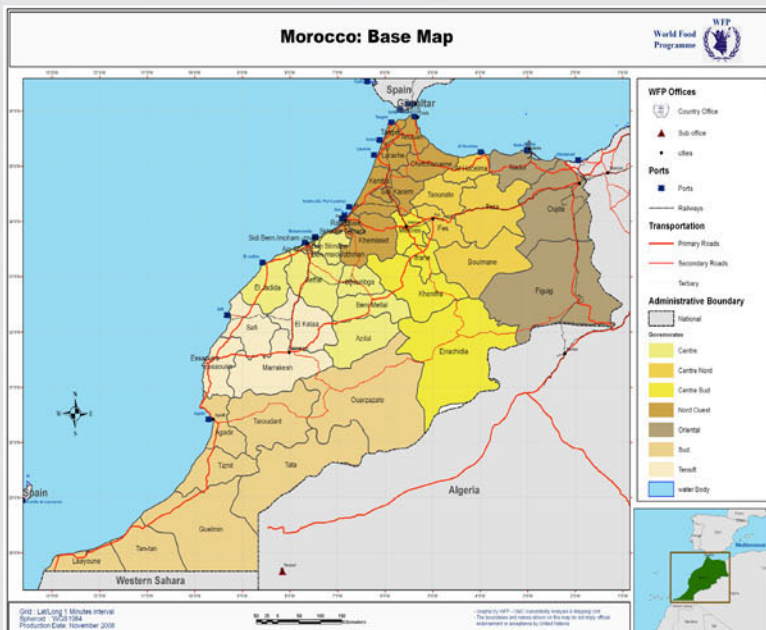




World Food Programme

World Food Programme Morocco Market Survey

Regional Bureau in Cairo for
Middle East,
Central Asia & Eastern Europe (OMC)



Prepared By
Thomas Beuter
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The views expressed in the Report are those of the Consultant, not the official views of WFP.

Thomas Beuter
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1. Executive Summary

Since natural as well as economic conditions limit self-sufficiency in food production, most countries of the OMC region depend on international food markets, including Morocco. As a consequence, the country is procuring a significant share of its food needs on international markets. In contrast to most other countries in Africa, food commodity markets in Morocco are well developed and reasonably functioning. As a consequence, markets now play an increasingly more prominent role in food supplies and food security, even for the vulnerable parts of the population.

Morocco's economic performance has been strong in recent years, with favourable effects on poverty and unemployment. Reflecting the pick-up in economic growth since the turn of the century, real per capita income is on the rise after a decade long stagnation, resulting in an acceleration of job creation, bringing the unemployment rate down to a thirty-year low. Despite this good performance, poverty and unemployment remain major policy concerns, as one out of seven Moroccans lives below the poverty line.

Economic growth was often hampered by an over-reliance on the agriculture sector. The sector's performance is extremely susceptible to rainfall levels and ranges from 15% to 20% of GDP. Given that almost 40% of Morocco's population depends directly on agriculture, droughts have a severe negative effect on the economy. The agriculture sector is much less dynamic than other sectors. Apart from poor rural infrastructure, which has, however, improved in recent years, the sector is characterised by underutilisation of its potential, waste of water resources, fragmentation of agricultural exploitations, use of poor technologies particularly in the subsistence sector, and widespread poverty.

Cereals constitute the basis of food consumption. The annual per capita consumption is around 200kg and provides about 2/3 of caloric requirements. Cereal production occupies more than 60% of cultivated land. Total cereal production varies between less than 2 million tons and 8.5 million tons, depending on rainfall patterns. On average, the country has to import 43% of its total cereal requirements, which are about 12 million tons per year.

Cereal imports are liberalised in general and executed by the private sector, however, the Government is intervening in the market through imposition of import tariffs. This is particularly to protect domestic cereal producers from world market prices, to stabilise prices and to keep imported quantities under control. With regards to tender wheat, this intervention is also part of the rather complex system of government food subsidies, with the objective to keep bread and wheat flour prices low.

In 2007/08, cereal imports came to a total of 6.57 million tons, and in 2008/09, import requirements will again reach up to more than 5 million tons, including about 3.7 – 4 million tons of tender wheat.

In order to protect domestic growers from international grain prices, the Moroccan government has traditionally controlled both domestic and imported wheat prices. About 1 million tons of domestic wheat is purchased each year by the government at a fixed per-ton price of (currently) 3,000 Moroccan Dirhams (U.S.\$390). The Government is funding subsidies on 1.05 million tonnes of wheat flour (called "farine nationale") every year, ostensibly for distribution to the poorest part of the population. In the light of soaring cereal prices, however, this year the Government is subsidizing the entire production of tender wheat flour.

As a reaction to the sharp increase in international food prices, the government has tightened its control on wheat prices again this year to ensure that millers make wheat flour available to avoid bread price change. The government pays the miller the difference between the ex factory price and the cost price.

In 2002, subsidies for food commodities and energy (petrol/gas) were 3 billion Dirhams. In 2008, subsidies are expected to reach up to 40 billion Dirhams, becoming a heavy burden for the Government. Discussions on the reform of the subsidy system have been ongoing for some years. In the light of sharp increases in international food and energy prices in recent months and increasing government expenditures for subsidies on the one hand, and, on the other hand, a subsidy system which is obviously not only targeting the poor, the government is attempting to reform the system. The objective of reforms will principally be the reduction of subsidies and better targeting.

There is also mounting pressure from the IMF and the World Bank to reform or even abandon the subsidy system. According to World Bank estimates, the entire system is currently consuming 3.3% of the GDP. On the other hand, the system seems to be reaching only 10% of the poor population, whilst the wealthiest quintile of the population absorbs 40% of subsidies.

Food prices, like in many other countries, increased significantly in Morocco in 2007 and 2008. Whilst milk and meat prices increased only moderately and less than prices in international markets, prices for cereals (mainly other than tender wheat products), vegetable oil and pulses saw a sharp increase. However, through the Government subsidy system and price controls, prices for tender wheat flour and bread could be kept under control.

In Morocco, 2.8 million people are poor, representing 9% of a total population of 30.5 million. At the same time, another 4.5 million people are considered vulnerable to poverty. In conclusion, 7.3 million people are poor or living at the edge of poverty. During the period of 2001-2007, 1.7 million people escaped from poverty, and 1.2 from vulnerability.

In recent years, the government has increased its efforts to fight poverty with the introduction of the "Initiative Nationale pour le Développement Humain" in 2005. For the period of 2006-2010, 10 billion Dirhams will be spent on social programmes, including alphabetisation campaigns, gender equality, public

health, and infrastructure projects such as rural electrification, rural road construction, and housing.

In the past, the Government's food security policy was mainly focusing on food availability. However, policies promoting a healthy and balanced diet have been neglected. The food subsidy system, which guarantees cheap bread, sugar and, until recently, vegetable oil, has to a certain extent contributed to an unbalanced diet. In terms of household food security and population nutrition, in Morocco the situation is much better than in most African countries, but it is still far from adequate.

The Government has embarked on an ambitious program of economic, social and political transformation. The reforms are wide-ranging, extending beyond macroeconomic stability to include measures to reform the financial sector, to better allocate public resources and to boost infrastructure development. Within this context, the government is emphasising to address the role of social policy, particularly in the areas of social safety nets and subsidies. This is not the first time the Government has considered reform of subsidies, but the political environment and policy tools may now exist to make reform possible. Only then, the significant gap between wealthy and poor populations can be reduced, and the livelihood of poor people, who sometimes live at the edge of extreme poverty and food insecurity, can be stabilised.

2. Introduction

2.1 Background

The specific nature of the OMC region, with many countries having functioning food markets, and with populations increasingly obtaining food commodities from these markets, makes it particularly important to understand how markets function, how they contribute to food security and how WFP can build local capacities to support the most vulnerable within this context.

Since natural as well as economic conditions limit self-sufficiency in food production, most countries of the region depend on these markets, including Morocco. As a consequence, they are procuring an increasing share of their food needs on international markets, and many of them are net importers of food commodities. In contrast to many other regions in the world, food commodity markets in the OMC region are well developed and reasonably functioning. As a consequence, markets now play an increasingly more prominent role in food supplies and food security, even for the vulnerable parts of the population.

Despite significant improvements with regard to food security made in recent years in most countries of Northern Africa, the Middle East and Eastern Europe, poverty is still high and many of the poor continue to be vulnerable to food insecurity. Particularly in the case of natural disaster such as drought, or political crises/conflict, both frequently observed in the region, food insecurity can increase fast and can affect considerable parts of the population.

In many of these countries, in the recent past prices of food commodities have gradually, often abruptly, increased, following trends in international food markets. The problem of high commodity prices, coupled with high transportation costs, is often reducing access to food, particularly for the poorest and most vulnerable. All data indicate that this trend is likely to continue.

In countries of the region where WFP is not represented, WFP has the mandate to carefully monitor the food security situation of vulnerable populations. Not only natural disaster or political crisis, but also abrupt changes in market supplies combined with sudden and sharp price increases may expose vulnerable populations to the risk of food insecurity and increased poverty.

Against this background, there is a strong need to analyse the development and dynamics of food markets, to understand market trends and to draw conclusions from this analysis with a view to developing appropriate responses, and, in case of crisis to develop appropriate responses.

In this context, the Regional Bureau is undertaking regional and country specific market studies in all parts of the region, including the North African Region, and with this specific study in the Kingdom of Morocco, where WFP has no operations any more.

2.2. Mission Characteristics

The mission to Morocco was undertaken from 8th to 25th August. The mission programme was established with support from the UN Resident Coordinator's Office in Rabat and the WFP Honorary Representative in Morocco, Mr. Mohamed Zejjari. The mission included field visits to Rabat, Casablanca, Skhirat and Bereshid.

The methods used by the Consultant were:

- Detailed discussions with key informants comprising market traders, wholesalers, millers, grain importers, officials from Ministries of Agriculture, Social Affairs and Labour, Economic Affairs, National Statistics Agency, National Cereal Office, World Bank, Delegation of the European Commission, GTZ, UNDP, and FAO.
- Collection and review of reports, studies, press articles and official statistics.

3. Macro-Economic Context and Agriculture Sector

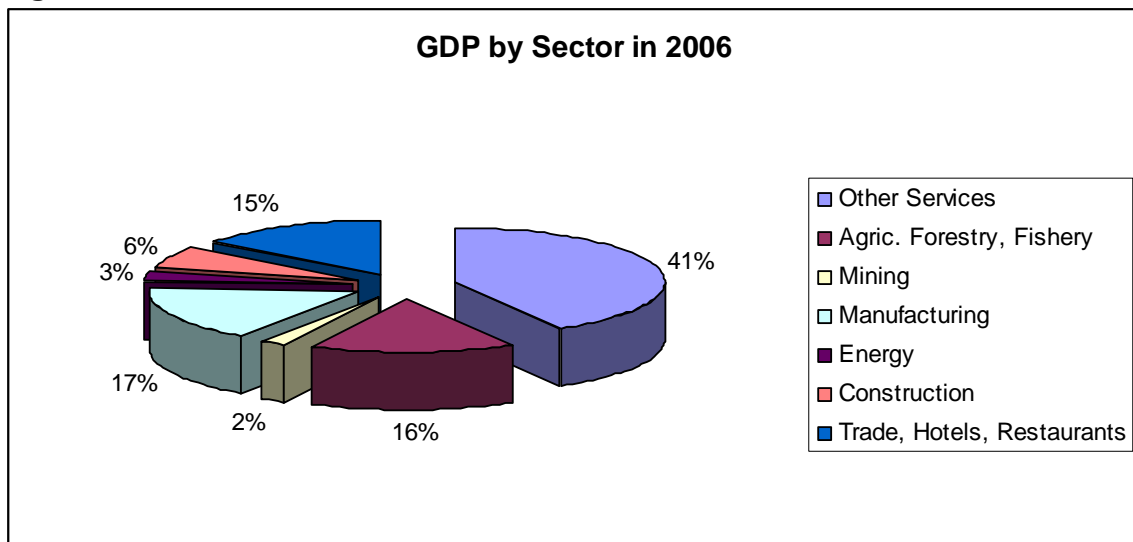
3.1 Macro Economic Context

The Kingdom of Morocco, located in the north west of the African continent, is bordering Algeria in the East and South and the disputed Western-Sahara in the South West, which Morocco claims to be part of the country. The Mediterranean Sea separates the country from Spain in the North, whilst the country borders the Atlantic Ocean in the West. The World Bank classifies Morocco as a lower middle-income country. The country has a total surface area of 446.6 thousand square kilometres. The per capita GDP is about US\$ 4300¹ and masks wide income disparities. The population has reached about 30.5 million in 2006², with about 55 % living in urban areas, and 45% living rural zones. The population growth rate is about 1.6% per year.

