

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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Iraq

Grain and Feed Annual

Grain and Feed Annual

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Report Highlights:

Iraq is facing mixed prospects for the 2012/13 winter grain crop. Late plantings and well-below-average winter precipitation across the rain dependent areas of northern Iraq are dampening prospects for the 2012/13 winter grain crop in Iraq. Irrigated areas have seen an increase in planted area; however, the overall condition of the crop is questionable, as vegetative growth appears to be less vigorous across many irrigated areas. The 2012 Iraqi wheat crop is currently forecast at 2.18 million metric tons, A smaller barley crop is forecast as reduced barley production across of the north will not be compensated for by increased production in irrigated barley areas. A barley crop of 710,000 metric tons is forecast, down slightly from last year's crop.

Commodities:

Wheat

Barley

Corn

Rice, Milled

Production:**Wheat**

Wheat production across Iraq is currently projected to be 2.18 million metric tons (MMT), approximately on par with the upwardly revised 2011 crop. Production shortfalls in rain dependent areas will be largely made up for by increased production in irrigated areas. Total area will be down, as northern Iraq will see a lower harvested area and increases in irrigated areas, primarily in Kirkuk and Wasit provinces, will not wholly compensate for lost area in the north.

The production estimate of 2.18 MMT is based upon conditions on April 1. Adequate rainfall and irrigation supplies during April and early May will still be required for production to reach this level. A larger crop is possible, particularly if producers have had access to adequate fertilizer supplies, and moisture supplies become more available through either rainfall or irrigation. Conversely, warm and dry conditions across the north over the eight weeks would seriously cut current wheat production prospects.

Iraqi 2012/13 wheat imports from all sources are forecast at 3.95 MMT, consisting of wheat imports of 2.7 MMT and private sector imports of flour with a wheat equivalent of 1.25 MMT. During 2011/12, Iraqi wheat imports for use in the Public Distribution System are expected to be 2.7 MMT. This assumes an additional two tenders will be issued and result in further purchases of 900,000 metric tons during the current marketing year.

Demand for bulk wheat imports is driven principally by Iraq's Public Distribution System (PDS). The PDS, in the case of wheat, is committed to supplying every Iraqi citizen nine kilograms of flour monthly. This translates into a yearly wheat milling requirement of 4.5 MMT, which we anticipate will be met in the coming year with domestic purchases of approximately 1.8 MMT and imports of 2.7 MMT. A higher import figure is possible, especially given Iraq's publically stated goal of building a food reserve with a minimum of three to six months supply of wheat. From a practical perspective, additional purchases beyond basic requirements might only occur if there is a major price decline in international markets from current price levels.

U.S. wheat exports to Iraq in the current marketing year have been disappointing. The reemergence of Russian wheat exports effectively curtailed U.S. wheat export sales during the fall of 2011, because Russian wheat was priced under U.S. wheat on a FOB basis and also enjoyed an advantage in transportation costs. U.S. wheat appeared to become competitive vis-à-vis other origins during the spring of 2012; however, the U.S. wheat was excluded from the first tender issued by Iraq in January of 2012 and was shut out in subsequent tenders, due to very aggressive pricing by the Canadian Wheat Board. We expect there to be two more opportunities, but it appears competition will remain formidable.

Producer prices are expected to be unchanged for the 2012/13 wheat crop. Iraq maintains a high wheat support price, currently set at 720,000 Iraqi Dinar (ID) per metric ton or US\$610 per metric ton at the current exchange rate. This price is for Iraq #1 wheat, and a lower price is paid for wheat that does not meet the #1 specification. The #1 wheat price is more than 40 percent above the world wheat milling price, delivered to an inland grain elevator in Iraq. The high support price relative to prices in neighboring countries is believed to result in substantial quantities of wheat being smuggled into Iraq and sold at the high support price. The high support price has a negative impact on the poultry/livestock sector, as it keeps feed prices higher than they would be in a more market oriented setting. Conversely, planting decisions seem little affected by the high level of support prices. Irrigation availability and natural rainfall appear to have the biggest impact on planted area. However, the high wheat support price may be contributing to monoculture agriculture in Iraq, as producers have little incentive or marketing opportunities relative to supported crops.

