

IRAQ – REQUEST FOR OBSERVER STATUS

Communication from Iraq

The following communication, dated 21 January 2004, has been received from the Minister of Trade of Iraq.

On behalf of the Government of the Republic of Iraq, I have the honour to request observer status in the General Council of the World Trade Organization (WTO) and its bodies.

The Government of Iraq was a signatory to the 1947 Havana Agreement and consequently held observer status in sessions of the Contracting Parties of the General Agreement of Tariffs and Trade until the formation of the WTO.

Observer status should help us to acquire a better understanding of the Organization's rules and procedures, and to facilitate our preparation of a request for accession to the WTO.

In accordance with the Rules of the General Council, I have the pleasure of submitting herewith our report on the economic and foreign trade policies of the Republic of Iraq.

I would be grateful if you would submit our request to the General Council as soon as possible.

OVERVIEW OF THE ECONOMIC POLICY AND FOREIGN TRADE REGIME OF THE REPUBLIC OF IRAQ

COUNTRY

The Republic of Iraq is situated in the northwest end of the Arabian Gulf, covering an area of 438,446 square kilometres. Iraq is bordered on the north by Turkey, on the east by Iran, on the southeast by the Arabian Gulf, on the south by Kuwait and Saudi Arabia, and on the west by Syria and Jordan. Its highest point of elevation is an unnamed peak of 3,611 meters, and its lowest point is at sea level.

The population of Iraq is approximately 25 million, of which about six million inhabit the capital, Baghdad. Other major cities, and their 2000 estimated populations, include Basra (1.5 million), Mosul (1.2 million), Karkuk (535,000).

In 2001, Iraq had \$15.8 billion of exports, predominantly crude oil, and US\$11 billion of imports, chief among which were basic food items, medicine, and machinery.

GOVERNMENT

Since May 13, 2003, Iraq has been administered by a Coalition Provisional Authority (CPA), whose authorities, responsibilities, and obligations are recognized in UN Security Council Resolution 1483 of 22 May 2003. The CPA is a transitional, interim administration set up to restore conditions of security and stability in Iraq, to help develop national and local institutions for representative governance in which the Iraqi people can freely determine their own political future and maintain their freedom and security within the rule of law, and to facilitate economic recovery and sustainable reconstruction and development.

Since 13 July 2003, a 25-member Iraqi Governing Council (the "Council"), representing the religious, ethnic and political spectrum of the Iraqi people, has also been a principal body for the interim administration of Iraq. The Council has appointed Iraqi ministers, arranged for Iraq's international representation, and determined the national budget for 2004. There are twenty-five Iraqi ministries, of which the Ministry of Trade has general responsibility for trade policy, and the Ministry of Interior has responsibility for customs enforcement. The Ministry of Finance has had responsibility for most of Iraq's assessment and collection of taxes.

On 16 November 2003, the Council announced that, on 30 June 2004, the CPA will dissolve, and a new Iraqi Transitional Administration (ITA) will assume sovereign authority. Further, the Council has committed to democratic elections and to the drafting of a constitution. Presently, regional government in Iraq is divided for administrative purposes into eighteen governorates.

There are civil trial courts throughout the country for civil matters, including commercial disputes. From these trial courts, there is a right of appeal to regional courts of appeal. Appeals from the regional courts of appeal are heard by the national Court of Cassation.

ECONOMY

Iraq's economy is dominated by the oil sector, which has traditionally provided about 95 per cent of foreign exchange earnings. Iraq's 112 billion barrels of proven reserves are the second largest in the world after those of Saudi Arabia. It's 110 trillion cubic feet of natural gas reserves are the tenth largest in the world. Iraq is also rich in other minerals including sulphur and phosphates. Approximately 12 per cent of Iraq's land is arable. The work force is estimated to have been 4.4

million in 2000. It is estimated that, in 1989, approximately 44 per cent of the workforce was engaged in agriculture, 26 per cent in industry, and 31 percent in services.

