IRAN

Food and Agriculture | Policy Decision Analysis

Socio-economic context and role of agriculture

In the Near East and North Africa region, Iran has the second largest economy (after Saudi Arabia) and population (after Egypt). Iran ranks second in the world in natural gas reserves and third in oil reserves.[1]

The agriculture and rural sector share in the GDP has declined in the last twenty years and yet is the source of income for more than 15 million people in rural areas.[2] One quarter of the rural population is landless and of those who own land, one third are smallholders. Those within this segment of the population often fall below or just within the poverty line and face high underemployment rates.

Some of the main development challenges at the national level are the harsh conditions of the physical environment and low productivity of small-holder farmers. Food security challenges include lack of self-sufficiency in major staple crops and inadequate access to food in terms of quantity of daily energy intake.

The Iranian Government has adopted a comprehensive strategy envisioning market-based reforms as reflected in the 20-year Vision document and Iran's fifth Five-Year Development Plan (FYDP 2011–15). The Government envisioned a large privatization programme in its 2010-2015 five-year plan, aiming to privatize 20 percent of state-owned enterprises (SOEs) each year. Moreover, Iran's 2012 Doing Business ranking is in the bottom tiers of the Middle East and North Africa (MENA) region, at 144th overall. Only Algeria, Iraq, and Djibouti rank lower among MENA countries.

	Selected indicators		2007	2009	2012
SOCIO-ECONOMIC	GDP (current billion US$) *		286 05	362 66	514 05
	GDP per capita (US$) *		4 984	4 931	6 816
	Agricultural value added (% of GDP) *		NA	NA	NA
	Agricultural value added (annual % growth) *	(average 2007-2012)	NA		
		(2011)	NA		
	Total population (thousand)		71 435	71 137	74 799
	Rural population (% of total)		31	31	29
	Agricultural labour force (% of total labour force)		23	22	21
	Human Development Index **	(2012)	0.742 (ranking 76)		
AGRICULTURAL PRODUCTION & TRADE	Per capita cultivated land (ha)		250	270	260
	Area equipped for irrigation (ha)		9 553 000 (2012)		
	Value of total agriculture production (current million US$)		30 816	41 773	50 572
	Value of cereals production (current million US$)		6 219	6 928	7 088
	Yield for cereals (hg/ha)		24 518	22 908	21 773
	Cereal import dependency ratio (%)	(2007-2009)	25		
	Top 3 commodities	Production quantity	Wheat; Tomatoe; Cow Milk, whole, fresh (2011)		
		Production value	Tomatoes; Indigenous Chicken Meat; Cow Milk, whole, fresh (2011)		
		Import quantity	Maize; Cake of Soybean; Soybean oil (2011)		
		Import value	Maize; Cake of Soybean; Sugar raw centrifugal (2011)		
		Export quantity	Watermelon; Potatoes; Cucumber (2011)		
		Export value	Pistachios; Spices; Pastry (2011)		
	Top 3 trade partners	Import value	Côte d'Ivoire; France; Brazil (2011)		
		Export value	Singapore; France; Switzerland (2011)		
FOOD SECURITY & NUTRITION	Top 3 commodities available for consumption		Wheat; Sugar; Rice (2009)		
	Per capita food supply (kcal/capita/day)		3 110	3 143	NA
	General (g) and Food (f) CPI (2000=100)		465 (g), 100 (f)	350 (g), 146 (f)	246 (g), 207 (f)
	People undernourished (million)	(2008-2010)	3.8		
		(2011-2013 proj)	NA		
	Proportion of undernourished (%)	(2008-2010)	<5		
		(2011-2013 proj)	NA		
	Global Hunger Index ^	(2013)	<5		
	Access to improved water sources (% of population) *		95	95	95
	Sources: FAOSTAT; *WB; **MEF/IAP; ***UNDP; ^IFPRI (accessed on 21 March 2014)		Note : Food CPI 2009, 2011: 2008=100		

1 World Bank, 2014, Iran Overview- World Bank; available at http://www.worldbank.org/en/country/iran/overview

2 Ibidem.

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1. Government objectives in agriculture, food and nutrition security

The main policy frameworks governing agriculture and economic development in Iran are the following:

- **Vision 2025**, adopted in January 2009, is the overall framework that defines long-term policy objectives in all areas;
- **Broad Policies for Agriculture**, adopted in July 2005;
- **The 4th Five-Year National Economic, Social and Cultural Development Plan (FYNDP) 2005–2009**, which has been extended in its applicability until March 2011;
- **The 5th Five-Year National Economic, Social and Cultural Development Plan (FYNDP)** for the financial years from 2011 to 2016.

