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COMPETITION AND COMMODITY PRICE VOLATILITY

Contribution from the Competition Council of Morocco

-- Session I --

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COMPETITION AND COMMODITY PRICE VOLATILITY

-- Competition Council of Morocco--

1. The great instability in commodity prices, which has been obvious now for several years, was marked by a particularly alarming price spike in 2007-2008. After a period of relative calm until the middle of 2010, world prices are again climbing inexorably.

2. Prices for foodstuffs began to soar again in the first quarter of 2011, under the combined impact of several factors: extreme climate events in some major cereals exporting countries (drought and fire in Russia and in Ukraine, flooding in the United States), export restrictions, the increased use of agricultural products in the manufacture of biofuels, and low stocks. As confirmed in the statistics published by the World Bank in 2011[1], world food prices rose by 36% over their level a year earlier. Leading the way in price increases over the last year were maize (+74%), wheat (+69%), soybeans (+36%) and sugar (+21%). On the other hand, prices for rice have remained stable. The World Bank also reports that in many countries the prices for fruits and vegetables, meat, and vegetable oils have risen further. Not only are these increases confirmed by the FAO but prices are likely, according to that specialised UN organisation, to remain on a sharp upward trend for the coming decade: "high levels for food prices and commodity volatility are persistent phenomena"[2]. Soaring food prices are also linked to the cost of fuels: crude oil prices rose by 21% in the first quarter of 2011, in the wake of disturbances in the Middle East and North Africa, and are ending the year at record levels.

3. In this setting, it would be interesting to see to what extent the Moroccan government has responded or has succeeded in countering or at least cushioning the repercussions of these higher prices on the country's domestic markets. At the same time, it would be interesting to see how useful has been the contribution of the Moroccan National Competition Council in making markets for these products more dynamic.

1. Government measures to limit the impact of global commodity market instability on the national economy

4. As is the case for non-oil-producing developing countries, Morocco has felt the full force of the disruptions on world commodity markets, particularly those for oil, cereals, sugar and vegetable oils. Structurally, two factors account for the country's trade deficit: the oil bill and the cereals bill.

5. To limit the impact of rising world prices for these products, the Moroccan government has opted for a system of targeted subsidies for certain products, funded from the State budget. The government is transferring greater resources to the compensation fund (*caisse de compensation*)[3]. With the price of oil above $100 a barrel, the budgetary burden of compensation has exploded. Outlays have now exceeded 40 billion dirhams, or 10 billion more than the re-estimated envelope and 23 billion more than the initial

1 The Global Food Price Index published by the World Bank's "Food Price Watch" working group in April 2011 was 36% above its level a year earlier.

2 OECD-FAO Agricultural Outlook 2011-2020.

3 The government agency responsible for managing State commodity subsidies.

budget. On this point, it should be noted that between 2004 and 2010 compensation expenditures represented between 1.5 and 4.5% of GDP, depending on the year, or 8 to 20% of ordinary spending and 6.2 to 16.1% of the overall government budget. These figures illustrate the size and volatility of these expenses, which are related to trends on world markets, including oil, and which play a particularly sensitive role, sparking popular unrest and contagion across the entire spectrum of price formation.

6. The oil bill literally exploded in 2008, reaching 30.8 billion dirhams, or 20% of receipts from the country's goods exports. But with the easing of world prices in 2009, it dropped by nearly 44%, to 17.62 billion dirhams[4].

7. Yet despite the tensions that have gripped the international market in recent years, domestic prices for oil products have not recorded a sharp increase. The government, through its budget, has continued to contain prices for oil products and to devote significant resources to the compensation fund, by covering market price increases fully or partially. These subsidies have increased by a factor of close to 10 in the space of five years, rising from 3.6 billion dirhams in 2005 to more than 30 billion in 2011. A serious budgetary problem now looms, as this amount represents more than 80% of the country's material supply budget (excluding public institutions). However, it must be noted that, thanks to these subsidies, the Moroccan consumer has been spared and the impact on the national economy has been confined to a greater burden on the government budget and a worsening of the trade deficit.

8. Other products subsidised by the State budget include soft wheat flour, which is domestically manufactured essentially from imported wheat, as local production falls short of needs. The subsidised volume has been limited to 10 million quintals a year, and is earmarked exclusively for poor rural areas. The compensation cost for this product barely exceeds 3 billion dirhams a year. The same envelope is devoted to sugar, domestic output of which is not sufficient to cover the country's growing needs.

