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The European Court of Justice (ECJ) annuls a 2012 agricultural trade agreement between the European Union and Morocco, arguing that it should not apply to the disputed region of Western Sahara. More generally, EU-Morocco relations appear to be on the mend after Morocco stopped a boycott of Sweden's goods and companies as part of a related dispute. The aeronautics sector continues to expand with France-based companies Latécoère and Stelia announcing new factories in the country in early December. Morocco's first wind farm, the 120MW Khalladi wind farm located outside of the city of Tangiers, achieves financing from Moroccan and European banks.

EU annuls trade agreement over Western Sahara tensions

The disputed territory of **Western Sahara** continues to shape Morocco's foreign relations. The **European Court of Justice (ECJ)** annulled a 2012 agricultural trade agreement between the **European Union (EU)** and Morocco on 10 December saying that the agreement shouldn't apply to the disputed region.¹ The EU has said that it will appeal the verdict.² The ruling could be detrimental to Morocco's agricultural interests that are an important contribution to economic growth.³ The agreement, which became active in March 2012, encouraged the reciprocal liberalisation of the production of agricultural and fishery products, some of which are produced in the contested region.⁴

Sources in Morocco expressed disappointment with the ruling:

*"This is a politically motivated attack that does not aid **Europe**....good relations are important not only for trade but for counter-terrorism policy as well."*⁵

The disputed region continues to play a major role in shaping Morocco's foreign policy with its major European trading partners, despite the efforts of the Moroccan foreign service to shift international attention away from it. Domestically all major political parties back the state's view that the region is legitimately part of Morocco. The government has said that it is willing to hold a referendum on nationality, but critics argue that the government has imported citizens from other parts of Morocco to ensure that the balance falls in their favour.⁶ The **United Nations (UN)** maintains that the Western Sahara is a non-self-governing territory. Wider political fallout regarding the ECJ ruling could threaten bilateral trade ties between EU members and Morocco.⁷ An undisclosed government source is reported to have said

*"[the government] reserves the right to reconsider all its agreements with the European Union, including the association agreement."*⁸

¹ ECJ press release 10 Dec 2015.

² Morocco World News, 10 Dec 2015.

³ Fitch Ratings, 1 Dec 2015.

⁴ Western Sahara Resource Watch, 29 Jul 2011.

⁵ Source, government official, Rabat

⁶ Western Sahara Resource Watch, 29 Jul 2011.

⁷ Wall Street Journal, 14 Dec 2015.

⁸ Morocco World News, 10 Dec 2015.

European concerns about Moroccan policy in Western Sahara continue to influence the bloc's foreign policy.⁹ The **Algeria-based Frente Popular de Liberación de Saguía el Hamra y Río de Oro (Polisario Front)** secessionist movement claims Morocco occupies Western Sahara illegally.¹⁰ The council of the EU could not verify whether Moroccan mining and business ventures in Western Sahara benefit the people within the territory, which it deems necessary for the continued trade agreement.¹¹ Morocco benefits from the extraction of phosphate reserves in the area, including the **Bou Craa** mine that accounts for 10% of Morocco's phosphate production.¹²

Sweden has previously voiced concerns over Moroccan-backed nationalist groups operating in the Western Sahara since **Spain** abdicated legal responsibility for the area in 1976.¹³ Communications minister **Mustapha El Khalfi** started a boycott of Swedish goods on 1 October in response to an alleged Swedish boycott of Moroccan products.¹⁴ Swedish foreign minister **Margot Wallström** repeatedly denied that there is a government-backed boycott of Moroccan products.¹⁵

Tensions between Sweden and Morocco have subsided over the past two months. One of the actions the Moroccan government reportedly took was to hold up the permits for **The Netherlands**-based (but Swedish owned) **Ikea's** plans to open a store in Morocco.¹⁶ The licensing went through on 5 December, after the end of the boycott of Swedish products and companies, which halted the planned opening on 29 September.¹⁷ **Ain Harrouda** mayor **Mohamed Hachani** has highlighted that Ikea has not yet obtained a certificate of conformity.¹⁸ Ikea will open the 26,600 square metre store at **Zenata** near **Casablanca**, the first of five planned stores in Morocco.¹⁹