These policy frameworks share the same objectives regarding the agricultural and rural sector, which are:

i. Enhance the role of agriculture in the national economy by improving agricultural productivity and improve its contribution in combating poverty;

ii. Achieve national food security through higher domestic productivity and self-sufficiency in staple crops, and improve food safety and food consumption patterns through increasing the share of animal protein intake; [3]

iii. Focus on commercialization, sustainable development, disaster and risk management, as well as private sector participation in agriculture.

2. Trends in key policy decisions (2007-2012)

2.1 Producer-oriented policy decisions

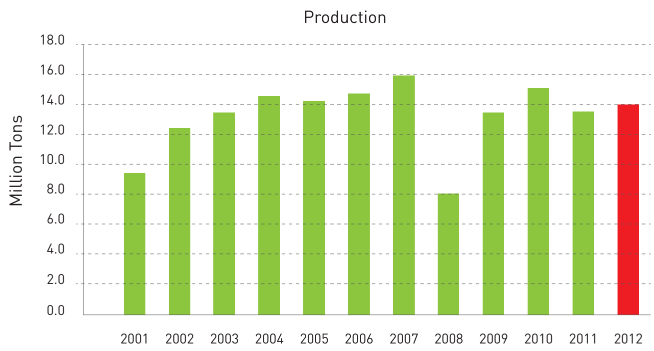
In 1999, the Government of Iran initiated the self-sufficiency strategy for wheat by increasing production through input subsidies and the adoption of new methods and technologies such as improved seeds, mechanization, and farmer training. When this strategy was launched, Iran was the16th largest wheat-producing country. By 2012, according to FAO, Iran had become the 12th leading producer of wheat in the world.[4] This production increase may be attributable to the self-sufficiency strategy.[5] Despite that, total grain imports remain relatively high in order to meet local demands and maintain strategic stockpiles.[6] The 5th FYNDP (2011-16) aims at achieving self-sufficiency in essential crops as well as animal products.

Continual increase of guaranteed purchase price

A guaranteed purchase price is provided for more than 20 agricultural crops; wheat and rice being the most important. The implementation of the wheat self-sufficiency strategy and the guaranteed price support for wheat is likely to have contributed to the increase in wheat production (Figure 1).

In the years from 2007 to 2011, most of the crops' guaranteed purchase prices increased. In 2007/08 support prices increased by 50 percent while in the 2008/09 farming year, the guaranteed purchase prices remained relatively unchanged for almost all commodities.

FIGURE 1: IRAN- HISTORICAL WHEAT PRODUCTION (2001-2012)



Source: USDA

Support of credit allocation for agricultural development

The main form of support to farmers is the provision of agricultural soft loans by a specialized state owned agricultural bank, Bank Keshavarzi of Iran, through:

- Interest rate subsidies granted intermittently since 2007;
- Incentives favouring the agriculture sector consistently until 2011 (focus area of the 4th FYNDP) throught the allocation of 25 percent of the Central Bank's total credit budget to agriculture, water, and processing industries;
- For the 2011/12 farming year this share declined from 25 to 20 percent.

The recent decline may be attributable to the stricter economic sanctions which have reduced revenues from oil exports.[7] Another

3 Including wheat, barley, maize, oil seeds, sugar beet, sugar cane, poultry meat, red meat, milk, eggs.

4 Iran's wheat output was projected at 14 million tonnes in 2012. See AgriFeeds News Services, 2012, available at http://www.agrifeeds.org/en/news/iran's-wheat-output-projected-14-million-tons-year.

