DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
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POLICY BRIEFING

The new trade deal with Morocco: A short outline

Abstract

On 22 April 2013 Morocco became the first Mediterranean country to embark on negotiations with the EU for a deep and comprehensive free trade agreement (DCFTA), a second-generation trade deal that aims to harmonise market regulations. The agreement will complement the Euro-Mediterranean association agreements, currently made up of several sectoral and other trade pacts. Negotiations on other chapters launched in the wake of the association agreement are still ongoing and may be completed in two years.

Details on the content of the agreement are still confidential. Yet the EU has already concluded (though not yet signed) another DCFTA with Ukraine as part of the European Neighbourhood Policy. The content of the Ukrainian agreement provides some indication of the likely topics to be included in the Moroccan one. Matters range from trade-related energy issues to sustainable development, competition, procurement and services. When the agreement is completed, Morocco's business environment should be further harmonised with the EU's internal market, and this, in turn, should spur economic growth.

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1. Introduction

The EU is launching its first deep and comprehensive free trade agreement (DCFTA) with a Mediterranean country: Morocco.

On 22 April 2013 the EU and Morocco began negotiations on deepening and improving their trade relations with the intention of creating a 'deep and comprehensive free trade agreement' (DCFTA)[1]. This agreement is intended to enhance existing trade deals concluded in the framework of the Euro-Mediterranean Partnership (Euromed), and in particular the 2000 Association Agreement, which established a free trade area for industrial goods from March 2012, and the latest agriculture trade liberalisation agreement, which entered into force in October 2012.

The DCFTAs are new-generation trade pacts aimed at boosting economic integration by opening markets and enhancing regulatory convergence through more than mere tariff reductions. DCFTAs were introduced on 25 May 2011 in the framework of the European Neighbourhood Policy for the EU's Eastern neighbour countries[2] and on 14 December 2011 for Morocco, Tunisia, Egypt and Jordan following the Arab Spring[3]. These countries are members of the World Trade Organization (WTO) and have already implemented merchandise free trade areas with the EU, under existing Euromed association agreements. These agreements involve agriculture and fisheries products, trade in services, investments, conformity assessments and acceptance of industrial products (ACAA)[4].

The DCFTA with Morocco is the first such agreement and is intended to harmonise policies related to competition, services, intellectual property, non tariff barriers, energy and public procurement. To date, only one similar deal has been finalised (but not yet signed) within the framework of the European Neighbourhood Policy: the DCFTA EU-Ukraine. Given the confidentiality protocol surrounding negotiations with Morocco, the Ukrainian agreement may provide some indication of the likely features of the Moroccan agreement.

[1] See EU Commission DG Trade: "EU and Morocco start negotiations for closer trade ties", 22 April 2013. The official launch of negotiations was announced the 1st of March by EU Commission President José Manuel Barroso and Moroccan Prime Minister Abdeliah Benkirane in Rabat.
[2] See the Joint Communication by the High Representative of the Union for Foreign Affairs and Security Policy and the European Commission of 25 May 2011 "A new response to a Changing Neighbourhood- A review of the European Neighbourhood Policy"
[3] See the EU Foreign Affairs Council declaration of 14 December 2011.
[4] See EU Commission DG Trade: "EU agrees to start trade negotiations with Egypt, Jordan, Morocco and Tunisia"- 14 December 2011.

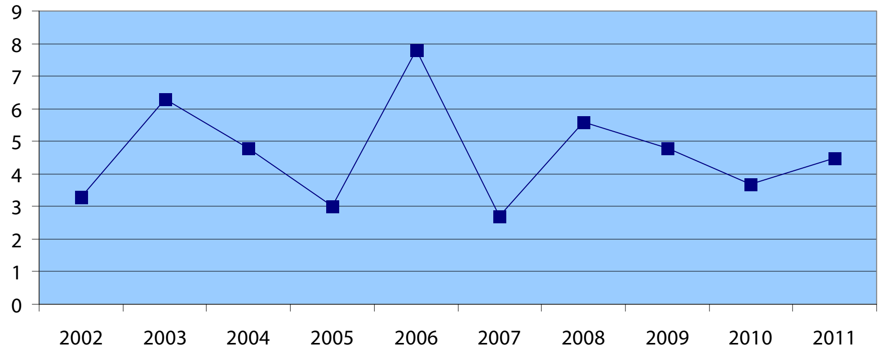
2. The economics of the Kingdom of Morocco

2.1. Trends

Morocco's recovery from the economic crisis is marginal.

In 2011, with GDP growth of 4.5 %[5] and very low inflation (0.9 %[6]), Morocco seemed to have slightly recovered from the global downturn, which lowered its growth to 3.7 % in 2010. However, the economic crisis in the EU, Morocco's main commercial partner, and the country's poor harvest in 2012 led to growth of just 3 % in 2012 — a 5 % fall compared to 2011[7]. Fuel and food prices also increased, deepening the fiscal deficit to 7.5 % of GDP in 2012, up from the 6.8 % registered in 2011. Morocco was forced to ask the International Monetary Fund for a precautionary liquidity loan of USD 6.2 billion (EUR 4.79 billion), equivalent to 6 % of its GDP (USD 100.2 / EUR 77.48 billion in 2011).

Figure 1:
GDP growth (in %)



Source, World Bank

The primary sector still dominates the economy.

