

March 8, 2021

The Western Sahara: Part II

In [Part I](#) of this report, we examined the U.S. decision last December to recognize Morocco's sovereignty over the Western Sahara territory, which was part of an agreement in which Morocco formally recognized Israel. This week, in Part II, we focus on why Morocco wanted recognition of its sovereignty over Western Sahara. We will discuss phosphate, which is a valuable commodity that is found in Western Sahara. We also discuss Morocco's territorial ambitions along with obstacles that might prevent the U.S. from fully recognizing Morocco's claim over Western Sahara. As always, we conclude this report by discussing the potential geopolitical and market ramifications.

Brief History of Israeli-Moroccan Ties

In 1965, Moroccan opposition leader Mehdi Ben Barka sought help from the Mossad, the Israeli spy agency, in overthrowing Moroccan King Hassan II, but the plan backfired when the Mossad informed the king. Consequently, Barka was forced into exile and is rumored to have been kidnapped and murdered soon after. Morocco and Israel have been engaging in intelligence sharing and military training ever since. In fact, this relationship proved decisive in preparing Israel for the 1967 Six-Day War. Morocco allowed the Mossad to record meetings of Arab leaders and military commanders that took place in its offices in Casablanca. The information allowed Israel to have a leg up in the war as it was able to gain information about the capabilities and

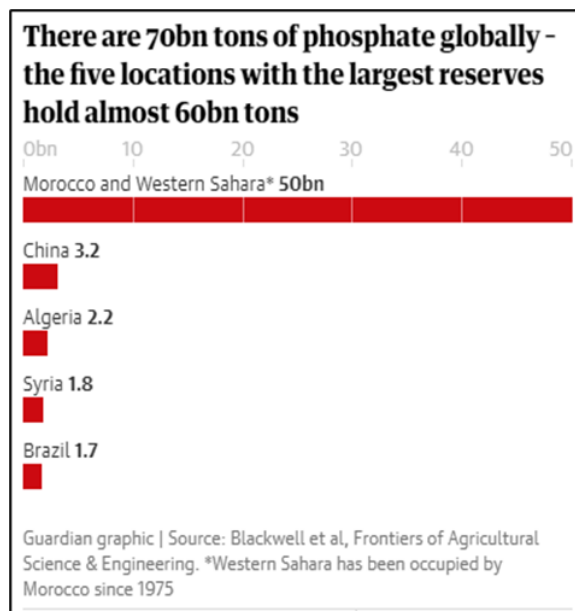
vulnerabilities of its enemies. In the 1990s, ties between the two countries strengthened from solely military into diplomatic ties, further cementing their relationship. Thus, the agreement reached in December between Morocco and Israel was likely a continuation of progress the two sides have been making for decades.

Because of this extensive relationship between Morocco and Israel, it is possible the U.S. didn't need to recognize Morocco's claim over Western Sahara to get it to agree to normalize relations with Israel. The two sides weren't really on bad terms to begin with. Additionally, Morocco controls about three-quarters of the disputed region, meaning recognition was likely symbolic in nature. Accordingly, we suspect that a more likely reason for Morocco's push for recognition of its sovereignty over the disputed territory may be to lay claim over the region's resources and to be seen as a global power.

Phosphate

Western Sahara has many natural resources, including shale gas, but it is mostly known for its huge holdings of phosphate rock. Phosphate is a mineral that is used in medications and cosmetics, but it is also one of the three main nutrients used in fertilizers. It is therefore considered to be vital in supporting the global food supply. Combined with Western Sahara, Morocco holds over 70% of global phosphate reserves and is the world's leading exporter of the mineral. With phosphate being in short supply and high demand, Morocco's ability to monopolize this market would make it an

indispensable trade partner, especially for populous countries such as China, Brazil, and India. One estimate suggests there may only be enough phosphate in the world to last another [40 years](#), while [another study](#) suggests that without an industrial breakthrough, a lack of phosphate would mean humanity could only produce half the food that it does today. In fact, the mineral is so crucial that it may have contributed to the Arab Spring, where a 600% rise in fertilizer prices contributed to an increase in global food prices.



For over 40 years, the Moroccan state-owned company Office Chérifien des Phosphates (OCP) has mined phosphate from the Bou Craa mine in Western Sahara. OCP's production capacity in Western Sahara is about [2.6 million tons per year](#) and generates about \$200 million in revenue. The reserves from Western Sahara make up 1.6% of Morocco's total reserves and [10% of the country's total rock exports](#). Moreover, OCP has invested [extensively](#) to increase the operational efficiency of the mines. Thus, the share of total reserves represented by Western Sahara will likely increase in the future.

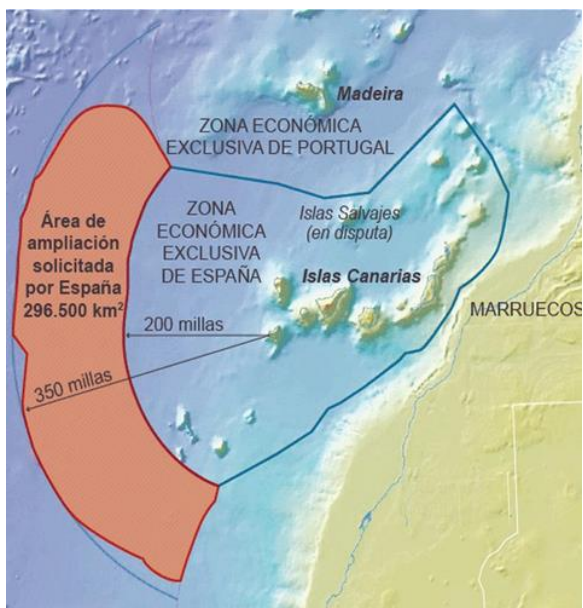
Territorial Expansion

Additionally, recognition of Morocco's claim over Western Sahara would allow the region to boost its image on the global stage. Over the last few years, Morocco has sought to improve its relationship with other countries. Following a 33-year absence from the African Union, Morocco was able to rejoin the organization in 2017. It had left the organization following the African Union's recognition of Western Sahara as an independent country, which Morocco viewed as a threat to its claim over the region. In addition to joining multilateral organizations, Morocco has sought to improve its relationship with individual countries, such as Saudi Arabia. It has also recently partnered with Nigeria to build a pipeline.

