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Morocco

Grain and Feed

Annual

2004

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Report Highlights:
Moroccan wheat and barley production is expected to be at least as high as last year's level provided adequate rainfall is recorded during end of March - beginning of April period.

The free trade agreements concluded by Morocco with the EU late last year and, more recently, with the US are likely to play in favor of these suppliers to secure or increase their market shares in Morocco.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Production

Provided adequate rainfall during March/April, Morocco's wheat and barley production are expected to be at least as good as last year. AgAtt forecasts total wheat production at 5.3 MMT and barley production at 2.6 MMT. Adequate weather conditions (rainfall) during the planting season boosted early plantings, which allowed the fall crop to benefit from subsequent rainfall during the last few weeks of CY 2003. The more recent rains (February 2004) should help the yields to firm up, especially in fields that were planted relatively late. An additional rain during end of March - beginning of April should provide a final boost in yields and result in good wheat and barley crops. In the worst case, this year, wheat and barley production should not be below average.

The following table provides historical data and AgAtt forecast for 2004 for wheat and barley:

Year of Harvest	1999	2000	2001	2002	2003		Average 5 Years	Forecast 2004 (a)
Planted Area (1,000 hectares)								
Durum Wheat (1)	1,078	1,079	977	882	1,093		1,022	1,097
Soft Wheat (2)	1,614	1,823	1,724	1,745	1,896		1,760	1,910
Tot. Wheat (1)+(2)	2,692	2,902	2,701	2,626	2,989		2,782	3,007
Barley	2,070	2,251	2,126	2,002	2,267		2,143	2,310
Total Planted	4,761	5,153	4,827	4,629	5,255		4,925	5,317
Production (1,000 MT)								
Durum Wheat (1)	800	427	1,039	1,032	1,766		1,013	1,800
Soft Wheat (2)	1,354	953	2,278	2,325	3,381		2,058	3,500
Tot. Wheat (1)+(2)	2,154	1,381	3,316	3,357	5,147		3,071	5,300
Barley	1,474	467	1,155	1,669	2,620		1,477	2,600
Total Production	3,628	1,848	4,472	5,026	7,767		4,548	7,900

Source: Ministry of Agriculture. (a) AgAtt Forecast.

Locust Threat

There have been some concerns that the relatively favorable weather conditions helped the locust population to multiply especially in Mauritania and in some very localized areas in the far south of Morocco. Although grain production from these areas is rather minimal, the government is concerned that, given more adequate weather conditions, locust swarms could reach northern parts during late spring. So far, the government has treated some 100,000 hectares in order to keep the locust population down.

Price Support - Flour Subsidy

The government continues to support grain production in Morocco, mostly through high customs tariffs. Also, for bread wheat, producers can get a minimum support price of 2,500 dh/MT for standard quality wheat when they sell their production to traders approved by the government Cereal Office (ONICL).

The government continues to subsidize about 1.0 MMT of flour ostensibly to help low income population. For this subsidized flour, the government pre-sets the milling margins, the extraction rate, wholesaler and retailer margins. Thus, the standard subsidized flour cost is pre-set to 3,253.75 dh/MT and is sold ex-mill at 2,000 dh/MT, resulting in a subsidy to the consumer of 1,433.75 dh/MT, paid directly to the flour mill. (Current exchange rate is 8.75 dh/$). The effectiveness of the flour subsidy program in Morocco has been criticized widely in Morocco and the current government has been considering phasing it out, but no reform plans have been made public, as this issue is politically very sensitive.

Trade

The recently signed free trade agreements (FTA) between Morocco and EU, and Morocco and the US will likely change considerably and durably Morocco's major suppliers of wheat. The EU has been traditionally a major supplier of wheat to Morocco and has, with this FTA, secured its market share. On the hand, the US lost significant market share in recent years, and is likely to benefit substantially from the agreement and recapture market share on the sake of other suppliers, including Canada, Australia, and southern American countries.

