

USAID/GOVERNMENT OF MOROCCO

CEREALS MARKETING REFORM PROJECT

QUARTERLY REPORT 7

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by
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Report CMR-QR7

USAID Cereals Marketing Reform Project

ACCOMPLISHMENTS OF THE SEVENTH QUARTER (January-March 1992)

In early January 1993, the CMR project's annual coordination meeting with US-based subcontractors was held over a two day period at the Department of Agricultural Economics at Purdue University. Following this, work was carried out on activities in three of the four CMR project's Phase II applied research themes and in training. In addition, a mid-term evaluation of the project was conducted during the quarter.

Applied Research Theme 1: Future Competition in the Wheat Milling Industry

A large part of the work program defined for Phase II of the project involves predicting the potential impact of policy changes on the country's cereals milling industries and on future competition among products of these three groups of firms (industrial bread wheat mills, industrial durum wheat mills, and the large number of smaller-scale artisanal mills).

Of the seven activities in the "wheat milling industry in competition" program, work was carried out on four of them during the quarter:

- o Interviews with owners/managers of bread wheat mills about readiness and prospects for competition under free market conditions;
- o Refinement of a linear programming "transportation model" to begin to assess major impacts on individual mills of different aspects of subsector liberalization;
- o Conducting an initial census of Morocco's 50 or so industrial durum wheat and barley mills; and
- o Preparation of the summary, strategic diagnosis of the wheat flour subsector (in its current highly regulated environment) and the consequences of moving to conditions of free market competition.

1.1 Survey of Bread Wheat Flour Mills

This survey, under the sponsorship of the Moroccan Professional Millers' Committee (CPM), involved in-depth interviews with a sample of 30 of the total 85 industrial bread wheat mills. The main objectives of this survey were:

- o To analyze the physical and financial position of a wide sample of mills;
- o To assess the preparedness of the mills for free market competition and their plans for the future; and

- o To develop a better picture of the six major regional flour markets in Morocco.

Interviews were conducted by subcontractors Agro-Concept and ICEA and were completed in February.

1.2 Refinement of an LP Model for the Milling Industry

The initial objective was to construct a linear programming model that contains the geographical location all the industrial bread wheat mills, and to assess a likely first step in decontrol of the industry: impacts of elimination or cut-back of transportation subsidies on the financial position of mills in different parts of Morocco. During this quarter, the model was refined to include actual rail and road transport costs and to analyze the optimal use of Morocco's major cereals importing ports under different domestic production/import scenarios (normal year, drought, etc.). This may be one of the most valuable uses of the model in the future since the current drought has severely tested current import capacity and the GOM will likely want to make further port investments to optimize performance of the national system. This work was conducted jointly between ONICL and Agro-Concept. During the quarter a new version 2.25 of the modeling software, General Algebraic Modeling System (GAMS), was ordered to reduce computer memory limitations on this large model.

1.3 Survey of Durum Wheat and Barley Industrial Mills

To complete data gathering on the wheat flour subsector, the project is assisting ONICL to undertake the first detailed census of Morocco's 50 or so "*semouleries*" and "*orgeries*" (durum and barley mills). During the quarter, consultant Lahcen Achy of INSEA, helped Mohamed El Bouziri of ONICL to complete the questionnaire, train a dozen or so ONICL regional staff in its use, and begin the data collection. It is anticipated that all interviewing, data entry and preliminary analysis will be complete by the end of April.

1.4 Drafting of Strategic Diagnosis of Wheat Milling Subsector

During the month of March, Claude Falgon of subcontractor ICEA, completed the first draft of this report which, when revised and presented to the Moroccan wheat millers and other interested parties, will constitute one of the project's major Phase II outputs. The draft report¹ was received in late March and distributed to CMR "partners" in the GOM and the private sector for comments. The report has four major parts:

- o Environment within which the industry operates: Summary analysis of the current administered system and characteristics of the demand for its flour products (summary of results from CMR Working Papers 11 and 12);
- o Diagnosis of current industry operations: Describes the "health" of the

¹ Claude Falgon, "La Minoterie Marocaine en Situation de Concurrence", CMR Report 14, Rabat, May, 1993 (final version).