The country has seen a number of important political reforms in the recent past, which contributed to modernisation of the country and increased economic integration into international markets. Relations with Algeria remained tense over the unresolved Western-Sahara conflict, which is still the major bottleneck for increased intra-Maghreb cooperation. Relations with the EU, and especially with Spain and France, are strong. Morocco is Africa's 5th strongest economic power after South-Africa, Egypt, Algeria and Nigeria.

The following graph shows the GDP by sector in 2006, with a high contribution of services and an agriculture sector share of 16%.

Figure 1



Source: African Development Bank/OECD, African Economic Outlook, Morocco, 2008

¹ GDP/capita at US\$ purchasing power parity; Economist Int. Unit: Country Report Morocco, July 2008

² World Bank

Economic growth is often be hampered by an over-reliance on the agriculture sector, which employs 42% of the workforce. Agriculture production is extremely susceptible to rainfall levels and ranges from 15% to 20% of GDP. Given that almost 40% of Morocco's population depends directly on agriculture, droughts have a severe negative effect on the economy.

A strong pillar of the Moroccan industry is phosphate mining. Morocco controls about two thirds of the world's phosphate reserves. Other important industries are food processing, textile, metal, electronic chemical and car industries. Most important activities in the service sector are tourism and communication.

Morocco's economic performance has been strong in recent years, with favourable effects on poverty and unemployment. Reflecting the pick-up in economic growth since the turn of the century, real per capita income is on the rise after a decade long stagnation, resulting in an acceleration of job creation, bringing the unemployment rate down to a thirty-year low. Despite this good performance, poverty and unemployment remain major policy concerns, as one out of seven Moroccans lives below the poverty line and 15% of the urban labour force is unemployed.

Higher productivity and increased resilience to shocks are the main drivers of a strong economic performance in recent years. With the liberalization of the transport, energy, and telecommunications sectors, the strengthening of the financial sector, and opening of the trade regime, average growth has reached 5.4 percent per annum since 2001, 3.4 percentage points higher than in the 1990s. This reflects the ongoing diversification of the non-agricultural sector, and its increased resilience to shocks, both external and weather-related. However, bad crop years still impact the overall economic performance, as evidenced by the growth deceleration in 2007.

Table 1: GDP & Unemployment in Morocco 2003 - 2008

	2003	2004	2005	2006	2007	2008
Real GDP Growth (%)	5.5	4.2	1.7	7.8	2.2	5.1
Origin of GDP (% real change)						
- Agriculture	18.0	1.9	-17.7	21.0	-19.4	7.0
- Industry	2.6	4.9	6.0	6.8	5.0	5.8
- Services	4.0	4.4	4.8	5.3	6.0	4.3
GDP per head (US\$ at PPP)	3,191	3,380	3,547	3,901	4,048	4,314
Unemployment (%)	11.4	10.8	11.0	9.7	9.8	9.8

2003-2006: actual; 2007: EIU estimates; 2008: EIU forecast

Source: Economist Intelligence Unit, Morocco Country Report, July 2008

Table-1 illustrates the relatively high dependence of GDP growth from the agriculture sector. In 2005 and 2007, both years with poor agricultural

production as a result of poor rainfall, GDP growth was only around 2%. The relationship between agricultural output and economic growth is expected, however, to weaken over the longer term, with the secondary and tertiary sector gaining more weight in the country's overall output. Official unemployment figures for the second quarter of 2008 show a positive trend, with an unemployment rate of 9.1%, down from 9.4% during the same period in 2007.

Latest figures indicate a recovery from the relatively low economic growth in 2007. Real GDP growth in the first quarter of 2008 reached an estimated 7%, driven by a recovery in the agriculture sector after the drought in 2007, and by sustained non-agricultural growth. During the same period, the industrial sector grew by 5.3%, driven mainly by a substantial expansion of oil refinery capacities, car manufacturing, minerals and textiles. The telecoms sector grew by 11%, with the number of mobile-phone and internet users rising by 20% and 34% respectively.

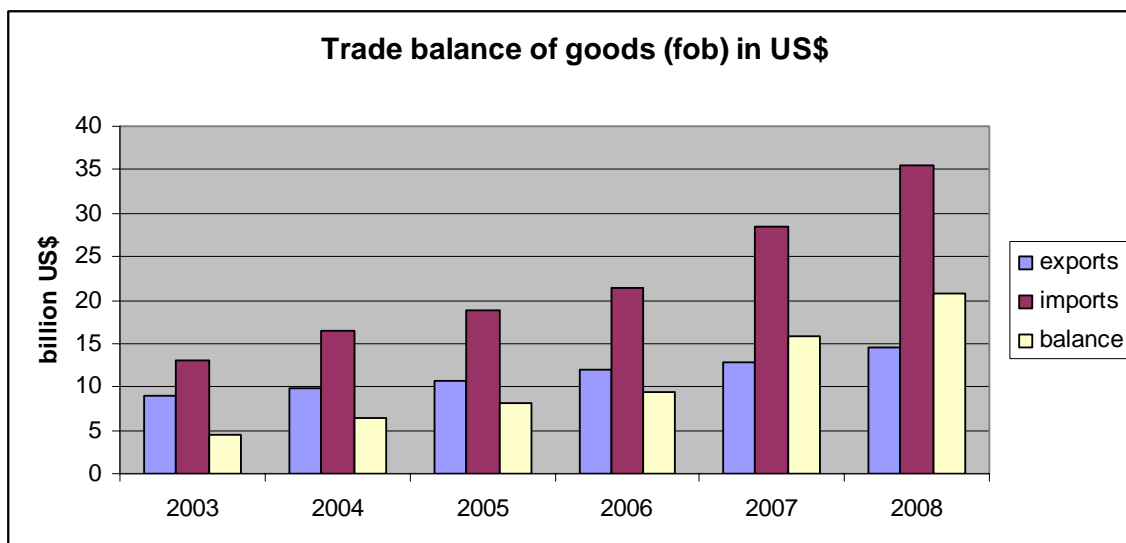
Inflation in 2007 was in the range of 2% officially, as a result of a slowdown in economic growth, the strength of the exchange rate and the government's decision not to pass on higher international food prices to the consumer. In the first five months of 2008, inflation has risen to 3.3% as a result of rising global inflationary pressures, particularly related to international food commodity and energy prices. In general, extensive government subsidies are limiting the impact on the consumer price index, but higher fuel prices in 2008 will contribute to inflation. Since the exchange rate regime is a tightly managed float against a Euro dominated basket of currencies, the sharp increase in international fuel and food prices, which are charged in US \$, has somehow softened the impact of higher import costs. During the period of July 2007 – July 2008, the Moroccan Dirham has appreciated by 12.34% against the US\$.³

Due to higher food and energy prices, but also as a result of a booming economy, during the first half of 2008 imports increased by 27.9% to 155 billion DH (US\$ 20.4 billion) whereas exports increased by 24.1% to 78 (US\$ 10.2 billion). According to the National Bank of Morocco, the drastic increase in imports is, on the one hand due to an almost 50% increase of the energy import bill, and on the other hand by an increase in the import costs of food commodities of 43.7%, compared to the same period of 2007. But also other import commodities such as machinery, cars, chemical products and fertiliser contributed to the increased import bill.

The chronic trade deficit and its substantial increase in 2007 and 2008 are shown in figure-2.

Figure 2

³ Le Matin, 01.09.2008



Source: EIU, Country Report Morocco, July 2008

The import bill for energy products during January to April 2008 was DH 20.625 billion, an almost 50% increase compared to the same period of 2007. During the same period in 2008, the costs for wheat imports almost quadrupled from DH 1.55 billion to DH 6.06 billion compared to the same period of the previous year⁴. Tourism receipts and remittances from Moroccans living abroad held up well and almost offset the trade deficit, however. External reserves increased by US\$ 4 billion in 2007 to reach US\$ 24 billion at year end – the equivalent of 6.8 months of imports of goods and non factor services for 2008⁵.

The Government target is to achieve 6% real GDP growth in coming years, which will be supported by increased attraction of foreign investment, investment in infrastructure, particularly in rural areas, which altogether is expected to result in creating 250,000 new jobs and building 150,000 new housing units a year until 2013. These targets seem overambitious, particularly given the vulnerability of GDP growth to shocks that affect agricultural output. However, they show the Government's commitment to attract more investment and to reduce unemployment and poverty. Priority sectors for foreign direct investment are textiles, electronic components, off-shoring services and tourism. Another key issue will be the reform of the agricultural sector. Under the plan called *Maroc Vert*, the Government aims to modernise and diversify the agricultural sector, and to support particularly the small farmers.

3.2 Transport and Infrastructure

⁴ Bank Al Maghrib, Monetary Policy Report, June 17th, 2008

⁵ International Monetary Fund: Morocco-Preliminary Findings of the 2008 Article IV Consultation, Rabat, May 30, 2008

Morocco enjoys one of the most highly developed infrastructures in Africa. The country is served by a network of 57,847 kilometers (35,946 miles) of primary and secondary roads, of which 30,254 kilometers (18,800 miles) are paved. Morocco has 70 airports, 11 of which are major and quite modern, and efforts are underway to modernize all of them. The largest of them, an international airport just south of Casablanca, offers flights to several destinations in Europe, the United States, Canada, the Middle East and Africa. It is serviced by more than 50 airlines. Morocco has 24 ports, which handle 98 percent of Morocco's foreign trade. The port of Casablanca is a world-class port and the second largest in Africa. In addition to goods, Morocco's ports also service tourist ferries to and from Spain and France.

Electrical power is provided by the state-owned Office National de L'électricité (National Office of Electricity, ONE). Despite the recent discovery of modest amounts of oil reserves in Morocco, most electricity is produced from imported fuels, mainly from Saudi Arabia. Morocco's total power capacity is estimated at 13.16 billion kilowatts, 124 million of which are imported, mainly from Spain. The government is planning to build additional power plants and boost electric capacity by the end of 2010 to meet the increasing demands of industrial projects and is extending electric services to currently un-served rural areas.

Telecommunications services in Morocco are thoroughly modern and have greatly improved since the mid-1990s.

Morocco will soon launch a large scale transportation infrastructure overhaul program at a cost of \$16.3 billion. The plan calls for the development of the Tangier Mediterranean port complex, modernization of the rail network and the installation of a high speed train connection between Tangiers and Casablanca.

Morocco's airport capacity will also increase to accommodate 30 million passengers annually. The program also calls for the construction of more than 2,000 kilometers (1242.6 miles) of expressways and highways.

Tangier Mediterranean Port, a project which began in 2002 and cost more than US\$2bn to build, features an oil storage facility, a grain terminal, a passenger port and a container terminal with a capacity of three million containers. The government plans to spend up to US\$18bn to improve the area's infrastructure, putting it in a position to take advantage of Morocco's status as the only North African country with free trade agreements with the US and EU.

3.3 Agriculture Sector

There are four main agro-ecological zones in Morocco:

The high plateau on the east of the middle Atlas, with annual rainfall of 250 mm. Some barley is grown, but yields are very variable. The production system is nomadic, although some settlement is now taking place.

The middle Atlas region, where common range is grazed in summer by transhumant sheep flocks. Crop and livestock production systems are integrated and some settlement is now taking place.

The Rif, high Atlas, small Atlas and the southern oasis: Although seemingly very distinct, these zones have in common agricultural systems that are settled, diversified, relatively intensive and usually irrigated. Sheep raising is common, although flocks are small. Forage production and conservation have existed for a very long time.

The coastal plains, Chaouia, Doukkala, Abda, Chiadma, Gharb, Moulouiya and the plateau of the west and of the Sais: These are the areas of large-scale cereal cultivation associated with sheep and beef cattle production, which are increasingly intensive.

The Rif and Atlas Mountains have a profound influence on climate and rainfall and, therefore, on agricultural activity. The Rif and the middle Atlas separate the plains and the coastal plateau from the vast eastern plateau. The high and the small Atlas together constitute a natural barrier of several hundred kilometers, protecting the north-west part of the country from the harshness of the Sahara. Winter snows in the two mountain chains provide important water resources.

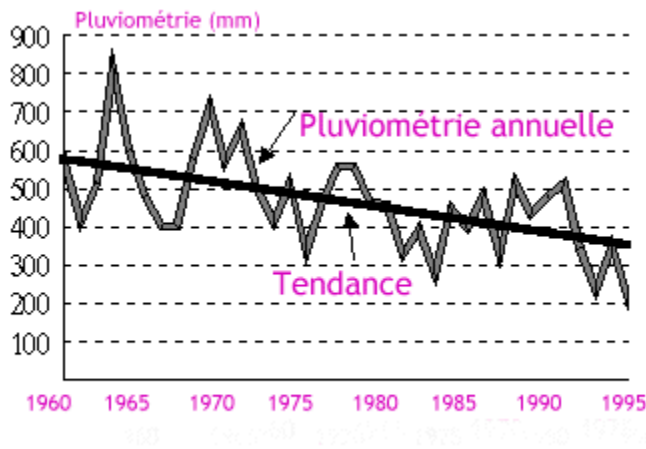
The agriculture sector in Morocco contributes between 15 and 20% to the GDP and employs about 40% of the population. Almost 9 million ha (12% of the total surface) are cultivated, 9 million ha (13% of the total surface) are covered by forests, and 53 million ha are used as pasture. Only 14% of the cultivated area is irrigated (1.2 million ha), the rest is depending on rainfall, which is exhibiting great variations from one year to the other, thus significantly influencing agricultural production. In addition, the strong population growth in recent years has reduced the size of agricultural holdings and has occupied a considerable area of forest land and pastures.

