olive growers and a processor, opposes the U.S.-Morocco FTA.[8] The

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[6] Cass Johnson, President, National Council of Textile Organizations, submission received May 5, 2004.

[7] The yarn-forward rule and TPLs are discussed in more detail in the section on textiles and apparel in chapter 3 of this report.

[8] Adin Hester, President, Olive Growers Council of California, Visalia, CA, submissions received Apr. 27 and May 5, 2004.

OGC states that Californian harvested acreage of olives has fallen dramatically in recent years, and nearly a dozen canners have gone out of business, all as a result of lower-priced, lesser-quality product flooding the U.S. market from foreign suppliers including Morocco. The OGC also states that foreign suppliers benefit from fewer production regulations, lower wages, and subsidies. The OGC also states that canned ripe olives are being offered in the U.S. food-service sector at $16 to $18 a case, as compared with prices of U.S.-produced olives at $25 a case. Finally, the COA believes that removal of the existing duties will provide Moroccan exporters an even greater trade advantage vis-à-vis California producers in the U.S. market.

## Lloyd W. Benjamin, III, President, Indiana State University

Indiana State University (ISU), located in Terre Haute, IN, offers a wide range of undergraduate and graduate programs.[9] The student body is comprised of students from all 50 states and 85 countries. To meet the demands of an increasingly interdependent world, ISU emphasizes the development of partnerships with foreign universities, governmental and nongovernmental agencies, and business and community organizations. ISU enthusiastically supports the U.S.-Morocco FTA, which it believes will strengthen the Administration's trade and investment agenda throughout the Middle East and North Africa.

In the fall of 2002, ISU signed a 5-year institutional agreement of cooperation with a Moroccan university, Hassan II University Mohammedan. Both universities agreed to develop projects that would advance opportunities for economic development, mutual understanding, and cooperation between Indiana and Morocco. With respect to Morocco, these projects include higher education administration and leadership capacity building, sports management and leadership capacity enhancing, rural health care, and the development of small business incubators to stimulate economic growth. ISU believes that these projects will enhance the FTA's contribution to the economic and social development of Morocco and Indiana.

[9] Lloyd W. Benjamin, III, President, Indiana State University, submission received May 6, 2004.

# APPENDIX A
# Request Letter

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

MAR - 8 2004

The Honorable Deanna Tanner Okun
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Chairman Okun:

As you know, the United States and the Kingdom of Morocco recently completed negotiating a bilateral free trade agreement (FTA). We greatly appreciate the advice that the U.S. International Trade Commission (Commission) has provided throughout this negotiation.

Today the President notified the Congress of his intent to enter into an FTA with the Kingdom of Morocco. Pursuant to authority delegated to me by the President and in accordance with section 2104(f) of the Trade Act of 2002 (Trade Act), I request the Commission to prepare a report as specified in section 2104(f)(2)-(3) of the Trade Act assessing the likely impact of the FTA on the U.S. economy as a whole and on specific industry sectors and the interests of U.S. consumers.

I would greatly appreciate it if the Commission could issue its report as soon as possible. USTR staff will provide the Commission with the details of the FTA now and will be available to answer questions or provide additional information. We are working to make the text of the Agreement available to the public by the end of this month.

Thank you for your continued cooperation and assistance in this matter.

Sincerely,

Robert B. Zoellick

# APPENDIX B
# Federal Register Notices

business information, will be made available for inspection by interested persons. The Commission intends to publish only a public report in this investigation. Accordingly, any confidential business information received by the Commission in this investigation and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information. All submissions should be addressed to the Secretary at the Commission's office in Washington, DC. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by § 201.8 of the Commission's Rules (19CFR 201.18) (*see* Handbook for Electronic Filing Procedures, *ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.pdf*). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov*. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 205–1810.

**List of Subjects**

Central America, Dominican Republic, tariffs, trade, imports and exports.

By order of the Commission.

Issued: March 17, 2004.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 04–6409 Filed 3–22–04; 8:45 am]

BILLING CODE 7020–02–P

## INTERNATIONAL TRADE COMMISSION

**[Investigation No. TA–2104–14]**

### U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution of investigation.

**SUMMARY:** Following receipt on March 8, 2004, of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. TA–2104–14, *U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, under section 2104(f) of the Trade Act of 2002 (19 U.S.C. 3804(f)).

*Background:* As requested by the USTR, the Commission will prepare a report as specified in section 2104(f)(2)–(3) of the Trade Act of 2002 assessing the likely impact of the U.S. free trade agreement (FTA) with Morocco on the United States economy as a whole and on specific industry sectors and the interests of U.S. consumers. The report will assess the likely impact of the agreement on the United States economy as a whole and on specific industry sectors, including the impact the agreement will have on the gross domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the agreement, and the interests of United States consumers.

In preparing its assessment, the Commission will review available economic assessments regarding the agreement, including literature regarding any substantially equivalent proposed agreement, and will provide in its assessment a description of the analyses used and conclusions drawn in such literature, and a discussion of areas of consensus and divergence between the various analyses and conclusions, including those of the Commission regarding the agreement.

Section 2104(f)(2) requires that the Commission submit its report to the President and the Congress not later than 90 days after the President enters into the agreement, which he can do 90 days after he notifies the Congress of his intent to do so. The President notified the Congress on March 8, 2004, of his intent to enter into an FTA with Morocco.