9. It is useful to recall the conclusions of a study[5] commissioned by the government, through the Prime Minister's office for economic and general affairs. That study showed that, without the government's efforts to cushion the effects of rising world prices on domestic commodity markets, inflation would have been 4.5% in 2010 instead of the 0.9% recorded. A detailed analysis of the structure of the cost of living index, the main measure of inflation, led the authors of the study to conclude that commodities (including cereals) are, along with oil products, the main determinants of that index.

10. Lastly, one of the consequences of the rising cost of living has been to boost wages and salaries by fairly appreciable amounts in recent years. As a result of that situation, the budget deficit, which hovered for a long time at around 3% of GDP, could exceed 7% by the end of 2011. Yet despite these somewhat alarming figures, it should be noted that growth rates in our economy over this period of international commodity market turbulence have been quite respectable, averaging between 4.5% and 5% a year.

2. Actions taken by the Competition Council to make commodity markets more dynamic

11. Under current Moroccan regulation[6], the powers hitherto accorded the National Competition Council do not give it direct prerogatives in this area. Nevertheless, it has certainly made contributions through its advisory role.

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4 *L'office des changes*, report on imports 2010.

5 This was a study, prepared by a team of Moroccan academics under the direction of Professor N. El Aoufi, on reforming the compensation system, entitled "*le Maroc solidaire*".

6 The Moroccan Law 06-99 on free prices and competition gave the Competition Council merely advisory powers. With the new constitution, the Council has been raised to the rank of an independent constitutional authority with extended prerogatives. A draft bill of amendment has been submitted to the government to recognise this new situation.

12. The government consulted the Competition Council in 2010 on whether to maintain a list of products and services for which prices should continue to be regulated by the State. That list was drawn up initially as a provisional measure allowing the government gradually to liberalise the prices of certain basic goods and commodities over a period of five years. The number of goods, services and products on the list has been reduced from 31 to 15. But the legal deadline has now passed and the process of liberalising prices in accordance with Law 06-99 on free prices and competition has not been completed. The government has therefore been obliged to introduce an amendment to that law, seeking a four-year extension of the deadline to the end of 2014. This amendment refers to a list on which the Council is to issue an opinion within two months.

13. In its opinion no. 10/10 of 12 July 2010, the Competition Council drew the government's attention to the fact that pricing freedom remains the underlying principle of the market economy and that it plays an essential role in instituting rules and mechanisms for free and fair market competition. Recognising that, the Council has warned the government that any permanent State intervention, direct or indirect, in setting the prices for goods, products and services runs counter to the principles of pricing freedom and competition and could considerably reduce economic efficiency at both the micro- and the macroeconomic levels. However, bearing in mind the social conditions facing the country and the issue of security of market supply, especially for commodities, the Competition Council has agreed to keep 15 goods, products and services on the list submitted for its opinion for a provisional period of four years ending in 2014. In fact, the Council considers that the rationale for maintaining this list must in reality depend on whether the markets for these goods and services are fulfilling the conditions for the promotion of free competition in such a way as to expand supply at better prices and quality.

14. Along with that decision, the Council has recommended that the government should take advantage of the provisional period to reconsider the conditions for granting subsidies as well as the regulation of prices, so as to target only those where there is a real need. To this end, the Council has recommended surveys and analyses of the markets for these goods and products in order to understand the conditions for competitiveness and to foster competition in those markets.

15. Combining action with words, the Council took the initiative to launch an in-house study on competition in the markets for goods and commodities subsidised by the State budget. That study is now well advanced and has already revealed a number of dysfunctional features on the markets in question. In particular, it has highlighted a glaring lack of transparency and information about the functioning of these markets, something that is in itself a significant source of waste from the government budget. This lack of transparency creates situations of rent seeking that are harmful to the domestic economy and are discouraging the investments needed to boost supply and productivity in the economic sectors concerned. Lastly, the study will make some precise and detailed recommendations on the ways and means for eliminating measures that distort the production and exchange of goods and commodities, while taking into account the situation of vulnerable persons and the reality of global markets.

16. In conclusion, it is clear that Morocco is feeling the full force of price increases in a number of basic consumer products. It must therefore reconcile two difficult objectives: to maintain the goal of free pricing for commodities and at the same time to recognise that these products have a particular impact on the economically weak. The only way, then, to ensure a healthy market situation while preserving the purchasing power of the poor is to find solutions that will benefit only those in real need, and will eliminate rent windfalls for other social categories. As things stand, the Moroccan National Competition Council remains essentially an advisory body with no power to take initiatives. We may point out, however, that things are changing and that the authorities, after giving our Council constitutional status, are now preparing for adoption a new law that would make the Competition Council a truly independent authority with general responsibilities and powers to make decisions, conduct inquiries, and take initiatives.