Statistical Information

Iraq: Wheat 2011/12 (Production Projection)

| Province | Planting Intentions (Donum*) | Percent Planted | Planting Actual (Donum*) | Yield (Metric Tons/ Donum*) | Production (Metric Tons) |
|---------------------|---|----------------------------|---|--|-------------------------------------|
| Kurdistan | | | | | |
| Dahuk | 750,000 | 75% | 562,500 | 0.25 | 168,750 |
| Arbil | 900,000 | 50% | 450,000 | 0.20 | 90,000 |
| Sulymaniyah | 475,000 | 65% | 308,000 | 0.20 | 77,188 |
| | | | | | |
| Total | 2,125,000 | 62% | 1,321,250 | 0.25 | 335,938 |
| | | | | | |
| Rest of Iraq | | | | | |
| Ninewa | 1,639,285 | 50% | 819,643 | 0.18 | 122,946 |
| Kirkuk | 735,189 | 80% | 588,151 | 0.35 | 249,964 |
| Salah ad Din | 712,000 | 77% | 548,240 | 0.33 | 246,708 |
| Diyala | 429,300 | 75% | 321,975 | 0.58 | 177,086 |

| | | | | | |
|--------------------|--------------------|------------|------------------|-------------|------------------|
| Anbar | 281,115 | 95% | 267,059 | 0.33 | 133,530 |
| Baghdad | 245,625 | 92% | 225,975 | 0.40 | 90,390 |
| Wasit | 751,000 | 90% | 675,900 | 0.40 | 270,360 |
| Babil | 312,345 | 98% | 306,098 | 0.34 | 104,992 |
| Karbala | 15,205 | 100% | 15,205 | 0.38 | 6,082 |
| Najaf | 201,098 | 106% | 213,164 | 0.45 | 95,924 |
| Muthanna | 69,950 | 63% | 44,069 | 0.25 | 11,017 |
| Qadisiyah | 380,000 | 92% | 349,600 | 0.35 | 174,800 |
| Dhi Qar | 277,600 | 70% | 194,320 | 0.33 | 87,444 |
| Maysan | 219,100 | 100% | 219,100 | 0.28 | 60,800 |
| Basrah | 70,400 | 70% | 49,280 | 0.27 | 12,320 |
| | | | | | |
| Total | 6,6,339,212 | 76% | 4,837,778 | 0.38 | 1,844,363 |
| | | | | | |
| Grand Total | 8,464,212 | 73% | 6,159,028 | 0.35 | 2,180,301 |

*One Donum equals .62 acres

Barley

Barley production is expected to decline based upon current crop conditions. A barley crop of 710,000 metric tons is now forecast. However, as approximately 40 percent of the 2012 barley crop is totally dependent upon spring rainfall, this initial estimate may be need to be revised to reflect changing conditions. Soil moisture conditions are becoming unfavorable, and spring rains have been sparse, stunting vegetative growth. Planted area is down, as poor moisture conditions led to lower plantings across northern areas. High domestic support prices for wheat, relative to barley are also leading to a decline in barley planted area, particularly across Kurdistan. It is anticipated that the Government of Iraq will again purchase barley this season, and resell it at a subsidized price to livestock producers.

The barley support price has been set at 520,000 ID per metric ton or approximately \$440 per metric ton. Historically the Ministry of Trade has only purchased limited quantities of barley for resale at subsidized price. Currently the barley support price appears to be around 10 to 12 percent above the world barley price, delivered by truck to a location in northern Iraq. Sheep numbers are continuing to recover following drought induced liquidation during 2008 and 2009. A further significant decline in the 2012 barley crop could seriously impact livestock production across northern Iraq.

Corn

There are growing indications that corn production across Iraq is rebounding. The Ministry of Planning reported through its statistical service (COSIT) that 2010 corn production was 267,000 metric tons produced on 114,000 hectares. This is nearly double the level of production reported by the Mesopotamia State Company (MSC), which is part of the Ministry of Agriculture. One possible explanation is that commercial farmers are beginning to shell corn, as opposed to harvesting ear corn

and delivering/selling it to MSC. It does appear that substantial quantities of corn are moving exclusively through private channels. Corn production may increase during 2012/13, if summer irrigation supplies are adequate and producers continue to become more familiar with and plant more imported hybrid corn varieties. The sticker shock of modern corn variety prices and the substantial fertilizer requirements appears to be slowly wearing off.

The official procurement price for ear corn delivered to a MSC shelling operation is 400,000 ID per metric ton. This works out to approximately 690,000 ID per metric ton (US\$585) on a grain basis. MSC shells, dries, and then sells the corn grain at a price of 250,000 ID per metric ton (US\$208). MSC incurs substantial annual losses, which will only increase if corn production continues to rise. Private sector traders import limited quantities of corn, primarily from South America. Currently prices for imported corn delivered to northern Iraq are approximately US\$395 per metric ton.

The Prime Minister's Office continues to "officially" support a National Poultry Initiative. This initiative is designed to finance imports of both soybean meal and corn for resale at subsidized prices. The Ministry of Trade issued a tender to purchase corn during the fall of 2011; however, the specifications were extremely restrictive and they do not appear to have received any offers. Interest in the tender initiative faded during the fall corn harvest. This initiative has the potential to substantially impact corn imports, as the funding level is reportedly US\$45 million. The Ministry of Agriculture has recently indicated that it is now considering a new tender, but did not specify a time. Private sector imports are forecast to remain unchanged at 100,000 metric tons.