The Commission has begun its assessment, and it will seek public input for the investigation through a public hearing on April 29, 2004 (*see* below).

*Effective Date:* March 16, 2004.

**FOR FURTHER INFORMATION CONTACT:** James Stamps, Project Leader, Office of Economics (202–205–3227 or *james.stamps@usitc.gov*). For information on the legal aspects of this investigation, contact William Gearhart of the Office of the General Counsel (202–205–3091 or *william.gearhart@usitc.gov*). For media information, contact Peg O'Laughlin (202–205–1819). Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on (202–205–1810).

*Public Hearing:* A public hearing in connection with this investigation is scheduled to begin at 9:30 a.m. on April 29, 2004, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Requests to appear at the public hearing should be filed with the Secretary, no later than 5:15 p.m., April 15, 2004, in accordance with the requirements in the "Submissions" section below. In the event that, as of the close of business on April 15, 2004, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or non-participant may call the Secretary (202–205–2000) after April 15, 2004, to determine whether the hearing will be held.

*Statements and Briefs:* In lieu of or in addition to participating in the hearing, interested parties are invited to submit written statements or briefs concerning the investigation in accordance with the requirements in the "Submissions" section below. Any prehearing briefs or statements should be filed not later than 5:15 p.m., April 22, 2004; the deadline for filing post-hearing briefs or statements is 5:15 p.m., May 6, 2004.

*Submissions:* All written submissions including requests to appear at the hearing, statements, and briefs, should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW., Washington, DC 20436. All written submissions must conform with the provisions of § 201.8 of the *Commission's Rules of Practice and Procedure* (19 CFR 201.8); any submissions that contain confidential business information must also conform with the requirements of § 201.6 of the *Commission's Rules of Practice and Procedure* (19 CFR 201.6). Section 201.8 of the rules require that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted. Section 201.6 of the rules require that the cover of the document and the individual pages clearly be marked as to whether they are the "confidential" or "nonconfidential" version, and that the confidential business information be clearly identified by means of brackets.

The Commission intends to publish only a public report in this investigation. Accordingly, any confidential business information received by the Commission in this investigation and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information.

The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by § 201.8 of the Commission's Rules (19 CFR 201.8)(see Handbook for Electronic

Filing Procedures, *ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.pdf*). Persons with questions regarding electronic filing should contact the Secretary (202–205–2000 or *edis@usitc.gov*).

**List of Subjects**

Morocco, tariffs, trade, imports and exports.

By order of the Commission.
Issued: March 17, 2004.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 04–6410 Filed 3–22–04; 8:45 am]

**BILLING CODE 7020–02–P**

## DEPARTMENT OF JUSTICE

### Civil Rights Division; Office of Special Counsel for Immigration Related Unfair Employment Practices; Immigration Related Employment Discrimination Public Education Grants

**AGENCY:** Office of Special Counsel for Immigration Related Unfair Employment Practices, Civil Rights Division, U.S. Department of Justice.

**ACTION:** Notice of availability of funds and solicitation for grant applications.

**SUMMARY:** The Office of Special Counsel for Immigration Related Unfair Employment Practices (OSC) announces the availability of funds for grants to conduct public education programs about the rights afforded potential victims of employment discrimination and the responsibilities of employers under the anti-discrimination provision of the Immigration and Nationality Act (INA), 8 U.S.C. 1324b.

It is anticipated that a number of grants will be competitively awarded to applicants who can demonstrate a capacity to design and successfully implement public education campaigns to combat immigration related unfair employment discrimination. Grants may range in size from $35,000 to $100,000.

OSC will accept proposals from applicants who have access to potential victims of discrimination or whose experience qualifies them to educate workers, employers and the general public about the anti-discrimination provision of the INA. OSC welcomes proposals from diverse nonprofit organizations providing information services to potential victims of discrimination and/or employers, such as local, regional or national ethnic and immigrants' rights advocacy organizations, labor organizations, trade associations, industry groups, professional organizations, or other nonprofit entities, including state and local government agencies.

**DATES:** *Application Due Date:* May 7, 2004.

**FOR FURTHER INFORMATION CONTACT:** Lilia Irizarry, Acting Public Affairs Specialist, Office of Special Counsel for Immigration Related Unfair Employment Practices, 950 Pennsylvania Ave., Washington, DC 20530. Tel. (202) 616–5594, or (202) 616–5525 (TDD for the hearing impaired). OSC's e-mail address is: *osccrt@usdoj.gov.*

**SUPPLEMENTARY INFORMATION:** The Office of Special Counsel for Immigration Related Unfair Employment Practices of the Civil Rights Division of the Department of Justice announces the availability of funds to conduct cost-effective public education programs concerning the anti-discrimination provision of the INA. Funds will be awarded to selected applicants who propose cost-effective ways of educating employers, workers covered by this statute, community service providers, and/or the general public.

*Background:* The Immigration and Nationality Act protects work-authorized individuals from employment discrimination based on their citizenship status and/or national origin. Federal law also makes knowingly hiring unauthorized workers unlawful, and requires employers to verify the identity and employment eligibility of all new employees. Employers who violate this law are subject to sanctions, including fines and possible criminal prosecution.