industry and operating procedures currently in use, with information largely derived from in-depth interviews with a large sample of millers (point 1.1 above);

- o Analysis of impacts of reforms on the industry: This part predicts the likely impact of anticipated reforms on the business strategies and management of different categories of milling firms, ranging from industry leaders who are likely to increase their market share to industry "losers" (now existing largely due to FNBT quotas and fraudulent behavior) that are more likely to go out of business. This section was based on miller interviews, analysis of the structure and functioning of individual firms, on complementary information concerning the industrial semouleries (point 1.3 above) and the artisanal mills (CMR Report No. 13), and information from the linear programming "transportation model" (point 1.2 above); and
- o Discussion of GOM facilitating actions: Secondary measures that can be taken by the state in order to "cushion the shock" of a major industrial restructuring for different groups. Here we are concerned with consumers (price levels, quality of products, and norms), farmers (price levels, grading, and storage), traders (grading and storage), and industrial mills (training in industrial milling, business advisory services, or possibilities of more direct compensation). In terms of direct compensation, the report contains a discussion of the French milling industry's experience with a system of "milling rights" where a common fund buys and sells rights to mill certain quantities of grain. This system in France allowed the process of industrial restructuring to be substantially slowed with a system that was largely financed by the millers themselves.

It is anticipated that the final version of this document will be presented to three regional meetings of millers during the month of June. This will also be an opportunity to discuss the content and timing of implementation of cereals marketing reforms with this important interest group.

Applied Research Theme 2: Impact Analysis of Subsector Policy Changes

An important task for the CMR project is the analysis of the likely impacts of anticipated policy changes on the agricultural economy or for key groups in the society. During the quarter, Dr. Phil Abbott of Purdue University, working with a committee of Ministry of Agriculture collaborators in Rabat, completed the first version of a model to examine the impacts of changes in grain trading policy on domestic prices and stocks. Professor Abbott was in Rabat on this assignment between February 7th and the 19th.

The model tracks the supply, demand, and annual equilibrium price of all four cereals based on randomly fluctuating world prices and domestic production and different approaches to border price protection. It produces figures on how frequently (out of a hundred years, for example) key price, production and consumption levels will deviate significantly from predetermined threshold levels -- the key questions involved in food

security modeling for Morocco.

Also during the quarter, three Moroccan and one US graduate students at Purdue worked on this or related impact models under the guidance of Professors Abbott, Tyner and Masters. It was decided that, in order to meet the CMR project objective in impact modeling, Professors Tyner and Abbott in September, 1993, will complete a summary paper for Moroccan policy makers on the results of all these related modeling efforts.

Applied Research Theme 4: Institutional Change in Support of Cereals Policy Reform

There are a variety of changes that will take place in both public and private institutions as Morocco develops freer cereals markets. To date the CMR project has focused on four areas of needed change:

- o Changes in the structure and functioning of ONICL in order for it to be supportive of a private cereals trade;
- o Changes needed in MARA to reorient its efforts in data collection and analysis to be compatible with and supportive of private market development;
- o Changes that will likely occur in private cereals trading to promote greater efficiency and to provide regular market users more access to appropriate risk reduction mechanisms.²
- o Changes in the manner in which food security (really "wheat flour security") is managed by the GOM, both during a transitional period and in the longer run.

4.1 CMR Work in Improving the Cereals Market Information System (MIS)

Near the end of the quarter Ms. Katie Kampmann arrived in Rabat to begin her consulting assignment with ONICL and MARA concerning the implementation of the next stages of the MIS development plan, the result of previous CMR consulting work (CMR Report 9, May, 1992). Her initial work will focus on the collection and dissemination of market prices for the four major domestically-produced cereals. It is also anticipated that she will work on the initial development of a system to estimate grain stocks (on-farm and commercial) in the context of freer cereals markets and a GOM concern for food security, particularly during the transition phase.

² Ironically, the development of private markets often increases price volatility as a means of efficiently reallocating resources in agricultural production and marketing. This greater price variation then gives rise to mechanisms that some market actors use to reduce the risk exposure for their own businesses.