Aeronautics sector continues to expand

Morocco's aeronautic sector continues to expand with the announcement in December of two new production sites. **France**-based **Latécoère** opened a production site in Casablanca on 3 December to produce electronic parts for France-based **Airbus** A350 and A320 airplanes.²⁰ The new factory will employ 300 people and produce avionics bays by 2018.²¹ **Canada**-based **Bombardier** is also present in Casablanca and has pledged \$200m in investment by 2020.²² Airbus Group subsidiary **Stelia Aerospace** announced on 2 December that it would open a second factory in Morocco.²³

The aeronautics industry is one of Morocco's key growth industries. The fact that Stelia is opening a second factory in the country is testimony to the profitability of the sector. The new plant will cost \$40m to build and will manufacture 'complex sets' necessary for constructing planes.²⁴ Stelia formed this year from a merger of two Airbus subsidiaries, **Aerolia** and **Sogerma**.²⁵ Stelia manufactures first class seats, large aircraft structures and airline equipment.²⁶ Morocco is becoming the country of choice for the major aircraft manufacturers (**Airbus** and **United States (US)**-based **Boeing**) both of

⁹ Morocco World News, 10 Dec 2015.

¹⁰ Morocco World News, 10 Dec 2015.

¹¹ Morocco World News, 10 Dec 2015.

¹² Western Sahara Resource Watch, 29 Jul 2011.

¹³ Le Matin, 1 Oct 2015.

¹⁴ Le Matin, 1 Oct 2015.

¹⁵ Radio Sweden, 2 Oct 2015.

¹⁶ Morocco World News, 5 Dec 2015.

¹⁷ Morocco World News, 5 Dec 2015.

¹⁸ Morocco World News, 5 Dec 2015.

¹⁹ Morocco World News, 1 Dec 2015.

²⁰ Morocco Gazette, 5 Dec 2015.

²¹ Morocco Gazette, 5 Dec 2015.

²² Bombardier, 20 Jun 2013.

²³ Reuters, 30 Nov 2015.

²⁴ Reuters, 30 Nov 2015.

²⁵ Stelia Aerospace website

²⁶ Reuters, 30 Nov 2015.

which have factories in the country. According to sources in the industry, it is both the low cost of operating and the proximity of Europe that make Morocco an attractive manufacturing destination:

*“There are 35,000 aircraft to be built globally over the next 20 years. Today Morocco is the place to be if you want to penetrate Europe at the best cost. Ten years ago companies were in **Eastern Europe and Ireland**, but since these countries joined the EU, they have become less and less competitive.”²⁷*

This added business is a result of Morocco’s aggressive policies to attract business from the aeronautics sector including corporate tax and value-added tax exemption for the first five years of operation, and reduced rates of 8.75% for the following 25 years for businesses present in the **Aerospace Industrial Park**, a public private partnership developed by local company **Midparc**, near **Casablanca Airport**.²⁸ The aviation sector grew 5.1% in 2015 and generated \$605m in export revenues.²⁹ The industry employs 11,500 people and has grown at an average of 15% a year over the last five years.³⁰ There are new projects worth \$100m currently underway, adding to the \$800m of investments in manufacturing and assembly already active in Morocco.³¹ The industry aims to provide 23,000 jobs by 2020, increase exports to \$1.6 billion per year, and increase the proportion of locally produced components to 35%. Currently most products are assembled from imported parts.³²

Moroccan wind farm gets EBRD funding

Morocco is continuing to move ahead as the region’s leading developer of renewable energy. The **European Bank for Reconstruction and Development (EBRD)** and Morocco-based **Banque Marocaine du Commerce Extérieur (BMCE)** announced on 30 November that they would provide \$133m to develop the **Khalladi** wind farm.³³ Khalladi is the first major wind development in the country. It is also one of the first private energy projects to be developed under renewable energy legislation that the government passed in 2013.³⁴ The 120 megawatt (MW) farm is located just outside the city of **Tangiers** and will consist of 40 turbines.³⁵ It will sell energy to three industrial consumers on a contracted basis and will sell any excess to the national grid.³⁶ It is due to come online by 2018.³⁷ The EBD/BMCE funding will cover approximately 77% of the project costs.³⁸ The **Khalladi** wind development company will provide the remaining 23%. The owners of the developing company are **Saudi Arabia-based ACWA Power Global Services (70%)**, **ARIF**, a North and Sub-Saharan Africa infrastructure fund managed by private equity manager **Infra Invest (25%)**, and **UPC Renewables North Africa (5%)**.³⁹