Employers of four or more employees are prohibited from discriminating on the basis of citizenship status or national origin with respect to hiring, firing, recruitment or referral for a fee. They are also prohibited from committing "document abuse" on the basis of national origin or citizenship status in the employment eligibility verification process.

U.S. citizens and certain classes of work authorized individuals are protected from *citizenship status discrimination.* Protected non-citizens include:

- Legal Permanent Residents;
- Refugees;
- Asylees; and
- Temporary Residents.

Citizens and *all* work authorized individuals are protected from *discrimination on the basis of national origin.* However, under the INA the prohibition against national origin discrimination applies only to employers with four to fourteen employees. National origin discrimination complaints against employers with fifteen or more employees fall under the jurisdiction of the Equal Employment Opportunity Commission pursuant to Title VII of the Civil Rights Act of 1964, 42 U.S.C. 2000e, *et seq.*

In addition, under the *document abuse provision* of the law, employers cannot request more or different documents than are required for completion of the Employment Eligibility Verification (I–9) Form, prefer or require one form of documentation over another, or refuse documents that appear reasonably genuine on their face, if made for the purpose or with the intent of discriminating against an individual on the basis of national origin or citizenship status.

OSC is responsible for receiving and investigating discrimination charges and, when appropriate, filing complaints with specially designated administrative law judges. OSC also initiates independent investigations of possible immigration-related job discrimination.

While OSC has established a record of vigorous enforcement, studies have shown that there is an extensive lack of knowledge on the part of protected individuals and employers about the anti-discrimination provision of the INA. Enforcement cannot be effective if potential victims of discrimination are not aware of their rights. Moreover, discrimination can never be eradicated so long as employers are not aware of their responsibilities.

*Purpose:* OSC seeks to educate both workers and employers about their rights and responsibilities under the anti-discrimination provision of the INA. Because previous grantees have developed a wealth of materials (*e.g.*, brochures, posters, booklets, information packets and videos) to educate these groups, OSC has determined that the main focus of the program should be on the *actual delivery* of these materials to educate further both potential victims and employers. OSC seeks proposals that will use *existing materials* effectively to educate large numbers of workers or employers about exercising their rights or fulfilling their obligations under the anti-discrimination provision. OSC will, of course, consider any proposal that articulates and substantiates other creative means of reaching these populations.

*Program Description:* The program is designed to develop and implement cost-effective approaches to educate potential victims of employment discrimination about their rights and to educate employers about their

## INTERNATIONAL TRADE COMMISSION

**[Investigation No. TA-2104-14]**

### U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects

**AGENCY:** United States International Trade Commission.

**ACTION:** Cancellation of public hearing.

**EFFECTIVE DATE:** April 20, 2004.

**SUMMARY:** On April 16, 2003, the Commission received notice that the only scheduled witnesses for the hearing for investigation No. TA-2104-14, *U.S.-Morocco Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, scheduled for April 29, 2004, have elected to have their written submission serve as a substitute for their oral statement. Therefore, the public hearing in connection with this investigation, scheduled to be held beginning at 9:30 a.m. on April 29, 2004, at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, is canceled. Notice of institution of this investigation and the scheduling of the hearing was published in the **Federal Register** of March 23, 2004 (69 FR 13583). To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received not later than COB May 6, 2004. All submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's Rules (19 CFR 201.8) (see Handbook for Electronic Filing Procedures, *ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.pdf*). Persons with questions regarding electronic filing should contact the Secretary (202-205-2000 or edis@usitc.gov).

**FOR FURTHER INFORMATION CONTACT:** James Stamps, Project Leader, Office of Economics (202-205-3227 or *james.stamps@usitc.gov*). For information on the legal aspects of this investigation, contact William Gearhart of the Office of the General Counsel (202-205-3091 or *william.gearhart@usitc.gov*). For media information, contact Peg O'Laughlin (202-205-1819). Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on (202-205-1810).

**List of Subjects**

Morocco, tariffs, trade, imports and exports.

By order of the Commission.

Issued: April 20, 2004.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 04-9366 Filed 4-23-04; 8:45 am]

**BILLING CODE 7020-02-P**

## DEPARTMENT OF JUSTICE

**[AAG/A ORDER NO. 004-2004]**

### Privacy Act of 1974; System of Records

Pursuant to the provisions of the Privacy Act of 1974 (5 U.S.C. 552a), notice is given that the Department of Justice proposes to establish a new system of records entitled "Leave Sharing Systems," Justice/DOJ-010. The purpose of publishing this Department-wide notice is to record voluntary requests made by employees to either donate or receive annual leave, due to a medical emergency that requires an absence from work which will result in substantial loss of income to the employee. This Privacy Act notice covers both the Voluntary Leave Transfer Program and the Voluntary Leave Bank Program.

In accordance with 5 U.S.C. 552a(e)(4) and (11), the public is given a 30-day period in which to comment, and the Office of Management and Budget (OMB), which has oversight responsibility under the Act, requires a 40-day period in which to conclude its review of the system. Therefore, please submit any comments by May 26, 2004. The public, OMB, and the Congress are invited to submit any comments to Mary E. Cahill, Management and Planning Staff, Justice Management Division, Department of Justice, Washington, DC, 20530 (Room 1400, National Place Building).

