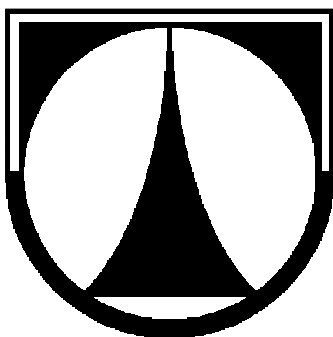


TECHNICAL UNIVERSITY OF LIBEREC
FACULTY OF ECONOMICS



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**THE ECONOMIC RELATIONSHIP BETWEEN MOROCCO AND
EUROPEAN UNION**

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Resume:

Morocco and the European Union wish to deepen their political, economic, social and cultural relations, as well as their security cooperation.

The enlargement of the European Union, which became fact on 1 May 2004, has profoundly altered the political, geographical, economic and social situation of the Union, providing the opportunity to consolidate and deepen its relations with the neighboring countries to the East and South. The European neighborhood policy will go beyond the current association and offer the EU's neighbors a deepening of the political relationship and the prospect of a significant measure of economic integration through gradual integration in the EU internal market.

The European Union and Morocco are determined to seize this opportunity in order to strengthen the ties between them and promote stability, security and prosperity on a basis of partnership, common interests, joint ownership and differentiation. This approach will contribute to the establishment of a strategic neighborhood partnership.

For Morocco, rapprochement with the Union represents a fundamental foreign policy choice. The neighborhood policy will allow the country to reinforce the strategic foundation of this choice through the conclusion of reciprocal undertakings and to promote the regional and sub regional dimension, in particular in the context of the Euro-Mediterranean process. In this connection, the Agadir Free Trade Agreement, signed in Rabat on 25 February 2004, is a model of economic integration in the region.

The deepening of Morocco's relationship with the European Union, which will help identify new cooperation measures and strengthen political ties, is a practical response that will allow Morocco to progress towards advanced status.

The rate of progress on this ambitious plan will depend on the efforts and concrete achievements in meeting jointly agreed priorities

Abbreviations:

CEGM	computable general equilibrium model
EIB	the European Investment Bank
EST.	Estimates
FTA	free trade agreement
IPO	initial public offering
NIP	National Indicative Program
MEDA	Mennonite Economic development associates
Mio	Million

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I. Introduction

In 788, about a century after the Arab conquest of North Africa, successive Moorish dynasties began to rule in Morocco. In the 16th century, the Sa'adi monarchy, particularly under Ahmad AL-MANSUR (1578-1603), repelled foreign invaders and inaugurated a golden age. In 1860, Spain occupied northern Morocco and ushered in a half century of trade rivalry among European powers that saw Morocco's sovereignty steadily erode; in 1912, the French imposed a protectorate over the country. A protracted independence struggle with France ended successfully in 1956. The internationalized city of Tangier and most Spanish possessions were turned over to the new country that same year.

The kingdom of Morocco is located at the northwest of Africa. It is bordered in the north by the strait of Gibraltar and the Mediterranean Sea; to the south by Mauritania; to the east by Algeria and to the west by the Atlantic Ocean. The Moroccan coast extends over 3,500 km. The kingdom's political capital is Rabat and the largest city is Casablanca, economical capital with over more than 7 Million inhabitants. The national territory stretches on an area of about (710,850) square kilometers (including the disputed territories), a large part is mountainous and they are mainly inhabited by the Berber people.

The chain of Atlas which stands up in the east and south of the Atlantic Morocco is made up of:

- The Medium Atlas.
- The High Atlas (Great Atlas in Arabic, peak at Jebel Toubkal: 4 165 m).
- The Minor Atlas which forms the southern boundary of the "Souss Valley".

To the South of the Minor Atlas, stretches the Moroccan Sahara (desert) dotted with oasis and seasonal rivers, with small inland towns and coastal modern cities (Laâyoune, Dakhla). This greater part of Morocco is mainly populated by nomad tribes.

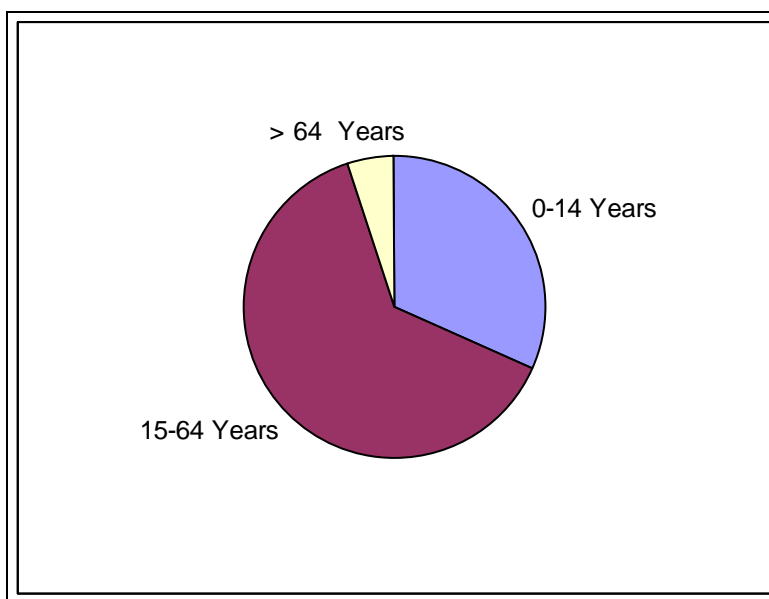


Nearly half the country area is a desert. The remaining half includes 9.2 million hectares of cultivable lands, 6 million hectares of forests, 3 million hectares of alfa patches and 21 million hectares of permanent rangelands. The useful agricultural surface of the country amounts to 9.2 million hectares, that is hardly 13 % of the total surface which has actually been extending, since it covered only 7.8 million hectares in 1980.

1. Population

As of mid-2006, Morocco had an estimated total population of 33.2 million. During 1998–2006, the population grew at an average 1.6% annual rate. There is also a significant Moroccan population abroad, some 1.7 million in 2002, most of whom live in Spain or France. According to 2006 estimates by the U.S. government, the age structure of Morocco's population was as follows:

Graph 1.1: Structure of Morocco's population



Source: Compiled from data provided by Moroccan statistic office, U.S. government



The median age was 23.9 years. The birthrate in 2006 was estimated to be almost 22 per 1,000; the sex ratio was 1.05 males per female at birth; and the total fertility rate is almost 2.7 children born per woman. One-third of the population is Berber. Pressure for Berber linguistic and cultural rights has led to the broadcasting of programs in Berber language and the establishment of the Royal Institute of Amazigh Culture in 2001.

2. Religion

Islam is the official religion of Morocco. Muslims constitute 99% of the population and about 90% of Muslims adhere to Sunni Islam. The population also includes very small numbers of Christians and Jews, who are able to worship without restrictions.

3. Language

Classical Arabic is Morocco's official language, In addition, about 10 million Moroccans, mostly in rural areas; speak Berber either as a first language or bilingually with the spoken Arabic dialect. French; which remains Morocco's unofficial third language is taught universally and still serves as Morocco's primary language of commerce and economics. It is also widely used in education and government. Many Moroccans in the northern part of the country speak Spanish. English, while still far behind French and Spanish in terms of number of speakers, is rapidly becoming the foreign language of choice among educated youth. English is taught in all public schools from the fourth year on.