5 FAO, 2013, Crop prospects and food situation No. 1; available at http://www.fao.org/docrep/017/al998e/al998e.pdf

6 FAO, 2013, GIEWS Country Brief: Republic of Iran.

7 World Bank, 2014, Iran Overview - World Bank; available at http://www.worldbank.org/en/country/iran/overview

important factor negatively impacting agriculture is the increased inflation since 2011, reaching 27.4 percent by the end of 2012.[8]

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Threshing wheat outside a typical abode village in the Tabriz area in Iran. One of the main development challenges at the national level in Iran is the harsh conditions of the physical environment. Yet, FAO reported that Iran was the 12th leading producer of wheat in the world in 2012.

Backing agriculture insurance and disaster risk management

One of objectives of the 4th FYNDP for the agriculture sector was the expansion of agricultural crop insurance coverage by 50 percent. The Agricultural Products Insurance Fund (APIF), established in 1983 as an exclusively governmental fund, provides financial support to farmers in case of difficulties and offers incentives to increase productivity and improve performance in agriculture through insurance coverage for 151 types of agricultural products. Iran along with China, Japan, Mexico, and Spain have the largest subsidized livestock insurance markets. APIF have provided support through (i) increasing the recovery and compensation fund (by 77.6 percent in 2011/12) and (ii) expanding insurance coverage. By the end of the 2010/11 farming year, APIF covered 33 percent of the total 12.7 million hectares of the farmland under cultivation.

2.2 Consumer-oriented policy decisions

The government has been providing consumer subsidies since the Islamic revolution in 1979. Some of these subsidies played a crucial role in improving child nutrition and reducing infant mortality, but the energy subsidies resulted in encouraging energy and capital intensive technologies, air and water pollution and environmental decay. Therefore, subsidy reforms were essentially a matter of national consensus.[9]

Phasing out fuel and food subsidies

The Iranian Government had been providing gasoline subsidies for decades; these subsidies represented 2.2 percent of GDP in the financial year 2006/07. To address the high cost of subsidies, the decision to raise gasoline prices and introduce rationing took effect June 2007. The government increased the rationed amount of gasoline and allowed gasoline sales beyond the rationed amount at a higher price in March 2008.[10]

In December 2010, the government launched its Targeted Subsidies Reform by increasing domestic energy and agricultural prices by up to 20 times. A gradual adjustment of fuel prices was a key feature of the reform; the plan was to eliminate subsidies over a five-year period in two phases. The International Monetary Fund (IMF) estimates that the price increases allowed for the reduction of annual subsidies expenditures by about US$ 50–60 billion.[11]

Regarding non-energy subsidies, the government has controlled the price of over 20 goods for decades. Administered prices are set by the Consumer and Producer Protection Organization (CPPO) in collaboration with the Parliament. The CPPO sets consumer prices below border prices and producer prices, and the difference is borne by the budget.[12] In 2007, food subsidies represented 2.8 percent of the GDP. Main subsidized goods include cereals (50 percent of all subsidies); other basic food commodities such as sugar, edible oils and baby milk (25 percent); and other goods such as paper, agricultural machinery, fertilizers and pharmaceuticals (25 percent).

As part of the Targeted Subsidies Reform, the government raised the price of bread by as much as 25 percent in December 2010. The CPPO prohibited any other extra price increase, and conducted frequent market inspections due to fears that such a measure could trigger public unrest.

New cash-based safety net to replace subsidies

To mitigate the short-term negative impact of the first phase of the subsidy reform, some compensatory measures for households were adopted. In October 2010, the government began transferring an amount of IRR 80 000 (US$ 8) every two months to bank accounts of all registered individuals as a cushion against price increases due to the subsidy reform. In addition, a lump sum of IRR 455 000 (US$ 45.5) was granted to each registered individual. In the first year of the reform, from December 2010 to December 2011, the cash payment cost the government IRR 3 300 billion (US$ 1 188 million) every month.

8 FAO, 2013, GIEWS Country Brief: Republic of Iran; available at http://www.fao.org/giews/countrybrief/country.jsp?code=IRN
9 Economic Research Forum, 2014, Iran's subsidy reform from promises to disappointments; avaialble at http://www.erf.org.eg/cms.php?id=publication_details&publication_id=1826
10 The measure was taken to limit the gasoline black market which emerged beacuse the rationed amount was not sufficient for many motorists. Due to higher prices the gasoline consumption and imports fell, though subsides to gasoline have declined by less than initially expected as international gasoline prices have risen sharply.
11 IMF, 2011, Iran - The chronicles of the subsidy reform, IMF Working paper, WP/11/167.
12 IMF, 2007, IMF Country Report 2007, Report No. 07/100.

