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# IRAQI PRICE SUPPORT POLICIES FOR DATES

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# IRAQI PRICE SUPPORT POLICIES FOR DATES

This paper reviews the history of date production, date price support and marketing policies in Iraq. It also examines impacts and sustainability of the current price support and marketing program. Additionally, an alternative policy option is explored.

## EXECUTIVE SUMMARY

Prior to the fall of the Saddam Hussein Regime, Iraqi state-owned enterprises (SOE's) controlled agricultural output processing and marketing, as well as input supply, for much of agricultural production, including production of dates. Towards the end of the Regime, most of the SOE system collapsed, including SOE's that were processing and marketing dates. Facing dysfunctional markets, many producers decapitalized and ceased to maintain their orchards. As political stability returned and oil revenues recovered, the Government of Iraq (GOI) turned attention to assisting date producers to recapitalize. In mid-2008, the Price Support and Marketing Program for Zahidi Dates, known simply as the Dates Program, was introduced. Since then output of Zahidi dates has expanded rapidly, with a 50% increase from 2008 to 2009, and another 25% increase projected for 2010.<sup>1</sup> At this time, there was limited opportunity to expand domestic demand for Zahidi dates. Additionally, export demand for unprocessed Zahidis was limited primarily to one country, India<sup>2</sup>. In 2009, Iraq captured 90% of that market, largely by under-pricing Iran<sup>3</sup>.

The GOI Dates Program has generated unsold surpluses of more than 300,000MT<sup>4</sup>. As the program continues through 2010, surpluses likely will reach 500,000MT. Largely because of price discounting under the program, exports in 2009 doubled to 202,000MT, but average export prices dropped from \$330/MT to \$260/MT<sup>5</sup>, a reduction of 21%. Exports at deeply discounted prices occurred almost exclusively under a "recycling" scheme implemented through new private sector exporters. The scheme provided these exporters with substantial windfall profits. How the exporters for the "recycling" scheme were chosen has not been disclosed. This "recycling" scheme has all the earmarks of dumping, because it can significantly distort and destabilize markets both within and outside of Iraq. Dumping is not permitted under WTO rules.

Surpluses of Zahidi dates are escalating while artificially high guaranteed prices encourage producers to continue increasing productivity, instead of converting to more marketable crops. The program has completely crowded out market-oriented date exporters in Iraq. On the plus side, it is recapitalizing Zahidi date farmers, albeit very inefficiently. Date producers receive only 35-40% of the total program costs. The remainder of the program costs goes to storage and finance fees.

Experience gained in similar programs in other countries may be instructive for adjusting the GOI Date Program. Evolution of the "Common Agricultural Policy" (CAP) in Europe is particularly relevant. After years of struggling with burdensome surpluses under a guaranteed minimum price program, the EU is phasing in "decoupled" direct payments to farmers that are not linked to production. These are more cost-effective and better suited to realizing the double objectives of assuring sustainability of agriculture production enterprises, while avoiding burdensome surpluses. Furthermore, market-oriented agriculture is more responsive to changes in demand.

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<sup>1</sup> Source: The State Boards for Dates in Iraq

<sup>2</sup> Source: COMTRADE UN Import - Export Statistics 2000-2010.

<sup>3</sup> Source: COMTRADE UN Import - Export Statistics 2009-2010.

<sup>4</sup> Source: Iraqi Ministry of Agriculture.

<sup>5</sup> Source: COMTRADE UN Import - Export Statistics 2000-2010.

## BACKGROUND AND SETTING

From the 1970's through the 1990's, state-owned enterprises (SOE's) monopolized processing and marketing of most of Iraq's agriculture production including dates. The state-owned Iraqi input supply companies provided heavily subsidized inputs to agricultural producers, including date-producers. At the same time the Iraqi Date Agency (IDA) purchased unlimited quantities of the date harvest at prices calculated to guarantee producers a fair margin above costs of production. IDA controlled all exports, often selling at heavily discounted prices in order to retain or expand export markets. As might be expected, guaranteed above-market prices resulted in surplus production of dates beyond what could be exported and absorbed by the domestic market. Excess date stock purchased by IDA was offered at discounted prices to state-owned processing enterprises that produced syrups, vinegar, liquid sweeteners, and other processed products for the national market. In order to clear the market, these products often were sold at prices below production costs. Major losses were incurred by IDA and processing SOE's; these were absorbed by the Government of Iraq and offset by oil revenues.

