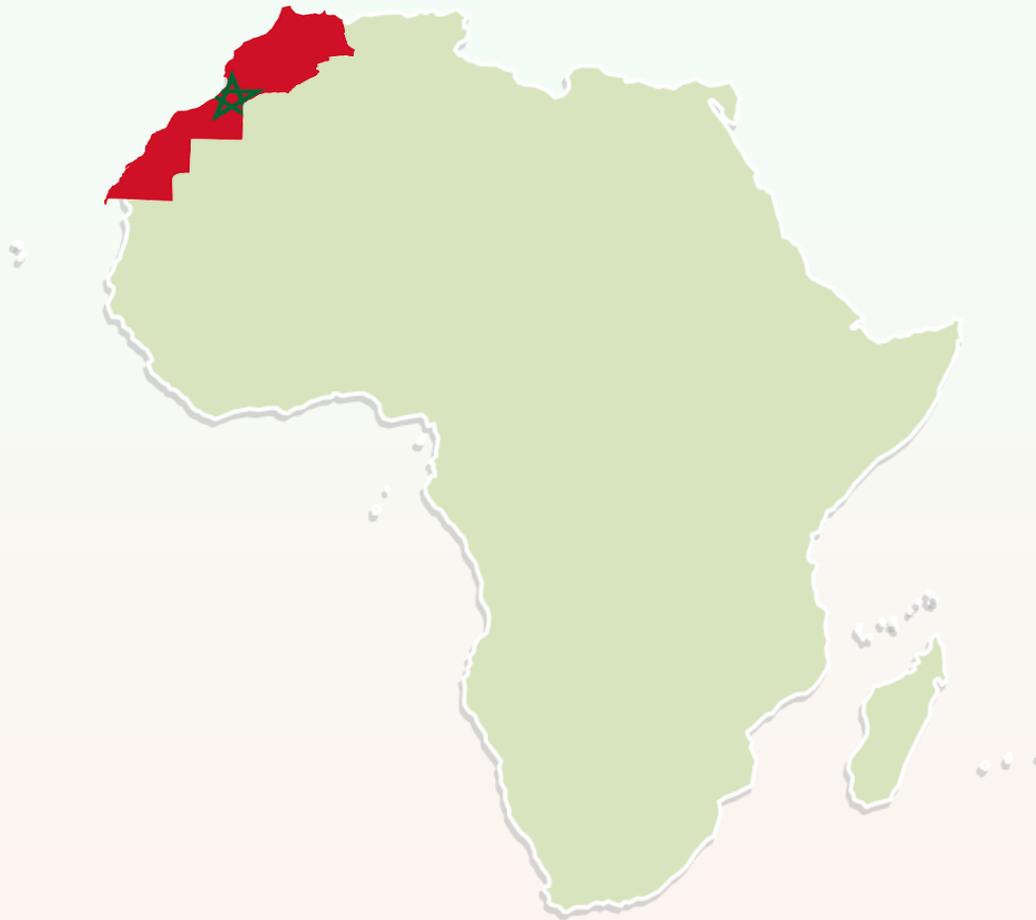




Embassy of the Kingdom of Morocco Australia



Submission on economic relations between Morocco and Australia

**Foreign Affairs, Defence and Trade Committee
- Senate -**

Economic relations between Morocco and Australia

Written Submission Foreign Affairs Defense and Trade Committee -Senate-

Moroccan political and economic overview

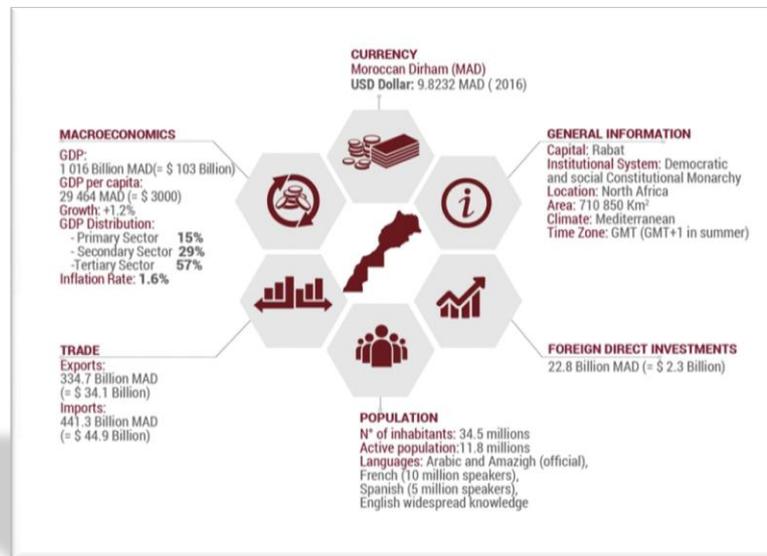
Morocco's strategic location as a geographical and cultural bridge between Africa and Europe made it a major trade hub in the region. The political and historical relations with the Middle East made of the Kingdom a strong economic partner with the countries of this area.

