

Agricultural Economy and Policy Report IRAQ

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POLITICAL: Iraq's government, led by Prime Minister Nuri al-Maliki, began its 4-year term in May 2006. The Prime Minister is a senior member of the Islamist-oriented Shi'a Daw'a Party. Iraq's parliament, known as the Council of Representatives (COR), is made up of 275 members. Of these, 128 belong to the dominant United Iraqi Alliance (UIA), a Shi'a political bloc. The Democratic Patriotic Alliance (DPA) of Kurdistan has the second-largest number of seats (53), followed by the Sunni Iraqi Accord (44). The next national elections to select a new parliament are scheduled for the fall of 2009. On November 27, 2008, the COR passed the Security Agreement, a bilateral treaty with the U.S. which provides the legal basis for continued U.S. military presence and activities in Iraq until December 31, 2011. A parallel Strategic Framework Agreement (SFA) provides a framework for bilateral activities, including those in the economic sphere, where agricultural cooperation will formally reside.

Iraq's decision making and governmental operations continue to be centrally driven with most political power held by the national government. However, the first provincial-level elections are tentatively set for January 2009. A successful conclusion to these elections could significantly change Iraq's political dynamics, with potentially greater power devolved to the provinces.

The GOI states that its immediate priority is to build upon recent security gains to improve provision of basic services and to increase employment generation. Other political priorities include finalizing the petroleum revenue distribution law and obtaining agreement on ethnic representation issues in Mosul and the Kurdish region.

Cooperation between the U.S. military and Sunni tribal groups is a major supporting factor for security improvements. Now members of these groups are being incorporated into Iraq's security forces or are going through job training programs to enter the work force. Bringing these Sunni groups back into the political and economic mainstream is critical for the current Shi'a dominated government. Whether Iraq's brittle security situation will be preserved depends on Maliki's ability to forge ahead with political reconciliation with Sunni and other factions.

ECONOMIC: Prospects for economic growth in 2008-2009 are positive. In August 2008, the IMF projected Iraqi real GDP growth of 9 percent for 2008. However, with Iraq's oil production stagnant and prices currently half the level of the June 2008 peak, growth will likely be closer to 5 percent for 2009, which would still be a dramatic improvement over the 2 percent growth in 2007. For 2009, several positive factors suggest Iraq's economy will continue to perform relatively well: greater price stability, growth in trade financing, accelerating construction activity, and an increase in bank lending. All of these growth indicators are linked to improvements in security. Any reversal in the security gains would lead to a commensurate downturn in prospects for the economy. Agricultural production accounts for approximately 10 percent of GDP.

The global downturn is affecting Iraq mainly through lower oil revenue. Iraq's economy is well insulated from the credit crisis, but continued lower global growth could mean a sustained weakening in oil prices and lower oil revenues in 2009. The GOI is expected to issue a new budget in early 2009 which will re-estimate oil revenue based on more realistic levels. The first 2009 budget was based on \$ 80 per barrel for crude petroleum, an unrealistic figure in today's market. In summary, fundamental, largely positive shifts in the economy since 2007 provide much needed support for further economic growth. But volatility on the security side, or unanticipated challenges to Iraq's economy remain threats to overall stability.

In the longer term, Iraq's overall economic performance will continue to remain closely linked to the performance of its oil sector. Employment gains will come from agriculture, construction and services.

GENERAL TRADE: Import duties are relatively low and do not impede trade. However, technical barriers to trade, including sanitary and phytosanitary barriers, can pose major impediments to doing business in Iraq. Execution of commercial contracts is severely hamstrung by lack of technical expertise, weak institutions, and lack of enforcement of contract law. International trade continues to be limited due to infrastructure problems and low human capital skills. Total exports in 2007 are estimated at \$47 billion and imports at \$33 billion. The United States was Iraq's dominant trading partner in 2007. Currently Iraq is working toward membership in the World Trade Organization (WTO), albeit at a very modest pace.

INVESTMENT: Economic statistics and information on non-petroleum sectors are lacking. Basically, all economic sectors need significant investment. Currently, leading business opportunities are through (1) U.S. reconstruction contracts and subcontracts, (2) contracts with Iraqi Ministries, (3) private sector opportunities, and (4) contracts with the United Nations (UN) and other international organizations. Development needs are broad and deep, as are investment opportunities. The National Investment Law was passed in 2006. While it is a well-drafted law that provides the basis for a modern legal structure to protect foreign and domestic firms, the GOI's failure to issue implementing regulations (required under the Law) impedes investment. Registration of foreign firms remains problematic as procedures governing the registration of foreign firms in Iraq are lacking. Iraq remains a high risk, high return proposition with respect to investment.

GENERAL AGRICULTURE: Iraq is perennially dry, which is perhaps why irrigation has existed in the country for thousands of years. It is also the likely agronomic basis for cultivation of wheat and barley, two relatively drought tolerant crops.

A drought, beginning with the 2007-2008 crop year, sharply reduced the Iraqi grain harvest in 2008-2009. Indications are that 2009-2010 will not provide for substantial recharging of soil moisture in the rainfed grain production region, likely leading to a slower than expected production recovery for barley and wheat. Rice, the third leading crop, is all irrigated and has not been as severely affected by the long dry spell. Nevertheless, area was constrained by GOI-imposed limits on the provision of irrigation water in 2008, leading to a decline in production. Dates, one of Iraq's most important

crops from both a cultural and economic standpoint, are the only significant agricultural export. Iraq could increase horticulture production, but degraded irrigation infrastructure and fierce competition from relatively low-priced fruit and vegetable imports from neighboring countries are challenges the sector needs to overcome. In addition to the constraints listed above, shortage of inputs (improved seed and fertilizer) and high-saline soils are problems throughout all of Iraq's crop production sectors. The livestock industry is dominated by small-scale production of small ruminants, with few large intensively-run livestock feeding operations. The poultry industry appears to be making a recovery, but progress remains slow. High feed costs are a significant constraint for the poultry sector. Iraqi agriculture continues to function largely as a centrally planned feature, with the Ministry of Agriculture MoA, and other ministries involved in agriculture (there are at least 5 others involved to some degree) being at best benign. Government control is particularly pronounced in the grain sector, where it supplies subsidized inputs and buys all grain production.

AGRICULTURAL TRADE: U.S. agriculture exports to Iraq during the first three-quarters of 2008 were a record \$864 million, more than double the sales the previous year. The record pace was the result of strong wheat exports, which accounted for 90 percent of the sales. During this period, Iraq was the third-leading market for U.S. wheat, and one of the top markets for the U.S. Hard Red Winter (HRW) class. Poultry meat (\$49 million) and rice (\$27 million) were the other two major exports.

With increased competition from Australia and Black Sea origins, it is unlikely that U.S. wheat sales will be able to maintain the frenetic pace. In recent tenders, the Grain Board of Iraq (GBI) bought Romanian, Russian, and Australian wheat. Similarly, landed prices for rice from Southeast Asia are currently well below those from the United States, and U.S. rice sales will likely decline in 2009. GBI is a state-controlled monopoly within the Ministry of Trade that purchases all wheat and rice imports. Demand for poultry remains relatively strong, with Brazil and the U.S. competing for market share. Pulses and vegetable oil also have potential for growth