During much of this period Iraq was consistently among the top five date-producing countries in the world, and often the world leader in date exports. In 1989, harvested production exceeded 500,000MT and nearly half of that production (248,000MT) was exported.<sup>6</sup> In response to the 1991 Iraqi invasion of Kuwait, the UN imposed trade sanctions that virtually halted Iraqi exports of dates. Only 20,000MT were exported in 1991. In spite of this, the GOI continued price support and purchasing policies, and producers responded by continuing to expand production.

With restrictions on exports, it became increasingly difficult for IDA to absorb expanding levels of production. Surpluses often were used for animal feed or simply spoiled. By the mid-1990's, it became apparent that the GOI could no longer sustain existing subsidy levels to the Iraqi date industry. For lack of resources, IDA began withdrawing from the market. By the time the Saddam Hussein Regime fell in 2002, IDA had ceased to function and the Iraqi internal and export markets for dates were in disarray. Facing high input costs and severely depressed market conditions, many Iraqi date producers ceased to care for and maintain their date-palm trees, often not even bothering to harvest. By 2008, harvested production was below 300,000MT, the number of fruit bearing trees had dropped by half to under 8 million, yields had dropped to as low as 40-45kg/tree, compared to earlier yields of 65-90kg/tree<sup>7</sup>, and quality also had deteriorated considerably.

UN sanctions were lifted in early 2003 and private traders began to forcefully enter domestic markets. Some date exports resumed, especially through the UAE Dubai wholesale produce market. Nevertheless, during this period in which the GOI largely stood on the sidelines, most production was of poor quality, many date producers, especially smaller producers, became decapitalized, and farm gate prices were too low to encourage producers to rehabilitate and improve management of their date-palms. Additionally, other countries that had been promoting and subsidizing expansion of their own date production aggressively took advantage of UN sanctions and replaced Iraqi date exports with their own.

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<sup>6</sup> Source: COMTRADE Statistics.

<sup>7</sup> Source: The State Boards for Iraqi Dates.

# CURRENT PRICE SUPPORT AND MARKETING PROGRAM

By 2007, the political situation in Iraq had stabilized and oil revenues had recuperated. The GOI began to explore ways to assist in recapitalizing date producers and in reviving the national date industry. In July 2008, the government announced the introduction of a new Price Support and Marketing Program. This program authorized the Ministry of Agriculture (MoA) to purchase unlimited quantities of the *Zahidi* variety of dates at a guaranteed-minimum price well above world market prices.<sup>8</sup> It was justified as a means to assist in recapitalizing small date producers who had been severely decapitalized by several years of poor yields, rising inputs costs and low market prices. The program was renewed in 2009 and again in 2010.

The current program for dates does not differ significantly from the one that existed during the Saddam Regime. In both cases, price supports were justified on the grounds that date producers should receive a fair return, in order to allow them to recapitalize and sustain operations. As indicated above, during the previous regime, production that could not be exported or sold as table dates in the domestic market was utilized by SOE's for processing. Products were sold at a price to clear the market, often below costs of production. Today, that is not an option. Currently there is limited modern commercial date processing capacity in Iraq, either public or private sector. Thus, given that domestic demand for unprocessed table dates is rather stable and inelastic<sup>9</sup>, only increased exports can absorb production increases resulting from high guaranteed prices, at least until and unless new commercial processing investments are made.

The current program applies only to the *Zahidi* variety of dates. *Zahidis* reportedly account for nearly 80% of current date production in Iraq<sup>10</sup>. Limiting the program to *Zahidi* dates introduces rigidities that become evident when demand is considered. Iraqi consumers widely perceive the *Zahidi* variety to be unfit for consumption as table dates. Rather, *Zahidis* are considered to be suitable mainly for processing or animal feeding. It is unlikely that internal demand for *Zahidi* varieties can increase in the absence of a modern date processing industry.

Export demand for *Zahidi* dates also is relatively limited. EU countries are the major importers of dates, in terms of value, in the world, and they do not consume *Zahidi* dates.<sup>11</sup> India is the only sizeable importer of *Zahidi* dates, and, beginning in 2008, Iraq began to recover market share at the expense of other exporters, especially Iran, as shown below:

	IRAQ		IRAN	
	Volume	Price/MT	Volume	Price/MT
2007	6,000MT	\$300/MT	141,000MT	\$240/MT
2008	44,000MT	\$330/MT	103,000MT	\$330/MT
2009	145,500MT	\$260/MT	12,700MT	\$285/MT

Outside of India, Morocco and Syria are the only other countries with a sizable demand for the *Zahidi* variety of dates importing respectively 20,300MT in 2009 (up from 12,000MT in 2008) and 32,000MT in 2008 (up from 4,000MT in 2007).<sup>12</sup>

<sup>8</sup> On average the margin between market prices at the time and the guaranteed price was in the range of \$130/MT. The open market farm gate price was \$200 to \$220/MT, whereas the average guaranteed price paid by the MoA was approximately \$330/MT. The price varied according to grade.