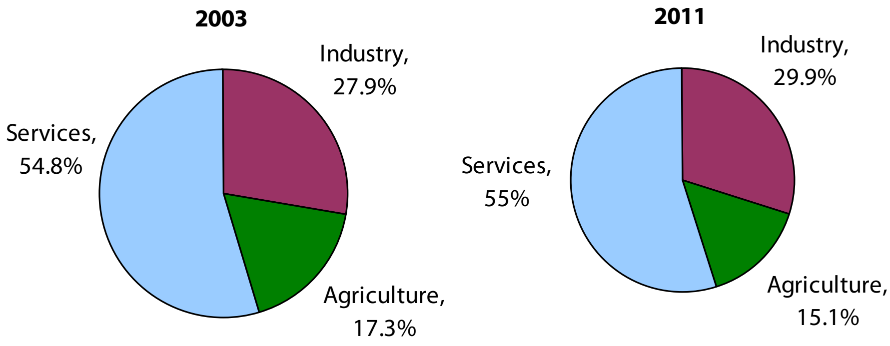
However, due to a persistent drought during the first half of 2012, agricultural production was reduced (9 % in 2011), and the drop was barely offset by the 4.7 % increase of the non-agricultural sector. The combined effect of the two sector is limiting growth to just 3 % in 2012[8], as previously mentioned. In general, Morocco's economy is still characterised by the importance of agriculture, which contributed to 16.6 % of GDP in 2011, when industry accounted for 32.2 % of GDP, and services 51.2 %[9].

2.2. Description of the Moroccan economy

In recent years, earnings from industry have increased as a percentage of GDP, while those from the agricultural sector have fallen[10].

[5] See World Bank- Morocco. GDP growth.
[6] See World Bank- Morocco. Inflation, consumer prices.
[7] IMF forecast derived from IMF, Morocco, Program Note, April 2013.
[8] See World Bank- Morocco Overview.
[9] See World Bank data.
[10] Sectorial analysis of Moroccan economy is widely based on Europa World Plus- Morocco, Economy.

Figure 2:
Sector composition



Source, World Bank

The agricultural and fisheries sectors contribute significantly to GDP and exports.

The **agricultural sector** is heavily protected in Morocco, with an average tariff of 29 % and rates that vary from 2.5 % to 3.4 % (on sheep and goat meats). Some duties may reach surprising levels; this is the case, for example, for sugar, where the *ad valorem* equivalent of the duty is inversely proportional to the import price, meaning the final duty level has no limit. Such high tariffs are mitigated for imports that fall under preferential trade agreements (mainly the FTA with the US and the EU Association Agreement, described more below).

Agriculture is also heavily subsidised. Morocco's Agricultural Development Fund has allocated vast resources to the sector — EUR 133.4 million in 2009 — thereby deepening the state deficit.

The country's principal agricultural products include cereals, citrus fruit, tomatoes, potatoes, olives, beans and chickpeas. Beet sugar and cane are largely cultivated, but largely to substitute for imports (rather than for export). In fact Morocco's overall trade balance for sugar is negative due to large internal consumption. Boosted by progressive liberalisation of trade with Europe (see Chapter 4), agricultural production is rising even though its contribution to GDP is decreasing[11]. Agriculture in Morocco is also heavily dependent on climatic conditions.

Fishing is another important part of the Moroccan economy; accounting for 9.2 % of total trade with the EU (this is the main part of the 13.3 % of total food and live animals exported to the EU in 2011)[12]. The country's annual catch is generally increasing[13]. However, in December 2011, the country's fishing agreement with the EU was abrogated[14]. As a result, the restructuring of the fishing fleet — mainly financed by the EU's payment of fees to allow European vessels to fish in Moroccan waters — has been

[11] See Fao data: Aggregate production ('000 metric tons): Total cereals 5 330 in 2008, 10 444 in 2009, 7 834 in 2010; Total pulses 201 in 2008, 276 in 2009, 282 in 2010; Total roots and tubers 1 548 in 2008, 1 246 in 2009, 1 615 in 2010; Total vegetables (incl. melons) 5 267 in 2008, 5 256 in 2009, 5 487 in 2010; Total fruits (excl. melons) 2 708 in 2008, 3 088 in 2009, 3 292 in 2010.
[12] See EU Commission, DG Trade, Morocco statistics.
[13] See FAO data: Total catch (incl. others) 998.5(2008); 1166.5 (2009); 1 137.8 (2010)
[14] See footnote to Chap.4 on the **fisheries partnership agreement.**

put into question.

Mining is an important sector. Moroccan reserves of phosphate rocks account for two thirds of the world's known reserves. Compared with production of previous years (27.3 million tonnes in 2005), production of phosphate rock had a sudden decrease in 2009 (5.8 million tonnes). In 2010 production rose again (to 10.2 million tonnes), thanks to greater foreign demand, particularly from the USA, Morocco's main export market for phosphate rocks. Plans to increase production to 50 million tonnes in 2020 will be financed by foreign investors.

Exports of **fuels and raw material** include refined oil (processed by Morocco's two refineries) and liquid natural gas originating from Algeria. The latter has been delivered through a pipeline crossing the Gibraltar Strait since 1996.