Gross Domestic Product (GDP), measured by purchasing power parity, was estimated in 2002 to be some US\$58 billion. Real GDP growth in 1992 was estimated to be (-) 3 per cent, and GDP per capita was estimated to be some US\$2,400 in 2002. The inflation rate was estimated in 2002 to be some 70 per cent, and the external debt to be some US\$120 billion. Industry is estimated to account for less than 13 per cent of GNP, and agriculture less than 6 percent.

Most economic sanctions against Iraq were lifted by the United Nations in May 2003.

INFRASTRUCTURE AND PORTS-OF-ENTRY

Through the end of 2003 Iraq had 46 thousand kilometres of roads, two thousand kilometres of railways, and a thousand kilometres of navigable waterways. The country also had over eight thousand miles of pipeline, including more five thousand of which are for oil, nearly two thousand for gas, and over a thousand for refined petroleum products. At the end of 2003, Iraq had three seaports (Umm Qasr, Khawr az Zubayr, and Al Basrah), and 77 airports with paved runways.

DEVELOPMENT STRATEGY

It is hoped that the recent changes in trade, economic, leadership and political policy will move Iraq forward towards stable economic growth, development, and greater integration in the international trading system in the medium term. Iraq intends to use international trade, including export promotion, to encourage economic diversification and growth. In addition to macroeconomic stability, positive economic growth over the next few years will require greater development of the private sector, and changes in publicly owned and managed commercial enterprises. Thus, one priority is to pursue economic policies that build macroeconomic stability and facilitate private sector development. The ultimate goal is to provide for the people of Iraq a prosperous economy supportive of free enterprise, fair competition and rewards for hard work.

Iraq also hopes to develop other promising areas besides the oil sector. The country has opportunities for private sector development in agriculture, tourism, health, communications, and in other areas. Iraq also plans to encourage foreign investment and partnership in these areas. As discussed in greater detail below, 100 percent foreign ownership of Iraqi enterprises has been authorized.

TRADE POLICY

The Republic of Iraq became an observer to the General Agreement on Tariffs and Trade (GATT) in 1948, and participated in sessions of the Contracting Parties. Iraq did not, however, seek accession to the GATT 1947. Since 1945 Iraq has been a member of the Arab League and has participated in the Arab League preferences for agricultural goods.

Regional Arrangements

Prior to the war, Iraq had implemented, or completed negotiations for, bilateral free trade agreements with most of the countries of the Arab world. Now, the Greater Arab Free Trade Area of which Iraq is a member, has completed 80 per cent of its staged reductions, and will complete those reductions by 1 January 2005. Outside the Arab world, Iraq has bilateral free trade agreements with Turkey and Iran. Jordan, Kuwait and Saudi Arabia have also expressed interest in negotiating bilateral free trade arrangements.

Investment

On September 19, 2003, the Coalition Provisional Authority issued Order No. 39 permitting foreign investors from any country wholly to own and to manage business entities in most Iraqi industry sectors. In particular, Order No. 39 permits 100 per cent foreign ownership and management of Iraqi business entities, except in natural resources sectors, including oil, banking and insurance. Foreign ownership in the natural resource sector is prohibited. In banking, six fully foreign-owned banks are permitted, and 50 per cent foreign ownership is permitted for all others. Order No. 39 also provides for equal treatment of foreign investors with respect to opening of foreign trade offices, branch registration, methods of investment, and dispute settlement.

Currency and Payments

In October 2003, Iraq put the New Iraqi Dinar into circulation, and full conversion of the currency was achieved on 15 January 2004. The Central Bank of Iraq conducts auctions of New Iraqi Dinars daily. Pursuant to this managed float, on 13 January 2004, the NID was valued at NID 1,485 per USD.