In accordance with 5 U.S.C. 552a(r), the Department has provided a report to OMB and the Congress.

Dated: April 16, 2004.

**Paul R. Corts,**

*Assistant Attorney General for Administration.*

## DEPARTMENT OF JUSTICE

**SYSTEM NAME:**

Leave Sharing Systems, JUSTICE/DOJ-010.

**SECURITY CLASSIFICATION:**

Not classified.

**SYSTEM LOCATIONS:**

Systems are maintained by designated Leave Transfer Coordinators throughout the Department of Justice (DOJ), Human Resources Offices, with the exception of the Leave Bank Coordinator, whose system is located at the following address: U.S. Department of Justice, Justice Management Division, 1331 Pennsylvania Ave., NW., Suite 1110, Washington, DC 20530. The Leave Transfer Coordinators' system location is shown in this notice under the Systems Managers and Addresses.

**CATEGORIES OF INDIVIDUALS COVERED BY THE SYSTEM:**

Individuals covered by the Voluntary Leave Transfer Program (VLTP) are current employees (recipients and donors) of the DOJ, and employees in other Federal agencies who make voluntary leave donations to or receive voluntary leave donations from DOJ employees, excluding employees of the Federal Bureau of Investigations (FBI), Central Intelligence Agency, Defense Intelligence Agency, National Security Agency or any other Executive Agency or unit thereof, as determined by the President, whose principal function is the conduct of foreign intelligence or counterintelligence activities.

Individuals covered by the Voluntary Leave Bank Program (VLBP) are current employees of the DOJ, excluding the FBI and Executive Office for U.S. Trustees.

**CATEGORIES OF RECORDS IN THE SYSTEM:**

Records maintained in the Voluntary Leave Transfer (VLT) system include two categories of records: Recipient records—VLT Recipient application, medical records, time and attendance report, and related comments; and Donor records—Authorization to Transfer Leave application, time and attendance report, and related comments.

Records maintained in the Voluntary Leave Bank (VLB) system include two categories of records: Recipient records—VLB Recipient application, medical records, time and attendance report, and related comments; and Donor records—Request for Leave or Approved Absence (SF-71), time and attendance report, and related comments.

**AUTHORITY FOR MAINTENANCE OF THE SYSTEM:**

Title 5, United States Code, Chapter 63, Subchapter III; 5 United States Code, Part 630, Subpart I and J; Public Law 103-103, the Federal Employees Leave Sharing Amendments Act of 1993.

**PURPOSE OF THE SYSTEM:**

The Voluntary Leave Transfer and Leave Bank systems record and track

# APPENDIX C
# Technical Appendix

# Appendix C

The general equilibrium modeling system employed to simulate the U/S.-Morocco Free Trade Agreement (FTA) is built around the GTAPinGAMS software developed by Rutherford and Paltsev.[1] The GTAPinGAMS data system was modified to accommodate the most recent prerelease 1 of the GTAP version 6 data. In addition, the actual GTAPinGAMS multi-region comparative-static simulation model was expanded to include appropriate behavioral structures and to report elements relevant to the study. This appendix outlines the important methodological and structural assumptions of the model.

There are several advantages to using the prerelease version of the GTAP data base rather than the most recently published version. For one thing, trade flows and national economic data have been updated in the new data to a 2001 base year from 1997 (although for this study the Commission has further updated the data to 2005). More importantly, much work has been done to improve the protection data in the data base. Rather than relying for the most part on WTO bound tariffs, the new data reflect a strong effort to collect data on actual applied tariffs (generally smaller than bound rates); for this reason, apparent duties on some commodities have declined from those in previous versions of the data set. This is aside from the fact that further implementation of the Uruguay Round and other trade agreements has actually reduced duties. Also, this new version of the data base reflects work that is in progress to develop appropriate methods to quantify tariff rate quotas and nontariff measures. Work remains to be done in these areas, but the current prerelease version 6 of the GTAP data base appears to provide the best available basis for the analyses of current trade policy with appropriate measures of trade and trade policy.

## Model Scope

The simulation model represents the world trade equilibrium, and the production and consumption structures of the world economy. The trade equilibrium is defined by the bilateral trade flows between 15 economies over 23 aggregate commodities, listed below. These regions and commodities are aggregated out of the regions and commodities available in prerelease 1 of the GTAP version 6 database. The commodity and regional aggregations were driven by the Commission's intention to include the most relevant sectoral detail considering the policy shocks included in the U.S.-Morocco FTA and the benchmarking to the 2005 base year.

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[1] Thomas F. Rutherford and Sergey V. Paltsev, *GTAPinGAMS and GTAP-EG: Global Datasets for Economic Research and Illustrative Models*, Department of Economics, University of Colorado Working Paper, September 2000.

