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## **Global Forum on Competition**

### **COMPETITION AND COMMODITY PRICE VOLATILITY**

**Contribution from the Moroccan Ministry of Economic and General Affairs**

-- Session I --

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## COMPETITION AND COMMODITY PRICE VOLATILITY

-- Moroccan Ministry of Economic and General Affairs \*--

### Introduction

1. The volatility and instability of commodity prices have been among the major challenges of the last four years for many countries, and they still are. World prices for basic foodstuffs (sugar, cereals, fats, rice, maize and so on), oil and ores have set records not reached for three decades. Two thousand eight was inescapably a reflection of these erratic and irrational global market trends, with a barrel of oil – to cite just this one example – breaking through the USD 145 ceiling in July 2008 and then plunging dizzily to a floor of USD 40 just months later.
2. The respite experienced during the early months of 2009 was but a fleeting pause before the sharp upswing resumed at year-end 2010. The volatility of commodity markets is shrouding the world in uncertainty and fear accentuated by the harbingers of economic downturn, the symptoms of which are growing clearer and more distinct with each passing day.
3. Debate over the causes of these soaring prices has been brisk. However, it is universally acknowledged that there is a growing imbalance between supply and demand. The succession of natural disasters has unquestionably played a role as a trigger in disrupting commodity supplies. Thus have harvests been endangered by floods in Pakistan and Australia, fires in Russia and drought in Latin America and China. In addition, geopolitical conflicts and popular uprisings in certain mainly oil-producing Arab countries explain the bulk of the problems to be seen on the oil market. With respect to demand, the strain is also at its utmost. Consumption – whether of energy or other commodities – is being driven by the exponential growth of the emerging countries.
4. With supply threatened by the scarcity induced by successive natural disasters, and with demand exploding, it is easy to understand why prices are rising. And yet, the swiftness of the spike and the intensity of the fluctuations would suggest that speculative factors are at work as well.
5. Morocco, as a non-oil-producing country with limited natural resources, is bearing the full brunt of soaring world prices. Its heavy dependence on foreign markets to meet much of its commodity requirements has accentuated its vulnerability to the constraints imposed by global market volatility.
6. As a matter of fact, 97% of the Kingdom's petroleum-product requirements are imported, as is over half of the raw sugar that Morocco consumes; the table oil sector imports almost 90% of the soya and sunflower seeds and crude oils that are needed to produce refined edible oils. Cereal imports are highly dependent on harvests and in some years can peak to over 70% of aggregate wheat consumption.
7. Apart from its dependence, Morocco is one of the greatest consumers of certain commodities, and especially of refined sugar, with 35 kg per capita as compared to a world average of 22 kg, the cereals

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\* Contribution submitted by Mr. El Hassane Bousselmime, Director of Competition and Prices, Moroccan Ministry of Economic and General Affairs.

that constitute the staple of the Moroccan diet, as well as edible oils and energy, which is unquestionably vital to driving the country's economy.

8. Clearly these sectors are strategic. Nevertheless, soaring world prices coupled with high consumption constitute a heavy burden for the country in terms of its trade balance, import expenditures and resultant impact on the State budget.

9. The Moroccan authorities' reaction to the global market surge was swift and sequential. As a result, the Ministry of Economic and General Affairs' Directorate for Competition and Prices, having the delicate mission of co-ordinating government price policy and implementation of competition policy, found itself squarely in the middle of the problem.

10. By year-end 2007, a series of one-off, short-term measures were instituted to cope with the urgency of the situation. The overriding objective was to shield consumers and producers alike from any excess cost that could jeopardise consumer purchasing power or producer competitiveness, in a stance that at the time was deemed one-off and limited in time.

11. The strategy consisted in triggering a set of mechanisms that would be able to cushion the global market shock. The first of these actions targeted tariffs and reduced if not eliminated customs duty on all products affected by surging prices and imports of which are subject to substantial levels of protection. The sectors benefiting from these measures were cereals, butter and sugar.

12. And yet, while this mechanism proved fairly effective in some sectors, the same could not be said for other sectors in which the level of protection is either at a minimum – as in the case of edible oils and petroleum products – or insufficient. Other remedial measures had to be combined in order to yield a tangible and more significant result.

13. The second level of intervention by the Moroccan authorities, led by the Directorate for Competition and Prices in co-ordination with the ministries responsible for the various sectors involved, was to institute a system of import-cost restitution for a whole set of products, and particularly for imports of soft wheat and raw sugar.

14. The State budget assumed the expense of reimbursing sector operators for the difference between the actual import cost of each product and the theoretical costs of these inputs that would be appropriate for the prices of the corresponding final products.

15. As a result, restitutions were paid out in respect of tender-wheat and raw-sugar imports in order to keep the prices of flour and its derivatives, bread and refined sugar at levels compatible with consumer purchasing power. This restitution system is triggered whenever necessary, and in particular when world market prices for these products reach exorbitant heights.

16. A third level of government intervention was direct support for consumer prices. Historically, the Kingdom of Morocco opted very early to liberalise its economy, with Act No. 06/99 on freedom of pricing and competition enshrining the principle of freedom of pricing while at the same time preserving 15 groups of regulated products and services. These products that are still regulated represent goods and services that are considered strategic or socially sensitive, and for which there is insufficient price competition in the sectors involved. In parallel with the price regulation mechanism, Morocco operates a compensation fund which ensures domestic price stability by subsidising and supporting the prices of certain social goods, the aim being to guarantee a certain social cohesion and degree of protection for the most disadvantaged segments of the population. The products in question are sugar, a special type of flour known as national soft-wheat flour and butane gas.