Customs Duties

On June 1, 2003, Morocco reverted to the duty computation system used before 1998 whereby the tariff is split into two parts; the portion of the CIF price below the GOM-set threshold price is subject to a high base duty, while the portion above the threshold price is assessed a flat 2.5 percent (see MO3010 for more details). Current duties on grains are as follows:

Current customs duties on grains (ad valorem)

	Wheat	Durum	Corn	Barley
Duty on part Less or Equal Threshold Price	55.00%	75.00%	35.00%	35.00%
Duty on part Above Threshold Price	2.50%	2.50%	2.50%	2.50%
Threshold Price (dirhams per MT)	1,000	1,000	800	800

Exchange rate (8.75 dirhams/US$)

The base duty for bread wheat applied on June 1, 2003 was prohibitive and reduced imports significantly to avoid any sharp drop in local prices following the large crop. On October 16, 2003 the government reduced the duties to 90 percent to re-allow imports. However, on December 8, 2003, following the sharp increase in world wheat prices, the government was forced to reduce the base duty for bread wheat further to 55 percent. The government is likely to bring the duty on bread wheat back up when the world prices drop to a more normal level.

Free Trade Agreement with EU

Morocco and the EU came to an agreement on October 25, 2003 by which Morocco provides preferential access to EU bread wheat (and other minor commodities). Although the agreement was to be effective December 1st, 2003, as of today, the details of the implementation have not yet been made public (see MO3024 for more details).

The agreement called for a 38 percent reduction in the base duty prevailing October 1st, 2003 (135 percent). Any reduction in the Moroccan customs duties for bread wheat will increase the reduction granted to the EU (0.275 per point of decrease) so that the EU keeps its relative advantage. The same mechanism will be applied in reverse if Morocco increases its duties on bread wheat, meaning that the reduction granted to the EU will be decreased. Although the exact mechanism has not yet been published, it is likely that the EU will enjoy tariff reductions comparable to the following:

Theoretical preferential duty granted to the EU for Moroccan Wheat

Prevailing Duty (a)	**Difference With 0.135 (135 %)** (b)	**Apply 0.275 factor** (c)=0.275x(b)	**New Reduction In Duty** (d) = 38% + (c)	**Preferential Duty** (a) - (d)
40%	0.950	0.2613	64.13%	14.35%
45%	0.900	0.2475	62.75%	16.76%
50%	0.850	0.2338	61.38%	19.31%
55%	**0.800**	**0.2200**	**60.00%**	**22.00%**
60%	0.750	0.2063	58.63%	24.83%
65%	0.700	0.1925	57.25%	27.79%
70%	0.650	0.1788	55.88%	30.89%
80%	0.550	0.1513	53.13%	37.50%
90%	**0.450**	**0.1238**	**50.38%**	**44.66%**
100%	0.350	0.0963	47.63%	52.38%
110%	0.250	0.0688	44.88%	60.64%
120%	0.150	0.0413	42.13%	69.45%
130%	0.050	0.0138	39.38%	78.81%
135%	**-**	**-**	**38.00%**	**83.70%**
140%	-0.050	-0.014	36.63%	88.73%
145%	-0.100	-0.028	35.25%	93.89%
150%	-0.150	-0.041	33.88%	99.19%
160%	-0.250	-0.069	31.13%	110.20%

Source: AgAtt

In exchange for this first-time truly preferential access for bread wheat, the EU has agreed to quota reductions in years when the Moroccan crop is good. Although, again, details are not known, the quota will be reduced on a linear basis if local bread wheat production exceeds 2.1 MMT in a given season. At the most extreme, the quota will be a minimum of 400,000 MT even if Moroccan bread wheat production is over 3.0 MMT.