4. Education

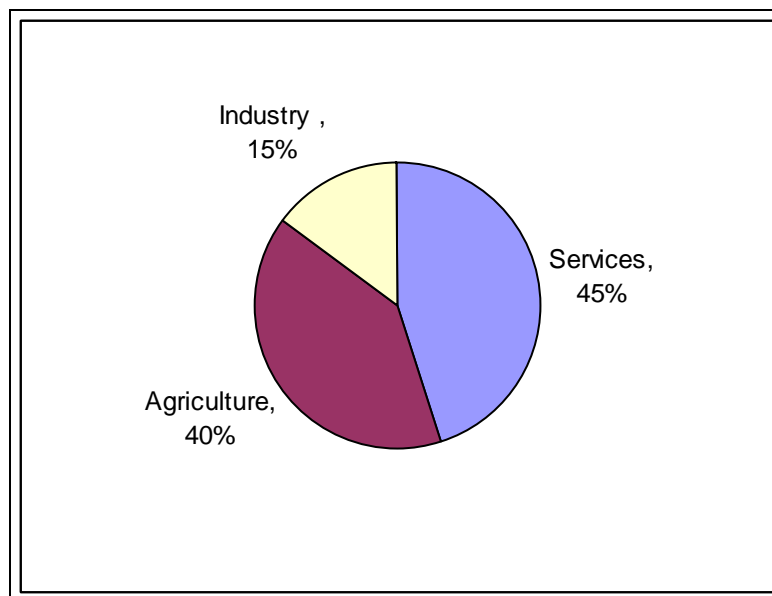


Since its independence, the Kingdom of Morocco attached the greatest importance to education, given the key role this sector plays in social, cultural and economic development. In this respect, constant efforts have been granted in order to provide every child with access to education and training, Successive economic and social development plans allowed the implementation of a new teaching system that meets citizens' expectations, guaranteeing its authenticity and to favor its integration in modern society, The part of the budget dedicated to education reflects the absolute priority the government is giving to the sector.

5. Labor Force

The labor force was estimated to exceed 11 million in 2005. The distribution of the workforce in 2004 was as follows:

Graph 5.1: Distribution of the workforce by sector



Source: Compiled from data provided by Moroccan statistic office, U.S. government



In 2004 Morocco's unemployment rate was 10.8%, representing a gradual but steady improvement over a five-year period. The urban unemployment rate (18.4%) was much higher than the rural rate (3.1%). In addition, the unemployment rate was much higher for young people living in urban areas than for any other group. In 2002 the unemployment rate among city dwellers between the ages of 15 and 24 was 34.2 percent and 26.2 percent for those between the ages of 25 and 34. As of 2004, Moroccan law mandated a 44-hour workweek and a minimum wage of about US\$223.30 per month for industrial workers.

6. Political Background.

The kingdom of Morocco has been a constitutional monarchy since 1972 and the last constitutional revisions took place in 1992 and 1996. The Head of State is the King (Mohammed VI since 23 July 1999) who is also by constitution the Commander of the Faithful. The constitution guarantees a multi-party system and Twenty nine parties are represented in the Chamber of Representatives.

Last elections took place in September 2002 and polls confirmed the coalition with Socialist Union of Popular Forces (USFP) and conservative Istiqlal as major parties. The main opposition party –Justice and Development Party (PJD) got a good score in the local elections which took place in September 2003.

The prime Minister heads a governing coalition made up of six parties.



II. THE ECONOMY OF MOROCCO:

1. Brief presentation

Morocco's economy is considered a liberal economy governed by the law of supply and demand although certain economic sectors still remain in the hands of the government.

The economic system of the country presents several facets. It is characterized by a large opening towards the outside. France remains the first trade partner (supplier and customer) of Morocco. France is also the first creditor and foreign investor in Morocco.

We can quote the various agreements of free trade that Morocco ratified with its principal economic partners like The Euro-Mediterranean free trade area agreement with the European Union with the objective of integrating the European Free Trade Association at the horizons of 2012; the Agadir Agreement, signed with Egypt, Jordan, and Tunisia, within the framework of the installation of the Arab Zone of Free Exchange; the US-Morocco Free Trade Agreement with USA which came into force in January 2006 and lately the agreement of free exchange with Turkey.

2. Membership in International Organizations:

Table 2.1: Moroccan affiliations in international organizations

AIEA	International Atomic Energy Agency
BIT	International Labour Organization
UNCTAD	United Nations Conference on Trade and Developpement
FAO	Food and Agriculture Organization
IFAD	International Fund for Agricultural Developpement
IMF	International Monetary Fund
UNFPA	United Nations Population Fund



WBG	World Bank Group
ICAO	International Civil Aviation Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
IMO	International Maritime Organization
WHO	World Health Organization
UN	The United Nations
UNIDO	United Nations Industrial Development Organization
ITU	International Telecommunication Union
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	The United Nations Children's Fund
UPU	Union Postal Universal

Source: Moroccan ministry of foreign affairs and cooperation. <www.maec.gov.ma/en/default.html>

3. Macroeconomic trend

Morocco is a fairly stable economy with continuous growth over the past half-a-century. Current GDP per capital grew 47% in the Sixties reaching a peak growth of 274% in the Seventies. However this proved unsustainable and growth scaled back sharply to just 8.2% in the Eighties and 8.9% in the Nineties.

Since the early 1980s the Moroccan government has pursued an economic program toward these objectives with the support of the International Monetary Fund, the World Bank, and the Paris Club of creditors. The country's currency, the dirham, is now fully convertible for current account transactions; reforms of the financial sector have been implemented; and state enterprises are being privatized.



Drought conditions depressed activity in the key agricultural sector, and contributed to an economic slowdown in 1999. Favorable rainfalls have led Morocco to predict a growth of 6% for 2000. Formidable long-term challenges include: servicing the external debt; preparing the economy for freer trade with the EU; and improving education and attracting foreign investment to improve living standards and job prospects for Morocco's youthful population.

Macroeconomic stability coupled with relatively slow economic growth characterizes the Moroccan economy over the past several years. The present government has introduced a number of important economic reforms over the past several years. The economy, however, remains overly dependent on the agriculture sector. Morocco's primary economic challenge is to accelerate growth in order to reduce high levels of unemployment.

Through a foreign exchange rate anchor and well-managed monetary policy, Morocco has held inflation rates to industrial country levels over the past decade. Inflation in 2000 and 2001 were below 2%. Despite criticism among exporters that the dirham has become badly overvalued, the current account deficit remains modest. Foreign exchange reserves are strong, with more than \$7 billion in reserves at the end of 2001. The combination of strong foreign exchange reserves and active external debt management gives Morocco the capacity to service its debt. Current external debt stands at about \$19 billion.

Economic growth, however, has been erratic and relatively slow, partially as a result of an over-reliance on the agriculture sector. Agriculture production is extremely susceptible to rainfall levels and ranges from 13% to 20% of GDP. Given that almost 50% of Morocco's population depends directly on agriculture production, droughts have a severe knock-on effect to the economy. Two successive years of drought led to a 0.7% decline in real GDP in 1999 and stagnation in 2000. Better rains during the 2000 to 2001 growing season led to an estimated 6% growth rate in 2001. Over the long term, Morocco will have to diversify its economy away from agriculture to develop a more stable economic basis for growth.

The current government has introduced a series of structural reforms in recent years. The most promising reforms have been in the liberalization of the telecommunications sector.



This process started with the sale of a second GSM license in 1999. In 2001, the process continued with the privatization of 35% of the state operator Maroc Telecom. Morocco has announced plans to sell two fixed licenses in 2002. Morocco also has liberalized rules for oil and gas exploration and has granted concessions for many public services in major cities. The tender process in Morocco is becoming increasingly transparent. Many believe, however, that the process of economic reform must be accelerated in order to reduce urban unemployment below the current rates above 20%.