Industry is growing, thanks to an ambitious industrial plan launched in 2006 aimed at diversifying industrial production, which had been concentrated in textiles and phosphate processing. The plan has been implemented through subsidies and joint ventures. Morocco has also launched an import substitution strategy, enhancing cement manufacturing, food processing and chemicals. Foreign investors Renault and Peugeot purchased an existing car manufacturing plant in Morocco (SOMACA), while Nissan and Renault created a new car plant near Tangiers. Other plants were opened in 2001 by Boeing (airplanes) and ST microelectronic (semiconductors).

For **energy** Morocco is heavily dependent on imports. However, in 2009, the government launched an ambitious plan to diversify energy sources with a focus on renewable energy. That year, a wide solar plant was financed by the World Bank with USD 300 million. The first wind-driven power plant in the Arab world was financed in 2001 by a French consortium. The country has set a target for renewable energy of 42 % (of the country's total energy) by 2020. The energy security of the country is also to be reinforced, through civil cooperation on nuclear energy (mainly with France), a partial return to coal and the launch of petroleum exploration.

Globally the **services** sector contributes 55 % to GDP, and, apart from banking and tourism, is mainly composed of commercial services, public service, transport and post and communications. Services create 84 000 jobs every year, compared to 61 000 in industry and 13 000 in the agricultural sector[15].

Tourism in Morocco directly contributed 8.9 % of GDP 2011. If the industries associated with tourism (construction, commerce, hotels and

[15] See IMF, Morocco, Selected issues 2013.

[16] See WTTC, Travel and Tourism, economic impact on Morocco, 2012.

[17] Among which 5 million non resident and 320.000 from cruise-ships. World Tourism Organization data.

transport) are also included in the calculation, tourism contributes as much as 19 % of GDP[16]. Almost 10 million visitors were logged in 2010[17], and the latest government decennial plan, called 'Vision 2020', aims to increase the number to 18.6 million visitors annually and to attract foreign investment to develop resorts and infrastructure.

Moroccan banks are still feeling the effects of the 2008/2009 financial crisis. The local stock exchange has yet to regain its pre-crisis level. Recent measures (April 2013) limit withdrawals of domestic currency from ATMs, and indicators of credit accessibility are deteriorating (see the next chapter). This offsets the government's efforts to turn the country into the financial hub of West Africa — a plan that included the 2012 inauguration of Casablanca Financial City to provide foreign investors with tax reductions and transparent regulations.

2.3. Government's economic policy

The public deficit has grown because of subsidies, which are aimed at fighting poverty.

Economic imbalances are mainly driven by the weight of subsidies and by civil service wages, which together account for 60 % of the public budget. Public debt rose from 47.3 % of GDP in 2008 to 56.3 % in 2011[18]. The budget deficit widened to 7.6 % of GDP in 2012, from the (already high) 2011 level of 6.9 %, despite a reduction of fuel subsidies that was implemented in June 2012[19]. (Fuel subsidies had reached 5.3 % of GDP in 2011[20].) Rising public debt is considered a consequence of social policies implemented by the first democratic government elected in November 2011, aimed at fighting poverty, creating jobs and reducing corruption[21]. In general, social indicators are alarming: according to the UN Development Programme (UNDP), 10.6 % of people live under the poverty line (an improvement from 15.3 % 2007), with 2.5 % of people living on less than USD 1.25 per day[22]. If the working poor, those living in absolute poverty and those facing the threat of poverty are counted together, the percentage is much higher. One quarter of the population working in agriculture or construction faces the risk of poverty[23]. What is more, the

[18] See World Bank- Morocco, Central government debt.
[19] See World Bank- Morocco Overview.
[20] See IMF, Morocco, Selected issues 2013.
[21] Instead of a sudden revolution, Morocco experienced an **evolution within the system**. Reforms of June 2011 turned the absolute Monarchy into a Constitutional Monarchy, where the king, Mohammed VI, still has the power to control the army, to suspend the Constitution, to dissolve the Parliament, to call for new elections, to veto new laws and appointment of ministers.
Democratic elections, held on 25 November 2011, were won by the 'Justice and Development Party', a moderate opposition party. In January 2012 a four party coalition government (composed by Justice and Development Party, Popular Movement, Istiqlal Party and Party of Progress and Socialism) was appointed and Abdeliah Benikrane (PJD) became Prime Minister. The head of government is supposed to come from the party which won the elections.
[22] See UNDP, Morocco Country Profile: Human Development Indicators.
[23] See World Bank- Morocco Overview.
[24] See World Bank- Morocco unemployment.

official unemployment rate remains high — 8.9 % in 2011, though slightly lower than in 2007 (9.7 %)[24].

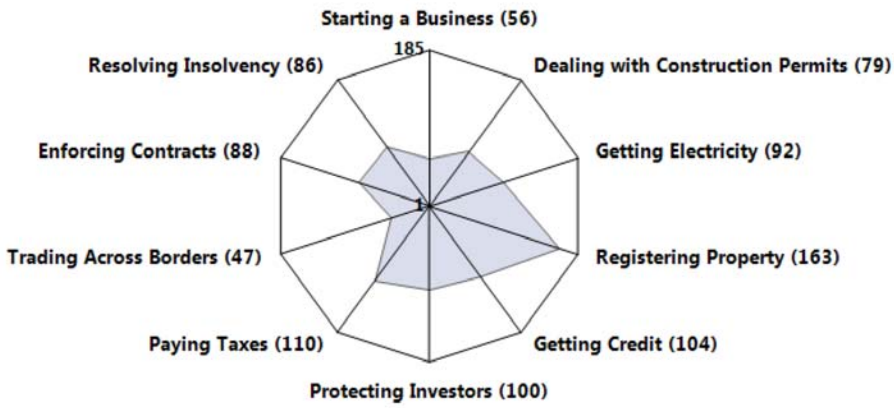
Corruption and low productivity are persistent features of the country's economy.

