Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/19/2003

GAIN Report #MO3010

Morocco

Grain and Feed

New Customs Duties on Grains

2003

Approved by:

Merritt Chesley

U.S. Embassy, Rabat, Morocco

Prepared by:

Aziz Abdelali

Report Highlights:

Effective June 1, 2003, grains have been subject to a new duty system that implies, for the current level of prices, a major increase in duties for bread wheat and a smaller impact on durum, corn and barley. The method to compute the duties will change with the new system.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Rabat [MO1], MO

Table of Contents

I. General Summary

Following the anticipated large grain crop this year, the GOM announced a change in the import duty system that will result in a major increase in duties for bread wheat compared to the old system, especially if world prices increase. The impact on duties for other commodities is expected to be relatively small.

The new duties were effective June 1, 2003. The duty calculation method will change for bread wheat, durum and corn, and will be similar to what was used for these commodities before the current variable duty system implemented in late 1998. It is also similar to the method that has been used for barley but with a different level of duties and threshold price.

II. The Old System (1998 - 2003)

In addition to maintaining high tariff support for local farmers, a primary purpose of the duty system introduced in October 1998 for grains was to insulate farmers from the volatility of world prices. For bread wheat (referred to simply as wheat hereafter), durum and corn, the GOM set a high threshold price, which helps maintaining domestic prices at a high level (for wheat, about twice world market prices). In addition to a relatively low base duty applied to the declared CIF price (plus port charges), a high additional duty was levied on the portion of the CIF price lower than the GOM threshold price. Barley was subject to a slightly modified version of this system, with the duty being split in two: the portion of the CIF price (plus port charges) under the threshold price was subject to a high duty, while the portion above the threshold price was subject to a flat 16 percent. In fact during recent drought years, the government exempted temporarily barley imports from duties.

Table 1. The 1998 - 2003 Duty System for Grains

	Wheat	Durum	Corn	Barley*
Base rate applied on declared CIF price (%)	33.5	21	17.5	30
Additional duty on CIF price portion below threshold price (%)	103.5	93	57	16
Threshold Price (dh/MT)**	2,000	2,700	1,464	700
Threshold Price ($/ MT)	$ 200	$270	$146	$70

* The tax for barley is computed differently than for wheat, durum and corn. See table below.
** $1 = 10 dirhams (dh)

Table 2. Sample Computation for Duties Under 1998-2003 System

	Wheat	Durum	Corn	Barley*
A. Threshold price (dh)**	2,000	2,700	1,464	700
B. Sample CIF price (plus port charges) (dh)	**1,350**	**2,500**	**1,733**	**1,150**
C. Difference between threshold price and CIF price (dh)	650	200	--	450
Base tax (base rate x B)	452	525	303	210
Additional tax (additional rate x C)	673	186	--	72
Total Import duties (Base Tax + Additional Tax)	**1,125**	**711**	**303**	**282**
Effective Tax	83.3%	28.4%	17.5%	24.5%

* For barley, the portion of the CIF price below the threshold price is subject to a high duty, while a flat 16 percent is levied on the portion of the CIF price above the threshold price.
** $1 = 10 dirhams (dh)

The system described above acted as a variable levy system, encouraging importers to bring in grains as close to the threshold price as possible. In some cases, importers of wheat and corn were willing to pay premiums for higher quality wheat because they ended up with about the same internal price (all duties paid) as they would have if they had imported cheap wheat but paid the additional tax. To some extent, this could have played in favor of U.S. origin grain, but many importers, because of their financial resources, were better off importing in smaller (more expensive) shipments, thus reducing significantly the chances of importing from the United States.

The financial advantage of importing higher-priced grain reportedly led to widespread over-invoicing by importers, in order to avoid paying the additional tax when buying cheap wheat. In December 2000 (see MO1002), the GOM introduced a system establishing maximum prices per origin, to minimize the problem of over-invoicing.

III. The New System

The new system, implemented June 1, 2003, reverts to the basic approach used before 1998, whereby duties will be based more on the CIF price, rather than the established threshold price. The GOM still sets a threshold price for each grain (wheat, durum, corn, and barley), but this price is generally lower than world prices. Similar to the old system of duties for barley, the tariff is split into two parts. The portion of the CIF price below the threshold price is subject to a high duty, while the portion above the threshold price is assessed a flat 2.5 percent.

Table 3. The New Duty System for Grains

	Wheat	Durum	Corn	Barley
Duty on portion of CIF price below threshold price (%)	135	75	35	35
Duty on portion of CIF price above threshold price (%)	2.5	2.5	2.5	2.5
Threshold Price (dh/MT)	1,000	1,000	800	800
Threshold Price ($/MT)	$100	$100	$80	$80

** $1 = 10 dirhams (dh)

Table 4. Sample Computation for Duties Under the New System

	Wheat	Durum	Corn	Barley
Declared CIF price + port charges (dh/ MT)	**1,500**	**1,850**	**1,500**	**1,100**
Part of price under threshold price (dh)	1,000	1,000	800	800
Part of price above threshold price (dh)	500	850	700	300
A. Duties on portion below threshold price (dh)	1,350	750	280	280
B. Duties on portion above threshold price (dh)	13	21	18	8
Total Import Duties (A + B)	**1,363**	**771**	**298**	**288**
Effective Tax	90.8%	41.7%	19.8%	26.1%