Estimated Quotas for EU Bread Wheat Under Various Moroccan Production Scenarios (1000 MT)

Theoretical Local Production	**Estimated Quota Granted to EU***
2,100	1,060
2,200	984
2,300	911
2,400	838

2,500	765
2,600	692
2,700	619
2,800	546
2,900	473
3,000	400
3,100	400

* Estimated by AgAtt Office on linear relation basis

The new preferential quota for EU bread wheat essentially secures the historical EU market share in Morocco. In each of the past nine years, imports from the EU, without preferential access, exceeded the level that would have been dictated by a quota scheme tied to domestic production as outlined in the table below:

Historical Data for Wheat Production and Imports (1,000 MT)

Beginning Year of MY Jul./Jun.	Local Production	Total Imports	Imports From EU	EU Share (%)
1994	3,181	911	827	90.7
1995	652	2,566	1,283	50.0
1996	3,646	1,200	591	49.3
1997	1,435	2,334	1,237	53.0
1998	2,834	2,240	1,163	51.9
1999	1,354	2,517	1,805	71.7
2000	953	2,588	1,775	68.6
2001	2,278	2,388	926	38.8
2002	2,325	2,486	1,244	50.0

Source: Ministry of Agriculture, Official Trade Data

The agreement stipulates that the tariff quota for bread wheat is not applied during June-July period (Morocco's harvest time). If the two parties agree this waiver period could be extended at most through August 31.

Also, the agreement stipulates that any larger tariff reduction on bread wheat to a third country will be granted to the EU as well.

Other Minor Preferential Access to EU

Under the same agreement Morocco grants the EU the following preferential accesses:

Harmonized Code	Category Label	Base Duty	TRQ (MT)	Reduction in Tariff	EU Preferential Tariff
10011000	Durum Wheat (From Dec. 1 to March 31)	50% (a)	5,000	25%	37.5%
10030090	Barley (Other than for Sowing or Malting) (From Dec. 1 to March 31)	35% (b)	100,000	20%	28.0%
10030090	Barley for Malting	35% (b)	10,000	10%	31.5%

(a) Rate applied on part of the price of 1,000 dh/MT or less. The part above 1,000 dh/MT is subject to a flat 2.5 percent.
(b) Rate applied on part of the price of 800 dh/MT or less. The part above 800 dh/MT is subject to a flat 2.5 percent.

Free Trade Agreement with US

On March 2, 2004 Morocco and the US concluded negotiation for a free trade agreement by which the US will have preferential access in the Moroccan market for grains (including for wheat, corn, barley, and sorghum). Details of the agreement have not been made available yet. Please refer to www.ustr.gov for the latest available information.

Temporary Admission – Re-Export

Local industrial mills continue to bring in wheat, mill it, and re-export, mostly to Libya and other African countries, which provided a good opportunity for the local mills to use some of the largely unused capacity. Export figures for wheat flour have been reconverted to wheat (80 percent extraction rate) to be re-included. The wheat brought in for this purpose is exempted from duties and taxes and is subject to strict control from the customs office that ensures that all the finished product is effectively re-exported (see “Export Trade Matrix”).

Government Buying

The government, through the Moroccan Cereal Office (ONICL), has been involved in part of bread wheat imports only. Over the past few years, ONICL purchased about one-fifth of the bread imported into Morocco. All the bread wheat imported by ONICL enters the flour mills at the preset GOM price of 2,588 dh/MT and is used to make subsidized “Standard” flour for the lower income population (See “Price Support – Flour Subsidy” section).

Tendering system

ONICL issues tenders for bread wheat for delivery during specific periods and at specific ports. Tenders are usually issued up to one month before the delivery period. Depending on the tender, ONICL requests that importers make bids on all-duties-paid price (including importer margins) or on the differential to pay to ONICL in case the final price is lower than pre-set price at which the ONICL-imported wheat (for subsidized flour) is sold to the flour mills (2,588 dh/MT). When final price is higher than the pre-set price, importers actually make bids on amount per metric tons that ONICL is required to pay back to the importers. Finally, ONICL tenders typically specify payments to be cash, COFACE, or GSM.