For many decades, Morocco has adopted a policy of economic and financial openness aiming to integrate of the Moroccan economy into the global one, and to contribute to the consolidation of a multilateral trading system.

Over the last decade and with particular focus in the past few years, Morocco has reformed its economy to enhance productivity and strengthen resilience to external shocks. Key reforms have included restoring macro-economic balance and cutting subsidies

This vision has been translated into a deepening of competitive modernization reforms, a consolidation of partnerships with key players of the globalized system, and the progressive diversification of partnerships with emerging and developing countries within the framework of the South-South dimension of Morocco's foreign policy.

As the foundation stone of its system of alliances and partnerships, the Kingdom's regional foothold had a turning point with the return of Morocco to its African institutional family " African Union", which would enable it to play a more structuring role in favor of the development of the continent, based on the win-win cooperation schemes.



1- Political stability:

Morocco is a constitutional, democratic, parliamentary and social monarchy. The Moroccan Political System is characterized by multipartism and the Parliament is bicameral, comprising the Chamber of Representatives and the Chamber of Counsellors.

While the entire region was in the throes of civil unrest and rebellion following the 2011 Arab Spring, Morocco not only maintained its stability, but continued its regular process towards reform and modernization. Indeed, Morocco has confidently pressed ahead with its political agenda, launched since the country's independence to foster a liberal, multiparty environment leading to the strengthening of the Rule of law while displaying a firm commitment to international democratic principles, in full harmony with the country's traditions of tolerance and openness.

The Constitution adopted by referendum in 2011 covers all human rights contained in the Universal Human Rights Declaration and provides for their protection and respect for their universality and indivisibility. It recognizes the primacy of international convention ratified by Morocco and the domestication of their provisions.

Moroccan foreign policy has always been determined by the African roots of the Kingdom. Morocco has established itself as a first rank actor of peace and stability in Africa.

Currently, more than 1,600 Moroccan soldiers, police officers, and civilian personnel are assigned to the United Nations peacekeeping operations in Africa, making the Kingdom the 14th largest contributor to the UN Peacekeeping Operations.

This is not the only field of action in which we have been active, Morocco has saved no effort, during the last two decades, in providing its expertise and sharing its know-how with its African peers in order to realize the ambitions of a mutually beneficial new South-South cooperation model, involving public/private formulas and triangular cooperation with Northern partners.

2- A continuous and sustainable growth

The growth rate of the Moroccan economy reached an average of 5.1% during the last decade, following the increased growth of the primary sector (4.3%), the stable growth of the non-agricultural sector (4.9%) and the average growth of 5.2% as average in the service sector, mainly because of the increased contribution from telecommunications (13%), and services aimed at companies (6.8%), and linked to the openness policy and the development of the off shoring.

At a sectoral level, agriculture represents between 12% and 17% of GDP (depending on the year), and employs 45% of the total workforce. The secondary sector, accounts for 30% of GDP, and focuses on mining and phosphate processing (Morocco has the world's largest phosphate deposits at 75 % of world reserves), textiles and food processing. The sector of services accounts for 38% of GDP, 8% of which dedicated to tourism.

At the domestic level, Morocco has made of human development a national priority. Thanks to this approach the GDP per person has increased by 70% in real terms, since 2000.

Diversifying the economy is a government priority as set out in the 2014-2020 Industrial Acceleration Strategy which promotes the creation of "industrial clusters" in key industries, including mining, renewable energy, automotive, aerospace, cabling, textiles and pharmaceuticals. This strategy is expected to generate half a million jobs and increase the share of industry in GDP by 9%, from the current 14% to 23% of GDP.