Agricultural production is characterised by great variations, ranging from subsistence production using traditional agricultural technologies to commercial or export oriented production, using modern technologies and farming methods.

Cereal production covers about 68% of the cultivated area and is rainfed in general. Most important cereals cultivated are wheat (30% of cultivated area), and barley (27% of cultivated area), followed by maize, which is less important. Other major crops comprise potatoes, pulses, fresh vegetables, sunflower, fruits, olives, and sugar beets. Most important agricultural export products are citrus and early spring vegetables, which are mainly exported to Europe.

The danger of drought is ever present. Especially at risk are the cereal-growing lowlands, which are subject to considerable variation in annual precipitation. On average, drought occurs in Morocco every third year, creating a volatility in agricultural production that is the main constraint on expansion in the sector. Figure-3 illustrates the great annual variations in rainfall, but also a clear trend of decreasing average rainfalls.

Figure 3: Average annual rainfall in Morocco (1960 - 1995)⁶



This trend is particularly felt in semi arid and arid zones, where the agro-system of many oases is at risk, as silting and water scarcity are on the increase, resulting in decreased agricultural production, and, in the longer run, destroying the basis of traditional livelihoods in the oasis.

Livestock rising, particularly sheep and cattle, is widespread. Morocco fills its own meat requirements and is also attempting to become self-sufficient in dairy products.

Another important activity of the sector is fisheries, employing about 400,000 people and contributing to about 50% to revenues from agricultural exports. The share of agricultural exports from total exports is about 10-12%. The fishing grounds in the Canary Current off Morocco's west coast are exceptionally rich in sardines, bonito, and tuna, but the country lacks the modern fleets and processing facilities to benefit fully from these marine resources.

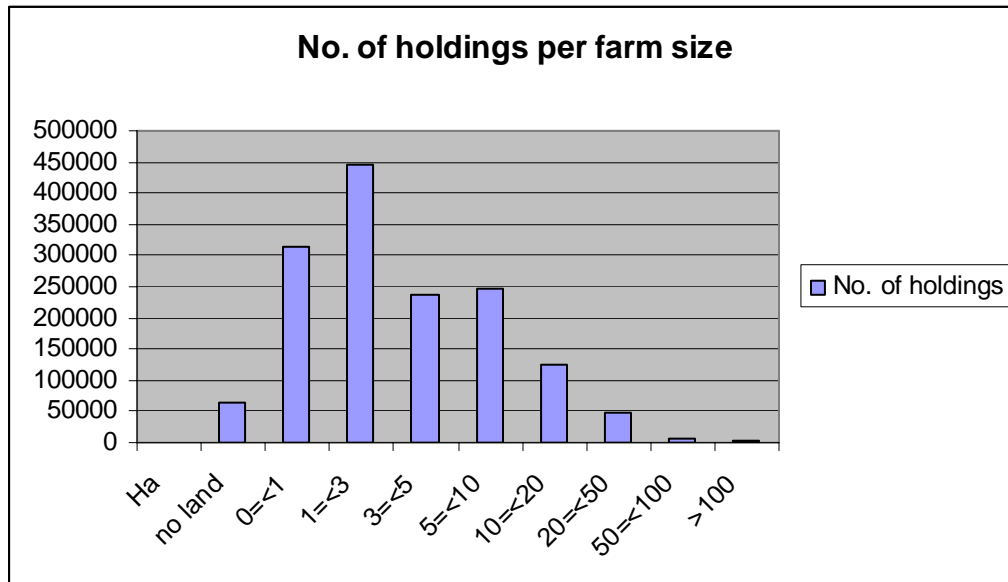
The agriculture sector is much less dynamic than other sectors. Apart from poor rural infrastructure, which has, however, improved in recent years, the sector is

⁶ Source: Ministère de l' Agriculture et de la Pêche Maritime, Division de la Vulgarisation Agricole

characterised by underutilisation of its potential, waste of water resources, fragmentation of agricultural exploitations, use of poor technologies particularly in the subsistence sector, and widespread poverty.

71% of agricultural holdings (out of a total of 1.5 million) are small holdings under 5 ha (see figure-4), which are mostly oriented towards subsistence production. Only 4% of farms are cultivating more than 20 ha.

Figure 5



Source: Ministère d'Agriculture et de la Pêche Maritime

Fragmentation of land is a major constraint for agricultural development in Morocco. Part of the problem is the traditional land heritage system, which permanently contributes to smaller land entities. On the other hand, there is no proper land registration system in place, which is a major constraint for access to agricultural credit and investment.

During the period of 1967 – 2004, the Government made considerable efforts to increase facilities of water reserves and irrigation. About 10 major dams were constructed, with a capacity of 16 billion m³, and with the potential to mobilise 12 million m³ surface water. In addition, 13 water transfer systems were constructed. However, these resources are underutilised, due to poor maintenance of equipment, and poor water management. However, whilst the irrigation sector currently represents only 10% of arable land, it contributes 45% of added value to agriculture and produces 75% of the agricultural exports.

In recent decades modernisation and liberalisation efforts resulted in intensive, high-yielding market-oriented and commercialised operations for many products. Officials say that the country has reached “satisfactory levels” of food self-sufficiency, at 60-80% for cereals, 60% for sugar, 35% for edible oil, 100%

for meat and 85% for milk and dairy products. In fruit, vegetable and fish product areas, the country has surpassed self-sufficiency and is a net exporter.

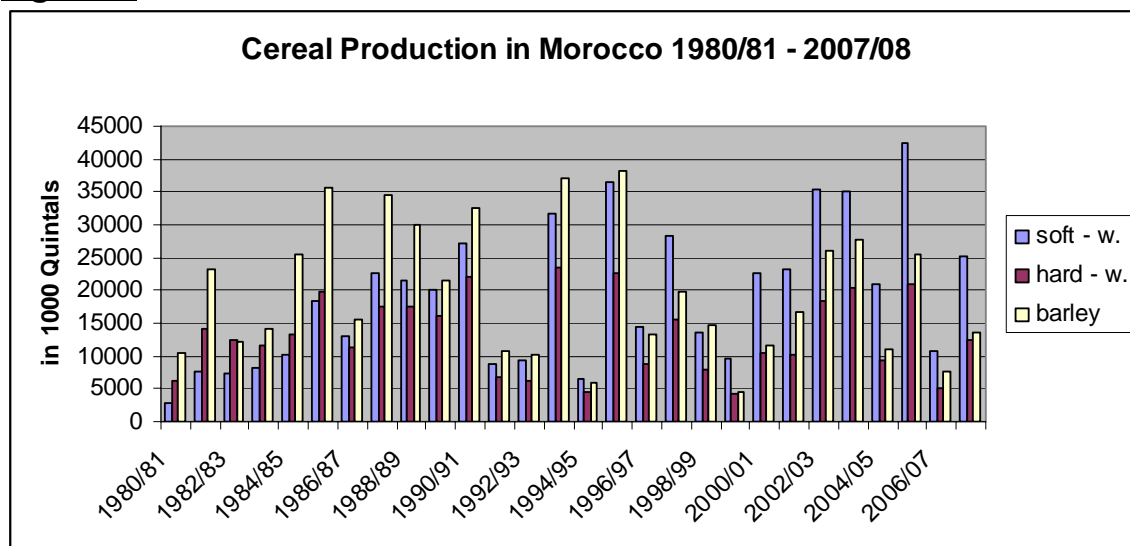
4. Food Markets

4.1 Food Production

4.1.1 Cereals

In Morocco, cereals constitute the basis of food consumption. The annual per capita consumption is around 200kg and provides about 2/3 of caloric requirements. Accordingly, cereal production plays a predominant role in the agriculture sector, as it occupies more than 60% of cultivated land. Since cereal production is mainly rain fed, it is heavily influenced by variations in rainfall. In years of poor rainfall, total cereal production can be less than 2 million tons (in 1999/2000), in years of favourable rainfalls, cereal production can reach up to 8.5 million tons (in 2005/2006). The following graph (Figure-5) shows variations in cereal output for the last three decades. The graph provides evidence that on average, in one out of three years cereal production has been poor as a result of drought. Since agriculture contributes 15-20% to the GDP, rainfall patterns have a significant influence on the GDP growth rate, which in 2007 dropped to 2.2% from 7.8% in 2006, a year with very favourable rainfalls and a record cereal production.

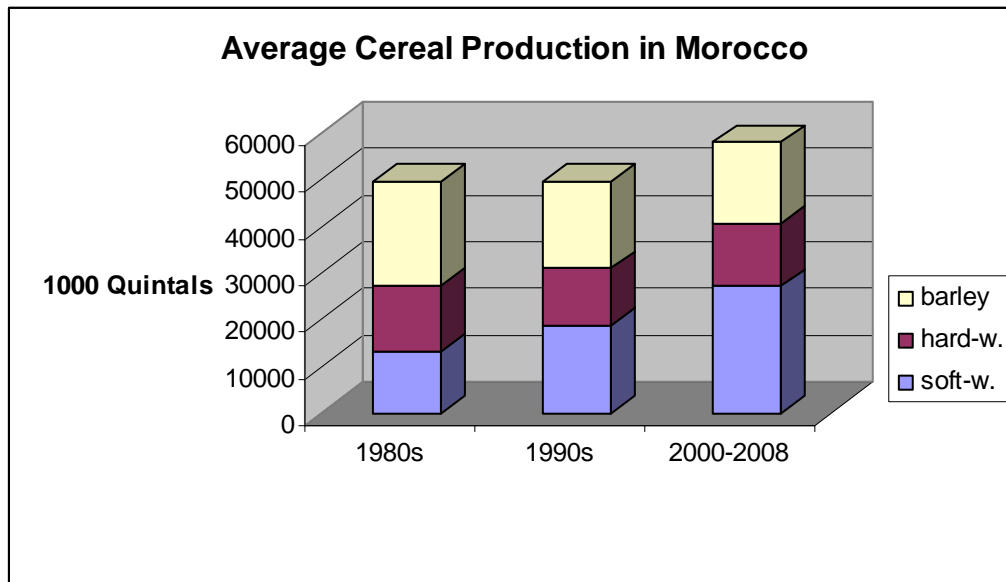
Figure 5



Source: ONICL/Ministère de l'Agriculture

Increased use of modern farming equipment and technologies has resulted in an overall increase in cereal output since 2000/01. Whilst the average cereal production in the 1980s and 1990s was stagnant and around 4.95 million tons, during the period of 2000 – 2008, average cereal production increased to 5.78 million tons. At the same time, production patterns shifted in favour of tender wheat production. Until 1986/87, tender wheat production was inferior to durum wheat as well as to barley production. Since the late 1990s, tender wheat production exceeds durum wheat production by 100% (Figure 6), and also barley production, however, to a slightly lesser extent.

Figure 6



Source: ONICL/Ministère de l'Agriculture

In 2007/08, total cereal production was in the range of 5 million tons, 20.4% less than average production of the last five years (6.28 million tons).

Similar to overall cereal production results, yields/ha are subject to significant variations. For wheat, average yield variations between 0.5 tons/ha and 2 tons/ha have been observed. During the last decade, the average yield was 1.06 tons/ha for durum wheat and 1.16 for tender wheat, which is low compared to international standards. However, there are considerable differences between agricultural areas in Morocco, where, in favourable wheat growing areas, average yields/ha are well above the national average. In 2007/08, tender wheat yields reached 2.59 tons/ha in the area of Ben Slimane, and 2.47 tons/ha in the area of Sidi Kacem. Both areas are situated in the fertile Gharb agricultural zone, north of the Capital of Rabat. Average barley yields during the last decade were in the range of 0.8 tons/ha. The modest production results in the cereal sector are due to fragmentation of land, limited utilisation of modern agricultural techniques, low capital investment, and often limited availability of improved seeds.

Producer prices are high compared to international grain prices. Production costs for 1ha of tender wheat are in the range of about 4500 Dirhams (about US\$ 600) in major wheat producing areas, where average yields are above the national average and reached about 2 tons/ha in 2008.

The total area cultivated with cereals has not increased during the last decade and is around 5 million ha. The government is attempting to increase the area cultivated, particularly with regards to wheat, in order to reduce import dependency in the light of soaring cereal prices in 2007/08. To increase

productivity, the government is providing subsidies for a number of agricultural inputs, such as fertiliser and machinery.