** $1 = 10 dirhams (dh)

In both the old and new systems, there is an additional 0.25 percent tax (export promotion tax) that is applied to all imported commodities. This tax is applied on the declared CIF+port charges price. There is no value added tax (VAT) on wheat. Corn is subject to a 7 percent VAT tax. Barley is subject to 0 percent VAT when it is used for human consumption, 7 percent if it is used for mixed feed, and 20 percent if it is to be sold as feed in the local market. In practice, because it is difficult to control the final use of barley most of it ends up being declared for human and paying no VAT.

IV. Comparison Between Old and New Systems

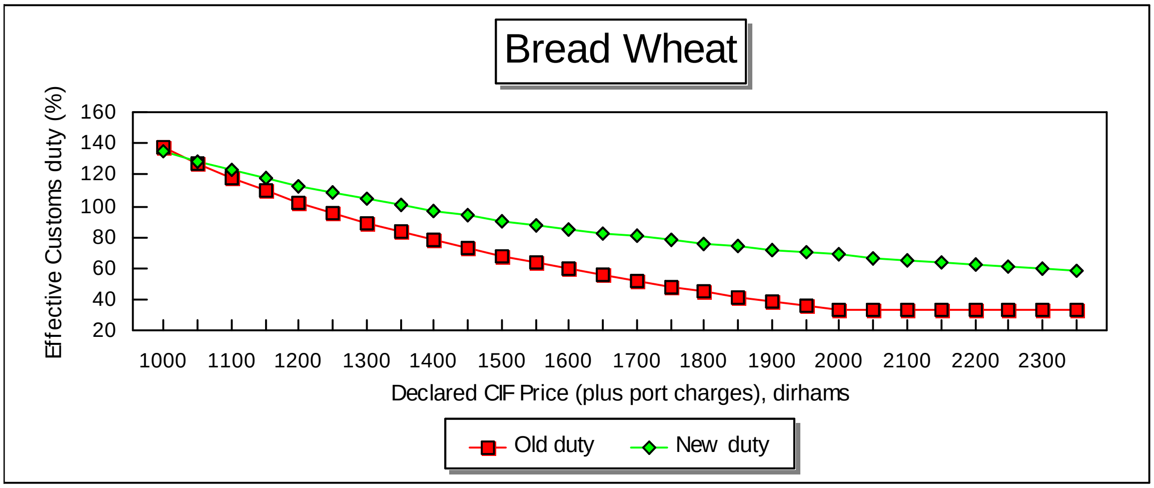
The biggest effect of the new duty system is that domestic prices will be more affected by the price swings of the world market. This is especially true for bread wheat. Under the old system, the wheat threshold price was substantially higher than world prices, and the duty imposed on this differential (the "variable levy" part of the duty) comprised the largest part of the total duty. Under the new system, on the other hand, the threshold price is considerably *below* the world price, and the largest part of the total duty is the duty assessed on the CIF price. Although this is in general higher than duties under the old system, it is more transparent and provides an easier base from which to negotiate. The following table and charts demonstrate the rather complex impact of the new change in duties as actual prices vary.

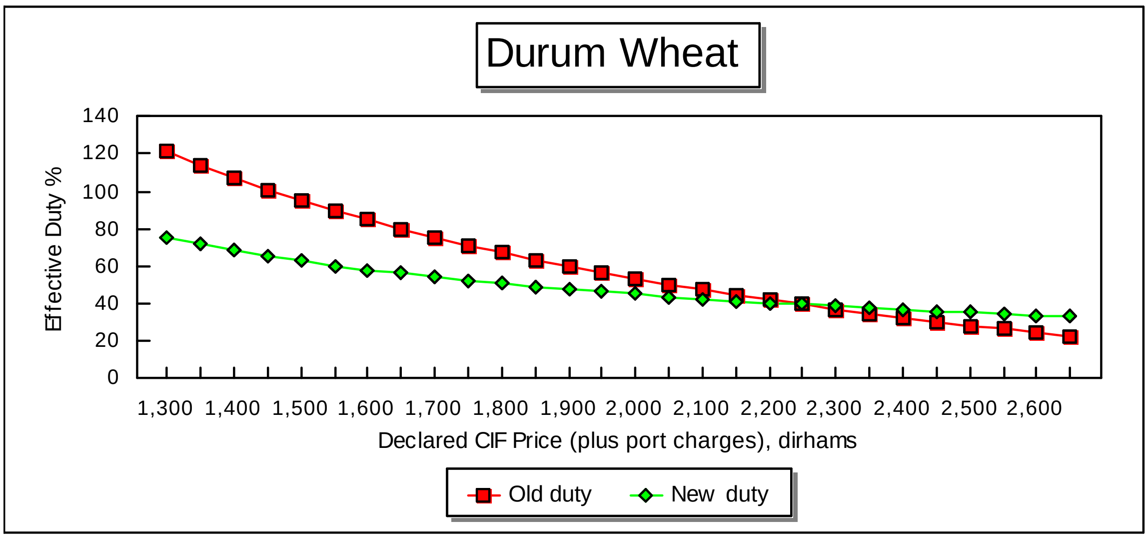
Table 5. Equilibrium Prices at Which Old & New Duties are Equivalent

