



Summary of the Report on Compensation accompanying the Finance Bill 2017 - April 2017 -

Reform measures 2016

The year 2016 witnessed the last phase of the reform that gradually touched the compensation system since 2012. After decompensating the fuels, the liberalization of their prices has been tried throughout 2016 with all the legal and technical support provided by the Act No. 75.15 on fuels, which ensures the application of quality and energy security standards on these products.

Concerning butane gas, its compensation system has been revised and simplified by eliminating the regularization on imports whose expenditure items have been incorporated in a flat-rate manner at the level of take-over price structure. Taking advantage of the revision of the price structure for butane gas, the distribution price substructure has been improved, notably by eliminating the special margin items for stock financing and the provision of bulk transport.

Concerning food products, the annual reduction of the quota of national flour of common wheat was performed to 1 million quintals.

Reminder of previous measures

From an overview, the actions taken in the past allowed to move from a situation where fuel prices were fixed and the subsidy totally exposed to uncertainties, to a final situation where fuel prices have been driven gradually

towards the reality of the world market, which it is not sustainable to depart from infinitely. The following table summarizes the main steps taken during the reform, whose balance sheet at the end of 2015 shows the following achievements:

Reduction of budgetary overruns: The reform launched since 2012 has reduced the overrun in 2012 by about MAD 4.3 billion and avoided overruns for 2013, 2014 and probably 2015. It should be recalled that during the years prior to 2013, the implementation of the compensation annual expenditure had consistently shown overruns in relation to the appropriations initially opened, which had led to the provision of additional appropriations to ensure the subsidization of products at the level of MAD 14 billion in 2008, MAD 18 billion in 2011 and MAD 10 billion in 2012.

Settlement of arrears: The implementation of indexation system in 2013 allowed the gradual settlement of cumulated arrears of the previous years. In fact, Finance acts of 2013, 2014 and 2015 have set forth respective amounts of MAD 10 billion, MAD 6.65 billion and MAD 7.5 billion in this regard. In this way, compensation arrears that amounted to more than MAD 22 billion in 2012 have been totally settled between 2013 and 2015 and, accordingly, the oil products price adjustment account has been closed in February 2015.

Closing of the price adjustment account: This stage marked thus the end of the price adjustment account which was closed in February 2015, and thus the end of a consumer policy whose benefits were ephemeral, giving way to an economic vision of support through sustainable sectoral development and the strengthening of social

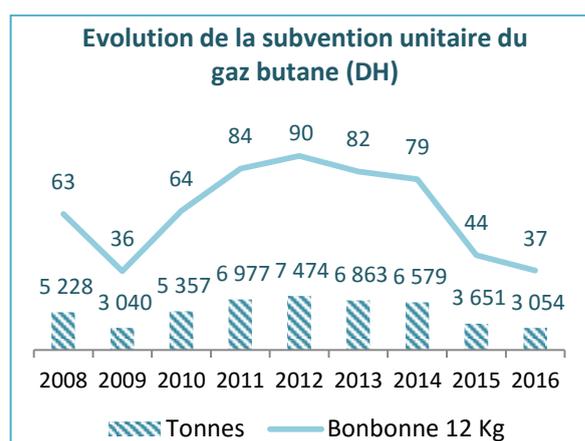
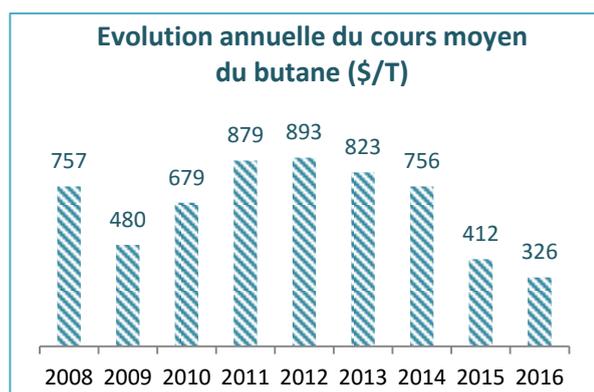
programs.

Reduction of the compensation cost: The compensation cost of liquid petrol products that amounted to about MAD 32.7 billion in 2012 has been totally dismantled in 2015.