These figures explain why the new government — which emerged from a relatively peaceful transition of power from the king to an elected parliament[25] — prioritises reducing unemployment via public investments, subsidies and policies promoting industry and tourism. Nevertheless, the public budget is under pressure, also due to the weaknesses of the Moroccan economy — namely, poor productivity, extensive corruption and a lack of competition. Morocco ranks 130 of 186 countries in the UNDP's 2013 Human Development Report. In Transparency International's 2012 Corruption Perception Index, Morocco ranks 88 of176 countries, and 70 of 144 countries in the World Economic Forum's 2012-2013 Global Competitiveness Index[26].

Some progress has been registered in doing business.

The World Economic Forum's 2012-2013 Global Competitiveness Report also provides more detailed statistics on doing business in Morocco, and notes a remarkable improvement in the 'Starting a Business' category, in which Morocco rose to a rank of 56 of 144 countries in 2012-2013 from its 94th position in 2011-2012. Improvements can also be seen in 'trading across borders' (47th of 144 in 2012-2013, compared to 50th in 2011-2012) and 'enforcing contracts' (88th of 144 countries in 2012-2013, up from 89th in 2011-2012). Other indicators, on the other hand, have deteriorated — in particular, registering property, resolving insolvencies and obtaining credit[27].

Figure 3: Morocco's ranking in 'doing business' (*a higher number indicates greater red tape*)



Source: World Economic Forum's 2012-2013 *Global Competitiveness Report*

[25] The transition of power in 2001 was the consequence of the **Arab Spring in Morocco.** The latter started with a movement of protest against corruption and poverty on 20 of February 2011. Strong request for political change brought to a constitutional referendum (1 July 2011) which established a democratic legal system based on the rule of law and on the independence of judges. The head of government is supposed to come from the party which won the elections.

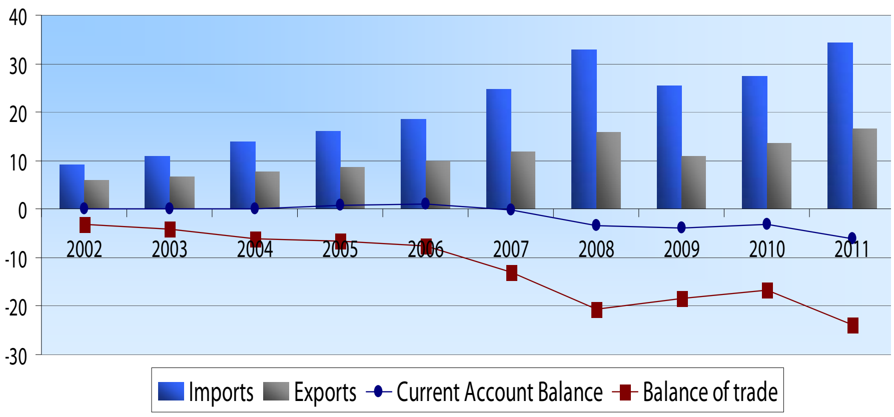
[26] See Transparency international.

[27] See IFC-WB Doing Business, Morocco.

3. Trade issues

The Moroccan economy is quite open, and trade accounted for 82.6 % of GDP in 2011[28].

Figure 4:
Balance of trade and current account balance (in EUR billion)



Source: The World Bank

Services and remittances partly offset the deepening trade deficit.

Morocco's balance of trade in goods has a deepening deficit, but this is partially offset by expatriate remittances and by tourism earnings, which create a surplus in the trade in services[29]. The current account deficit is therefore much lower than the trade deficit, as shown in Figure 4.

Table 1
Main trading partners (2011)

Share in world total exports	0.12	Share in world total imports	0.24
Breakdown in economy's total exports - By main destination		**Breakdown in economy's total imports - By main origin**	
European Union (27)	59.7	European Union (27)	49.2
India	6.1	China	8.4
Brazil	3.8	United States	7.1
United States	3.8	Saudi Arabia, Kingdom of	6.0
Singapore	1.9	Russian Federation	3.8

Source: WTO, Morocco statistics 2011

Morocco's trade deficit with the EU is principally the result of the country's industrial imports.

The European Union is Morocco's largest trade partner, and the two partners exchanged EUR 26 billion in merchandise in 2012. In 2011 trade with the EU represented more than 50 % of Morocco's total trade (59.7 % of its total exports and 49.2 % of total imports)[30]. The country's has a deficit in its merchandise trade with the EU — EUR 7.8 billion in 2012 — which has worsened since 2009 (EUR 5.4 billion). This shortfall results largely from the country's industrial imports, since a small surplus is registered in its agricultural trade balance (EUR 972 million in 2012). Agricultural exports to the EU are quite important for Morocco,

[28] Merchandise plus services total trade. See World Bank data.
[29] See Europa World Plus, Morocco- Economy. May 2013
[30] See EU Commission, DG Trade, Morocco statistics.

accounting for 20.3 % of the country's exports in 2012. For the EU, on the other hand, agricultural imports from Morocco represented only 2.2 % of total agricultural imports in 2012[31]. Nevertheless, this is the chief defensive sector in trade negotiations, because agricultural trade is still subject to quotas and tariff quotas (even since the last agreement entered into force in 2012), while trade in goods is completely liberalised (see the next chapter).

