GF&O REPORT ON U.S.-Morocco FTA

April 6, 2004

Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Honorable Ann M. Veneman
Secretary of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Ambassador Zoellick and Secretary Veneman:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds on the Free Trade Agreement with the Kingdom of Morocco, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

Donald E. Latham

Donald E. Latham
Chair
Grains, Feed, and Oilseeds ATAC

April 6, 2004

The U.S.-Morocco Free Trade Agreement (FTA)

Report of the
Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

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Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S. – Morocco Free Trade Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

Pursuant to these requirements, the Grains, Feed and Oilseeds ATAC hereby submits the following report.

II. Executive Summary of Committee Report

The Grain, Feed and Oilseeds ATAC fully endorses the FTA reached with Morocco. Under the terms negotiated in the agreement, Morocco will provide significantly improved access for U.S. exports of oilseeds and oilseed products, wheat and feed grains. It is anticipated that U.S. market share for each of these commodities will increase, with some eventually becoming the dominant source of imported supply.

Wheat access is more limited than the terms achieved for other commodities but it is also the most sensitive commodity in Moroccan agriculture. Our larger concern is the operation of the wheat import quota auction system, which Morocco has copied over from a free trade agreement it negotiated with the EU. We request that the Administration work closely with the U.S. wheat industry to ensure a proper decision is made during the required review in year four over the merits of its continuance.

We note with approval that this FTA is comprehensive, that it includes a preference clause, and that it binds the Moroccans to work with the U.S. in disciplining state trading enterprises in multilateral negotiations.

III. Brief Description of the Mandate of the Grains, Feed and Oilseeds ATAC

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

IV. Negotiating Objectives and Priorities of the Grains, Feed and Oilseeds ATAC

The negotiating objective of the Grains, Feed and Oilseeds ATAC is to ensure the best possible marketing opportunities for U.S. agriculture.

V. Advisory Committee Opinion on Agreement

Generally it should be noted that Morocco is a rapidly growing market for corn, wheat, oilseeds and oilseed products. Wheat imports vary depending on weather but have risen to over 3 million metric tons per year. Corn imports have risen by a third over the past five years to about 1 million metric tons per year, and the combination of preferential U.S. access plus advancements in Morocco's livestock industry means that it will become an increasingly valuable U.S. dominated market. Morocco is also an important importer of oilseeds with annual imports of approximately 300,000 metric tons of soybeans, 300,000 metric tons of crude soybean oil, 100,000 metric tons of soybean meal, and 20,000 metric tons of crude sunflower oil.

Oilseeds: Duties on soybeans, crude soybean oil, and crude sunflower oil go to zero upon implementation, and the duty on soybean meal phases down to zero in year six. This is all good news for U.S. oilseed producers and processors.

Feed Grains: The reduction and elimination of tariffs on U.S. corn, sorghum and barley in the U.S.-Moroccan Free Trade Agreement will benefit the U.S. feed grains industry both immediately and in the longer term. Upon implementation, the reduction in tariffs will provide lower feed costs to the Moroccan poultry and livestock industries which will allow further overall expansion of the Moroccan market for feed grains. In addition, the lower tariffs applied to U.S. feed grains versus the MFN rates that competitor countries will continue to face will allow the United States to capture a larger portion of that important growth market. U.S. exporters should have significant tariff advantages over competitors for sorghum immediately upon implementation, by year two (if not in the first year) for corn, and at a much later point for barley since tariff cuts are back-loaded so that they are not eliminated until the 16th year of the agreement.

Corn: In recent years, corn has become the highest valued U.S. agricultural export to Morocco. However, competition has been strong from Latin America. The agreement cuts the tariff on U.S. corn initially in half (to 17.5% for lower value per ton shipments based on its reference price system), and then proceeds to zero by year six based on linear reductions. This provides a significant advantage to U.S. exporters and could potentially allow them to capture near 100 percent of the Moroccan market. The duty free corn would save the Moroccan poultry and livestock industries approximately $30 million per year based on current imports and applied duties.

Sorghum: U.S. sorghum receives immediate duty free treatment, making it temporarily more attractive for sales than corn, depending on price relationships, and certainly versus corn from non-U.S. suppliers.

Barley: Since barley accounts for about one-third of Morocco's domestic cereal production, the eventual total elimination of the barley tariff is a positive outcome of the negotiations. However, a U.S. specific TRQ quantity would have put the United States in a better position to capture a portion of the existing import market in the earlier years of the agreement, and a gradual phase-in period with numerous smaller tariff cuts would have provided Moroccan barley producers with a better adjustment period in the long run.

Durum Wheat: We are very pleased that in-quota tariffs on durum wheat will go to zero, but are disappointed that this will take 10 years to phase in. U.S. durum does not, as a rule, compete with Moroccan produced durum. However, it is beneficial that the initial in tariff quota for durum has been set at a level (250,000 metric tons) that is compatible with current market levels, and that it is set to grow by 10,000 metric tons a year there after. Less beneficial is the fact that the out of quota tariff on durum will remain under MFN treatment and is not scheduled to go to zero.