4.2 Food Security Presentation/Debate

In early February, Hassan Benabderrazik of Agro-Concept made a presentation of the results of his draft report on cereals marketing policy reform and food security (CMR Report 11) to an audience of GOM officials and private cereals importers at a "lunch-debate" organized by Professor Mustapha Berrada of IAV Hassan II. Based on Professor Berrada's written report of the ensuing debate and other information (particularly from the FAO Food Security Unit in Rome), Mr. Benabderrazik is preparing a final, revised version of this report. Food security concerns, particularly the likely need to create some type of security stock of bread wheat for the transitional period to freer markets, will be an important topic in the final phase of the CMR project. This will require information on a number of critical areas:

- o Physical state and adequacy of the current system of bulk handling and storage for wheat in a free cereals market (to be addressed by a CMR-sponsored survey to begin in May or June);
- o Ability of the private sector to manage wheat supply to the industrial mills (The current ONICL organization of wheat imports and deliveries to the mills allows for a fairly efficient, "just-in-time" use of the existing bulk facilities. Private trade will probably need somewhat more bulk capacity to allow greater choice in grain quality provided to mills); and
- o Improved monitoring of grain and flour supplies and prices on domestic markets.

Project Mid-Term Evaluation and Need for Additional Funding

The AID/Rabat Agriculture Office organized a mid-term evaluation of the project that took place between February 18 and March 12. The evaluation was conducted by agricultural economist Millie Gadbois who was able to meet with a large number of GOM and private sector representatives who had had contact with project activities. In addition to Rabat, field visits and interviews were conducted in Casablanca and in the Meknes area.

As of this date, the final version of the evaluation report has not been received in Rabat and it must be allowed to speak for itself. However, the draft version paints a very favorable picture of project activities and accomplishments, makes a number of suggestions concerning additional applied research activities, and strongly supports the idea that AID provide some additional funding so that DAI and its subcontractors can maintain a level of effort in year three of the project similar to that in the first two years.

CMR consultants agree with the evaluation that the process of cereals marketing reform in Morocco is approaching a critical phase where the project can make its greatest contribution, one of helping to resolve the myriad of small problems that are associated with any realistic market liberalization program. There are strong indications that the

GOM is ready to undertake the final critical steps in bread wheat market liberalization, specifically:

- o Elimination of the current quota system for FNBT;
- o Allowing much greater freedom in cereals imports under the implementation measures for the new "Loi de Commerce Extérieur", to be made public by September 1993;
- o Developing a time-table freeing bread wheat supply to the industrial mills (for example, the SCAM/CMA cooperatives have to be allowed a certain number of months to transfer their stocks of local grain to mills before the ONICL licensing system is dismantled); and
- o Beginning to grapple with necessary secondary measures to go along with the basic reforms: a strengthened "food security system" (that will probably involve some degree of holding increased physical stocks during the transition period), the adequacy of the national bulk handling and storage system under free market conditions, and how the private marketing system can access the storage facilities currently under control of the SCAM/CMA cooperatives, etc.

The Ministry of Agriculture will be presenting a proposal to AID in May, 1993 for modest additional funding to be able to maintain a cost/effective consulting capacity that can address these priority issues during the third year of the project.

CMR Training Activities

The project's three long-term trainees continue to make good progress in their Master's degree training programs in the Department of Agricultural Economics at Purdue University. Mr. Imrani of MARA/DPAE, focusing on international agricultural trade modeling, will finish his program in January, 1993. ONICL employees Kchit and El Harti, focusing on international and domestic cereals prices respectively, will finish at the end of the summer of 1994, after post-graduate applied training programs at USDA/Washington. These combination degree/applied training programs are being coordinated by Professor Wally Tyner at Purdue.

UPDATE ON FINANCIAL STATUS OF CMR

The CMR Project, by the end of the seventh quarter, has spent approximately 57 percent of contract funding. Details on budget line items and detailed financial projections for the anticipated spending of remaining funds will be transmitted separately to the project officer for use in future budget discussions with AID/Rabat.