Morocco is trying to diversify its trade partners.

Since the late 1990s, Morocco has attempted to diversify its trade partners and limit trade dependence on Europe. The country has negotiated trade agreements with China, Thailand, Senegal, Qatar, Turkey and the USA. The USA is the fourth market for Morocco's total exports and the third source of imports. Morocco and the US have a comprehensive free trade agreement, which entered into force on 1 January 2006[32]. This agreement includes services, investments, intellectual property rights (IPR) and procurement — all chapters to be negotiated in the EU DCFTA.

Other destinations for Moroccan exports (mainly phosphates and fertilisers) are India and Brazil, while other import partners include China (manufactured products) and Saudi Arabia (oil).

While the traditional sectors still predominate in Moroccan trade, the performance of the machinery sector is improving.

A breakdown by sector demonstrates that Moroccan exports to the EU in 2012 were still mainly composed by traditional goods (24.4 % textiles and clothing and 22.6 % agricultural), although machinery is growing more important (accounting for 23.2 % of exports in 2011, compared to 18.1 % in 2007[33]). Fuels and mining products account for 8.3 % and chemicals for 6.8 %.

Conversely, Morocco imports EU machinery, manufactured goods, fuels and chemicals.

Figure 5
Trade by Standard international trade classification (SITC) section (2012)

European Union, Imports from Morocco			
SITC Sections	**Value (Millions of euro)**	**Share of Total (%)**	**Share of total EU Imports**
TOTAL	***9 134***	***100.0%***	***0.5%***
Machinery and transport equipment	2 571	28.1%	0.6%
Miscellaneous manufactured articles	2 519	27.6%	1.2%
Food and live animals	1 855	20.3%	2.2%
Crude materials, inedible, except fuels	680	7.4%	0.9%
Chemicals and related prod, n.e.s.	624	6.8%	0.4%
Manufactured goods classified chiefly by material	430	4.7%	0.3%
Mineral fuels, lubricants and related materials	166	1.8%	0.0%

[31] See EU Commission DG Trade, Morocco.
[32] See USTR, Morocco free trade agreement.
[33] See EU Commission DG Trade, Morocco.

Animal and vegetable oils, fats and waxes	66	0.7%	0.7%
Commodities and transactions n.c.e.	31	0.3%	0.0%
Beverages and tobacco	7	0.1%	0.1%

European Union, Exports to Morocco			
SITC Sections	**Value (Millions of euro)**	**Share of Total (%)**	**Share of total EU Exports**
TOTAL	***16 938***	***100.0%***	***1.0%***
Machinery and transport equipment	5 938	35.1%	0.8%
Manufactured goods classified chiefly by material	3 635	21.5%	1.8%
Mineral fuels, lubricants and related materials	2 329	13.7%	1.9%
Chemicals and related prod, n.e.s.	1 738	10.3%	0.6%
Miscellaneous manufactured articles	1 228	7.3%	0.7%
Food and live animals	883	5.2%	1.2%
Crude materials, inedible, except fuels	739	4.4%	1.7%
Animal and vegetable oils, fats and waxes	184	1.1%	3.9%
Commodities and transactions n.c.e.	91	0.5%	0.2%
Beverages and tobacco	85	0.5%	0.3%
Machinery and transport equipment	5 938	35.1%	0.8%
Manufactured goods classified chiefly by material	3 635	21.5%	1.8%

Source: EU Commission DG Trade 2012

Morocco has a surplus in its trade in services (EUR 1.4 billion in 2010), mainly derived from tourism net income (EUR 5.13 billion in 2011)[34].

The relative stability of the country has attracted foreign direct investment (FDI): USD 2.5 billion (EUR 1.9 billion) of FDI flowed into Morocco in 2011, contributing to the country's total FDI stocks of USD 46 billion (EUR 35.4 billion)[35].

4. Legal and historic background of EU-Morocco trade agreements

The EU has developed a relation with the Mediterranean region as

Economic relations between Morocco and the EU follow a double track, based on both a regional and a bilateral approach. On the one hand, a comprehensive (political and economic) regional strategy was launched in 1995 with the Barcelona Process (or Mediterranean Partnership), a framework completed in 2008 with the Union for Mediterranean. On the

[34] See Europa World Plus- Morocco, Tourism.

[35] See UNCTAD, Country Fact Sheet, Morocco.

[36] See http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127906.pdf.

well as a bilateral relation with Morocco.

other hand, a bilateral relation was codified in 1969 — long before the launch of the Mediterranean Partnership — with a preferential trade agreement concluded between the EEC and Morocco.