### Regions

| | |
|---|---|
| Australia | New Zealand |
| Canada and Mexico | European Union 15 |
| Chile | Morocco |
| Mercosur | Southern African Customs Union |
| Rest of the Americas | Rest of Subsaharan Africa |
| Singapore | United States |
| East Asia | Other Countries |
| Rest of Asia | |

### Commodities

| | |
|---|---|
| Grains | Wood products |
| Sugar crops | Petroleum, coal, chemicals, rubber, and plastic products |
| Vegetables, fruits, and nuts | Ferrous metals |
| Other crops | Metals n.e.c. and metal products |
| Cattle and horses | Motor vehicles and parts |
| Animal products n.e.c. | Transport equipment n.e.c. |
| Coal, oil, gas, and other minerals | Electronic equipment |
| Meat products | Other machinery and equipment |
| Dairy products | Other manufactures |
| Sugar | Services |
| Other processed food and tobacco products | Capital goods |
| Textiles, apparel, and leather products | |

## Structure of the Regional Economies

Each region of the model is characterized by three components. First, primary factor endowments determine the overall capacity of the economy. Primary factors include land, labor, and capital. Households earn net of tax income from the primary factors and are assumed not to change the total supply of primary factors across the simulation.

Second, a region is characterized by its production technologies. These production technologies determine the ability of the economy to transform primary factors and intermediate inputs into valuable output. The model employs a nested constant-elasticity-of-substitution production structure. Primary factors are combined in a Cobb-Douglas nest. The primary factors aggregate is then combined with intermediate inputs in a Leontief nest. The resulting production function exhibits constant returns to scale and firms are assumed to be competitive such that marginal cost equals the output price.

Third, a region is characterized by its preferences for commodities. The model is static, and thus abstracts from changes in the aggregate mix of final demand on investment and government spending. Households do react to policy-induced price changes, however, by changing the mix of goods and services consumed. Household welfare is assumed to be Cobb-Douglas and maximized subject to market prices and income earned from ownership of primary factors.

Consistent with the objectives of the Commission analysis, substantial detail is built into the mechanisms by which the different regions interact through international trade. Goods and services that are traded are assumed to be differentiated by their respective region of origin. Each region has a set of technologies for combining these differentiated goods and services into a composite that may be consumed or used as an intermediate input. The technology is a nested constant-elasticity-of-substitution aggregation; imports from different sources are combined in a lower nest, then the import aggregate and the domestic variety is combined to produce the composite. This is a standard structure adopted by most contemporary trade simulation models.

The trade equilibrium is sensitive to the particular substitution elasticities assumed for the differentiated goods aggregation. Table C-1 reports the central estimates of the substitution elasticity between import varieties, and their respective 95 percent confidence bounds. The central estimates are the trade-weighted averages from disaggregate (GTAP level) econometric estimates presented by Hertel, Hummels,

**Table C-1**
**Substitution elasticities and confidence intervals**

| Sectors | Central | Lower 95 percentile | Upper 95 percentile |
|---|---|---|---|
| Grains | 6.327 | 2.273 | 10.762 |
| Sugar crops | 7.000 | NA | NA |
| Vegetables, fruit, and nuts | 3.700 | 2.847 | 4.454 |
| Other crops | 5.830 | 5.068 | 6.519 |
| Cattle and horses | 4.000 | 2.656 | 5.291 |
| Other animal products | 3.912 | 3.155 | 4.672 |
| Coal oil, gas, and other minerals | 12.281 | 6.107 | 18.804 |
| Meat products | 8.382 | 6.550 | 10.208 |
| Dairy products | 7.300 | 5.751 | 8.866 |
| Sugar | 5.400 | 1.724 | 9.402 |
| Other processed food and tobacco products | 3.788 | 3.524 | 4.033 |
| Textiles apparel and leather products | 7.567 | 7.371 | 7.762 |
| Wood products | 6.800 | 6.425 | 7.202 |
| Petroleum, coal, chemicals, rubber | 6.266 | 5.987 | 6.549 |
| Ferrous metals | 6.676 | 6.324 | 7.041 |
| Metals n.e.c. and metal products | 8.400 | 7.652 | 9.185 |
| Motor vehicles and parts | 5.600 | 4.969 | 6.159 |
| Transport equipment n.e.c. | 8.600 | 7.840 | 9.352 |
| Electronic equipment | 8.800 | 8.402 | 9.168 |
| Other machinery and equipment | 8.100 | 7.896 | 8.309 |
| Other manufactures | 6.757 | 6.474 | 7.026 |
| Services | 7.000 | (1) | (1) |
| Capital goods | 7.000 | (1) | (1) |

[1] Not applicable.

Source: Hertel et al.

Ivanic, and Keeny.[2] The confidence bounds are generated by making 1000 random draws from the implied probability density functions of the econometric estimates and then computing the trade-weighted average for the aggregate commodity. Rank ordering these 1000 draws per commodity, the 95 percent lower bound is the 25th draw and the 95 percent upper bound is the 975th draw. Three commodities did not have reliable econometric estimates and were therefore assigned a default elasticity of 7. Conditional on the integrity of the estimating procedure, it is likely that the true value of the substitution elasticity for the other commodities falls within the 95 percent confidence interval. Consistent with standard practice, the substitution elasticity between the domestic variety and the import aggregate is set to one-half the import variety substitution elasticity.

The policy instruments that are relevant for the trade equilibrium include import tariffs and export taxes. Table C-2 reports the 2005 benchmark trade policy between the United States and Morocco. The benchmark policies include those distortions included in version 6 of the GTAP database and modified to include relevant policy changes between 2001 and 2005.