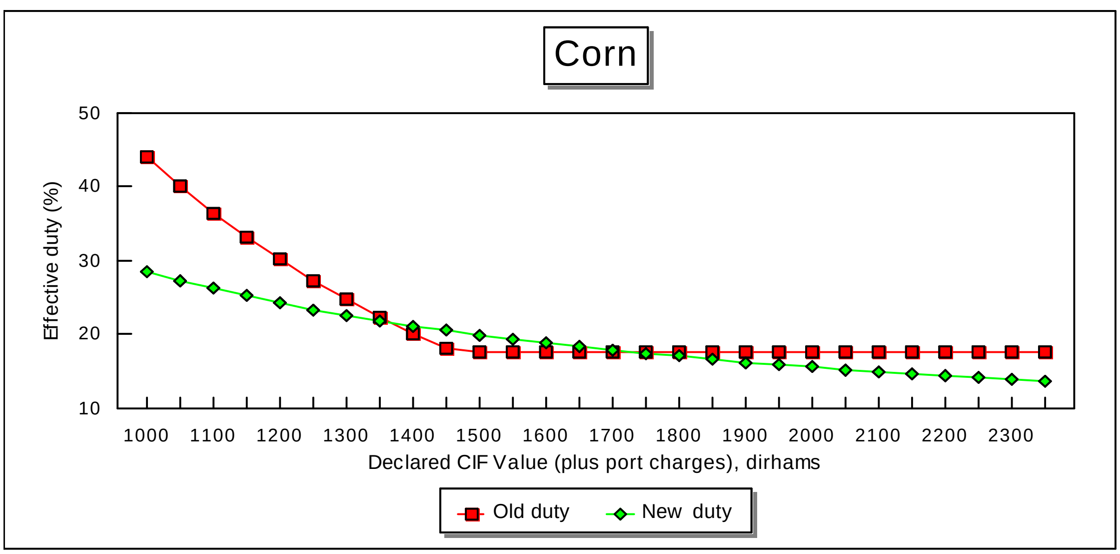
	Wheat	Durum	Corn*	Barley
Equilibrium Price (CIF+Port Charges) ($/MT)	$103	$240	$137 & $173	$120
Current Price (CIF+Port Charges) ($/MT)	$135	$250	$135	$115
Effective Tax under New System	100.7%	31.5%	21.8%	25.1%
Effective Tax under Old System	83.3%	28.4%	22.3%	24.5%
New - Old	17.3%	3.1%	-0.6%	0.6%

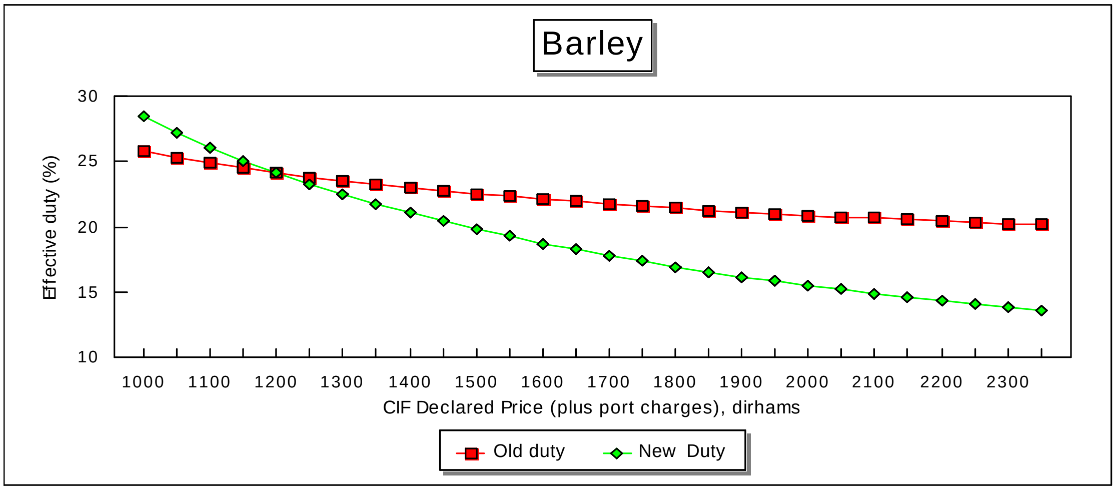
* For corn, the new system implies higher duties for prices between $137 and $173 and lower duties otherwise. For other commodities, the new system has higher duties for prices above the equilibrium price.

V. Charts Comparing Old and New Duties, Under Different Price Scenarios








Barley
30
25
20
15
10
Effective duty (%)
1000
1100
1200
1300
1400
1500
1600
1700
1800
1900
2000
2100
2200
2300
CIF Declared Price (plus port charges), dirhams
Old duty
New Duty