The area planted to grain each year depends heavily on the rainfall received at the beginning and during the planting seasons. Many farmers wait for the first rains, or its signs, before engaging in plantings. Price signals from markets seem to be less important as the *Office Nationale Interprofessionnelle des Céréales et Légumes* (ONICL), a government agency, is controlling cereal markets. Through its licensed agents, the Office acts as a buffer to withdraw/ provide grains from/to the market and to import when necessary. ONICL also sets a reference price for wheat, which was fixed at 3000 Dirhams/ton in 2008⁷. Therefore, the increase in international wheat prices did not seemingly have any significant impact on farmer's decision for planting.

Maize production is less important in Morocco compared to wheat and barley. Average maize production is in the range of 250,000 tons. Whereas wheat is almost exclusively used for human consumption, parts of barley and most of the maize are used in the livestock sector (poultry rearing), which consumes about 15-20% of total cereal production. Production of other cereals such as rice and sorghum are insignificant.

4.1.2 Pulses

Pulses constitute an important element in the diet of most Moroccans. They are mainly grown in areas with relatively high rainfall. Their production is covering about 350,000 ha and with regards to their importance in agricultural production, they are second behind cereals. Horse beans (*vicia faba minor*) make up for about 40% of pulses production, followed by chick peas, (19%) dry peas (14%) and lentils (11%). Total pulses production is between 0.8 million tons and 2.4 million tons, according to seasonal weather conditions. Because of low productivity and as a consequence, of poor returns compared to other crops such as cereals and sunflower, production was stagnant or decreasing in recent years, particularly because of high labour costs. Production of pulses is more labour intensive compared to other crops⁸. In 2007/08, pulses production reached 1.746 million tons, including 1 million tons of horse beans, and 520,000 tons of chick peas. Whereas Morocco is importing required quantities in years of low production, in years of normal or high production, Morocco is self sufficient and even exporting surpluses.

4.1.3 Sugar

⁷ For a more detailed analysis of the role of ONICL see chapters 4.2 and 4.3

⁸ As a result, the cultivated area decreased from 445,000 ha on average to about 350,000 during recent years.

Sugar production in Morocco is based on two crops, sugar beet and sugar cane. It is exclusively grown on irrigated areas⁹. Most important areas of sugar cultivation are Doukkala, Loukkos and Gharb. Total production of sugar beet is in the range of 3.2 million tons, whereas sugar cane production is reaching 800,000 to 1 million tons per year. However, during recent years, significant output variations have been observed, which were caused by sometimes adverse weather conditions, technical problems in irrigation, and the discontent of farmers with prices offered by the sugar industry¹⁰. The average yield is now reaching 52 tons/ha in sugar beet cultivation, and about 70 tons in sugar cane. Production of refined sugar from domestic sugar crops is in the range of 400,000 – 500,000 tons per year, thus covering 36% - 45% of total sugar requirements of the country (1,1 million tons in 2006). The rest of the country's requirements are covered by imported raw sugar, which is then refined in the country by the domestic sugar industry. The government is attempting to increase sugar production to 650,000 tons per year. This can only be achieved with an improved management of irrigation schemes and an attractive price system for sugar crop cultivation. The sugar processing industry in Morocco, formerly to a large extent state controlled, is now entirely in the hands of the group COSUMAR. Domestic capacities for sugar production are in the range of 650,000 tons per year. Sugar prices are subsidised by the government.

4.1.4 Vegetable Oil

Vegetable oil in Morocco is mainly produced from olives and sun flower. The area under olive cultivation is about 600,000 ha, and under sunflower cultivation about 50,000 ha. Olive production is on the increase as a result of increasing demand, particularly from Europe, whereas sunflower production has suffered a decline in recent years, due to the fact that vegetable oil is no longer subsidised by the government.

Total olive production has been in the range of 750,000 – 1 million tons in recent years. In 2005/06, olive oil production was 75,000 tons, from which 33,200 tons were exported. Part of olive production is sold as table olives, or is used for canning. Sun flower oil production in 2005/06 was 3,300 tons. With a total vegetable oil production of 78,000 tons in 2005/06, 19% of local consumption (410,000 tons) was covered. In years of good production, locally produced vegetable oil can cover up 30% of local demand.

4.1.5 Vegetables & Fruits

In 2006/06, vegetable production covered an area of 270,000 ha with an output of more than 7 million tons. Production is dominated by three crops: potatoes,

⁹ The total area cultivated under sugar crops is about 80,000 ha.

¹⁰ Tariffs were increased in August 2006 by 348 Dirhams/ton. This was the first price adjustment since 1981.

tomatoes and onions making up for almost 50% of total production. There are two main seasons of cultivation: the spring season, which is covering about 30,000 ha and is mainly producing for exports to the European Union; and the main season, which to a large extent is producing for local consumption.

The principal crops of the spring season are tomatoes, mainly grown in greenhouses, beans, courgettes and potatoes. , The total production of the spring season consists of about 1.5 million tons of vegetables. In 2005/06, tomato exports reached 240,000 tons, followed by beans (84,000 tons), courgettes (40,000 tons), and potatoes (32,000 tons). Potato exports were on the decline in recent years because of strong competition from Egypt and Cyprus. Other spring season crops comprise onions, pepper and strawberries.

The main season vegetable production (5.5 million tons) is dominated by potatoes, melons, carrots, onions and tomatoes. A smaller part of this production is processed (about 250,000 tons), however, this part is declining because of stiff competition, mainly from rising economies in Asia.

Production of citrus in 2005/06 was about 1.236 million tons, from which 543,000 tons were exported, mainly to the European Union and Russia.

4.1.6 Livestock Production

The Livestock sector constitutes an important part of agriculture sector, particularly in the semi-arid and arid zones of the country, where livestock production is more important than crop cultivation. It is characterised by a predominantly mixed and integrated crop/livestock system, representing the main source of income for the majority of rural households. Most arable land and rangeland in Morocco is located in areas receiving less than 400 mm of rainfall, where cereals and small ruminants, mainly sheep, are integral components of an extensive dry land production system.

In spite of consistent growth in overall production, efficiency indices of livestock units remain generally low, due mainly to poor husbandry practices, forage shortages, and too much dependence on rangeland feed resources.

Recent findings seem to indicate, however, that small ruminant production is undergoing significant changes in response to these constraints. Thus, while natural pastures are still used beyond their stocking capacities, dependence on other sources of feed has grown rapidly. Similarly, traditional agro-pastoral systems are evolving into more sedentary commercial enterprises, with greater proportion of livestock production units being of larger size and highly linked with crop production of higher potential zones.

Livestock production in Morocco, in addition to meat and milk, provides income, employment and by-products. Recent estimates indicate that the contribution of livestock production to total agricultural production declined. The 71% of the

farmers who own less than 5 ha of land each keep more than 60% of the cattle and 50% of the sheep on only 25% of the cultivable land. Farmers, particularly small-scale farmers, invest in livestock as a form of savings, to buffer against crop failure.

There are currently about 16 million **sheep** in the country, of which over 90% are in rain fed areas. Sheep production is declining in importance as an economic activity and nomadic or transhumant systems are being replaced by sedentary systems on irrigated lands or near towns, however, it still constitutes the main livelihood in some areas. Integration of sheep and crop production is increasing, with the recycling of by-products and the utilisation of fresh or conserved forage. Degradation of rangeland and forest, because of poor management and the cutting of trees for fuel wood, is a serious problem.

In Morocco, there are about 2.5 million **cattle**, of which 65% are local breeds. There are three major systems of cattle rearing existing:

- (i) The **dairy system** is based on irrigated land, using high-producing Friesian and Holstein dairy breeds and some cross-breeds. The main product is milk, and calves are sold for fattening. Irrigated forage production provides 40% of the feed requirements, mainly from perennial alfalfa and berseem (Egyptian clover); concentrates such as sugar-beet pulp, wheat bran, cereal and legume grains and commercial concentrate provide 50%; and cereal straw 10%. Annual milk production from Friesian and Holstein cows varies from 2400 to 3800 liters per livestock unit, depending on the area.
- (ii) The **mixed system** characterized by the production of calves and milk from Friesian and local breeds and their crosses is found in the more favourable rainfed areas and around irrigated areas. The feed base is diverse—weedy fallow, straw and stubble, agro-industrial by-products and some rangeland, with little cultivated forage. Agro-industrial by-products and other concentrates such as cereal grain and fava beans make up 30–50% of the diet.
- (iii) The **lactating cattle (beef cattle) system** is common in rainfed cereal production areas, where local breeds are kept to produce young calves for fattening. Straw and stubble provide about 40% of the feed requirements, and weedy fallow and rangeland another 40%.

An estimated 4.8 million **goats**, mainly local breeds, are kept almost entirely in the rangeland and forest. Supplementation is rare, except when there is snow, when feed is scarce or during lactation in dairy goats. Annual production varies from 8 to 16 kg of kid live weight, depending on the region. There is some semi-intensive milk production, using crop residues, some purchased concentrates and occasionally a forage crop.

There are also about 820,000 donkeys, 470,000 mules, 200,000 horses, 60,000 camels, 10,000 pigs and 37 million chickens. Poultry production provides annually 270,000 million tons of white meat and 2.8 billion eggs¹¹.

Sheep, cattle and goats provide 98% of the red meat production, which increased from 300,000 tons in 1993 to 400,000 tons annually in 2006, mainly because of increases in mean individual carcass weights. Of the total red meat produced, 43% is mutton, 40% is beef and 8% is goat.

Red meat production is mainly from extensive systems, where feeding is based on spontaneous vegetation and crop by-products. It is subject to wide annual and seasonal fluctuations, because of variations in annual rainfall and because of feed shortages in late summer, autumn and early winter. Annual red meat consumption per capita is about 13 kg.

With regards to poultry, the annual production is in the range of 270,000 to 290,000 tons annually, which covers total domestic demand.

Annual milk production in 2006¹² was about 1.57 billion liters, 50 liters per capita, but is subject to large supply fluctuations between seasons, because of the fluctuating feed supply. Since domestic milk production is not matching demand, about 12,000 tons of milk powder was imported in 2006, mainly used by the dairy industry.

Milk used in the dairy industry is collected at more than 1000 collection points countrywide. In 2006, 560 million liters of pasteurized milk and 95 million UHT milk was produced by the dairy sector.

Annual butter consumption is about 1.5 kg per capita. It is covered by 40% from domestic production. In 2006, 36,500 tons of butter and 10,100 tons of cream were imported.

4.2 Food Imports

4.2.1 Cereals

With regards to imports of food commodities, cereals play the most prominent role, and tender wheat imports exceed by far the importation of other cereals (see figure 7). During the period of 1997/98 – 2005/06, Morocco had to import 43% of total cereal requirements on average. Imports are fluctuating according to the variations of domestic cereal production.

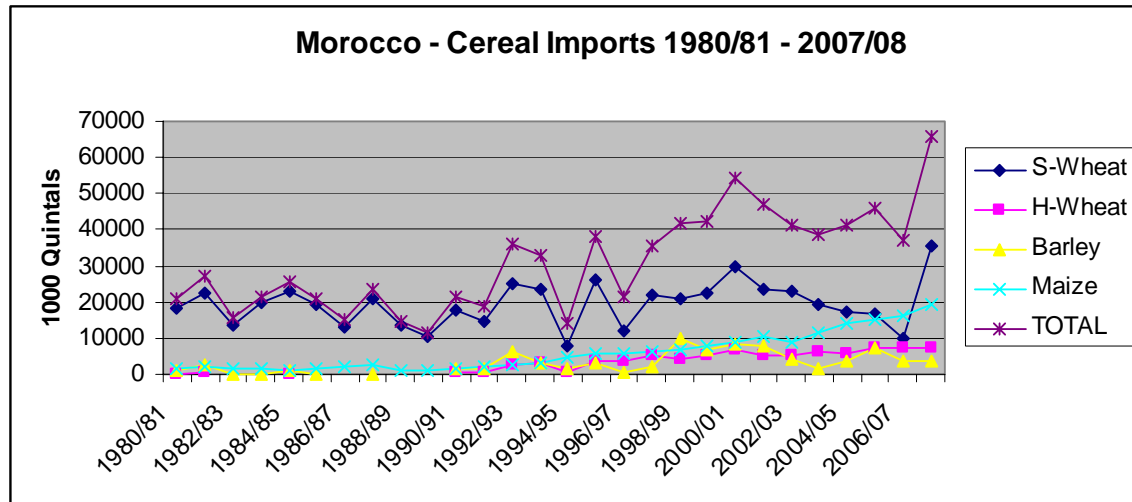
Total national cereal requirements are currently about 12 million tons per year. This includes human consumption (about 6.1 million tons), animal feed, seed use, industrial use and stocks. For tender wheat alone national requirements are

¹¹ About 2 million eggs are produced by the poultry industry, and 0.8 billion by traditional chicken rearing.

¹² Ministère de l'Agriculture et de la Pêche Maritime

in the range of 5.5 million tons per year. Particularly maize imports have increased in recent years, since domestic production is modest (200,000 – 300,000 tons annually, covering only 15 – 20% of requirements) and demand for chicken feed has picked up significantly.