Various bilateral trade agreements were concluded between the EC and Mediterranean countries after the 1969. These were all included in the framework of the Barcelona process in 1995, which led to a number of Euro-Mediterranean association agreements (AA), including one with Morocco, which entered into force on 1 March 2000[36]. The agreement envisaged a gradual liberalisation of trade in goods, services and capital with the aim of launching a free trade area. This free trade area entered into force on 1 March 2012[37].

The AA includes 3 protocols[38] concerning:

- agricultural products originating in Morocco (protocol 1),
- fisheries products originating in Morocco (protocol 2),
- agricultural products originating in the EU (protocol 3).

An agreement on agricultural liberalisation entered into force recently.

Liberalisation in agriculture and fisheries is not complete, as this is the area where the EU holds its main defensive interests. Many products are still subject to quotas and tariff quotas, while liberalisation in industrial goods was completed with the launch of the free trade area in 2012.

Given the limited level of liberalisation, the Council launched a second phase of trade liberalisation in December 2010 to complete the free trade area for **agricultural products**. (The Council involved the Parliament in this process.) The package included an agreement in the form of an exchange of letters between the European Union and the Kingdom of Morocco concerning reciprocal liberalisation measures on agricultural products, processed agricultural products, fish and fishery products, the replacement of Protocols 1, 2 and 3 and their Annexes and amendments to the Association Agreement.

Morocco was to liberalise 45 % of EU imports immediately, and the EU to liberalise 55 % of Moroccan imports immediately. Transitional period provisions established that the value of fully liberalised trade would increase to 61 % in five years and to 70 % by 2020.From the Union's perspective, the agreement provides for the immediate liberalisation of 45 % of its exports.

The degree of liberalisation depends on the type of products: some of

[37] See ENPI info Centre 1 March 2012.

[38] Moreover it includes a Protocol 4 which concerns the definition of originating products and methods of administrative cooperation and a Protocol 5 which concerns mutual assistance in customs matters between the administrative authorities.

[39] The fisheries sector will be progressively opened up for EU products: 91 % after five years and 100 % in 10 years.

[40] See ENPI Info Centre 16 September 2010.

them are expected to be completely liberalised in 10 years (e.g. breeding animals, fisheries products[39]), some will be liberalised in 5-10 years (e.g. tinned food, dairy products, oilseeds, eggs, chocolates), and others will remain under quotas (wheat, milk, olive oil from the EU, and zucchini, tomatoes, garlic, strawberries, clementines and cucumbers from Morocco).[40]

EU agricultural exports to Morocco amounted to EUR 883 million in 2011, while imports reached EUR 1.8 billion. It is expected that further liberalisation will address this trade imbalance in agriculture (which is largely compensated by the surplus of industrial products; *see Chapter 1.3*).

This trade deficit was probably one of the reasons why many Members of the European Parliament (MEPs) opposed the agreement. The Rapporteur, MEP José Bové, questioned its social and environmental sustainability and its impact on the water resources of Western Sahara[41]. After a long debate, the Committee on International Trade (INTA) backed the agreement on 26 January 2012, and the Plenary approved it on 17 February. **The agricultural agreement entered into force in October 2012, following Moroccan ratification**.

Although **geographical indications** are not yet specified**,** this is not a major area of serious concern. With no reported cases of conflict, this section is expected to be concluded shortly.

The EU has a number of other agreements with Morocco in place or in negotiations.

Other agreements and ongoing negotiations with Morocco concern:

- An agreement on a **dispute settlement mechanism**, which entered into force on 1 November 2012 and, is intended to bolster the enforcement to the AA and its related agreements.
- A **pan-Euro-Med convention on rules of origin**. Morocco was the first Mediterranean country to adopt the Pan-Euro-Mediterranean system of cumulation of origin, which it did in December 2005 with a bilateral agreement[42]. The regional convention on pan-Euro-Mediterranean preferential rules of origin aimed to replace more than 60 bilateral agreements on preferential rules of origin with neighbouring countries. Morocco signed this on 15 June 2011 but has yet to ratify it. The convention provides for an easier system so that products manufactured in more than one Mediterranean country may benefit from the preferential custom treatment conferred by Euro-Med agreements. Its aim is to facilitate vertical

[41] See EU Commission, DG Fisheries, Morocco- Fisheries Partnership Agreement.The applicability of EU- Moroccan agreements on the territory of Western Sahara was also questioned in another agreement: the **fisheries partnership agreement** signed in 2006 and expired in February 2011. After a provisional prolongation of its first protocol by the EU Council, this agreement was withhold by the EU Parliament the 14 December 2011 on the basis of his extension to Western Sahara. Now a new agreement is being negotiated and almost concluded.

[42] See DG Taxud, Preferential arrangements on rules of origin.

integration among Mediterranean and neighbour countries, especially in manufacturing textiles and clothing. Following the signature of the convention, rules of origin are under revision for simplification and adaptation to technological changes[43].

- Ongoing negotiations for an agreement on liberalisation in the area of **trade in services and investments** (for 'mode 3' service establishments as described in the General Agreement on Trade in Services, or GATS). Around 16 bilateral treaties on investments are already in force with EU Member States.

- A scoping exercise for the future launch of negotiations on an Agreement on **Conformity Assessment and Acceptance of industrial products** (ACAA), aimed at eliminating technical barriers to trade in industrial goods in bilateral trade. This would be achieved by streamlining the legislative and regulatory system mainly for trade in machinery, electrical products, construction products, pressure equipment, toys, medical appliances, gas appliances and pharmaceuticals[44]. Negotiations for the ACAA with Morocco are expected to start in 2013.

