



Investing in Iraqi Agriculture: Challenges and Opportunities

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The effects of government production controls, excessive regulation, sanctions, conflicts, and severe weather have left Iraq's agricultural sector performing well below potential. Regulatory impediments and security concerns have limited foreign and domestic private investment, constraining growth opportunities.

Despite the structural impediments, U.S. commercial activity is growing. According to foreign trade data maintained by the U.S. Census Bureau, U.S. agricultural producers and manufacturers exported to Iraq about \$1 billion of agricultural products and related goods in 2008. As has been the case for much of the past half-century, Iraq now imports much of its food. Major U.S. exports in 2008 included: wheat (\$780 million), poultry and meat (\$77 million), rice (\$27 million), other unmanufactured agricultural materials for industry (\$5 million), agricultural machinery (2.5 million), vegetables (\$2 million), food and tobacco machinery (\$2 million), unmanufactured agricultural materials for farming (\$1 million), and pulp and paper machinery (\$1 million) among others. Reliable figures are unavailable, but substantial amounts of Iraq's food products come from its regional trading partners as well.

Prior to World War II, Iraq was an important regional exporting country. Its agricultural resource base is adequate to support increases in production, but foreign trade and investment and a revised policy approach will be key to any revitalization.

SECTOR SUMMARY

Land: Iraq has a total surface area of about 44 million hectares. The country can be divided into two agricultural zones, the northern zone that is primarily rain-fed and the southern zone that requires irrigation. Depending on the source of data, 9.5 million hectares is considered agricultural land. About half of the agricultural land is used for seasonal grazing. Some 4 million hectares is estimated to be in crop production, of which about 2.5 million hectares are irrigated. According to USDA data, cereals, (wheat, barley and small amounts of rice) are produced on over 75 percent of the cropped land. Only about one-third of the agricultural land is privately owned. The remaining two-thirds, controlled by the Ministry of Agriculture, is leased or granted to farmers. Most farms are small, averaging about 12 hectares. There is no system for land mortgage.

Water: Estimates vary, but about 95 percent of available water in Iraq is used for agriculture. The major sources of water are the Tigris and Euphrates rivers. About 10 percent of flow



originates in Iraq, while the remainder comes from Turkey and Syria. River flow has diminished by about 50 percent during the last 25 years as a result of use by upstream countries, and could be further reduced over the next few years by additional upstream projects.

Irrigation in Iraq depends on water from rivers or wells. Pumping requires fuel, which indirectly adds to the cost of water. Energy supply does not meet demand in rural areas. While supplying water has a cost, there is no charge to farmers for water. As much as 75 percent of the irrigated land is salinated as a result of poor water management and antiquated irrigation techniques.

There is little recourse for preventing or arbitrating conflicts over water. Farmers are responsible for the operation and maintenance of local (tertiary) irrigation and drainage works. Those works are now badly dilapidated. The United States Government, FAO, and the Japan International Cooperation Agency have supported infrastructure development projects and the creation of water users' associations to manage and maintain local irrigation and drainage networks, but these efforts are in the formative stages.

The Ministry of Agriculture attempted to introduce modern irrigation under the Oil for Food Program (OFFP). A National Irrigation Technology (NIT) program initiated in 2000 to promote center pivot, sprinkler and drip irrigation systems, planned to cover a total of about 325,000 hectares over five years. A total of about half of this area has been equipped with modern systems that include 2,600 center pivots, 2,300 fixed sprinklers, and 2,000 drip irrigation units. Around 3,000 center pivot systems, 3,000 sprinklers, and 2,000 drip irrigation units were looted during the war. The Ministry of Agriculture has requested assistance in determining the parts that are required to refurbish the systems. An estimated 1000 center pivot systems, 2000 sprinklers, 3000 drip irrigation systems are available for distribution to farmers, but the system for distribution has not been determined.

Imports:

Table 1: Estimated Wheat Imports 2006-2008

Origin	Market Year 2006/07 (000) Metric Tons	Market Year 2007/08 (000) Metric Tons
U.S.A.	880	2,300
Canada	720	500
Turkey	710	500
Syria	210	0
Australia	360	200
Germany	120	0
Total	3,000	3,500

Source: United States Department of Agriculture, Foreign Agricultural Service, GAIN report IZ8003 Iraq: Grain and Feed Annual, 2008 (April 20, 2008) p.3.

The volume of imports provides some indicators for those segments of the food chain that should be targets for domestic production. Fruits and vegetables imported from neighboring countries are an obvious target and an area where Iraq can be competitive with some assistance in modern production technology, organized packing and assembly, and the development of temperature controlled supply chains.

The Iraqi Ministry of Trade administers the Government's Public Distribution System (PDS), Iraq's heavily subsidized system for distributing food rations to virtually every Iraqi family. The monthly basket includes: wheat and flour, sugar, rice, cooking oil, tea, milk, lentils, soaps and detergents. Most of Iraq's estimated wheat imports are distributed through the PDS.