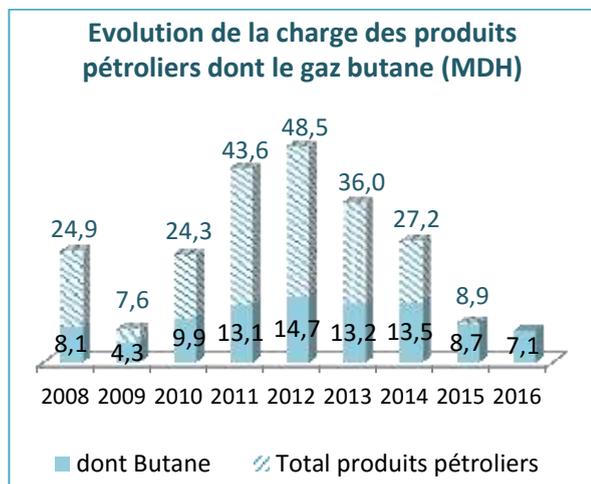
2012		2013	2014	2015	1st DEC 2015
Price reform process	Increase	Indexation	Indexation continuation	Approval	Liberalization
Super	MAD +2 /L	Fixed subsidy MAD 0.8 /L	Deleted subsidy	Deleted subsidy	
Diesel	MAD +1 /L	Fixed subsidy MAD 2.6 /L	Decreasing subsidy		
Fuel N2	MAD +988 /T	Fixed subsidy MAD 930 /T	Deleted subsidy		
Fuel ONEE	Unchanged Fixed price	Unchanged Fixed price	<ul style="list-style-type: none"> Newly indexed Deleted subsidy Direct support to ONEE 	Direct support to ONEE	Direct support to ONEE

Butane gas compensation

It should be recalled that the compensation cost of oil products was reduced to butane gas since January 2015. Following the high volatility of the price of butane on the international market, as illustrated in the following graph, the subsidy per bottle of 12 KG decreased from 90 DH in 2012 to MAD 37 in 2016.

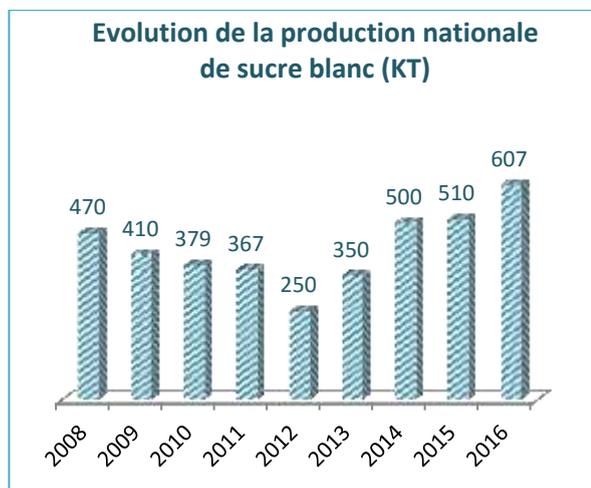


Butane gas compensation cost registered about MAD 7.1 billion in 2016 (statistic not yet approved by the turnover of the Compensation Fund) following the sharp decline of its international price, whereas it amounted to MAD 14.7 billion in 2012.



Sugar compensation

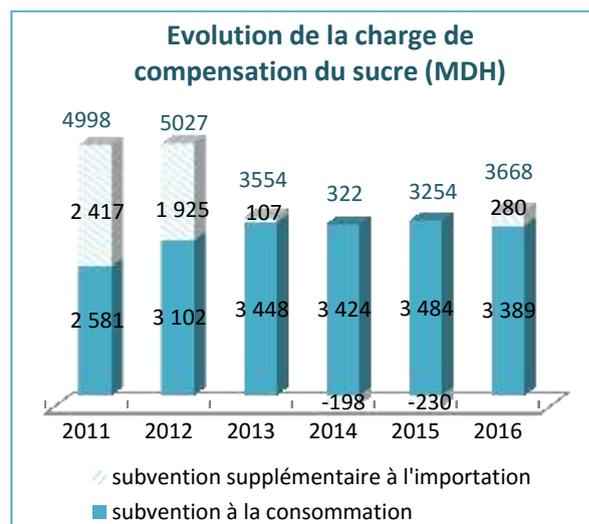
As a result of the efforts made by the public authorities, notably in terms of upgrading sugar crops on the one hand, and strengthening the financial incentives of the Agricultural Development Fund on the other, as set forth under the sugar sector contract of 2013-2020, national production of white sugar has significantly increased from 250 KT in 2012 to 607 KT in 2016. In this context, the consumption coverage rate moved from 20% in 2012 to 50% in 2016.