## Updating the Database

Version 6.1 of the GTAP database has a benchmark year of 2001. In order to better reflect the world economy as of the time of implementation of the U.S.-Morocco FTA, the database was projected to reflect the 2005 economy. This was done by imposing on the database additional data and projections on trade from the U.S. Department of Commerce and the World Bank. In addition, trade flows and barriers were updated to reflect the free trade agreements between the United States and Chile and Singapore, as well as all policy measures ratified under the Uruguay Round Agreement on Textiles and Clothing, and other Uruguay Round provisions insofar as these are reflected in the trade data.

## Solution Technique

In comparative static experiments, such as the one conducted in this report, trade is liberalized completely in all goods subject to liberalization under the FTA. There is no implicit or explicit time elapsing in the model. This means, first, that all provisions of the FTA are assumed to be fully phased in immediately, rather than over an 18-year period. And second, it means that all effects of the FTA are felt immediately, without an adjustment period. The modeled results can be considered to be long-run effects of a fully implemented U.S.-Morocco FTA, in an economy otherwise identical to the baseline 2005 economy.

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[2] Thomas Hertel, David Hummels, Maros Ivanic and Roman Keeney, *How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?* GTAP Working Paper No. 26, 2003, available at *http://www.gtap.agecon.purdue.edu/resources/working_papers.asp.*

**Table C-2**
**U.S.-Morocco FTA: Benchmark tariffs, 2005**

*(Percent)*

| Commodity | Tariffs on U.S. imports from Morocco | Tariffs on Moroccan imports from the United States |
|---|---|---|
| Grains | 0 | 13.00 |
| Vegetables, fruits, and nuts | 3.00 | 49.00 |
| Other crops | 2.00 | 2.50 |
| Cattle and horses | 0 | 0 |
| Animal products n.e.c. | 0 | 25.00 |
| Coal, oil, gas, other mineral | 0 | 17.78 |
| Meat products | 2.00 | 50.14 |
| Dairy products | 0 | 84.00 |
| Sugar manufacturing | 29.00 | 0 |
| Sugar crops | 0 | 0 |
| Other processed food and tobacco products | 8.79 | 75.00 |
| Textile, apparel, and leather products | 16.00 | 39.28 |
| Wood products | 0 | 31.00 |
| Petroleum, coal, chemicals, rubber, plastic | 1.86 | 32.16 |
| Ferrous metals | 1.00 | 31.90 |
| Metals n.e.c. and metal products | 1.00 | 21.00 |
| Motor vehicles and parts | 1.00 | 31.00 |
| Transport equipment n.e.c. | 2.29 | 15.31 |
| Electronic equipment | 0 | 1.50 |
| Other machinery and equipment | 0 | 20.00 |
| Other manufactures | 0 | 33.25 |
| Services | 0 | 0 |

Source: GTAP version 6, prerelease 1 data and Commission calculations.

The analysis of the economywide impact of the U.S.-Morocco FTA employs a comparative static framework in which a baseline equilibrium depiction of the U.S. economy, as of January 1, 2005, is derived through a set of balanced accounts of trade, production, consumption, and taxes. Once this baseline has been created, policy shocks are imposed on the balanced model. These policy shocks consist of the reduction or elimination of tariffs, TRQs and quotas agreed to in the FTA.

Having imposed the policy shock by imposing the new levels of the tariffs and tax equivalents of the trade distortions, the model is rebalanced, and new values for trade flows, outputs, employment, welfare, GDP, and other values are generated. The difference between the baseline values of these variables and their new values is interpreted as the estimated impact of the tariff removal under the FTA.

## Model Limitations

Economic models attempt to capture the most important factors for the question under consideration. However, they are limited in their ability to reflect the degree of

complexity evident in the real world. One source of possible bias in virtually any quantitative analysis of economic data arises from data aggregation. International trade occurs in thousands of different products and services. The United States collects trade data under about 17,000 statistical categories and over 10,000 tariff rate lines. For most general equilibrium analysis, these groupings represent far too much detail to be tractable computationally, or to be linked with more aggregate data on production and consumption processes. The aggregation into broader categories introduces two general sources of bias into a modeling exercise.

One source of bias involves the calculation of tariffs for aggregated product categories. In this study, trade-weighted average tariffs were calculated, using the value of imports in a tariff line to weight the tariff in that line. This procedure tends to mask the importance of those products within the aggregate that have particularly high tariffs, and which therefore face a greater barrier to imports than would be the case if all goods within the aggregation had the same average tariff. The relationship between the effect of an import-weighted average tariff and the effects of the individual tariffs of goods within the group depends on the correlation between the level of these tariffs and the price responsiveness of final demand. The effect of a high tariff in a highly price-responsive good will be understated because the high tariff itself will cause less of the good to be imported, giving it a small weight in the trade-weighted average tariff of the aggregate.

Another source of aggregation bias is due to the fact that goods within an aggregate may not be close substitutes for one another. In particular, imported goods of a particular category may be quite dissimilar to the domestically produced product in that category, due among other things to a different mix of the individual goods in the aggregate. Thus a model may overstate the responsiveness of domestic production in response to a given tariff reduction.[3]

Despite these limitations, model simulations such as those performed here can be useful in providing insights on the effects of an FTA on measures of the economy. They present a unified and consistent framework within which to assess the policy.