Rice

Rice production in 2011 on a rough basis is estimated to be approximately 175,000 metric tons, a 12 percent increase over the 2010 crop. Plantings and production were down in 2010, primarily as a result of a sharp drop in the official procurement price paid producers. The 2010 procurement price was lowered by 33 percent, from 900,000 ID per metric ton in 2009 to 600,000 ID per metric ton in 2010. For 2011, the price was increased to 750,000 ID per metric ton (US\$635). The Ministry of Trade reported purchases from producers of 112,000 metric tons, an increase of 35 percent over year-earlier purchases. The difference between Ministry of Trade purchases and total production is an indicator that rice growers market their premium Anbar rice through private channels. Increased marketing to the Ministry of Trade of the 2011 rice crop is likely an indicator of both the higher procurement price and the likelihood that the premium price paid by private rice millers has dropped over the last year. If that is the case, it is consistent with reports of increased private sector imports of Indian "Basmati" rice, a fragrant rice that competes directly with locally produced Anbar rice.

The "official" procurement price paid by the Ministry of Trade of 750,000 ID per metric (US\$635) is paid on a rough rice basis. Using a milling rate of 0.66 yields a milled rice procurement price of approximately US\$950 per metric ton, well above world prices for long grain rice delivered to Iraq.

Irrigation water availability will continue to limit Iraqi rice production. While winter rains within the Euphrates River basin have been greater than those across the Tigris River basin, they will not be enough to allow an increase in the summer rice planted area. Planted area in 2012 is forecast to remain unchanged at 55,000 hectares.

Discussions with private sector traders and businessmen indicate that private sector imports of rice are growing rapidly in Iraq. U.S. rice has an excellent reputation within Iraq, and a market exists, if U.S. rice can compete on a price basis with Indian basmati rice. A number of private sector food importers are currently importing, promoting, and distributing Indian basmati rice in major Iraqi markets. The Office of Agricultural Affairs in Baghdad is working with an importer interested in importing U.S. long grain rice to compete with imported Indian rice. A major importer of food products into Iraq has also shown interest in private sector imports, with the caveat that promotion efforts would be needed to establish a market foothold.

Consumption:

Feed and Feed Demand

Near-Term Feed Outlook

The overall feed outlook is expected to deteriorate modestly, as barley production will decline from 2011 production levels and feed wheat supplies will be tighter in 2012/13. The Ministry of Trade will likely purchase a higher percentage of the domestic wheat crop, based upon projections of a smaller crop, suggesting that feed wheat supplies may be lower than previous estimates. Imports of feed ingredients, such as barley, feed wheat, corn, pellets, and soybean meal, have the potential to rise in the second half of 2012. High international commodity prices may be dampening demand in the poultry sector; a situation that apparently showed some improvement during the fourth quarter of 2011. Feed wheat and barley imports may become an attractive option, if regional production (Black Sea) is high and prices attractive. Import regulations and restrictions continue to limit feed imports, since Iraq bans wheat and barley imports from mid-April through September to minimize government purchases of imported grain. Corn imports are also seasonally banned during Iraq’s November-December harvest season.

The National Poultry Initiative has the potential to add 100,000 metric tons of corn to feed supplies, but this remains only speculation until a tender is actually made. The Iraqi Poultry Producers Association has spearheaded this initiative and made it clear that U.S. corn and soybean meal will be specified. Ministry of Agriculture officials, however, have indicated that U.S.-sourced corn and soybeans will be excluded, due to their status as GMO crops.

Trade:

Feed Supplies: (Thousand Metric Tons)

| | | | 2010/11 | 2011/12 | 2012/13 |
|------------|--|--|---------|---------|---------|
| Feed Wheat | | | | | |
| Domestic | | | 600 | 500 | 400 |
| Imported | | | | | |
| Wheat Bran | | | 950 | 1,100 | 1,100 |

| | | | | | |
|-----------------------|--|--|-------|-------|-------|
| Barley | | | | | |
| Domestic | | | 900 | 800 | 650 |
| Imported | | | 50 | 50 | 50 |
| Corn | | | | | |
| Domestic | | | 267 | 270 | 285 |
| Imported | | | 100 | 150 | 200 |
| Other Feed (Imported) | | | | | |
| Pellets | | | 200 | 225 | 250 |
| Soymeal | | | 200 | 225 | 240 |
| Other | | | 5 | 5 | 5 |
| Total: | | | 3,272 | 3,325 | 3,180 |