Morocco has signed Free Trade Agreements with the United States of America and the European Union. The agreement with the United States has been ratified on July 22, 2004 in the United States Senate, by a vote of 85 to 13, while the agreement with the EU is to take effect by 2010.

4. Gross domestic product (GDP)

Table4.1: statistics

GDP ranking	56th (June 29 2006)
GDP	\$147 billion (2006 est.)
GDP growth	6.7% (2006 est.)
GDP per capita(PPP)	\$4.400 (2006 est.)
GDP by sector	Agriculture (13.3%), industry (31.2%), Services (55.5%),(2006 est.)
Inflation	2.8% (2006 est.)
Unemployment	7.7% (2006 est.)

Source: CIA The world Factbook



5. Growth

The average growth rate forecast for 2006-2008 is 5%. This rate is based on a consolidation of the average growth of the last five years and reflects the difficulty of stimulating private investment with the current reforms, despite a national savings surplus. Growth is expected to be driven mainly by domestic demand and to a certain extent by exports, depending on Morocco's capacity to exploit its comparative advantages in a context of increased international competition. The authorities' macroeconomic scenario nevertheless supposes that continuing structural reforms to promote private investment and productivity should lead to greater investment in the non-agricultural sector. The likely growth sectors are building and public works, mining, energy, agri-foods, tourism and the emergence of rapid growth sectors such as telecommunications and electronics. Industry should recover after the slight slump recorded as a result of difficulties in the textile sector after the end of the Multi-fibre Agreement. Economic growth will remain, however, subject to fluctuations in agricultural production; it should perform well in 2006 after slowing in 2005.

On the whole, the growth rate of the economy will not reduce the unemployment rate significantly, also taking account of the constant rise in the number of first entrants on the labor market. The growth level of the last five years did, however, reduce urban unemployment from 22% in 1999 to 18.3% in 2005, and the national rate from 13.9% in 1999 to 10.8% in 2005. The growth target should produce continued poverty reduction, poverty levels falling from 19% in 1999 to 14.2 % in 2004, thanks, partly, to the improved performance of the agricultural sector. The authorities are also implementing accompanying measures to reduce poverty, in particular the NHDI, which puts emphasis on a better targeting of actions touching on education, health, social habitat, and social infrastructure in vulnerable areas.

6. Agriculture



Agriculture is one of the key sectors of the Moroccan economy, and is one of the main sources of growth and employment. In an average year, agricultural production is about 65 million quintals. Over the past ten years, its contribution to the total GDP has varied between 15% and 20%. Such variability is due mainly to the climatic conditions. During periods of no drought, the agricultural sector manages to adequately cover the country's food demand. By employing 50% of the working population the majority of whom are poor people, the economic situation of the sector has a decisive impact on the living conditions of the poorest people.

There are two distinct types of agricultural activity: irrigated agriculture and traditional or rain fed agriculture.

Irrigated agriculture uses 10% of the useful farm space and contributes 45% to the agricultural value added and 75% to the total agricultural exports. The agricultural sector receives considerable public investments, which accounted for between 12% and 15% of public investments during the 1990–1997 period (excluding extra budgetary resources allocated to the Regional Agricultural Development Authorities). Despite the considerable public investments and subsidies (through low cost of water) received by the sub-sector, the large irrigation schemes have not been able to fully use their production potential.

Rain fed agriculture, which occupies the largest portions of the useful farm space and employs the rural population, suffers not only from the negative impact of the unstable climatic conditions but also the over exploitation of forests through transhumant grazing. In addition, the erosion caused by the over-exploitation of forests through grazing leads to the silting of reservoirs, thereby threatening the sustainability of the water infrastructure and resources.

Consequently, the agricultural sector faces constraints which curb and destabilize its capacity to contribute to the best of its potential to the production of national wealth, as well as the direct and indirect creation of jobs. For this sector to fully play its role in the achievement of high and sustainable growth, the Government should resolutely pursue the implementation of its policy of integrated water management, particularly by being much more rigorous in its activities to reduce the vulnerability of agriculture to



drought, stopping the over-exploitation of natural resources, rationalizing the use of water resources, and maintaining the sustainability of irrigation infrastructure. Furthermore, the Government should speed up the finalization of the reform plan to upgrade the agricultural sector. The availability of such a plan would offer donors, especially the Bank, the opportunity to better target future operations in this sector, which is important in the poverty reduction efforts.

7. Fishing

Morocco has substantial fishing resources (coast: 3,500 km). In 2002 the total catch, mostly sardines, weighed 896,600 metric tons. In July 2005, Morocco signed a fishing agreement with the European Union (EU) that gives the EU limited fishing rights within Moroccan territorial waters for the first time since 1999. Under the agreement, the EU is restricted to catching a maximum of 60,000 metric tons of small, open-water fish using 119 fishing boats per year. In exchange, the EU will pay Morocco US\$43 million per year. This accord is much more modest than its predecessor, which expired in 1999.

8. Mining and Minerals

The strongest point of Moroccan industry is phosphate mining near Khouribga. Morocco has two-thirds of the world's phosphate reserves and is the world's top exporter of phosphate rock. In 2003 Morocco mined nearly 22 million metric tons of phosphate rock. Morocco is a minor producer of oil and natural gas. In fact, it is the largest energy importer in North Africa. Crude petroleum production totaled only about 300 barrels per day in 2005. Natural gas production was estimated at 5 million cubic meters in all of 2003.

9. Industry and Manufacturing



In 2004, industry accounted for one-third of GDP and employed 15% of the workforce, industrial output rose 3.5%. Leading industrial sectors in 2002 were phosphate rock mining and processing, food processing, leather goods, textiles, and construction.

The manufacturing sector produces light consumer goods, especially foodstuffs, beverages, textiles, matches, and metal and leather products. Heavy industry is largely limited to petroleum refining, chemical fertilizers, automobile and tractor assembly, foundry work, asphalt, and cement. Many of the processed agricultural products and consumer goods are primarily for local consumption, but Morocco exports canned fish and fruit, wine, leather goods, and textiles, as well as such traditional Moroccan handicrafts as carpets and brass, copper, silver, and wood implements.

There are two oil refineries, one at Mohammedia and one at Sidi Kacem, with a total refining capacity of 155,000 barrels per day. There are also several petrochemical plants, a polyvinyl chloride factory, and many phosphate-processing plants. The Mahgreb-EU pipeline has been operating since 1996. There are four plants assembling cars and small utility vehicles: Renault Maroc, Sopriam, Somaca, and Smeia. A number of cement factories are also in operation. The Safi industrial complex, opened in 1965, processes phosphates from Youssoufia, pyrrhonists from Kettara, and ammonia.

Ownership in the manufacturing sector is largely private, but the government owns the phosphate-chemical fertilizer industry and much of the sugar-milling capacity, through either partnership or joint financing. It is also a major participant in the car and truck assembly industry and in tire manufacturing.

10. Services

Services accounted for 53.6% of the economy and employed 45% of the workforce in 2004. Financial services liberalization has been underway since the early 1990s, but it has fallen short of expectations, according to the World Bank. Despite



efforts at privatization, many financial institutions continue to be owned by the government. The latest thrust in this campaign involves boosting the independence of the central bank and improving bank supervision and regulation. The latter is urgently needed because many banks suffer from extremely high levels of non-performing loans and inadequate reserves. The insurance sector has been streamlined with the closure of several poorly performing companies. Morocco has modernized the Casablanca stock exchange by introducing an electronic quotation system, centralized settlement, and brokerage rules.

11. Tourism

The tourism sector in Morocco has become a key driver of the national economy and accounts for 7% of GDP, earning the country 27.8 billion DH (£1.75 billion). The sector currently employs 640,000 people.