## Modeling Alternative Scenario Shocks

Chapter 8 discussed the comparison of alternative models of the U.S.-Morocco FTA. Among the ways in which this study approaches the comparison is by asking, essentially, what results would be obtained in the USITC model if it made the same assumptions made in other models regarding the tariff shocks to be eliminated. If the

[3] Empirical trade models such as the one used here often apply the Armington assumption, which treats commodities produced in different countries as imperfect substitutes, with the degree of substitution described by the Armington substitution elasticity. This can reduce this type of bias.

same tariff shocks could be imposed in the USITC model as were imposed in other models, remaining differences between the results could be attributed to other assumptions and structural differences among the models.

In fact, the different tariff shocks could not be directly applied to the USITC model. Since each of the alternative models uses commodity data aggregated in ways that differ from the USITC model, it was necessary to reaggregate the commodities to correspond to those in the USITC model. Table C-3 shows the alternative policy shocks applied in each of the two alternative models (Gilbert and Brown, Kiyota, and Stern, or BKS). The table also shows the shocks as applied to the USITC aggregation.

In matching the alternative policy shocks of other authors to the sectors in the USITC model, the following simple procedures were used. Where one sector in an alternative model includes more than one USITC sector (such as the BKS agriculture sector, which includes the USITC sector grains, sugar crops, other crops, and vegetables, fruits and nuts) the shock from the alternative model sector was applied to each of the USITC sectors. Where more than one alternative model sector matches a USITC sector (such as the BKS sectors apparel, textiles, and leather products and footwear, all of which are contained in the single USITC sector textiles, apparel, and leather products), a simple average of the shocks in the alternative model sectors was applied to the USITC sector.

**Table C-3**
**Alternative policy scenarios**

*(Percent)*

| | Gilbert policy shocks | |
|---|---|---|
| **Gilbert commodity** | **Morocco tariffs & non-tariff measures** | **U.S. tariffs & non-tariff measures** |
| Grains | 18.1 | 1.9 |
| Other crops | 24.1 | 13.9 |
| Animal products | 22.4 | 0.6 |
| Forestry and fisheries | 9.2 | 0.0 |
| Processed food products | 70.8 | 11.5 |
| Lumber | 28.8 | 2.6 |
| Pulp and paper products. | 26.3 | 0.1 |
| Textiles, clothing, and footwear | 22.6 | 11.8 |
| Coal, oil, and gas | 2.5 | 0.0 |
| Petroleum and coal products | 2.7 | 0.0 |
| Chemicals. | 16.5 | 2.8 |
| Metals | 17.3 | 1.4 |
| Metal products | 24.1 | 3.0 |
| Electronic equipment | 8.0 | 0.1 |
| Motor vehicles & parts | 15.4 | 1.3 |
| Other transport equipment | 6.3 | 0.0 |
| Machinery nec | 12.7 | 3.3 |
| Manufacturing nec | 25.1 | 0.7 |

Source: Gilbert 2003, tables 1.3 and 1.4, pp. 25-26 (using GTAP 5 database).

**Table C-3—*Continued***
**Alternative policy scenarios**

*(Percent)*

| USITC commodity | Gilbert policy shocks | |
|---|---|---|
| | Morocco tariffs & non-tariff measures | U.S. tariffs & non-tariff measures |
| Grains | 18.10 | 1.90 |
| Sugar crops | 24.10 | 13.90 |
| Vegetables, fruits, and nuts | 24.10 | 13.90 |
| Other crops | 24.10 | 13.90 |
| Cattle and horses | 22.40 | 0.60 |
| Animal products n.e.c. | 22.40 | 0.60 |
| Coal, oil, gas, other mineral | 2.50 | 0.00 |
| Meat Products | 70.80 | 11.50 |
| Dairy products | 70.80 | 11.50 |
| Sugar | 70.80 | 11.50 |
| Other processed food and tobacco prods | 70.80 | 11.50 |
| Textile, apparel, and leather products | 22.60 | 11.80 |
| Wood products | 27.50 | 1.35 |
| Petroleum, coal, chemicals, rubber, plastic | 9.60 | 1.40 |
| Ferrous metals | 17.30 | 1.40 |
| Metals nec and metal products | 24.10 | 3.00 |
| Motor vehicles and parts | 15.40 | 1.30 |
| Transport equipment nec | 6.30 | 0.00 |
| Electronic equipment | 8.00 | 0.10 |
| Other machinery and equipment | 12.70 | 3.30 |
| Other manufactures | 25.1 | 0.70 |
| Services | 0.00 | 0.00 |

Source: Gilbert and Commission calculation.