Figure 7



Source: Office National Interprofessionnel des Céréales et des Légumineuses

Cereal imports are liberalised in general¹³ and executed by the private sector, however, the Government is intervening in the market through imposition of import tariffs. This is particularly to protect domestic cereal producers from world market prices, to stabilise prices and to keep imported quantities under control. With regards to tender wheat, this intervention is also part of the rather complex system of government food subsidies, with the objective to keep bread and wheat flour prices low.¹⁴

This year by June 1st, the Government raised a 50% tariff on tender wheat imports in order to protect farmers from world market prices, which were lower than domestic prices, and to support the commercialisation of local production. The tax was lifted on 16th August, when about 770,000 tons of locally produced cereals had been delivered to the domestic market. This step was necessary in order to increase commercial wheat supplies, particularly for the milling sector, as stocks were declining rapidly as the share of domestically produced cereals reaching the market was 27% less than the average of recent years (1.05 million tons). The low commercialisation of this year's harvest was due to reconstitution of on-farm stocks after a poor harvest in the previous year, and probably related to speculation. However, on 15th September, about 1 million tons of locally produced tender wheat had reached the market.

¹³ Until 1995, the government was in control of all cereal imports by fixing import quantities through ONICL. This control has been lifted by a government decree (Dahir No. 1-95-8). However, government has still a number of instruments at its disposal to control imports.

¹⁴ See chapter 4.3.2

Whilst cereal imports have declined in recent years because of relatively good harvests during the period of 2002 – 2006, in 2007/08 imports increased again because of a poor harvest in 2006/07 and a rather modest production in 2007/08. Accordingly, in 2007/08, cereal imports (see figure 6) came to a total of 6.57 million tons¹⁵, and in 2008/09, import requirements will again reach up to more than 5 million tons, including about 3.7 – 4 million tons of tender wheat.¹⁶ From January to July 2008, Morocco imported 1.96 million tons of wheat for 886 million US\$. Compared to the same period of last year, the import bill had increased by more than 50%.

The importation of tender wheat is currently strictly controlled by the government through ONICL. Apart from raising import tariffs on tender wheat (see above) in order to protect local producers from often cheaper world market prices, the ONICL is fixing import quantities and is controlling imports through a wheat import tender regime whenever deemed appropriate. Wheat suppliers (ONICL licensed grain collectors and distributors, cooperatives and importers) can apply for the importation of wheat in line with quotas set by ONICL. Accordingly, wheat suppliers submit price offers to supply individual lots and ONICL selects the lowest bids.

This year, tender wheat was sold to grain collectors and millers at a referential price of 3000 Dirhams/ton (UD\$390). Free market prices went up to 3250 Dirhams/ton in mid-August. After 16th August, the import parity price for tender wheat was in the range of 2500 Dirhams (US\$325). The high import tariff illustrates the protectionist policy of the Government, which is then paying subsidies to the millers to keep flour prices low for consumers.

In August 2008, licences to import 1.7 million tons of tender wheat before 31st December had been allocated by ONICL. In a second round, ONICL awarded licences for the import of another 765,000 tons of tender wheat in early September 2008. This time the tender was for imports between January and May 2009. All grain is destined for millers for the production of government-subsidised flour. At the same time, traders were awarded licences for the importation of 95,000 tons of tender wheat by 31st December, the balance remaining from an earlier tender.

In the framework of the Association Agreement with the European Union, Morocco has agreed to import cereals from the EU under a preferential tariff system according to domestic cereal production. In 2006/07, this resulted in the importation of 3.7 million tons of cereals under the regime, including 985,000 tons of tender wheat and 1.6 million tons of maize. With the United States, a similar agreement has been concluded.

¹⁵ ONICL: Suivi des Importations des Céréales, Campagne 2007/08 (Juin/Mai)

¹⁶ Information gained from a miller.

The Morocco-EU agreement promotes the access of Moroccan products to the EU market and sets up preferential quotas for European agricultural products on the Moroccan market. Likewise, through the Morocco-US agreement, the United States will also benefit from the same treatment for its agricultural products on the Moroccan market. Within the framework of this agreement, the United States will profit from the level of agricultural trade on account of the privileges given to European agricultural products, however, without bearing a corresponding financial cost for the development of the Moroccan economy. The EU agreement provides for financial assistance to help upgrade the Moroccan economy and legislation to take advantage of the new export opportunities, while the US agreement does not provide for financial support.

Under the current import system importers procure wheat from abroad and compete on the subsidy to be paid by the government when they deliver the tender durum wheat to specified mills at a fixed price. Although in theory importers can import wheat and deliver it to mills outside of the ONICL system, they will not be able to compete because they won't have access to the subsidy. Before the current system was in place, ONICL used to control marketing and distribution of only about a 1.2 MMT of the " National Flour " . Currently, with import duties at zero (since 16th August), the United States and the EU have lost their preferential access to the Moroccan wheat market and the quotas for wheat became irrelevant.

4.2.2 Other Food Commodities

Sugar

Sugar imports (raw sugar) are in the range of 600,000 – 700,000 tons per year, depending on variations in local production. Most important countries of origin are Brazil, Thailand, Australia and South Africa. The port of entry is exclusively Casablanca where the only sugar plant to process imported sugar is located. The plant has a total capacity of 650,000 tons per year.

Vegetable Oil

Morocco has to import 70-80% of its vegetable oil requirements. Accordingly, imports are in the range of 290,000 – 330,000 tons. Principal countries of origin are France and Spain, followed by the Netherlands.

Dairy Products

Other imported food commodities comprise mainly dairy products such as milk powder (12,000 tons per year), butter (35,000 tons per year), and cheese.

4.3 Food Processing Industries

4.3.1 Overview

The food processing sector is one of the most dynamic sectors of the Moroccan economy. The sector contributes to 1/3 to the GDP of the industrial sector and to 8% of the national GDP with a total production worth 5.4 billion Euros in 2005. Within the industrial sector, food processing industries are ranking first, well ahead of textile and chemical industries. The sector is characterised by high growth rates as a result of a fast increasing domestic demand, fuelled by a rapid change in dietary habits. The sector represents 24% of industrial enterprises in the country and employs more than 110,000 persons. The bulk of production (83%) is for the domestic market, comprising mainly sugar, dairy products, flour and vegetable oil.

The sector is also suffering from a number of constraints which limit its growth as well as its export opportunities: relatively low productivity, partially old machinery, sometimes inferior quality, poor packaging, logistical constraints and high input prices. However, the sector also attracts increasingly foreign investment because of its high potential and proximity to European markets.

4.3.2 Flour Milling Industries and Subsidy System

The Moroccan wheat milling industry, though wholly in private hands, is subject to government controls at several levels from wheat production, to storage and distribution, and to price controls on subsidised wheat flour. The system has enabled weaker companies to stay in business and somehow reduced the incentive for stronger companies to invest.

Altogether, there are 141 flour mills processing tender wheat, 48 mills processing durum wheat, and 20 mills processing barley. The total processing capacity is 10.96 million tons, including 8.52 million tons capacity for the milling of tender wheat¹⁷. Nearly all wheat flour mills are independent family-owned entities.

In addition to heavy government controls, the industrial mills must also contend with a very large informal milling sector that is untaxed and unregulated. There are thousands of so-called "artisanal" mills, which are thought to produce one-third to one-half of the flour consumed in the country. Some are traditional stone mills and water-powered.

Morocco's population is 40% rural, mostly growing their own wheat and relying on these village mills for flour processing. But small mills also operate in storefronts in commercial areas of the biggest cities, where customers either bring them sacks of wheat bought in the market or simply buy the mill's flour. As subsistence farming decreases and urban lifestyles change, the number of these mills is said to be decreasing.

The government formerly operated a single desk monopoly for wheat and barley imports but gave this up several years ago in a round of liberalization. The

¹⁷ ONICL

largest mills rely on imported and domestic wheat. They have formed a number of buyers' groups, each consisting of several mills usually from different regions. These groups make joint purchases of whole vessels of wheat, generally of 25,000 tons, the maximum grain vessel size for Moroccan ports. However, there are plans underway to expand three Moroccan ports to take larger vessels.

In order to protect domestic growers, the Moroccan government has traditionally controlled both domestic and imported wheat prices. About 1 million tons of domestic wheat is purchased each year by the government at a fixed per-ton price of (currently) 3,000 Moroccan Dirhams (U.S.\$390). Imported wheat is subject to a variable duty that brings its landed cost up to the fixed price paid to Moroccan farmers. If international wheat prices are low, the duty collected is more.

The import duty on wheat is used to fund the subsidy on 1.05 million tonnes of wheat flour (called "farine nationale") every year, ostensibly for distribution to the poorest part of the population. In the light of soaring cereal prices, however, this year the Government is subsidizing the entire production of tender wheat flour (*farine nationale* and *farine de luxe*).

Almost all operating mills receive a quota of tender wheat, the kind that is subsidized. The government Cereals Office (ONICL) directs where the wheat is to be sold. The customer pays the mill the subsidized price, and the government pays the flour mill the difference between that and the higher fixed wheat price paid to farmers, including a low milling margin that has been increased only once in 20 years. As part of the subsidy system, government pays to flour mills also the difference between the import price and the price set by the government in case international prices exceed domestic prices.

This system keeps in business also a number of inefficient mills, which survive only because of their subsidized flour production quota¹⁸. International organizations like the World Bank have recommended for years that Morocco abandon or at least reform this system, which at present costs the central government over \$600 million per year in subsidies.

Some reforms are now being attempted on the wheat purchasing side of the program. In 2006, the ONICL for the first time stopped guaranteeing its purchases from licensed grain traders who buy up the domestic crop, and it has put a time limit on payment of storage fees¹⁹. There are up to 150 companies licensed to buy and sell wheat to the government, with the biggest concentration in Meknes, in the heart of Morocco's central wheat belt.

¹⁸ There are, however, also a number of flour mills using very modern machinery. The Mission has been visiting 2 of those modern mills in Skhirat and Casablanca, using state of the art machinery procured from *Buehler*, a leading Swiss company.

¹⁹ This is another subsidy paid to traders and millers for the storage of wheat ("prime de stockage"). Currently, the subsidy is 40 Dirhams/ton per month, which will be paid until May 2009.

As a reaction to the sharp increase in international food prices, the government has tightened its control on wheat prices again this year to ensure that millers make wheat flour available (at ex mill and unpacked price of 3,500 dirham/ton) to avoid bread price change. The ONICL sets up detailed planning for wheat delivery by region according to the demand and requires that the wheat is delivered to flour mills at the following prices:

- For the National Flour Wheat (*farine nationale*), the wheat must be delivered at 2,500 dirham/ton (unchanged from before)
- For the "Free" flour wheat, the wheat must be delivered at 2,588 Dirhams/ton.

The current ex factory price, set by the government, is 1,820 Dirhams/ton for *farine nationale* and 3500 Dirhams/ton for *farine de luxe* (free flour). Since the cost price for the miller is assumed to be 3250 Dirhams/ton for *farine nationale*, the government pays the miller the difference between the ex factory price (1,820 Dirhams) and the cost price (3,250 Dirhams), i.e. 1,430 Dirhams/ton.

Wheat suppliers (ONICL licensed grain collectors and distributors, cooperatives, importers, etc.) make offers of prices to supply individual lots and ONICL select the lowest bid. Since the preset prices are typically lower than the actual cost taking into account the world prices, the government Subsidy Fund supports the difference. As of today, while the government has successfully maintained the price of bread at its current level, the system costs the government an estimated \$50 million each month and has resulted in ONICL tender participants, especially importers and flour millers, being put increasingly under financial pressure because of the government delay in disbursing the subsidy.

Bakeries are selling ordinary bread at a price fixed by the government. For one Baguette of 200 gr., the fixed price is 1.20 dirham (US\$ 0.15). The bakeries are victims of the system, since they have to produce ordinary bread at a fixed price without receiving compensation. Prices of subsidised bread have not been changed since years, however, production costs went up significantly in the meantime.

In 2002, subsidies for food commodities and energy (petrol/gas) were 3 billion Dirhams. In 2008, subsidies are expected to reach up to 40 billion Dirhams, becoming a heavy burden for the Government.

Discussions on the reform of the subsidy system have been ongoing for some years. In the light of sharp increases in international food and energy prices in recent months and increasing government expenditures for subsidies on the one hand, and, on the other hand, a subsidy system which is obviously not only targeting the poor, the government is attempting to reform the system. The objective of reforms will principally be the reduction of subsidies and better targeting. In a first step, the commissioning of a comprehensive study on the subsidy system is planned in order to determine its constraints, to increase its transparency, and to determine who is actually benefiting from the system.

There is also mounting pressure from the IMF and the World Bank to reform or even abandon the subsidy system. According to World Bank estimates, the entire system is currently consuming 3.3% of the GDP. On the other hand, the system seems to be reaching only 10% of the poor population²⁰, whilst the wealthiest quintile of the population absorbs 40% of subsidies.

