



# Bi-weekly Bulletin

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## IRAN

Iran is rich in natural resources such as crude oil and metals, but domestic food production is limited by the dry or uncultivable land base. Furthermore, periodic conflicts in the Middle East have at times forced farmers to abandon some of the more productive agricultural land, thus increasing its dependence on agri-food imports from countries such as Canada. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Iran's agricultural sector and Canada's prospects for agricultural trade with Iran.

### BACKGROUND

About two-thirds of Iran's 70 million inhabitants live in urban centers. Urbanization has increased considerably since 1976 when about one-half of the population lived in rural settlements. With increased urbanization, demand for western-style products has increased somewhat, but efforts to modernize the retail sector in Iran has had limited success. In part this is due to the difficulty in establishing effective brand recognition and advertising strategies, both of which are constrained by government regulations.

The more traditional urban bazaar remains at the heart of Iranian commerce. However, change is being accelerated by high oil prices, increased wealth, and the young population. Nearly half of the population is under 20 years of age and about 70% are under 30.

### Economy

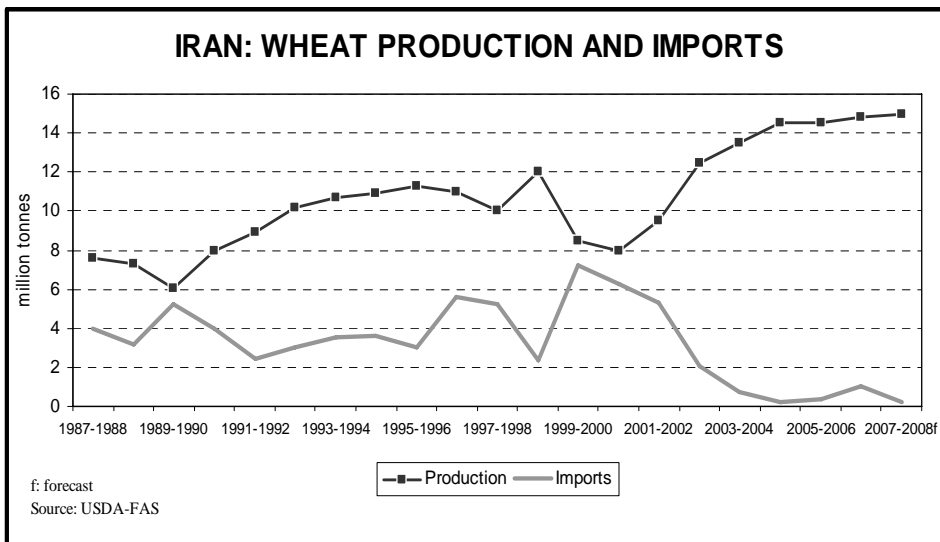
Iran's economy is characterized by reliance on the oil sector, which continues to be the backbone of its economic activity and a source of more than one-third of the government's total revenues. Until recently, economic growth had not kept pace with labour force growth,

resulting in a high unemployment rate. However, high oil prices have improved Iran's economic outlook and allowed it to pay down its debt and look forward to a solid economic recovery.

Iran's current 5-year plan, which began in 2005, is aimed at job creation and moving toward privatization. Its oilfield infrastructure requires investment so that it can increase oil production and capitalize on record high crude oil prices. To facilitate foreign investment the government has implemented the *Foreign Promotion and Protection Act*. It is designed to establish a clear legal framework for foreign investment and to encourage confidence for the investment community.

### Agriculture

The agricultural sector accounts for nearly 20% of Iran's Gross Domestic Product and employs about 30% of its labour force. However, despite the availability of over 10 million hectares of land for agricultural use, Iran imports 30 to 50% of its annual food requirements.



Currently, about 10% of Iran's arable land is suitable for field crop production. Iranian farmers are involved in the production of a wide array of crops including wheat, rice, barley, corn, pistachio nuts, almonds, hazelnuts, and walnuts. As well, Iran's farmers grow apples, oranges, apricots, cherries, grapes, melons, saffron, sugar beets, tea, cotton and tobacco. Production of crops accounts for about two-thirds of total farm income in Iran.

The major constraint to crop production is inadequate rainfall in areas that might otherwise be able to support crops such as wheat, corn and barley. The farming sector is further disadvantaged by outdated farm equipment, the limited availability of important crop inputs such as fertilizer and herbicides, and generally poor agronomic practices.

However, government policy is to develop the agricultural sector and move closer to self-sufficiency, and there has been progress in that respect. For example, in addition to bringing electricity to rural areas and building new and better highways, Iran has expanded irrigation capacity. However, irrigation is very expensive and highly subsidized. Much of the newly irrigated land is used to grow wheat, at a cost higher than that of imported wheat, but it is seen as a means of reducing the country's dependence on imports and for improving food security. The result is that Iran is largely self sufficient in wheat.

