

Reform and Rehabilitation of Agriculture in Iraq: General Considerations and the Case of Wheat

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Agriculture Before April 2003

- Neglected by the regime
- Farmers were poor
- Land and water were poorly utilized
- GOI supplied inputs at highly subsidized rates (politically motivated, no economic rationale)
- Output prices were very low
- Embargo on exports ruined date palm and other sub-sectors
- Majority of the population required food rations



Immediately After April 2003

- Coalition Provisional Authority took control
- Open borders permitted import of agricultural products – Iraqi farmers had difficulty competing with foreigner suppliers
- CPA/FAO was unable to provide inputs in time, and private input markets were not developed
- In 2003 agricultural production declined dramatically



Key Rehabilitation Decisions of MOA/GOI Post-CPA

- Explicit decision to permit creation of competitive markets for inputs and outputs – will not turn the clock back: transition of several years
- Provided inputs at lower level of subsidy (seeds)
- MOA and MOT negotiated to raise government price of wheat (closer to border price)



USAID and Other Donor Projects to Rehabilitate Agriculture

- Date palm nurseries and mother orchards
- Olives
- Veterinary clinics and hospitals
- Marshlands restoration
- Crop demonstrations
- Integrated Pest Management
- Tractor repair program
- Program to limit desertification
- Set up statistical unit
- Program in Agro-Ecological Zone Mapping for improved resource use
- New extension effort with heavy emphasis on master trainers
- AusAID training program in all agricultural fields (100 scientists and officials)
- FAO trust fund for veterinary training

Achievements Since 2003

- Improved production – 2005 wheat harvest should increase at least 25 percent compared to 2003
- Preserved about 35 percent of date palm varieties in mother orchards and nurseries
- Rice production improved – more water and better markets
- Prices of wheat, barley, maize, rice are higher due to policy decisions and growing private markets
- But – there is so much to do



Wheat Sub Sector

- Wheat is the dominant crop; state controlled and strategic
- Wheat flour is the most costly component of the PDS food basket, a nationwide universal monthly distribution of free commodities

Wheat Prices

- Domestic wheat price for past 3 years well below international prices, but the spread has decreased
- Grade 1 price for 2004-05 is \$200 per MT (\$40 in 2003)
- Landed costs of imported wheat from the US and Australia are higher, the premium varying between \$40 to \$80 per MT

Wheat

Marketing Structure

- Farmers have limited options - all 55 elevators owned by the MOT
 - Private flour millers (for non-PDS flour) is small market
 - Larger poultry feed market
 - Exports require license but cross-border smuggling is common

Flour Milling Structure

- 160 private mills produce for PDS; about 100% excess capacity
- PDS flour milling controlled by MOT contracts - \$10/MT toll milling fee
- MOT controls wheat from silos to mills, and flour from mills to PDS shops
- Millers take no ownership and bear no marketing risk

Wheat Requirements and Production

- PDS flour ration requires 3.6 million MT wheat/year
- Most production in north - 1.5 - 2 million ha – recent yields less than 1 MT/ha
- Low yields due to many factors; key is lack of certified seed so farmers forced to rely on saved seed
- In late 90s seed treatment fungicide was in short supply; wheat smut incidence increased
 - 1998 - 2,000 MT
 - 2001 - 1,000,000 MT

Wheat Production

- Low yields results in increased wheat imports
- In 2003, 1 million MT local wheat was available for PDS
- 2004 MOT under CPA received about 250,000 MT of milling quality wheat
- Import needs increased
 - 2003, 2.6 million MT
 - 2004, 3.35 million MT or 870-\$900 million

Liberalization

- Propose 2 types of programs to develop wheat sub-sector
 1. Technical – to improve productivity and output
 2. Market Liberalization – to strengthen input and output markets, reduce costs, and improve farmer's incomes

Liberalization

Proposed Steps

- MOT establishes contract for PDS flour from pilot group of millers rather than pay milling fee
- Millers to negotiate wheat prices with MOT elevators or farmers
- Millers to rent or lease space for wheat storage

Liberalization

Proposed Steps

- MOT imports wheat until private traders enter market and open market import prices are established
- The MOA and MOT establish wheat floor price to protect farmers from volatility

Liberalization Impacts

- Domestic wheat price will approach world price
- Farmers will have incentive to use better inputs
- Millers will reduce flour cost by using more domestic wheat
- Milling industry will become more efficient
- MOT will save substantially on PDS flour