In addition, there is no control of produced quantities of wheat flour and to whom it is sold. There are even some rumours, claiming that much of the subsidised wheat is retained by the milling industry, and is sold as "*farine de luxe*".

The Government, in an effort to increase the nutritional value of wheat flour, introduced a flour fortification programme in 2003. As per today, 85 mills are equipped with fortification capacities, and 45% of industrial wheat flour is now fortified with iron and folic acid.

By the end of July 2008, in country cereal stocks came up to 1.32 million tons, including 900,000 tons of tender wheat. Considering that milling requirements are 300,000 tons per month, this stock will be consumed in three months. Since import taxes have been lifted in mid August, stocks will be filled by imported quantities.

4.3.3 Dairy Industries

In Morocco, the dairy supply chain is an important agricultural sector with the creation of income and labour for all of its operators: farms, collecting centers, industrial transformers and consumers. It also contributes to the delivery of high quality food proteins to the population. Until now, this supply chain was largely protected by State authorities. Nevertheless, its average performances (milk yield per cow, collected to produced milk ratio, part of milk converted by the industrials to high value derivatives such as butter, yogurts, levels of dairy consumptions) remain rather weak, much fewer than the levels of those reached by dairy supply chains in the European Union. With the imminent negotiations between Morocco and the EU on a Free Trade Agreement (FTA), the levels of protection of the Moroccan dairy supply chain are to change.

The sector consists of 48 dairy units. The capacity of the sector has increased rapidly during the last three decades, from 850,000 litres per day in the mid 1990s to 2.7 million litres in 2004²¹. However, about 87% of the milk collected is transformed in pasteurised milk, and only 13% are used for yoghurt, cheese or butter production.

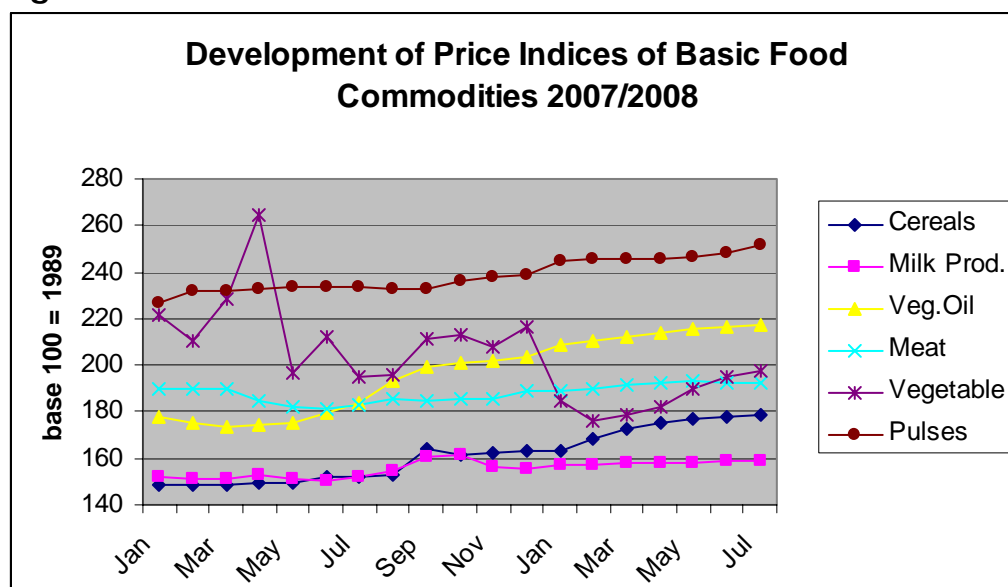
²⁰ Aujourd'hui Le Maroc (Newspaper), 13 August 2008, p.7

²¹ M.T. Srairi: Mise a niveau de la filière laitière au Maroc face aux enjeux impliqués par les accord de libre-échange avec l'Union Européenne; 2007

4.4 Analysis of developments and trends of food prices

Food prices, like in many other countries, increased significantly in Morocco in 2007 and 2008. The graph below (Figure 8) shows the development of price indices for food commodities in Morocco for the period of January 2007 to July 2008²².

Figure-8



Source: Haut Commissariat au Plan

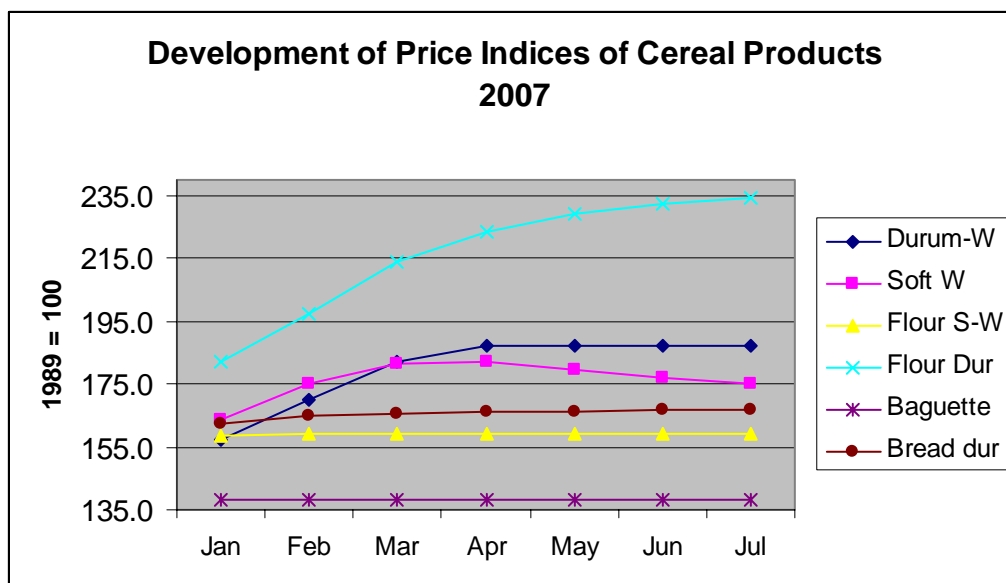
Whilst milk and meat prices increased only moderately and less than prices in international markets, prices for cereals (mainly other than tender wheat products), vegetable oil and pulses increased significantly. The moderate price increase for milk and meat products can be explained by the high share of domestic production.

On the other hand, for cereals and vegetable oil the share of imports is much higher, and price increases in the international markets thus had a greater influence on domestic price developments. The significant price increase of pulses, which are usually sourced from domestic production, may be explained by low production in 2007 as a result of poor rainfalls, increasing labour costs, and relatively expensive imports. Price indices for vegetable show the typical seasonal fluctuations, but at the same time a decreasing trend in 2008, which may be explained by a good production in 2008.²³

Figure-9

²² The Mission obtained only price indices from the Haut Commissariat au Plan. Absolute prices of food commodities, as requested by the Mission, could not be obtained.

²³ The contrasting price trends of vegetables and pulses are difficult to explain since production of both is labour intensive and both are grown under similar climatic conditions.



Source: Haut Commissariat au Plan

A closer look on price developments of cereals and cereal products (see Figure-9) for the period of January to July 2008 confirms the effectiveness of government policies to keep prices of certain basic food commodities low. Whereas bread prices and prices for tender wheat flour could be kept under control through price fixing, prices of durum wheat and durum wheat flour increased significantly as they are free market prices and, because of a high import share, are highly influenced by international prices. The downwards trend of tender wheat since April must be explained by the import restrictions set by the government combined with an incoming domestic harvest.

The following table confirms above trends of relatively moderate price increases of tender wheat and sharp price increases of durum wheat:

**Table-2: Prices of Wheat (June 2007 - June 2008)
Dirhams/Quintal**

	June 2007	June 2008	% change
Tender wheat	271	310	14
Durum wheat	314	440	40

Source: ONICL

In August 2008, retail market prices for basic food commodities per kg were as follows:

Table-3: Retail Prices of Food Commodities in August 2008

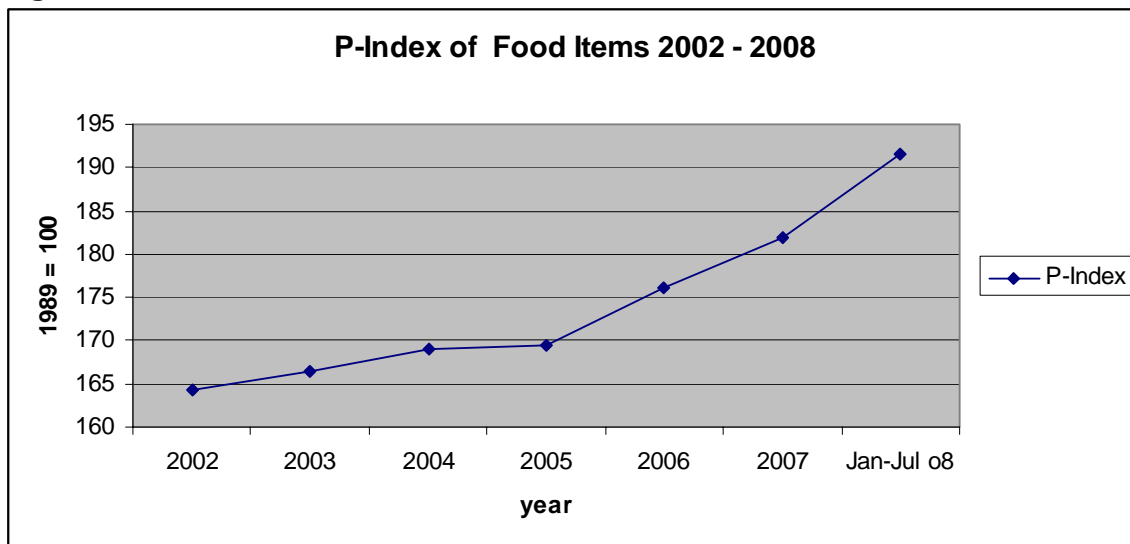
	Durum Wheat	Tender Wheat	Fava beans	Chick peas	White beans	Tender Wflour	Veg. Oil	Olive Oil	Sugar
Dirhams	4.5 - 5	3.8	9	6-8	12	5	14	40	9 - 11
US \$	0.57-0.64	0.48	1.15	0.77 - 1.02	1.53	0.64	1.79	5.12	1.15 - 1.41
	Cous-	Rice	Rice	Pasta	Milk	Lentils	Tomato	Onion	Pepper

	cous	Thai	Local						
Dirhams	11 - 15	11.5	9	11-12	8.50	11.5	2	2	6
US \$	1.41 – 1.92	1.47	1.15	1.41 – 1.54	1.09	1.47	0.25	0.25	0.77

Source: own market survey (Rabat & Bereshid)

The following graph (Figure 10) illustrates the relatively stable prices of food items during the period of 2002-2005, and the sharp price increases, particularly in 2008, when, during the first seven months, price increases were almost twofold the price increases of the 2002 – 2005 period.

Figure-10



Source: Haut Commissariat au Plan

4.5 Trends in Consumer Behaviour and Changes in Market Structure

In Morocco, cereals still constitute the basis of food consumption. In contrast to other countries, where cereal consumption is decreasing with higher incomes, in Morocco, cereal consumption particularly of the richest quintile of the population has increased. Household surveys show that the richest quintile of the population is consuming 234 kg per person per year, whereas the poorest quintile is consuming only 138 kg per person per year²⁴.

Apart from a general change in consumption habits, the Government subsidies for tender wheat flour and bread have certainly been a major cause of a shift from durum wheat and barley consumption to increased tender wheat consumption. During the last three decades, tender wheat consumption has tripled and now constitutes 61% of total cereal consumption. At the same time, durum wheat consumption decreased from a 40% share to 17 % of total cereal consumption. Most (small scale) producers of durum wheat are selling their production now (in contrast to the past), as it fetches a relatively high price, and consume the cheap subsidised tender wheat flour instead. On the other hand,

²⁴ Ministère de l'Agriculture et de la Pêche Maritime, « Les Nouveaux Defis Alimentaires », 2006

the subsidised tender wheat flour (*farine nationale*) and bread have supported the purchasing power of the poor segments of the population. However, this substitution is certainly problematic from a nutritional point of view as the nutritional value of tender wheat is inferior compared to durum wheat.

With regards to other food commodities, potato consumption also registered a sharp increase in consumption from 20kg in 1970 to 32kg per person per year (+40%) in 2001. In contrast to that, sugar consumption has decreased during the same period from 29.7kg to 24.1kg per person per year.

Edible oil consumption has increased from 5.3kg in 1970 to 12.2kg per person per year in 2001. At the same time, there is a shift from the use of olive oil to vegetable oil made from soja, which to large extent is imported (about 80%) and is certainly of inferior nutritional value. This shift was supported by Government subsidies for this type of oil, which were only stopped recently. In addition, the considerable price difference between olive oil (currently 40 Dirhams/litre) and vegetable oil (currently 14 Dirhams/litre) is a strong argument for increased consumption of the latter.