Iran's livestock production accounts for about one-third of its agricultural sector. Traditionally, maintaining herds of sheep and goats for meat and milk has been the activity of migratory tribes, but recently some relatively large scale farms have been

established, some of which are capable of producing two million tonnes (Mt) of meat annually. To maintain price stability, some meat imports, excluding pork, are allowed.

#### **Market Access in Iran**

Iran has not fully exploited its potential as a world trading partner. One of the constraints on trade with Iran is the risk related to changing import rules and regulations. The Iranian Ministry of Commerce publishes annually a handbook on export and import guidelines. Generally speaking, the import of any commodity must be classified as being of strategic importance in order to be granted approval by the Ministry. The Iranian government regularly either bans, or heavily restricts by means of high tariffs, the import of some agricultural commodities such as processed foods to protect the domestic market. Naturally, when supply shortages occur, restrictions are eased sufficiently to allow for supplies to be adequately replenished.

#### **Canada's Trade with Iran**

Since 2000, Canada's *imports* of agri-food products from Iran have been relatively stable. However, *exports* have fluctuated dramatically. For example, in 2000, Canada exported a record 2.8 Mt of wheat, worth about CAN\$550M, to Iran to cover supply shortages attributed to a severe drought. For 2001, Canada exported 1.7 Mt of wheat to further cover their supply shortage. Since then, Canada's exports of agri-food products have decreased considerably as Iran expanded its production of wheat grown under irrigation. Nevertheless, Canada continues to export on average CAN\$100M worth of agri-food products to Iran annually, most of which consists of grains and oilseeds and some processed food, such as bottled

canola oil. Canada imports an average of CAN\$27M worth of agri-food products annual from Iran annually, most of which is fruit and nuts.

Iran's increasing production of wheat, barley and canola in recent years has brought great opportunities for suppliers of grain storage systems. Canada has over 50% of the market share in this area and the situation seems promising over the medium-term.

Canada has made some progress with respect to improving access to Iran's non-traditional markets despite the fact that about 80% of Iran's economy is state-owned and closely controlled by government. That high degree of government involvement in day-to-day commerce, procurement policies and other complexities lengthen the amount of time required to access the Iranian market.

#### **SITUATION AND OUTLOOK**

Total production of the four major field crops (wheat, corn, rice and barley) has increased significantly during the past decade. The increase is attributed to a combination of higher yields and seeded area, both of which increased as irrigated land for field crop production expanded. For 2007-2008, total *production* of field crops is forecast at a record 22.0 Mt, marginally higher than 2006-2007. Total *domestic use* is also forecast to increase marginally to a record 26.9 Mt.

#### **Wheat**

Wheat production is Iran's most highly subsidized agricultural activity. This has helped Iran move toward self-sufficiency in food. In particular, Iran's heavily subsidized irrigation infrastructure has contributed to record high wheat *production*, which is

forecast at 15.0 Mt in 2007-2008 versus the previous year's record of 14.8 Mt. Iranian officials have recently announced that, for the first time, contracts were signed with major foreign companies to export 500,000 tonnes of Iranian wheat. However, due to the low quality/low protein of the local wheat, Iran may continue to import wheat for blending. **Imports** are projected at 0.2 Mt, down from 1.0 Mt in 2006-2007, and matching the record low set in 2004-2005. Food use, which peaked at a record 15.3 Mt in 1999-2000, declined for a few years as the country experienced a serious drought, but has since recovered. For 2007-2008, **food use** is projected at 15.3 Mt, matching the record set in 1999-2000. **Carry-out stocks** are projected at 3.0 Mt, down from 3.5 Mt in 2006-2007.

### Corn

Corn is a major feed ingredient for Iran's livestock sector, which has been growing steadily as the country shifts away from herding and establishes feedlot

operations. With field crop production focused on self-sufficiency in wheat, Iran's corn production has remained relatively stagnant over the past few years. For 2007-2008, corn **production** is estimated at 1.5 Mt, virtually unchanged from the previous 3 years. However, **feed use** has increased steadily over the past few years and is projected at a record 4.2 Mt, up from the previous year's record of 4.0 Mt. Corn **imports** are projected to decrease to 2.7 Mt from the 2006-2007 record of 3.0 Mt. For 2007-2008, **carry-out stocks** are projected at 1.6 Mt versus 1.7 Mt in 2006-2007. Iran imported

1.2 Mt of corn during the first 5 months of the current fiscal year (2007-2008).

### Barley

Barley is the other major feed ingredient for Iran's livestock sector. Unlike the situation with corn, Iran is less dependent on barley imports to meet its livestock feed needs. For 2007-2008, barley **production** is estimated at 3.0 Mt, up slightly from 2.9 Mt in 2006-2007, due largely to a small improvement in yields.

**Imports** are projected at 0.6 Mt, unchanged from the previous year. However, with relatively low carry-in stocks for 2007-2008, **feed use** is expected to decline for the first time in several years to 3.4 Mt from 3.6 Mt in 2006-2007. **Carry-out stocks** are projected at 1.0 Mt versus 1.1 Mt.