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THE ROLE OF GOVERNMENT IN AGRICULTURE

The Ministries of Agriculture, Industry and Minerals, Finance, Planning and Development Cooperation, Trade, and Water Resources have significant influence in the agriculture sector.

The government's National Development Strategy (NDS) 2007-2010 (dated March 2007) lays out a market-driven development strategy for Iraq. However, the Ministry of Agriculture's *Approach for the Development of the Agriculture Sector 2007-2010* (dated April 2007) favors command-type planning with targets for each crop and livestock sub-sector. The more recent (September 2008) *Ministry of Agriculture Strategic Plan for the period 2009-2015*, is not consistent with the NDS. One of the four main pillars of the NDS is revitalization of the private sector and the strategy outlines in some detail the structural reforms in the agriculture sector that are required to bring this about.

The Ministry of Agriculture's Seed Policy provides no role for the private sector in the production of seed in Iraq. The policy emphasizes government subsidies and distribution systems, excessive fees, and other barriers to private production. This will continue to limit the ability of Iraqi farmers to access improved, modern technology and will prolong the recovery of the agriculture sector.

Public Distribution System: Through its Public Distribution System (PDS), the Government of Iraq provides virtually every Iraqi household with basic commodities in amounts calculated to be sufficient to meet 100 percent of each household member's minimum daily caloric needs. The PDS is the world's largest food ration program, costing approximately \$5.3 billion for 2009. The PDS has been criticized for widespread inefficiency, corruption, and distorting domestic commodity markets. For these reasons, the Government of Iraq, under the International Compact with Iraq, has committed over the long-term to substantially reforming and eventual monetizing the PDS. Ministry of Trade officials indicate that the PDS is unlikely to undergo substantive change soon, given the January 2010 election imperative.

Because of the sheer size and market power of the PDS, the Government of Iraq effectively dictates market conditions for commodities included in the PDS. The Government sets prices for cereal grains purchased as part of the PDS. Current prices for wheat and rice were announced in October 2008. These prices are a significant increase over previous prices and are substantially above the import price as a means to stimulate local production. The announced Iraqi price for Grade 1 wheat was set at \$720 per metric ton while the Free On Board (FOB) U.S. Gulf Port Price in October was \$342 (transport to Iraq might have been as high as \$125 per ton at that time).¹ Both wheat prices and freight rates have softened considerably since that time, making the Iraqi support price at least double the border price.

State Owned Enterprises (SOEs): Currently, the Ministry of Agriculture controls several SOEs that provide agricultural production inputs such as fertilizers and agricultural chemicals. The State Company for Input Supply (SCAS) has branches in each of Iraq's governorates. Its mandate is to import all inputs for plant and animal production and to regulate the trading of

¹ International Grains Council data printed in Annex 4 as Tables 4.70 and 4.71.



those inputs², including agricultural equipment. There are some private suppliers of agricultural inputs, but the SCAS clearly has a comparative advantage. Several State companies purchase and process grain (corn, wheat, barley) or import seed.

The Ministry of Industry and Minerals (MOIM) controls several companies that process agricultural products. These include dairies, cattle feedlots, sugar refineries, vegetable oilseed extraction and processing facilities. The MOIM also manages SOEs that produce agricultural inputs, including fertilizer plants and an equipment assembly plant. Several SOEs have been partially privatized. The Government of Iraq maintains 51 percent ownership of Iraq's National Meat Processing Company and about 25 percent of the Al-Kindi Company (veterinary vaccines), National Food Industries Company (soda drinks and juices), and Baghdad Al-Salam Food Industries Company (medical and industrial alcohol and soft drinks).

OPPORTUNITIES FOR INVESTMENT IN IRAQI AGRICULTURE

Irrigation: Essential to agricultural production, includes new systems, center pivot, drip, land reclamation/restoration and the renovation of the existing canal-based flood irrigation systems.

Seed: New and appropriate varieties matched to climatic conditions and cultural and management practices.

Fertilizer: Required to capture the benefits of improved seed varieties.

Agricultural Equipment: Agricultural equipment is in high demand in Iraq.

Storage, Transportation and Handling: With the exception of food grains (wheat and rice), Iraq currently lacks the capacity to efficiently store and transport feed grains and horticultural products.

Commercial Farming: To realize potential productivity gains, a larger scale and input and technology dependent agriculture will need to develop. Traditionally the National Extension Service facilitates this change. This will need to be the case in Iraq – but does not preclude a strong role for the private sector as well.

Agribusiness: Will depend upon a healthy, diversified and viable production agricultural sector. The value chain concept best illustrates this as production agriculture to a large extent supplies the inputs which agribusiness transforms into higher valued products. Opportunities currently exist, for example, as feed mills could serve as the link between feed grain producers and livestock producers, and lead to the development of more intensive and efficient livestock production.

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² See http://www.iraqiscas.com/about_coe.php