

AFRICA RISK CONSULTING

Morocco Monthly Briefing February 2017

Morocco Summary 8 February 2017

The African Union (AU) formally votes to re-admit Morocco as a member. The vote is a victory for Morocco and for King Mohammed VI (2001-present) who has run a year-long diplomatic campaign to gather votes and support for Morocco's re-entry. The government and the European Union (EU) agree to uphold an existing farming trade agreement despite a European Court of Justice (ECJ) ruling excluding the territory of Western Sahara from trade deals. The Polisario Front (PF) unsuccessfully attempts to prevent vessels trading international goods from docking at ports in Western Sahara. An official in the finance ministry tells the media that the country is considering raising \$1 billion on the international debt markets in 2017.

Morocco rejoins African Union

The **African Union (AU)** formally voted to re-admit **Morocco** as a member on 31 January.¹ The vote is a victory for Morocco and for **King Mohammed VI** (2001-present) who has run a year-long diplomatic campaign to gather votes and support for Morocco's re-entry bid.² Mohamed VI visited a number of countries including **Kenya, Ethiopia, Zambia** and **Nigeria**, signing investment deals at every stop (see *ARC Briefing Morocco October 2016*).³ The 54 AU member countries debated Morocco's re-entry bid at length and eventually voted 39 to nine in favour. Morocco was the only country on the continent not a member of the AU; it left the bloc in 1984 after the AU's predecessor, the **Organisation of African Unity (OAU)**, recognised the contested region of **Western Sahara** as independent of the rest of Morocco.⁴ The **Sahwari Arab Democratic Republic (SADR)**, which claims it is the legitimate government in exile of Western Sahara, is a member of the AU and strongly opposed Morocco's bid for re-admission.⁵ Vocal SADR advocates **South Africa** and **Algeria** also criticised the re-entry bid and reportedly voted against it.⁶ However, Morocco easily overcame their objections with Mohammed VI telling other heads of state, to rapturous applause, that:

*"Africa is my home and I am coming back home... I have missed you all."*⁷

The **Polisario Front (PF)**, which operates the SADR government in exile from Algeria, released a statement saying that they hoped this would provide new opportunities for a dialogue with Morocco.⁸ PF leader **Mohamed Beiset** said that:

*"... [the PF delegation decided] it was better to have Morocco inside the house... [this is] a new opportunity that we should all seize in starting a ... genuine dialogue between us to reach a solution to the long-standing conflict that has separated us."*⁹

The PF told the media that Morocco re-joined the AU on the basis that the SADR would remain a member. Morocco had originally attempted to make the re-entry also a vote to recognise Western

¹ Reuters, 31 Jan 2017.

² Reuters, 31 Jan 2017.

³ Africa Business, 19 Jan 2017.

⁴ Al Jazeera, 31 Jan 2017.

⁵ Business Live, 31 Jan 2017.

⁶ Reuters, 31 Jan 2017.

⁷ Reuters, 31 Jan 2017.

⁸ Al Jazeera, 31 Jan 2017.

⁹ Al Jazeera, 31 Jan 2017.

Sahara as part of Morocco at an AU summit in **Kigali (Rwanda)** in July (see *ARC Briefing Morocco July 2016*).¹⁰ However, the vote fell through by a narrow margin with 26 of the 54 member states indicating they would support the Moroccan case.¹¹ Morocco made clear that it was not rejoining to expel the SADR, claiming that it did not want to make relations worse. However, nothing prevents it from bringing new motions to the AU to that effect if tensions flare up again as they did in 2016.¹²

The primary benefit of Morocco's readmission to the AU is economic. Morocco is a strong and growing economy, and Moroccan companies are well-established players in **sub-Saharan Africa** – especially in francophone **West Africa**.¹³ The Moroccan state also invests across the continent: 85% of its foreign direct investment (FDI) goes to sub-Saharan African countries – over \$600m in 2016.¹⁴ It is particularly strong in the banking and telecoms sectors.¹⁵ Morocco has not slowed the pace of investment following the successful AU bid. Mohammed VI visited **South Sudan** on 2 February.¹⁶ The king met president **Salva Kiir Mayardit** (2011-present) who chaired a bilateral trade summit between the two nations in South Sudan's capital **Juba**.¹⁷ The king and Kiir also signed an agreement for Morocco to help South Sudan build a new capital city – **Ramciel**.¹⁸ Morocco has agreed to provide \$5.1m to fund initial urbanization and environmental and social impact studies for the project.¹⁹ The two countries signed eight other bilateral agreements on political and economic cooperation; joint taxation; and memorandums of understanding (MoU) in the agricultural and mining sectors.²⁰