<sup>9</sup> That is, demand does not grow proportionately with increases in disposable incomes, as happens, for instance, in the case of red meat.

<sup>10</sup> According to the 2007 Household Consumption Study funded by the World Bank and carried out by COSIT.

<sup>11</sup> EU date imports are almost exclusively *Deglet* and *Medjool* varieties, with some quantity of *Sayer*, mainly from Iran, for industrial use.

<sup>12</sup> COMTRADE statistics for date exports to Syria are only available for the years 2007 and 2008. Historically, Iraq has exported to Syria a quantity around 30,000-35,000MT at a very low price, below \$180/MT.

With the exception of Bangladesh all other date importing countries typically do not demand the Zahidi variety of dates. Lebanon, Turkey, Indonesia, Russian Federation and Malaysia all import “up-market” varieties (price per MT around \$1,000), while China and Sri Lanka import limited quantities (less than 10,000MT each) of all varieties.

## SUPPLY AND DEMAND IMPACTS OF DATE PROGRAM

The GOI Date Program has seriously distorted supply and demand relationships. Without substantial modifications, the program is unsustainable.

In 2008 domestic production was not yet influenced by the program. Total supply was estimated at 300,000MT, of which perhaps as much as 240,000MT were Zahidis. Internal consumption in 2008 was an estimated 100,000MT, with approximately 60,000MT being non-Zahidi table dates and 40,000MT<sup>13</sup> of the Zahidi variety. Another 100,000MT of Zahidis were exported by private traders, primarily to India.<sup>14</sup> Even though the GOI Date Program got a late start in 2008, by default, the remaining 100,000MT of Zahidis were purchased by the MoA at \$296-381/MT, depending on the grade. In the absence of export opportunities, these purchases were stored by the MoA and carried over into the 2009 crop year.

With guaranteed prices under the Date Program, producers quickly modernized Zahidi tree care and management and used more optimal inputs.<sup>15</sup> Production increased from 40-45 kg/tree in 2008 to 60-65kg/tree in 2009. Total production rose to an estimated 500,000MT<sup>16</sup>.

In 2009, the minimum guaranteed farm gate price for Zahidis was \$330/MT, well above the world market price. Unable to match the guaranteed program price, established private traders previously purchasing for export were effectively shut out from the Zahidi market, and, by default, the MoA became the exclusive buyer of Zahidi dates. Faced with a 2008 carry-over in storage of 100,000MT, and with limited storage capacity for the 2009 crop, the MoA was forced to seek alternative mechanisms for disposing of 2009 program purchases.

Although no official information has been made available, anecdotal information and indirect sources indicate that the MoA began aggressive liquidation of ever-increasing program stocks. This was accomplished in part by re-selling (re-cycling) stored program purchases to private sector businesses at low enough prices to permit exports to India and to a lesser extent to Morocco, at deeply discounted prices. As a result Iraqi exports, primarily to India more than doubled in 2009 compared to 2008, to 202,000MT, largely displacing Iranian exports. Despite this major increase in exports, the MoA placed into storage an additional estimated 100,000MT of Zahidis, for a total of 200,000MT in storage carried over to the 2010 crop year.

As is the case for any public assistance program, especially in an oil-rich country like Iraq, this type of program creates opportunities for favoritism and unearned enrichment. Anecdotal evidence indicates that traditional independent exporters were excluded from participation in the 2009 “recycling” scheme.

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<sup>13</sup> Source: The State Boards for Iraqi Dates and The Iraqi Ministry of Agriculture (MoA).

<sup>14</sup> Iraqi export traders were paying \$200-220/MT at the farm gate and exporting to India at \$330/MT. For most producers (with a yield of 40-45 kg/tree), this farm gate price likely was below their costs of production. The best producers with a yield of 60+ kg/tree, and with approximately \$170/MT costs of production, were selling to export traders at a profit.

<sup>15</sup> In the absence of guaranteed prices for non-Zahidi dates, productivity improvements were limited primarily to Zahidi trees.

<sup>16</sup> Production of around 500,000MT (80% Zahidi) in 2009 is based on MOA-reported yields averaging approximately 60-65 kg/tree for 8 million bearing trees. Yield increases for Zahidis were greater, while non-Zahidi yields likely remained largely unchanged.