PSD Table, Morocco, Wheat (1000 HA, 1000 MT)							
	2002 Revised		**2003 Estimate**		**2004 Forecast**		UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002	07/2003			07/2004	MM/YYYY
Area Harvested	2626	2626	3000	2989	0	3007	(1000 HA)
Beginning Stocks	1541	1153	1298	900	1598	1230	(1000 MT)
Production	3357	3357	5200	5147	0	5300	(1000 MT)
TOTAL Mkt. Yr. Imports	2720	2995	1500	1900	0	1500	(1000 MT)
Jul-Jun Imports	2720	2995	1500	1900	0	1500	(1000 MT)
Jul-Jun Import U.S.	62	44	0	500	0	500	(1000 MT)
TOTAL SUPPLY	7618	7505	7998	7947	1598	8030	(1000 MT)
TOTAL Mkt. Yr. Exports	100	179	100	150	0	150	(1000 MT)
Jul-Jun Exports	100	179	100	150	0	150	(1000 MT)
Feed Dom. Consumption	200	0	200	0	0	0	(1000 MT)
TOTAL Dom. Consumption	6220	6426	6300	6567	0	6600	(1000 MT)
Ending Stocks	1298	900	1598	1230	0	1280	(1000 MT)
TOTAL DISTRIBUTION	7618	7505	7998	7947	0	8030	(1000 MT)

Import Trade Matrix: Morocco, Wheat			
Time Period	Jul./Jun	Units:	MT
Imports for:	2001		**2002**
U.S.	157975	U.S.	44053
Others		Others	
Canada	639508	France	885804
Ukraine	518429	Russia	705472
France	466256	Canada	366771
Germany	402699	Ukraine	347787
Russia	231620	Germany	285132
Romania	132383	Australia	97190
Australia	110500	Denmark	60772
Argentina	55850	Mexico	53798
Croatia	50153	Great Britain	48902
Sweden	35901	Spain	21882
Total for Others	2643299		2873510
Others not Listed	265832		121878
Grand Total	2909131		2995388

Export Trade Matrix: Morocco, Wheat **(MT of Wheat equivalent)** **Flour converted to wheat using 80% extraction rate**			
Time Period	Jul./Jun	Units:	MT
Exports for:	2001		**2002**
U.S.		U.S.	
Others		Others	
Libya	114361	Libya	120450
Gambia	10982	Burkina Faso	12710
Burkina Faso	8621	Liberia	10974
Liberia	6575	Niger	8772
Mali	5400	Gambia	8544
Guinea	3172	Benin	5857
Guinea-Bissau	2770	Mali	5590
Madagascar	827	Angola	3328
		Guinea-Bissau	1550
		Sierra Leone	1080
Total for Others	152708		178855
Others not Listed	462		433
Grand Total	153170		179288

PSD Table, Barley, Morocco, (1000 HA, 1000 MT)

	2002 Revised		2003 Estimate		2004 Forecast		UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Harvested	2002	2002	2150	2267	0	2310	(1000 HA)
Beginning Stocks	220	212	225	170	975	650	(1000 MT)
Production	1669	1669	2800	2620	0	2600	(1000 MT)
TOTAL Mkt. Yr. Imports	336	364	50	160	0	150	(1000 MT)
Oct-Sep Imports	156	178	50	160	0	150	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2225	2245	3075	2950	975	3400	(1000 MT)
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0	(1000 MT)
Oct-Sep Exports	0	0	0	0	0	0	(1000 MT)
Feed Dom. Consumption	1300	1350	1400	1300	0	1300	(1000 MT)
TOTAL Dom. Consumption	2000	2075	2100	2300	0	2500	(1000 MT)
Ending Stocks	225	170	975	650	0	900	(1000 MT)
TOTAL DISTRIBUTION	2225	2245	3075	2950	0	3400	(1000 MT)

Import Trade Matrix, Morocco, Barley (MT)

Time Period	Oct./Sep.	Units:	MT
Imports for:	2001		**2002**
U.S.		U.S.	
Others		Others	
Ukraine	227241	Russia	81807
France	187398	Ukraine	50579
Russia	131339	France	35630
Germany	58775	Kazakhstan	7880
Turkey	35153		
Romania	26779		
Sweden	24555		
Finland	22758		
Netherlands	14014		
Hungary	7586		
Total for Others	735598		175896
Others not Listed	12993		1685
Grand Total	748591		177581