Morocco attracts some 2.2 million international tourists per annum, the majority being French and Spanish. Over 40 per cent of the international tourists go to Agadir, the main beach resort, and 30 per cent go to Marrakech, where cultural tourism in this internationally known destination is the main attractor. In the wake of the events of September 11th, tourism figures were down 12.7% at the end of June, although the number of UK tourists appears to be remaining constant.

As well as sun, sea and sand holidays and cultural tourism, Morocco is also increasingly attracting those wanting to play sport or take part in adventure tourism. There are 18 golf courses, and facilities for tennis, riding, trekking, desert safaris and hang gliding are all on the increase.

12. Telecommunications



The Moroccan government decided to open up the entire telecommunications sector to competition by the end of 2002. Morocco has already issued licenses to provide mobile phone service and data transmission via satellite. In 2002, Morocco launched a tender for a second fixed-line license to provide competition to Maroc Telecom, but due to the global situation in the telecommunications sector, the tender received no bids. Morocco intends to re-launch the bid before the end of 2004. Vivendi Universal paid \$2.1 billion in 2001 for a 35% stake in state-controlled Maroc Telecom. The government is planning on selling an additional stake in Maroc Telecom before the end of 2004.

Government Role in the Economy: The Moroccan government has gradually reduced its role in the economy over the last decade. In particular, it ceased direct credit and foreign exchange allocation, reduced trade barriers, partially restrained government spending, and embarked on a privatization program, including the telecom sector, tobacco, and concessions in energy and utilities.

13. Government Role in the Economy

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14. Monetary policy

Inflation remains low. Over the past decade, average annual inflation has remained below 3%. The rate of inflation was 2.8% in 2002 and 1.2% in 2003. Monetary growth has remained steady in recent years. Morocco possesses a comfortable level of foreign exchange reserves largely as a result of the telecommunications sector and the tobacco privatizations. Foreign currency reserves stood at about \$13.5 billion in 2003, providing more than 11 months of import coverage. Broad money (M2) grew 7.5% in Q3 of 2003.



15. Fiscal Policy

The Moroccan government's commitment to tight fiscal policy has weakened in recent years. Thanks to one-time receipts from the partial privatization of Maroc Telecom, the 2001 overall budget deficit remained modest at 2.7% of GDP. However, with lower than expected privatization receipts in 2002, the budget deficit increased to 4.3%. Tobacco privatization again reduced the deficit to 3.8% in 2003, and the Moroccan government expects a deficit of just over 3% in 2004. Excluding privatization, the deficit continues to grow and should reach nearly 5.7% in 2004.

16. Foreign Exchange Regulations

The Moroccan dirham is convertible for all current transactions (as defined by the IMF's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is available through the commercial banks on presentation of appropriate documents. Foreign firms have complained about the complexity of remaining restrictions on foreign exchange. Private Moroccan residents face foreign exchange restrictions, and Moroccan banks do not issue internationally accepted credit cards. The Central Bank currently sets the exchange rate for the dirham against a basket of currencies of its principal trading partners. Changes in the rates of individual currencies reflect changes in cross rates.

Morocco's currency is the Moroccan dirham (MAD). In early May 2006, the exchange rate was approximately US\$1=MAD8.7.

Moroccan companies may borrow abroad without prior government permission.

17. Privatization



Morocco launched a privatization program in 1992 and since then has sold stakes in 65 enterprises, raising \$5.2 billion. On March 31, 1999 Parliament approved an amendment to the privatization law that designated 28 of the remaining enterprises to be sold off, mainly reflecting legal and financial problems in the others. The law also provides a legal framework for other state-owned enterprises to be privatized in the future. Among the entities to be privatized are six sugar plants, nine hotels, three banks (Banque Centrale Populaire, Banque Nationale pour le Développement Economique, Credit Immobilier et Hotelier) and the state fertilizer company, FERTIMA. Given weakness in the telecommunications and aviation sectors, the government decided to delay further privatization of Maroc Telecom until late 2004 and the partial privatization of the national carrier, Royal Air Maroc. An 80% stake in the state-run tobacco marketing company, Regie des Tabacs, was sold to a French-Spanish consortium, ALTADIS, in 2003 for \$1.53 billion.

18. Balance of Payments Situation

Morocco runs a chronic merchandise trade deficit, which is generally offset by receipts from tourism, workers' remittances and foreign investment. In 2002, foreign trade figures remained relatively stable, with imports increasing by 3.8% and exports decreasing by 3.5%. Foreign investment increased to \$2.4 billion in 2003, mainly due to the privatization of the Regie des Tabacs. In 2003, tourism receipts remained constant and worker remittances increased by 7.2% to \$3.8 billion.

19. Merchandise Trade

The trade deficit in 2003 increased to \$5.8 billion. Citrus fruit and phosphates and its derivatives led export growth. In 2002, imports of crude oil decreased by 10.8%, wheat imports fell by 12.8%, and telecommunications equipment imports fell by 25.8%.



20. Foreign Debt

Morocco's foreign debt burden has declined steadily in recent years. Morocco last rescheduled its Paris Club debt in 1992. The French and Spanish governments, and since early 1999 the Italian government, have engaged in debt-equity swaps with Morocco, and Morocco is seeking the cooperation of other lenders. Morocco's current debt service ratio of approximately 16% of exports of goods and non-factor services and appears sustainable. External public debt fell to \$14.2 billion in 2001, and fell again to \$13.9 billion in 2002.

III. Economic relations between Morocco and European Union

1. EU-Morocco Trade:

Trade between the EU and Morocco has flourished in the last decade.

In 2004, 65% of Moroccan exports went in the EU while 70% of Moroccan imports came from the EU. Total trade reached 15.7 billion EUR in 2004 and EU is Morocco's biggest trading partner. The balance trade is still in favor of EU.

Morocco's main exports in the EU are:

- Food (Fishery products, fruit, early produce – particularly tomatoes and citrus fruit.)
- Flowers and finished consumer products (mainly textiles).

Morocco's main imports from EU are:

- Various types of machinery and equipment.
- Chemicals and plastics.
- Wheat and industrial products already enter the EU duty free.



The EU Morocco fisheries agreement signed in 1995 expired in November 1999 and EU commission and the Moroccan authorities initialed on 28 July 2005 a text which contains the provisions for the EU activities fleet in Moroccan waters.

In 2004, 65% of Morocco's imports (9.6 billion EUR) come from the EU while 70% of Moroccan's exports (6 billion EUR) go to the EU sorting out.

EU trade balance deficit amounting to 3.6 billion EUR.

2. Trade in Goods:

Table 2.1: European Union Imports from Morocco (2005)

Products (Sitc Sections) by order of importance	Mio Euro	%
Machinery and transport equipment	3394	37.6
Miscellaneous manufactured articles	2570	28.5
Food and live animals	1447	16.1
Crude materials inedible, except fuels	391	4.3
Chemicals and related products, n.e.s.	294	3.3
Manufactured goods classified chiefly by material	285	3.2
Mineral fuels, lubricants and related Materials	255	2.8
Animal and vegetable oils, fats and waxes	52	0.6
Beverages and tobacco	25	0.3
Commodities and transactions n.e.c.	10	0.1
Total	9017	100

Source: EUROSTAT (Comext, Statistical regime 4)

**Table 2.1:** European Union Exports to Morocco (2005)

Products (Sitc Sections) by order of importance	Mio Euro	%
Machinery and transport equipment	5847	49.9
Manufactured goods classify chiefly by material	2056	17.5
Chemicals and related prod., n.e.s.	946	8.1
Miscellaneous manufactured articles	846	7.2
Mineral fuels, lubricants and related Materials	722	6.2
Food and live animals	479	4.1
Crude materials inedible, except fuels	320	2.7
Commodities and transactions n.e.c.	53	0.4
Beverages and tobacco	44	0.4
Animal and vegetable oils, fats and waxes	27	0.2
Total	11728	100

Source: EUROSTAT (Comext, Statistical regime 4)

3. Exports of tomatoes from Morocco to EU countries.

The main countries of origin for non-Community tomatoes, practically all of its sales are destined to the French and Swiss Market.