3- Towards a better distribution of national wealth:

The Advanced Regionalization implemented in 2015, is, also, intended to increase the participation of the citizens in the political life. The Regions have now independent structures with a broad autonomy and attributions. The advanced regionalization system implemented by Morocco gives these regions wide attributions in order to define and apply the State supported policies that they set autonomously. The benefits of this rapid expansion are all fairly divided on all the regions of Morocco.

For example, the regions of the Sahara achieved the largest annual growth rate between 1998 and 2012. The local entrepreneurs of the Sahara region have been participating in the exploitation of its natural resources and they have developed their financial capacities and their know-how in order to broaden the field of their activities at the national and international levels.

The local population plays also a prominent role in the policy making process inherent to the management and exploitation of natural resources. She exercises this right at the national level, through the parliamentary representatives, and at the local level, through local officials, Union Representatives and professional corporations.

The Dakhla, Oued Dahab and Laayoune Al-Saqiah Al Hamra regions, benefited, in 2015, from a significant increase in the volume of public investments in the framework of an ambitious program of sustainable development, launched by the King Mohammed VI in November 2015, aiming to make of this region a major economic and logistic hub towards Africa.

For this program, a huge investments estimated at 8 billion dollars have been allocated. 134 projects of this program have been effectively implemented in 2016 in the sectors of infrastructures, energy, fisheries, health and education.

The construction and extension of the airports of the Sahara region were all carried out. Heavy investments have been made by the Kingdom of Morocco to strengthen the road network in the region. The Tiznit-Laayoune-Dakhla expressway project aims to provide the Southern Provinces with a roadway of international standards which spreads over nearly 1,055 km.

4- A reliable business environment:

Aware of the fact that investment is a key factor to ensure sustainable and sustained economic growth, Morocco has liberalized its economy by easing procedures, providing better protection to private operators through introducing new laws aiming at improving investment conditions and, thus, acquiring significant flow of domestic and foreign private capital.

Reforms in the economic field include the Investment Charter, the Commercial Code, the law establishing the commercial courts, the Customs Code, the Law on free pricing and competition, the regulation of the State's markets, and the Law on the protection of industrial and commercial property.

As part of foreign investment promotion efforts, Morocco has ratified international conventions relating to the guarantee and protection of investment. Morocco has signed agreements with several countries to avoid double taxation with respect to income tax. These agreements establish the list of taxes and income covered, the rules for mutual administrative assistance and the principle of non-discrimination.

Foreign investors benefits from a convertibility regime, which ensures that the investor has the right to carry out investment operations in Morocco, transfer the income produced by these investments abroad and re-transfer income from the liquidation or sale of investments.

In addition to the tax exemptions granted by the Moroccan law, regulations provide for specific financial, fiscal and customs advantages granted to investors in connection with investment agreements or contracts to be concluded in conformity with the required criteria.

5- Main industries:

The main industries in Morocco are renewable energy, aeronautics and the automotive industry and electronics which have made significant strides over the past decade, in addition to the offshoring sector, textile, food processing, pharmaceutical industry and mining.

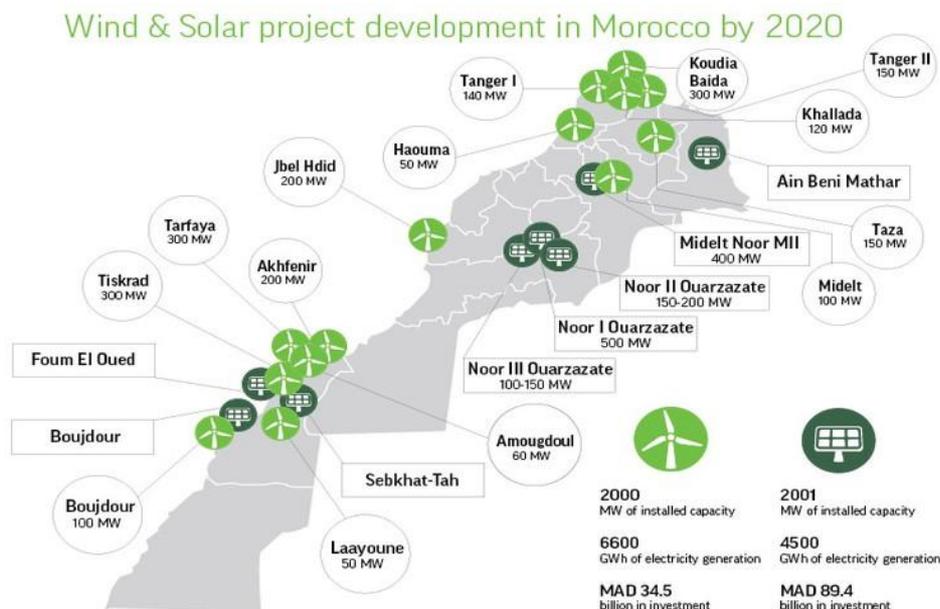
The Kingdom of Morocco introduced 4 years ago an new industrial policy, known as the Industrial Acceleration Plan which aims to bring the sector's contribution to the GDP from its current 14% to 23% by 2030, and create 500.000 new jobs. Between 2008 and 2016. the added value of the secondary sector increased by 2.5 % per year on average, which represents 28.9% on average of the total added value (TAV).