A new **fisheries Partnership Agreement**, for which negotiations have followed the EP's consent on 14 December 2011 to prolong a previous agreement. This is not related to trade negotiations[45].

5. The Deep and Comprehensive Free Trade Agreement

DCFTAs were launched with a number of countries following the protests of the Arab Spring.

In December 2011, in the wake of protests spreading in many Arab countries, the Foreign Affairs Council of the EU announced its intention to launch negotiations for DCFTAs to improve economic integration with Morocco, Tunisia, Egypt and Jordan[46]. These constitute an ambitious new form of trade agreement intended to create a level playing field for the EU and other markets with less stringent rules on competition, environment, intellectual property, energy, trade facilitation, non-tariff barriers and sanitary and phytosanitary measures.

These agreements were created on the assumption that the elimination of duties and quotas was not sufficient to boost trade and that distortions created by internal regulations must be removed. Internal regulations that are not approximated are likely to thwart competition and overburden exporters. As a result, fully liberalising trade requires harmonising trade-related policies. In practice, this kind of agreement adds WTO+ policies (such as energy, social, environment and competition concerns) to normal

[43] Negotiations in this area are very complex since the Pan Euro Med Convention gathers together EU, EFTA, Balkans and Mediterranean countries. See DG Taxud, Euromed.
[44] See EU Commission, DG Enterprise and Industry, Agreements on Conformity Assessment and Acceptance of industrial products (ACAA).
[45] See EU Commission, DG Fisheries, Morocco- Fisheries Partnership Agreement.
[46] See EU Commission DG Trade: "EU agrees to start trade negotiations with Egypt, Jordan, Morocco and Tunisia"- 14 December 2011

free trade agreements.

On 1 March 2013, after a long 'scoping exercise', European Commission President José Manuel Barroso and Moroccan Prime Minister Abdelilah Benkirane officially launched the negotiations[47] for the EU-Morocco DCFTA. The first round began on 22 April[48].

In practice, DCFTA negotiations are not likely to impact tariffs on goods (since the free trade area with Morocco is already in force), agriculture (since the agriculture agreement is recent and revised every 2 years) or a separate mandate for negotiations on geographical indications (now ongoing).

The DCFTA is likely to include a number of chapters, including on services.

Other negotiations with Morocco launched before the DCFTA — for example, concerning services and establishments, conformity assessment and acceptance of industrial products (ACAA) and rules of origin — are in progress. Services are to be discussed within the DCFTA framework, as declared by the Commission. While details on negotiations are secret, the Commission has declared[49] that the new agreement will aim to cover new areas related to the internal market, i.e.:

- services,
- public procurement,
- investments,
- competition,
- intellectual property,
- custom procedures,
- trade barriers (industrial standards and sanitary and phytosanitary measures),
- sustainable development,
- trade defence instruments (TDIs),
- trade related energy.

Although negotiations are confidential, it is possible to infer some features of the new agreement by examining the first DCFTA concluded (but not yet signed) by the EU — the agreement with Ukraine[50].

Many of the following points are surmised from the content of the Ukraine agreement, while taking into account the specificities of Morocco:

The agreement should include freedom of establishment for European

- On **services,** while the Moroccan agreement's level of ambition is not completely clear, it is likely to be similar to the Ukrainian DCFTA,

[47] See EEAS website
[48] See DG Trade website
[49] See EU Commission DG Trade : "EU and Morocco start negotiations for closer trade ties", 22 April 2013.
[50] See EU Commission DG Trade: "EU-Ukraine Deep and Comprehensive Free Trade Area", 26 February 2013. Other DFTA are being negotiated with Moldova, Armenia and Georgia

companies and Moroccan ones.

meaning the agreement will include the **freedom of establishment** in the service and non-service sectors for the companies of two negotiating parties operating in the territory of the other party. This right will probably be limited by reservations expressly mentioned in a negative list (as in the Ukrainian agreement). Provisions on transparency and legislative approximation on postal, financial and telecommunication services are likely to be set. This would signal a quite advanced level of integration in the internal market's *acquis* — probably an ambitious target for Morocco, although likely to be tailored to Moroccan specificities.

Cross border services providers may be granted the same treatment of domestic companies.

Public procurement chapter should allow non discrimination for EU companies and vice versa.

- Provisions on **cross border services** will probably go beyond those in GATS, increasing the number of sectors in which European service providers will be granted the same treatment as Moroccan ones, with 'provisions on national treatment'. This is also the case for Ukraine[51]. The negotiation target for **public procurement** is likely to be the integration of Morocco in the EU procurement market, with the reciprocal right of Moroccan and European companies to participate in tenders in the other country on a non discrimination basis[52].

Bilateral investment treaties already concluded by Member States are likely to be overtaken.

- A set of 16 bilateral treaties for the protection of **investments** is already in force between Morocco and EU Member States. These may be replaced by a single deal, since investments have become an exclusive competence of the Union since the entry into force of the Lisbon treaty (Article 207 TFEU).

Moroccan law on competition is likely to be adapted to the EU aquis...