17. The international economic situation and steadily spiking world market prices, especially of oil, which neared USD 150 a barrel in 2008 and did not dip below USD 100 a barrel at any point in 2011, have prompted expansion of the compensation fund's scope of application to subsidise products other than the conventional ones, and in particular automotive fuel (diesel and petrol), industrial fuel and fuel used to generate electricity.

18. The State budget endows the compensation fund with the financial resources needed to accomplish this mission. With the persistence of soaring raw materials prices and high levels of world market prices, this operation is becoming increasingly delicate in view of the phenomenal amounts of subsidies expended for these products and which have reached alarming levels over the past two years. As a result, the total compensation bill rose from **12.4 billion Moroccan dirhams (MAD)** in 2006 to **MAD 16.8 billion** in 2007 and **MAD 32 billion** in 2008. The relative calm in world markets in 2009 eased this amount back down to **MAD 12.8 billion**, which then rose to **MAD 31.5 billion** in 2010, and for 2011 the projection is for an all-time record-breaking **MAD 45 billion, or approximately USD 5 billion**.

19. In parallel to the strategy of intensive price support that has been adopted to buffer foreign market shocks, and with reference to its mission as an economic regulator and monitor of proper market workings and competitiveness, the Directorate for Competition and Prices has undertaken a set of regulatory and operational initiatives to consolidate and strengthen measures already adopted.

20. On a regulatory level, a circular on compulsory price labelling and the mechanics thereof was prepared and published to enshrine transparency in relations between operators and consumers, and to improve consumer information during periods of sharply rising prices. Act No. 30-08 amending Act No. 06-99 on freedom of pricing and competition was a response to the backdrop of rising world prices by instituting a new price control mechanism, targeting the speed of government intervention in combating speculation and raising the level of sanctions as a better means of dissuasion.

21. Price controls and monitoring operations were bolstered on the various markets via the creation of a central interministerial commission backed up by regional commissions with a mission of regular market monitoring in order to combat practices that restrict competition, and to detect evidence of anti-competitive practices and propose appropriate measures to cope with any problems observed in the workings of the markets in question.

22. On an operational level, the Directorate for Competition and Prices has carried out investigations and surveys, if not studies, on the most highly exposed sectors. Competition surveys were therefore launched in sectors in which tariff or budget support measures had been introduced, including the butter and flour sectors. Along with looking for evidence of anti-competitive practices, the surveys also sought to evaluate the effects of the measures taken by the authorities.

23. Special attention and regular monitoring were focused on trends in the market for edible oils, especially as regards the behaviour of operators in the sector, whose infringements of the rules of competition had been noted in the past by the Directorate for Competition and Prices. The sugar sector, because of its monopoly, has also been monitored by the competition authorities. A study of sugar distribution circuits was carried out in co-ordination with the operator to get a better understanding of its marketing policy and to achieve greater transparency in the dealings of the lone enterprise operating in this sector.

24. Lastly, optimisation of compensated sectors has also been one of the Directorate's major projects in the current economic climate. Better targeting of State budget appropriations, a restructuring of prices to rationalise the various costs and expenses, and the institution of transparency in pricing were undertaken in the petroleum and flour sectors.

25. Clearly, the challenge posed by soaring raw materials prices is straining the State budget because of the burdensome and ever-changing compensation expense, while at the same time it is putting the competition authorities to the test as principles of market freedom are jeopardised by distortions caused by the government's mounting interventionism in formulating and controlling prices. Apart from stop-gap measures whose effects are necessarily only short-term, this challenge can be overcome only by adopting a comprehensive long-term strategic vision.
26. The Kingdom of Morocco has already launched a strategy having three major components: ultimately reducing strategic sectors' dependence on world markets; rationalising commodity consumption and bolstering storage infrastructure; and strengthening the competition authorities.
27. Far-reaching national strategies have been launched with long-term time frames: a strategic diversification of the energy mix by gradually reducing consumption of fossil fuels and introducing renewable energies and adopting a regulatory and operational framework conducive to the development of such new energies, the "Green Morocco" strategy promotes improvements in national production of sugar, cereals, oils, meat, milk, and so forth by implementing a panoply of programme contracts between the government and inter-professional alliances with an objective of bringing these industrial segments up to standard.
28. Implementation of a regulatory framework for energy efficiency, along with the various actions accompanying it in multiple sectors, including housing and transport, highlights the benefit to government policy of optimising the consumption of commodities, and of energy products in particular. Other programmes to foster energy rationalisation have been established for electricity: generalisation of low-consumption lamps and the Eco 20/20 system are but two examples. Along the same lines, public and private investment in storage and receiving infrastructure, and ports in particular, is being strongly encouraged to modulate the country's supply policy by accentuating supplies of strategic products when world market prices drop and constituting the necessary inventories.
29. In addition, no one can deny that in periods of crisis or difficulty, good governance goes a long way towards buffering and lessening impacts. Good governance plays an important role in managing the difficulties of the moment. It cannot be possible without an appropriate legislative framework and without strong and independent governance institutions. Accordingly, the Kingdom has instituted new legislation that invests the competition authorities, and the previously advisory-only Competition Council in particular, with greater powers and more independence for increased participation in managing crisis periods and enhanced effectiveness in enshrining a culture of competition and combating a rent-seeking economy.
30. Keenly aware of the important role that the Competition Council can play in regulating the market, the government has continually stressed, through the Ministry of Economic and General Affairs, the need to activate the Council. This was finalised in 2008 with the appointment of a new Chair and new members.
31. As soon as it took office, the newly constituted Council undertook enormous efforts to build awareness of the advantages of competition law, launched studies on the competitive capabilities of a number of strategic sectors and held international conferences in which eminent experts known round the world took part.
32. In view of the Competition Council's importance as a moral influence on Moroccan economic life, Morocco's new constitution elevated the Council to the rank of a constitutional institution.