Rather, stored program dates were sold to new exporters at prices that were well below Iraqi costs of production, resulting in windfall gains for these exporters.

Doubling of exports from 2008 to 2009 came at a considerable cost. The average export price in 2008 was \$330/MT. In 2009, this dropped to \$260/MT, a 21% decrease.

Although the MoA has not disclosed their sales price to “recycling” exporters, it most likely was about \$100/MT.<sup>17</sup> This signifies an average loss to the MoA of \$230/MT.<sup>18</sup> (See Table I, below)

Annual costs to the GOI of the Date Program are quite high, both in absolute terms and as compared to benefits received by producers. Producers that sold to the program received an estimated \$130/MT above the open market price. Thus, for 2008, the total transfer to producers was \$13 million, and in 2009, \$52 million. For 2010, transfers are projected to be \$65 million.

Total Date Program costs to the GOI in 2008 are estimated at \$38 million,<sup>19</sup> and in 2009, at \$142 million.<sup>20</sup> For 2010, total program costs are projected to be \$170 million. These figures indicate that only 35-40% of total program costs actually reached date producers. The remainder of the cost was distributed between storage costs and finance costs. (See Table I, below)

**Table I: Supply and Demand Impacts of Iraqi Price Support and Marketing Program for Dates, Including Estimated Program Costs and Benefits**

Date Industry Indicators	2008	2009	Est. 2010
Yields (kg/tree)	40-45	60-65	75-80
Harvested Production (MT)	300,000	500,000	600,000
Domestic Demand (MT)	100,000	100,000	100,000
Exports (MT)	100,000	200,000	220,000
Recycled quantities(MT)	0	200,000	220,000
Surplus Stored (MT)	100,000	200,000	280,000
Funds Transferred to Farmers (\$ million)	13	52	65
Total Program Cost (\$ million)	38	142	170

Source: USAID-*Inma* Estimates Based on Information from Unofficial and Official Sources, Including COSIT, COMTRADE and MoA.

<sup>17</sup> Based on CIF import price data for India and estimated export transaction costs plus profit

<sup>18</sup> The intervention of MoA can be classified as a “dumping”, i.e., in international trade, the practice of exporting below production costs, with the government absorbing the losses.

<sup>19</sup> Cost break-down: \$33 million for the purchase of 100,000MT at an average price of \$330/MT, plus \$2 million for storage costs (at \$20/MT) and another \$3 million for financial expenses for one year.

<sup>20</sup> Cost break-down: purchase of 400,000MT at an average price of \$330/MT, plus \$4 million of storage costs for 200,000MT, plus \$6 million for financial expenses for one year.

# CONSIDERATIONS FOR FUTURE DATE INDUSTRY POLICIES

The GOI Program for Dates has been announced for the third consecutive year (2010). The urgent challenge is to find markets for a rapidly increasing surplus of Zahidi dates. These increases will continue as it is very feasible that there will be further increases in productivity. Past producer yield responses strongly indicate that continuation of high guaranteed prices for Zahidi dates will elicit a productivity response that increases average yields to 80kg/tree in 2010. Thus, supplies of Zahidis are projected to swell to 500,000MT.

Projected aggregate demand for Zahidi dates is not expected to absorb this growing surplus. Iraqi domestic consumption of Zahidi dates currently is limited and not likely to increase significantly in the absence of a strong processing capability. Likewise, prospects are bleak for significantly increased exports, even at subsidized prices. There are strong indications that export demand for Zahidis is close to saturation. In 2009, Iraq already gained a dominant share in the important India and Morocco markets, where date imports have not grown significantly in the last three years (2007-2009). Rather, the increase in Iraqi exports to India in 2009 displaced imports from Iran.

Major distortions in supply and demand of Zahidi dates suggest that there is urgency for the GOI to reform the current program. In this respect, it may be instructive to examine the history of the "Common Agricultural Program" (CAP), as it evolved in EU countries. The next two paragraphs provide a brief summary of CAP evolution. (See Attachment I for a more detailed explanation)

The CAP was initiated as a guaranteed minimum price program, fixed well above open market prices, very similar to the GOI Date Program. Like the GOI Date Program, the primary objective was to recapitalize farmers producing the supported crops, and to assist them to become economically sustainable. Like the GOI Date Program, the CAP was successful and generated surpluses of the price-supported crops. Periodically, as the problem of burdensome surpluses persisted, a series of measures were adopted in attempt to rein in over-production.