ANNEX

BIBLIOGRAPHY OF CMR DOCUMENTS

Major CMR Reports

- CMR-1 PRCC Comité Technique, "Projet RCC, Phase I: Programme de Travail", Rabat, 29 Juin, 1991. (In French Only).
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- CMR-3 Philip Abbot, "Trade Modeling in Support of Moroccan Cereals Market Reforms", West Lafayette, Indiana, December, 1991 (In English and French).
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- CMR-5 Omar Aloui et.al., "Commerce, Stockage et Transformations des Céréales: Rapport Principal", Rabat, January, 1992 (In French only).
- CMR-6 Lynn Salinger et.al., "Commerce Extérieur, Rapport de la Première Phase", Rabat, Final Version: March, 1992 (In French only).
- CMR-7 Amal Britel et.al., "Consommation des Céréales au Maroc", Rabat, Final Version: October, 1992 (In French only).
- CMR-8 David C. Wilcock, "Synthesis Report: CMR Phase I", Rabat, February, 1992 (In English and French).
- CMR-9 M. Falouss, et.al., "Système d'Information sur le Marché des Céréales: Plan d'Action Proposé", Rabat, May, 1992 (In French only).
- CMR-10 Claude Falgon, "La Minoterie en Concurrence" (Plan d'Etudes Appliqués), Rabat, May, 1992 (In French only).
- CMR-11 (DRAFT) Charles Steedman et Hassan Benabderazzik, "Sécurité Alimentaire et Réforme des Marchés Céréalières", Rabat, Juin, 1992 (In French only).
- CMR-12 Driss Benatya et.al., "Agricultural Data Needs of the Moroccan Ministry of Agriculture", Rabat, July, 1992 (In English and French). NB: This report was jointly sponsored by three USAID Agriculture Sector Projects: No. 182 (PESA), No. 191 (CMR), and No. 210 (MAP).

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- CMR-14 Claude Falgon, "La Minoterie Marocaine en Situation de Concurrence", Rabat, May, 1993 (In French Only).

CMR Quarterly Reports

- CMR-QR1 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Report 1", Rabat, October, 1991. (In English and French).
- CMR-QR2/3 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Reports 2 and 3", Rabat, April, 1992 (English and French).
- CMR-QR4 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Report 4", Rabat, July, 1992 (English and French).
- CMR-QR5 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Report 5", Rabat, October, 1992 (English and French).
- CMR-QR6 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Report 6", Rabat, January, 1993 (English and French).
- CMR-QR7 David C. Wilcock, "The Cereals Marketing Reform Projet: Quarterly Report 7", Rabat, April, 1993 (English and French).

CMR Working Papers

- CMR-WP1 J. Dirck Stryker, "Groupe Chargé de l'Aspect Consommation des Céréales au Maroc", Cambridge, December, 1991 (In French only).
- CMR-WP2 Philip Boyle, "Situation et Perspectives de l'Aide Alimentaire au Maroc", Rabat, December, 1991 (In French only).
- CMR-WP3 David S. Kingsbury, "Summary of Issues Related to the Use of Agricultural Commodity Price Risk Reduction Mechanisms with Special Reference to Morocco", Bethesda, Maryland, December, 1991 (In English only).
- CMR-WP4 Bruce Schulte, "An Overview of Agricultural Market Information Systems", Rabat, May, 1992 (In English and French).
- CMR-WP5 Henriot Sabourin, "Rapport Technique: Diagnostic du Volet Stockage", Québec, May, 1992 (In French Only).

- CMR-WP6** Philip Abbott, "Agricultural Trade Modeling: Report on Training Course and Current Modeling Efforts", Rabat, June, 1992 (In English only).
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- CMR-WP8** Jeffry Metzel, "The Impact of Cereals Marketing Reform on the Feed and Livestock Industries", Rabat, October, 1992 (In English Only).
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- CMR-WP10** Lynn Salinger, "Bread Wheat Marketing Margins under Liberalization: A Cost-Benefit Analysis", Rabat, December, 1992 (In English Only).
- CMR-WP11** Ann McDermott and Najat Bouzri, "Caractéristiques de la Demande des Ménages pour les Produits de Première Transformation du Blé", Rabat, December, 1992 (In French Only).
- CMR-WP12** Najat Bouzri and Gregoire Baudonnel, "Caractéristiques de la Demande des Boulangers pour la Farine", Rabat, December, 1992 (In French Only).