Because of the Moroccan climate, almost identical to those southern Spain, the niches in the market for its products are found in the early harvests, which include the



periods of autumn and winter (from October/November to the end of March). In any case, within the framework of the current Community protection system, Morocco would achieve a European market quota around 12% during the period in which the tariff system allows the entry of tomatoes into E.U territory. Even so, at certain times, and as a result of the different characteristics of the crops finally harvested on both sides of the Mediterranean, the quota would have reached 18% in the first part of the year and 165 in the final months.

Regarding the destination of EU imports, the European Union is the main market for early Moroccan fruit and vegetables, accounting for around 90%.

Within Europe, the main customer is France, taking up around 85% of Moroccan produce sent to the Union. This dependency on the Union market is one of the main features of the Moroccan fruit and vegetables sector, although in the past

Few years it has begun to weaken. So, in the case of tomatoes, the percentage of exports directed at the EU has decreased from 97% in the 1970s to 81.60% in the 2001/2002 season, although the real quantity has increased.

Switzerland is the second largest purchaser of foreign sales from Morocco, accounting for 6.8% of exports, followed by Russia with 5%.

Table3.1: Exportation of Moroccan tomatoes by country

Country	1977/1978 Season			2001/2002 Season		
	Tones	% S/Total	% s/Subtotal	Tones	% S/Total	% s/Subtotal
France	74,814	71	72.8	161,300	78.2	96.4
Germany	26,334	25	25.6	378	0.2	0.2
United Kingdom	798	0.8	0.8	1	0	0
The Netherlands	200	0.2	0.2	147	0.1	0.1
Spain	0	0	0	4,559	2.2	2.7
Other Countries	566	0.5	0.6	899	0.4	0.5



Total EU	102,712	97.5	100	167,284	81.6	100
Switzerland	0	0	0	13,863	6.8	36.8
Russia	0	0	0	10,292	5	27.3
Czech Republic	0	0	0	5,672	2.8	15.1
Slovakia	0	0	0	3,967	1.9	10.5
Poland	0	0	0	2,534	1.2	6.7
Hungary	0	0	0	773	0.4	2.1
Slovenia	0	0	0	388	0.2	1
Canada	0	0	0	103	0.1	0.3
Others	0	0	0	90	0	0.2
Total other	2,631	2.5	100	37,682	18.4	100

Source: EACCE (The Autonomous Establishment of Control and Coordination of the Exports)

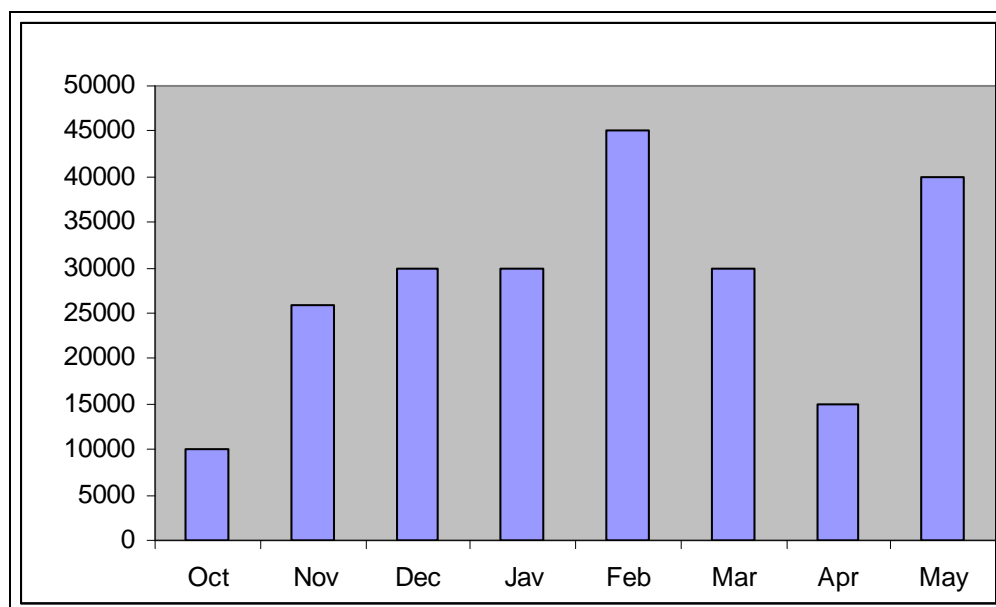
4. Description of the EU quota system for Moroccan Tomatoes.

The system of tariff protection for the import of tomatoes from Morocco en the EU is contained within the framework of a preferential agreement, relatively common in the tariff policy of any country or region, means the application of a series of measures to relax the protection system of the European market against imports from certain countries.

The current state of the quota system regulations for Moroccan tomatoes is the result process which dates back, at least, to 1994, the year in which a quota of 96.260 tones, exempt from customs duty, had already been agreed. From 1999 to the present day, successive bilateral negotiations have reduced the entry quotas to reduced prices, concentrating preferential agreement on the establishment of a single exempt quota and, at the same time, have increase both the quantity of the annual quotas and the period of the year in which it is in force. Quotas for Moroccan tomatoes are:



Graph 4.1: Quotas of Moroccan tomatoes by tones



Source: Compiled from data provided by EACCE

Table 4.2: Main exports markets for tomatoes of each country

Exporter	France	Germany	Netherlands	United Kingdom	Other EU	USA	Canada	Russia
Netherlands	2.8	46.1		22.0	14.7	5.8	0.4	1.6
Spain	17.0	25.9	17.9	23.8	3.9	0.4	0.1	0.5
Mexico		0.0				99.4	0.6	
Belgium	21.6	53.3	10.1	3.9	11.1	1.3	0.5	3.0
Canada	0.0					100.0		
USA	0.1		1.6	0.5			94.7	
France		40.6	5.2	9.2	17.4			4.8
Italy	5.8	58.4	2.0	6.8	10.6			0.1
Morocco	86.7	0.4	0.3	0.0	10.9			3.0
Israel	1.7	10.8	28.1	34.5	5.3	13.3	0.0	0.4

Source: data provided by COMTRADE



5. Trade in Services:

In 2004, services accounted for 53.50% of Moroccan GDP with an annual average of growth in the sector of 3.4%. The EU has had a negative balance vis-à-vis Morocco since 1991. EU imports from Morocco totaled 2.2 billion EUR, mainly in shape of tourism (53%), transport (18%) and financial and telecommunications services (19%) while EU services exports were 1.32 billion EUR mainly in business and transport services.

6. Foreign Direct Investments (FDI):

The EU is the major foreign investor in Morocco, followed by US. EU FDI in Morocco in 2003 was 0.7 billion EUR, adding to total EU outward stocks in Morocco of 3.6 billion EUR.

Due to the initial success in privatization and the strength that new offerings gave the Casablanca Bourse, Morocco was the recipient of 60 percent of total FDI to Africa in 2001, about \$3 billion. Some \$51.2 million came from the US, with more than half aimed at the industrial sector. However, investment went down in 2002 when none of the planned IPOs went through.