Textile industry creates more than 200.000 jobs and exports about 4.39 billion AUD. In order to take better advantage of its potential and to establish sustainable growth, the Kingdom has developed a global vision, integrating both export and domestic market.

Regarding food processing, Morocco's temperate climate, soil and water resources has made of it the second largest processing industry in Morocco, while the pharmaceutical industry is about to bring its contribution to GDP from 14% to 23% by 2020 and create 500.000 new jobs.

Furthermore, the mining industry of Morocco is important to the national economy, for the fact that the Kingdom is the world's second largest producer of phosphate, and contains about 75% of the world's estimated reserves. The sector plays a major role in the country's economy, as it contributes by 21 percent of the value of export remittances and employs about 40.000 people.

The renewable energy is at the core of the national energy policy, which is moving towards a diversification of sources of energy supply by bringing the contribution of green energies to 42% of electric power by 2020. It is worth mentioning that by the year 2030, Morocco would have invested 54 billion AUD, in projects aiming to develop the energy sector. The Kingdom has succeeded, through an ambitious strategy, to turn its challenges into genuine investment opportunities, through its commitment to projects aimed at developing the energy sector by 2030, 75% of which are devoted to renewable energies.



Aeronautics is a key component of Morocco's Industrial Acceleration Plan. The increasing investments by global giants in the sector grew by 18% in 2017 compared to 2016. This sector aims to generate a turnover of 2.8 billion dollars and create 23,000 jobs by 2020.



Aerospace Industry Snapshot

The acceleration plan has also successfully contributed to the development of the automotive sector in Morocco. This sector is leading the way in the MENA region as the best performer due to the Kingdom's strong production growth outlook, low labor costs, and favorable industry policy.



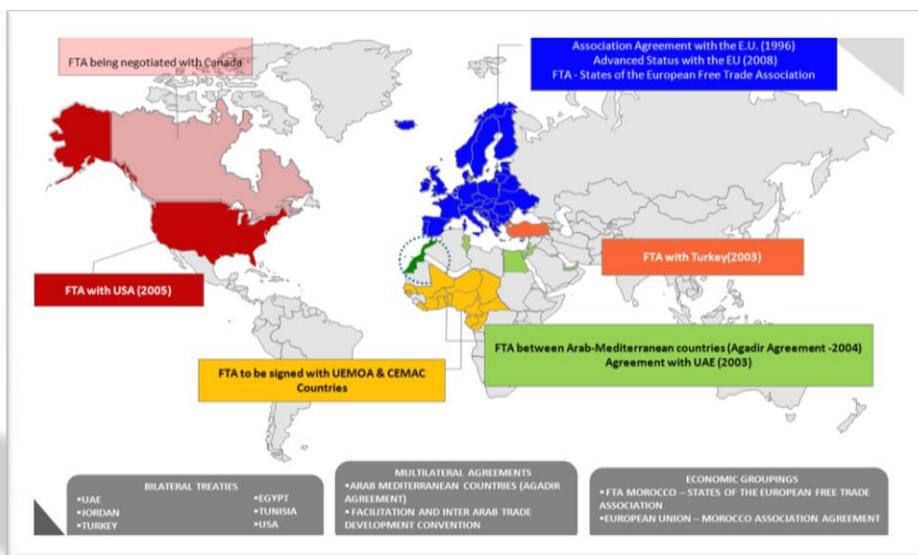
Automobile Ecosystem Snapshot

Offshoring sector has had a very positive growth dynamic on the international front with an estimated development of 25% per year. Morocco is becoming one of the world's leading destinations especially in the French-speaking countries. Morocco was elected the best offshoring destination for the year 2012 by the European Outsourcing Association (EOA). By 2020, the Industrial Acceleration Plan aims at achieving a GDP of 2.2 billion AUD and creating a workforce of 100,000 jobs.