As regard to sugar compensation cost, it moved from MAD 5.0 billion in 2011 and 2012 to MAD 3.67 billion in 2016, as the subsidy allocated to sugar import decreased as a result of a decline of its price in the international market.

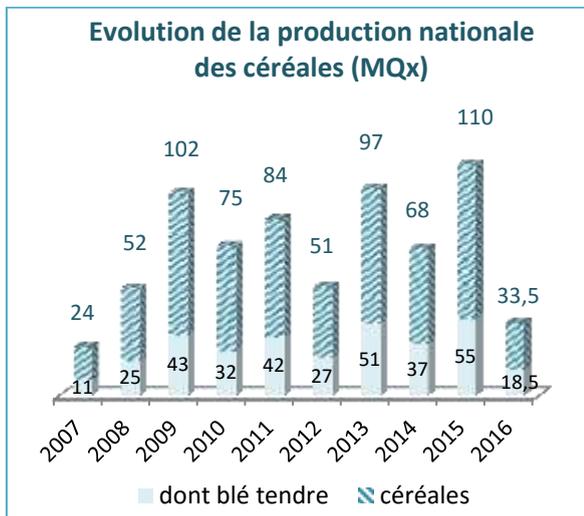
In fact, the import subsidy moved from MAD 2.4 billion in 2011 to MAD 280 million in 2016, as a result of the fall of the price of raw sugar from \$ 660/T to \$ 439/T, registering a price of \$ 355/T in 2015, which gave space to a return in favor of the State. This import subsidy therefore represents the variable part of the sugar compensation, which depends mainly on the uncertainties of the international market, and particularly on the situation of a national market that is strongly dependent on imports to meet the domestic demand of this product.

As for the flat-rate consumption subsidy, it constitutes the relatively stable part of the sugar compensation cost, and is only dependent on the quantities consumed. It amounts to MAD 3.4 billion/year.



Flour compensation

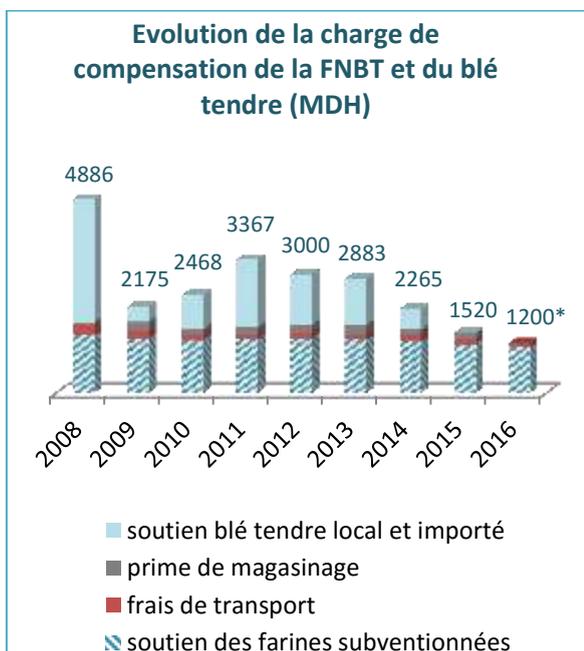
After the record cereal production in 2015 of 110 million quintals for all cereals combined with 55 million quintals for common wheat, agricultural performance in 2016 did not seem to benefit from the same climatic positive conditions, with a total cereal production of 33.5 million quintals with 18.6 million quintals of common wheat.



For the year 2017, on the other hand, harvest forecasts expect a total production of 102 million quintals including 49 million quintals of common wheat.

With regard to the compensation of common wheat and flour, the annual cost moved from MAD 3.4 billion in 2011 to about MAD 1.2 billion in 2016 due to the decline in the cost of the most important items, namely:

- The reduction of the quota of the subsidized flour called national flour of Common wheat (FNBT) which amounts currently to 6.5 million quintals per year against 8.5 million quintals in 2013;
- The non-use of import subsidy for common wheat because of the decline of the international price.



* Estimation

Draft Finance Act 2017

The draft finance act of the 2017 fiscal year sets forth a total grant of MAD 14,650 million in the framework of compensation. These appropriations are intended, on the one hand, to support consumption prices of butane gas, national flour of the common wheat and sugar, and, on the other hand, to finance the accompanying measures, including the support to ONEE.