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Iraq's Economy: Past, Present, Future

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Overview. Before the first Gulf war, Iraq imported a large share of its agricultural needs and was a major agricultural export market for the United States. During the prior regime, due to drought, lack of inputs, poor methods and weak administration, Iraq had been unable to achieve agricultural production levels near its potential. After 1991, the irrigation system fell into disrepair and much of the irrigated cropland in central and southern Iraq was severely damaged by salinization. Several years will be needed to remedy the situation. In the meantime, Iraq will rely on imports once again for most of its agricultural needs. Absent a strong agricultural sector, population movements from rural to urban areas will continue, adding to the country's social problems and further worsening unemployment. Absent positive incentives (see the section on the non-oil economy and "Dutch Disease" below), Iraq may have problems restoring productivity in the agricultural sector.

Agriculture comprises a relatively small share of the Iraqi economy. In the past two decades, the sector has been injured by the pressures of military conflict (particularly the 1980-88 Iran-Iraq War and the 1991 Gulf war) and by varying degrees of government efforts to promote and/or control agricultural production. In the mid-1980s, agriculture accounted for only about 14% of the national GDP. After the imposition of U.N. sanctions and the Iraqi government's initial refusal in 1991 to participate in the proposed U.N. Oil-for-Food Program, oil production fell and agriculture's share of GDP rose to an estimated 35% by 1992⁶³.

Rapid population growth during the past three decades, coupled with limited arable land and a general stagnation in agricultural productivity, has steadily increased dependence on imports to meet domestic food needs since the mid-1960s. In 1980, Iraq imported about half of its food supply. By 2002, under the OFFP, between 80% and 100% of many basic food staples were imported.

In the early stages of the post-2003 Iraq War period, the country's agricultural sector remains beset by the legacy of past mismanagement and the lingering effects of a severe drought during 1999-2001. Iraq's irrigation infrastructure is only partially functional; salinization of prime cropland is widespread throughout the irrigation system; and the fertility of cropland and rangeland has been badly depleted from over exploitation due to poor soil management practices. The poultry and livestock sectors have been devastated by a general lack of feedstuffs and pasture, as well as from a lack of veterinary medicines used to control common parasites and diseases.

Agro-climatic setting. Iraq has a total surface area of 43.7 million hectares (about the size of Wyoming and South Dakota combined) of which 34.0 million (78%) is not viable for agricultural use. Less than 0.4% is in forest and woodlands

⁶² Prepared by Randy Schnepf, Analyst in Agricultural Policy, Resources, Science and Industry Division.

⁶³ Mahmood Ahmad. "Agricultural Policy Issues and Challenges in Iraq" Short- and Medium-term Options," in Mahdi, *Iraq's Economic Predicament*, pp. 179-180.

situated along the extreme northern border with Turkey and Iran.⁶⁴ The remaining 22% (about 9.5 million hectares) are involved in agricultural activities, although almost half of this is very marginal and used only for seasonal grazing (mainly goats and sheep).⁶⁵ An estimated 340,000 hectares are in tree crops (mostly dates, but also some figs, grapes, and olives).⁶⁶

Area cultivated annually to field crops such as cereals, pulses, fruit, and vegetables varies with weather and market conditions, but generally averages between 3.5 to 4 million hectares.⁶⁷ Between 75% and 85% of crop area is generally planted to grains (mostly wheat and barley). Iraq is divided into a rain-fed northern winter-grain producing zone and a center-south irrigated zone that produces vegetables and fruit, as well as cereal crops. According to the U.N. Food and Agriculture Organization (FAO), 2.55 million hectares were irrigated in 1989.

Pre-U.N. Sanctions (1980-89). During Saddam Hussein's early years in power (1979-1990) the state attempted to foster private sector control and investment in Iraq's agriculture. Surging oil revenues were used to acquire Western technology and to lavish extensive government subsidies on the sector. Area and production expanded through the 1980s for cereals, vegetables, and fruit.

However, cereal yields stagnated due to poor production practices and limited varietal development. The Iran-Iraq War also diverted labor and other resources away from agriculture. Population growth continued to outpace agricultural production, increasing the importance of trade. Despite government efforts at stimulating agricultural output, cereal and poultry imports nearly doubled as a share of domestic consumption, 69% and 48 %, respectively, during the 1980s. By 1989 Iraq was importing over \$2.5 billion in agricultural commodities annually including 78% of its cereals and nearly 100% of its vegetable oils and sugar.

Cereals, mostly wheat and rice, comprised 60% of calories consumed by the average Iraqi in the 1980s. Meat – the principal source of dietary protein – provided an estimated average 132 calories per day per capita between 1985 and 1989. Poultry production made strong gains during the 1970s and 1980s. By 1989 poultry had surpassed beef as the main source of calories from meat in the Iraqi diet.⁶⁸

In the 1980's, U.S.-Iraqi agricultural trade expanded rapidly on the strength of large USDA export credits to Iraq to buy U.S. agricultural products. From 1983 through mid-1990, Iraq received nearly \$5 billion in U.S. export credit guarantees to

⁶⁴ FAOSTAT, FAO, United Nations. (A hectare equals about 2.47 acres.)

⁶⁵ PECAD, FAS, USDA. "Iraq Crop Production." January 16, 2003. http://www.fas.usda.gov/pecad/highlights/2003/01/iraq_update/index.htm

⁶⁶ FAOSTAT, FAO, United Nations.

⁶⁷ In the early 1990s, cultivated area temporarily expanded to nearly 5.5 million hectares before returning to under 4 million.