The activities of offshoring concern primarily the Business Process Outsourcing (BPO) which includes general administrative activities and functions, activities for management of client relationships and business-specific activities and the area of Information Technology Outsourcing (ITO), which includes infrastructure management, software development and software maintenance.

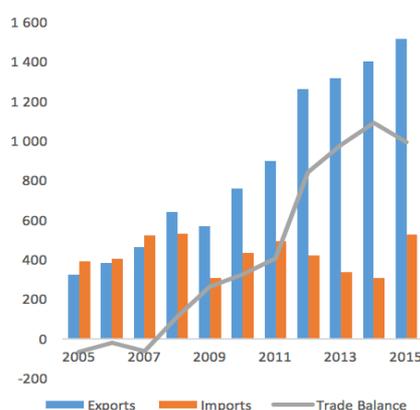
6- Trade prospects:

Within the framework of its global openness and liberalization strategy, Morocco has set up during the last decade a legal framework conducive to developing its commercial relations with some of its potential partners, through the conclusion of free trade agreements either bilaterally or regionally.



Morocco's trade balance has improved substantially in recent years and is set to perform better still in the upcoming years thanks to factors such as lower oil prices and improving conditions in major export markets. Exports in recent years were worth 21.8 billion Euros, while the value of imports stood at more than 20.2 billion Euros.

Despite the slow recovery of the international economy, trade between Morocco and sub-Saharan Africa has been on an upward trend since 2009, with an annual growth of 12.8% between 2000 and 2015. Another positive trend is the increase in the number of products that Morocco exports to sub-Saharan Africa: the Kingdom now exports about 187 products compared to only 83 products in 1995.



Morocco's exports, imports and trade-balance with sub-Saharan Africa between 2005-2015, in thousands USD

From a continental perspective, over two-thirds (68.3%) of Moroccan exports by value were delivered to European countries while 12.5% were sold to importers in Asia. China with 7% and Saudi Arabia with 6,5% followed by the USA at 6,1% are the next in line.

Taking these developments into account, the volume of foreign demand addressed to Morocco should benefit from the upturn of the international economy, and have grown by 4.5% in 2017 and 4.1% in 2018 after 3.1% in 2016, according to the latest data on import forecasts of Morocco's main partners.

Morocco has thus witnessed an increase in the rate of openness of its economy from 49% in 2000 to 62.2% in 2016. Compared to other emerging countries, our country has achieved an average opening rate of 62% over the period 2008-2016, which is higher than South Africa (57%), Turkey (42%) and Brazil (19%). However, it remains lower than Malaysia (135%), Tunisia (87%) and Poland (76%).

The European Union is by far Morocco's largest and most significant trading partner, accounting for more than 50% of the Kingdom's total external trade.

Taking individual countries into account, France was the largest exporter to Morocco in the last years with 15 billion dollars approximately, followed by Spain at 14.32 billion dollars. Both countries represent equally the largest export markets for Morocco.

Besides, Morocco succeeded all over the last decade to position itself as a hub for trade and investment in the African continent. This regional ambition is embodied with projects such as the Tanger-Med Port and Casablanca Finance City, a hub for international companies wishing to invest in Africa.

7- Foreign Direct Investment:

Morocco has been ranked as the third largest recipient of Foreign Direct Investment (FDI) in Africa. Investors are attracted by the country's stability, the availability of skilled labor at comparatively lower wages, the proximity to European and African Markets, and the access to other markets via free trade agreements.

Morocco's expanding international engagement is reflected by a rise in FDI. Whereas in the 1990's, Morocco attracted an average of 500 million USD of FDI annually, it has attracted more than 3 billion USD annually, in recent years.

Moreover, many institutional and legislative reforms have been introduced in order to attract more Foreign Direct Investments for Morocco. Tax breaks have drawn a splurge of foreign investors, including 110 aerospace firms and 150 automotive companies.

Morocco attracted regular inflows of foreign capital, particularly in the banking, tourism and energy sectors, through the development of its industry.