Despite the October 2000 Memorandum of Understanding (MOU) regarding exports of Canadian canola products to Iran, there is no evidence of significant market penetration.

IRAN: MAJOR FIELD CROPS SUPPLY AND DISPOSITION				
	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
.....million tonnes.....				
Carry-in Stocks	6.0	6.9	7.3	8.1
Production	21.1	21.2	21.6	22.0
Imports	4.8	5.0	5.8	4.4
<b>Total Supply</b>	<b>32.0</b>	<b>33.2</b>	<b>34.6</b>	<b>34.4</b>
Feed Use	7.1	7.6	7.9	7.9
Food Use and Crush	17.9	18.3	18.6	19.0
<b>Total Use</b>	<b>25.0</b>	<b>25.9</b>	<b>26.6</b>	<b>27.0</b>
Carry-out Stocks	6.9	7.3	8.1	7.4
f: forecast, USDA, September 2007				
Source: USDA-FAS				

IRAN: WHEAT SUPPLY AND DISPOSITION				
	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
.....million tonnes.....				
Carry-in Stocks	3.3	3.3	3.1	3.5
Production	14.5	14.5	14.8	15.0
Imports	<u>0.2</u>	<u>0.4</u>	<u>1.0</u>	<u>0.2</u>
<b>Total Supply</b>	<b>18.0</b>	<b>18.1</b>	<b>18.9</b>	<b>18.7</b>
Feed Use	0.3	0.3	0.3	0.3
Food Use	<u>14.4</u>	<u>14.7</u>	<u>15.0</u>	<u>15.3</u>
<b>Total Use</b>	<b>14.7</b>	<b>15.1</b>	<b>15.4</b>	<b>15.7</b>
Carry-out Stocks	3.3	3.0	3.5	3.0
f: forecast, USDA, September 2007				
Source: USDA-FAS				

IRAN: CORN SUPPLY AND DISPOSITION				
	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
.....million tonnes.....				
Carry-in Stocks	1.1	1.4	1.3	1.7
Production	1.5	1.5	1.5	1.5
Imports	<u>2.6</u>	<u>2.3</u>	<u>3.0</u>	<u>2.7</u>
<b>Total Supply</b>	<b>5.1</b>	<b>5.2</b>	<b>5.8</b>	<b>5.9</b>
Feed Use	3.6	3.8	4.0	4.2
Food Use	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
<b>Total Use</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.3</b>
Carry-out Stocks	1.4	1.3	1.7	1.6
f: forecast, USDA, September 2007				
Source: USDA-FAS				

Soybean exports, on the other hand, have increased considerably from 60 thousand tonnes (kt) in 2002 to 230 kt in 2004 but declined to 150 kt in 2006. Last year Iran was faced with severe shortages in the pulse market which resulted in imports of dry peas and lentils. Canada had a good share of this market. Iran is expected to import large volumes of pulses this year.

### Canada's Prospects for Trade with Iran

Canada's exports of agri-food products to, and imports from, Iran are generally expected to remain stable over the medium-term. The exception would be Canadian exports of grain which are expected to be variable. Iran's wheat production has not kept pace with domestic consumption. So, from time to time, Iran has to increase wheat imports in order to maintain stocks at a reasonable level. This was particularly evident during the 2006-2007 crop year, when carry-in stocks dropped to the lowest

level since 1987-1988, prompting the government to import 1.0 Mt of wheat, half of which came from Canada.

Canada is expected to be able to meet the import demand for wheat in Iran at a price that is competitive with other major wheat exporters, provided that it has sufficient exportable supplies. Canada's ability to compete in world markets is highly dependent on the value of the Canadian dollar relative to other major world currencies, particularly the United States, the European Union, Australia, and Argentina. Another consideration is the availability of medium-grade wheat for the Iranian market, which typically does not require the premium quality wheat for which Canada has established a world-wide reputation.

Over the near-term, Canadian exports to Iran are expected to be limited to bulk commodities as the need arises. This could lead to opportunities for value added inputs such as stabilizers, colouring agents, emulsifiers, etc. which could be used by the processing industry in Iran.

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<b>IRAN: BARLEY SUPPLY AND DISPOSITION</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>-2005</b>	<b>-2006</b>	<b>-2007</b>	<b>-2008f</b>
	.....million tonnes.....			
Carry-in Stocks	0.8	1.3	1.5	1.1
Production	2.9	2.9	2.9	3.0
Imports	<u>1.1</u>	<u>1.1</u>	<u>0.6</u>	<u>0.6</u>
<b>Total Supply</b>	<b>4.8</b>	<b>5.3</b>	<b>5.0</b>	<b>4.7</b>
Feed Use	3.2	3.5	3.6	3.4
Food Use	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
<b>Total Use</b>	<b>3.5</b>	<b>3.8</b>	<b>3.9</b>	<b>3.7</b>
Carry-out Stocks	1.3	1.5	1.1	1.0

f: forecast, USDA, September 2007  
Source: USDA-FAS

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