- As Ukraine did in 'its' DCFTA, Morocco is likely to accept the EU basic principles on **competition,** prohibiting practices which distort competition and trade, such as cartels, abuse of a dominant position and anti- competitive mergers. Morocco will be probably required to adopt national legislation to enforce competition and boost transparency.

...as it will be the case for Intellectual property rights.

- The **intellectual property** chapter will probably improve and complete the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), notably on copyright, trademarks, designs and patents. (Geographical indications, as mentioned above, are included in a separate chapter, and negotiations are ongoing.) Morocco has quite high standards in IP enforcement; it is already party to the main World Intellectual Property Organisation (WIPO) treaties and in 2012 signed the Anti-Counterfeiting Trade Agreement on IPR enforcement (or ACTA,

[52] For this chapter and the following ones, the benchmark is the DCFTA with Ukraine. See EU Commission DG Trade: "EU-Ukraine Deep and Comprehensive Free Trade Area", 26 February 2013.

[53] See Does ACTA still matter? Protecting IPR in international trade. European Parliament, DG EXPO 2013.

which was dismissed by the European Parliament[53]).

- Morocco will be probably required to cooperate with EU **customs procedures**, to simplify administrative procedures to **facilitate trade** and to effectively fight against infringements.

Technical barriers is one of the key chapter to liberalise EU industrial goods export to Morocco.

- The agreement will probably aim to reduce unnecessary red tape and **technical barriers to trade**, including requirements for industrial goods and regulatory divergences. The EU *acquis* on mutual recognition is likely to be extended to the Moroccan market and to be completed by the agreement on conformity assessment and acceptance of industrial products, currently being negotiated.

Phytosanitary measures approximation is essential for food export.

- On **sanitary and phytosanitary measures,** the Moroccan DCFTA — like the Ukrainian one — is likely to try to balance a high level of protection for people, animals and vegetables (eliminating obstacles to trade by completing the WTO Agreement on the Application of Sanitary and Phytosanitary Measures) with cooperation procedures, definitions of standards and safeguard clauses.

Sustainable development is likely to be one of the most sensible issues.

- **Sustainable development** is the chapter dedicated to the protection of the environment, biodiversity and core labour standards. It will probably require Morocco to align with International Labour Organisation (ILO) labour standards conventions and multilateral agreements on environments and fisheries — as did Ukraine. The introduction of a monitoring system is expected to be put in place. This chapter is likely to be one of the more contentious ones, since some critics maintain that higher labour and environmental standards will reduce the comparative advantages (low-cost labour and weak environmental standards) offered by countries outside the EU. Despite this, the chapter should be one of the most significant ones for the DCFTA negotiations.

Trade defence instruments are also likely to be approximated

- On **trade defence instruments,** parties are expected to completely align to the WTO antidumping, anti subsidy and safeguard agreements, enhancing transparency and high investigation standards. As in previous bilateral treaties, the EU is expected to require Morocco to introduce the WTO+ provisions on public interest and the 'lesser duty rule', which allow antidumping/countervailing duties to be applied at a level below the dumping margin if such a level is enough to eliminate the injury level. Punitive duties may be applied if the public interest would not be compromised.

New rules are likely to be introduced relating to trade in energy.

- The chapter on **trade-related energy** will probably suggest exporting the EU *acquis* on energy issues by, for example, establishing independent regulatory authorities for gas and electricity markets to oversee these markets a transparent and predictable way, grant non discriminatory access to energy transport infrastructure, and establish equal access rights for exploring and producing hydrocarbons with a clear system of licences granted by the states. This chapter is also supposed to foster production and distribution of renewable energy through international energy projects.

6. Conclusion

While negotiations on the other Mediterranean DCFTAs (announced for Egypt, Jordan and Tunisia) have yet to be launched, the agreement with Morocco is advancing. However, at this early stage, it is difficult to foresee how long it will take. The European Commission has suggested it expects the agreement will require two years to be completed, but more precise estimates will only be available after two or three rounds of talks have been completed.

In the long run, the agreement should foster better market integration, which should in turn boost trade between the two parties without endangering the EU's defensive interests — principally agricultural. 'The agreement is generally expected to increase the GDP of both partners Not everyone agrees, however.

Critics question whether the DCFTA will benefit Morocco as a whole or only its wealthiest citizens.

Critics of the Euromed Policy[54] argue that extending European internal market rules and *acquis* to Mediterranean countries ignores the specificities of these countries. According to certain critics, economic reforms and liberalisation serve primarily to increase the power of the élites close to the regime (in case of Morocco, the royal family) and to reinforce a system of bureaucracy and political patronage that serves to concentrate wealth in the hands of few families. Deepening ties with a DCFTA, these critics argue, would not benefit the country's population as a whole.

Other opponents of the agreement suggest that it may deepen Morocco's trade deficits, since the treaty would likely boost imports from the EU while reducing Morocco's exports[55].

As explained in Chapter 2, the recently-installed Moroccan government is committed to fighting poverty and social exclusion, although corruption and unemployment remain serious problems. Reinforcing the country's trade — which depends not only on trade-related legal harmonisation, but also on the country's recovery from the economic crisis — is likely to benefit Morocco's economy.

[54] See Soler i Lecha and Tarragona, Self-imposed Limitations: why is the EU Losing Relevance in the Mediterranean-CIDOB

[55] See The EU Trade and Investment agenda: quashing the aspirations of the Arab Spring? TNI February 2013