While the mining industry already plays an important role in Morocco's economy, representing 25 percent of its exports, the national development strategy set out some lofty goals which include tripling non-phosphate revenues by the year 2025 and doubling jobs in the sector to over 30,000.

Morocco holds three quarters of global phosphate reserves, and so the export of phosphate products has traditionally dominated the mining industry, comprising up to 90 percent of mining exports.

Other minerals reserves abound (including lead, zinc, copper, manganese, gold, silver, iron ore and barite), but have remained largely underground, due partly to the success of the phosphate market which left them in its shadows.

In order to attract investment for the development of all its mineral treasures, Morocco is making great strides in modernizing its mining sector, including the recent introduction of a new mining code. The new mining code introduces new types of mining authorizations, increases the term of a mining license to ten years and now covers all mineral substances with the exception of phosphates and construction materials.

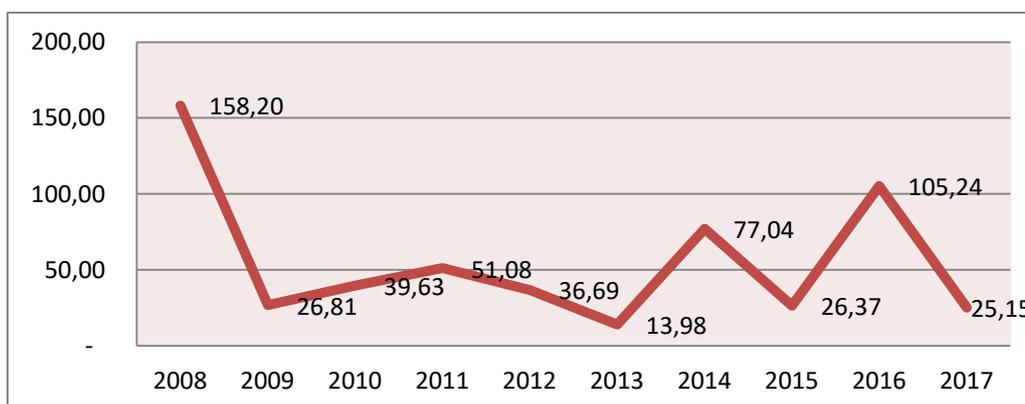
Bilateral relations:

The relations between Morocco and Australia have always been friendly and are extremely promising in terms of Trade potential. The establishment of a parliamentary friendship group in 2017 and the exchange of visits between officials of both countries are a mark of the constant interest in deepening the ties of cooperation. Moreover, the recent opening of the Australian Embassy in Rabat and the establishment of the Moroccan Australian Business Council in Morocco will, surely, give a new impetus to this warm relationship.

Besides, the Ministries in charge of Foreign Affairs of the two countries are linked by a memorandum of understanding establishing a consultation mechanism through meetings regularly held on the level of Government and Senior Officials.

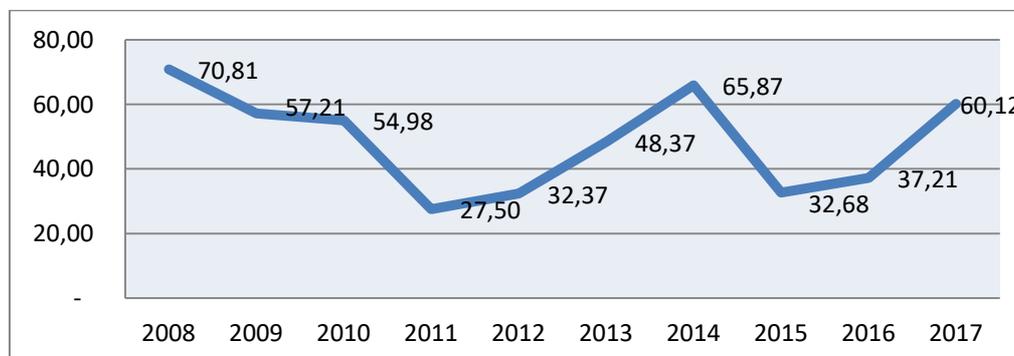
Following the last convening of this meeting in March 2018 in Canberra, Morocco and Australia have stressed their willingness to maintain political dialogue and consultation, based on mutual understanding and valuable cooperation, with a view to reinforce the ties of cooperation between the two countries.