Morocco’s focus on renewable energy has received increasing press coverage in recent months, but most is focused on solar power development. However the energy department has plans to continue the momentum of renewables development beyond the **Noor Solar Power Park**, the 1.5 gigawatt (GW) plant outside the city of **Ourzazate**, currently in its third phase of development. According to a source within the department:

*“We are currently ahead of most of the rest of the world with Noor but we have other natural resources that we can tap into...[Morocco] hosts the **COP22** [the **United Nations** conference of*

²⁷ Source, aero trade association, Casablanca

²⁸ Oxford Business Group, 9 Sep 2014.

²⁹ Moroccan Gazette, 5 Dec 2015.

³⁰ FT, 25 Nov 2015.

³¹ FT, 30 Nov 2015.

³² FT, 30 Nov 2015.

³³ SeeNews Renewables, 30 Nov 2015.

³⁴ SeeNews Renewables, 30 Nov 2015.

³⁵ SeeNews Renewables, 30 Nov 2015.

³⁶ SeeNews Renewables, 30 Nov 2015.

³⁷ L’Economiste, 30 Nov 2015.

³⁸ L’Economiste, 30 Nov 2015.

³⁹ L’Economiste, 30 Nov 2015.

parties on climate change] next year, there are a number of projects in the pipeline we hope reach financing by then.”⁴⁰

Morocco is a net energy importer, the largest in the region. The country has a temporary reprieve from the drain on its finances due to the continuing low price of oil, which dropped below \$40 per barrel in December.⁴¹ The renewable energy drive, which started in 2011 when the price of oil was still high, aims to produce 30% of all energy from renewable sources by 2020 and 50% by 2030. If the country hits its targets then it would be in a position to withstand another increase in the price of oil as well as being a world leader on renewables:

“The fact is that if we don’t diversify our energy supply then the government will have to go back to spending 20% of the budget importing fuel...part of this relies on the oil prices remaining low long enough for the government to support another wave of major renewables plants.”⁴²

Implications

The Western Sahara remains an issue for Morocco despite the country’s best efforts to bundle tacit support for their position into trade and security agreements. The ECJ’s ruling gives scope for the reinstatement of the trade agreement if the contested region is left out. However, the strong nationalist tide of public opinion in Morocco means that the government will not allow this to go ahead. The EU trade officials are well aware of this, which is why they have appealed the court’s ruling, which is essentially a political one. The ECJ does not usually rule on matters of external political influence, and the ruling could set a wider precedent for trade agreements across Africa.

Tense relations with the EU would have a negative economic impact on Morocco’s economy. As the **Eurozone** gradually lifts from its economic lows of the past five years, investment in Morocco is increasing. The aeronautics industry follows the automotive industry and the pharmaceuticals industry in outsourcing manufacturing from European countries to Morocco. This creates jobs for local people and helps to develop local services businesses around the larger foreign-owned manufacturing and assembly plants. These increased connections could be enough reason for Morocco to push softly on the trade agreement cancellation. However, the government fears that if it starts to compromise on the region it will swiftly lose control, so the political tensions pose a risk to the trend of increased investment.

Where Morocco has universal international acclaim is its ambitious renewable energy plans. The development of the first wind farm may lead the way for more – onshore and offshore on the **Atlantic** coastline. Regional neighbours, such as **Egypt**, already have invested significantly in wind power. The continued development of renewables projects will keep the cost of fuel and power low, thus increasing Morocco’s attractiveness as a place to invest in and operate from.

⁴⁰ Source, energy ministry, Rabat

⁴¹ Oilprice.org, 2015

⁴² Source, journalist, Casablanca

About Africa Risk Consulting:

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