Source: FAS, Post Estimates

Long-Term Feed Demand

Longer-term feed demand has the potential for strong growth based upon expanded poultry production, aquaculture demand, and red meat production. However, if world commodity prices do not retreat in the face of 2012 new crop prospects or if domestic grain production falters again due to drought, growth prospects may be curtailed. The sheep sector is still recovering from devastating droughts in 2008 and 2009 and represents a growth sector for the use of more intensive feeding practices. The profitability of Iraqi broiler operations is tenuous with current feed prices. Cheaper feed and improved import channels will be required for continued growth of this sector. There are indications that growth in the poultry sector was restrained for much of

| Commodity | Attribute | Country | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------|-------------------------|---------|------|------|------|------|------|
| Poultry, Meat, Broiler | Production (1000 MT) | Iraq | 95 | 110 | 160 | 175 | 200 |
| | Total Imports (1000 MT) | Iraq | 227 | 397 | 337 | 419 | 440 |
| | Total Supply (1000 MT) | Iraq | 332 | 507 | 497 | 594 | 640 |

Source: FAS, 2010 and 2011-Post Estimates

2011 by lack of access to lower-priced imported feed, continuing high domestic feed prices and disease problems. However, data compiled by the Iraqi Poultry Producers Association suggest that the demand for imported feed increased during 2011, as new feed mills were completed and international prices softened. 2012 production is forecast to grow modestly based upon adequate feed supplies and lower imported corn and protein meal prices, during the third and fourth quarters of 2012. Importers report that corn and soy meal is entering through Kurdistan, and that pricing appears to closely reflect transportation cost and reasonable margins. Imports of broiler meat should continue to increase, due to its relative affordability compared to red meat prices and government concerns regarding food price increases. Imported poultry products exhibited strong growth during 2011 and would have been even

higher, if imports had not been constrained during the late summer months over new import precertification.

Policy:

Public Distribution System Wheat and Rice Demand

The government of Iraq continues to provide a monthly allotment of subsidized food items to nearly all Iraqi citizens through the Public Distribution System (PDS). The number of food items provided has been reduced to just five: wheat flour, rice, vegetable oil, sugar and baby milk formula (powder). The monthly allocation of nine kilograms of flour and three kilograms of rice to 33 million Iraqis requires the Ministry of Trade (MoT) to purchase approximately 4.5 MMT of wheat and 1.2 MMT of rice (milled basis) annually. MoT purchases are from both domestic producers and the international market. Rice imports are approximately 95 percent of PDS requirements, while wheat imports are more variable depending on the size and quality of the domestic wheat crop. We anticipate that 2012 domestic wheat production will meet only 40 percent of PDS demand. It also appears that the MoT attempts to maintain a 2:1 ratio of imported to domestic wheat for milling and distribution in the PDS. Rice imports may see a minor increase, as public pressure to maintain adequate PDS rice supplies is currently very high. Maintaining adequate PDS supplies is also an indirect way to control food price increases, as approximately one-third of PDS food commodities are sold by recipients to traders who move the grain into the private sector market.

Domestic Production Subsidies

The Ministry of Agriculture has announced that 2012 procurement prices will remain unchanged at 720,000 ID per metric ton for wheat and 520,000 ID per metric ton for barley. The Ministry of Trade has indicated that they will now discount the wheat price paid on a sliding scale, based upon test results (e.g., specific weight and foreign matter). Political unrest across the Middle East, including Iraq, will likely preclude adoption or even serious discussion of implementing market oriented policies and reforms in the near term. Agricultural political interests can be expected to call for even higher support prices, but this will likely be rejected by the Government of Iraq, as it was last year.

It is noteworthy that the current world wheat price basis delivered to an inland flour mill is approximately US\$430 per metric ton, indicating that world wheat prices and the domestic wheat price are diverging. This has important implications for Iraq, as price divergence increases cross-border imports of wheat from Iran, Turkey, and Syria for sale to the MoT as Iraqi wheat, and adds to distortions in the feed wheat market and livestock sector.

Public officials continue to make announcements of their intent to provide subsidized feed, irrigation equipment, tractors, rebuild Ministry of Agriculture owned poultry operations, and increase supplies of

subsidized inputs, such as fertilizer, strongly indicating movement toward state capitalism and away from a more market-oriented and price-responsive agriculture.

Genetically Modified Crops

Due to a ban on genetically modified organisms (GMO) instituted by the Ministry of Health, Iraq does not permit the importation of GMO seed or the production of genetically modified crops within Iraq.

The Ministry of Agriculture has also interpreted Iraq's National Seed Policy to ban any imports of U.S. corn which is genetically modified. From a practical perspective, Iraq is still struggling to understand the issues surrounding GMO technology and to establish a coherent public policy response.

Commodity Shocks

Private sector grain storage in Iraq is almost non-existent, and government purchases in 2010 and 2011 purchases have been entirely used to supply the PDS. The