Overall consumption of milk and dairy products has significantly increased since 1970, however, this trend has been only observed in urban areas, where consumption has increased from 30.5kg to 53.1kg per person per capita in 2001. In rural areas, consumption declined from 27.3 in 1970 to 18kg in 2001 during the same period. The decrease in rural milk consumption has to be attributed to the organised collection of milk, which brought additional income to the rural population but at the same time resulted in decreased self-consumption. This decrease was not compensated by increased consumption of processed (pasteurised) milk. As most of the rural shops are still lacking cooling facilities and many villages are not yet connected to the electricity grid, there is substantial difference in pasteurised milk consumption between urban (30 litres per person) and rural areas (2 litres per person).

Annual consumption of red meat was 15.5kg in 1970 and declined thereafter. Since the mid eighties consumption was stagnant, reaching 10.5kg. This decline was caused by relatively high prices for red meat and the availability of relatively cheap poultry meat. Its annual consumption increased from 2.3kg in 1970 to 7.2kg per capita.

The disparity between urban and rural food consumption increased significantly in recent years. Not only the consumption of milk and dairy products, but also of meat and fruits has decreased in rural areas, caused by the general rural poverty, by decreasing self-consumption and the general lack of a modern infrastructure for perishable food commodities. Whilst urban dwellers spend about 38% of their income on food, the rural population spends more than 50%.

Increased urbanisation, the consequences of important changes in the society (women working outside the household), and the influence of increased food imports have modified nutritional habits. Consumers now more often eat outside

the household and adapt to western consumption habits such as eating more processed food or fast food, often rich in calories.

There is also a clear trend towards consumption of packed and processed food. In the past, households traditionally bought basic food commodities in bulk. Wheat for example was bought by a household in a 50kg or 100kg bag and milled after purchase in the nearby market by a small flour mill. Today, most households are buying packed wheat flour, which is available in 10kg, 5kg, 2kg or 1kg paper bags.

These developments also caused changes in the structure of food markets. Whereas traditional food markets and small grocery shops in rural as well as urban areas still play a dominant role, modern supermarkets ("grandes surfaces") can now be found even in smaller towns with a steadily increasing network. The new super market chain *Acima* for example, founded in 2002, had opened 11 shops until 2006 and is now planning to increase the number of shops by 6 each year. There is also a rapid development of fast food restaurants in major cities.

Changes in consumption habits also contributed to increased obesity and overweight. In 1999, 35% of the population were suffering from overweight (45% of women, 25% of men), against 25.5% in 1984. Though, this problem is not confined to the better off. Within the poorest quintile of the population, 33.1% of women and 16.5% of men are overweight.²⁵ 10.3% of the population suffered from obesity in 1999, against 4.1% in 1984.

5. Poverty in Morocco and Pro-poor Policies

During the last decade, social indicators have improved significantly in Morocco. This was due to an increase in public social expenditures, sustained economic growth, and the Government's increasing focus on rural areas and their problems. Despite these efforts, poverty remains largely a rural phenomenon. In 2007, the poverty rate in rural areas was 14.5%, down from 22% in 2004, and 4.8% in urban settings, down from 7.9% in 2004. The incidence of poverty is not evenly distributed. Rural poverty is concentrated in the regions of Marrakech-Tensift-Al Haouz, Sous-Massa-Dra, Meknes Tafilalet, l'Oriental, Gharb-Chradra-Beni Hssen, Tadla-Azilal, and Fes-Boulemane. In about 600 rural communities, poverty is still above 22%.

According to a recent Household Survey²⁶, 2.8 million people are poor, representing 9% of a total population of 30.5 million. At the same time, another 4.5 million people are considered vulnerable to poverty. In conclusion, 7.3 million people are poor or living at the edge of poverty. The survey, however,

²⁵ Ministère de l'Agriculture et de la Pêche Maritime, « Les Nouveaux Defis Alimentaires », 2006, p.171

²⁶ Haut Commissariat au Plan, Enquête nationale sur le niveau de vie des ménages 2001 – 2007 (2008)

reveals that during the period of 2001-2007, 1.7 million people escaped from poverty, and 1.2 from vulnerability. The survey also shows that the average annual expenditure per person increased from 8,280 in 2001 to 11,222 Dirhams in 2007, an increase of 2.3% in real terms.

At the national level, the distribution of the poor by sector of activity of the head of household shows that most of the poor work in the agriculture sector (57%) followed by services (26%) and construction (13%). In urban areas, 58% of the poor have their breadwinner working in services and while in rural areas agriculture is the dominant source of income for 75% of the poor. Because of the dynamics of urbanization in Morocco, the structural causes of urban and rural poverty are closely related. Poor rural households engaged in productive activities typically have access to agriculture land but their landholdings are small, rarely irrigated and often exhibit low productivity, especially in rain-fed areas. Due to lack of land titles and registration they cannot obtain formal credit and invest in their property. They frequently try to find other sources of income, working in odd jobs, moving back and forth throughout the year from rural and urban areas. The urban poor face multiple deprivations such as lack of employment, inadequacy of access to land, housing and basic services.

Significant differences exist between the richest and the poorest strata of the population. Whilst the richest quintile has a share of 48.1% of the total national consumption, the share of the poorest quintile is only 6.5%.

According to the Global Alliance for Improved Nutrition (GAIN), one child out of three, one woman out of three and one man out of five is suffering from malnutrition, particularly from iron deficiency²⁷.

With regards to food insecurity, no specific data is available, however, according to discussions during the mission it was emphasised, that particularly in remote and isolated rural areas, where agricultural production is mediocre, market supplies are limited and roads are not always passable, food insecurity may exist.

Whilst food security in general terms seems to be under control, nutritional surveys conducted by the Government with support from UNICEF reveal that:

- Stunting amongst children under 5 is 18%
- Occurrence of low birth rate is 13%
- Vitamin A deficiency is affecting about 40% of the population.

In recent years, the government has increased its efforts to fight poverty with the introduction of the "Initiative Nationale pour le Développement Humain" (INDH) in 2005. For the period of 2006-2010, 10 billion Dirhams will be spent on social programmes, including alphabetisation campaigns, gender equality, public health, and infrastructure projects such as rural electrification, rural road construction, and housing.

²⁷ Le Matin, 29.04.2006

The other pillar of pro-poor policies is the National Compensation Fund (Caisse de Compensation), which provides, as described above, substantial subsidies to basic food commodities (wheat flour, bread, sugar) and energy (household gas and petrol). As already mentioned, the subsidies are not directly targeted to the poor, and as a result, there is mounting pressure to abandon the subsidy system or at least reform the system in order better target the needy population.

The "Plan Vert", introduced in April 2008 by the Minister of Agriculture, aims to boost the agriculture sector with a comprehensive investment programme. Apart from the development of the more modern and export oriented sector, the plan also caters for a strong support to small farmers, who are the backbone of the rural economy. The major objective of this support is to contribute to crop diversification and better integration of small farmers into markets. The plan has also a strong social component. The annual budget for the plan is about 2 billion Dirhams.

There are smaller programmes in place directly targeting poor populations such as the programme "Ramadan 1429" in 2008. This government programme was targeting about 2.34 million poor people in 71 provinces, particularly in rural areas. Before the month of Ramadan, each of them received 10kg of wheat flour, 4kg of sugar, 5 litres of vegetable oil, and 250 gr. of tea.

6. Soaring Food Prices & Government Reaction

The food security policy of the Moroccan Government is mainly concentrated on the **availability** of food commodities, by ensuring sufficient agricultural production, in particular of cereals, sufficient imports of food commodities, a steady supply of markets and sufficient stock levels. However, with its subsidy system, it has also an important instrument to ensure **access** to basic food commodities for all segments of the population, including the poor.

During the recent sharp price increase of food commodities in 2007/2008, particularly in international markets, which were also felt in Morocco, the Government used a number of instruments to intervene in the market in order to ensure steady food supplies and sufficient access at least to basic food commodities such as bread and wheat flour.

The ONICL, as analysed above, has a strong role in controlling the market of cereals and pulses and intervenes in the market, whenever deemed necessary by the Government. Accordingly, the Office is "engaged in the follow up of supplies cereals and pulses and their derivatives, and, in exceptional situations, can arrange for purchase or sale, importation, taking possession, transport and transformation of above mentioned food commodities"²⁸.

²⁸ Loi No. 12-94, Relative a l'Office National Interprofessionnel des Céréales et des Légumineuses et a l'Organisation du Marche des Céréales et des Légumineuses

In perceiving this policy, the Government is constantly monitoring food markets and is taking care of steady and sufficient supplies. On the supply side, main instruments are price guarantees for producers of cereals, subsidies for cereal transports from producers to grain silos, and subsidies for storage (prime de magazinage). Furthermore supply is regulated by the Government through the imposition of import tariffs. Also in case of "excessive" price increases of essential food commodities, the Government is intervening in the market in the framework of the ONICL legislation.

With its subsidy system, the Government has another important instrument to keep prices of basic food commodities low. Currently, subsidies for tender wheat are 144 Dirhams/quintal, and 2 Dirhams for 1kg of sugar. Cooking gas is subsidised by 68 Dirhams for a 12kg gas bottle.

The government intervention has certainly contributed to stable access to basic food commodities. However, since the subsidy system is not specifically targeted towards the poor segments of the population, the price the Government has to pay is high and, to a certain extent, went out of control in 2008, when costs of subsidies actually doubled within the period of one year.

As a result of the subsidy system, consumer prices for tender wheat flour, bread and sugar remained stable during the period of sharp price increases in international food markets in 2007/08. At the same time, however, other food commodities were subject to significant price rises. Vegetable oil for example increased by 70%, durum wheat by 40%, and butter by 13% compared to last year. In May 2008, the annual inflation rate was reaching 5.4%, fuelled by increasing food prices²⁹.

To compensate for recent price increases, the Government has agreed to raise minimum wages (SMIG) by 10% in two steps, starting in July 2008. The second step is planned in 2009³⁰. In addition, a Government Commission (Commission Interministérielle) has been created to control food commodity prices.

A recent study on the effects of rising food prices on small farmers and poor populations in Morocco³¹ comes to the conclusion that the subsidy policy of the Government has helped to stabilise prices of basic food commodities. At the same time, the study argues, however, that the removal of import tariffs and subsidies on tender wheat would have only a modest impact on food consumption of poor populations. The welfare of rural landless as well as of urban poor would be more negatively affected by price increases as compared to

²⁹ Banque al-Maghrib, "Revue mensuelle de la conjoncture économique, monétaire et financière", July 2008. This was particularly induced by the unusual high price rise (8%) of fresh products such as meat fish and vegetables.

³⁰ Aujourd'hui Le Maroc (Newspaper), 24 June 2008.

³¹ X.Diao, R. Doukkali, B.Yu; Policy Options and their Potential Effects on Moroccan Small Farmers and the Poor Facing Increased World Food Prices – A General Equilibrium Model Analysis, May 2008

small farmers, since the latter, as producers would benefit from higher cereal prices.

The study, on the other hand, argues that, although in the short run import subsidies and tariffs achieve their purpose to isolate the domestic market from international price shocks and help to stabilise domestic prices, price intervention policies always have negative effects on the economy if the change in the world price becomes a long term trend.

Morocco has long time applied high tariffs on many staple crop and livestock products, such as wheat, corn, oilseed, and raw sugar to protect domestic producers. On the other hand, there have been high subsidies in the processing of wheat flour, vegetable oil and refined sugar to protect domestic consumers. Such double-protection policies have shown to significantly distort price signals, resource allocation and competition in processing industries, which has lowered the competitiveness of Moroccan agriculture in the long-run.

The outcome of different model calculations of the study suggests that a direct transfer to the poor consumers combined with increased public investment in agriculture to improve agricultural productivity is a win-win strategy that the government should seriously consider.

7. Conclusions

Morocco, after a period of stagnation in the nineties, is now back on a path of economic growth and institutional reforms. The government itself has set the target of achieving 6% GDP growth in coming years, creating 250,000 new jobs, building 150,000 housing units per year until 2013, significantly reducing poverty and implementing huge infrastructure projects. These targets look very ambitious, given the vulnerability of GDP growth to shocks that affect agricultural output. They indicate, however, that the government is willing to increase its efforts to attract more investment and to reduce unemployment and poverty.

A key policy issue will be the reform of the agricultural sector under the *Plan Vert*, which aims to introduce modern technologies, diversify crops away from cereals and to develop in particular the small scale farming sector. It is expected, that substantial investment in conjunction with institutional reform will upgrade the agricultural sector, creating up to 1 million new jobs in rural areas and thus contributing to alleviation of rural poverty. Despite the need for new investment, which is expected to come also from private investors and from international donor organisations, there are concerns remaining that the implementation of the Plan will be held back by the same bureaucratic constraints that weakened previous agricultural reforms.

Besides the reform of the agricultural sector and sustained economic growth, investment in social programmes will be pivotal for the reduction of poverty.