Morocco has used its expanding international relationships to market itself as the West's gateway to Africa. Following Morocco's readmission into the African Union, it has also sought admission into the Economic Community of West African States (ECOWAS), a free-trade area in West Africa. If Morocco is admitted into the free-trade group, it could potentially create a [backdoor into Africa](#) for the West to exploit. Additionally, Morocco would be the most developed country within the group, giving it a lot of influence. Morocco has already signed an investment pact with most of the ECOWAS as a sign of good faith. In addition to ECOWAS, Morocco has also built ties with the seven-member economic union [Gulf Cooperation Council](#).

Morocco's push to expand its territory is likely a way for it to project power globally. Although it has been modest in its approach, its ambition has not always been a pleasant experience for all. Algeria and Spain have had disputes with Morocco over territory. As mentioned in Part I of this report,

Morocco and Algeria fought a war over Tindouf in 1963. Recently, Spain has expressed discomfort with Morocco's claims of sovereignty over maritime waters surrounding the Canary Islands and Morocco's decision to push for talks about Spanish enclaves [Melilla and Ceuta](#). So far, the dispute with Spain is being settled diplomatically, but the two sides are far from coming to a solution. The situation in Algeria is a bit more complicated due to the Western Sahara dispute.



(Source: [Maghreb Daily News](#))

Standing in Its Way

Despite the U.S. agreement currently in place to recognize Morocco's claim over Western Sahara, there is still no guarantee the deal will hold. Since taking office, the Biden administration has been relatively mum on the Western Sahara issue. During his confirmation hearing, Secretary of State Antony Blinken said he wanted to build on the Abraham Accords started by the Trump administration. However, when pressed by a reporter as to whether the U.S. recognizes Morocco's claim over the disputed territory, he only stated that the Biden administration "very much supports the Abraham Accords" and didn't elaborate further.

The White House's reluctance to comment on Western Sahara may be partially due to resistance the deal has faced on both sides of the political divide. Conservatives like former National Security Advisor John Bolton, former Secretary of State James Baker III, and Oklahoma Senator Jim Inhofe have all stated that they want the Biden administration to reverse the recognition of Morocco's claim over Western Sahara. Meanwhile, Democrats have been reluctant to show support for the agreement due to the perception that it flouts international law. The fear is that the transactional nature of the agreement could undermine the U.S. role as a global mediator. Specifically, there are concerns that countries may not be willing to go along with U.S.-led mediation if they believe the U.S. will simply play favorites.

Despite concerns about the approach, it is unlikely that the Biden administration will completely reverse the policy as it would also like to finally resolve the dispute. Under the Obama administration, the U.S. government backed a solution that would have given Western Sahara autonomy under Moroccan rule, but the proposal was rejected by the Polisario Front (the key group pushing for Western Sahara's complete independence, as discussed in Part I). Although the Biden administration has yet to signal what its plans are for Western Sahara, there is some speculation that it could look to dilute the December agreement. For example, the Biden administration could withdraw diplomats from the U.S. consulate in Western Sahara. Such a move would be relatively costless and send a strong signal that more needs to be done before the administration backs recognition. Additionally, the Biden administration could end the sale of arms to the Moroccan government if the weapons are used against the people of Western Sahara.

Ramifications

The biggest risk to this agreement is that it could potentially make an already unstable North Africa even less stable. The region is already plagued by several extremist terrorist organizations, especially in conflict areas like Libya and Sudan, so a broadening conflict in Western Sahara could destabilize the region further. This is especially concerning when considering how vulnerable the Sahwari youth in Western Sahara are to radicalization. Regardless of the Biden administration's decision, it is unlikely that the fighting between Morocco and the Polisario Front will end soon. As a result, the Biden administration will likely need to clarify its stance before it attempts to resolve the conflict.

Another risk is that the change in U.S. policy could lead to more countries claiming other disputed territories. For example, by recognizing Morocco's claim over Western Sahara, the U.S. may struggle to justify why it hasn't given other countries the same courtesy (e.g., recognizing Russia's claim over Crimea or China's claim over Taiwan). Therefore, it is possible that recognition of Western Sahara could encourage larger countries to declare sovereignty over smaller ones, potentially sparking more conflict around the world.

In sum, we think this agreement could potentially lead to more conflicts in other disputed territories, particularly in the Middle East and Africa where colonial frontiers are still highly contested. If this were to occur, commodities would likely benefit due to the potential for production disruptions and supply shortages of natural resources. In the event of a severe flare up of violence over a disputed territory in North Africa or the Middle East, we would expect U.S. Treasury securities to benefit from flight-to-safety buying. Conflict in Western Sahara could have an especially large impact on phosphate prices, which in turn could lead to rising food prices, particularly in grain. If this happens, equities in emerging markets could be negatively impacted because less developed countries are more susceptible to political turmoil when grain prices rise.

At this time, we do not believe the extreme scenario is likely to happen over the next year or so. As we mentioned in Part I of this report, the Polisario Front lacks the military capabilities to win in any direct confrontation with Morocco. All the same, the risks can't be totally discounted, especially if the Sahwari youth are persuaded to join radical Islamist groups.

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This report was prepared by Thomas Wash of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

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