Tariffs and other taxes on Imports and Exports

Iraq has suspended all tariffs and charges on goods entering or leaving Iraq including customs duties, customs fees, and similar levies through 31 March 2004, under CPA Order No. 12, as revised. The same Order prohibits the exportation from Iraq of certain types of animals, foodstuffs, manufactured goods and other articles, which are set out in Annex I, hereto. These are items that go into the food ration basket of the Iraqi people and for which consumption has traditionally been subsidized, as well as scrap metals, machinery, and other items that are in short supply and are susceptible to smuggling.

Under CPA Order No. 38, as revised, beginning on 1 April 2004, a customs duty of five percent *ad valorem* (referred to as the "Reconstruction Levy") is scheduled to be imposed on most types of goods. Goods exempted from this import duty include food, medicines, clothing, humanitarian assistance, and Oil-For-Food program imports. Also exempted are articles imported by the Iraqi Governing Council, CPA, Coalition Forces, and reconstruction contractors.

Taxes

Under CPA Order No. 37, Iraq has maintained a pre-existing hotel and restaurant tax, real property sales tax, car sale fee, and petrol excise duty. These taxes are collected by the Ministry of Finance. They are not assessable on certain foreign participants in national rebuilding efforts. Order No. 37 suspended, through the end of 2003, all other taxes including income tax and property rental taxes. The same Order permits the eventual re-imposition of individual and corporate income taxes at rates no higher than 15 per cent. It is anticipated that a 15 per cent corporate income tax, and a graduated personal income tax up to 15 per cent on individuals employed in the private sector, will be implemented this year.

Trade Finance

The Trade Bank of Iraq (TBI) has been established as a separate Iraqi Government entity and export credit bank to facilitate the import and export of goods and services to and from Iraq, pursuant to CPA Order No. 20. The TBI reports to the Council. Its role is to bolster confidence between trading partners that funds will be received in exchange for goods delivered. The TBI will work with Iraqi commercial banks and the Operating Consortium, led by J.P. Morgan Chase & Company, with

the participation of 15 countries. TBI will also cooperate with other export credit banks, such as the Export-Import Bank of the United States (Ex-Im) and the Export Credit Guarantee Department of the United Kingdom, and is prepared to establish similar relationships with other export credit institutions.

Law Reform Strategy

Revision of a broad range of laws currently in effect will be necessary to ensure compliance with WTO requirements, including the customs regime, laws governing the protection of intellectual property rights, company, taxation, foreign investment laws, and other laws. To this end, a thorough review of Iraqi customs laws and regulations has been completed, while a comprehensive review of Iraqi commercial law, company law, civil code and other relevant laws and regulations is being undertaken with a view to removing unnecessary restrictions to local and international trade and to assessing where Iraq's laws and regulations need change or development become consistent with WTO. It is hoped that Iraq will soon have in place a legal structure for domestic commerce and international trade that can provide scope for the realization of the economic aspirations of the Iraqi people and a solid foundation for a prosperous economic future.

ANNEX I

Products Whose Exportation is Prohibited under Order 12, As Revised

Subsidized Foodstuffs and Health Essentials in the Public Food Distribution System

sugar	
tea	
rice	(imported articles only)
vegetable oils	(imported articles only)
vegetable fats	(imported articles only)
lentils	
chickpeas	
dried beans	
milk powder	
infant formula	
wheat	(imported articles only)
wheat flour	
bar soap and detergents	

Subsidized Goods Vital for Reconstruction Efforts

vehicles	(imported articles only)
machinery	(imported articles only)
iron	
iron reinforcing rods	
ferro-concrete	
galvanized iron plates	
steel sheets and plates	
wood and wood products	
mineral water pipes and fittings	
ceramic and other bathroom furnishings including taps and sinks	
plain and coloured window glass	
copper and lead	

Other items

date palm seedlings and shoots
historical artefacts
yellow corn (for animal feed)
female camels
goats
cows
sheep
buffalo
donkeys
horses