Despite the advances in trade relations, the economic potential of Morocco-Australia relations remains unexploited. For instance, trade between Morocco and Australia has undergone significant changes in recent years. In 2014, exchanges had reached 100 million AUD, before falling to 72 million AUD in 2015 and settling at around 105.866 million AUD in 2016/2017, with a surplus balance of 22.834 million AUD in favour of Morocco.



Moroccan exportations to Australia in Millions of AUD (Ministry of Economy of Finance)

Australian exports to Morocco have known several variations between 2008 and 2017. Nevertheless, they have been constantly increasing since 2015. In the meanwhile the value of Moroccan exports alternates between high and low levels, in reason of the fluctuations of the Trade of Phosphate products related to the demand of the Australian market.



Moroccan importations from Australia in Millions of MAD (Ministry of Economy of Finance)

Tourism is among the most active sectors of exchange between the two countries. An average number of 45,000 Australians annually visit Morocco.

In terms of Australian investments in Morocco, 10 direct Australian investments and 40 indirect investments operate in the Agri-food, energy, livestock and mining sectors.

Prospects of Moroccan-Australian Economic relations:

Morocco and Australia are to look for further enhancing the economic exchange due the role of leadership played by both countries in their respective regions and due to the diversity of investment opportunities offered in both countries.

Not only is Morocco an important market in its own right, it is also becoming the premier commercial gateway to Africa, as well as Africa's bridge to Europe. Africa presents the single largest growth opportunity in the world, and is a new frontier for many international businesses. Morocco, with its strategic geographic position and its intimate knowledge of the continent, will increasingly become a major gateway to these markets.

Given the bright prospects and huge stakes of its relationship with Australia, Morocco ambitions to deepen and expand this cooperation beyond trade, by establishing innovative partnerships and paving the way for new investments in areas such as mining, pharmaceuticals, agriculture, renewable energy, tourism, IT, and research in science.

1- Bilateral Trade:

Trade opportunities between Morocco and Australia have improved significantly in recent years, especially due to the continuous rise of purchasing power in Morocco. The Moroccan market is thus open to increased volumes of Australian products, especially in Agriculture.

In the academic sector, efforts are being deployed in order to launch cooperation programs between both countries, notably due to the fact that Moroccan students are getting attracted by the opportunities provided by Australia in the sector of Higher education.

Nevertheless, a more sustainable model of business shall be developed in the trade of phosphate products to ensure its durability and a shared benefit for the Australian agriculture business as well as for the Moroccan exporters.

In the same vein, an interest should be given to determining other promising domains of economic cooperation between both countries. (ex: renewable energies, water management, olive sector, Argan oil, sea products,...)

Establishing a direct air link between Morocco and Australia would certainly contribute in boosting the flow of tourists on both sides. Moreover, with the opening of the new line between Perth and London, the Moroccan airports could be an economically interesting destination for Australian airlines companies.

2- Australian investments in Morocco:

The openness of the Moroccan market could be of interest for several Australian companies, especially those interested in doing business with Europe, Africa and the Middle East.

In addition to the tax exemptions granted under the common law, Moroccan law provides specific financial, tax and customs advantages to investors, as part of agreements or investment contracts to be concluded with the State, provided that they meet the required criteria.

This concerns:

- The contribution of the state to certain investment expenses through the Investment Promotion Fund;
- The contribution of the state to certain expenses for the promotion of investment in specific industrial sectors and the development of modern technologies (Hassan II Fund for Economic and Social Development)
- Exemption from customs duties under Article 7.I of the Finance Act No. 12/98;
- Exemption from import VAT under Section 123-22 °-b of the General Tax Code.

In addition to these large incentives given to the foreign companies to establish themselves in Morocco, the availability of qualified workforce makes it a competitive destination for productive activities.

On another hand, the constant need in infrastructure and the openness of the public call for tender procedures can also attract several companies, considering the renowned high level of quality of Australia in this field.

3- Steps to improve trade between Morocco and Australia:

Among the actions proposed to enhance the bilateral trade:

- Encouraging the organization of prospecting missions for delegations of the private sector to promote the opportunities that the two countries can offer as well as their business climate.
- Increasing the exchange of visits between officials as well as the institutional participation in fairs and exhibitions organized in both countries.
- Establishing the legal framework for economic cooperation, investment development and business relations between the two countries, notably by the conclusion of an Agreement on the Avoidance of double taxation.
- Exploring viable ways of enhancing trade opportunities between the two countries, notably in fields such as agriculture, mining, water management.