In 2012, the Parliament increased the share for cash transfers to 80 percent of the whole reform budget, despite a reduction of this budget overall.[13] In November 2012, the parliament halted the second phase of the reform, and continued depositing cash in beneficiaries' bank accounts.

Ongoing indirect food-based subsidies

A three percent Value Added Tax (VAT) was introduced and successfully implemented across Iran in September 2008, replacing the previous system of integrated levies. To reduce the possible inflationary effects, several commodities, including bakery flour, bread, meat, sugar, rice, cereal and soya, milk, cheese, vegetable oil, and baby food were exempt from the VAT application.

2.3 Trade-oriented policy decisions

Iran's trade barriers for agriculture are lower than non-agriculture products; conversely almost all of the countries in its comparator groups have higher trade barriers for agricultural than for non-agricultural products. However, Iran faces international trade sanctions that impede its access to markets. In June 2010, the UN imposed a fourth series of sanctions on Iran because of its nuclear activities, in addition to the restrictions alredy imposed by the European Union, United States, and other nations.

New bilateral agreements

Recently, Iran signed bilateral trade agreements with Kenya (2010) and Indonesia (2013). In facing the sanctions, Iran has been exploring other available international channels for trade, with its major trading partners like China, United Arab Emirates, Turkey, EU (27), and India.

Increased protectionist measures on trade

From September to December 2009, the government raised the import tariff on rice: the Commercial Benefit Tax (CBT) was increased from 21 to 41 percent of the CIF (cost insurance freight) value of rice imported. In addition, importers also had to pay 4 percent for entry duties and 3 percent for VAT which when added to the increased CBT, amounted to nearly 50 percent of the CIF value of the imported rice. In January 2010, the Iranian Customs extended the increased tariff on imported rice until the end of March 2010.

In September 2010, a ban was placed on the import of a number of food items, including wheat and rice, in an effort to protect domestic producers.

In April 2011, it was declared that in addition to entry duties, a tariff of IRR 500 (US$ 0.04) per kilo would be imposed on the import of fruits and vegetables. In addition, the tariff on certain imported food items was increased. Among these items were sugar (20 percent), wheat (20 percent), rice (45 percent), and flour (30 percent).

In October 2012, an export ban was issued on around 50 basic goods, including wheat, flour, sugar, and red meat, as well as aluminium and steel ingots. The decision was taken to preserve the supply of essential items in the face of tightening sanctions.

3. Conclusions

Subsidy reforms have reduced governmental expenditures, yet they are not combined with adequate fiscal policies to reap economic growth and social development. The reforms undertaken provide nearly universal subsidies, rather than focusing on the food security status of lower income quintiles and other vulnerable segments of the population.

Also, the expected economic effects of the subsidy reform are delayed due to the stricter economic sanctions by the international community, weakening local access to inputs and energy-efficient technologies. The devaluation of the Rial also poses a major challenge for the government to comply with its commitments in the 5th FYNDP. Those commitments include investing the equivalent of 35 percent of the agricultural sector contribution to the GDP on infrastructure development for agriculture.

The Government of Iran has been placing emphasis on producer support measures within its self-sufficiency strategy, especially by providing high support prices to farmers on several commodities. This policy requires a high level of budgetary support, in a time when the medium term outlook for economic growth is negative. It is not clear how long Iran can sustain the high cost of its food self-sufficiency strategy.

13 In 2012, the approved subsidy reform budget for the fiscal year 2012/2013 was reduced to IRR 66 000 trillion (US$ 637 trillion); the parliament allocated IRR 48 000 billion (US$ 4 300 billion) for direct cash payments (corresponding to a 20 percent increase), IRR 10 000 billion (US$ 895 billion) for industries and producers, IRR 6 000 billion (US$ 537 billion) for health care and IRR 2 000 billion (US$ 179 billion) for the unemployment insurance fund.

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