What may be particularly instructive to the current situation for the GOI Date Program is the final measure introduced into the CAP in 2003. That measure gradually decoupled payments to farmers from production of the price-supported crops. Instead, direct aid payments are made. These direct payments are based on a formula to assure that producers receive an acceptable level of income during a transition period. This transition period is the time it takes for previously price-supported crops to return to supply-demand equilibrium at open market prices. While receiving decoupled payments, producers are free to produce what they feel will be most profitable, but without market and price guarantees. As production enterprises stabilize financially, it is expected that direct payments can be reduced and eventually eliminated for many farmers.

If Iraq were to adopt a similar decoupled direct payment policy, Zahidi date producers could receive decoupled payments not linked to Zahidi production, and be free to gradually convert Zahidi orchards to other productive enterprises. This undoubtedly would be a more cost-effective option, with administrative and other overhead costs estimated at perhaps 15-20% of direct transfers made to producers. This compares quite favorably with the current cost spread between transfers to Iraqi producers and total program costs of 60-65%.

# ATTACHMENT I

## Evolution of European Common Agricultural Policy

The Date Support Program introduced by the Government of Iraq (GOI) in July 2008 has a strong resemblance to the original “Common Agricultural Policy (CAP) Program introduced in Europe in the 1950s. Subsequently, the CAP was modified on numerous occasions to deal with resulting unsustainable market distortions and product surpluses. A review of the evolution of CAP provides useful insights for the GOI as it seeks to revive and stabilize the Iraqi date industry in a manner that minimizes market distortions, avoids unmanageable surpluses, and does not unduly burden the public purse.

The CAP has its roots in Western Europe during the 1950’s, when those economies were recovering from the devastations of WW II. Agricultural production capability was severely crippled, and food supplies were scarce. The major objective of the early CAP was to recapitalize farmers in order to restore production and productivity, and to establish an economically viable agricultural sector. Minimum prices above world-market prices were guaranteed to farmers for some agricultural commodities considered to be essential to restore food supplies (e.g., sugar beets, olives for olive oil production, cereals, tomatoes, etc.). Minimum prices were directly linked to and proportional to the quantity produced. European farmers responded by recapitalizing and rapidly increasing output of the supported crops.

In fact the CAP was so successful in achieving production responses that by the early 1980’s, the EU had to contend with almost permanent surpluses of the major price-supported farm commodities. Some were exported, with the help of subsidies, to avoid a collapse of farm gate prices, while others were stored and disposed of within the EU. By the mid-1980’s, the CAP had a high budgetary cost and was distorting some world markets. It also became unpopular with taxpayers.<sup>21</sup>

Burdensome surpluses induced a number of changes in CAP. A variety of measures were enacted in the 1980’s and 1990’s, in attempt to reduce surpluses to manageable levels. Measures included fixed quotas with penalties for overproduction and limits on areas planted, at first voluntary and then compulsory set-asides obliging farmers to leave a percentage of their land uncultivated. Despite these efforts, surpluses continued to be burdensome, and international pressures increased because of distortions caused in export markets.

In 2003, a further fundamental reform was introduced. Payments to farmers were “decoupled” by partially removing the link between production and payments. The prior system of price supports linked to quantities produced is being phased out in favor of a system of direct aid unrelated to quantities produced. These compensatory direct payments are intended to maintain farmer income stability, and yet allow the farmer to produce for the open market if he can do so profitably. Criteria for direct payments are not linked to any particular product, but do require that land is used in a sustainable manner, and that all environmental, food safety, phyto-sanitary and animal welfare standards are observed. Failure to observe these cross-compliance requirements will result in reduced direct payments. Severing the link between subsidies and production enables EU farmers to be more market-oriented, free to produce according to what the market needs, while still enjoying a stable income. Although the transition is not yet complete, commodity price supports are to be completely phased out and replaced by direct aid payments that are linked to other welfare factors.

By removing the subsidy link with production, the direct-payment CAP becomes a welfare payment, not a production subsidy. As such, it is minimally trade distorting. In fact, the WTO generally classifies guaranteed minimum prices linked to production to be seriously trade distorting, while decoupled direct

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<sup>21</sup> During the first years of the EU’s existence the CAP represented a significant proportion of the budget expenditure, over two-thirds on occasions. On average, since its existence, the CAP cost about 55 billion Euros per year.

payments, based on welfare criteria, are considered to be minimally trade distorting (i.e., are classified as “Green Box”<sup>22</sup> measures).

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<sup>22</sup> In order to qualify, green box subsidies must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support. They tend to be programs that are not targeted at particular products, and include direct income supports for farmers that are not related to (are “decoupled” from) current production levels or prices.