Morocco is also building its position as a port for trade goods. The commercial port of **Tangier – MedPort Tanger** – is a growing destination for goods travelling to and from the rest of the continent, and as a stop-off port for vessels destined for major West African ports.²¹ Following a \$758m investment in December 2016 it will become the largest container port on the continent by 2020.²² Trade flows from Morocco to the rest of the continent have increased an average of 13% per year for the last decade.²³

Morocco has smoothly engineered its return to the AU. It is a major provider of FDI flows to the rest of the continent as well as an increasingly important trading partner. Unlike other **North African** countries it has both a strong economic position and relative political stability, which allow it take on a role within the AU that both **Egypt** and **Libya** have played in the past. Much of the coverage has focused on Morocco's desire to retain control of Western Sahara. With its voice in the AU, Morocco now has another channel through which it can prevent any significant movement on the issue by directly countering any motions supporting the PF. Algeria, South Africa and the other PF allies will be easily outvoted by the many countries that are now receiving investment from Morocco. Morocco has effectively gained the ability to indefinitely delay progress on a referendum, if it chooses to do so.

Morocco and EU uphold farming agreement despite Western Sahara ruling...

The government and the **European Union (EU)** agreed to uphold an existing farming trade agreement on 8 February, despite a **European Court of Justice (ECJ)** ruling in January excluding the territory of Western Sahara from trade deals.²⁴ The EU is Morocco's largest trading partner, and the

¹⁰ Business Live, 31 Jan 2017.

¹¹ Business Live, 31 Jan 2017.

¹² Business Live, 31 Jan 2017.

¹³ Africa Business, 19 Jan 2017.

¹⁴ Africa Business, 19 Jan 2017.

¹⁵ Africa Business, 19 Jan 2017.

¹⁶ Morocco World News, 2 Feb 2017.

¹⁷ Morocco World News, 2 Feb 2017.

¹⁸ Morocco World News, 2 Feb 2017.

¹⁹ Morocco World News, 2 Feb 2017.

²⁰ Morocco World News, 2 Feb 2017.

²¹ Africa Business, 19 Jan 2017.

²² North Africa Post, 16 Dec 2016.

²³ Africa Business, 19 Jan 2017.

²⁴ L'Economiste, 8 Feb 2017.

cancellation of the agreement would have led to major economic repercussions for the farming industry. The PF – which claims to be the legitimate government in exile of Moroccan-controlled Western Sahara – launched court cases to stop the trade deals in 2014.²⁵ The ECJ ruling overturned an earlier ruling and allowed the trade deals to continue, but ruled that they could not apply to Western Sahara.²⁶ This ruling caused the EU trade directorate to temporarily suspend the **EU-Morocco Agreement on liberalization of trade in agriculture and fishery products (2012)** as it pertained to fish products caught off the coast of Western Sahara.²⁷ The Moroccan foreign ministry issued a strongly worded statement to the EU on 6 February warning that failing to uphold the agreement would have severe repercussions for Morocco's relationship with the bloc:

*"Failure to do so [honour the agreement] will trigger serious economic and social repercussions, putting thousands of Moroccan and European jobs in jeopardy and triggering a possible migration flow which Morocco has been leading steady efforts to manage and contain."*²⁸

European commissioner for foreign affairs **Federica Mogherini** announced on 8 February that the EU intended to honour the agreement, although some negotiations around its implementation will need to continue:

*"Ours is a model partnership, rich and multi-dimensional. The EU and Morocco are determined to preserve and develop it. Talks between the EU and Morocco will continue in an atmosphere of serenity and mutual confidence."*²⁹

...as Polisario calls for seizure of oil tanker

The PF called for the EU to seize an oil tanker en route from Morocco to **France** on 19 January.³⁰ The PF is attempting to narrow trade between Morocco and the EU following the ECJ ruling. Polisario argued that because the tanker called at the port of **Laayoune** in Western Sahara, its cargo violated the ECJ ruling.³¹ The **Gibraltar**-registered vessel, **Key Bay**, was carrying a cargo of fish oil from **Senegal** to the port of **Fecamp** in France.³² Morocco issued an export licence for the cargo to allow the ship to leave the territorial waters of Western Sahara, which Morocco controls.³³ **Mhamed Khadad**, Polisario's foreign affairs secretary, called on the EU to impound the vessel, and said that:

