

# IRAQ'S

## wheat milling conundrum



Country has nearly 300 privately owned mills, yet is among the world's largest flour importers

by David McKee

Kulok Group's Sachnar flour mill is the largest mill in Iraq with daily wheat grinding capacity of 600 tonnes. Photos by David McKee.

Iraq is a conundrum when it comes to wheat and flour. Despite around 300 privately owned mills, it is among the world's largest wheat flour importers at over 2 million tonnes per year. The wheat supply is not enough but new mills continue to be built. The government pays farmers close to \$500 per tonne for their wheat, and yet production had declined and quality falls far short of bakers' and consumers' requirements. The milling industry is almost entirely in private hands but depends on the government for all wheat deliveries and flour offtake. Mill revenues are from tolling fees and bran sales. Mills do not sell flour.

Earlier this year, *World Grain* went to Sulaymaniyah, the commercial and industrial center of the semi-autonomous Kurdistan region in northern Iraq, to meet with Saad Kola, chairman of Iraq's largest wheat milling company, Kulok Group. He talked about his company and candidly shed some light on the challenges it faces in such a uniquely difficult business environment.

"It was the father of my father that founded the first mill," he said. "It was 100 tonnes per day and built in 1973. The mill was one of only two mills in Sulaymaniyah during that time."

The two mills had "more than enough capacity," for the city and for the Kurdistan region, he explained,

adding, "They even exported product to Baghdad and the south of Iraq. At that time there was not much population here."

Now the company's Sachnar Mill on the original site has 600 tonnes per day of total capacity.

"It is the largest milling plant in all Iraq," the chairman noted.

It consists of three processing lines of 200 tons each, supplied by mill manufacturer Aybakar in Ankara.

"We have been acquiring mills," he said. "We have four in Sulaymaniyah for a capacity of 1,500 tonnes per day. In Kirkuk we have another two mills. One is Zad and the other is Rast. We have six milling plants in total. All are separate companies. Total employment at our mills is 150. With management and drivers, it is 175."

### WHEAT SUPPLY CHALLENGES

The main challenge has to do with getting enough wheat.

"Unfortunately, the government gives us the wheat," Kola said. "There is no private importation. We are trying to get permission from the government to import wheat. Since 1991, the Iraqi government has not allowed private importation."

Kola referred to the system that the Saddam Hussein regime was forced to adopt after the first Gulf War as



part of the UN Food for Oil program.

Regarding the wheat allocations from the government, the chairman observed, “Year by year they have reduced the quantities. We used to get enough wheat to run 24 days or 30 days per month. After the start of the ISIS war more than five years ago, they gave us wheat in eight portions over the year, not 12 monthly allocations. Our six separate milling companies get separate wheat allocations. Ten years ago, the government gave Sachnar 9,000 tonnes every 30 days. Now it gets 5,600 tonnes every 44 days.

“But now a lot of people are interested in this business. People with other businesses are entering flour milling, though they don’t know anything about it. Just because people have enough money, they do it. They build a mill and get an allocation. This milling business doesn’t require any marketing. Mills receive wheat from the government and deliver flour back to it.”

Kola maintains that there is enough milling capacity to feed Iraq three times: 50,000 tonnes per day times 300

Saad Kola, chairman of the family-owned Kulok Group, represents the third generation to manage the mill.

days is 15 million tonnes. Iraq needs 4 million tonnes of flour.

Based on the government system, Kola said, “Now there is only one type of flour: 80% flour and 20% bran; no gluten or protein specification; moisture 14.5% and ash is maximum 1%.”

Since virtually all private mills must operate within the government system, they are excluded from buying wheat to produce flour of the type needed by private bakeries.

“Private companies import flour from Turkey. All bakeries use flour from Turkey,” is how Kola explains the phenomenal 2 million tonnes of wheat flour that Iraq has been importing annually in recent years.

Kola dwelled upon Iraq’s Public Distribution System (PDS) that is intended to provide monthly rations of flour, rice, sugar and cooking oil to every family based on household size.