Morocco offers various investment incentives, such as partial or total exemption from corporate taxes, VAT taxes, and import duties. Special incentives are also available to encourage companies to comply with environmental protection laws, or install environmental protection equipment. Moreover, foreign investment is allowed in all aspects of the private sector, with the exception of agricultural land. Ownership of real estate by foreign investors is permitted. The government has already selected two foreign companies to build and operate an electrical generation facility that would sell electricity to the state electric utility.



Recent large investments have been made by Telefonica of Spain and Telecom Portugal as part of a consortium of local and foreign partners who paid a total of \$1.12 billion for the second of two mobile telephone licenses, and in 2001, the massive \$2 billion stake taken by Vivendi Universal in Maroc Telecom. Coca-Cola made a further \$90 million investment in its purchase of bottling plants at Fez and Marrakech. In the tourism sector, Accor Hotels, the French hotel chain, and Majestic Hotels of the United Kingdom have also made, or committed, substantial investments.

Table 6.1: Foreign Direct Investments (FDI) profile by country 2002 (in %)

Countries	Percentages
France	41.2
Germany	8.7
Italy	1.0
United Kingdom	5.4
Belgium	5.6
Netherlands	4.2
Spain	6.8
United States	6.0
Kuwait	4.3
Saudi Arabia	3.0
United Arab Emirates	1.7
Other	12.1

Source: Foreign Exchange Office



7. Evolution of the EU's trade balance with Morocco

Table 7.1: Evolution of the EU's trade balance with Morocco (Mio Euro)

Year	Imports	Yearly change %	Share of Total EU Imports	Exports	Yearly Change %	Share of Total EU Exports	Balance	Imports + Exports
2001	6,335		0.64	7,563		0.85	1,228	13,898
2002	6,403	1.1	0.68	7,782	2.9	0.86	1,379	14,185
2003	6,348	-0.9	0.68	8,142	4.6	0.93	1,794	14,490
2004	6,559	3.3	0.64	8,877	9	0.92	2,318	15,436
2005	9,017	37.5	0.77	11,728	32.1	1.1	2,711	20,745

Source: EUROSTAT (Comext, statistical regime 4)

8. Evolution of the Morocco's trade balance with EU

Table 8.1: Evolution of the Morocco's trade balance with EU (Mio Euro)

Year	Imports	Yearly change %	Share of total EU imports	Exports	Yearly change %	Share of total EU exports	Balance	Imports + exports
2001	6,904		54.18	5,709		70.71	-1,195	12,613
2002	6,937	0.5	55.74	5,946	4.2	71.80	-991	12,883
2003	7,264	4.7	58.24	5,755	-3.2	74.32	-1,509	13,019
2004	7,670	5.6	54.41	5,644	-1.9	72.20	-2,026	13,314
2005	12,824	67.2	65.10	8,286	46.8	73.75	-4,538	21,110

Source: EUROSTAT (Comext, statistical regime 4)



9. EU imports from Morocco by products grouping

Table 9.1: EU imports from Morocco by products grouping (Mio Euro)

Description (Products Groups)	2001		2003		2005		Share of Total
	Amount	%	Amount	%	Amount	%	EU imports
Agricultural Products	1,290	20.4%	1,467	23.1%	1,587	17.6%	1.96
Energy	161	2.5%	96	1.5%	255	2.8%	0.10
Machinery	661	10.4%	914	14.4%	995	11.0%	0.36
Transport Equipments	119	1.9%	79	1.2%	2,400	26.6%	2.44
Automotive products	41	0.6%	37	0.6%	39	0.4%	0.09
Chemicals	357	5.6%	245	3.9%	294	3.3%	0.31
Textiles and clothing	2,797	44.2%	2,623	41.3%	2,320	25.7%	3.29
Other manufactured products	909	14.3%	887	14.0%	1,127	12.5%	1.20
Total	6,335	100.0%	6,348	100.0%	9,017	100.0%	

Source: EUROSTAT (Comext, statistical regime 4)

10. EU exports to Morocco by product grouping

Table 10.1: EU exports to Morocco by products grouping (Mio Euro)

Description (Products Groups)	2001		2003		2005		Share of Total
	Amount	%	Amount	%	Amount	%	EU exports
Agricultural Products	638	8.4%	629	7.7%	732	6.2%	1.18
Energy	231	3.1%	451	5.5%	722	6.2%	1.86



Machinery	2,115	28.0%	2,164	26.6%	2,515	21.4%	0.81
Transport Equipments	631	8.3%	774	9.5%	3,331	28.4%	1.99
Automotive products	479	6.3%	481	5.9%	564	4.8%	0.52
Chemicals	689	9.1%	803	9.9%	946	8.1%	0.58
Textiles and clothing	1,762	23.3%	1,642	20.2%	1,386	11.8%	4.20
Other manufactured products	1,018	13.5%	1,198	14.7%	1,532	13.1%	1.20
Total	7,563	100.0%	8,142	100.0%	11,728	100.0%	

Source: EUROSTAT (Comext, statistical regime 4)

11. EU-Morocco financial cooperation

Financial co-operation can be broken down into four phases:

- The financial protocols (1976-95).
- Meda I (1995-99).
- Meda II (2000-06).
- ENPI (2007-2013).

Under the four financial protocols, Morocco received a total of 1 091 million EUR, of which 574 million EUR from the budget and 518 million EUR in the form of loans from the European Investment Bank's (EIB) own resources. Sectoral orientations largely favored rural development, followed by economic infrastructures and social development. The signing of the Euro-Mediterranean Association Agreement with Morocco in February 1996 triggered a fundamental change of strategy for financial co-operation. The 1996-1999 National Indicative Program (NIP) aimed at supporting the



transition towards a market economy and the integration into the Euro-Mediterranean economic area, the development of the private sector as well as the reinforcement of the socio-economic equilibrium. A total amount of 630 million EUR was committed in 1996-99 under MEDA, complemented by 500 million EUR in loans from the European Investment Bank.

A Country Strategy Paper was prepared in 1999 for the period 2000-2006, and was revised in 2001. It served as a basis for three National Indicative Programs (NIP) covering the periods 2000-2001, 2002-2004 and 2005-2006, respectively. The NIPs were established in agreement with the Moroccan authorities. Among the most important programs financed by MEDA in this period are the program of support to private companies (61 million EUR); vocational training in the sectors of tourism, textile and new technologies (50 million EUR); support to border control (40 million EUR); transports sector reform (96 million EUR), public administration reform (79 million EUR), support to tax reforms (80 million EUR) and slum clearance (90 million EUR). A new dimension to cooperation was brought by financing actions in the governance area – and more particularly, justice reform, migration and support of the implementation of the recommendations of the Equity and Fairness Commission. Also noteworthy has been the development of institutional support, through the so-called ‘twinning’ instrument which supports the capacity building and strengthening of Moroccan public institutions through assistance provided by public institutions of EU Member States. Over the recent years, an increased share of EU assistance has taken the form of support to sector reforms, in such sectors as transport, water, tax and public administration.

In 1995-2006, Morocco received 1 640 millions EUR in the form of MEDA grants, of which 1 045 millions EUR had been effectively disbursed on 31 December 2006. This made Morocco the largest recipient of MEDA funds among the Mediterranean partners.

Since January 2007, the European Neighborhood and partnership Instrument (ENPI) has replaced the MEDA Instrument (for a complete text of regulation establishing the ENPI financial. A new Cooperation Strategy covering the 2007-2013 period and a new Indicative Program covering the 2007-2010 period are currently being finalized.

Finally, Moroccan civil society is also involved in a number of regional projects under the MEDA program. These include programs in the areas of films and television, conserving heritage sites, and developing links among young people in the Mediterranean region. Morocco also benefit from EU thematic programs such as the European Initiative for Democracy and Human Rights.