Common Wheat: For all wheat other than durum, a tariff will unfortunately continue to apply under this agreement. The wheat industry is disappointed that the U.S. quota for common wheat will not equal that allowed for the EU under the Moroccan-EU agreement until year 10. There is a provision to lower the tariff. If the prevailing MFN rate is equal to the base rate, the reduction will be 62 percent of the base rate, and the reduction of an additional .275 percent of the MFN rate for every percentage point difference between the base and the MFN rate. These reductions enter into force on January 1 of year one. If the agreement is not passed by Congress until after the beginning of the year, the U.S. wheat industry would have to wait until January 1 of the following year to begin obtaining these reductions.

In-tariff quotas for common wheat under the agreement are well within the current import levels. Growth in the in-quota volume is contingent upon domestic Moroccan production. Thus, Moroccan producers are protected at two levels, one at 3 million metric tons of production and at domestic production being less that 2.1 million metric tons. However, there is a generous growth potential for common wheat regardless of domestic production.

Auction System: The wheat agreement involves a complicated auction system that is somewhat equivalent to the one Morocco structured with the EU. In the fourth year of the agreement, the U.S. and Morocco will review the auction system to decide whether to continue it, or offer wheat quota access on a first come, first served basis. We urge the Administration to work closely with the U.S. wheat industry during these first four years of the agreement to help determine how open and fairly the auction system is managed. The objective is to be in a position to help make a fact-based decision on whether to maintain or end the auction system. Otherwise, we are concerned that Moroccan point of view will be heavily influenced by the EU, which has a different perspective on such auctions.

State Trading Enterprises: We are pleased that Morocco has agreed to language on State Trading Enterprises to work together toward an agreement in the WTO to:

1. Eliminate restrictions on the right to export;
2. Eliminate the special financing granted to state trading enterprises that export for sale; directly or indirectly, a significant share of their country's exports of an agricultural export; and
3. Ensure greater transparency regarding the operation and maintenance of export state trading enterprises.

Preference Clause: We are pleased that the negotiators have provided an additional preference clause to take into account possible renegotiation of the EU program. This would protect the U.S. quota in the event that the EU made any changes to their quota in the first ten years of the agreement.

Comprehensiveness: The ATAC is pleased that the agreement with Morocco is comprehensive, providing no product exceptions or exclusions.

VI. Grain, Feed and Oilseed ATAC Membership

Name	Organization	City/State
Mr. Donald Latham **(Chairman)**	Latham Seed Company	Alexander, IA
Mr. Mark Anderson	Anderson Hay and Grain Co., Inc.	Ellensburg, WA
Mr. Gary Blumenthal	World Perspectives, Inc.	Washington, D.C.
Mr. David A. Bossman	American Feed Industry Associates	Arlington, VA
Mr. Kyd Brenner	DTB Associates, LLP	Washington, D.C.
Mr. Tom Buis	National Farmers Union	Washington, D.C.
Mr. Robert E. Cummings, Jr.	USA Rice Federation	Arlington, VA
Mr. Steve Daugherty	Pioneer Hi-Bred International, Inc.	Des Moines, IA
Mr. Dennis R. DeLaughter	U.S. Rice Producers Association	Edna, TX
Mr. Neal Fisher	North Dakota Wheat Commission	Bismark, ND
Mr. Dwain Ford	American Soybean Association	Kinmundy, IL
Mr. John Gordley	Gordley Associates, Inc.	Washington, D.C.
Mr. Paul B. Green	North American Millers' Association	Washington, D.C.
Mr. John Hansen	Nebraska Farmers Union	Lincoln, NE
Mr. Kenneth Hobbie	U.S. Grains Council	Washington, D.C.
Mr. Mark Hodges	Oklahoma Wheat Commission	Oklahoma City, OK
Mr. Lurlin L. Hoelscher	Hoelscher Ag Dist., Inc Agri Ltd. By Hoelscher	Alden, IA
Mr. Herbert Karst	Montana Grain Growers Association	Sunburst, MT
Mr. Alan Kemper	Indiana Soybean Growers Association	Lafayette, IN
Mr. Larry Kleingartner	National Sunflower Association	Bismarck, ND
Mr. David Lyons	Louis Dreyfus Corporation	Washington, DC
Mr. Tim D. McGreevy	USA Dry Pea & Lentil Council	Moscow, ID
Dr. Owen J. Newlin	Agronomic Science Foundation	Des Moines, IA
Mr. John Reed, Jr.	Archer Daniels Midland Company	Washington, D.C.
Mr. Robert Reeves	Institute of Shortening and Edible Oils	Washington, D.C.

Mr. Mark Rokala	Cornerstone Government Affairs	Washington, D.C.
Ms. Candace A. Roper	CoBank	Englewood, CO
Dr. C. Parr Rosson III	Texas A&M University	College Station, TX
Mr. Michael Rue	Farming Enterprise	Marysville, CA
Mr. Robert Rynning	National Barley Growers Association	Kennedy, MN
Mr. Ladd Seaberg	MGP Ingredients, Inc.	Atchison, KS
Ms. Barbara P. Spangler	Wheat Export Trade Education Committee	Washington, D.C.
Mr. Stephen Tolman	National Corn Growers Associates	Chesterfield, MO
Ms. Margaret Ann Tutwiler	Int’l Food & Agricultural Trade Policy Council	Washington, D.C.