“The Iraqi government gives flour to the people mostly free of charge,” he said. “Because it is free without quality control, it is very bad quality. In the countryside, the people eat it. They make bread at home, but in the cities, especially big cities, the people don’t even take it. The flour dealers sell it as animal feed. Rich people don’t take the flour.

“Each person or family member gets 9 kilograms per month, but in reality they get 9 kilograms for each five weeks. Now it is even every 44 days.

“Distributors work with the government. They are private shops — retailers. They are called agents for Ministry of Trade and Grain Processing.”

He commented further on the fraud inherent in the PDS scheme.

“A lot of people left their homes due to instability after ISIS,” he said. “Many people are missing. So bad people take flour from the trucks and sell it immediately without looking for people (the rightful beneficiaries). Even World Bank and IFC are asking the Iraqi government to change the system.”

#### **INCONSISTENT WHEAT QUALITY**

The 320,000 tonnes of wheat per year ground by the Kulok Group milling

*People with other businesses are entering flour milling, though they don't know anything about it.*

*Saad Kola, chairman, Kulok Group*

plants is almost entirely imported. Kola reports very inconsistent quality.

"Sometimes there is good wheat from the U.S. or Australia or bad wheat from Ukraine," he said.

The government imports wheat through the port of Basra and transports it in 35- to 40-tonne bulk trucks to government silos around the country. There are 40,000-tonne and 80,000-tonne grain storage facilities near Sulaymaniyah.

The mills must send their own trucks to pick up their grain allocations. Because of the government storage facilities, the private millers need to store relatively small volumes. The Sachnar mill, despite being Iraq's largest, has only 4,000 tonnes of silo capacity.

The government buys up nearly all the domestic wheat crop. The USDA estimates it at 3 million tonnes in 2018, a 25% decline from the 4-million-tonne harvest of the previous year. The peak production year was 2015 with 4.4 million tonnes, but thanks to the most rain in two decades, the USDA forecasts 2019 production to be a record 4.8 million tonnes.

Wheat growers need financing well before the government can pay. Kulok Group helps to fill this need, Kola said.

"Most farmers can supply two or three truckloads of 22 to 25 tonnes," he said. "Landholdings are small. I finance the farmers. I give them money before they plant. But the money is stuck for two years. We collect the wheat and supply to government under their name. The government pays the farmers and they pay us."

"We work with farmers around three big cities. My employees are there. They need financing for irrigation. A few other millers do the same, but it takes a lot of capital. And it takes patience. In southern Iraq it is different. Traders are financing farmers because they will get a high price from the government."

Kola said the quality of local wheat is very bad.

"Low gluten, not even C class," he said. "The government buys it from farmers at a high price to encourage them to farm. Minimum purchase price is \$500 per tonne for Class C. I could import it for \$200 per tonne."

The subsidies, he said, "do not go into the right pocket. Mostly traders do this business. They are cheating. They buy it from the farmers at a cheap price and mix it with imported wheat to sell to the government."

The government pays millers only a \$10 per tonne tolling fee, but they are allowed to sell 20% of the bran. The

Kulok Group employs 150 workers at its mills in Iraq.

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price of bran can go as high as \$270 or \$280 per tonne, though in the spring of this year, thanks to good grazing from abundant rain, it had fallen to below \$200.

“An advantage of importing more wheat would be more bran for sheep and cows,” Kola said.

Though Sulaymaniyah is the principal city of Kurdistan, most of the employees are Arabs from the south of Iraq. Arabic is the language of the milling plant. The unmarried men have housing within the mill compound. Married ones live in apartments in the city. Because of the wheat shortages, the mill operates a maximum of four or five hours per day, five days per week and rarely more than that. 

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David McKee’s grain industry consultancy, Key International LCC, provides market research, feasibility analysis, technical studies and project guidance to companies and organizations. He may be reached at [davidmckee59@msn.com](mailto:davidmckee59@msn.com).

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