In addition, the European Investment Bank through the Euro Mediterranean Facility for Investment and Partnership (FEMIP) established in 2002, has granted 1 035 millions EUR to Morocco since its creation and until 2006. Major sectors of intervention include economic infrastructure (mainly roads), drinking water, and irrigation.

12. EU financial assistance to Morocco (MEDA – Program)

The MEDA program is the main financial instrument through which the European Union implements the Euro-Mediterranean Partnership. It accounts for 3.4 billion EUR of budgetary resources allocated for the period 1995-1999 and 5.4 billion EUR for the period 2000-2006.

Under the MEDA program, Morocco has so far received a total of 1.180.5 Million EUR in commitment appropriations: 656 million EUR under MEDA I (1995-1999) and 524.5 million EUR under MEDA II (2000-2003).

The following table shows the annual breakdown of MEDA commitments to Morocco for the period 1995-2003 compare to the total commitments for the MEDA program:

Table 12.1: Annual breakdown MEDA program (1995-2003- Mio EUR)

Program Name	Year	Morocco	%	Total
	1995	30	17.3%	173
	1996			370
MEDA I	1997	235	25.8%	911



	1998	219	27.1%	809
	1999	172	21.6%	797
Total MEDA I		656		3060
	2000	140.6	24.7%	568.7
MEDA II	2001	120	19.9%	603.3
	2002	122	19.9%	611.6
	2003	141.9	23.6%	600.4
Total MEDA II		524.5		2384
TOTAL MEDA I MEDA II		1180.5		5444

Source: Bank Al-Maghreb, Ministry of Finance and Privatization, IMF, World Bank, EIU.

As far as payments appropriations are concerned, Morocco has so far received a total of 348.4 million EUR under the MEDA program (127.6 million EUR under MEDA I and 220.8 million EUR under MEDA II).

The following table shows the annual breakdown of MEDA payments To Morocco for the period 1995-09/2003 compare to the total payments for The MEDA program:

Table 12.2: Annual breakdown program (1995-2003- Mio EUR)

Program Name	Year	Morocco	%	Total
	1995		0.0%	50.0
	1996	0.8	0.5%	155.0
MEDA I	1997	31.4	15.1%	207.8
	1998	41.7	18.8%	222.2
	1999	53.7	22.3%	240.3
Total MEDA I		127.6		875.3
	2000	39.9	12.6%	315.7



MEDA I	2001	41.1	12.9%	317.8
	2002	101.9	22.6%	451.4
	Up to 09/03	37.9	15.5%	244.6
Total MEDA II		220.8		1,329.5
TOTAL MEDA I MEDA II		348.4		2,204.8

Source: Bank Al-Maghreb, Ministry of Finance and Privatization, IMF, World Bank, EIU.

The MEDA program is mainly made up of grants, but also includes the financing of risk capitals and interest rate subsidies related to the loans provided by the European Investment Bank (EIB). The volume of EIB lending to Morocco during the period 1995-2002 amount to 1.220 million EUR, intended among others for construction and upgrading of highways and rural roads, improvements to sewerage and water management systems, rehabilitation of the railway network and the development of banking sector.

13. Agreements on scientific and technical cooperation between European community and the Kingdom of Morocco

The European Union has for many years been engaged in various forms of scientific and technical co-operation with Morocco. Nearly 170 projects has been undertaken to date by European and Moroccan research teams mainly in water management, public health, information technology, the environment, transport and economy.

On 26 June 2003, Morocco and European Community signed a Scientific and Technical Co-operation Agreement enabling Moroccan Universities, companies, and research centers to participate in the EU's 6th Research Framework Program (2003-2006), this agreement opens up Moroccan projects to participation in research from the EU and enables a fair sharing of intellectual property rights generated by joint activities.



14. EU-Morocco association agreement

The EU-Morocco Association agreement was signed in Brussels, on 26 February 1996, and following its ratification by the Parliaments of the EU Member States, the European Parliament and the Moroccan Parliament, entered into force on 1 March, 2000. It replaces the 1976 Cooperation Agreement.

In line with the new generation of Association Agreements between the EU and its Mediterranean partners, the preamble emphasizes the importance of the principles of the United Nations Charter, in particular the observance of human rights, democratic principles and economic freedom; the need to strengthen political stability and economic development of the region by encouraging regional co-operation; the need to open a regular political dialogue in bilateral and international contexts on issues of common interest; and the need to maintain a dialogue on scientific, technological, cultural, audio-visual and social matters to the benefit of both parties. The respect for human rights and democratic principles guides the internal and international policy of both Morocco and the Community and constitutes an essential and positive element of the Agreement. The main text refers to regular political dialogue at ministerial and senior official levels, and at parliamentary level through contacts between the European Parliament and the Moroccan Parliamentary institutions. Emphasis is placed on peace, security, and regional co-operation and on the need to contribute to the stability and prosperity of the Mediterranean region, to promote understanding and tolerance. Furthermore, the agreement includes provisions on freedom of establishment and the liberalization of services, free movement of capital and competition rules, the strengthening of economic co-operation on the widest possible basis and the co-operation on social matters, supplemented by cultural co-operation. The Agreement confirms the existence of free trade in manufactured goods and it reinforces the arrangements for free trade in industrial products, which have been in force since the late 1970s. Arrangements for importing Moroccan products are more flexible in the new agreement than they were under the 1976 Cooperation Agreement. There is to be progressive and reciprocal liberalization of



trade for agricultural products; another important chapter of the Association Agreement refers to the question of migration and social affairs. Since the entry into force of this agreement in March 2000, several meetings at Ministerial and expert level that addressed migration and related areas have been held. The open and fruitful discussions have allowed initiating a confidence building process on subjects previously considered taboo and several concrete co-operation projects have started.

The European Union is developing a coherent and comprehensive immigration policy, which incorporates areas such as legal migration, integration of Moroccans legally living in the European Union, equal treatment, family reunification and harmonization of social security schemes. Respect for cultural identity is also one of the specific areas to receive more attention. Morocco and the European Union are doing their utmost to continue the fight against illegal immigration, with particular attention being paid to the increase flow of immigrants through Morocco, as part of this policy, the Commission received the mandate to start negotiations on an EC readmission agreement with Morocco in September 2000. After informal preparatory meetings, on 24 February 2003, at the meeting of the EU-Morocco Association Council in Brussels, Morocco officially agreed to launch formal negotiations on the basis of a revised draft text, which takes into account the outcome of informal discussions. Negotiations are on-going.

Senior officials from Morocco and the EU meet at regular intervals (see list below), to discuss political and economic issues as well as bilateral or regional co-operation.

15. Meetings of Morocco EU

Table 15.1: Morocco EU meetings

Year	Date	Place	Committee
2000	.09.10	Luxembourg	Association Council (Ministerial Level)
2001	.06.02	Rabat	Association Committee (Senior Officials Level)
	.09.10	Luxembourg	Association Council



2002	.13.03	Rabat	Association Committee
2003	.24.02	Brussels	Association Council
	21.10.	Rabat	Association Committee
2004	27.04	Luxembourg	Association Council
	.09.11	Rabat	Reinforced Political Dialogue
	.22.11	Brussels	Association Council
2005	.03.06	Rabat	Association Committee
	.09.11	Rabat	Reinforced Political Dialogue
	.22.11	Brussels	Association Council
2006	.16.11	Rabat	Sub committee on human rights, governance & democratization.
	.17.11	Rabat	Association Committee
	.14.12	Rabat	Reinforced Political Dialogue

Source: European commission-external relation.

<www.ec.europa.eu/comm/external_relations/morocco/intro/index.htm>

During the third Association council, the European Union and Morocco decided to intensify cooperation in the framework of the Association Agreement by establishing the strategic sub-committees in the following areas: The internal market: industry, trade, service, transport, environment, energy, research, innovation, agriculture, fisheries, justice and security.