⁶⁸ FAOSTAT, FAO, United Nations.

purchase significant quantities of U.S. agricultural commodities.⁶⁹ By the mid-1980s Iraq was the major destination for U.S. rice exports and also an important purchaser of U.S. wheat, feed grains, oilseed products, cotton, sugar, dairy products, poultry, and tobacco. In addition, Iraq also participated in other U.S. agricultural export programs including the Export Enhancement Program, the Targeted Export Assistance Program, and the Cooperator Foreign Market Development Program.

U.N. Sanctions period (1990 to 2003). Under the U.N. sanctions regime adopted in 1990, the importation of agricultural products was not banned; however, foreign companies were prohibited from investing directly in Iraq.⁷⁰ In addition, because the Iraqi government was unwilling in 1991 to participate in the Oil for Food Program, the country could not legally export oil and so had no revenues it could use to buy food and agricultural inputs on the international market. From 1990 to 1994, Iraq's agricultural imports averaged slightly above \$1 billion or less than half of the pre-war level. USDA's export credit offers to Iraq were stopped, and USDA's Commodity Credit Corporation had to pay over \$2 billion in unpaid Iraqi export credit guarantees. U.S. agricultural trade with Iraq fell to nearly zero.

After 1991, the northern portion of Iraq fell under de facto local Kurdish control while the fifteen governorates in central and southern Iraq remained under central government control. This corresponds roughly to the rain-fed northern agricultural zone and the irrigated center-south zone. The central government took steps to increase both production and control of domestic food within its zone of control. These changes included Government monopoly control over most grain production and the introduction of a state-managed system of rationing of basic foodstuffs.

Government incentives coupled with rising internal food prices encouraged Iraqi farmers to expand crop area by planting on marginal pastureland and fragile hillsides. Record cropped area was attained in 1992 and again in 1993. However, agricultural productivity suffered for lack of fertilizers, agricultural machinery and the means of spraying planted areas with pesticides.

Anecdotal evidence suggests that the 1991 Gulf war resulted in significant damage to the irrigation and transportation infrastructure vital to Iraq's agricultural sector, but it is difficult to evaluate the extent or severity of the damage. Iraq's irrigation infrastructure fell into disrepair and salinity has spread across much of the irrigated fields of central and southern Iraq. Once severe salinization has occurred in soil, the rehabilitation process may take several years according to FAO officials.⁷¹

In addition, rural areas were left with a severe labor shortage further hurting agricultural productivity. According to the U.S. Census Bureau, in 1991 Iraq experienced a 3.7% decline in population as an estimated 663,000 persons died or

⁶⁹ U.S. General Accounting Office. *Iraq's Participation in U.S. Agricultural Export Programs*, NSIAD-91-76, Nov. 1990, p. 2. [<http://161.203.16.4/d22t8/142766.pdf>]

⁷⁰ Country Factsheet, The Economist Intelligence Unit, *The Economist*. [<http://www.economist.com/countries/Iraq>].

⁷¹ *The Economist*, "Digging for defeat: Iraq," May 2, 1998, Vol. 348, No. 8066, p.44.

left the country following the first Gulf war.⁷² Much of this exodus included foreign guest workers from the agricultural sector.

Iraq's poultry and livestock populations were devastated by the loss of rangeland to grain crops and the drop off of feed grain imports and veterinary medicines needed for routine control of parasites and diseases. A 1997 screw worm epidemic and a 1998 outbreak of foot-and-mouth disease resulted in further losses of animals.

By the mid-1990s severe macroeconomic problems related to the international sanctions led the government to end most support to the sector and instead to implement austerity measures that further curtailed agricultural investment. Declining food availability resulted in a significant rise in malnutrition in Iraq, particularly in the center and south of the country.⁷³

By 1996, Iraq agreed to U.N. terms for establishing the OFFP. Once started, however, OFFP food imports made Iraq's trade dependence nearly complete for many basic foodstuffs. According to the World Food Program, by early 2003 nearly 60% of Iraq's population was totally dependent on imports via the OFFP. The Iraqi population's failing nutritional status and growing trade dependence was further aggravated by a severe drought that persisted throughout much of the Middle East from 1999 through 2001 and devastated crop output in Iraq.

Prospects. Some progress has been made at restoring lost agricultural productivity; however, a return to normal weather patterns is critical for domestic cereal production in Iraq. With the action of the U.N. Security Council on May 22, 2003, lifting trade and financial sanctions on all non-military goods, Iraq will be able to import food and needed agricultural inputs. However, political stability and increased internal security will also be necessary before Iraq's agricultural sector witnesses significant investment and growth. Restoration of the irrigation infrastructure (including a long-term de-salinization program), as well as the grain marketing infrastructure for handling, storing, and distributing agricultural inputs and outputs will be vital. In addition, the development of a viable agricultural research and extension service to develop and disseminate improved varieties and successful production practices are needed to restore agricultural productivity.

Clearly, Iraq will be dependent on imports for meeting domestic food demand for several years to come. In the long term, after the economy has regained its viability and vibrancy, market forces and international competition will likely be the driving forces behind Iraq's agricultural trade patterns. Historical trade and food consumption patterns suggest that food grains such as wheat and rice, feedstuffs including corn, barley, and protein meals, vegetable oil, sugar, meat, and dairy products are all likely to be important imports into Iraq.

⁷² U.S. Bureau of the Census, International Data Base (IDB), Iraq, Oct. 10, 2002; [<http://www.census.gov/ipc/www/idbacc.html>]

⁷³ UNDP, *Iraq Country Office, 1999-2000 Report*, June 2000.