*"Morocco is an occupying force in Western Sahara, it has no right to issue export licences...this is in direct violation of the ECJ ruling."*³⁴

However, the operating company of the vessel – **Norway**-based **Sea Tank Chartering** – argues that the ECJ ruling does not apply.³⁵ It released a statement saying that:

*"We consider the activities pursued as lawful under international law...The ruling from the ECJ last month...does not take a position on the regulatory framework for [wider] trade."*³⁶

Khadad told the media on 19 January that Polisario intended to file a formal complaint with the EU and the French government.³⁷ However, at time of writing no such complaint appears to have been filed. The EU has not commented on Polisario's statement. A source within the Moroccan foreign ministry said:

²⁵ L'Economiste, 8 Feb 2017.

²⁶ L'Economiste, 8 Feb 2017.

²⁷ North Africa Post, 6 Feb 2017.

²⁸ North Africa Post, 6 Feb 2017.

²⁹ North Africa Post, 6 Feb 2017.

³⁰ Sahara News Service, 19 Jan 2017.

³¹ Sahara News Service, 19 Jan 2017.

³² Morocco World News, 19 Jan 2017.

³³ Morocco World News, 19 Jan 2017.

³⁴ Sahara News Service, 19 Jan 2017.

³⁵ Morocco World News, 19 Jan 2017.

³⁶ Reuters, 19 Jan 2017.

³⁷ Sahara News Service, 19 Jan 2017.

“Morocco and the EU have a strong trade relationship, Morocco will comply with the ECJ ruling but it clearly does not apply to international trade through Moroccan territory.”³⁸

Morocco and the EU have outmaneuvered the PF on the trade issue. This comes as little surprise as there are large trade flows at stake. The ECJ ruling appeared to give the PF leeway to push Morocco back on trade in Western Sahara. However, the ECJ gave the PF no leave to appeal the ruling, leaving its implementation in the hands of EU and Moroccan officials. On the issue of fishing in Western Sahara’s territorial waters, both the EU and Morocco are incentivised to continue the current agreement. The issue of trading vessels docking into ports in Western Sahara is also a stretch of the ruling, and risks delegitimising the PF in the eyes of the international community. The EU’s response to Morocco on the agricultural ruling shows that the trade ties between the two are currently safe.

Morocco targets \$1 billion in bond issues in 2017

An official in the finance ministry told the media on 1 February that the country was considering raising \$1 billion on the international debt markets.³⁹ Morocco enjoys good market confidence and is in a strong economic position for 2017 due to good harvest projections and ongoing growth in its manufacturing sector. However, it needs approximately \$3 billion in order to plug its budget deficit which has climbed to 3% of gross domestic product (GDP) due to large-scale spending projects and poor growth in 2016.⁴⁰ The \$1 billion proposed bond would sit alongside an Islamic-compliant bond that the finance ministry plans to issue in the first half of 2017 (see *ARC Briefing Morocco January 2017*).⁴¹ It is the first debt issue since 2014 when the finance ministry issued a \$1 billion 10-year Eurobond at an initial yield of 3.7%.⁴²

Debt remains a politically sensitive issue in Morocco. The government borrowed extensively to finance programmes from 2011 onwards, when the **Parti de la Justice et du Développement (PJD)** came to power.⁴³ High energy costs from 2011 to 2013 necessitated further borrowing which pushed public debt up to 64.7% of GDP.⁴⁴ Finance minister **Mohammed Boussaid** expects the debt/GDP ratio to decrease to 64% for 2017, but increased borrowing on the debt markets will push this upwards again.⁴⁵

Morocco’s economy has several structural flaws. Its relatively high debt/GDP ratio is one of them and its high unemployment numbers is another. It needs to fund the extensive economic development and diversification programmes in order to reduce unemployment and structurally rebalance the economy. However, it will need to borrow to do so. With energy prices remaining low, and more of Morocco’s extensive renewable power generation projects coming on line, the markets will be favourable in 2017. However, if this situation shifts across the next ten years Morocco may have to service an extra \$1 billion in debt at rising yields.

³⁸ Source, foreign ministry, Rabat

³⁹ Reuters, 1 Feb 2017.

⁴⁰ Reuters, 1 Feb 2017.

⁴¹ Reuters, 1 Feb 2017.

⁴² Reuters, 1 Feb 2017.

⁴³ Reuters, 1 Feb 2017.

⁴⁴ Reuters, 1 Feb 2017.

⁴⁵ Reuters, 1 Feb 2017.

About Africa Risk Consulting:

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