During 2004 and 2005 meetings of all these sub-committees were held and the principle of creating a sub-committee on Human rights sector, democratization and governance has been established and the first meeting was planned for 2006.

The new sub-committee will monitor the implementation of partnership priorities and the approximation of legislation. Monitoring will be undertaken on the basis of short, medium, and long term objectives. The sub-committee will report to the Association Committee (at Senior Official level) and complement the work of other committees of working groups set up by the Association Agreement.



(Working Groups on migration and social affairs, customs co-operation committee, economic dialogue).

16. EU Morocco fishing deals

The last fisheries deal ended on November 1999 and talks have been started on 28-29 September 2000. Spain is the EU Member State that most benefits from EU/Morocco Fisheries Agreement. The agreement ran out in November 1999 and has not been renewed since Morocco wants it to be changed in order to preserve their fish stocks. After six years of negotiations, the Fisheries Committee for the European Parliament voted, on Monday 15 May 2006, in favor of a largely criticized Fisheries Partnership Agreement between the Kingdom of Morocco and the European Union, which agreement have been endorsed by the Fisheries Minister of the EU on May 22nd 2006.

The Fisheries Partnership Agreement between the European Union and the Kingdom of Morocco is considered as highly problematic, if not openly illegal, by several state and non-state actors, since it includes the waters of the disputed Western Sahara. The European Commission has signed up to this agreement with Morocco without giving full consideration to its potentially negative impact upon the people of Western Sahara. The vote demonstrates, however, that many European Members believe that it is intimately related to the ongoing sovereignty dispute.

The agreement is the most valuable of all the EU's fisheries agreements with external countries. It is worth 36 million Euros per year and is seen by the European Commission and EU Member States as a crucial pillar of EU-Morocco diplomatic relations.

Already, in July 2006 EU and Moroccan negotiators had agreed on the terms for new four-year treaty, allowing EU vessels to resume fishing in the rich Atlantic waters of Morocco for the first time since 1999. The deal was smaller than the previous 1995-1999 treaty and excluded Morocco's Mediterranean waters. But nevertheless, 119 EU vessels – 95 of them Spanish – were allowed to return to Moroccan waters.



The ratification was welcomed among the main beneficiaries: Spain, Portugal and Morocco. In particular Spain's crisis-ridden fishing fleet is to benefit from the deal.

The Moroccan government was satisfied with the diplomatic victory over Its Sahrawi counterparts. The four-deal is worth 144 million EUR with most of the revenue going directly into government accounts.

17. EU-Morocco aviation agreement

On 12th December 2006, Moroccan Minister of Transport and the EU Presidency through Jacques BARROT, have signed a new type of aviation agreement between Morocco and European Union. It is original

In that it not only opens up markets but it also designed to approximate the legislation of the parties. The agreement will stimulate the growth of traffic to Morocco, and new, additional and more varied scheduled services.

The aim of the agreement is to open up the markets gradually and to approximate the legislation of the two parties. It goes beyond the conventional American concept of "open skies", since it comprises a number of fundamental market regulation objectives: flight safety and security will be enhanced, and the competition, state-aid and consumer protection rules will be harmonized.

Cross investment between European and Moroccan companies will be possible, which is not the case under conventional aviation agreements.

The agreement also contains several important provisions concerning environmental protection. Lastly, the agreement provides for streamlining administrative procedures. Passengers will also benefit from new routes, thus avoiding many of the connecting flights now needed. In Morocco, new companies have already been set up, and secondary airports (at present essentially dedicated to regional traffic) will receive international flights. All this will contribute to Morocco's objectives of attracting 10 million tourists by 2010.



The removal of all capacity restrictions between EU and Morocco is already attracting new market entrants. Carriers have announced new services from Frankfurt, Marseille, the UK and Spain to Marrakech, Fez Oujda.

The agreement breaks also new ground in that it is the first time in its History the European Union Community, acting as a regional group, has signed a complete aviation agreement with a non-European country.



IV. CONCLUSION

Morocco has a fairly diversified potential for economic growth and poverty reduction. In view of the economic recovery in Morocco since 1996, there are currently growth sectors at various levels: tourism, agriculture, and particularly sea fishing, textile industry and mining. Furthermore, because of its geographic proximity to the European market, and taking into account the opportunities offered to it under the partnership with the European Union, Morocco also has a great potential for the development of activities in some export-oriented industrial niches, particularly to the European market: clothing, agro-food industry, and electrical and electronic industry.

EU-Morocco trade is rapidly assuming new dimensions. Between 1993 and 2003, trade volumes grew by over 80%, with EU imports from Morocco nearly doubling. EU exports to Morocco also increased significantly. With a total trade with the EU of €15.7 billion in 2004, Morocco ranked as the EU's 28th trading partner.

Morocco is a privileged partner of the European Union. The EU is Morocco's most important export market, its leading public and private external investor and its most important tourist market. Morocco also contributes to the EU's energy security as a strategic transit country for Algerian gas and as an exporter of electricity to Spain. Human exchanges are constantly expanding: the EU is the main destination of Moroccan migrant workers and an increasing number of Europeans choose Morocco as a place for holidays or even residence. Professional exchanges are also steadily increasing.

The perspective of the Euro-Mediterranean free trade area and the adoption of the Euro as a single currency in Europe raises once again the debate on the choice of the appropriate exchange rate regimes for Mediterranean countries. Since Morocco depends heavily on EU as a market for its exports and a source for its imports, limited variability of the DH against the Euro seems *à priori*, to be an appropriate policy option. This option



may even be strengthened within the FTA. However, the nature and the composition of Moroccan exports are typical of North-South trade with little diversification and high concentration on textiles and agricultural products. From this perspective, the risk of asymmetric shocks is more likely, which reduces the expected gains from nominal anchorage.

The assessment of expected costs and benefits of the FTA with EU has generated a vast empirical literature. Overall, the agreements are expected to be beneficial in the long run, but there will be costs in the short to medium term.

The simulation exercise of the potential effects of the implementation of a free trade area between the EU and Morocco using computable general equilibrium model (CEGM) allows us to draw very useful conclusions on the reallocation of industrial production and its consequences in term of employment and current account balance. The most important insight is that the implementation of a FTA may lead, at the least in the medium term, to a reallocation of industrial production toward an even more specialization in traditional labor-intensive products at the extent of more modern capital-intensive sectors. These potential effects could affect the logic behind the current design of Moroccan exchange rate policy. In particular, the option of anchorage of the DH on the Euro appears less desirable due to high risk of asymmetric shocks.

Exchange rate regime in Morocco is fixed and the nominal value of the Dirham is determined Dirham in relation to a basket of major foreign currencies according to the weight of Morocco's foreign trade partners and the structure of currencies used in external settlements. The exact composition of the basket is kept secret by the central bank. Recently (April 2001)

A certain flexibility of Moroccan exchange rate policy seems to be necessary to restrain the potential effects of trade liberalization on current account, and absorb the



asymmetric shocks; In addition, an appropriate management of exchange rate policy may also play a crucial role in providing incentives for exports. However, exchange rate policy does not replace the restructuring process of the industrial sector. Accompanying reforms to create an attractive business environment require deep changes in judicial and administrative practices, a newly defined role for the government, an appropriate incentive scheme for foreign investors, and a stable macroeconomic policy. The success of this process will also require an intra-regional free trade area to minimize the hub and spoke effects.

As a result, it is expected that the economic relations of Morocco with the countries of the European Union and the other European countries will witness a noticeable development during the coming years.