Reduction of illiteracy, which is still 60% in rural areas (75% amongst rural women), of social exclusion, and increased school attendance³² are seen as important areas of action in the fight against poverty.

Food security in Morocco appears to have been improving in the past forty years, at least in terms of food availability. Caloric availability has increased from just over 1700 kcal in the sixties to almost 3000 kcal in 2000. However, food distribution is not even, and economic access amongst poorer groups does not ensure the consumption of an adequate and varied diet, especially by vulnerable groups. The country is still marked by strong regional and economic disparities, particularly between the urban and the rural areas, the latter being at a disadvantage. Rural populations and low income groups have still limited access to food due to physical as well as economic barriers. This results in pockets of under-nutrition, affecting in particular pre-school children and being confined mostly to the rural areas and amongst poor income groups.

In the past, the Government's food security policy was mainly focusing on food availability. However, policies promoting a healthy and balanced diet have been neglected. The food subsidy system, which guarantees cheap bread, sugar and, until recently, vegetable oil, has to a certain extent contributed to an unbalanced diet. In terms of household food security and population nutrition, in Morocco the situation is much better than in most African countries, but it is still far from adequate. Whilst stunted growth is still prevalent among children, the country is now going through an important nutritional transition. As emphasised in chapter 4.5, increasing proportions of the population are overweight or obese, and these nutrition conditions may put even more strain on Government resources.

The food subsidy system in place needs urgent reform as it is too expensive and not sufficiently targeted towards those in need of Government support, thus wasting funds which are urgently needed for investment in other sectors. The Government cannot any longer afford to postpone reforms as it has done in the past, caused by the potential risk of creating social unrest. However, the current cost explosion of the subsidy system bears also the chance for its basic reform, which should target the poor and not the entire population.

Against the background of increasing competition, also in international food markets, protectionist policies will not pay off in the long run. Currently, however, producers of sugar beet/cane as well as wheat are protected against international product prices by import barriers and subsidies. Morocco should carefully open its domestic market as the potential of the agriculture sector, with its advantage of close proximity to the European markets can only be fully exploited if production costs can be reduced and productivity be increased. Incentives for accelerated investment in modern food production and processing technologies only exist when domestic products are exposed to competition in international markets.

³² About 1.5 million children are not enrolled in schools, particularly girls

The Government has embarked on an ambitious program of economic, social and political transformation. The reforms are wide-ranging, extending beyond macroeconomic stability to include measures to reform the financial sector, to better allocate public resources and to boost infrastructure development. Within this context, the government is emphasising to address the role of social policy, particularly in the areas of social safety nets and subsidies. This is not the first time the Government has considered reform of subsidies, but the political environment and policy tools may now exist to make reform possible. Only then, the significant gap between wealthy and poor populations can be reduced, and the livelihood of poor people, who sometimes live at the edge of extreme poverty and food insecurity, can be stabilised.

8. Recommendations for WFP

8.1 Vulnerability and Food Security Monitoring

Since WFP has no activities any more in Morocco, at present there is no role of WFP to support the Government in its endeavour of reform. However, the Government is certainly aware of the necessity to integrate food security elements into the reform of the food subsidy system as well as of the agriculture sector. The Government has acknowledged that the country can only move forward, if the strong differences between the wealthy and the poorest strata of the population can be reduced and the poor can be integrated in the process of reform and sustained economic growth.

The market assessment has revealed that, with regards to markets and food security, there are a number of areas, which may require more detailed analysis such as vulnerability, specific pockets of food insecurity, access of the poor to markets, and the reform of the food subsidy system. Though a number of these issues have been studied within the context of the mission, they deserve increased attention and more in depth analysis.

In this regard, more should be known about the living conditions of the ultra poor, their food security situation, their coping strategies and the requirements to bring them out of poverty and vulnerability. A recent poverty study by the World Bank³³ has deepened the understanding of poverty in Morocco. In this context, the Bank, together with the Government, has developed a "Poverty Map" (*Carte de Pauvreté*), particularly for better targeting of the poor. However, the characteristics and extent of food insecurity has not been sufficiently analysed in these studies and reports.

As a matter of fact, monitoring of vulnerability and potential food insecurity is weak in Morocco and is confined to occasional household surveys³⁴, which provide only limited knowledge on the dimensions of the problem.

³³ World Bank: "Rapport sur la pauvreté : Comprendre les dimensions géographiques de la pauvreté pour en améliorer l'appréhension à travers les politiques publiques"; September 2004

³⁴ Undertaken by HCP

The European Commission, in its support to the Government's social sector reform efforts, has realised the knowledge gap regarding vulnerability and food insecurity. Within the context of "Rapid Response Facility to the High Food Prices", it is intending to undertake a study³⁵ later this year, which will explicitly focus on vulnerability and food insecurity in Morocco. Although not represented in the country, WFP should consider engaging as a partner in the context of this study given WFP's considerable expertise in this regard.

8.2 Market Monitoring

The mission recommends WFP RB to carefully monitor food markets as well as basic economic indicators in Morocco. Whilst considerable information can be obtained from the websites of (1) the Haut Commissariat au Plan (Government Statistics Agency), (2) the Office National Interprofessionnel des Cereales et des Legumineuses (ONICL), and (3) the Banque al-Maghrib (National Bank), the RB may establish links and contacts to these institutions to provide whole sale and retail market price data on a regular basis in a WFP proven format for ready analysis and interpretation.

It is recommended to regular monitor the prices of following commodities:

- (1) Basic food commodities, including wheat, wheat flour, bread, sugar, vegetable oil, meat, milk, pulses, fresh vegetable, fish
- (2) Energy, including petrol, diesel, household gas

Furthermore, wage rates, inflation and un-employment rates should be monitored.

In addition to market monitoring, Government economic and social policies should be followed up, including food security/safety net policies, and the reform of the subsidy system.

8.3 Local Purchase Options

Local purchase opportunities for WFP are limited, since Morocco is not self-sufficient in most of basic food commodities. Therefore, opportunities may be reduced to canned fish (sardine, mackerel, tuna) and pulses (horse beans "feve", chick peas and dried peas.

With regards to fish, Morocco is an important exporter of canned fish, mainly of sardines, mackerel and tuna. In 2006, total canned fish exports came to 141,000 MT. Morocco is occupying the first place in sardine exports world wide. Most important fish canning industries are located in Agadir and Layyoune. Well-

³⁵ Information gained from the EC Delegation in Rabat (S.Corrado)

established companies are for example the *Société Belma SA*³⁶ with an annual processing capacity of 20,000 tons (in 2005), and *Aveiro Maroc – Groupe Bicha*³⁷ with an annual processing capacity of 40,000 tons. Both companies are located in Agadir.

Pulses production is heavily depending on seasonal climatic conditions. In years of good rainfalls, Morocco is producing surpluses, which are exported. However, in years of poor rainfalls, parts of consumption requirements have to be imported. Accordingly, local purchase opportunities for WFP are limited to years of good production. Most important traders of pulses are to be found in Casablanca.

³⁶ Email: belma1@menara.ma

³⁷ Email: commercial@aveiro-maroc.com; www.aveiro-maroc.com

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Annex 2

List of Persons Met

Mr. Hassan Serghini; Ministère de l'Agriculture, Directeur de la Programmation et des Affaires Economique;

Mr. Khalid Souidi; Haut Commissariat au Plan, Chef des Analyses sur les Groupes Vulnérables

Mr. Abdelkader Teto; Haut Commissariat au Plan, Chef de service des Etudes et recherches sur les conditions de vie

Mr. Mohamed Taamouti; Haut Commissariat au Plan; Director of Statistics
Département

Mr. Abdelwahab Bouchanine; FAO, Représentant Adjoint;

Mr. Arifi, Ministère des Affaires Etrangères et de la Coopération,

Mr. Abdellatif Guedira; Office National des Céréales et des Légumineuses,
Directeur

Mr. Chimi; Office National des Céréales et des Légumineuses, Statistiques

Mr. M. Mestassi; Ministère des Affaires économiques et générales; Secrétaire
General

Mr. Mourad Wahba; Coordinateur Résident ONU - Maroc

Mr. Yassir Benabdallaoui; UNDP Morocco, Charge de Programme

Mr. Marc Fawe; RCO Morocco, Charge de Coordination Inter Agences

Mr. Mohamed Zejjari; WFP Honorary Representative in Morocco

Mme Françoise Clottes; Banque Mondiale, Chef du Bureau au Rabat

Mr. Stefano Corrado; Délégation de la Commission Européenne au Maroc;
Charge de Programme Développement Rural

Mr. Adil Eleulj; Directeur; Les Grands Moulins de Skhirat

Mr. Ahmed Chermati; Casa Grains, Managing Director

Annex 3

Terms of Reference

Regional Market Study North African Countries (Algeria, Morocco, Egypt)

Specific Terms of Reference for Morocco

1. Background

The unique nature of the ODC region, with many countries having functioning food markets, and with populations increasingly obtaining food commodities from these markets, makes it particularly important to understand how markets function, how they contribute to food security and how WFP can build local capacities to support the most vulnerable within this context.

International food markets are becoming increasingly dynamic and integrated. Most countries of the ODC region depend on these markets, as natural as well as economic conditions in some countries limit self-sufficiency in food production. In Northern Africa, countries like Algeria, Morocco, Tunisia and Lybia are net importers of food commodities. Given a limited natural resource base, combined with a fast population growth, all North African countries are procuring an increasing share of their food needs on international markets.

Despite significant improvements made in recent years with regard to food security, poverty is still on the agenda, and some of the poor continue to be vulnerable to food insecurity. Particularly in the case of a drought, the poorest strata of the population can be affected by food insecurity.

As in other regions, in the recent past prices of food commodities have gradually, and at times abruptly, increased by more than 50%, following trends in international food markets. The problem of high commodity prices, coupled with increasing transportation costs, is reducing access to food for the poorest and most vulnerable. All data indicate that this trend is likely to continue. In 2007, violent protests over the cost of bread prompted the Moroccan government to annul a 30 percent price hike linked to soaring global grain costs.

Even in countries, where WFP is not represented, it has the mandate to carefully monitor the food security situation of vulnerable populations. Not only natural disaster or political crisis, but also abrupt changes in market supplies combined with sudden and sharp price increases may expose vulnerable populations to the risk of food insecurity and increased poverty.

Against this background, there is a strong need to analyse the development and dynamics of food markets in the region, to understand market trends and to draw conclusions from this analysis for appropriate contingency planning, emergency preparedness and response.

Sound market information will in turn create an enhanced WFP organisational learning and knowledge management of both the Regional Bureau and country offices, which will contribute to a more robust methodology enabling WFP to better adjust its approaches and tools allowing quick response to changing market conditions.

2. Objectives and Expected Outcome

Main objectives of the consultancy are

- Country specific market profiles
- Assessment of trade flows, dependencies and risks
- Assessment of the impact recent price trends have on access to food markets of the poorest segments of the population

3. Specific Activities

- Undertake desk review of country specific studies and reports related to food markets
- Analyse food markets with regard to price developments and trends and analyse the consequences price increases have on food supplies and the food security situation of vulnerable populations.
- Analyse trends in food production, commodity prices, trade flows, stocks and import requirements.
- Assess food market structure and market integration.
- Assess regional trade flows, transport costs, dependencies and risks of regional markets
- Analyse Government food (-security) and trade policies
- Assess the situation of low income groups and Government social support
- Collaborate/coordinate with other agencies (FAO) and partners working in the field of market analysis.
- Provide recommendations for WFP related to food markets, including country specific market monitoring indicators (to be fed into the forthcoming on-line monitoring system) & monitoring responsibilities.

4. Qualifications

Education:

Advanced degree (MSc) in agricultural economics or economics, or similar relevant discipline. PhD is desirable.

Language skills:

- Working knowledge (proficiency / Level C) of French;
- Intermediate knowledge (Level B) of Arabic would be an asset).

Required professional experience:

At least 8 years of professional progressively responsible experience in the field of macro economic analysis, food security, vulnerability analysis, emergency needs assessment, humanitarian operations, or a closely related area (preferably in the North Africa/Middle east Region). Field experience with organizations dealing with food security and emergency operations; and experience in management and inter-agency coordination.

Knowledge and skills:

- Excellent knowledge of food security policies and field experience related to food aid and non-food aid interventions;
- Excellent skills in both macro and micro economic analysis of food security, as well as experience in incorporating economic analysis in needs assessment processes;
- Excellent interpersonal and team-working skills and experience in coping with issues in a multi-, inter- and trans-disciplinary manner;
- Experience in designing, planning and implementing emergency needs assessments;
- Experience in optimizing the utility of assessment information for advising on programming appropriate response in crisis and post-crisis;
- Proven ability to select, train and supervise people of varying educational backgrounds;
- Practical experience in programme formulation, logistics and planning of emergency operations are an asset;
- Resourcefulness, initiative, maturity of judgment, tact and negotiating skills and the ability to cope with situations which may threaten health or safety;
- Good presentation skills for different audiences; and writing and editing skills.