**Table C-3—*Continued***
**Alternative policy scenarios**

*(Percent)*

| BKS commodities | BKS policy shock | |
|---|---|---|
| | Moroccan tariffs & non-tariff measures | U.S. tariffs & non-tariff measures |
| Agriculture | 5.70 | 0.00 |
| Mining | 2.70 | 0.00 |
| Food, beverages, tobacco | 6.80 | 1.70 |
| Textiles | 18.50 | 7.70 |
| Apparel | 2.80 | 7.40 |
| Leather products & footwear | 0.00 | 1.90 |
| Wood, wood products | 26.80 | 0.00 |
| Chemicals | 14.90 | 1.90 |
| Non-metalic mineral products | 0.80 | 0.00 |
| Metal products | 27.3 | 0.00 |
| Transport equipment | 7.20 | 0.00 |
| Machinery & equipment | 11.40 | 0.00 |
| Other manufacturing | 25.00 | 0.00 |
| Electricity, gas, water | 0.00 | 0.00 |
| Construction | 29.00 | 9.00 |
| Trade & transport | 27.00 | 27.00 |
| Other private services | 33.00 | 31.00 |
| Government services | 21.00 | 25.00 |

Source: Brown, Kiyota, and Stern, table 1.

**Table C-3—*Continued***
**Alternative policy scenarios**

*(Percent)*

| USITC Commodity | BKS policy shocks | |
|---|---|---|
| | Moroccan tariffs & non-tariff measures | U.S. tariffs & non-tariff measures |
| Grains | 5.70 | 0.00 |
| Sugar crops | 5.70 | 0.00 |
| Vegetables, fruits, and nuts | 5.70 | 0.00 |
| Other crops | 5.70 | 0.00 |
| Cattle and horses | 5.70 | 0.00 |
| Animal products nec | 5.70 | 0.00 |
| Coal, oil, gas, other mineral | 1.70 | 0.00 |
| Meat Products | 6.80 | 1.70 |
| Dairy products | 6.80 | 1.70 |
| Sugar | 6.80 | 1.70 |
| Other processed food and tobacco prods | 6.80 | 1.70 |
| Textile, apparel, and leather products | 7.10 | 5.70 |
| Wood products | 26.80 | 0.00 |
| Petroleum, coal, chemicals, rubber, plastic | 14.90 | 1.90 |
| Ferrous metals | 27.30 | 0.00 |
| Metals nec and metal products | 27.30 | 0.00 |
| Motor vehicles and parts | 7.20 | 0.00 |
| Transport equipment nec | 7.20 | 0.00 |
| Electronic equipment | 25.00 | 0.00 |
| Other machinery and equipment | 25.00 | 0.00 |
| Other manufactures | 25.00 | 0.00 |
| Services | 27.60 | 21.60 |

Source: BKS, and Commission calculation

**Table C-3—*Continued***
**Alternative policy scenarios**

*(Percent)*

| Mekki and Tyner commodity | Mekki and Tyner policy shocks | |
|---|---|---|
| | Morocco tariffs & non-tariff measures | U.S. tariffs & non-tariff measures |
| Wheat | 75.0 | 2.6 |
| Other cereals | 35.0 | 0.6 |
| Vegetables, fruits | 31.7 | 4.7 |
| Oil seeds | 2.5 | 0.0 |
| Red meat | 275.0 | 5.3 |
| Other animal products | 120.0 | 0.6 |
| Other agriculture. | 140.0 | 11.7 |
| Fishing | 0.0 | 0.0 |
| Other minerals | 1.0 | 0.0 |
| Energy, metals | 2.8 | 1.2 |
| Vegetable oils and fats. | 2.5 | 4.3 |
| Dairy products | 69.2 | 0.0 |
| Beverages and tobacco | 29.1 | 3.0 |
| Other food | 46.0 | 13.0 |
| Wearing apparel | 22.6 | 11.8 |
| Chemical products | 15.9 | 1.7 |
| Electronic equipment | 8.0 | 0.1 |
| Machinery and equipment | 12.7 | 3.3 |
| Other industrial manufactures | 10.6 | 2.6 |
| Services | 0.0 | 0.0 |

Source: Mekki and Tyner, tables 4, p. 16.

**Table C-3—*Continued***
**Alternative policy scenarios**

*(Percent)*

| USITC commodity | Mekki and Tyner policy shocks | |
|---|---|---|
| | Morocco tariffs & non-tariff measures | U.S. tariffs & non-tariff measures |
| Grains | 55.0 | 1.6 |
| Sugar crops | 140.0 | 11.7 |
| Vegetables, fruits, and nuts | 31.7 | 4.7 |
| Other crops | 140.0 | 11.7 |
| Cattle and horses | 120.0 | 0.6 |
| Animal products n.e.c. | 120.0 | 0.6 |
| Coal, oil, gas, other mineral | 2.8 | 1.2 |
| Meat Products | 275.0 | 2.3 |
| Dairy products | 69.2 | 0.0 |
| Sugar | 46.0 | 13.0 |
| Other processed food and tobacco prods | 49.1 | 8.0 |
| Textile, apparel, and leather products | 22.6 | 11.8 |
| Wood products | 10.6 | 2.6 |
| Petroleum, coal, chemicals, rubber, plastic | 15.9 | 1.7 |
| Ferrous metals | 2.8 | 1.2 |
| Metals nec and metal products | 1.0 | 0.0 |
| Motor vehicles and parts | 10.5 | 2.6 |
| Transport equipment nec | 10.5 | 2.6 |
| Electronic equipment | 8.0 | 0.1 |
| Other machinery and equipment | 12.7 | 3.3 |
| Other manufactures | 10.5 | 2.6 |
| Services | 0.0 | 0.0 |

Source: Mekki and Tyner and Commission calculation.